



## TERMS OF REFERENCE FOR A STUDY ON THE ESTABLISHMENT OF A COCOA SUSTAINABILITY FUND

### BACKGROUND

1. Global cocoa production reached over 4.3 million metric tonnes in the 2013/2014 season. This is valued at approximately US\$12 billion on the export market, with cocoa farmers receiving approximately US\$8 billion in revenue. Africa accounts for approximately 72% of global cocoa production while 17% comes from Latin America and 11% from Asia & Oceania. In addition, revenues generated from cocoa exports represent a major source of income for economic and social development in several countries, especially West-African. The sector is a source of employment for a large percentage of the labour force, especially in rural areas, and is also a tool for poverty alleviation and economic empowerment, providing livelihoods for over five million cocoa farmers.
2. Approximately 95% of African cocoa is produced by smallholder farmers who own less than three hectares each and live below the poverty threshold. Yields are generally very low and growing methods have hardly changed in the past five decades. Most cocoa farmers are very poor and lack the necessary skills or resources to use improved cultivation practices and thus have limited capacity to increase their incomes. As a result, there is little scope for these farmers to escape the vicious circle of poverty.
3. In recent years, concerns have been expressed in relation to the long term sustainability of the cocoa sector. The *Global Cocoa Agenda*, agreed at the First World Cocoa Conference (WCC1), held in Abidjan, Côte d'Ivoire in November 2012, recommended that, in order to address this challenge, it is necessary to transform the sector into an economically viable activity in order to attract a younger generation of farmers. In addition, consumers have become increasingly discerning in their purchases of finished products, requiring that the cocoa used in the chocolate products originates from sustainable and traceable sources, preferably with third-party certification. This in turn means that enhanced capacity from farmers is needed to an increasing extent in order to meet these requirements, to enable them to market their produce at reasonable prices.
4. Cocoa farmers have to earn a "living income"; one that is attractive enough to enable them to continue their cocoa farming activity, thus ensuring the future sustainability of the cocoa sector. They need to be adequately supported by extension services and programmes to ensure better access to credit as well as inputs, and replace ageing tree stocks with newer, higher yielding and more disease-resistant planting materials. By adopting good agricultural practices and through diversified income streams from a mix-crop farm model, cocoa farmers should be in a position to earn a living income that can sustain them in their efforts to provide a continual sustainable supply of cocoa to meet the rising demands of end-users, and eventually consumers.

5. Given that the younger generation in producing countries is becoming less and less attracted to cocoa farming as a career option, and with demand for cocoa and chocolate still growing rapidly, mainly in emerging economies, the chocolate industry has become a “giant on a pinhead<sup>1</sup>”, with annual sales worth US\$110 billion worldwide. The cocoa and chocolate industry, having recognized the threat to the sustainability of cocoa supply in the future, has started to implement productivity improvement programmes and other initiatives to support cocoa farmers. However, the challenges facing the world cocoa economy will not be met easily in the short-term or tackled individually without proper coordination. It is recognized that the required measures go beyond the resources of any one stakeholder along the cocoa value chain and require close collaboration in a coordinated manner among all stakeholders.

#### **RATIONALE FOR THE ESTABLISHMENT OF A SUSTAINABILITY FUND FOR THE COCOA SECTOR**

6. All the necessary actions to meet the *Global Cocoa Agenda* for a sustainable world cocoa economy are premised on the provision of sufficient resources to which farmers do not currently have access, both as income to farmers and to support essential social services in their communities. In addition, issues such as the control of pests and diseases which are transnational, require a regional and sometimes global approach for which funding is not readily available. Hence one of the recommendations made was to study the feasibility of establishing a Sustainability Fund to support these actions. The recommendation to set up a Sustainability Fund was first mooted at the Second Roundtable for a Sustainable Cocoa Economy (RSCE2) in Port of Spain, Trinidad and Tobago in 2009. However, the proposal did not gain sufficient support as there has not yet been a viable proposal or mechanism attractive enough for the relevant stakeholders with the necessary means. Either these stakeholders have not been convinced of the benefits or they have not deemed there to be a governing structure in place to efficiently manage the use of such funds and channel them to the direct benefit of the farmers, thereby ensuring that positive and mutually beneficial outcomes would eventually result. This matter was raised again at the Second World Cocoa Conference (WCC2), held in Amsterdam, The Netherlands in June 2014, as one of the recommended actions in the *Amsterdam Declaration*.

