Based on the results of the first Roundtable in Accra, the “Accra Agenda”, a Working Group has been formed and it was agreed to prepare six background documents as a basis for discussions at the second Roundtable (RSCE2) in Trinidad and Tobago.

The documents reflect the priorities identified in the first Roundtable in Accra and provide a framework to work for increased sustainability. Document RSCE2/6 “Social Issues” presents the conditions and challenges for sustainability in cocoa producing countries and throughout the value chain. Document RSCE2/4, “Sustainability Initiatives and the Challenge of Compliance” looks at efforts geared towards sustainability in cocoa and other commodities to provide different approaches of working for more sustainability and lessons learned. An important basis for any initiative is an agreed set of objectives. Such objectives are reflected in document RSCE2/7 “Draft Principles for a Sustainable Cocoa Economy”. In order to implement sustainable practices and achieve these objectives, guidance is provided in document RSCE2/3, the “Guidelines on Best Known Practices in the Cocoa Value Chain”. Suggestions for future objectives and a framework to implement and sustain the efforts towards increased sustainability are proposed in document RSCE2/2 “Modus Operandi for RSCE”. Document RSCE2/1 contains the programme for the second Roundtable in Trinidad and Tobago, the forum to discuss these documents and the future objectives of the RSCE.

All documents have been approved by the RSCE2 Working Group for public consultation on the website [www.roundtablecocoa.org](http://www.roundtablecocoa.org) and presentation at the RSCE2 meetings. Any comments received will be taken into account for a future revision of the documents.

“Promoting sustainable production and use of cocoa through dialogue and cooperation with all stakeholders along the supply chain”
Towards a sustainable cocoa economy: overview of farming systems and challenges facing cocoa farmers worldwide

Introduction

In the context of cocoa stakeholders discussing a common vision towards achieving a sustainable cocoa economy, some see primary production as the part of the chain where most systemic changes are required. Smallholders represent 95% of the cocoa produced worldwide. If smallholders are to be taken on board a more sustainable cocoa economy, it will be essential to understand if and how they will be able to make the desired changes, taking into account their situation and their vision of cocoa farming.

The overall picture we get from the description of the smallholders and the challenges they face is that, while millions of smallholders depend on cocoa for their main source of income, being a smallholder cocoa farmer is not very lucrative now and neither will it be in the future. This should be of great concern to producing countries whose revenues are dependent on cocoa: industries whose profits depend on this product and consumers who wish to continue to buy their beloved chocolate. While producers are the crucial element in the value chain there is only so much that they can do to ensure a sustainable cocoa economy. This paper gives an overview of the challenges smallholders face and the fact that these need to be taken into account when discussing a sustainable cocoa economy.

Socio-demographic issues

1.1. Main socio-demographic challenges

| Poverty alleviation                              | Strengthen women’s position                      |
| Improved welfare                                 | Better access to social amenities                |
| Diversify incomes                                | Renew ageing farming population                 |
| Diversification out of cocoa                     | Attract youth to take over cocoa farms           |
| Improve standards with regards to child labour   | Improve access to schooling and education        |

1.2. The smallholders’ perspective

Cocoa is produced in many countries that are typified by low or very low GDP per head—often with poor infrastructures and communications. Cocoa production is characterised by the predominance of small farmers, with an estimated 95% of the annual world cocoa production derived from smallholdings in the size range of one to three hectares. In major producing countries the income of around 2.5 million small producers and their families depends on cocoa production.

1.2.1. Profile of the smallholder’s household

<table>
<thead>
<tr>
<th>Features:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Smallholders have a “monopoly” position in global cocoa production;</td>
</tr>
<tr>
<td>• Smallholders have diverse responsibilities and roles in the production of cocoa (farm owners, care takers, workers, etc.);</td>
</tr>
</tbody>
</table>

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^ This document has been prepared by an RSCE2 Expert Group comprising Mme. Amouan Acquah (leader), Ms. Isabelle Adam, Mr. Ngwe Apollinaire, Ms. Pascal Guillou, Dr. Victor Halim Iyama, Mr. Peter McAllister, Mr. Ebenezer Tei Quartey, Ms. Gine Zwart, Mr. Simon Schnetzer.
Cocoa production does not only take place within the family circle; it is integrated in the social community structure and attracts migrant workers; in West Africa, farmer’s population is ageing and productivity decreasing; and renewal of the cocoa farming sector is at stake: the younger generation is reluctant to take over a tedious and non-lucrative activity.

