POLICY BRIEF MAY 2025

FINANCING THE GHANAIAN COCOA SECTOR

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1. SUMMARY

1.
Since 1993, Ghana's cocoa sector has relied on a cocoa-backed syndicated loan, injecting $28 billion in offshore financing to support internal marketing.

2.
This system allowed Ghana's cocoa regulator, Cocobod, to extend credit to Licensed Buying Companies (LBCs) for cocoa purchases.

3.
However, the structure required the use of forward sales contracts as collateral and therefore limited Ghana's ability to capitalize on high cocoa futures prices.

4.
In August 2024, the syndicated loan was discontinued, requiring LBCs to secure financing independently. Multinational commodity traders and domestic banks have since emerged as the primary lenders.

5.
The new system has enabled the Cocoa Marketing Company (CMC), a subsidiary of Cocobod, to secure better prices and achieve faster payment cycles, which increases turnover and profitability for many LBCs.

6.
However, indigenous LBCs and processors face financing gaps, CMC's bargaining power against off-takers has weakened, and the new financing model has caused cash flow delays for Cocobod in financing agri-inputs and logistics.

7.
To optimize gains and build financial resilience, Ghana should diversify financing sources, establish a stabilization fund, and work with the Bank of Ghana to strengthen domestic banks' support for indigenous LBCs and processors.

2. A TURBULENT COCOA SEASON AND A NEW FINANCING SYSTEM

For 31 years, Ghana's cocoa sector relied on a syndicated loan backed by cocoa forward contracts. However, on 20th August 2024, following a challenging cocoa season, the Chief Executive of Ghana Cocoa Board (Cocobod), announced that, after 3 decades, the syndicated loan would not be raised for the upcoming 2024-25 season. This decision came after increasing scrutiny of the loan system, which had prevented Ghana from benefiting from a surge in international cocoa prices, rising from $2,300 to over $10,000 per tonne.

In the previous system, Cocobod financed cocoa sourcing through a cocoa-backed syndicated loan, obtained via international capital markets. The loan had to be in place before the start of the cocoa season in October so that Cocobod could extend credit to Licenced Buying Companies (LBCs). LBCs source cocoa on behalf of Cocobod at a price set centrally by the Producer Price Review Committee (PPRC). The sourced cocoa is then delivered to the Cocoa Marketing Company GH. Ltd. (CMC) at designated takeover points. CMC is a subsidiary of Cocobod and the monopoly seller of Ghanaian cocoa beans. Upon delivery, LBCs obtain a Cocoa Taken-Over Receipt (CTOR) which entitles them to reimbursement of the money extended to farmers plus an agreed margin for their services. CMC sells the delivered beans by signing contracts (spot and forward) with off-takers (multinational trading houses or domestic processing companies).

Under the new system, LBCs finance cocoa sourcing independently from Cocobod, either through pre-financing provided by an off-taker, their own capital, or a bank loan. When the LBC delivers the cocoa to a CMC warehouse, CMC is notified of the parties involved in the pre-financing agreement (if there is one) and the delivered crop is allocated to the dedicated off-taker. If the crop has not been pre-financed, CMC can allocate the crop to an off-taker of its own choosing. However, pre-financing by an off-taker emerged as the most common arrangement this season as large multinational trading houses were eager to secure adequate volumes in a tight market. The off-taker can either provide finances directly to the LBC by extending their own capital or providing a guarantee for an LBC to access a bank loan, or indirectly via Cocobod to facilitate CMC access to beans in order to settle outstanding contracts from the 2023/24 season. Upon allocation of stock (domestic companies) or shipment and receipt of a non-negotiable Bill of Landing (foreign company), off-takers pay 60% of the invoice value to CMC. Cocobod is then mandated to settle the CTOR and reimburse the LBC. The LBC then informs their financier, and the remaining 40% balance is settled through the cash-against-document process, whereby CMC's bankers release the original shipping documents.

3. WHAT ARE THE IMPLICATIONS FOR STAKEHOLDERS?

Several stakeholders have welcomed increased turnover times, efficiency gains, reduced leakage, and reduced costs brought about by the new system. However, several bottlenecks emerged as well. These arose partly due to the short time between the proposal of the new system and its implementation (less than 2 months) and partly due to the emergence of liquidity constraints for Cocobod. CMC has also gained less flexibility than initially hoped for due to the dominance of pre-financing arrangements by off-takers.

