

Turning the chocolate business upside down!

Case story of a Swiss chocolate company co-owned by Peruvian farmers

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ABSTRACT

The great majority of smallholder cocoa farmers today are marginalized, trapped in poverty and without possibility to take their own decisions. They strongly depend on the stock market and chocolate industry, which is dominated by some few transnational corporations maximizing their profits. The common market logic with very low cocoa prices as its consequence keeps the farmers in poverty and encourages them to follow agricultural practices with detrimental impacts on the environment and the very sustainability of cocoa production.

To address these challenges, Choba Choba – a Swiss-Peruvian venture – is prototyping a new social business model with cocoa smallholders and consumers at the very core of the value chain. Farmers are shareholders and decision makers of their own company, profit from its success, define the selling price of their cocoa and develop advanced capacities to produce high quality original cocoa in an ecological set-up including nature conservation and promotion of cocoa biodiversity. Through communication activities chocolate consumers around the world are more aware of the current tremendous challenges of the farmers and therefore choose sustainable products. They personally meet and exchange with the producers of their beloved and unique chocolate.

The aim of this paper is to highlight the persistent challenges of smallholder cocoa producers and introduce the innovative social business model of Choba Choba, as a viable and life-changing model that can be replicated in the chocolate sector and beyond. The backbone of the model will be clearly explained through its theory of change jointly defined by the cocoa producers and the company staff. This will be followed by a description of the impact assessment system being set up to monitor the effects of the venture on the farmer's livelihoods and competencies, their natural environment, the sustainability of chocolate consumption and the scaling of impact within the global chocolate world. Finally, first tangible impacts after two years of activity will be shared such as the significant revenue increase and access to the "chocola revolution fund" (5% of chocolate sales distributed to farmers), the first achievements in the preservation of biodiversity as well as other important less unquantifiable dimensions like improved competencies and self-esteem.

Choba Choba's vision is a chocolate world in which smallholder cocoa producers are self-confident professional entrepreneurs with a direct connection to their consumers, live a prosperous and happy life in harmony with their environment and are an example for all the smallholder farmers in the world.

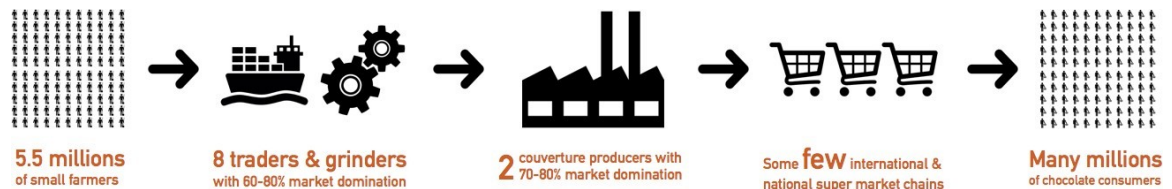
INTRODUCTION

Can you envision a world in which smallholder cocoa producers are self-confident professional entrepreneurs with a direct connection to their consumers and live a prosperous life in harmony with their environment? A world in which chocolate consumers take active part in this change, helping cocoa producers to be an example for all the smallholder farmers in the world? This vision is far from the current reality of the 5.5 million small farmers mostly supplying cocoa to a few powerful transnational companies and struggling for a living. Yet, through social innovation and genuine farmer empowerment, alternatives exist to make this vision a reality.

This article proposes to present the project Choba Choba – a Swiss-Peruvian chocolate company co-owned by cocoa producers – as an inspiring example of how cocoa producers can become central actors in the chocolate value chain and thus imagine a prosperous future for the next generation. In the first section, some of the existing social and environmental problems of cocoa farmers and more generally of the chocolate industry will be highlighted. This will be followed in the second section by an introduction of the Choba Choba project, its innovative farmer-centric mechanisms and business model. Finally, the third section will introduce the first positive impacts generated by the project and how this model could be scaled up and benefit to a larger number of smallholder farmers around the world.

1. SOCIAL PROBLEM

Today approximately 5.5 million small farmers are supplying the worldwide demand for cocoa. This impressive number of smallholders in Africa, Asia and Latin America contrasts with the very few but powerful transnational cocoa traders and chocolate producers that dominate the global chocolate value chain: only eight transnational companies control 60-80% of the trading and grinding process and only two corporations make up 70-80% of the worldwide couverture production. While this market concentration is on the rise and the profits of the few corporations get optimized, the large majority of cocoa smallholder farmers remain in bitter poverty and are cut off from the value chain. At the other side of the chain, millions of consumers buy completely anonymous chocolate, unaware about the story behind the product they purchase. Today, these two main actors, the farmer at the very start and the consumer at the very end of the value chain, are completely disconnected from each other.



