Ghana’s brown gold: The political economy of the cocoa sector

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ecdpm

IMANI Center for Policy & Education

Overview

1. **Introduction**

2. **The 5 political economy lenses**
   a. **Structural factors** - historical/geographical/economic factors explaining the current context
   b. **Institutional factors**
      i. formal institutions - strategies, policies, frameworks and rules
      ii. informal institutions - rules of the political/economic game and behavioural aspects that explain how things work in practice
   c. **Actors** - stakeholders - individuals or groups that can support or undermine reform
   d. **Sectoral factors** - political and technical features of particular policy areas
   e. **External factors** - global and other external drivers affecting domestic political economy

3. **Summary of findings and implications for (external) support**

1. Introduction

ECDPM and Imani engaged in policy process in Ghana's cocoa sector

- **Purpose**: inform '*Why are things the way they are in the cocoa sector in Ghana?*' as an input to new cocoa support by external partners

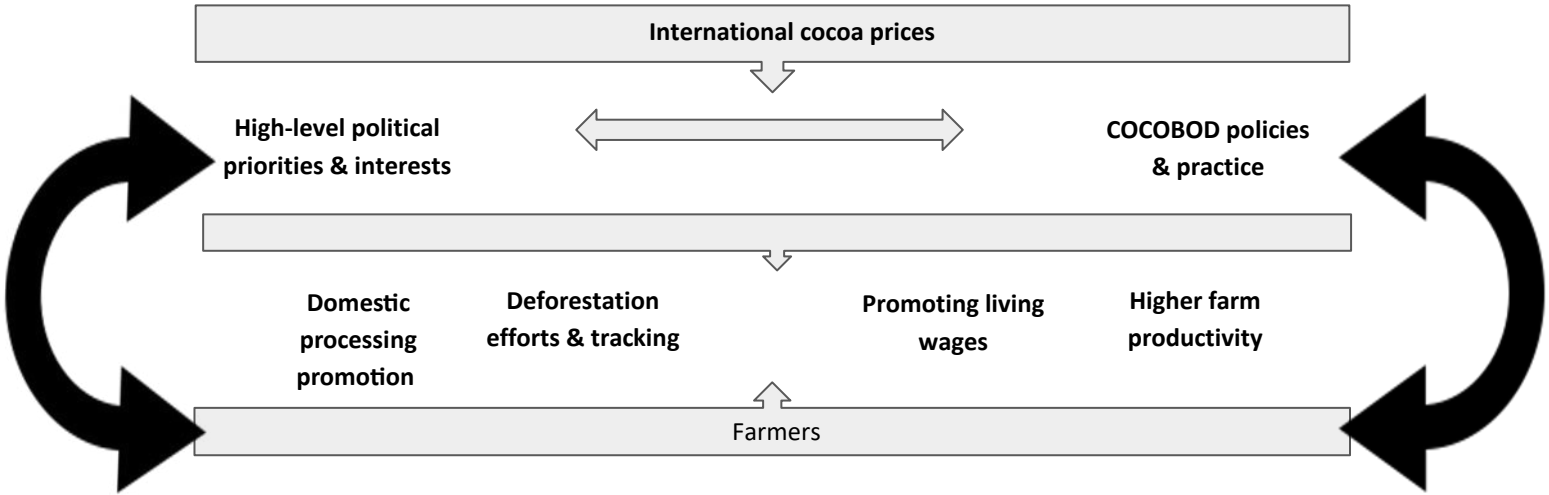
- Identify **interests and incentives** around key objectives:
  - Boosting domestic processing
  - Reducing deforestation
  - Assu*ring living incomes*
  - *Raising farm productivity*

- **Approach**:
  - Build on existing work on cocoa sector with a political economy approach
  - Use PE diagnostic to identify & cluster problems
  - Explore potential future pathways for external partners to provide support

- **This presentation**:
  - Summarise main political economy findings
  - Present problem tree as a useful way of clustering (inter-connected) problems

Summary - high-level findings from the research

- complex interactions between international and domestic actors and factors - international prices affect domestic developments
- at the national level high level politics and COCOBOD interact and influence each other, both of which in turn are affected by international prices
- at the sector level this has an impact on outcomes in terms of processing, deforestation, living wages, and farm productivity
- exercise of political authority through the high-level priorities and interest as well as COCOBOD's policies and practices on the farmers
- on the other hand, farmers also influence these high-level actors and factors through demands for downward accountability



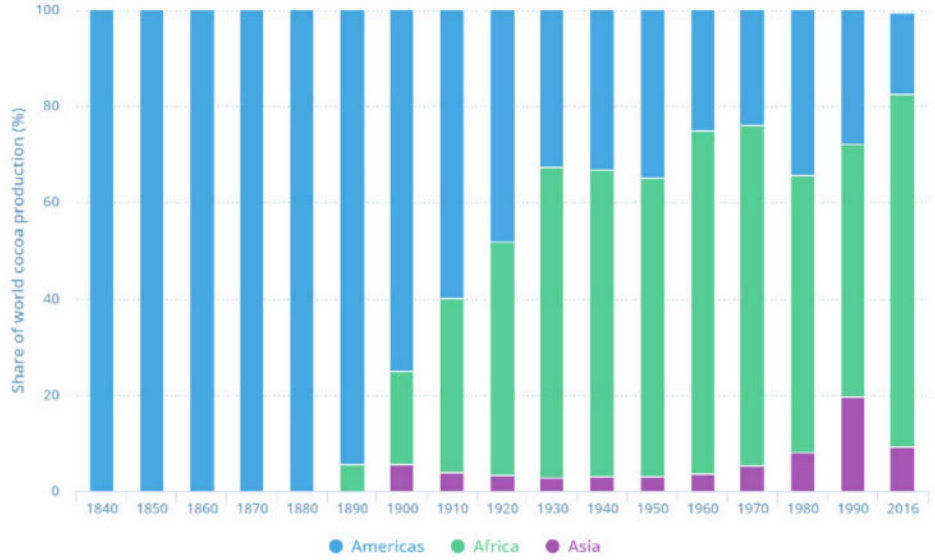
2. Political economy of the cocoa sector in Ghana

5-lenses framework

Structural factors - Path dependence and colonial legacy

- Cocoa brought in by British colonial administration in the late 19th century - Eastern region then Ashanti, Brong Ahafo (1940s), Western region (1980s); today second largest producer in the world

Figure 4: Market share (in %) of different regions on global cocoa production, 1840-2016



Source: Maile 2020

- Focus on bulk cocoa, as opposed to Latin American fine cocoa; feeds the global industry (80% raw cocoa comes from West Africa)

Path dependence and colonial legacy

- While Ghana is a major producer of cocoa, there is limited processing and consumption in the country
  - largest importer cocoa - the Netherlands
  - big chocolatiers - Switzerland, Belgium,
  - (second, after the US) largest chocolate consumers - Germany, France

chocolate mainly a European/Western phenomenon

Figure 6: Annual share of global cocoa production among major producing countries, 2018/19

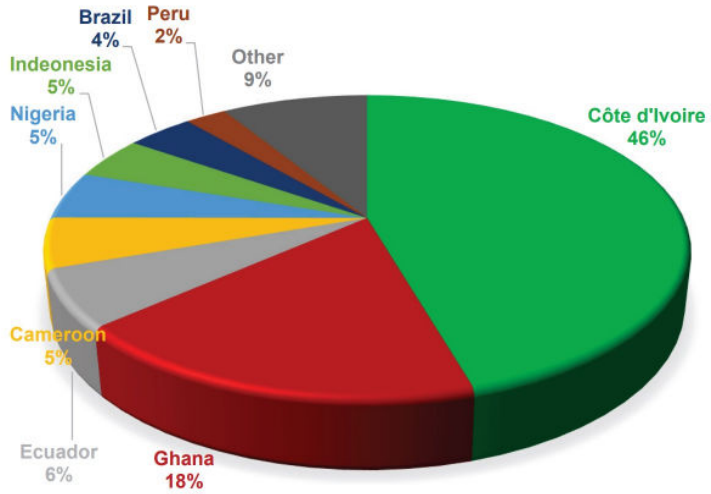
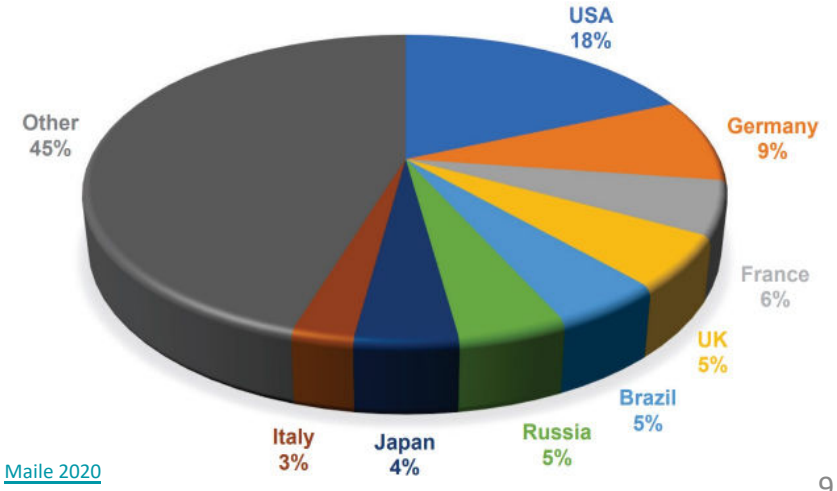


