

# Cocoa value chain in Ghana

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For decades, cocoa has been the most preferred raw material for chocolate. Its function in the confectionery and cosmetics industry is undoubtedly overwhelming. In Ghana and most tropics, cocoa production supports families and communities in terms of employment and livelihoods. It also contributes immensely to the country's export revenue. In the 2021/2022 crop season, 850,000 metric tonnes of cocoa beans were produced in Ghana, while its addition to Gross Domestic Product (GDP) was estimated to be 3.41 billion Ghanaian Cedis, (around 454 million U.S. dollars) in 2022 or 0.16% of Ghanaian GDP that year.

In this article, we will explore how the cocoa value chain is organized in Ghana and what are the main challenges for the peasants at the present. This is the first article of a series of articles dedicated to the study of the cocoa production and distribution in the world. Follow ROOTS to know more about it!

## Cocoa bean production

A typical cocoa beans value chain starts with a base of smallholder farmers most of whom cultivate between 2-5 hectares of land. The chain involves the operation of these major segments: cocoa bean production, sourcing and marketing, processing, distribution, and consumption.

Smallholder farmers in hot and humid regions of Ahafo, Bono, Western North and Ashanti Regions of Ghana are the major cultivators of cocoa. They grow the Amelonado (Forastero) variety which is usually supplied to them by the government of Ghana through COCOBOD<sup>1</sup>. Cocoa production has two main seasons which include September-March (main crop season) and May-August (minor crop season). Farmers normally intercrop cocoa with food crops like plantain and cocoyam. These crops provide food for farmers and their

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<sup>1</sup> The Ghana Cocoa Board is a Ghanaian government-controlled institution that fixes the buying price for cocoa in Ghana.

households and, at the same time, serve as a protective shadow for cocoa tree crops.

The farmers are divided in three categories, and they comprise owners, sharecroppers and caretakers. As the name indicates, the owner has complete ownership and control of the farmland as well as the instrument of labour.

In the case of the sharecroppers, they do not own the land. The sharecroppers are merely tenants who cultivate on the owners' lands and later share the profit when the production is sold out after harvest. The caretakers work for their landlord, the absentee farmer. They control the instruments of labour and take care of the farm from start to harvest. After the beans are sold, the caretakers take 40% of the earnings while the land owner takes 60%.

At the time of harvest, farmers hire more labourers to assist them remove ripe pods manually from the trees. Since the fruits do not ripen at the same time, harvest is done intermittently or as and when the pod is ripe. After at least a week, farmers use wooden clubs and knives to split open the pods. They then use their bare hands to extract the beans together with the pulp. The beans are then spread on wooden mats in the open to allow for fermentation. From time to time, the workers run their fingers through the beans to allow for aeration and also get rid of the pulp as the beans dry. Poor fermentation reduces the flavor of the beans and over fermentation also produces an acidic taste. The beans are left in the open for about a week (unless during rainfall) to ensure proper drying.

### **Sourcing and marketing**

The dried seeds are sorted out or cleaned to get rid of defects. They are then weighed and packaged firmly into jute bags. The cocoa beans are sold to licensed private intermediaries or to COCOBOD's own purchasing agency known as Produce Buying Company . Whether through the Produce Buying Company or private intermediaries, the price is fixed. Since October 2022, the price of cocoa has been pegged at eight hundred GH¢800 (US\$71.64). However, at the time of writing this article in March 2023 the farmers received for the same 64kg bag some US\$7.38 less due to depreciation of the cedi against the dollar.

The Ghana Cocobod is not only first the sole purchaser of cocoa beans within the country but also remains the sole seller of the beans to the world market through its subsidiary, the Cocoa Marketing Company. One of the few companies working with COCOBOD to buy the beans include Kuapa Kokoo Limited. After COCOBOD buys the beans through its own purchasing agency or through private intermediaries, it goes on to sell the produce to local and international traders as well as cocoa processors. COCOBOD also engages in promoting Ghana's cocoa beans to the outside market. Again, since cocoa price is determined at the world market, COCOBOD absorbs the difference between the price paid to farmers and that obtained at the international market. Government also sets aside part of the observed earnings from cocoa in order to support the budget at the detriment of farmers.

