



Harnessing the potentials of the cash crops trading market in West Africa

Focus on Sesame, Cocoa, Cashew and Coffee



Introduction

The agricultural sector is vital to the economy of West Africa. In addition to being the biggest employer of labour in the region, it contributes more than 25% to the total Gross Domestic Product (GDP) of the countries in the region, based on data polled from the World Bank Group and KPMG analysis. Furthermore, the sector provides raw materials for the industrial sector and ensures food and income security.

The productive activities captured under this sector broadly include crop production, forestry, poultry and fishing. Crop production is a main component of the sector, with cocoa, cashew and sesame among the most lucrative exports from the region. Despite the importance of the sector, there are significant opportunities to further deepen its impact across the region. In the face of growing concerns around food security, Governments across the region are renewing the focus on crop production by developing policies to boost investments and activities significantly. A key feature of the agricultural sector is the commodity exchange markets, which facilitate local trading and exports of crop produce. Crops traded in these markets include cocoa beans/powder, sesame seeds, raw cashew nuts, wheat, soyabeans, oats, cotton, castor oil, sugarcane, etc.¹ These cash products have high growth and revenue potentials.

Trends and performance

The fortunes of the cash crop market across the region have been positive. According to the website, Statista.com, the nominal value of agricultural product derivatives market across West Africa is projected to reach US\$83.81bn by the end of 2024. Also, the projected cumulative annual growth rate from 2024 to 2029 is 3.41%.

In Nigeria, based on reports issued by the National Bureau of Statistics (NBS) for quarter 2 (Q2), 2024, the value of total trade in agricultural goods stood at about \$2,125 million of which exports were valued at about \$1,108 million. The report showed that exports of agricultural goods increased by 209% over the value recorded in Q4, 2023 (\$528 million) and by 346% when compared to the value recorded in Q2 (2023 (\$319 million)).²

The data also revealed that export of agricultural products was dominated by sesame seeds and cocoa beans. In Ghana, agriculture contributed 23.83% to the country's GDP in Q1, 2024. Cocoa beans, cashew nuts and cocoa paste were the top three agricultural exports, valued at about \$560 million and accounted for 12% of the top five exports for the period.³

Sesame seeds

Production of sesame seeds has grown rapidly to become one of the major agricultural exports in the region since 2018, with the potential to generate significant revenues annually. Nigeria is the third-largest producer of sesame seeds in Africa and the seventh largest in the world. Japan, China, India and Turkey are the major buyers of sesame seeds from the region.

Cocoa

In addition to the dried cocoa beans, the region exports cocoa paste and butter. While the production of cocoa in the region has been negatively impacted by the mining activities, rural-urban migration, aged economic trees, climate change, draught and diseases affecting crops, the export of cocoa has continued to generate significant revenues primarily due to rising global prices attributed to global cocoa shortage. The European Union, and Malaysia are the top two (2) importers of cocoa from the West African region. Based on our analysis of the data from the World Bank, 3.1 billion kgs of cocoa, valued at \$9,035 million were exported from the West African region in 2023.⁴

¹ Lagos Commerce and Futures Exchange < <https://lcfex.ng/products.php> > accessed Sunday 26 November 2023

² Q2 2024 Foreign Trade Statistics Tables <https://www.nigerianstat.gov.ng/pdfuploads/Q2_2024_Foreign_Trade_Statistics_Tables.pdf> accessed Wednesday 30 October 2024

³ Quarterly Trade Newsletter Q1 2024.pdf (statsghana.gov.gh) accessed Friday 23 August 2024

Cashew

Smallholder farmers continue to dominate the cashew industry in the region. However, there are several large commercial cashew plantations. The prices of cashew vary by seasons, i.e., during peak and off-peak seasons.⁵

According to data from the World Bank, Nigeria and Ghana were the top exporters of fresh and dry cashew nuts in 2023, exporting a total of 468.6 million kgs and 44.4 million kgs, valued at about \$351 million and \$256 million, respectively.⁶ However, in terms of production, Cote d'Ivoire remained the leading producer of cashew nuts in West Africa in the year, producing a total volume of 1.3 billion kgs. The major buyers of cashew from West Africa are Vietnam and India.

Coffee

Compared to cocoa, coffee production remains largely unexplored despite its ability to thrive almost anywhere that the cocoa crop does. Most coffee farms are cultivated alongside other food crops. Unlike cocoa, the coffee sector in many countries across the region has private firms involved in the production, roasting, processing and distribution for domestic consumption and export. These include farmers, Licensed Buying Companies (LBCs), roasters/processors and exporters.