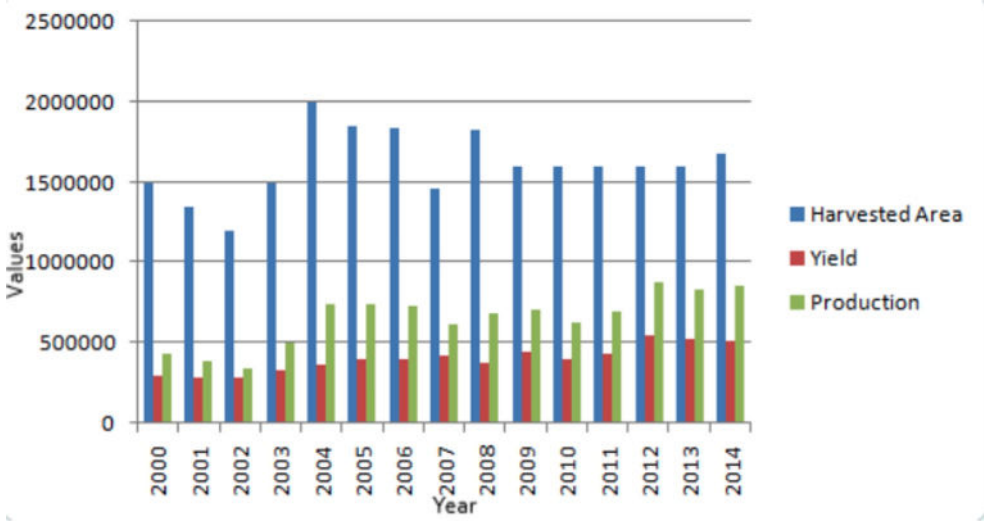
Figure 7: Annual share of global cocoa consumption among major consuming countries, 2015/16



Source: Maile 2020

Cocoa productivity

- Low productivity - production increase mainly due to expansion in harvested area than yields

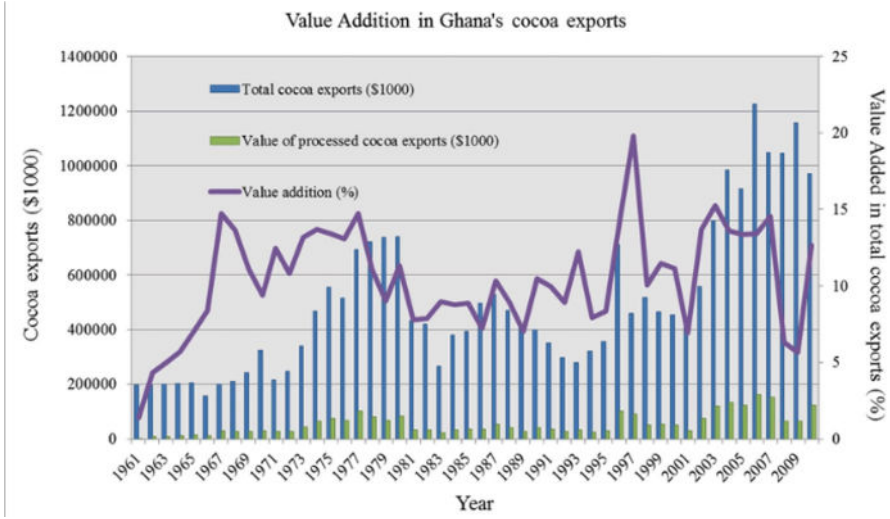


Source: Boamah et al. 2019

- Greater value addition possible through improved pre and post harvest techniques than primary processing through grinding which add only little value

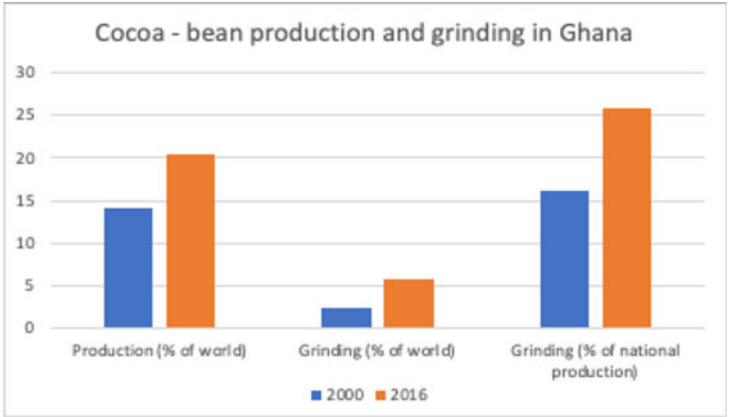
Cocoa track record in processing

Limited bean production is processed domestically



Source: Boansi 2013

…though it's been **rising significantly over time** (since the 2000s)



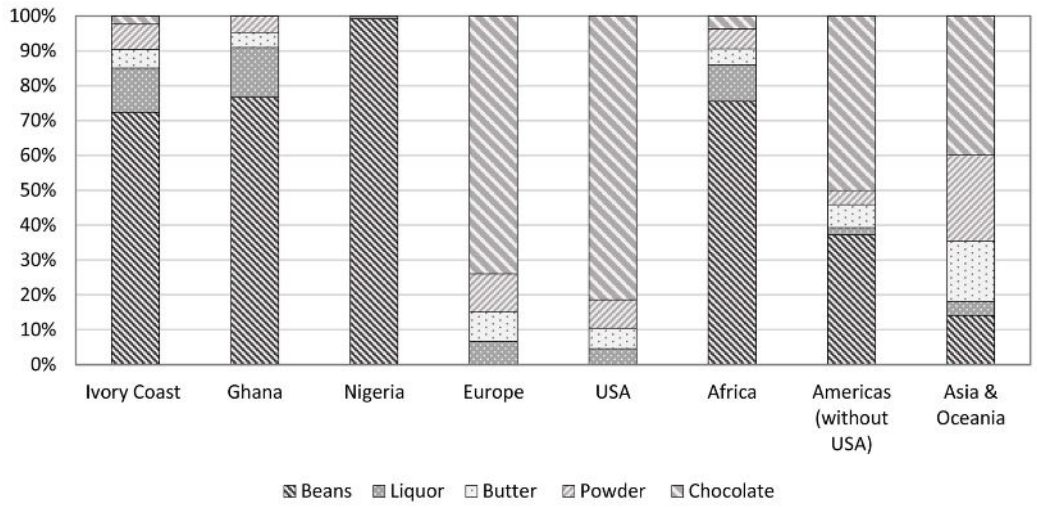
Source: Authors based on Rudahindwa and van Huellen 2021

- By 2019, cocoa processing as a % of total exports ≈ 50% (Ecorys, forthcoming)
  - catching up with neighbouring Côte d'Ivoire, a leader in primary processing
  - closer to meeting government objective (reaching 50% of country's harvest)
- Cocoa processing concentrated around few multinational firms (e.g. Cargill, Barry Callebaut, Olam)

Cocoa track record in value addition

- However, overall value addition still remains limited, especially when compared to Europe or the USA..
  - **challenges in processing beans beyond low value addition activities** (see below)

Value addition in exports 2016/17

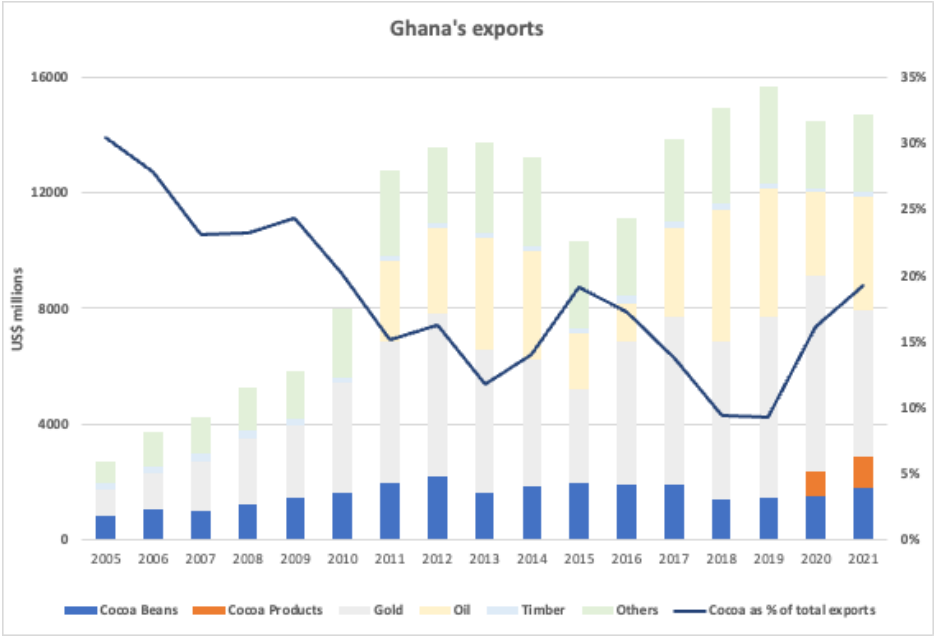


Note: Percentage estimated from tonnes of exports. This underestimates some of the value addition that is for the domestic market

