



# **Transforming Africa's Cocoa Economy: Opportunities, Challenges and the Role of Finance**

**Presented by  
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International Cocoa Organization (ICCO)**

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- *The Chairman of the Council*
- *Honourable Ministers*
- *Executive Director of ICCO, Dr. Anga*
- *Distinguished Ladies and Gentlemen*

- **Afreximbank is pleased to participate in the 85<sup>th</sup> Regular Session and 145<sup>th</sup> Meeting of the Executive Committee of the ICCO and to share with this august body of Global Cocoa Stakeholders the role it is playing in strengthening the African cocoa economy.**
- **The work and efforts of the Bank on Cocoa are consistent with ICCO's strategy and require ICCO's support and insight.**



*The Trade Finance Bank for Africa*



- By way of introduction, Afreximbank is a Pan-African Multilateral Financial Institution created in 1993 under the auspices of the African Development Bank (AfDB) to promote and finance African trade.
- It is headquartered in Cairo, Egypt and has branches in Abuja, Nigeria and Harare, Zimbabwe. It offers credit (trade and project finance), risk bearing and trade information/ advisory services.
- The Bank's Shareholders are African Governments, including the leading cocoa producing countries in Africa, namely African financial institutions and private investors as well as non-African investors.





➤ The Bank has been assigned the following long-term credit ratings, all with stable outlook:

• Baa<sub>2</sub> by Moody's



• BBB- by S&P's



• BBB- by Fitch



➤ I am pleased to invite you to visit our website at: [www.afreximbank.com](http://www.afreximbank.com) for more information on the Bank.





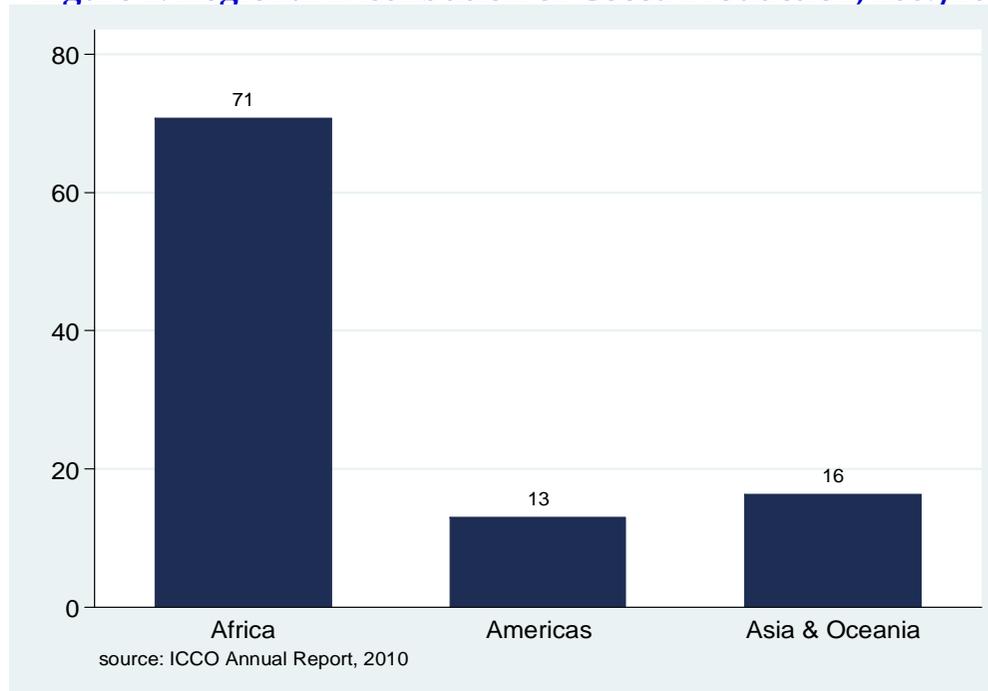
- *Mr. Chairman, Honourable Ministers, Distinguished Ladies and Gentlemen,*

**In the rest of this speech, I shall**

- 1. briefly describe the place of cocoa in Africa;**
- 2. highlight the emerging challenges to the African cocoa economy;**
- 3. discuss how those challenges can be turned into opportunities; and**
- 4. highlight the role of finance and Afreximbank's response to the challenges, before concluding.**

- Africa is an important cocoa producer accounting for about 70% of global cocoa beans production.

