COMMODITY RESEARCH

Cocoa Fact Sheet

Working Document

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Key Highlights:

- Côte d'Ivoire and Ghana dominate world production.
- Over 90 per cent of the world's cocoa is grown on 5.5 million small farms.
- The majority of cocoa farmers are not organised in cooperatives, infrastructure are lacking, as well as input finance.
- With demand forecast to outstrip supply, big grinders and chocolate companies are under a huge pressure. It is a fight for the source.
- Demand for sustainable produced cocoa is expected to reach 50% of total world demand by 2020.
- Most companies are increasingly involved in certification schemes: but its true impact on farmers' livelihood is not clear.
- Scaling up requires embedding sustainability initiatives within producing countries' structures.
- Cocoa farming can become a viable business for smallholders if four tools are leveraged: GAP training, stronger farmers' aggregation, efficient standards system and new financial mechanisms.

1. Main highlights of cocoa production, trade and consumption: Which are the potential and challenges of the sector?

- **West and Central Africa accounts for nearly 70% of the world cocoa supply, 90% of which is grown on nearly 2 million small family farms, the majority with land holdings of 2 hectares or less.** Côte d'Ivoire alone provides one-third of global supply. Many cocoa farmers and workers are among the 2.1 billion people living on $2 a day.[1]

- **Who are the cocoa farmers?** Cocoa cultivation in Côte d'Ivoire and Ghana is usually a family

Production of cocoa beans (thousand tonnes)						
	2008/09		2009/10		Forecasts 2010/11	
Africa	**2519**	**69.9%**	**2483**	**68.4%**	**3100**	**73.9%**
Cameroon	227		205		215	
Côte d'Ivoire	1223		1242		1470	
Ghana	662		632		1010	
Nigeria	250		235		240	
Others	157		168		165	
America	**485**	**13.5%**	**517**	**14.2%**	**536**	**12.8%**
Brazil	157		161		195	
Ecuador	135		150		140	
Others	193		206		201	
Asia & Oceania	**598**	**16.6%**	**633**	**17.4%**	**559**	**13.3%**
Indonesia	490		550		470	
Papua New Guinea	59		39		45	
Others	48		44		44	
World total	**3603**	**100.0%**	**3632**	**100.0%**	**4195**	**100.0%**

Source: ICCO Quarterly Bulletin of Cocoa Statistics, Vol. XXXVII, No. 3, Cocoa year 2010/11

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Note: Totals may differ from sum of constituents due to rounding.

activity. In total, around 6.3 million Ghanaians depend on cocoa for their living, representing around 30 per cent of the population. In 2008, it was estimated that cocoa producing households had a mean per capita daily income from cocoa of US$0.42 out of a total income of US$ 0.63.[2] In Ghana, farm sizes typically average less than ten acres in the Ashanti and Eastern regions, and 10 to 20 acres on the average in the Western North and Western South regions. Such detailed statistics are not available for Côte d'Ivoire; however, it is known that there are no large cocoa fields there. It is said that farmers in Ivory Coast own between 1.75 and 5 hectares.[3]

