Prospects for Cocoa Processing and Consumption in Africa

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Outline

1. Briefly introduce Afreximbank;
2. Discuss emerging developments in Africa’s cocoa sector;
3. Demonstrate Afreximbank’s response to the emerging developments in Africa’s Cocoa Sector;
4. Highlight partnerships in support of Africa’s cocoa sector; and
5. Conclude with Way forward.
The African Export-Import Bank (Afreximbank) was established in October 1993, under the auspices of the African Development Bank, as a pan-African trade finance institution.

The Bank’s mission is to **stimulate a consistent expansion, diversification and development of African trade** while operating as a first class, profit-oriented, socially responsible financial institution and a center of excellence in African trade matters.

The Bank functions as an international public-private partnership whose purpose is to accelerate the growth of trade in Africa.
The Bank currently has 40 participating member countries spread across Africa. The Bank is headquartered in Cairo with regional offices in Abuja, Harare, Abidjan and Nairobi.

Currently, the Bank has 4-classes of Shareholders:

- **Class “A”**: made up of African governments and/or their central banks, African Development Bank (AfDB), African continental, regional and sub-regional financial institutions and economic organizations;
- **Class “B”**: consisting of African national financial institutions and the African private sector;
- **Class “C”**: comprising International financial institutions and economic organizations, non-African financial institutions and non-African private sector; and
- **Class “D”**: open to subscription by any investor, African or non-African.
What We Do

The mandate of the Bank is to finance and promote intra- and extra-African trade using three broad services:

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What We Do

✓ Direct extension of credit to African exporters

✓ Indirect extension of credit through African intermediaries / banks

✓ Letters of credit, credit insurance, guarantees and other trade documents

✓ Market research, Advisory and auxiliary services
Cocoa Production, Processing & Consumption in Africa
Africa remains the world’s largest source of cocoa, accounting for approximately 72% of global production in 2014/2015.

Cote d’Ivoire, Ghana, Nigeria and Cameroon accounted for 70% of global production in 2014/2015.
Cocoa is a major contributor to export revenues, employment and fiscal revenues in some of the major cocoa producing economies in Africa.

In 2015 Africa accounted for approximately 72% of global production, up from 62% in 1980.

Production tripled over this period to exceed 3 million tonnes in 2014/2015.

Source: ICCO
Although production has been rising in Africa, productivity measured by Kg/Ha has been stagnant over the years, compared to Asia, particularly for most parts of the 2000s.

This low productivity can be attributed to a number of factors, including:

- Aging trees and low investment in plantations;
- Limited investment in research into high yielding species;
- Large number of small scale farmers;
- Poor agronomic practices;
- Limited market information; and
- Impact of sector reforms introduced by the Bretton Woods Institutions.
Cocoa Processing

Cocoa processing in Africa is picking up steadily with the continent’s total grinding stock surpassing those of Asia and a fraction lower than those of the Americas.

Europe continues to dominate global grinding with 37% in 2014/2015

Africa and Asia have shown strong growth over the past 25 years demonstrating the trend of capturing greater value at source.

Source: ICCO
Cocoa Processing

Africa and Asia’s share of grinding stock rose from just 8% and 6% in 1980 to 21% and 20% respectively in 2014/15.

Europe and Americas has shown a declining trend.

Over the last 10 years each of the four leading African producing countries have shown strong growth in processing, Ghana, Nigeria and Cameroon have increased from 67,000 tonnes to over 320,000 tonnes.

In 2014/15 Côte d’Ivoire, with over 540,000 tonnes surpassed the US, Germany, and the Netherlands, to become the largest processing hub for cocoa. We expect this to grow further with the influx of more advanced technology and capital.

Source: ICCO
Africa:

Produces **72%** of the world's cocoa

Grinds **21%** of the world's cocoa

Consumes less than **4%** of the world's cocoa

*Source: ICCO*
Cocoa Consumption

Average Growth in Consumption 1999-2013 (%)

- Africa has demonstrated the strongest consumption growth over the last 15 years with a CAGR of 5.9%, followed by Asia with 4.98%.
- Europe and the Americas recorded growth of only 1.85% and 1.59% respectively.

Source: ICCO
Cocoa Consumption

Strong Consumption growth is expected to continue, driven by Africa’s changing demographic:

- Unprecedented population growth
- Strong economic growth and diversifying economies have given rise to an emerging middle class which is driving demand for consumer goods.
- Over the last decade Africa’s aggregate final household consumption expenditure grew by at an average annual rate in excess of 10%.
- Mckinsey & Co estimates that by 2020 consumer spending across the continent could top $1.380 trillion. This is the equivalent of adding a consumer market the size of Brazil to the world economy.
Afreximbank’s Response to these Developments
In 2012, Afreximbank, launched the Africa Cocoa Initiative (AFRICOIN) to provide an End-to-End solution (upstream, midstream and downstream) to the African cocoa sector.