### **Processing and distribution**

Only a small portion of cocoa beans is processed in Ghana; even so, the processing mostly remains at the semi-finished products stage. Only two Ghanaian-owned factories process the cocoa beans into finished products: the Golden Tree Cocoa Processing Company Limited (which is dominantly state-owned) and Niche Cocoa Industry Limited. They mainly produce chocolate for local and foreign markets. The reason why the government is reluctant on adding value to cocoa domestically is because of its priority on earning from the foreign exchange.

Other cocoa processors include Cargill Ghana (American), Barry Callebaut (Belgian-Swiss), Afrotropic (Ghanaian) and Olam (Singapore). For over decades, these companies have been manufacturing primary products like cocoa butter, cake, powder, and liquor.

It must be noted that processing companies in Ghana operate in an export zone called the Ghana Free Zones. They enjoy tax exemptions on imports of all production inputs, particularly raw materials and machinery.

On the other hand, there is a high tax rate of almost sixty percent (60%) on local sale of semi-finished products as well as chocolate. This is one of the reasons companies are dissuaded from manufacturing products for local consumption markets, but instead prefer to export the production, semi-finished and finished products to other manufacturing companies in the

US, Netherlands, France, Spain, Philippines and China. For instance, while natural cocoa butter is reportedly sold at an export price of around US\$4,600 per tonne, the product is sold at about US\$7,300 per tonne within the domestic market.

The value chain dynamics of cocoa make a very intriguing revelation. While at the production level, peasant cocoa farmers are likely to earn about US\$1,119 on every one metric tonne of beans sold out, the processors' share is as much as US\$3,480 profit on every one metric tonne of beans processed. Then on that same one metric tonne downstream, manufacturers are able to make a profit of US\$6,180. Thus, the chunk of profit within the value chain remains at the processing, distribution and manufacturing stages. This is to the disadvantage of the poor cocoa farmer on whose shoulders the cocoa sector lies so much, because she or he is fleeced and does not earn as much as others in the value chain (including the processors, manufacturers, marketers, and distributors).

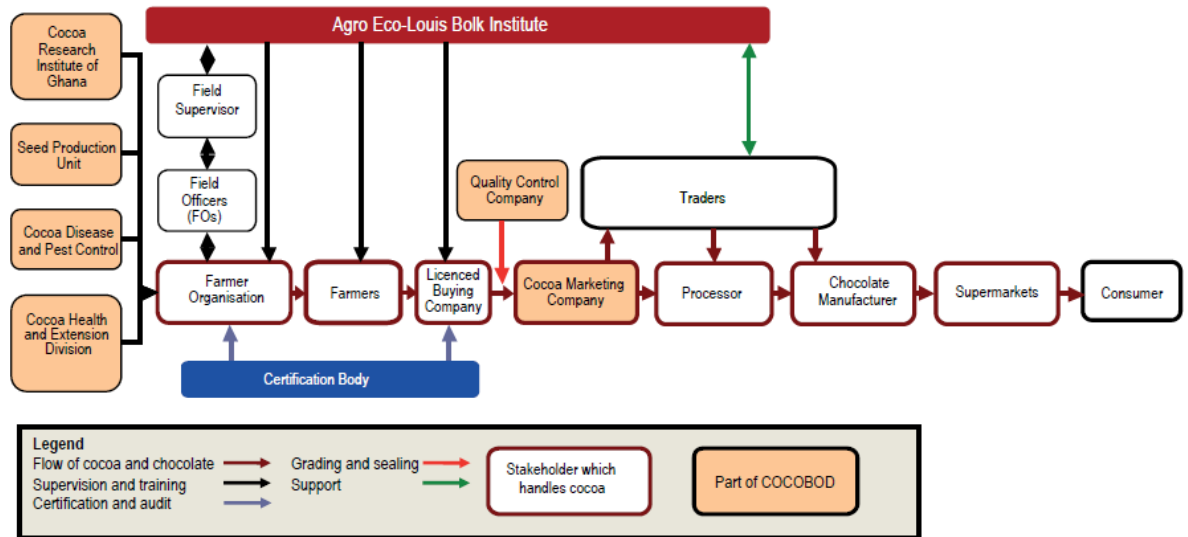
## **Consumption**

At present, the consumption of cocoa and chocolate products is low. According to COCOBOD, the average consumption rate is 1.0kg per capita annually, comparative to countries with the highest consumption rates such as Switzerland with 9.7kg per capita, followed by Estonia with 8.8kg per capita. Meanwhile, the global average consumption rate is estimated at 0.9kg per capita.