Figure 1: Regional Distribution of Cocoa Production, 2009/10



- **Cocoa is a major contributor to export revenues, employment and fiscal revenues in some of the major cocoa producing economies in Africa.**



- It is therefore a good thing that the cocoa sectors of some of the leading African producers, namely Nigeria and Cameroon, are beginning to recover from the near havoc caused by economic reforms launched in the 1980s under the auspices of the Bretton Woods Institutions.



- The reforms, anchored on the dismantling of Government Commodity Boards, virtually destroyed the elaborate logistic arrangements that supported cocoa trading in the reforming economies, such as scheduled pricing, input supply arrangement, warehousing, quality control, transportation, international price protection, and so on.



- It is no wonder then that cocoa production in the reforming countries, namely Nigeria and Cameroon fell by 20% and 14% respectively between 1970 and 1990 while in Côte d'Ivoire, which resisted the reforms, cocoa output rose by 351% during the same period.

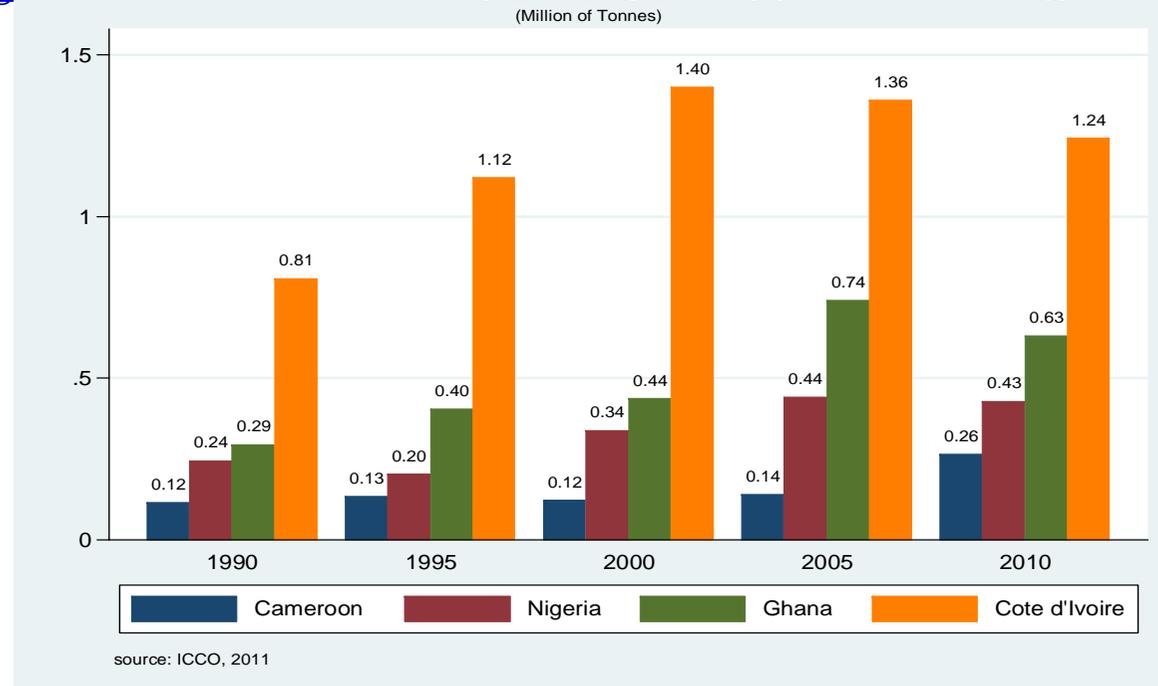


- Although Ghana also resisted the reforms, disruption to production caused by extensive fire incidents in cocoa plantations in the 1980s led to contraction in production by 28% during the period.



- Today, however, adjustments to the reforms have occurred and cocoa output has recovered across the board with production increases of 60%, 63%, 152% and 161% in Nigeria, Côte d'Ivoire, Cameroon and Ghana respectively between 1990-2010.

**Figure 2: Evolution of Cocoa Output of Top Four (4) Cocoa Producing Countries**



- Behind the recovery seen in some of the markets was the entry into those markets by what used to be the destination buyers, such as Cargill, ED&F Man, Etcetera.
- The consequence is the emergence of concentration in those markets with 3-4 buyers controlling about 70-80% of the crop in each season. Thus, the reform appears to have succeeded in replacing Government monopolies with private, sometimes foreign-owned, oligopolies.