**West Africa**

In West Africa, cocoa production is characterized by a very high share of smallholders in the total production; by a small average farm size and by low yields. It is estimated that about 90% of African cocoa production originates from small farms and provides about 68% of the supply from West Africa. A farm size of about 3 ha is typical of smallholder cocoa farms. Furthermore, the cocoa farmer population is ageing, resulting in lower crop maintenance and decreasing yields. For instance, 38% of the farmers in Ivory Coast are older than 50 with less than 40% of their children willing to take over the family farm. This situation puts a lot of pressure on the younger generation to take over cocoa production and ensure the future sustainability of the cocoa sector. Expectations of farmers and their communities currently suggest that cocoa farming will not be a choice for future generations.

**Asia**

Cocoa farming in Asia follows different patterns: Malaysia has a majority of private-owned large estates; Indonesia has both large plantations (some privately owned - 4% of the cultivated area; some owned by state - 3% of the cultivated area) and smallholder producers with land sizes of 0.5 ha to 4 ha. Those independent cocoa producers (business-owner, employee and workers, or a combination thereof) represent 93% of total cocoa cultivated area. In 2002 they employed and supported a livelihood of 900,000 households, a large majority of them in Eastern Indonesia.

**Latin America**

Cocoa farms in Latin America are small to medium-sized, with the exception of Brazil where they tend to be bigger (ranging between 10 to 100 hectares). In Ecuador there are 100,000 cocoa production units (300,000 labourers – 20,000 farms). The average size is 3 to 4 hectares per family on agro forestry systems, combined with planted fruit and timber species. In the national cocoa sector 20% are families with women as head of the household. In Costa Rica and Panama, farmers maintain various levels of extensive/intensive management and mixed land uses on small-to-medium-sized farms (from 4.2 to 9 ha). Cocoa only represents a part of the cultivated area (maximum of 25%).

**1.2.2. Cocoa and poverty**

**Features:**
- Cocoa production is highly linked to poverty and economic vulnerability;
- Cocoa is a non-viable activity for most smallholders (see also the price of cocoa);
- Cocoa production is generally the main source of income, other sources are sought to complement the income;
- The older generation of farmers have a fatalistic vision of cocoa: not a good life, but the best they can manage;
- The new generation of farmers does not want to accept the conditions its parents have experienced; and
• Better life prospects are necessary to retain the new generation.

**Below poverty**
In most cocoa producing countries, with Malaysia as the major exception, smallholder cocoa farmers tend to be poor. Income from cocoa farming alone is usually insufficient to keep cocoa farming households out of poverty. However, it often constitutes a large part of the total income of the household for living purposes. Reliance on cocoa farming can expose farmers to shocks in the form of pest or disease outbreaks or the decline in cocoa prices on the world market.

**Limited revenue options**
A family farming system basically has two options for raising household income: cutting down on expenditure or increasing basic income. Cutting down on expenditure is usually done by using cheap labour (child labour); buying cheap and often illegal chemicals or generally cutting down on consumption expenses including schooling costs. The main options for increasing basic income are hiring out labour or crop diversification. Diversification is an important risk management strategy to reduce farmers’ economic vulnerability. However, diversification is not a mainstream strategy for cocoa farmers.

**Is diversification out of cocoa an option for farmers?**
With above-average numbers of farmers living below the poverty line, the economic viability of cocoa production is challenged. Some observers recommend that cocoa farmers for whom cocoa production is not viable should switch to other activities. The feasibility of such a measure is questionable, especially in West Africa, where it would have significant impacts on the social structure.

### 1.2.3. **Land ownership rights and land tenure**

<table>
<thead>
<tr>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>The informal traditional ownership system in West Africa is complex and makes access to land and farm size expansion uncertain;</td>
</tr>
<tr>
<td>The system is known as the crop sharing scheme and follows the models of abusa (on an already existing plantation) or abunu (when a new area is planted);</td>
</tr>
<tr>
<td>Land ownership and tenure systems also regulate the social roles and position of farmers; and</td>
</tr>
<tr>
<td>Indonesia has discarded the traditional collective land ownership system and established a new system.</td>
</tr>
</tbody>
</table>

**A hindrance to the entrepreneurial empowerment of farmers**
The ownership and tenure system of cocoa smallholders is frequently based on traditional systems. Such systems do not include legal land ownership and parcel delimitation regulations. Farmers with 20 hectares of land or more have land titles, whereas farmers with less usually do not. In Côte d’Ivoire, less than 1% of agricultural land is subject to an official tenure or ownership title. The land tenure and ownership systems of each cocoa growing region have direct implications on the ability of farmers to access land and credit.