AFRICOIN is aimed at providing solutions as follows:

✓ **Production**: facilitate the growth in cocoa beans production by supporting productivity improvement initiatives, plantation expansion and technical assistance services to selected players in the African cocoa industry;

✓ **Processing**: support deeper integration of the African cocoa economy into the global value chain by expanding processing of raw cocoa into industrial cocoa (cocoa liquor, cocoa powder and cocoa butter) to feed manufacturing plants in Europe, North America and Asia; and

✓ **Consumption**: promote consumption of cocoa products in Africa, Asia and the Middle-East.
Development of the Upstream Segment of Africa’s Cocoa Value Chain

- The Bank works with governments of origin countries in Africa, relevant financial institutions and others to create appropriate funding pool for financing new cocoa plantings and other investments needed to modernize the cocoa sector.
- The Bank, for instance, intends to work with interested governments of origin countries to facilitate the issuance of Cocoa Bonds with proceeds of the bond issuances to be used to support productivity improvements in the short and long term.
- Provide short term financing for the acquisition of inputs, including fertilizers, insecticides, herbicides, cutlasses, etc.
- Provide term funding for the establishment, expansion or refurbishment of input production plants in origin countries.
Development of the Mid and Downstream Segment of the Cocoa Value Chain

- Working with relevant African governments to drive the cocoa industrialization agenda by facilitating cocoa processing.
- Under its Export Development Programme (EDP), the Bank provides financing, guarantees and technical assistance for the development of manufacturing capacity of cocoa processing companies in origin countries.
- Through the EDP, the Bank also facilitates twinning between African and non-African businesses.
- Advisory services to facilitate cooperation between international chocolate processing plants and their African counterparts
- Investment Guarantee and Country Risk Guarantee Facilities are available to investors.
AFRICOIN – What we have done

**Support for productivity improvement:**

- USD 108 million financing of production and import of farms inputs, including fertilizers, insecticides, herbicides, etc.; and

- USD 25 million financing the establishment and or refurbishment of warehouses/ storage facilities.
Expansion of processing capacity - the Bank has financed expansion of processing capacity through imports of new equipment and refurbishment of existing plants:

- Côte d’Ivoire processing capacity has been increased by 69,000 tonnes from 471,000 tonnes in 2012/13 to 540,000 tonnes in 2014/15 with Afreximbank contributing about 45,000 tonnes, with total financing in excess of USD 100 million.
- In Nigeria, processing capacity is expected to increase from 50,000 tonnes in 2014/15 to about 110,000 tonnes by 2015/16, with total financing amounting to $55.8 million.
- In the case of Ghana, the Bank is currently processing transactions that will contribute to increase processing capacity from 240,000 tonnes in 2014/15 to about 285,000 tonnes by 2015/16, with a total financing of $29 million.

Facilitating market access to African processing companies - By fostering creation of JVs between selected companies in Côte d’Ivoire, Ghana and Nigeria with international trading companies, these entities have been able to export processed cocoa into international markets.

AFRICOIN – What we have done
The Bank is currently working with its partners to undertake consumption promotion in origin countries and Asia, starting with Nigeria and China.

Using the Bank’s recently launched Intra-African Trade Strategy, and other programmes and facilities to support cocoa investment, trading, processing and consumption across Africa;

The Bank will also support trade fairs/exhibitions targeted at this purpose; and

We intend to also support and finance Africa-South Trade in raw and semi-processed cocoa.
Partnerships
Partnerships

- We believe that the success of this initiative will only be realised with effective collaboration with major stakeholders in the cocoa economy, including, Governments of Major cocoa producing countries in Africa; International Cocoa Organization (ICCO); Processing Entities (both state and private sector entities) in Africa; and International Cocoa Traders and Processors.

- Afreximbank has entered into an MoU with ICCO in support of Africa’s cocoa sector, covering capacity building and technical assistance for project preparation, research, consumption promotion etc.

- KfW-IPEX, Germany, has provided a dedicated line of credit to finance various activities across Africa’s cocoa value chain.

- The Bank is also in discussion with other development finance institutions, including Rabobank and DEG to support Africa’s cocoa sector players to build technical capacity.
Afreximbank will continue to leverage financing and partnerships in support of the development of Africa’s cocoa economy. Through our programme and facilities we will provide support for:

- Plantation expansion and productivity improvements;
- Imports and/or domestic production of cocoa production inputs;
- Expansion and/or refurbishment of existing processing/manufacturing plants;
- Establishment of new processing/manufacturing plants; and
- Promotion of cocoa consumption in Africa, Asia and the Middle East

We also believe that the success of the AFRICOIN initiative will be a major step towards a sustainable cocoa economy in the continent.
Thank You

For more on Afreximbank’s Programmes and Facilities visit our website at

www.afreximbank.com