- *Mr. Chairman, Distinguished Ladies and Gentlemen,*

**Permit me to outline other challenges facing the African cocoa sector based on our own assessment as financiers looking in from the outside.**



- **First, the African cocoa sector must find ways to raise the long-term funding to support new plantings to ensure long-term growth in production. In the short-term, funding is required at the farm level for purchase of out-put enhancing inputs, such as fertilizer, herbicides, and so on.**



- **Second, labor, scarcity is becoming a key constraint to production. Labor saving production solutions or arrangements to attract labor back to cocoa farms from the cities, will have to be found if the African cocoa sector can be competitive. Some form of mechanization is therefore required.**



- But mechanization will require some level of education, capital to fund the capex and knowledge about planning and capex management.



- **Considering the investments and expertise necessary for building an efficient cocoa economy of the future, we can look at the crystal ball and say that the African cocoa economy in 15 years time will move from predominantly small holder farms to plantations.**



- The growers that will emerge will be those properly equipped to manage agriculture, business and market risks. Managing price volatility will also be key in the Absence of Government price support.



- We are seeing increasingly the emergence of non-equity modes of international production in Africa's agriculture. Major global buyers of agricultural produce, including manufacturers, are going into contract farming in Africa to feed their plants overseas.





- **Countries such as China, India as well as Middle Eastern countries are leasing large tracts of arable land in Africa for use in producing food for export to their respective countries.**





- The foregoing trends will no doubt create strong competition for arable land, drive land prices up and may in fact cause a replacement of cocoa farms with other crops—as they say: *“Cash Is King”* and *“The Lessors Have Cash!”*



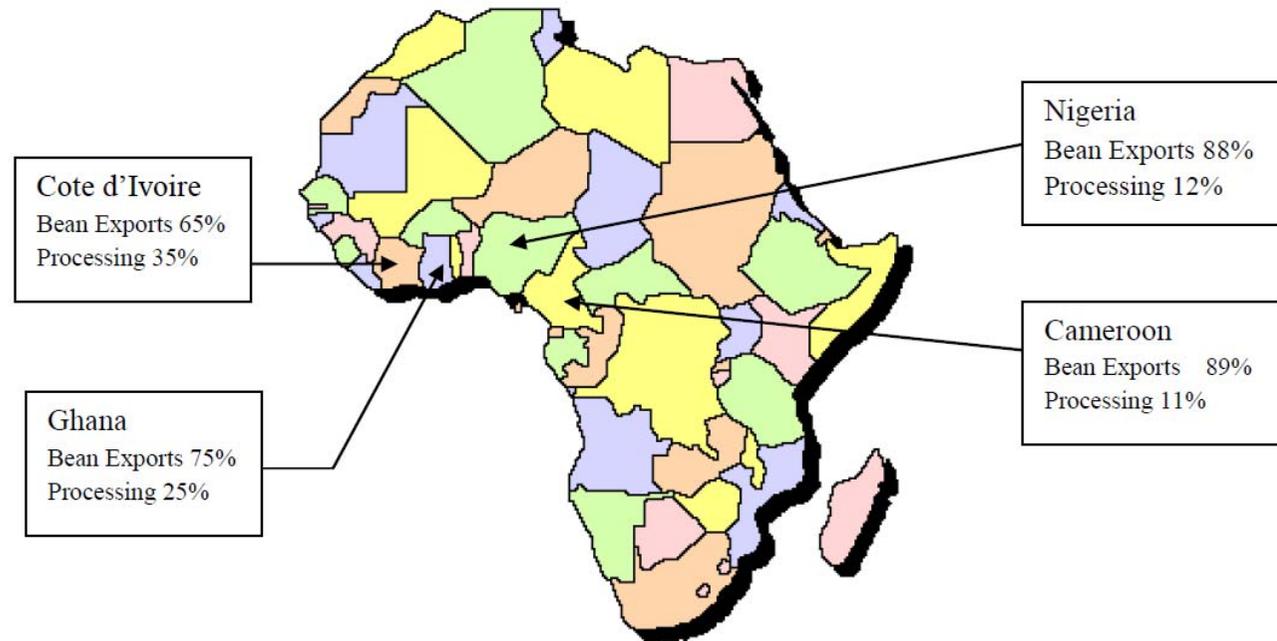


- Further, the limited level of processing cocoa into primary raw materials, such as cocoa liquor, butter, powder and cake, has restricted the industrialization of the African cocoa economy thereby limiting its economy-wide impact.



- For example, in the four (4) major cocoa producing economies in Africa, cocoa bean exports exceed an average of 65% of total cocoa related exports; it is as high as 89% in Cameroon.

**Figure 3: Cocoa Exports and Processing in Major Cocoa Producing Countries in Africa**



Source: International Cocoa Organization, 2011

- In spite of the significant growth in cocoa production by these countries over the last two decades (from 1.8 million tonnes in 1990 to 3.2 million tonnes in 2010) the share of processed cocoa has only increased marginally from 15% to about 25% during the same period.