7. With the wider engagement of stakeholders through the various conferences, in particular the two World Cocoa Conferences organized by the ICCO, many agree that a more pragmatic action has to be taken to ensure that farmers, the most vulnerable stakeholders in the cocoa value chain, be rewarded sufficiently so that they may continue to supply the raw materials required for consumers to have the luxury of enjoying a chocolate bar. There is a rising realization that cocoa is an essential tool in rural development in many countries which is equally vital in providing the manufacturing industry with a raw material that is essential to its continuing business prosperity. Hence it is a shared responsibility to ensure that all stakeholders in the cocoa value chain are sufficiently remunerated for its long term sustainability and cocoa producers specifically live in thriving cocoa-growing communities.

8. Consumers are increasingly motivated by ethical considerations in their consumption behaviour. The ethical reputation of a product or a class of products plays an increasing role in its success. In Germany, for example, students from the initiative Schokofair, with the support of high-level politicians, handed a memorandum to the German Chancellor suggesting that a 2 Euro Cent per chocolate product could be channelled directly to cocoa farmers with a view to eradicating child labour. Thereafter, Schokofair had a meeting with the German Initiative on Sustainable Cocoa

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<sup>1</sup> Hardman & Co, 2014

(GISCO) in October 2014, which led to a joint declaration in which both partners confirmed their interest in developing this idea further. Building on the growing awareness of the living conditions of cocoa farmers and the challenges faced by stakeholders in the cocoa value chain to improve the situation, the concept of a Cocoa Sustainability Fund may gather momentum for wider support if it is found to be mutually beneficial and seen to be a solution in ensuring decent living incomes and/or improved social conditions for smallholder cocoa farmers in a sustainable world cocoa economy.

9. The global framework on a common platform to coordinate and implement programmes to support farmers has been improving in recent years. In particular, the major producing countries have set up national Public-Private-Partnership (PPP) cocoa platforms in order to formulate cocoa development policies to achieve greater sustainability in the cocoa sector and thereby attract the younger generation of cocoa farmers. Greater coordination with the major stakeholders has brought them together on a common platform to pool their expertise and resources in order to better implement sustainability initiatives. These countries are in the process of mobilizing all stakeholders in setting indicators to measure and monitor the recommended actions necessary to increase productivity and the quality of the cocoa beans, taking into account economic, social and environmental criteria for long term sustainability of the sector. This would ensure greater synergy in a focussed manner, to address all the challenges faced by the cocoa sector. The recommendations are expected to result in concrete projects that could bring about positive benefits directly to the cocoa farmers. Indeed, the Cocoa Sustainability Fund could contribute to fund programmes which would directly benefit the farmers, supported by these PPP platforms. The fund would not duplicate efforts at the national level but could supplement initiatives that will benefit producing countries in general or on a regional basis.

## **OBJECTIVE OF STUDY**

10. The objective of the study is to analyse the feasibility of establishing a global funding mechanism that would support the cocoa sector in producing cocoa in a sustainable manner meeting the criteria set out under the economic, social and environmental pillars of sustainability. The study will i) analyse similar funding mechanisms in place or planned for other commodities, with a view to proposing the establishment of such a fund for the cocoa sector, ii) review possible options for potential contributors to the Fund, iii) the methodology for the collection of contributions, iv) the appropriate management and governance structure for the Fund, v) the type of programmes to be financed, vi) the criteria for the disbursement of funds, and viii) all other relevant elements to be considered to ensure its successful operation for the future sustainability of the cocoa sector. Finally, the study is expected to provide practical recommendations on the way forward, leading to the establishment and operation of a dedicated Fund for the benefit of cocoa smallholders and other players in the cocoa value chain.

11. To ensure transparency and governance in the management of the fund, it may be recommended that those who contribute to the Fund should decide on how it is to be utilized and which projects are to be funded, based on established criteria. Various options will be examined by the consultant and one consideration could be done within an established committee to manage the Sustainability Fund. Such a provision would attract potential stakeholders who are willing to contribute to finance the Fund.

12. Studies on the impact of the level in the cocoa value chain at which contributions to the Fund are to be collected, have indicated that it should be at the end of the value chain furthest away from the farmers, so that the burden of such a Fund would have the least negative impact on the prices paid to

cocoa farmers. Otherwise if the burden were to fall on the farmers, this would defeat the objective of the Fund which is to benefit them, as the most vulnerable stakeholders in the cocoa value chain.

13. The “Cotton made in Africa” Initiative might be one model to consider, among others. This Fund is managed by a foundation which comprises around 20 major clothing companies who voluntarily contribute towards managing the Fund, channelling it into projects on the ground. Another model that could be considered is palm oil, although it is planted both on a large scale and in smallholdings. Through the analyses of all these initiatives, it is envisaged that useful lessons could be learnt and adapted to suit the cocoa sector.