⁴ World Integrated Trade Solution – Cocoa beans, whole or broken, raw or roasted exports by country | 2023 (worldbank.org) accessed 23 August 2024

⁵ Cashew - NEPC Importer <https://nepc.gov.ng/importer/nigeria-product/cashew/> accessed 22 November 2023

⁶ <https://wits.worldbank.org/trade/comtrade/en/country/ALL/year/2023/tradeflow/Exports/partner/WLD/product/080130> accessed 19 August 2024

SWOT analysis of the market

A strategic focus on these commodities has the potential to improve the export revenues of the region. It is therefore necessary to assess the strength, weakness, opportunities and threats facing the sector in the region.

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> - High production capabilities guaranteeing consistency of supply: Production capacity is buoyed by favourable climate and soil conditions plus a large available farm labour. The region has a tropical climate and fertile soil ideal for growing most cash crops. Furthermore, a significant number of households are engaged in small scale farming, skilled in cultivation, harvesting, and processing. As aforementioned, this sector is the largest employer of labour in the region. - Availability of Labour: Agriculture is the mainstay of many economies in the West African region, employing a major percentage of the workforce at different levels of the industry value chain. The availability of workers promotes increased output, drives productivity and contributes to the achievement of positive economic outcomes. 	<ul style="list-style-type: none"> - Market susceptibility to global price shocks: The market is susceptible to global price shocks because the prices of these commodities in the international market are determined by external factors without necessarily considering local realities. Even the prices of local products are sometimes impacted by movement in foreign exchange currency rates. - Limited access to finance: The cocoa and coffee sectors are dominated by smallholder farmers who often lack access to finance, modern farming techniques, and technology, reducing overall productivity. They also often lack access to credit and other financial services, hindering their ability to invest in improved farming practices and technologies. - Existence of poor farming practices across the region: Many small-scale agribusinesses are yet to fully implement mechanised farming methods. This is a hinderance to crop production and a barrier to meeting industrial needs, satisfying local demands, and meeting required export thresholds. Limited access to funding and extension services to local farmers are some of 	<ul style="list-style-type: none"> - Operationalization of the African Continental Free Trade Agreement: This presents enormous opportunity for countries within the region to expand the volume of agricultural exports outside the African continent. Exporting countries within Africa can take advantage of common trade areas to form alliances and develop centralised buying centres across Africa where major exporters can emerge and leverage economies of scale to achieve larger export volumes and provide them an advantage in terms of trade negotiations. 	<ul style="list-style-type: none"> - Insecurity across the region: The issue of insecurity and conflict, especially in Nigeria has negatively impacted farming activities across the region. This in turn has negatively affected crop yield and drastically reduced the volume of farm produce per year. - Pest and disease outbreaks: Pests and diseases are the cause of around 25% of total yield losses in Ghana. Cocoa and coffee crops are highly susceptible to various pests and diseases, which can drastically reduce yields and affect quality. <p>Cocoa farms are prone to threats such as the cocoa swollen shoot virus, which can severely damage crops and lower production. Additionally, cocoa swollen shoot and virus disease (CSSVD) affects about 17% of Ghana's total cocoa tree stock whilst 23% of the total tree stocks are overaged, moribund and/or unproductive. In essence, only 60% of the country's total cocoa tree stock is productive while 40% is technically redundant.</p>
			

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> - Government support for increased production and enhanced market initiatives: Governments across the region have shown significant support for the sector by setting up marketing boards for some of the key products and providing other forms of support through subsidies and other incentives, providing funding at concessionary rates, research initiatives, and infrastructure development. For example, the Ghana Commodity Exchange plays a pivotal role in facilitating the trading of agricultural commodities, thereby enabling farmers to access better prices and market information. 	<p>the underlying reasons for poor farming practices across the region.</p> <ul style="list-style-type: none"> - Inadequate infrastructure: Poor infrastructure pose a challenge to the product availability all year round. Infrastructure necessary for agribusinesses to thrive include good transportation, storage, and adequate logistics systems, most of which are lacking in agribusiness models. In Nigeria, ports congestion and multiplicity of government agencies at the ports contribute to high processing costs in the agribusiness value chain. Additionally, bureaucracy in official processes and infrastructure challenges negatively impact investor confidence and affect the flow of investments into the sector. 	<ul style="list-style-type: none"> - Global high demand and market potential: As the world adjusts to new market realities and attendant consequences of the Russian-Ukraine war on food supplies, opportunities open up for new players to take up the unutilized market share. New suppliers are able to join the world economics to fill the gaps ravaged by the consequences of war. 	<ul style="list-style-type: none"> - Effects of climate change on the region: Agriculture in West Africa is highly susceptible to climate change, considering the region's heavy dependence on rainfall for crop yield. The predicted reduction of rainfall in parts of coastal countries like Ghana and Nigeria is bound to have significant effects on production levels, as the effects of climate change are likely to reduce the advantage of growing tree crops like cocoa and coffee that require long rainy seasons to thrive ⁷.