- The low degree of processing has severely restricted origin consumption needed to boost global demand for cocoa and sustain its price.
- As the economy with the fastest growing household consumption in the world, expanding local consumption of cocoa product is sustainable.





- *Mr. Chairman,*
- *Honourable Ministers,*
- *Distinguished Ladies and Gentlemen,*

**What does the foregoing mean for Governments of African cocoa economies and Afreximbank?**





➤ **We believe:**

1. **That African cocoa economies must rise to the challenges identified. They should consider developing perspective and strategic plans that address the challenges and opportunities identified above.**



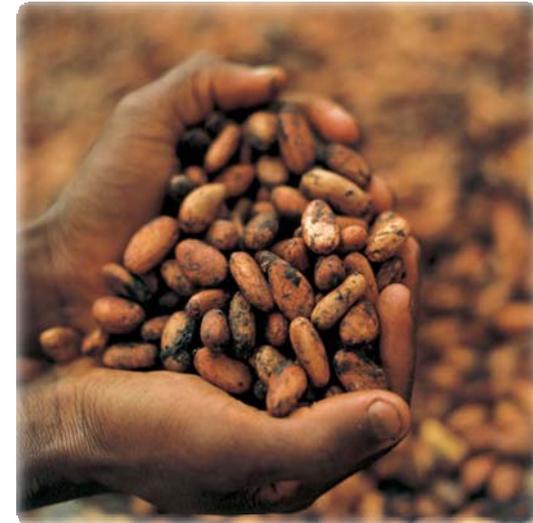
2. **Such plans must consider:**

- a) **The benefits or otherwise of possible migration of production systems from small holder to plantation and its impact on the cocoa growing communities.**
- b) **What has to be done to accelerate processing at origin, including promoting possible joint ventures between processors in Europe and elsewhere and African investors.**



2. Such plans must consider:

- c) How their cocoa sectors can benefit from the rising demand for cocoa in Asia, especially China.
- d) Ways of improving local cocoa consumption.
- e) The support Government will need to provide to deal with the high labour cost, help growers manage agricultural risk, including setting-up agricultural insurance schemes; and promoting socio-economic and agricultural/ industrial research targeted at the sector.





- *Mr. Chairman,*

- *Distinguished Ladies and Gentlemen,*

- We, in Afreximbank, are not sitting on our palms while events unfold. The reason we are here in beautiful Ecuador is because we believe we have a role to play.
- We have in place an Africa Cocoa Initiative (AFRICOIN) aimed at ensuring long-term sustainability of the African Cocoa economy.



➤ **This involves:**

- 1. Working with Governments, relevant financial institutions and others to create appropriate funding pool for financing new cocoa plantings and other investments needed to modernize the cocoa sector.**

We plan to work with interested governments to support the issuance of “cocoa bonds” targeted at these investments. The bonds will have special features that will facilitate their distribution locally and across borders.



2. Using our Programmes and Facilities to support cocoa consumption in Africa through Intra-African trade; we intend to also support and finance South-South Trade in raw and semi-processed cocoa. We will in this regard support trade fairs/ trade missions targeted at this purpose.

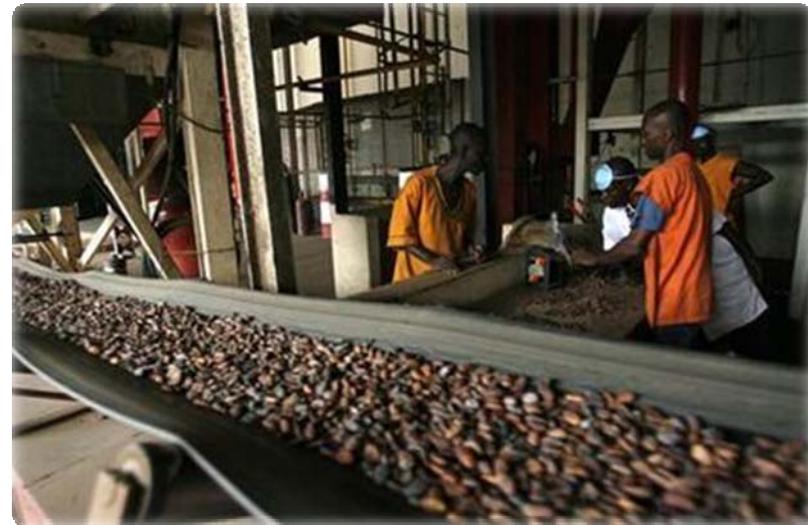




3. Working with relevant African governments to drive strongly the cocoa industrialization agenda by facilitating cocoa processing into raw materials that enter industry.