## **TASK AND PROCEDURES**

14. The study will be carried out under the overall responsibility of the ICCO Secretariat. It is expected to be conducted by a consultant (an individual or a firm), through desk research and interviews (phone, emails, webinars, meetings and other exchanges) with relevant stakeholders in the cocoa value chain as well as with the parties involved with other commodity sustainability funding mechanisms. The study should include a consultation process with the cocoa processing and trading companies as well as, more importantly, the chocolate manufacturing companies and retailers (who may be identified as a source of funds for this initiative). In addition, a workshop or webinar with the cocoa and chocolate industry in order to present and discuss the initial results of the study would also be scheduled. This would form an integral part of the methodology in the consultancy work. This process is necessary to develop a model that is acceptable by the cocoa and chocolate industry. Hence it is important to take into consideration the views of the industry in the process, to ensure their buy-in. Consultations with civil society and other non-industry- and non-government bodies, including multi-stakeholder initiatives would be equally relevant in this regard. Finally, given the nature of the assignment and the concern over the sensitivities of potentially distorting the market through such an initiative, the consultant will need to consider the legal dimensions carefully, if not directly then with the support of an appropriate anti-trust/anti-competition lawyer.

15. The main working language will be English and the study report should be prepared in English.

16. The consultant will first produce an initial outline of the work plan to conduct the study, the key stakeholders to be interviewed, the related commodity sustainability funding bodies to be reviewed and examined, and the methodology to conduct the analysis.

17. The consultant will liaise on a regular basis with the ICCO Secretariat during the main report drafting process. He/she will travel at least twice to London; to present and discuss the outline, as well as during the writing process for a working session with the ICCO Secretariat. A complete draft report will be presented to the ICCO Secretariat for review. Other parties that are co-financing the study will also be invited to participate in the discussions.

18. The consultant will present (through a webinar – hosted by the ICCO Secretariat – based on a PowerPoint presentation) the revised draft report including the recommendations on the way forward.

19. A workshop in Europe or a webinar will be organized to present the initial results of the study to the cocoa and chocolate industry, with a view to gather further input from them.

20. The consultant will travel to the Dominican Republic to present the report and recommendations to the World Cocoa Conference and the ICCO Council.

### **DELIVERABLES AND SCHEDULE**

21. The duration of the study is estimated at 30 working days over a period of four months.

Output 1: An outline of the work plan, in English, detailing its structure with a list of stakeholders to be interviewed – **by the middle of December 2015.**

Output 2: A complete initial draft main report, in English – **by the end of February 2016.**

Output 3: A revised draft main report, with recommendations and presentation of the report through a webinar (with PowerPoint document), in English. The expected length is 80 to 100 pages, excluding appendices and annexes – **by the end of March 2016.**

Output 4: Preparation and delivery of a presentation on the report and recommendations to the World Cocoa Conference taking place in May 2016 in the Dominican Republic and to the ICCO Council in the Dominican Republic – **by the end of May 2016.**

Output 5: A final main report and recommendations report, in MS Word & PDF versions, in English – **by the end of June 2016.**

### **REQUISITE SKILLS AND EXPERIENCE**

The consultant must meet the following criteria:

- A degree in economics, agronomy, development studies or related field; a post graduate degree would be an added advantage;
- Minimum of ten years of experience in similar work, in particular in analyzing specifically the cocoa sector;
- Advanced analytical and communication skills;
- Good understanding of the cocoa growing environment, cocoa farmers and the cocoa value chain;
- Fluent in English; knowledge of French would be an advantage;
- Excellent writing skills and the ability to present information in a range of visual ways to increase its impact. Proof of published documents in a similar discipline in renowned institutions will be an added advantage.

### **BUDGET AND CONTRACTUAL ISSUES**

22. The ICCO will contract the consultant (an individual or firm). The consultant will report to the ICCO. The outcome of the consultancy work will be the intellectual property of the ICCO. All reports should credit the ICCO and its partners for their contributions to the study.

23. The total budget, including consultancy fees, travel and *per diem* to London (travel and *per diem* to the Dominican Republic are not to be included), translation into French, printing with designed cover and communication costs should not exceed €22,000.

#### **CONTACT AT THE ICCO**

24. All enquiries and submissions should be made to Han Loke Fong, Senior Economist of the International Cocoa Organization (ICCO), Westgate House, Westgate Road, Ealing, London, W5 1YY, United Kingdom. Tel: +44 208 991 60 00 / 06 – Email: [lokefong.han@icco.org](mailto:lokefong.han@icco.org)

25. The submission should include cost details, per item.

26. The deadline for submissions of bids is: **15 November 2015.**