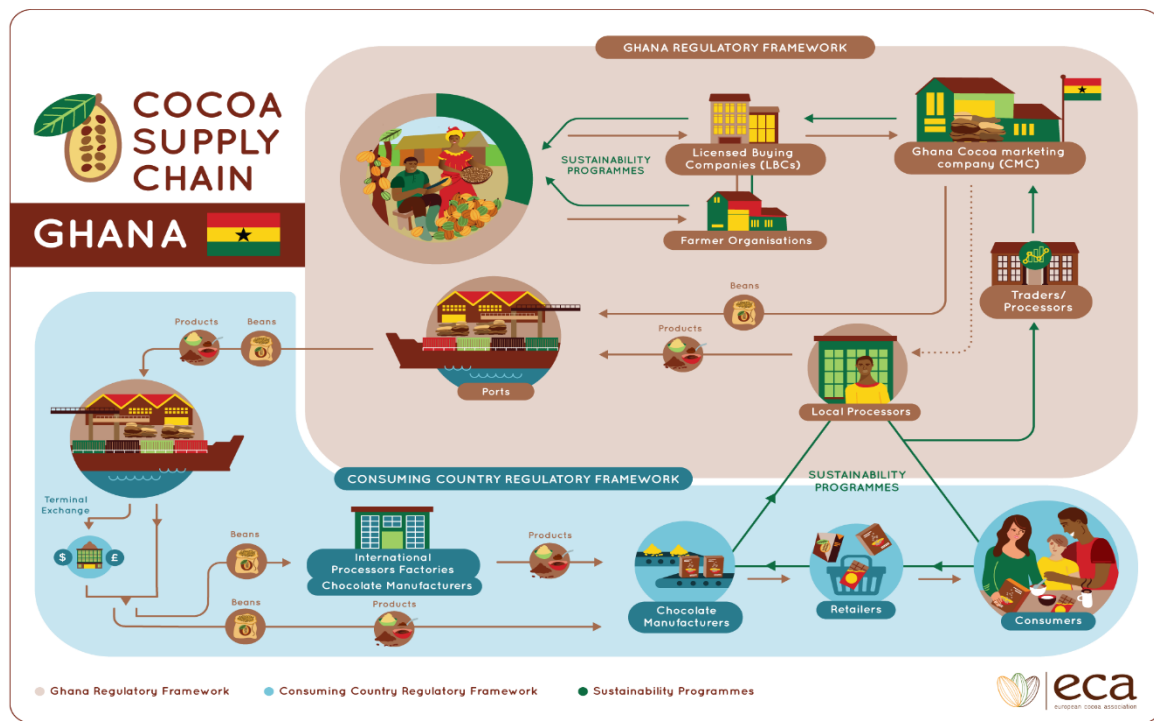
However, cocoa is still the most important commodity for food and confectionery, cosmetics, as well as pharmaceutical companies. Cocoa production remains an important source of livelihoods for most communities and families in Ghana.

In summary, the cocoa value chain in Ghana starts with smallholder peasant farmers. It continues with government or government-certified buyers, and then is domestically processed or exported. Domestically, the beans are processed into cocoa butter, mass, powder, liquor, while a great deal of the product is exported to foreign countries.

## The cocoa value chain



Source: Agro Eco, cocoa value chain



Source: European Cocoa Association, cocoa supply chain

## Conclusion

Cocoa production in Ghana depends solely on peasant farmers even though these farmers find themselves only in the upstream of the production and supply chain. Again, they are those who suffer most in terms of the challenges and burdens associated with the trade. Some of these challenges include inaccessibility to land ownership, inability to determine cocoa price by themselves, contention with crop losses due to disease and pest infestation, low levels of technology applications, complicated pattern of indebtedness among farmers, inability to add value to the produce, and lack of access to agricultural inputs such fertilizers, pesticides, weedicides, pruning equipment and spraying machines.

It is also clear that owing to pervasive neo-colonial relations, absentee farmers retain power and control over production through the ownership of the land. With increasing commodification of land in the country, the majority of smallholder peasant cocoa farmers are becoming landless and unable to benefit from upstream cultivation of cocoa beans. Hence, the winners are the big players along the value chain including the chocolate, confectionery and cosmetic industries downstream.

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