The Bank intends to implement this under its Export Development Programme (EDP) through which it provides financing and technical assistance for the development of manufacturing capacity. Under the EDP, the Bank also facilitates twinning between African and non-African businesses.

4. The Bank, under the EDP, will help identify market opportunities in Africa, Europe, North America and Asia by fostering cooperation with international chocolate processing plants both in Africa and abroad with a view to eliminating bottlenecks associated with exporting.
5. The Bank will support leading international names in the cocoa sector interested in taking advantage of AFRICOIN to invest in processing facilities in Africa. Our Investment Guarantee and Country Risk Guarantee Facilities are available to such investors.





- *Distinguished Ladies and Gentlemen,*

## **It is time for Africa!**

- The tailwind is there in support of investments in Africa and this must be exploited for the benefit of the African cocoa economy.



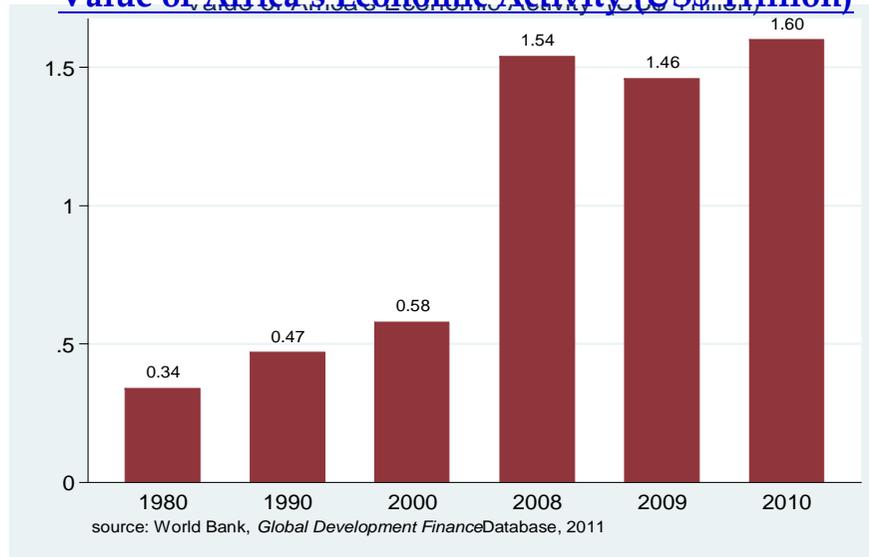


*Permit me, Mr. Chairman, to highlight some of the changes taking place in Africa.*

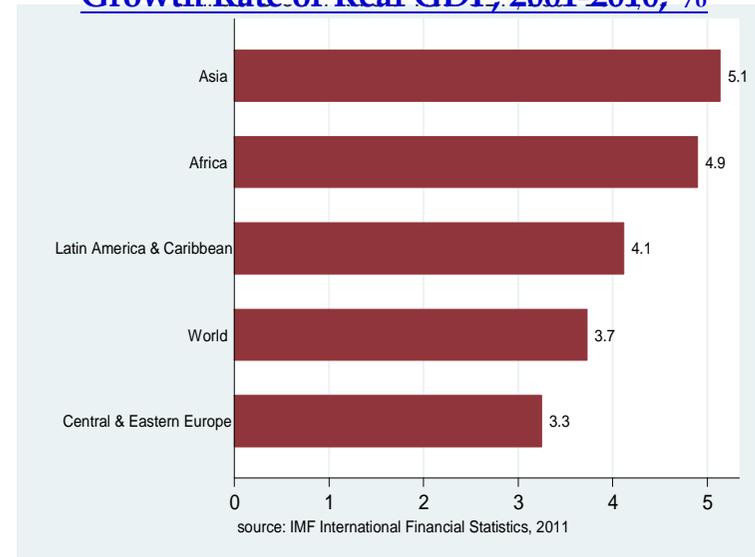
- **Africa's economy has undergone tremendous transformation over the last three decades with considerable expansion observed during the last decade;**
- **Its growth over the last decade averaged about 4.7%, only second to Asia (5.1%) and at the same rate as the Middle East;**
- **Total value of economic activity grew from under half a trillion in 1980 to close to US\$1.5 trillion in 2008 and US\$1.6 trillion in 2010;**

➤ The African economy is forecast to continue in its expansion trajectory with GDP growth averaging 5.6% during 2012-16