Source: Rudahindwa and van Huellen 2021

Cocoa as the lifeblood of Ghana's economy - though declining significance

- Just as Ghana is important in the *global* cocoa sector, *cocoa* is the lifeblood of the Ghanaian economy
- Important **forex earner** (from 30% of total export receipts in 2005 to a low of 10% in 2018-2019 before rising to 19% in 2021)
  - BUT much less than in the past e.g. 75% in mid-1970s
  - exports appear to be stagnating, especially since 2010s with an **increased focus on cocoa products in recent years**
  - $2 billion from raw cocoa beans (plus $1 billion from cocoa products or ⅓ of non-traditional exports) in 2021
- Contribution to GDP
  - from 3% in 2006 to 1.4% in 2019
  - STILL a growth-driver
  - expected 7% growth (CAGR) in 2019-2026 to US$16 billion; compared to US$190 billion chocolate industry



Source: Bank of Ghana

Cocoa for macroeconomic management

- **Future cocoa receipts through forward contracts are used as collateral to get syndicated loans** to
  - access to cheap loans for massive purchase operations (requiring upfront liquidity)
  - raise foreign exchange abroad more cheaply (otherwise it is expensive to access capital markets)
- SO the loans ensure smooth functioning of the cocoa sector
- BUT this dependence on cocoa for foreign exchange undermines upgrading strategies that build on domestic or regional markets, that is there are **competing objectives** (see below)

Cocoa and livelihoods

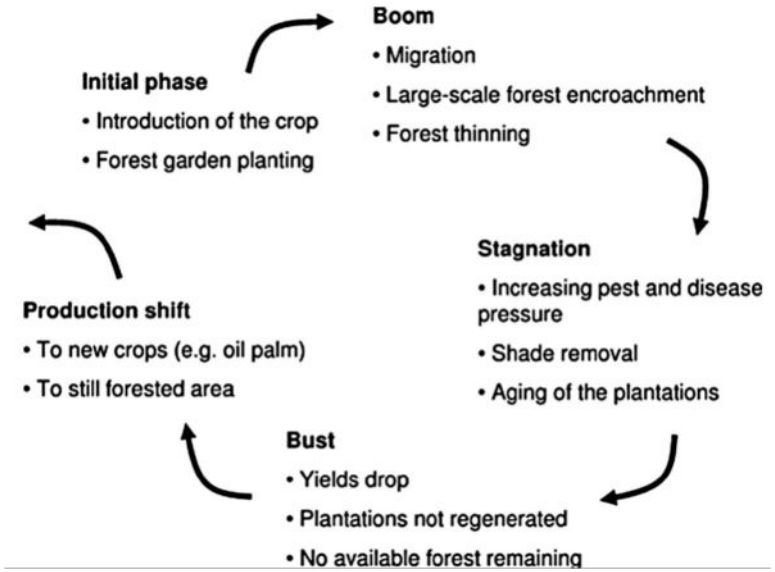
- Mostly smallholders!
  - 800,000 farmers; livelihoods of about 4 million people
    - landholding 71% < 5 acres; 10% > 10 acres
    - ownership 80% landowners; 20% abunu + abusa
    - for profit (landowners) + access to land (labourers)
- Farmers = price takers capturing least value in global value chain
  - 7% (11%) share in value of (dark) chocolate bar while performing highly labour-intensive work
  - prices consistently below minimum required for a decent living
  - lack negotiating power
- Commodity dependence
  - in 2011, 38% had no income apart from cocoa
  - farmers depend on cocoa for 67% earnings

Cocoa and livelihoods

- Widespread poverty - in 2012/13 27% farmers under the poverty line
  - income generated from cocoa is **not enough to push farmers out of poverty**
  - usually “cocoa +” (cassava, plantain, ASGM or *galamsey*) as survival strategy
- Limited access to finance
  - depend on Licensed Buying Companies (LBCs), other agents and family for loans
    - mostly to pay school fees and not for processing or investments in the farm
  - BUT inputs by cash because credit is viewed as a potential risk
    - which means that **farmers cannot undertake productivity enhancing investments**

Cocoa and deforestation

- Vulnerable to disease and pest which makes replanting difficult
- Associated with deforestation (Ghana forest loss since 1955 = 80-95%)..
  - grows best in virgin land: mix of open and shaded plantation..
    - open = faster but more vulnerable growth e.g. 3 years for first yield with 1mt/ha after 5-7 years
    - shaded = protected against pest but slower growth e.g. approx. 5 years for first yield, 500kg/ha after 10 years
  - ..to manage growth and longevity trade-off
  - slash & burn most effective strategy given limited resources
- ..although **deforestation is *not just a cocoa problem***
  - in 2001-14 quarter of the forest loss in Ghana was due to cocoa
  - other causes = illegal logging and mining



Source: Odijie 2018

Cocoa and child labour

- Issues around definition - child labour or forced labour?
  - indicating that issues and challenges of **child labour exist along a spectrum**
  - nuance to unpack complex dynamics, context and interlinkages connecting firms and farms at local community level
  - child labour in cocoa
    - closely linked to low prices AND rising cost ofproduction - i.e. **cocoa prices to do not reflect true cost of production**
    - cultural aspects and sensitivities - children engage in a wider range of rural and agricultural activities as part of upbringing
    - generally, more children are going to, and staying in, school longer showing sensitisation efforts are working

Cocoa and gender

- Differences in characteristics e.g.
  - female-headed households have
    - less people but higher % of single, widows and divorcees
    - lower adoption of Good Agricultural Practices
  - women typically
    - have lower literacy rate
    - do not lead production activities
    - engage in food trade

- According to some, women
  - involved in 45% of the operations but..
  - ..own only 2% of land, even though men and women have same land rights constitutionally, hindering access to extension services
  - ..earn 20-30% less than men

- On the other hand, others argue that
  - in general, **reasonably high cooperative decision-making on cocoa-related issues**, with land ownership not a big concern
  - lower earnings are partly because **women depend more on hired labour** for the physically demanding farm activities (e.g. weeding, spraying and so on)

Cocoa and the global value chain

- Millions of smallholder producers but very concentrated VC further downstream with highly financialised multinational companies (MNCs)
- Producing countries - limited negotiating power, volatility of prices
  - with cocoa production & processing, Ghana captures about 18.6% of the total value, and just 7.5% of margins (see figure)
- **Difficult to upgrade to higher level of value addition activities** due to
  - in **consumer market**
    - higher standards and unfavourable tariffs which makes exports of raw beans more attractive
    - distance from chocolate manufacturers who need just-in-time inputs (Ecorys, forthcoming)
  - in **domestic market**
    - lack of finance and higher borrowing costs (vs financialised MNCs with access)
    - high electricity costs (compared to current processing countries) + lack of access and high cost of inputs (milk powder, sugar etc.)
- Increasing cocoa processing in Ghana but almost entirely exported; high taxes in domestic market (competing objectives of forex generation and value addition, see below)

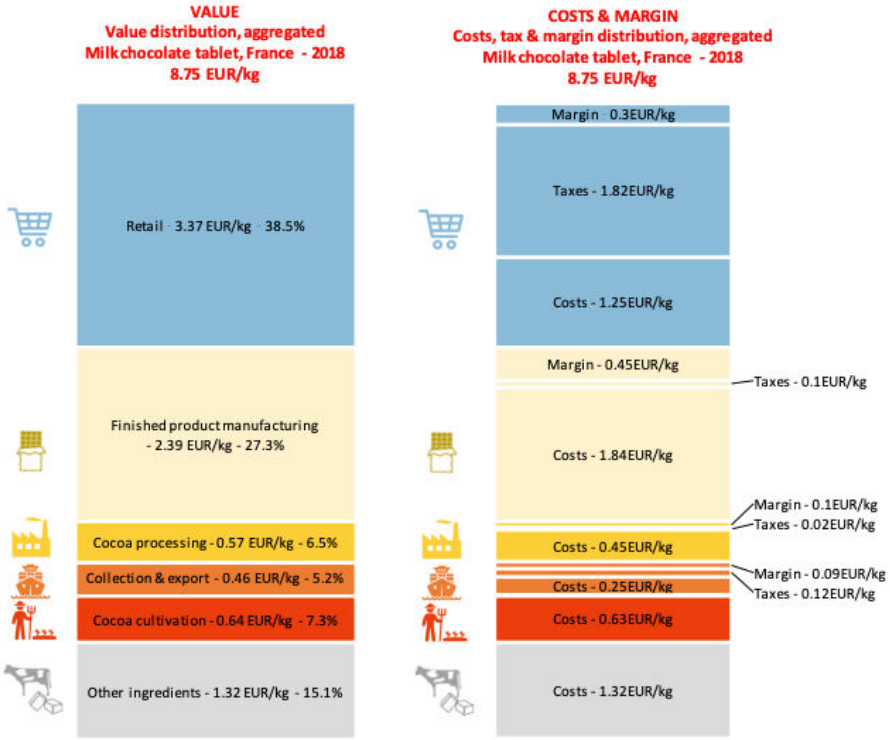


Figure 4. Distribution of value, costs and margins of plain milk chocolate tablets in 2018 (cocoa harvest 2017/18). Source: BASIC