**A socially and economically excluding system**
Land ownership and tenure systems also regulate the social roles and position of farmers. In West Africa, newcomers to cocoa who wish to have access to land have duties to fulfill in terms of integration within the community.
Features
• Basic social amenities are lacking in remote growing areas;
• Farmers aspire to a less vulnerable status: health insurance, formal employment opportunities;
• The aim of cocoa farmers is to provide their children with an education so that they find a way out of cocoa; and
• However, the economic situation of the household dictates the schooling of children in upper grades, as they are often obliged to work on the farms.

Limited access to basic social amenities
In West Africa many farmers living in rural areas are denied access to basic infrastructure facilities, such as roads, electricity, drinking water, medical services, education and other essential basic amenities. In Côte d’Ivoire, 72% of cocoa communities do not have a health centre and 60% do not have access to drinking water. The lack of transport infrastructure creates commercial problems during the crop season. In Ecuador access to social services varies from poor to extremely poor conditions; conditions in the northern part of the country are worse than in the middle part of the coastal region.

1.2.4. Gender equity: the position of women in cocoa farming
Features
• Women are both producers-owners and labourers;
• Women have a vulnerable position in the cocoa sector: hard labour, limited economic power, limited access to land and education; and
• Women are most affected by the lack of access to (good quality) inputs and improved infrastructure.

The invisible cocoa farmer
Being a cash crop, cocoa is generally perceived as a male crop. However, women are very much involved in cocoa production, both as farmer-owners as well as being an important part of the labour force. In West Africa, women assisting their husbands are actively involved in almost all stages of the production process, but are in general not involved in farm management. Women are mainly involved in post harvest activities, such as collecting and transporting the harvested pods from the fields, taking out the beans and drying and sorting of the beans.

Income distribution
Women tend to earn less than men in cocoa farming. Wages are higher for male dominated tasks than for female dominated tasks. Female wage labourers are mostly hired for the sorting and sifting of the cocoa beans.

A restrictive environment
In West Africa, women do not automatically inherit their husband’s land when he dies, but depend on the decision of their father, husband or husband’s family. In Ghana these structures are currently changing in favour of women. However, not many women know about this and information is therefore needed. Besides, women’s production is often pushed to marginal lands.
2. __ Facing the challenges of inputs and farming practices

2.1. __ Main farming practice challenges

<table>
<thead>
<tr>
<th>Increase productivity and product quality</th>
<th>Stability of land ownerships/ rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved farming and post harvest practices</td>
<td>Increased access to credit</td>
</tr>
<tr>
<td>Use of better varieties (hybrid seedlings)</td>
<td>Better access to extension services</td>
</tr>
<tr>
<td>Substitution of ageing trees</td>
<td>Access to basic equipment</td>
</tr>
<tr>
<td>Improved use of fertilisers and spraying practices</td>
<td>Access to labour force</td>
</tr>
<tr>
<td>Stop use of illegal hazardous chemicals</td>
<td>Solve child labour issues</td>
</tr>
<tr>
<td>Monitor land conversion / biodiversity losses</td>
<td>Develop multi-cropping to ensure food and income security</td>
</tr>
<tr>
<td>Improved soil vs. erosion and fertility loss</td>
<td>Access to knowledge of organic farming</td>
</tr>
</tbody>
</table>

“Efforts in terms of enhancing environmental sustainability in the production of cocoa beans would comprise activities to engage farmers in the use of “best known practices” in cocoa farming, including efficient use of inputs, such as fertilizers and pesticides; use of best possible planting material; action to prevent and manage the spread of cocoa pests and pathogens; projects to reduce the losses from pests and diseases at the national and regional level; and diversification of the (agricultural) activities of cocoa farmers. In other words, cocoa farming has to be thoroughly modernized, resulting in farms with high productivity of both land (high yield) and labour (high labour productivity)”.