Value of Africa's Economic Activity (US\$ Trillion)



Growth Rate of Real GDP, 2001-2010, %

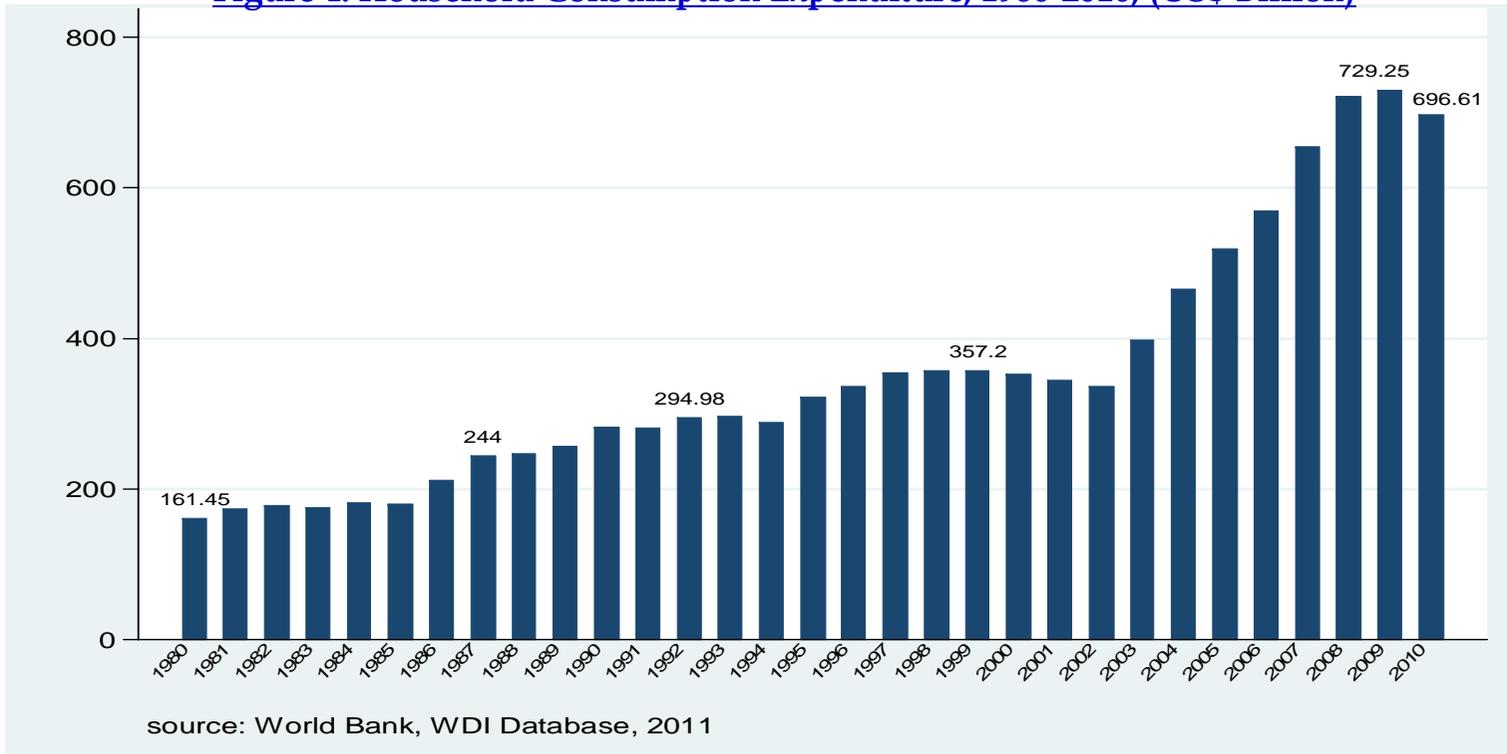


- One source of growth of the African region is the rapidly rising middle class in the continent which has led to increased consumption of goods and services;
- Growth rate of household expenditure during 2000-10 shows Africa with the highest in the world at 4.3% compared to Latin America & Caribbean (3.6%), East Asia & Pacific (2.4%) and Europe & Central Asia (2%).