Source: FAO and BASIC 2020

Cocoa GVC's tripolar governance

- 1st: Grinders - 3 players (MNCs) control 2/3 of the market
  - small margins, grind large quantities of cocoa with consolidated transport operations (price setters)

- 2nd: Chocolate manufacturers - top 6 players accounting for 52% of global sales

Figure 9: World market shares (in %) of the largest grinding companies, 2015

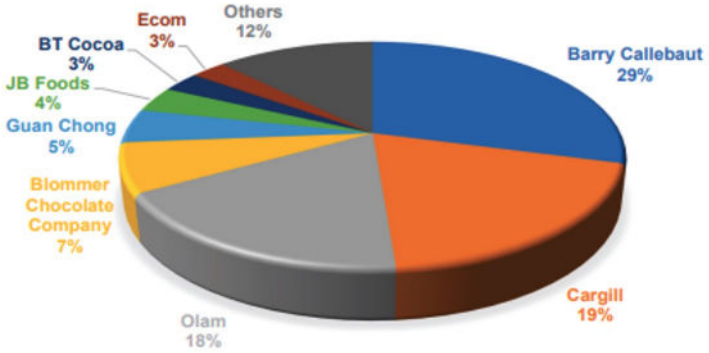
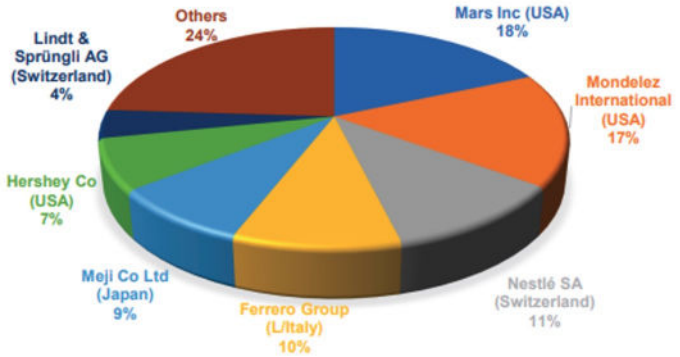


Figure 11: World market shares (in %) of the largest chocolate manufacturers, 2015



Source: Maile 2020

- 3rd: Retailers - now including supermarkets which are a more recent segment with own brands

- Dynamics - cut-throat **competition and pressure**
  - on processors to keep prices low AND
  - on farmers to improve farm techniques in the context of low prices and limited resources for productivity-enhancing investments

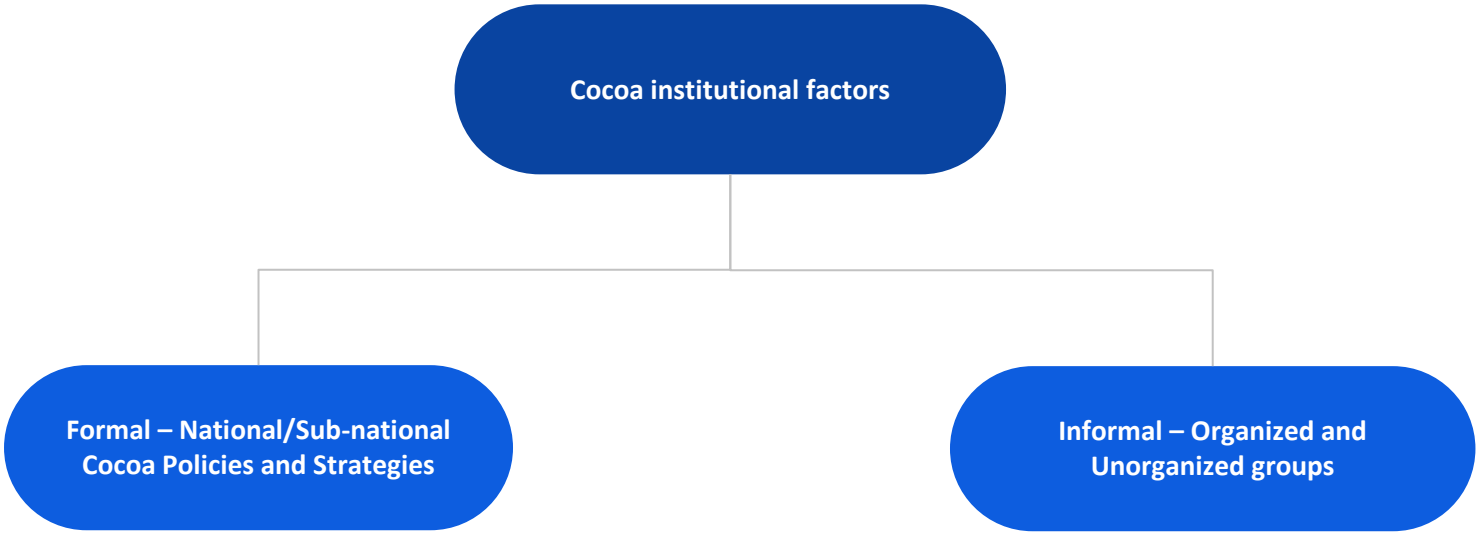
Structural factors - Summary

Supply Side	Demand Side	Enabling Environment
Land tenure is not secure	Low prices, fluctuating prices	Insufficient physical infrastructure (roads, hospitals, schools, transport cost)
Position of farmers without land	Limited access to market	Lack of access to credit
Small size farms	Lack of collective bargaining	Gender inequality
Aging cocoa trees, many beyond their most fertile age	Speculation on the futures markets	Lack of healthcare
Low yields (productivity per unit of land)		Lack of farmer associations and collective bargaining, and farmer organization
Low use and investment in inputs such as fertilizers and pesticides		Food security and nutrition risk
Low knowledge and training		Unsafe working condition with spray pesticides and fertilizers
Low quality cocoa beans		Corruption
Human rights, child labour		Environmental impact of fertilizers and pesticides
Monoculture		Rising cost of living/inflation
Deforestation, decreasing biodiversity		Lack of transparency and accountability
Cocoa trees disease such as stern borer, cocoa swollen shoot virus		Unstable political environment

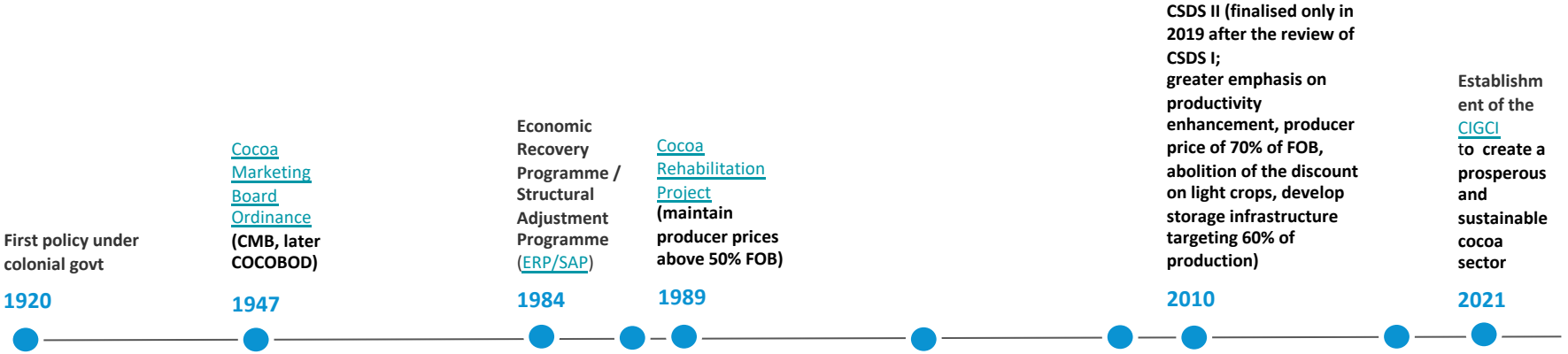
Source: Bymolt et al. 2018 or see cocoanomics

Institutional factors

- Institutional factors in cocoa = **formal** rules, regulations, policies, strategies + **informal** practices i.e. “rules of the game”
- Formal factors *more at the national level* with COCOBOD at the helm supported by Ghana's legislative and regulatory establishments
- BUT informal factors both at the *national* level (e.g. cocoa politics) AND at the *farm* level (e.g. collective action) have a significant impact on outcomes in the sector