2.2. __ The smallholders’ perspective

2.2.1. _ Productivity / yield

<table>
<thead>
<tr>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a huge gap between theoretical and real yields;</td>
</tr>
<tr>
<td>Productivity stagnates due to a lack of access to knowledge on good practices, outdated tools and production methods; absence or low-quality of inputs; ageing trees;</td>
</tr>
<tr>
<td>The search for fertile soil combined with poor farming practices lead to deforestation, environmental damages, biodiversity loss;</td>
</tr>
<tr>
<td>Caring for the environment is not a priority for poor cocoa farmers; and</td>
</tr>
<tr>
<td>The green revolution is not within reach for most smallholders.</td>
</tr>
</tbody>
</table>

**Struggling to maintain productivity in ageing farms**

West Africa is known for the production of higher quality cocoa when compared to Asia, though yields (on average 650 kg per ha) tend to be lower than in Asia. Over time, yields have increased to some extent due to the planting of hybrid trees. On the other hand, in a number of areas yields have been going down, as the age of the trees increased. In Indonesia smallholder productivity levels are far higher than in West Africa, which reflects the low age of tree stock.

**Quest for short-term productivity**

In order to maintain or increase productivity the intensive monoculture cultivation system is practised. Some farmers also opt for full-sun production due to its lower labor costs and higher short-term yields. (e.g.: in Sulawesi or in Ecuador).
Environmental impacts
For poor cocoa farmers, making a living prevails over environmental preservation. The quest for short-term productivity has a high impact on the surrounding primary forest land from which the economic timber species had been extracted. It also has a dramatic impact on biodiversity. Loss of biodiversity causes soil depletion, fertility loss and requires increased access to fertilisers.

Increasing pressure on scarcity
The extensive cocoa production pattern is now challenged by the decreasing availability of virgin lands and the fact that governments and communities take better care of the remaining forests. Indonesia is the only major producer with considerable potential land availability, and Ghana is also estimated to have good potential land available. In the longer term, smallholders may need to increase productivity by means of intensification.

BOX: Towards a green revolution?
African cocoa, primarily from Ghana, has entered a process of relative intensification, while Sulawesi smallholders fight against yield decline (from 1500-2000 to 900-1200 kg/ha in the alluvial plains and from 1000-1300 to less than 600 kg/ha in the hills). Does the future of cocoa lie in the increased intensification in West Africa (Ghana and Ivory Coast if the taxation policy changes, but also Cameroon and Nigeria), or with the expansion of the already intensive systems in Asia (mostly across the vast Indonesian Archipelago and in Vietnam)?

2.2.2. Access to inputs

Features
- High costs and limited access restrict the use of fertilisers, hybrid seeds and seedlings;
- Ageing trees need to be replaced in order to limit the declining productivity and quality of beans;
- Lack of sprays and fertilisers and/or the bad use of fertilizers strongly impact on production; and
- The environmental aspects of those inputs are not documented here but warrant attention.

Role of inputs in cocoa farming
The use of insecticides, fungicides and fertilisers are considered to be a means of increasing the productivity and quality of cocoa production. Chemical inputs can cut the labour costs necessary for the maintenance and manual elimination of pests. However in West Africa, their use is extremely limited. In 2001, 14% of Ivorian farmers used fertilisers, in Ecuador 90% have access to inputs and 20% have received specific training on how to prepare organic pesticides and fertilizers. Imported illegal hazardous chemicals offered to farmers at lower prices have potentially serious effects on the farmers’ health and the environment.

Access to better quality cocoa trees
In West Africa 35% of the cocoa trees are over 30 years old. Ageing trees need to be replaced in order to limit declining productivity and the quality of the beans. However the use of improved varieties is extremely limited: in Côte d’Ivoire 87% of the farms have no access to improved varieties. In Ghana, COCOBOD produces hybrid cocoa seeds and seedlings for farmers (30% of farmers have benefited from this programme). Though
farmers fail to understand the importance of these new varieties or are deterred by the cost and inconvenience involved (firstly obtaining them, then creating and managing a nursery, finally planting them).

**Organic production**
Many farmers produce organic cocoa by default: they do not use any external inputs as they can not afford these, however the techniques for non-chemical pest and disease control are little known. At the same time the market for organic cocoa is as yet not well developed.

