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GHANA RESEARCH NOTE [REV]

COCOBOD's largesse will have unintended consequences

Given that Ghana's Ashanti and Western regions have historically formed the bedrock of the NPP's political support, the Akufo-Addo administration was bound to resist adjusting the producer price to reflect cocoa's 30% decline on the world market over the last 12 months. ***Nevertheless the decision to retain the farm-gate price established for the 2016/17 crop season looks decidedly ill-advised.***

1) COCOBOD's long-standing target has been to ensure that Ghana's farmers receive approximately 70% of the world-market price. However the **GHC 7,600[1]/MT** price announced for the new crop season **represents almost 83%** of the quote for the near-dated cocoa contract. **The state-owned exporter can ill afford such largesse**, having reported accumulated liabilities of GHC 10 billion only three months ago[2].

2) In neighbouring Côte d'Ivoire, where a harvest of 2 million/MT is forecast, the producer price has been set at CFA 700,000/MT[3], equivalent to a mere GHC 5,527. The **37.5% price differential** guarantees that **a significant portion[4] of CIV's harvest will be smuggled into Ghana** to take advantage of the arbitrage. This will raise two issues.

- Since Ghana's sun-dried beans command a world-market premium over CIV's furnace-dried product, **COCOBOD's customers will almost certainly insist on a downward revision[5]** to the agreed export price - with obvious implications for the trade account.
- The cost of purchasing the **Ivorian beans will impose additional strain** upon the Board's shaky finances.

Snapshot of pricing anomalies

	CFA	EUR	USD	GHS
FX rates	655.957	1.1745	1.00	4.41
CIV cocoa/MT	700,000	1,067.14	1,253.31	5,527.08
Ghana cocoa/MT	962,533	1,467.37	1,723.36	7,600.00
GH - CIV px/MT	262,533	400.23	470.05	2,072.92
Arbitrage	37.50%	37.50%	37.50%	37.50%
ICE (NY) px			2,078.00	9,163.98
COCOBOD's target pay-out ratio			70.00%	
Actual pay-out ratio			82.93%	
Projected cocoa harvest (MT)		850,000		
COCOBOD buying px /MT			1,896	8,360
COCOBOD procurement cost (M)			-1,611,338	-7,106,000
Pre-export financing facility (M)			1,300,000	5,733,000
Surplus/shortfall (M)			**-311,338**	**-1,373,000**

3) Even without this extra burden, it is not entirely clear how COCOBOD will pay for Ghana's projected harvest of 850,000 MT. Taking delivery of the **2017/18 crop[6] will cost** a total of GHC 7.11 billion, equivalent to **USD 1.61 billion** at the current exchange rate.

However, the pre-export financing facility from which the Board intends to fund these purchases is in an amount of only USD 1.3 billion. **This implies a shortfall of USD 311 million.**

[1] Equivalent to USD 1,723 at the current exchange rate of USD=GHC 4.41.
[2] See "Ghana Cocoa Board debt reaches $2.2bn as prices slump" posted on Jun. 12, 2017, by JoyFMonline.
[3] N.B. this is the level to which the local regulator, the Conseil de Café-Cacao, slashed the producer price (from CFA 1,100,000/MT), in March.
[4] The Ivorian authorities have warned that as much as 20% of the local crop could be smuggled across the border.
[5] Some customers may simply refuse to accept the 'contaminated' shipments.
[6] As will be recalled, the Board purchases the crop from a network of licensed buying companies (LBCs), each guaranteed a spread of approximately 10% over the farm-gate price at which they source beans from the field.