National Cocoa Policies and Strategies

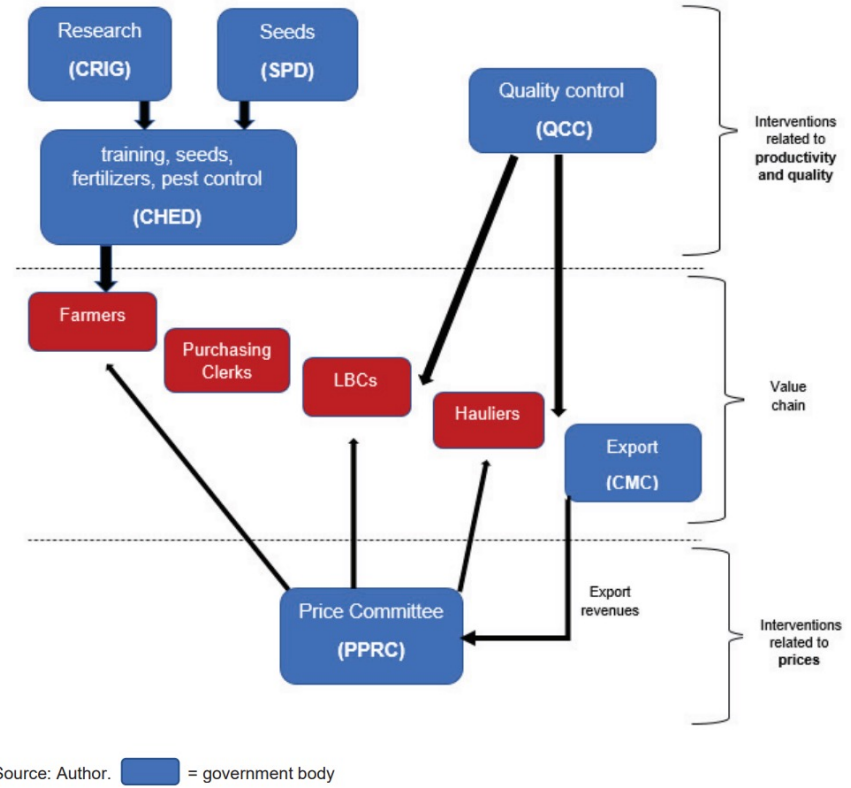


Support from multilateral, bilateral development partners, CSOs + private sector (including CSR) initiatives and public-private partnerships

Institutional set-up

- Several institutional bodies to ensure governance
  - **COCOBOD** with extensive scope: marketing (CMC), research (CRIG), seeds (SPD), extension (CHED) and quality control (QCC)..
  - ..**reach in virtually every segment of the value chain**, even those normally kept for the private sector
    - e.g. PBC is largest LBC, formerly part of COCOBOD until it was granted full autonomy
  - **PPRC** since 1983 to negotiate producer price among COCOBOD, farmers, Ministry of Finance
    - chairmanship of Ministry of Finance
    - dissatisfaction over lack of independence and representation
  - **Cocoa Management System** (CMS) to
    - make further inroads on sustainability including on deforestation, child labour, through tracing
  - **Living Income Differential** (LID) as a mechanism to improve livelihoods

Figure 17: Interventions by the Ghanaian government in the domestic cocoa sector



Source: Maile 2020

LID and its conceptual shortfalls

- Genesis of LID - provide living wage (target of $1,820/tonne) to farmers..
    - and thereby address the issue of low prices that farmers get and volatility of international prices between seasons
- ..however, international buyers rejected the initial proposal of floor price independent of futures price; instead, they agreed on $400 LID premium
- ..thus, LID is STILL linked to futures prices*
    - COCOBOD sells 70% cocoa on forward sales to protect against *intra-seasonal volatility*
        - remaining 30% sold on spot market (providing some room for manoeuvre)
    - but this does not shield farmers from *inter-seasonal volatility*, with price risks between seasons largely borne by producers
    - given the price-setting power of grinders/traders in cocoa GVC - interest in futures-based prices since their business strategies depend on commodity derivatives markets (i.e. highly financialised MNCs, see above)

* forward sales mitigate potential losses from terminal price risks, but financial speculation makes futures prices, to which these contracts are referenced, volatile and delinked from market fundamentals

With the current set-up of the LID, farmers are still the largest risk bearers even though they are least able to absorb it

Gaps in the current LID set-up

- Despite broad agreement on the need to raise farmer incomes
  - there are **several unknowns** given that LID was introduced without a proper guiding policy document, e.g.
    - levies on LID mark-ups?
    - will governments retain excess receipts when price > $2,900/tonne for the stabilisation fund?
    - supply control measures?
  - According to stakeholders LID impact on sustainability objectives not clear thereby raising **concerns over its long-term viability**

- On the ground
  - implementation of LID in Oct 2020 has meant an increase in farmgate price by 28%..
  - ..however, **concerns of oversupply**; unclear whether measures are in place to avoid excess production given increased prices for farmers
    - yet **another instance of competing objectives** (raising farmer incomes in the medium term requires limiting production as well as entry of new players)

LID in practice, COVID-19 disruptions and power play

- 20% price drop in March 2020 due to the pandemic..
    - terminal prices + origin premium + $400 LID to reach the minimum agreed export price of $2,6oo/tonne or $1,820/tonne to farmers..
- ..with, buyer strategies to avoid LID premium payments
    - 10-fold increase in buying from non-LID countries (Dec 2020); or prioritising stocks overbuying new beans
        - producers in a bind: with unsold cocoa, Côte d'Ivoire cut guaranteed producer prices by 25% (Apr 2021), going below target $1,820/tonne. Ghana kept producer prices stable in nominal terms through subsidies but high inflation reduced real earnings + debt burden
- While buyers now accept LID (Jul 2022)..
    - ..there are still challenges due to discounting origin premiums (which reached negative $125/tonne from $200/tonne, essentially offsetting LID premium)
    - ..COCOBOD has accumulated debts worth US$400 million to pay decent wages to farmers

In short challenges continue for countries to get their premiums paid

Cocoa in practice - politicisation and policy incoherence

- Short time horizons (4-year political cycle) to implement interventions that would reap benefit in the long-term
- Policy incoherence and unfinished implementation of sectoral policies/programmes impeding greater value addition and wider development of the sector
    - e.g. with Free Zones policy - incentives only if products are for exports but not for further domestic processing or consumption
    - e.g. domestic processing - discounted beans not readily available for local processors
    - e.g. high electricity prices (even though generation capacity was twice domestic demand in 2018), lack of access to affordable financing and other challenges perpetuate
    - e.g. Economic Tree Protection Act (1979) not strongly enforced to prevent deforestation

Political influencing in

- Corporate governance - top appointments at COCOBOD (incl. subsidiaries) or others
    - e.g. current CEO of COCOBOD Joseph Boahen Aidoo → loyal supporter of President Nana Akufo-Addo
    - resulting in lack of transparency and use of discretion
- Functioning formal institutions like the PPRC
- Inputs procurement and distribution
- Policies and investments around the sector (e.g. cocoa roads where there are allegations of corruption and counter-allegations of political expediency)
- On the other hand, producers are not well-organised - lack of unity among cocoa farmer groups

Cocoa politics and rent distribution

- NDC and NPP - need support from lower constituencies and thus depend on patronage
    - producer prices go up before elections since **cocoa farmers = important electoral base**
    - **domestic capitalist class small and without much holding power** - not enough incentive among ruling elite to go against farmers and support processors
        - this has meant that **support for processing**, even though high on the political agenda, **has not been consistent to promote *learning for productivity*** (i.e. productivity gains through practice and small innovations)
- Liberalisation of cocoa sector - licenses for domestic marketing (what are now LBCs) sold to connected individuals
- Fertiliser subsidy + farm mechanisation programme - political capture to reward supporters
- Benefit from (irregularities in) donor contracts
    - certification programme another a way to bring in more resources for patronage

Summary - cocoa in politics

In short *cocoa* has been used as a political tool from the First to the Fourth Republic

- Generally, Ghana's political settlement (tacit agreement between powerful groups about the political and economic game) has become personalised with fierce electoral competition which, even though ensuring relative peaceful transfer of power, has not resulted in structurally transformative growth
- Nevertheless, pockets of efficiency have emerged over the years, in the broader technocracy as well as cocoa specifically, even if performance is not always consistent