**Figure 4: Household Consumption Expenditure, 1980-2010, (US\$ Billion)**



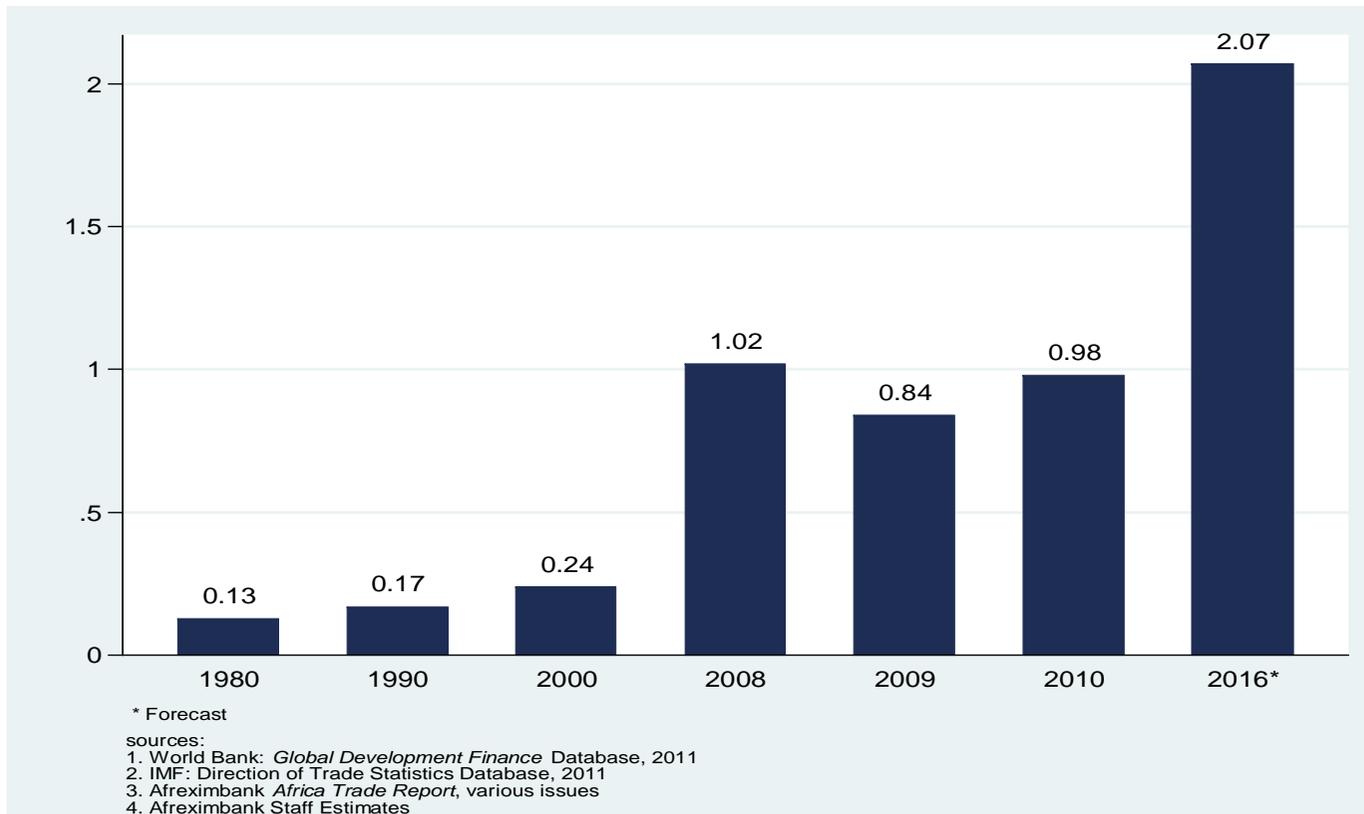


- Trade will continue to be an important underlining driver of economic growth in Africa due to the continued surge in global demand for natural resources;
- Africa's trade (import & export) share of GDP rose from 38% in 1980 to over 60% in 2010;
- The value of African trade grew rapidly between 1980 and 2010; total trade quickened at an average annual rate of 14%, from US\$242 billion in 1980 to about US\$1 trillion in 2008, before weakening to US\$978 billion in 2010.