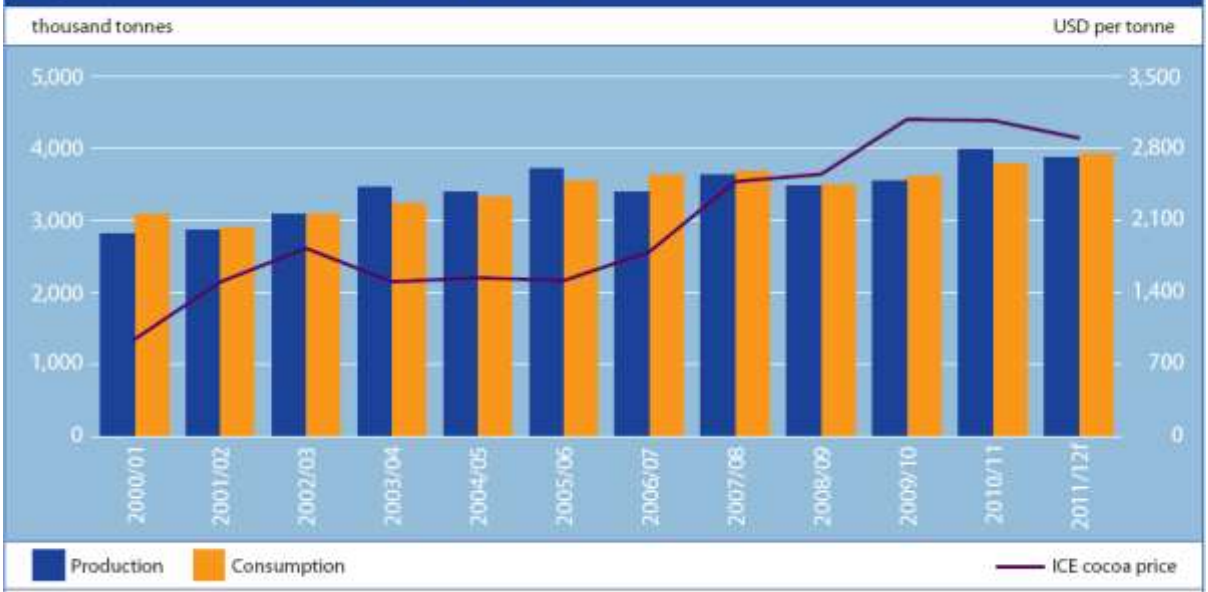
- **Supply and demand unbalances:** Over the last decade, consumer markets in Europe, the United States and especially in Asia have grown substantially (at over 3% per annum). While the developed

[1] Fairtrade and Cocoa, Commodity Briefing (August 2011), Fairtrade Foundation
[2] Sustainable Food Lab case study (2011), REACHING HIGH VALUE MARKETS: FINE FLAVOR COCOA IN GHANA
[3] Oxfam International Research Report (2009), Towards a Sustainable Cocoa Chain

markets account for over 60% of demand, this proportion is falling as growth rates are low owing to near saturation. Stronger growth is being experienced in the emerging markets as incomes rise. Demand in Asia has increased by 12 per cent from 2003 to 2008, compared to 4 per cent in Western Europe. **Big grinders and chocolate companies are under a huge pressure to guarantee future supply.** It is a fight for the source. Cocoa demand is estimated to have peaked at 3.8 million tonnes in 2010/11[4] and in 2012 it is expected that global chocolate consumption will have increased by 15 per cent compared to 2006. An additional 100-120k tons of cocoa will be needed each year to meet 2020 global demand.

- After four years of supply deficit out of the past five years, the supply-demand balance reveals a market surplus in 2010/11. Global production is estimated to have increased by 15 per cent in the 2010/11 season, compared with the previous season, averaging about 4.2 million tonnes.[5] The ICCO Secretariat's first forecasts for the current 2011/2012 cocoa year envisage that cocoa bean production will decline to 3.961 million tonnes.