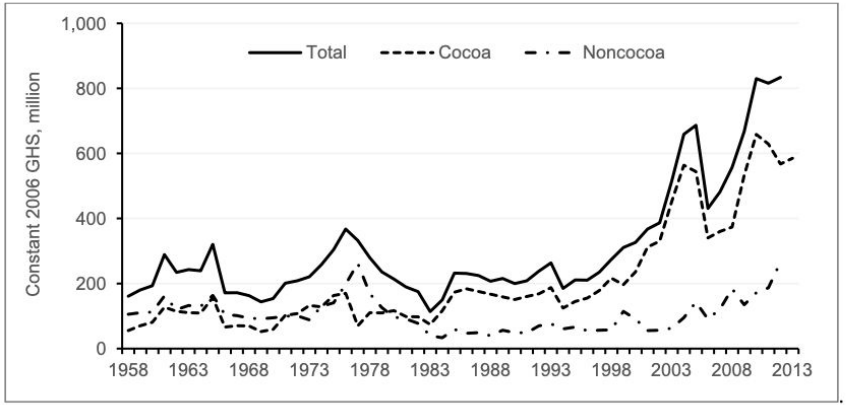
NEVERTHELESS, not too much meddling to kill the goose that lays the golden egg - that is, despite cocoa being a political sector (and its role in rent distribution), ***COCOBOD itself is run professionally***

- History - reforms in 1980s to address inefficiencies while maintaining oversight and investing in improving and boosting production
- Stands out from experiences of other marketing board reforms

Increasing cost of support

- Cocoa has been a cash cow..
- ..but the cow first needs to be supported
- High costs requiring subsidies
  - free mass-spraying
    - in 2001/02 (first years of mass spraying programme) spent almost all the revenue from cocoa in supporting the sector!
  - then discontinued to provide subsidies, including for other inputs
  - support is highly politicised
- In general, cocoa accounted for most of the total agricultural spending 1953-2013, with substantial rise since the late 1990s

Figure 3.1 Agricultural public expenditure in Ghana by subsector, 1958–2013



Source: Author's calculation and illustration based on Stryker (1990), Quartey-Papafio (1977), World Bank (1960, 1978, 1985), Jebuni and Seini (1992), MOFEP (1995), IMF (1998, 2000, 2005, 2015), GOG (2005), Ghana Cocoa Board (2013), and IFPRI (2015a, 2015b).
Note: GHS = Ghanaian cedi.

Source: Benin 2016

Cocoa and domestic processing, for what?

Riddled with policy incoherence..

- Ghana cocoa beans = premium given higher quality
- Domestic processing with light crop (lower quality). Subsidy to encourage processing of light beans BUT..
  - insufficient supply of light beans, which make domestic processing commercially unviable as firms unable to buy premium beans,
  - firms obliged to buy min MT in US$ in a context of limited access to finance and forex (esp. for domestic firms)
- Dualism in processing
  - **dominant MNCs** => FTZ (tax exemptions) => low value addition => export exclusively to parent companies for further processing
  - **artisanal and small-scale domestic processors** => limited access to $ => working outside FTZ => pay high taxes (**only four large Ghanaian firms in FTZ**, Ecorys, forthcoming)

AND competing objectives..

- *Raising forex* on the one hand, and *promoting value addition* on the other
- COCOBOD = pocket of efficiency..
  - provides consistent quality raw beans to global market through good oversight (partly because of monopoly in international marketing)
  - gets syndicated loans against future cocoa receipts as collateral for working capital + to pay farmers
- ..but cocoa for domestic processing = opportunity cost
  - less raw bean exports => lower collateral => lower loans to maintain working capital => low oversight => lower production quality **thereby jeopardising future functioning of COCOBOD** (perhaps the entire sector)

In short, Ghana's industrial policy efforts to promote domestic processing comes with **contradictions**

- From employment perspective - over-taxation of labour-intensive farming through lower farmgate prices while advantages to downstream (less labour intensive) industry
- From value addition perspective - attracting downstream processors by giving them light crop beans, but unfavourable fiscal regime for domestic sale because of emphasis on generating forex

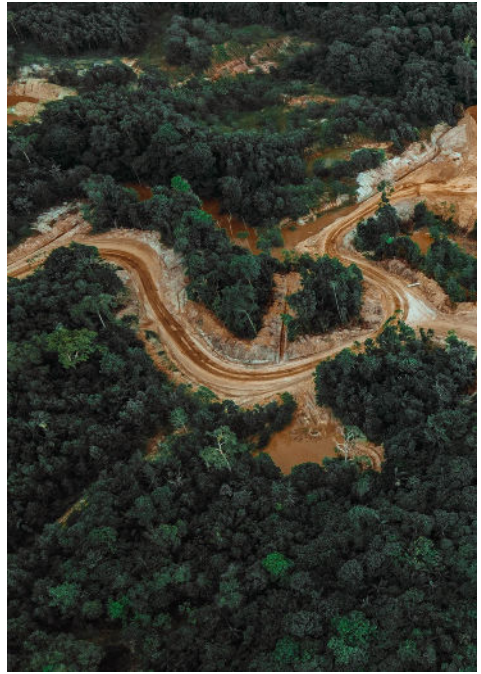
"Avoid deforestation", says who?

Competing mandates

- Cocoa-led deforestation is a problem, but so are illegal logging and mining. Question is, for whom? Oversight bodies seem to have competing interests and mandates
    - Ministry of Agriculture interest = ⬆️ cocoa productivity (impacts deforestation)
    - Ministry of Mines interest = mining license sales (incl. in cocoa-producing areas)
    - Ministry of Land & Nat. Res. + Ministry of Envt interest = implementation of deforestation-related regulations **BUT they have no mandate over cocoa or mining**; effectively caught in between Ministry of Agriculture and Ministry of Mines

- Galamsey made the common enemy (e.g. Galamsey-led cocoa farm destruction) but this is poverty-driven; lack of productive alternatives make it more than *just* an environmental issue i.e. not just a simple question of banning it

- Moreover, focus of external support is on *avoiding* deforestation rather than *reforestation* which is clearly needed



"Address child labour", which?

- Despite extensive legal framework + implementation intiatives, child labour persists..
  - ..what's in the law ≠ what stakeholders accept
    - *farmers* interest = higher incomes
    - *COCOBOD* outward facing function = show sustainability efforts (incremental approach)
    - Dvpt partners/EU legislation = ban unsustainable cocoa (ambitious approach)
  - ..there are definitional issues. E.g. focus on
    - *worst* forms (in developing countries like Ghana) or
    - *all* forms (increasingly highlighted in sustainable cocoa initiatives)
  - ..but data suggests that child labour in Ghana is on the decline though also cultural aspects (see above)
- Right to remedy given several failed court cases against large firms - consequences? And for whom?
  - spirit of due diligence laws, including avoiding child labour, is for firms to not privatise profits and socialise costs but lack of remedy does precisely that?
- Child labour cannot be seen isolation without simultaneously addressing the issue of poverty and destitution among cocoa farmers which is *closely linked to low international prices of cocoa*

Focus on deforestation and child labour without addressing poverty caused by low international prices = looking at symptoms and not root cause

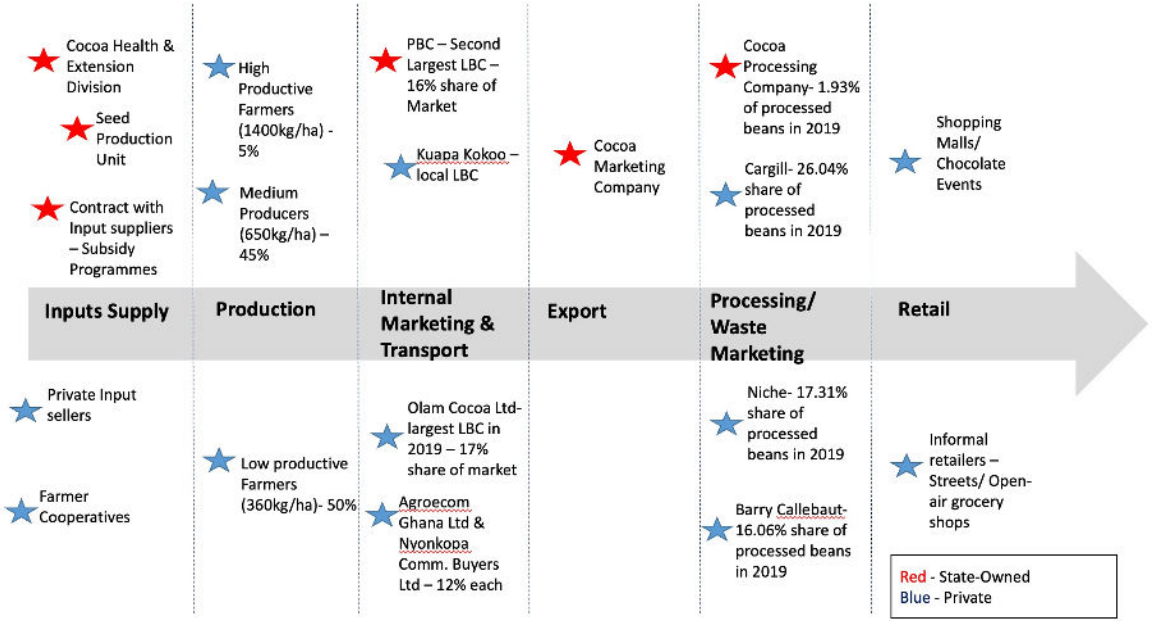
Actors, incentives and agency

Ghana's cocoa value chain is characterised by six (6) main stages:

