

Public-Private Partnership Design for Inclusive Cocoa Global Value Chains in Ghana

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EXECUTIVE SUMMARY

Within 10 years, there could be a severe global shortage in the supply of cocoa, according to industry practitioners and other experts. Due to global population growth and the emergence of a growing global middle class, by 2025 the cocoa crop would need to increase by nearly 50 per cent to keep up with projected demand. A potential shortage of supply is a direct threat to the business model of lead firms – including cocoa grinders and processors, chocolate confectioners, and retail distributors.

But these international firms – the ones that will suffer the most if there is a shortage of cocoa supply – are helping create the market failure that is stifling sustainability. Functioning as a two-tiered consolidated oligopoly with a combined market share of approximately 89%, these firms enjoy the largest portion of value capture in the cocoa-chocolate global value chain (GVC). The smallholder cocoa producers, conversely, are trapped in low value-add segments of the GVC. In fact, most smallholder farmers survive on less than \$1.00 per day per capita, on average in many cocoa exporting countries. In Ghana – the second largest producer of cocoa in the world – the government has accomplished little to help these smallholders upgrade and make cocoa an attractive sector for the next generation to inherit. The result – both in Ghana and around the world – is a lack of sustainability of the supply of cocoa. Demand is already beginning to outstrip supply.

POLICY QUESTION

As a result of these underlying circumstances, the United States Agency for International Development (USAID) has posed the following policy question:

Under what conditions could USAID, as a development agency, support and enhance potential public-private partnerships in order to improve the bargaining power (and financial wherewithal) of smallholder organizations and farmers in the context of the global value chain for cocoa in Ghana?

ASSESSMENTS / METHODS / ANALYSIS

Strategies for addressing the problem at hand were created via an in-depth examination of the current state of the Ghana's role in the cocoa GVC. An assessment of current literature and key informant interviews in Ghana revealed supply-side bottlenecks, limiting structural issues, low-value added GVC traps, and deficits in both private and public sector interventions. The specific recommendations employed to answer USAID's policy question were systematically crafted using a comparative case-study analysis approach. These case-studies both validated the literature review and key informant interviews, and revealed the necessary conditions for a potential public-private partnership (PPP) to thrive. The three cases – chosen due to their relevancy to the policy question and similarity to the sector – were: A pilot project to produce cocoa-by-products in Ghana; A study of the inclusive and sustainable features of the Juan-Valdez Coffee Shops in Colombia; and a case-study of a PPP set up to increase the income of tea-producers in Rwanda.

RECOMMENDATIONS

This Master's Project stops short of recommending that the formation of a PPP is the correct intervention to make the cocoa GVC in Ghana more inclusive. That decision is ultimately up to the government of Ghana. Recent actions by the government in the agricultural sector, namely the Ghana Commercial Agriculture Project, do tend to indicate that Ghana is indeed amicable toward this type of intervention.

Should it turn out that Ghana chooses to pursue a PPP arrangement, each facet of the research and analysis undertaken as part of this Master's Project points out that two parallel functions must be

addressed as part of the intervention: PPP design and objective. On the design side, the PPP should take into account the obstacles, risks and returns for all stakeholders in building institutions that would enhance Ghanaian smallholder cocoa producers' participation at all value-added steps in the cocoa GVC, in the long-term. A critical pre-condition for successful implementation is to address the structural issues, such as land and property rights in the country. Of equal importance is the PPP's objective. If the goal is to assist smallholders to have a more powerful, vertically integrated presence in the cocoa GVC, then certain power asymmetries and governance issues must be addressed head-on. Otherwise, almost any other intervention that produces value – especially value that is income-generating – will see that value and any associated power flow to downstream actors.

As such, if the Government of Ghana (GoG) invites in USAID as a development/donor agency assist in the PPP design and implementation, then the key findings of this report recommend that USAID offer its assistance in gradual stages commensurate with the level of preparedness of the key PPP stakeholders. Hence, USAID should take actions in the short-term (Now), in the medium-term (Next), and in the long-term (Later) to successfully implement a PPP in the cocoa GVC in Ghana.

- **Now** – USAID should carefully negotiate agreements with the GoG and take actions to help lay the policy foundation for a PPP to successfully thrive in Ghana. USAID should offer technical assistance about best practices that produce the landscape wherein PPPs can thrive. This action would have particular implications in legal framework, regulatory policy, and finance policy. To address some of the limiting structural issues, USAID should continue its work with the GoG and the World Cocoa Foundation to assist in strengthening land and property rights for smallholders, as well as helping unlock gender and inheritance constraints to enable the sector to thrive. Additionally, there would also need to be some industrial policy consultation on the necessary physical infrastructure to make the PPP plausible. This part assumes a full buy-in from key decision makers in the GoG. Finally, USAID should help the GoG decide how to create the conditions wherein the domestic private sector can be welcomed into a PPP arrangement
- **Next** – Linking each of the three case studies, the single most important aspect of a successful inclusive PPP is the establishment of an agribusiness model whereby the smallholder (and/or collective) enhances his/her income through increased productive capability or an equity-share arrangement in one or more downstream functions of the GVC (e.g., grinding, processing, retail). In the case of becoming a private shareholder, the smallholder's and/or collective's share of equity invariably dilutes the shares of other downstream private or lead firm owners, and thereby shifts more GVC power to the smallholders. This is a key ingredient to a GVC becoming more inclusive and collectives gaining bargaining power. But it also calls into question the attractiveness of the arrangement to the private sector. Should a PPP be instituted, there would have to be careful consideration given to bidding, risk-sharing and mitigation procedures, contracting and ownership terms, and private sector investment and procurement expectations. Finally, to ensure the symbiotic relationship between the producer collectives and the private sector - whereby continuity of supply is guaranteed and the socio-economic edification of the collectives are maintained -USAID could partner to directly stimulate capacity building.
- **Later** – USAID could be instrumental in the successful execution and scaling of a PPP in the cocoa sector by recruiting both domestic and international private sector investors to the space, supporting as a developing agency for a limited period the smallholder collectives in managing their responsibilities, and helping to set up a method for measurement and evaluation of outputs and outcomes. The Rwandan Tea PPP case illustrates the learning curve smallholders initially exhibit in working with large lead firms and some of the conditions that could be used in the design of a PPP Agreement for Ghana. But the Juan Valdez case points out the economic development potential for smallholders, when integrated as participants and partial owners of a large enterprise, are able to capture some of the value added in the country and abroad. Thus, USAID could be instrumental and play a catalytic role in facilitating collaboration, increasing investment, and accelerating the sector's economic and developmental growth.