Figure 1: Global cocoa market, 2000/01-2011/12f



f=forecast

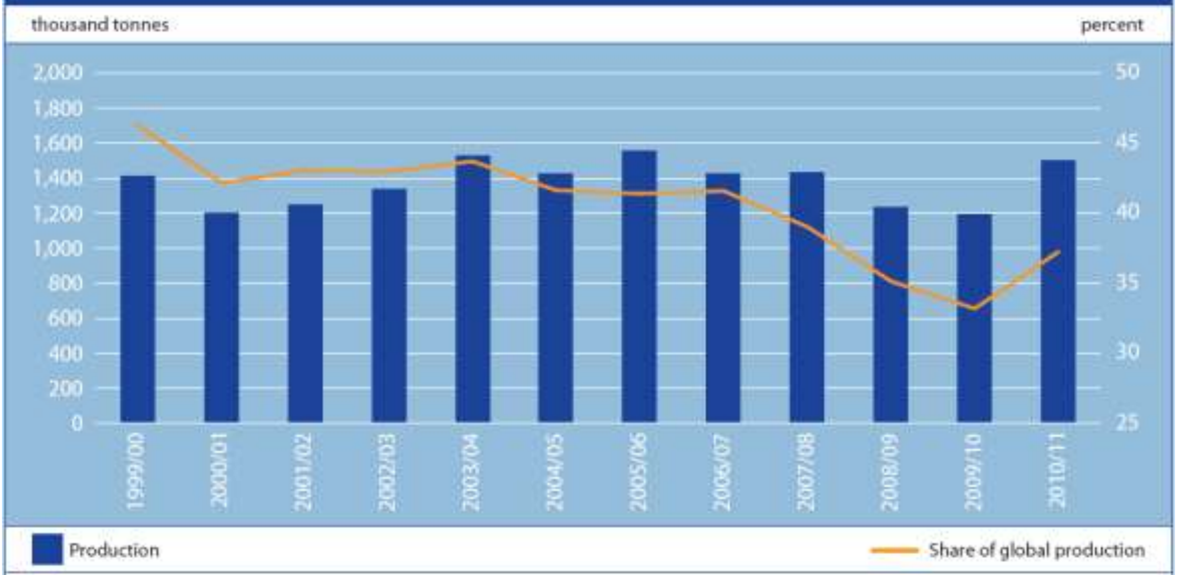
Source: ICCO, LMC, Rabobank, 2011

- In general, years of political turmoil in Côte d'Ivoire and the inherent problems in growing cocoa have tipped the cocoa supply chain into crisis. Although production in the 2010/11 crop season was above average, due to favourable weather conditions[6], market participants are concerned about a possible stagnation or even decline of the production level of the country in the medium-to-long term. Lack of investment in the cocoa sector in Côte d'Ivoire and high taxes compared to other producing countries may have discouraged farmers from maintaining their cocoa plantations and from investing in cocoa. It also may have prompted moves into the production of other crops, such

[4] ICCO Quarterly Bulletin of Cocoa Statistics – August 2011
[5] ICCO Annual report 2009/10 and Quarterly Bulletin of Cocoa Statistics (August 2011)
[6] ICCO MONTHLY REVIEW OF THE COCOA MARKET SITUATION SEPTEMBER/October 2011

as rubber or palm oil. Since cocoa cultivation is labour intensive but fails to generate sufficient income to live on, it appeals to fewer and fewer young people.

Figure 2: Ivory Coast cocoa production and share of global production, 1999/00-2010/11



Source: ICCO, USDA, Reuters, LMC, 2011

- **Small cocoa producers suffer from long standing underpayments and poor labour conditions.** The low income of the farmers from cocoa bean sales is due to low productivity and low farm gate prices. In Ghana and Côte d'Ivoire farmers have an ageing tree population and harvest on average 300 to 400 kilograms of cocoa beans per hectare per year. This is 30 to 50 per cent lower than the potential productivity per hectare. In Côte d'Ivoire farmers barely receive 40 per cent of the international cocoa price due to the government's levy of export taxes on the beans. Other contributing factors include: lack of understanding of quality requirements, little access to market information, high transport costs and individual rather than group selling. According to a recent report by Fairtrade foundation[7], cocoa growers currently receive around 6 per cent of the price of chocolate paid by consumers in rich countries, compared with around 16 per cent in the late 1980s.

- **The pressing issues in the cocoa sector lie on access to farming inputs/fertilisers and access to finance.** In many cases, farmers have limited knowledge of improved production techniques and farm management skills. Field tests suggest that it is possible to at least triple typical farm yields (i.e. 450kg/ha to over 1500kg/ha) with the combination of best management practices, pest control, improved plant material, and appropriate fertilizer application. To achieve this at scale will require considerable pre-competitive collaboration between industry actors and careful coordination with local governments.[8] In parallel, access to finance is needed throughout

[7] Fairtrade and Cocoa, Commodity Briefing (August 2011), Fairtrade Foundation
[8] IDH (2011) The Cocoa Productivity and Quality Program Prospectus

much of the cocoa sector to allow farmers to purchase inputs in a timely and cost effective manner. There is need for more financial innovation.

- **The cocoa and chocolate supply chain is dominated by eight companies**: three grinders (Cargill, Barry Callebaut and ADM) and five chocolate and confectionery companies (Mars Incorporated, Nestlé, Hershey, Kraft Foods, and Ferrero). The three grinders together control 40 per cent of global cocoa processing, but they feel the hot breath of two growing players on the market (Petra Foods and Blommer). The five chocolate and confectionery companies together control 57.4 per cent of the chocolate market.[9] Over the past ten years, a clear trend can be observed of large and small market players individually and together taking steps towards a more sustainable cocoa economy.

2. How is inclusiveness tackled? Which approaches and models are demonstrating (elements of) success? What are key incentives in the approaches that drive that success?