1. supply of inputs
2. production by smallholder farmers
3. purchases by Licenced Buying Companies (LBCs)
4. export
5. domestic processing, cocoa waste marketing
6. retail of cocoa products

- Domestic value chain - breakdown of Free on Board (FoB) prices in 2018
  - cultivation (farmgate prices) = **72.1%**
  - collection + transport + export = **27.9%** (incl. 18.6% costs, 4% taxes and 5.3% margin)

Actors in the cocoa value chain in Ghana



COCOBOD (represented by several subsidiaries) is by far the most influential player in the cocoa sector. It has a dual character: provide on the one hand commercial and technical services to the sector, and on the other extract an important part of the surplus produced

Actors, incentives and agency

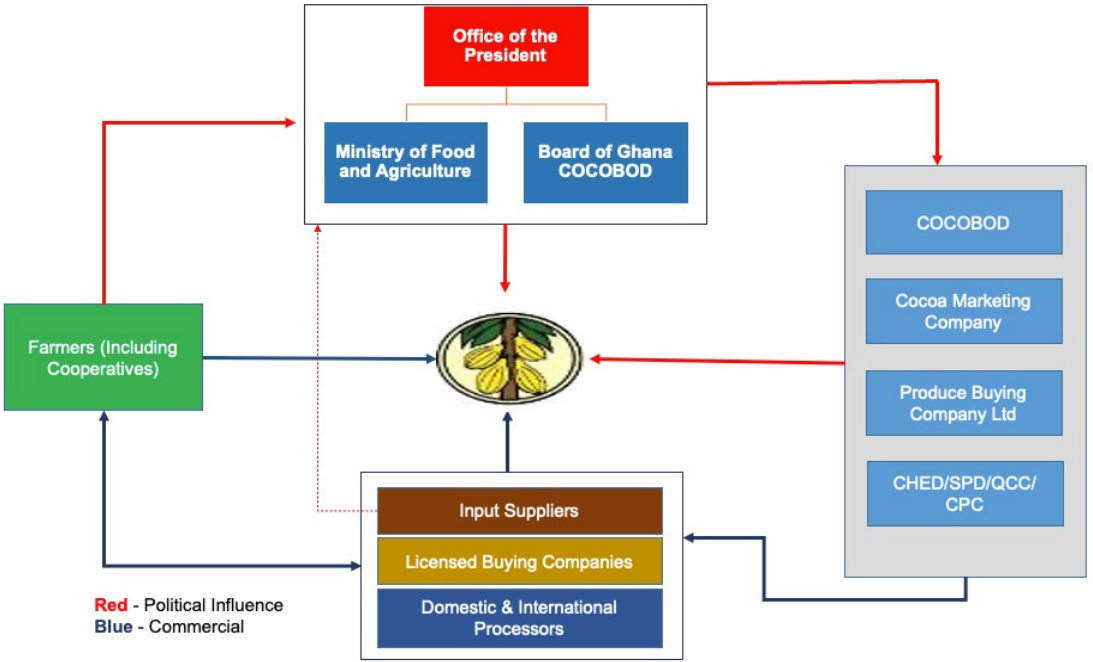
- Actors groups - government, farmers, LBCs, processing companies, input suppliers, and retailers.
- Each group with different interests and power relations, which affects the extent of their influence to change policies in the sector
- **Interests change according to the nature of reform**
  - e.g. farmers and related associations have a significant interest and influence in reforms for higher incomes less so for higher value addition through processing given current operating environment (given financing and other challenges)

Interests & influence of core cocoa actors for reform in the sector

Actors, incentives and agency

- Executive (government) - high political influence given its control on state agencies
- Political elites - distribution of rents through patronage networks that consolidate their political power
- Farmers -
  - commercial influence through production/output
  - political influence to demand higher prices (share in FOB price rising from 75% in 2010/11 to 89% in 2017/18)
- LBCs - primarily commercial influence by deploying competitive tactics (including pre-financing) to secure more output from farmers

Core influence dynamics around COCOBOD & other agencies

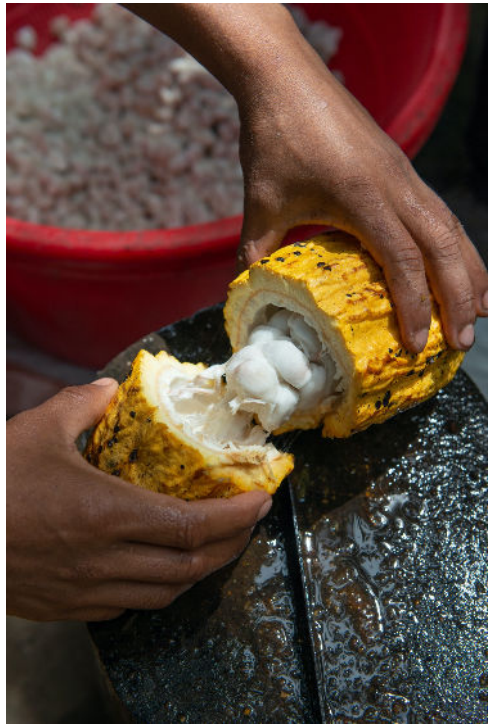


While these domestic dynamics do not change the quantum of $ that change hands is to a large extent influenced by international prices…

Sectoral factors - Why yields remain low

- Output - only 5% with high yields while 45% medium and 50% low yields
- Distinction between harvesters (landowners with money but not doing cocoa planting themselves) and others (active farmers)
- A ‘cocoa +’ strategy due to poverty
  - farmers intercrop (plantain, yam, maize along with cocoa) providing additional income and food security
  - can’t undertake necessary investments for cocoa (only few can afford Good Agricultural Practices)
- Youth moving out preferring alternative livelihood options

This suggests that cocoa is a not a full-time activity for farmers that engage in it



Sectoral factors - Why diversification is limited

- Apart from well-known challenges of land tenure, lack of finance, low income, high costs of inputs (not all of them covered here), there are other reasons for the relatively low diversification away from cocoa..
    - cocoa gives farmers guaranteed, even if low, income
    - government + NGO support for spraying and fertilisers which farmers otherwise have limited access to
- For international buyers (interested in steady supply of cheap cocoa beans) - biggest enemy is rubber and not another competitor
    - but alternative crops take time to mature before any income can be drawn from them e.g. rubber takes upto 5-7 years

Sectoral factors - Disincentives for domestic processing

- Incoherence in national policies due to competing objectives (see above)
    - tax on domestic sales, and other inhibitors like cost of inputs and lacking infrastructure
    - requirement to buy cocoa in US$ in the context of lack of access to finance and forex
- Profitability which increases with certification of raw cocoa beans but disappears with processing
- Short time horizons - immediate export receipts with raw bean + relatively easy in terms of standards requirement + established market for sales vs. long-term competitiveness for selling processed cocoa

External factors - Farmer-centred *sustainability* or just *cocoa-based* initiatives?

- Much focus on sustainability of cocoa production, but what impact? Issues with conceptualisation of initiatives..
- ..numerous private (in-house) initiatives + labels, including certification, but mostly about raising productivity to ensure cheap cocoa supply for international buyers
- Buyers' initial commitment to buy 100% certified cocoa by 2020?
    - farmers slightly better-off (6% more income) but with lots of caveats - lack of data, no impact on deforestation etc.
        - limited demand - 2/3rd of certified cocoa is sold as conventional cocoa
    - labels increase income but come with hidden costs which are almost always borne by those at the bottom of the chain
- While there is increasing attention to child labour and deforestation in international development policy circles, not enough on the causes linked to income
    - in turn, proposed intensification as solution has limited impact all these challenges

External factors - Significant evolution in the sustainability initiative landscape

- From private initiatives to multistakeholder ISCOs - GISCO (2012), SWISSCO (2018), Beyond Chocolate (2018), DISCO (2020) and FRISCO (2021) - agree on closer ties
- Global Cocoa Agenda (2012) as multistakeholder governance initiative but stalled discussions on a common M&E framework
- From voluntary initiatives to mandatory regulation
    - EU proposed legislation on deforestation - focused on 7 sectors, including cocoa, with due diligence requirements, expected to go into force from May/June 2023 + 18 months (24 months) implementation period for large firms (SMEs)
    - Directive on corporate sustainability due diligence with support from cocoa and chocolate manufacturers
        - where sustainable cocoa initiative complements; Alliance for Sustainable Cocoa (roadmap) based on Cocoa Talks
        - but a Southern perspectives on due diligence shows that regulation is no panacea and has its own challenges

***Pushback** from producing countries like Cote d'Ivoire and Ghana to also consider issues of farmer incomes*

Regional integration opportunities - competition vs collaboration?