### 2.2.3. Adoption of better practices and access to extension services

<table>
<thead>
<tr>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>The high cost of farm labour coupled with the high cost of inputs deter many farmers from adopting improved practices and maintaining farms well;</td>
</tr>
<tr>
<td>Non-optimal practices result in lower bean quality, lower yields and revenues;</td>
</tr>
<tr>
<td>A minority of farmers have access to extension services;</td>
</tr>
<tr>
<td>Low adaptation rate of technologies; and</td>
</tr>
<tr>
<td>Extension services are mostly provided by institutional bodies (government or NGOs).</td>
</tr>
</tbody>
</table>

The Cocoa industry contributes on a case-by-case level.

### 2.2.4. Labour force availability

<table>
<thead>
<tr>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rising costs and limited labour force deter smallholders from carrying out optimal farming practices on their farms;</td>
</tr>
<tr>
<td>Smallholders sometimes work on other farms to earn extra income; and</td>
</tr>
<tr>
<td>Child labour remains a way of reducing costs.</td>
</tr>
</tbody>
</table>

### Scarcity of labour
Cocoa production is labour-intensive and needs daily attention. Traditionally, farmers have access to the manpower of family members, care takers, seasonal workers and other community members (traditional labour sharing schemes). However, labour is becoming increasingly difficult to find for cocoa farming. The situation is more acute in the small cocoa communities where most people operate farms themselves. This scarcity of farm labour has caused the rural farm wage to increase well above the minimum. As a result some farm operators work on other people’s farms from time to time in return for wages to supplement their incomes.

### Child labour
In West Africa, inadequate labour availability to meet production needs and prices received for the product are aspects underlying the traditional use of child labour on family farms - a practice that can adversely affect children’s health and education. In Indonesia a study reported cases of high profit from cocoa as a result of child labour. In general, it is believed that downward pressures on cocoa prices and the rising cost of labour contribute to the use of unpaid family labour (including children).

### 2.2.5. Access to financial services and pre and post-harvest finance
Features
- Access to formal financial service facilities, including consumer credit facilities, is extremely limited partly because of lack of proximity, partly because of lack of adequate lending structures;
- Informal lenders or cocoa dealers are often important capital providers; and
- Fluctuating incomes depreciate credit access conditions.

Vital importance of finance for cocoa smallholders
Financing is important for an enterprising cocoa sector. Apart from purchasing inputs, credit is used by farmers to support their households during the off-season to hire or to buy land to expand one’s farm. Lack of adequate credit facilities and rural banking infrastructure has become a major problem for cocoa farmers. A very limited proportion of farmers actually have access to formal credits. Smallholders frequently lack collaterals to obtain investment capital. Unofficial lenders (purchasing clerks) are a significant source of credit in kind (inputs) or in cash but often demand extremely high interest rates and farmers have little choice and bargaining power as there are often only one or two traders in a village.

3. ___ Facing the challenges related to marketing

3.1. __ Main challenges towards a sustainable cocoa economy

| Avoid trade-offs between quality and short term revenues | Stronger farmer organisations |
| Increase share of price for farmers | Improved infrastructure (especially roads) |
| Lower export taxes / inefficiently distributed taxes | Improved business knowledge / practices |
| Shorter, more efficient supply chain | More efficient transport / wholesaling markets |
| Improved access to market information | More transparent pricing and market information |

3.2. ___ The smallholders’ perspective

3.2.1. _ Farmers in a buyer-driven value chain

Features
- Millions of smallholders are at the beginning of a long concentrated chain which they cannot influence;
- There is a lot of mistrust between farmers and their intermediaries (middlemen and cooperatives), which is detrimental to the fair treatment of the farmers; and
- Export companies and cocoa processors are moving upstream in the chain and increasing control over buying conditions (which can either be to the advantage or disadvantage of the smallholders).

Price takers
Smallholder farmers producing cocoa for world markets are located at the starting point of a buyer-driven value chain in which the buying power is highly concentrated between a few companies word wide. The liberalisation of the cocoa industry has not resulted in the expected increased competition between buyers at the farmers’ gates. It is also assumed
that the higher the number of intermediary agents from producers to exporters, the smaller the share of the FOB price for producers.\textsuperscript{39}