- **The incentives that are bringing many companies to set up inclusive business are: increase productivity, attract future generations in farming and react to consumers' pressure.** For example, the re-emergence of concerns over the welfare of cocoa farmers, including allegations of child-labour use and sustainability issues have increasingly brought consumers to ask for products that are grown in a responsible manner. Demand for sustainable produced cocoa is expected to reach 50% of total world demand by 2020. The work of the World Cocoa Foundation (WCF) is notable.WCF has the support of 60 companies which together make up 70 per cent of the cocoa and chocolate market. In West Africa it runs several programmes to support the cocoa farmers: improving the quality and quantity of cocoa fields; promoting better labour conditions; strengthening farmers' organisations; diversifying farm income and promoting environmental stewardship through the practice of agroforestry and intercropping. The West African farmers who took part in such programmes saw their incomes increase between 15 and 55 per cent. WCF supports 150,000 cocoa farmers in Côte d'Ivoire, Ghana, Nigeria, Cameroon and Liberia. Although ambitious, these programmes are reaching only 7.5 per cent of all cocoa farmers in West Africa.

3. What is the scale of impact that is being achieved, how does that compare with what is needed, where could it go?

- In 2009, 104,000 tons of cocoa, equal to 3 per cent of the world market was produced. The world market share of certified cocoa has grown substantially in the last 3 years. Between January and September 2011, sales of UTZ Certified cocoa has increased by 149 percent compared with same period the year prior, totalling 29,719 metric tons. I Côte d'Ivoire contributed 66 percent of the total sales volume, making it the largest supplier of certified cocoa, according to the UTZ Certified cocoa program. The Dominican Republic followed with 16 percent of sales, while six percent came from

[9] Oxfam International Research Report (2009), Towards a Sustainable Cocoa Chain.

Peru. Han de Groot, UTZ Certified executive director, says: "We're encouraged by the continued increase of certified coffee, tea and cocoa sold. Food manufacturers are open to discussing future purchases and long-term commitments." According to the Tropical Commodity Coalition Cocoa Barometer 2010, by 2015, there will be 816,000 tons of certified cocoa and by 2020 more than 43 per cent of cocoa will be certified which in turn will mean that about 1,777,000 farmers will need to be trained, compared to 47000 in 2010.

- **Most companies are increasingly involved in certification schemes: but what is their true impact?** In 2009, Mars committed to buy only cocoa certified as sustainable by 2020 using Rainforest Alliance and UTZ certification programmes. Nestlé announced its own long-term cocoa plan in October 2009, which includes distributing over 12 million better quality, high-yielding cocoa plants as well as opening up a research and development (R&D) centre in Abidjan. In 2010, about 6 per cent of total cocoa sourced by Nestlé was sourced through the cocoa plan, in 2011 the share increased to 11 per cent. Another aim of the Nestlé plan is to improve the supply chain in partnerships with cocoa processors such as Cargill and Olam by buying cocoa beans from farms and cooperatives which use sustainable practices. Armajaro is working in Ghana on a traceability system, and in Côte d'Ivoire they have a similar project in cooperation with Kraft Foods, Rainforest Alliance and the Sustainable Tree Crops Programme. Although they vary in emphasis, most of the initiatives share common themes: improving cocoa output and quality as well as the livelihood of cocoa farmers through the adoption of sustainable farming practices, cultivating long-term farmer relationships, technical support to control disease and improve quality, and the introduction of improved cocoa species that are more disease-resistant and higher yielding. However, some actors in the sector are concerned regarding their impact and viability. Indeed their true impact – especially on famers' incomes and transfer of skills is not clear yet. In addition the differing existing standards confuse producers, they are not aligned, are sometimes inefficient and very costly to comply with.
  According to a recent KPMG study, there is a business case for farmers and traders to invest in certification of cocoa production. In the study, KPMG developed a profit and loss model to understand the costs and benefits of certified sustainable cocoa farming. The model shows that the costs of certification (including training, audits, etc.) are outweighed by the increase in revenue coming from higher productivity and the market price premium. In general terms, farmers see a positive return on investment within a year, while traders (which normally do the bulk of investments) earn back their investments in less than 4 years. The positive business case depends, however, on a number of conditions that need to be in place. First and foremost, certification needs to be linked to increased farm productivity through a better use of pesticides and fertilizers and better availability of financial services. Secondly, the business case only applies to farmers who already have a basic level of organization and education. Upscaling certification on to the 80% of unorganized farmers is still a tremendous challenge due to the higher costs and risks.