- Negotiations under way for Cameroon and Nigeria to join the CIGCI..
  - good for **collective action** to negotiate higher prices for cocoa beans
- BUT **coordination failures** for a regional cocoa/chocolate value chain
  - **unfavourable fiscal regime for domestic processing** due to high taxes e.g. cocoa butter
    - for export ≈ US$4,600/tonne
    - for local sale ≈ US$7,300/tonne
    - so incentive to export cocoa butter to regional market?
  - lack of access of cocoa/chocolate firms from Ghana to the Nigerian market
  - **lack of infrastructure, access to finance and inputs** to make the regional market attractive
- Incentive for processed cocoa/chocolate exports to regional/continental market?
  - can it offset potentially "foregone" forex through raw bean exports to (current) established markets?
- Nevertheless, opportunities exist with the AfCFTA with cocoa identified as one of the sectors with potential for regional value chains
  - Rwanda
  - South Africa

3. Summary and implications for external support

Summary of findings

Ghana's cocoa sector is riddled with competing, if not conflicting, objectives and mandates mixed with complex political economy

- **In terms of policies**, short time horizons (politically) combined with the current organisation of the GVC make raw cocoa bean exports more lucrative than focusing on the longer-term goal of cocoa processing due to competing objectives
  - dependence on forex generation while also pursuing domestic processing and value addition
  - interest in raising farm incomes, but (potential) lack of ability to control oversupply (and therefore ensure long term livelihoods)
  - premium + standards which are easier to achieve with raw bean exports vs long-term investments in competitiveness

- **In terms of implementation** of deforestation and related regulation, there are competing mandates between different agencies

- **In terms of functioning**, COCOBOD
  - is somewhat a pocket of efficiency but highly politicised
  - has to balance between several, often contradictory, roles e.g.
    - providing technical services to farmers while extracting surplus from them
    - engage in sophisticated macroeconomic management while politicking
  - arguably has limited interest in domestic processing given opportunity cost

Summary of findings

Competing actor interests

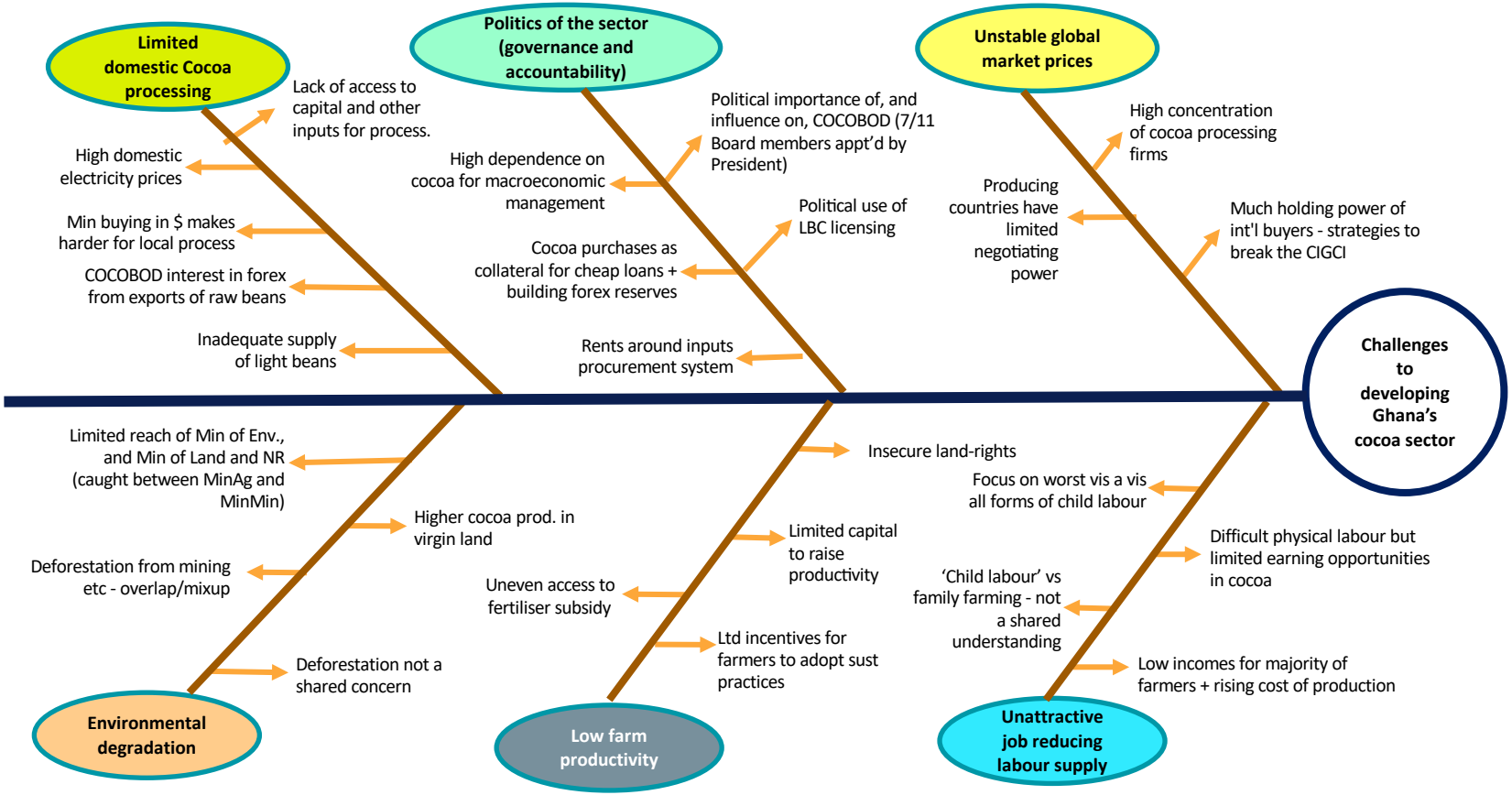
- **Farmers**
  - rising cost of production makes child labour and deforestation inevitable without substantial support or higher incomes
  - given limited support for diversification to absorb risks, farmers stick with cocoa even with its low incomes
  - engage in Galamsey activities even though this exacerbates challenges of deforestation and affect cocoa yields

- **Political elite**
  - cocoa politics and rent distribution
  - support value addition in rhetoric but not in practice

- **International buyers**
  - under increased pressure to bring sustainability but also interested in uninterrupted supply of cheap cocoa
  - focus on *demand for* rather than increasing *supply of* sustainable cocoa
  - unwillingness to pay full premium

- **Consumer vs producer countries**
  - where consumer countries (EU/US) want to avoid importing unsustainable cocoa but exporting countries want a higher share in the value chain
  - mandatory due diligence and sustainability regulation is not necessarily a panacea

Problem tree summarising challenges to developing Ghana's cocoa sector



Implications for external support

Closely interlinked socio-cultural, economic and political aspects mean that technical solutions alone cannot bring meaningful changes!

- Cocoa will continue to play a central role in the macroeconomic management, as well as politics of Ghana
    - external partners should therefore **appreciate the potential impact proposed interventions** on these other aspects + other trade-offs that actors in the sector make to avoid unintended consequences and lack of buy-in from actors
    - certain problems (such as child labour and deforestation) are unlikely to be resolved in the short term and may instead require attention of other less tractable ones around raising productivity, suggesting the need for **realism both in terms of the accurately identifying country-context as well as the level of ambition of support**
    - given the highly complex sector, a **problem-driven approach** may yield more results rather than bringing in best practices and technical solutions only; these are not a magic wand and politics in the sector cannot be wished away

External support should consider the INTEREST as well as ABILITY of partners to alter/adapt to political economy dynamics

Implications for external support

Applying the ex-post political economy findings to identify ex-ante entry-points for support

- On the basis of 3As of a problem-driven iterative approach
  - is there a common **acceptance** (among all stakeholders) of the problem and the need for reform?
    - e.g. on the need to raise domestic processing but not when it comes to the causes and drivers of deforestation or child labour (see above)
  - is there an **authorising environment** (for the development partner) to undertake the kind of change that is being sought (political, legal)?
    - e.g. in ensuring environmental sustainability (reducing deforestation) given legislations in home country (e.g. EU) but not in addressing political control of the executive on the cocoa sector and therefore other aspects of sector governance
  - does the partner have the **ability** to actually bring this change about (time, money, capacity)?
    - e.g. given fragmentation in initiatives, pooling of resources (technical knowledge, capacity, finance) by development partners and issue-based interventions can provide greater scope for impact through reforms in the sector

The intersection of these 3As may be in a large, or small and limited area, or not at all! This should help define the approach (big bang and ambitious reform, or incremental reform) of interventions

Implications for external support

Using ex-post analysis for ex-ante (future) programming

- one way of translating identified entry-points into future programming is using the 5As
    - **Alter** - can the interests and incentives of key stakeholders be changed to solve the problem?
    - **Adapt** - to what extent can the identified problem be solved with the current configuration of interests?
    - **Avoid** - is there scope to work with alternative actors/processes; if so at what cost?
    - **Await** - are there potentially big events which may be more opportune for reform?
    - **Abandon** - is the problem a political ‘hot potato’ and should be not pursued; if so at what cost?

Thank you!

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