⁷ Jalloh, Abdulai; Nelson, Gerald C.; Thomas, Timothy S.; Zougmore, Robert and Roy-Macauley, Harold. 2013 (modified 23-08-11). West African agriculture and climate change: A comprehensive analysis. IFPRI Research Monograph. Washington, D.C. International Food Policy Research Institute. Accessed 28th August 2024.

Strengths	Weaknesses	Opportunities	Threats
	<p>- Low Agricultural R&D investment: Using Ghana as an example, agricultural R&D spending represents about 0.7 percent of agricultural output (excluding cocoa), which is higher than the Sub-Saharan Africa average of 0.5 percent but lower than that of regional leaders like Kenya at 1.4 percent and South Africa at 2 percent. This amount also falls short of the 1% target set by the African Union. The Council for Scientific and Industrial Research (CSIR) oversees Ghana’s agricultural research and development efforts. However, it is estimated that less than 4% of the CSIR’s annual budget is allocated for new initiatives, leaving researchers almost entirely reliant on limited donor funding.⁸</p> 		<p>For instance, Northern Ghana is currently grappling with a severe drought that has sparked widespread concerns about food security and the livelihood of thousands of farmers. The region has been without rain for over two months (from July to August 2024), with the extended dry spell stunting crop growth and leaving farmers with little hope for a successful harvest.</p> <p>To mitigate this threat, agricultural diversification is being promoted, among other measures, to tackle the adverse effects of climate change in the region.</p> 

⁸ Asare, R. and Essegbey, G. (2016) Funding of Agricultural Research and Development in Ghana: The Case of Council for Scientific and Industrial Research (CSIR). *Technology and Investment*, 7, 40-50. doi: 10.4236/ti.2016.72006. Accessed 30th August 2024.

Key imperatives for the sector

- **Innovation:**

All stakeholders need to drive capacity building, improve mechanisation, promote innovation and technology adoption, improve market linkages, and enhance the development of policies.⁹ It is imperative that markets are studied with the aim of improving on existing mechanisms and developing new solutions to facilitate the growth of the agribusiness sector. It is no doubt that the first steps towards understanding the workings of a new market require research and development activities. Thus, it is important that the government invests strategically in the commodities market to identify areas for potential development. Cocoa, cashew nuts and sesame seeds are cash products with broad local and international consumer markets. The opportunities for revenue generation in foreign currencies are undoubtedly vast.

- **Strengthening financial services and support:**

It is crucial that partnerships are established with financial institutions and other financial intermediation bodies to improve access to finance for farmers and other participants along the agribusiness value chain. Also, governments need to consider promoting and deepening public-private partnerships in the production of these cash crops to boost investments and production. From the examples in Nigeria where such partnerships have started, one of the State Governments recently partnered with a private company to build a tomato processing factory valued at about \$53 million.

The establishment and promotion of financial support (and capacity enhancement) programs that address the unique needs of farmers and facilitate investment into farm inputs, mechanisation, technology and sustainable practices are some of the other areas that can better improve the agribusiness value chain.

- **Development of the right policies to enhance market access:**

It is important to strengthen partnerships with government agencies, industry associations, and non-governmental organizations to ensure farmers' active participation in policy dialogues. Government should also work with farmers to improve food safety, preservation, address trade barriers and ensure a stable and expanding international market for locally produced crops.

- **Collaboration and introduction of high-quality crop variants:**

Collaboration and access to foreign markets creates an opportunity to achieve sustainable productivity growth in agriculture. The recent memorandum of understanding (MoU) between the Cashewnut Association of Cambodia and the African Cashew Alliance (ACA) covering cooperation on cashew growth and development is a good example to replicate and champion.

- **Improving the effectiveness of the commodity exchanges:**

An improved commodities exchange will develop the agrisector and increase the volume of traded agricultural commodities as futures and forward contracts. The existence of such trade options would help investors hedge against potential losses in agricultural transactions and develop a more attractive market for new investors to improve the financing in the ecosystem. The trickle down effect can be envisaged to include an expanded market for local farmers, an incentive for higher production volumes and the potential capital for the investment in mechanised farming processes.

⁹ The Tony Elumelu Foundation – Investing in Agribusiness: Opportunities and Challenges for African Entrepreneurs <https://www.tonyelumelufoundation.org/africapitalism/investing-in-agribusiness-opportunities-and-challenges-for-african-entrepreneurs> accessed 27th November 2023.

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