**Mistrust between farmers and intermediaries**
Trust along the value chain is essential to bring about changes at producer level, however there is deep mistrust between farmers and their intermediaries (cooperatives or buyers). As reported in West Africa\textsuperscript{30} and Indonesia, market information including basic information about world market prices, is very difficult for farmers to access.\textsuperscript{31} Farmers have expressed serious resentment and sometimes hostility towards purchasing clerks for their apparently dishonest dealings with them. Sometimes input is provided as credit at the beginning of the season, which the farmers have to pay back later on in the form of their harvest, which can sometimes be worth twice the price of the initial inputs.\textsuperscript{32}

3.2.2. _Marketing infrastructure_

<table>
<thead>
<tr>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The lack of institutional marketing infrastructure sustains the marginalisation of farmer in the chain;</td>
</tr>
<tr>
<td>• Without official quality control structures, farmers have little incentive to favour quality over short-term income; and</td>
</tr>
<tr>
<td>• Better cocoa marketing infrastructure can have a ripple effect on other rural economic activities.</td>
</tr>
</tbody>
</table>

**A pre-requisite to improving farm viability**
Market access is a problem for many farmers, particularly those in smaller or more remote locations.\textsuperscript{33} Constraints relate to lack of transport, poor roads, lack of communication, and poor information flows. Enhancing infrastructure in the cocoa regions is an important prerequisite for both raising the productivity and efficiency of delivery in cocoa production, and developing alternative crops and diversified production activities.

**Infrastructure and quality of cocoa**
With the liberalisation and the dismantling of cocoa marketing boards, quality control institutions and commercialisation systems have disappeared in most West African countries. Processors sometimes also pay an average price for mixed quality beans. This provides few incentives to farmers to sell quality beans instead of insufficiently fermented or dried beans when prices are up.\textsuperscript{34 35}

3.2.3. _Producers organisations – farmers representation_

<table>
<thead>
<tr>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cooperatives have the potential to be a key element to marketing, supply input, increase productivity and incomes;</td>
</tr>
<tr>
<td>• Producers’ representation is very low;</td>
</tr>
<tr>
<td>• Frequent perception that cooperatives do not serve the real interest of farmers;</td>
</tr>
<tr>
<td>• Cooperatives are not professionally run; and</td>
</tr>
<tr>
<td>• Good governance and capacity are failing.</td>
</tr>
</tbody>
</table>

**A key role for cocoa farming sustainability**
Studies\textsuperscript{36} show that cocoa farmers could increase their incomes from cocoa significantly if they belonged to an effective farmer collective. Producers associations have the potential to facilitate the access to farm inputs, to monitor cocoa quality, to credits and investment
capital, to knowledge (market information and farming practices) and increase farmers negotiating position in the value chain. In many cases, farmers do not know where to access services, or where to go for support and local service providers.

**Producer’s associations fall short to meet expectations**
Most actors in the cocoa sector believe that the weak organization of farmers impede the sustainability of cocoa farming. Very few farmers are members of cooperative. In general in West Africa, the good management of cooperatives is a serious problem. Cooperatives have also been reported not to work in the interest of the farmers, and even to rip off farmers. An example of producers association that is also involved in the export market can be found in Ghana. In Ecuador, exporters are represented by ANECACAO, their national association and there are five important regional federations of cocoa producers.

### 3.2.4. Remunerative price: a prerequisite to sustainability

<table>
<thead>
<tr>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmers are price takers and have no choice than to accept middlemen’s conditions;</td>
</tr>
<tr>
<td>Farm gate price depend on declining price trends and volatility of the international market;</td>
</tr>
<tr>
<td>When prices are up, farmers tend to sell notwithstanding poor quality;</td>
</tr>
<tr>
<td>Farmers often sell without an indication or knowledge of the international price; and</td>
</tr>
<tr>
<td>The producer share of the FOB price greatly varies between countries and regions depending on efficiency of the value chain and different level of taxes.</td>
</tr>
</tbody>
</table>

**Key parameter for farmers: covering the production costs**
Various studies have shown that farmers receive only a meagre share of the value generated further down the cocoa and chocolate value chain. Observers worldwide agree on the unfairness of this situation. Policy recommendations have been made to promote the participation of farmers in the value chain and increase their ability to capture revenues from the value added. However, the cocoa farmers are not concerned about their share of profit in value-chain as such but the actual price they obtain and how it relates to their production cost.