- **The key question for the future is whether the actual volume of sustainable cocoa produced in origin countries will meet manufacturers' commitments to increase their purchasing of sustainable cocoa.** Various chocolate companies claim that the grinders hold back the integration of environmental, human rights and social clauses in supply contracts. The cocoa grinders are the most self protective group within international multi-stakeholder forums in striving for a sustainable cocoa economy. Therefore, certain chocolate companies have proactively included certain clauses in their supply agreements, usually in relation to the elimination of the worst forms of child labour. However, in practice this tactic does not work because there is little independent control or monitoring. The grinders hold a different view. According to them, the chocolate companies have the greatest power within the sector and continue to exert pressure on the cocoa processors to keep costs as low as possible. The grinders claim that the chocolate companies leave them to perform the difficult activities in the supply chain.[10] In order to meet the surging demand for sustainable cocoa, grinders argue that there is a need to go to a much broader definition of standards including: price, quality, and productivity, environmental and social issues. According to some grinders, some certification agencies are too much focused on the consumer side and not on what is happening on the supply chain. For example, most certification curriculum do not have specific criteria in terms productivity and quality. The drive for farm productivity should be clearly integrated with the burgeoning movement in standards systems to create a highly-productive supply chain. Boosting productivity requires a combination of targeted training on good agricultural practices, increased fertilisers' use and improved planting material.

4. What are the roles and responsibilities of business, government, civil society and knowledge institutions in the scaling efforts?

- **The main limitation of certification is that many companies see it as an end itself and not as a first step to arrive at a sustainable global cocoa economy.** But the system will only be useful if it offers a sustainable future to cocoa farmers and their families, enjoying the support of cocoa-producing countries. Therefore, it demands a commitment from all stakeholders within the supply chain, from the local government to the consumer and, as appropriate, a financial contribution from key organisations at different points across the supply chain. Any systems established should be institutionally rooted.

- **Scaling up the existing sustainable commodity programs and initiatives to mainstream levels requires to go beyond certification by institutionalising the conditions for sustainable production at a national level.** In order to ensure that the various stakeholders avoid shifting responsibility, a suitable forum is needed in which all the players are represented. The recently launched **Africa Cocoa Initiative** represents an interesting attempt in this direction (box 4).

Box 1. The Africa Cocoa Initiative

In October 2011, the World Cocoa Foundation, USAID and IDH launched the African Cocoa Initiative.
WCF/ACI is a five-year, $13.5 million program in the four producing countries of Côte d'Ivoire, Ghana, Cameroon and Nigeria that will develop their cocoa sector in four critical areas: foster public-private cooperative investments in cocoa and agriculture, improve the genetic quality and productivity of the cocoa varieties under cultivation, expand farmer education and training programs, and improve the agriculture input supply chains that serve the farmers. It is a public-private partnership. Private sector funding for this program comes from WCF member

[10] Towards a Sustainable Cocoa Chain (January 2009) Oxfam International Research Report

companies: ADM Cocoa, Barry Callebaut, Blommer Chocolate Company, Cargill, Continaf BV, Ferrero, Guittard Chocolate Company, The Hershey Company, Kraft Foods, Lindt & Sprüngli, Nestlé, and Olam International Ltd. The four national governments of Côte d'Ivoire, Ghana, Cameroon and Nigeria have each endorsed WCF/ACI and are committing their agencies to participating and investing in its sponsored activities. The success of this initiative will largely depend of the effective ownership of the initiative by local authorities.

Source: www.worldcocoa.org.

5. What are the constraints and opportunities to further upscaling?

- **Main obstacles in scaling inclusive business in cocoa:**
    - The cocoa value chain is very long and disorganised, especially in Côte d'Ivoire where farmers have to sell to a series of traders and middle men (pisteurs, traitants).
    - Infrastructure are lacking, as well as input finance
    - The majority of cocoa farmers are not organised in cooperatives. Participation in organised farmer groups ranges from an estimated 30% in Côte d'Ivoire to much lower levels in Nigeria and Ghana.[11]