➤ **Total African trade is forecast to reach over US2 trillion by 2016**

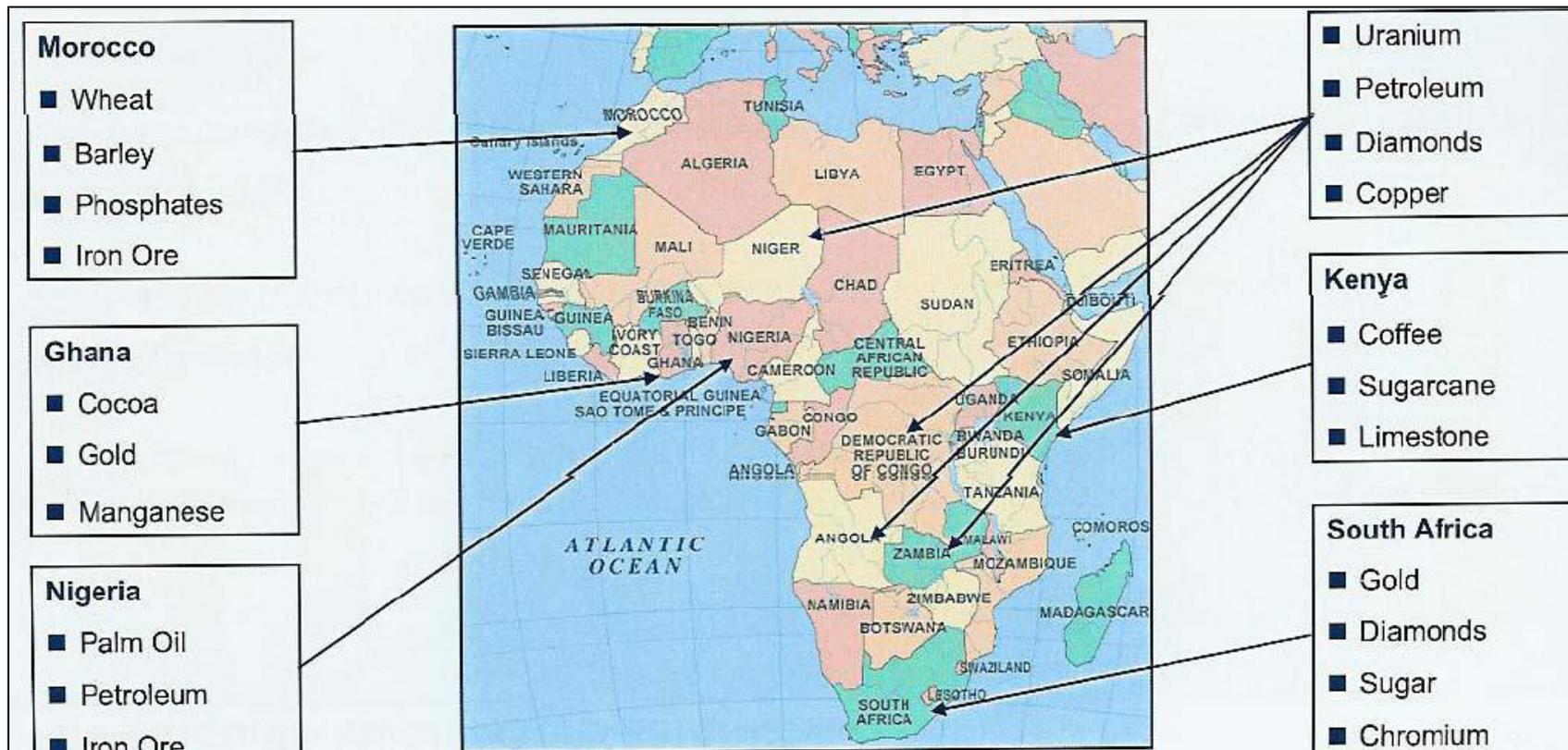
**Figure 5: Total African Trade, (US\$ Trillion)**





- **Another source of optimism over the medium term is the abundance of natural resources in the continent.**
- **Africa will continue to benefit from the surge in demand for natural resources and other forms of commodities.**
- **This will lead to increased prosperity in the continent and then higher purchasing power and consequently increase in demand**

➤ A solid cocoa consuming economy can be built on these positive factors.





- *Mr. Chairman,*
- *Honourable Ministers,*
- *Distinguished Ladies and  
Gentlemen,*

- I will like to conclude by reiterating the tremendous opportunity for transforming the African cocoa economy for the benefit of the entire global cocoa economy.
- Afreximbank has an initiative to further this agenda.



- We envisage that the success of this initiative will only be realised with effective collaboration with major stakeholders in cocoa, namely:
  - ✓ International Cocoa Organization (ICCO);
  - ✓ Governments of Major cocoa producing countries in Africa;
  - ✓ Processing Entities (both state and private sector entities) in Africa; and
  - ✓ International Cocoa Traders and Processors.
  
- The Bank will therefore hold series of discussions with key industry players as it drives this Initiative.



**Thank you once again for this  
opportunity and for listening**

**Jean-Louis EKRA  
President, Afreximbank**



For more on the Bank's Programmes and Facilities visit our website on

[www.afreximbank.com](http://www.afreximbank.com)