3.1. THE REGULATORS: COCOBOD AND BANK OF GHANA

As LBCs and off-takers are carrying the financing costs under the new system, **Cocobod** and therefore the **Bank of Ghana** save significantly in interest payments previously deducted from the revenues generated. A much-improved turnaround time of loans has also reduced the overall liquidity required for cocoa sourcing. A more continuous inflow of revenues under the new system further smooths exchange rate effects. Because CMC maintains its monopoly position, the **Bank of Ghana** still gets direct and full access to the foreign exchange earned on exports, including the 60% payment to LBCs, which is converted to Ghana Cedi before its transfer to LBCs.

However, without the syndicated loan, **Cocobod** has struggled with cash flow issues at various points this season, delaying payments to **LBCs** and **farmers** as a result. Prompt payment and disposal of beans after harvest are essential for farmers as delays can result in loss due to spoilage and additional costs due to late repayment penalties and interest fees on loans. The 60-40 payment system was designed to ensure timely reimbursement to LBCs, boost turnover, ease credit access, lower capital needs and interest costs, and ultimately improve LBC profitability and farmer payments.

However, cash flow issues arose due to bottlenecks with shipment and the need for **Cocobod** to settle its operational costs, including payroll and extension services[1], while also reimbursing **LBCs** in a timely fashion. The 60% initial payment was designed to cover the CTOR payable to **LBCs** in full. To achieve this, **CMC** combined the outstanding low-priced[2] with new high-priced contracts to reach an average price per tonne that was just sufficient to cover the farm gate price and the agreed margin for LBCs with the initial payment, which went to LBCs in full.[3]

The remaining 40% was intended to service operational costs. However, delays in shipments forced **Cocobod** at various points to utilize the 60% reserved for LBCs, to cover its operational costs. The bottleneck was eventually addressed by allocating a CMC warehouse to each off-taker and off-takers agreed to release funds (trade credit) after delivery to the warehouse instead of shipment.

3.2. INTERNAL MARKETING: FARMERS, LBCS, AND CMC

With less of the crop tied up in forward contracts used as collateral for the syndicated loan, **CMC** can in principle achieve prices more closely aligned with the global benchmark even in a rising market, while still pursuing forward contracts in a falling market to protect against downside risk. While some alignment has been achieved, improving prices for farmers, as of this season the adjustment remains incomplete, because contracts for 333,767 tonnes of cocoa were rolled over from the previous crop year.[4] These contracts were signed at significantly lower prices – $2,600 on average as compared to $5,500 achieved for the 2024/25 season – bringing down the average export price and therefore the price received by **farmers**. The persistent differential incentivises smuggling, resulting in losses for Cocobod.

For **indigenous LBCs** that are reliant on bank loans, delays in settling the CTORs caused by Cocobod's cash flow issues were particularly costly due to high domestic interest rates. Some **farmers** have accused LBCs of withholding certification premiums to cover these financing costs. **LBCs owned by multinational companies** have a direct financing provider in their parent company. With a tight market this season, off-takers were keen to partner with indigenous LBCs to secure volume, and several LBCs have reported interests from multiple off-takers, with this competition improving the LBCs' funding terms and off-takers reported LBCs demanding an additional premium, thereby benefitting from the competition. However, **smaller LBCs** found it more difficult to attract pre-financing and improve their accounting practices in time to meet lending requirements when the new system became effective.

1 Such as spraying programmes and provision of fertilizer.
2 While servicing the old contracts meant a significantly reduced income for Cocobod and cocoa farmers, honouring these contracts was essential for off-takers, many of whom got locked into increasingly expensive hedging positions
3 If the combined price was too low, the difference had to be settled from Cocobod accounts, further constraining its liquidity.