**Non-remunerative prices**
The fluctuating and for a long time declining cocoa prices on the international market often do not allow farmers to break-even. Smallholder cocoa farmers must sell what they produce at pretty much the price they can get. High taxes also have a direct influence on the price the farmer gets and can represent a heavy burden (ex: 34% in Ivory Coast). This can affect the capacity of farmers to cover the households’ basic needs (health and education). Cases were reported when prices were not even worth harvesting the trees, which, as a result, were abandoned. Low prices also offer no incentive to improve farming practices or invest in up-scaling farms.

**Volatility**
Cocoa prices are highly volatile and makes cocoa farming an extremely risky activity. Farmers have no way to predict their incomes. They will not let the beans dry properly as the price might be lower tomorrow. This has significant repercussions on the product quality.
Farmers’ rationality
For a small farmer, straight economics do not work: when the price is low they can not produce less because of the very nature of this tree crop: productivity is scheduled throughout the lifetime of a tree. Large estates (especially those privately-owned) are run rather like commercial firms, i.e. profitability is given much greater weight in production decisions. For smallholders, profits do not have a clear meaning since they also provide labour. Adversely, increases in crop prices can also have negative impact on cocoa sustainability such as the increase the rate of forest clearing in Cameroon, threatening biodiversity.
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2 Ivory Coast, National EID 2007/2008
3 Haque, 2004
4 FECD, 2008
5 WWF, 2006

6 Observers estimate that in West Africa the mean daily income per capita ranks between US$ 2 (i) and US$ 0.63 (i) (income from cocoa production and other sources). The poverty threshold established in the Millennium goals is US$2 per capita per day. Any adverse circumstances (lower cocoa prices, higher taxes, lower yield) push the income further down. In Ecuador, the cocoa bean production represents 80% of their net income estimated around $150 dollars / month/family.(Sources : CFC, 2007; IDS, 2008 ; FECD)

7 In Côte d’Ivoire, about 52% of all Ivorian households are reliant on cocoa. This amounts to about 56% in Ghana, where cocoa represents on average about two third of households income (IDS, 2008). The overwhelming majority of the Cameroonian rural community derives at least 90% of their income from cocoa.

8 Lann et al., 2008

9 In West Africa, cocoa tends to represent the bulk of revenues. In Ivory Coast, cocoa farmers generally also cultivate coffee, or other tree crops (hevea; rubber) in case of prolonged price decline. Subsistence crops are only planted on new plantations waiting for trees to start producing. In Ghana, in the absence of any other source of possible earning income, “both male and female farmers in the migrant communities hired themselves out as labourers on other people’s farms. In addition, women tended to engage in petty trading (IDS, 2008) An example of diversification occur in Costa Rica and Panama where the typical cocoa plot has a mix of cocoa, banana, plantain, fruit trees and remnants of the native forest with commercial wood varieties. (WWF, 2006)

10 Economic sustainability is a pre-condition for social and environmental sustainability. [...] Farmers need to earn enough from their labour to invest in new technology to produce a product of market total quality and cover the social liabilities as well –otherwise they should not stay in cocoa. (It may even be appropriate for some growers to exit from cocoa production due to influence of pests, diseases, soils, climate etc and convert into other more suitable crops” (COPAL, 2007; CFC, 2007)

11 The Malaysian government is actively supporting diversification away from the production of cocoa towards more profitable commodities such as the oil palm as a response to long term price decline of cocoa, and the vulnerability of small producers to price volatility. (Oxfam, 2002)

12 Lann, et al., 2008

13 Oxfam background study


15 ICCO, 2007

16 In the case of Ghana, Nigeria, and Cameroon, the main reason for low yields is the dominance (50 per cent or higher) of old trees of 30 years or higher age (Haque, 2004) The
average age of a farm in Cameroon is about 25 years and in Nigeria it is estimated to be even older than that.

17 Oxfam, 2002
18 Franzen et al 2007
19 Haque, 2004
20 Ruf, 2007
21 Spraying is used to protect trees from the serious damage from pests such as mistletoe, CSSV, capsid and black pod.