- **In order to progress in the cocoa sector transformation and scale up sustainable and inclusive business models, four tools need to be heavily leveraged**: It is crucial to make cocoa farming a viable business for smallholders through: training in good agricultural practices (through local institutions), promoting farmers aggregation in strong and autonomous cooperatives (box 2), developing new financing mechanisms to access to inputs (e.g. risk-sharing for input financing), and ensuring an efficient implementation of standard systems. According to some grinders, certification can become a good vehicle for scaling up inclusive business only when there will be a set of global standard established by a neutral body, and widely accepted. This in turn would reduce costs of certification, unlock significant investment by chocolate manufacturers and deliver strong results in terms of increased quality, productivity, and farmer income. According to MARS sustainability Director: "In order for certification to be a useful tool to drive change in farming practices, it should have stronger standards on productivity. The Certification Capacity Enhancement Project that MARS along with other grinders and end-users support, goes in this direction. See box 3.
- In addition, always according to MARS: "If certification continues to reach only farmers working in cooperatives, it will not achieve the target of mainstream sustainability. Certification needs a critical mass to make it the new norm, to set a new benchmark. So far only cooperatives trained personnel manage ICS system; therefore it is very difficult for a trader to engage in certification. In order to reach unorganised farmers it is important to outsource ICS system management. This would allow about 30/40 per cent of traders interested in engaging in certification to hire ICS trained managers and in turn to reach a much higher number of unorganised farmers".

Box 2. Strengthening farmers' organisations: the experience of Cargill in Côte d'Ivoire

Since 2008, Cargill has been involved in cooperation with Care international in strengthening existing cooperatives in Côte d'Ivoire. The initial incentives of the company were: attracting more farmers in cocoa production in a

[11] LMC International (2011) Cocoa Sustainability, World Cocoa Foundation

context where the push of food crops is enormous, increasing cocoa quality and productivity, having more formal partner to source from and to support, and involving farmers in certification programs. At the beginning, farmers were attracted by the price incentives of the certification program they could enjoy in joining a cooperative. Over time, thanks to an important effort to strengthen the role and capacity of cooperatives, farmers gained trust in the social and empowerment role of the cooperatives and enjoyed much larger benefits in terms of training, pre-financing of crops, warehouse facilities, and schooling. The underlying prerequisite for building trust in the cooperative is transparency. Indeed the premium is handed over in an official ceremony, partly directly to the farmer and partly to the cooperative which in turn invests the money in line with agreed social priorities. In addition, the cooperative keeps track of the number of producers, how much they have harvested and how much they have been paid. Once a stronger relationship is built with the cooperative there is also greater capacity to understand the cooperative's need and better target them. A major obstacle facing cooperatives is access to finance. In this respect, Cargill provides pre-financing loans to the cooperative, free of interest; farmers then pay back the loan through the sale of cocoa to Cargill. Cargill is planning to operate through local banks but so far there has been resistance at cooperative level. An early evaluation of the Côte d'Ivoire support initiative shows that yields have increased. Much should be done however to improve the monitoring and evaluation mechanisms of these approach in order to take corrective actions along the way.

Box 3. The Certification Capacity Enhancement project (CCE)

The launch of the Certification Capacity Enhancement project (CCE) in 2010 has been an important step to boost the capacity of West African cocoa sector to benefit from sustainability certification programs and increased productivity. The CEE is a multi-stakeholder initiative within the West-African cocoa sector that has been developed jointly by the voluntary standard initiatives Rainforest Alliance, UTZ Certified and Fairtrade International (FLO), the development organisations Solidaridad, Dutch Sustainable Trade initiative (IDH) and German International Development Cooperation, GIZ (formerly GTZ), in collaboration with the private sector (Mars, Barry Callebaut, ADM, Armajaro, Toms). CCE aims at contributing towards a sustainable cocoa sector by enhancing farmers' capacities to meet the agronomic, environmental and social requirements of the three voluntary standard initiatives and to improve productivity. The project is being implemented in Ghana, Côte d'Ivoire and Nigeria. Ownership of local governments is key in this program. Up to December 2011 the CCE partners have defined a common training curriculum which aims to combine the efforts of standard initiatives, governmental extension services and public and private training programmes to facilitate access to certification by providing training materials for certification trainers and cocoa producers. This enables farmers and farmer organisations to fulfil the key criteria of three international standards initiatives for cocoa (UTZ Certified, Rainforest Alliance and Fairtrade) and to implement productivity improvement mechanisms. In 2012, there will be the upscaling phase which aims at strengthening certification capacities in the project countries, creating an information platform on certification related questions and implementing a monitoring and evaluation system.

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Interviews to:

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