4 President John Mahama's 2025 State of The Nation Address 27th of February 2025.

3.3. EXTERNAL MARKETING: OFF-TAKERS, PROCESSORS, AND CMC

While in principle the new system provides **CMC** with greater flexibility to sell at higher spot and favorable forward prices, the pre-financing of the crop by off-takers means that CMC can no longer control what volume to sell to whom and when for a large portion of the crop. **Off-takers**, on the other hand, enjoy greater certainty over volume, control over the types of beans sourced, and greater visibility of the harvest. If an off-taker pre-finances with multiple LBCs, it can gather significant market intelligence, which is particularly valuable in a tight market. For the pre-financed beans, **CMC** is obliged to sign a sales agreement with the dedicated **off-taker** if a forward contract is not already in place.[5] Depending on the extent to which the crop sourcing relies on the pre-financing of the crop through off-takers, CMC's ability to time its sales is once more constrained.

Two layers of risk, previously covered by **Cocobod** shifted to **off-takers** with the new system: pre-financing the crop for LBCs to purchase beans on behalf of CMC and trade credit to CMC before shipment of the crop. The counterparty risk is hence with both LBCs and a lesser extent CMC.[6] **Off-takers** must trust LBCs to use the secured financing for sourcing and trust that CMC ships the allocated crop to them. As the crop is stored in **CMC** warehouses and exported with cost, insurance, and freight (CIF) contracts, off-takers have no oversight or control over the crop before shipment. Some **off-takers** could mitigate some counterparty risk by using their own LBCs, but for most of the larger off-takers, the required volume exceeded the capacity of their LBC.

In the past, domestic indigenous **processors** have struggled to secure a sufficient bean volume, as **CMC** was unable to use contracts with indigenous buyers as collateral for the syndicated loan. The possibility of pre-financing beans alleviates some of these challenges, but also requires access to finance at competitive rates.

5 This used to be the case only for certified beans, which gave CMC more freedom in choice of trading partner and time of sale.

6 The extension of trade credit by off-takers to CMC is not new. However, the scope has increased this season, partly due to the new system and partly due to the market being very tight and off-takers being eager to secure volume through credit.

Indigenous processors must now compete directly with their multinational counterparts through pre-financing of LBCs, while facing substantially higher interest rates than those who can access international money markets. Sourcing beans directly from CMC without pre-financing means delivery might be delayed as CMC has to wait for an LBC to deliver without a dedicated off-taker. Akin to other off-takers, higher bean prices and pre-financing requirements have significantly increased the amount and duration of credit needed, making sourcing more expensive and changing the risk profile of the company.

4. POSSIBLE THREATS TO GHANA'S REGULATORY SYSTEM AND REMEDIES

As highlighted in the previous section, the new system has increased efficiency and reduced the overall financing requirements for cocoa sourcing. However, CMC remains constrained by old contracts (supressing farm gate prices), and the reliance on off-takers to finance the crop has brought new constraints and challenges. Further, off-takers have taken on more credit and counterparty risks, with a tight market forcing them into compliance. However, in a market less tight, these risks might shift back to

Cocobod, posing the question of how resilient the current system is to changing market conditions.

4.1. WEAKENED MONOPOLY CONTROL

CMC has gained some flexibility to sell spot and forwards based on the market structure. With most of the rolled over contracts settled in 2024/25, CMC is in a good position to achieve higher prices for the 2025/26 season, lifting the farmgate price to align with global reference prices. However, trader's increased control. over volume is a concern for Cocobod and CMC as it undermines CMC's bargaining position and possibly restrains its freedom to time the market once more. Since cocoa revenues finance Cocobod's operational costs, CMC still has sales targets to meet even without the syndicated loan.[7] Further, LBCs are, in line with the partial liberalisation reforms, allowed to export up to 30% of their cocoa purchase directly. While this opportunity previously existed in the 2000 - 2010 strategy document, LBCs have not taken it up. With cocoa sourcing being pre-financed, LBCs might now be more inclined to pursue this strategy as it would allow them to turn over loans more quickly. This is neither in the interest of Cocobod, nor in the interest of the Bank of Ghana.

4.2 RESILIENCE TO CHANGING MARKET CONDITIONS

A further concern is the resilience of the new system to changing market conditions. Since Cocobod via CMC remains the monopoly buyer, it is obliged to source beans and reimburse cocoa farmers even without an immediate off-taker.[8] Without access to external financing, this role is difficult, possibly delaying payments to farmers, which can result in crop loss and smuggling. Indigenous LBCs have also found it challenging to source the initial finances to start the season. At the same time, cash-flow issues caused delays in settling CTORs. LBCs without pre-financing from off-takers have been affected by this more adversely, as off-takers were pressuring CMC to settle CTORs with the pre-financed LBCs first, possibly disadvantaging LBCs with no off-takers.