22 Ngo Nkelle, 2007
23 Ngo Nkelle, 2007

24 Olam has started to invest in the production of organic cocoa in Tanzania and Uganda; see www.olamonline.org

25 Ghana – wassa aera : Most of the farmers (193, or 77.2%) used hired labour on their holdings. At the same time, 148 (59.2%) respondents depended on members of their family as a source of labour. Few farmers (28) had permanent labourers; 15 employed one labourer each. (http://www.unu.edu/unupress/unupbooks/80636e/80636E0q.htm)

26 In Indonesia, the high profit has led farmers to view that children going to school is a wasting time and that higher level of education is not a guarantee to higher earnings. They prefer their children working with them. This is most evident in marginal communities, noting high rate of drops-out and marriage at earlier ages, and working as cocoa farmer. Data from North Sulawesi provincial education office reveal that Kolaka district, which is a centre of cocoa production, noted 663 cases of drop-out from elementary school and/or Madrasah Ibtidaiyah. (Kompas, “Kerusakan Lingkungan dan Putus Sekolah”, 16 June 2007)

27 IDS, 2008
28 In Ivory Coast, 5% of farmers have access to credit, mostly through private lenders. In Ghana, only 8% receive in kind credits mainly from the government. In Ecuador, around 10% of cocoa farmers have access to formal credit from private or government agencies; an additional 10% have access through NGOs and the rest depends on the illegal sector or middlemen who pay for the cocoa bean in advance.

29 In Ivory coast, there is anecdotal evidence that cocoa passes through about 5 hands before reaching ports. In Ecuador, 7 to 8% of the producers have a direct commercial channel that granted them 70 to 80% on the FOB price share; 12% sell their product to an intermediary/ export company allowing them to have 70%; and 80% of small producers sell their product in their farms to middlemen which represents less than 50 o 60% of FOB price share. In Indonesia, farmers may choose to sell cocoa beans to either a collector, who comes to their village and pay direct cash, or directly to local traders. More often, however, they choose to sell non-fermented cocoa beans to collectors for direct cash. Farmers decide to sell to collectors to avoid transportation cost, besides the need for direct cash. A number of collectors may operate, thus compete one another tightly in one village.

30 In Ivory coast, the two layers of middlemen (pisteurs and traitants) who have the capital to purchase scales and are able to read and write as well, are in a position of local price-fixing and collaborating with each other. They are also accused of renting tricked scales to farmers. There are over 1500 cooperatives in Ivory Coast, these cooperatives are not always working in the interests of the farmers. Judging from comments of farmers when it comes to selling cocoa beans, “you are just as likely to be ripped off by a pisteur as by the
buying agent or a cooperative.  
(http://www.projecthopeandfairness.org/cm/Newsroom/Fourth_Quarter_2005.html)

31 In Indonesia, it is impossible for producers to be price setters. Price of non-fermented bean is normally lower than that of fermented ones, the difference being IDR 2,000. Fermented beans are claimed to be bought from farmers by using the New York auction price as reference for price setting, which it is actually the reference for non-fermented beans, instead of the London auction price, which the reference price for the fermented beans.

32 Ngo Nkelle, 2007

33 In Côte d’Ivoire and Ghana, only 8% of roads are paved. Ghana: “. Roads, transport costs and public transport have an impact on cocoa and non-cocoa activities and on market and input access, accessibility of services and other facilities. Better roads would also mean that the LBCs would be able to pick up cocoa more easily. Good roads would also allow farmers to engage in other forms of trade.

34 CFC, 2007

35 The Swiss-owned firm of Barry-Callebaut has set up a pricing structure with 60 Ivorian cooperatives to base prices on quality. In addition, Barry-Callebaut has a cocoa bean sorting facility in the North-central portion of the cocoa belt; the company shares the profits from that operation with local cooperatives. These sorts of efforts show a commitment by the company to work with local people and to engage in efforts to improve their financial welfare.

36 IDS, 2008

37 In Ivory Coast, about 30% of the farmers are members of farm organisations, most of which have difficulties with professional management. Same examples are reported in Cameroon: “About 75% of the cooperatives in Cameroon are hardly carrying out the marketing of members produce because of their weak financial situation. The members are not loyal to their cooperatives and the cooperative spirit is hardly there”. (Ngo Nkelle, 2007)

38 CFC, 2007

39 http://hopeandfairness.blogspot.com/

40 Farmers belonging to the Kuapa Kokoo cooperative are also 30% owners of a British chocolate company, Day Chocolate Company, which produces exclusively Fair Trade chocolate.

41 Haque, 2004

42 Oxfam, 2002

43 Oxfam, 2002

44 In Ghana, COCOBOD has been able to protect farmers from annual seasonal price volatility, and ensure a price higher than the prevailing international average, but prices have been subject to annual variations and international trends.

45 Haque, 2004

46 Franzen, 2007