7 This explains why the average achieved price was $5,500 this season despite price peaks of over $10,000 at derivative markets.

8 While there is no concern of beans not finding a buyer, off-takers are in a position to "drag their feet" to wait for a lower price, while CMC is in no such position.

4.3. POSSIBLE REMEDIES

Flexible and diversified financing arrangements that allow Cocobod and LBCs to finance parts of the crop independently from off-takers are essential to preserve Cocobod's strategic role and ease cash flow constraints. This approach would reduce counterparty risks for buyers while creating a more level playing field for smaller off-takers, including indigenous processors with limited pre-financing capacity. It would also give the CMC greater flexibility in deciding who to sell to, when to sell, and in what volumes—enabling it to respond strategically to market dynamics, achieve higher prices, and ultimately support better farm gate prices to farmers, and driving long-term farm investments.

For instance, Cocobod could source smaller amounts of funding from a variety of sources to ensure sufficient working capital to settle its operational coasts independently from seasonal cocoa revenues and possibly to extend limited seed funding to smaller LBCs at the beginning of the season:

- A hybrid approach that supports Cocobod cash flow needs could rely on a smaller **syndicated loan** or other forms of **external financing** to reduce the pressure on CMC to sell large volume pre-harvest and give CMC more flexibility in timing the market.

- A **Liquidity Reserve Fund** could provide Cocobod with continuous liquidity throughout the season. This fund, held in foreign currency to mitigate inflation risks, would enable CMC to proactively source cocoa, independent of pre-signed contracts with buyers. While a fund existed previously, it was designed as a price support fund denominated in domestic currency.

- The **Ghana National Pension Fund** could strategically lend to Cocobod at attractive rates that are aligned with the domestic banking sector. To ensure the security of this investment and mitigate credit risk, robust safeguards and risk management protocols must be established and strictly adhered to.

Short-term cash-flow issues could also be alleviated by ring-fencing Cocobod's budget for core operational activities, addressing logistical bottlenecks and utilising commodity exchanges for short-term cash:

• Leveraging the **Africa Cocoa Exchange**, currently being pursued by the ICCO, for warehousing could offer an opportunity for de-risking, as it fosters greater trust compared to solely relying on CMC-managed warehouses. Increased trust and accessibility should make financing local warehouse stocks more attractive to banks. Both CMC and LBCs can register their facilities, granting easier access to finance.

• The Cocobod-managed system for sourcing and distributing agricultural inputs is fraught with inefficiencies, causing farmers to receive late and insufficient support. **Privatization of agri-input supply and marketing** would enable farmers to purchase quality inputs as and when needed. This would not only offer better value to farmers but also relieve Cocobod of financing needs for inputs, enhancing its liquidity and allowing it to concentrate more effectively on its core mandate.

• **Enhancing shipment capacity and operational efficiency** is key to overcoming the bottlenecks faced this season, reducing counterparty risks for off-takers and sustaining the new system. To accelerate documentation and clearance processes, CMC logistics staff could undergo specialised training, equipping them with the skills to adapt and streamline operations. Strengthening coordination among LBCs, exporters, and shipping firms could further enhance efficiency.

Additional financing sources for domestic LBCs could be explored that might provide better rates than the domestic banking sector can offer. The new model provides significant market opportunities for international banks and some major banks have signalled strong interest in financing LBCs and local processors. Some of these banks were previously involved in the syndicated loan and are familiar with the cocoa sector. However, access to external financing requires LBCs and domestic processors to adopt bookkeeping practices of international standard which will take time to implement.

• **The Ghana International Bank Ltd (UK)**, a subsidiary of the Bank of Ghana based in London could **help domestic LBCs secure offshore financing** at competitive rates, reducing pressure on local banks. Additionally, regional development and export banks could be explored as alternative funding sources.

• Cocobod can also play a more proactive role in **connecting indigenous LBCs with buyers** who lack established supply relationships in Ghana. By fostering these connections, Cocobod can help secure pre-financing arrangements, enabling LBCs facing financial constraints to stay competitive. This strategy would also benefit smaller off-takers struggling to source beans in a tight market.

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