“Problem Chain” of today: *The linear chocolate value chain with some few and powerful global players in the trading, grinding, transforming and commercializing process strongly separates the millions of cocoa smallholder farmers in the global South and the millions of chocolate consumers mostly in the global North from each other. This model leads to a high level of non-transparency in the production process and permits huge inequalities in the value distribution.*

The main reasons for the persistent poverty of smallholders lie in low and fluctuating cocoa prices, low farm productivity, weak farmer organisation and negotiating power as well as limited infrastructure and access to markets. As consequence, poverty leads to several related social problems such as poor working conditions, child labour, malnutrition and low education levels. Moreover, the use of synthetic fertilisers and pesticides, the on-going deforestation, soil degradation and climate change as well as the loss of biodiversity represent major environmental challenges due to conventional cocoa production. Ultimately, younger generations are in need to leave their family farms and find an alternative livelihood that can provide them a future (*Sources: Public Eye, Kakaobarometer*). At a higher level, we also acknowledge that social environmental problems in the chocolate industry and its root causes are strongly embedded in broader issues of our global food system and coincide with several of the major challenges defined by the UN Global Agenda on Sustainable Development 2030.

Fair Trade and other certification schemes in the last decades have made major efforts to address the challenges of smallholder farmers in the global South. Their initiatives in many cases have led to an organisational strengthening of producer cooperatives, the improvement of farmers' skills and, to a limited extent, some stability in the crop prices. Yet, the model is facing some major limitations: the certification process is costly and complex for the small producers, the guidelines of each standard can't meet with all the different living and working realities of the small farmers and although the consumer pays a higher price for the product, the difference for the small farmer has a minimal impact on his livelihood. Moreover, as Fair Trade and other certification initiatives follow the established market rules, the asymmetry and lack of transparency along the value chain remain almost the same and continue to favour the big traders, processors and retailers.

The problem mentioned is therefore not only for the producer but for the consumer too. While consumer awareness for social and environmental issues has been rising in the last decade, there is today a discrepancy between what the consumer thinks he is paying for and reality. For the conscious and savvy consumer, there is a growing distrust with existing certifications and a lack of alternative to make a real meaningful purchasing act. In short, the current chocolate market does not allow the consumer to unleash his full potential to be part of the systemic change he would like to see.

2. CHOBA CHOBA – A CHOCOLATE BUSINESS WITH A MISSION

What is Choba Choba

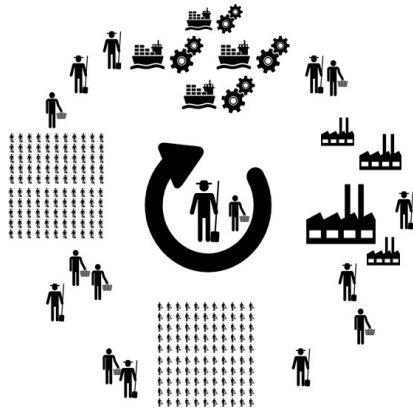
In order to address these structural challenges, Choba Choba – a chocolate start-up with a social mission – was founded in 2015 by 36 Peruvian cacao farmers from the Amazon region (Alto Huayabamba valley, in the villages of Pucapillo and Santa Rosa), together with Christoph Inauen & Eric Garnier, two former senior managers in the chocolate industry. Choba Choba (from Quechua: 'I help you, you help me') follows a no-middlemen approach "directly from the farm to the letterbox" to create a direct contact between the producer and the consumer and to ensure a fair revenue for the cocoa producers. Choba Choba aims to turn the chocolate business upside down by giving power back to the farmers.

An innovative approach with farmer-centric mechanisms

Leading by example, Choba Choba aims at **creating a community of change-makers** in the chocolate world ensuring that:

- **Farmers become shareholders of the Choba Choba chocolate company**, develop insights in the chocolate industry, gain decision power in their own chocolate enterprise and access benefit of the venture's profit.
- **Farmers define the price of their cocoa as part of the cocoa bottom-up pricing mechanism**, ensuring them economic stability and the possibility to improve their livelihoods.
- **Farmers access 5% of yearly chocolate sales** – through the so-called *Chocolate Revolution Fund* – jointly deciding about its allocation, be it for purchasing additional shares, investing in their cooperative or receiving direct cash-out payments.
- **Farmers establish an environmental strategy to protect ecosystems**, at the level of their 300ha primary forest conservation area, of their farm (with focus on preserving cocoa biodiversity) and of their home.
- **Chocolate consumers can become active change-makers** by learning about the challenges in the chocolate value chain, by engaging in direct exchange with the cocoa farmers & the chocolate company and by taking the conscious decision to favour an actual sustainable product.
- Its **business model is financially sustainable** and enables the fulfilment of its social and environmental claims.

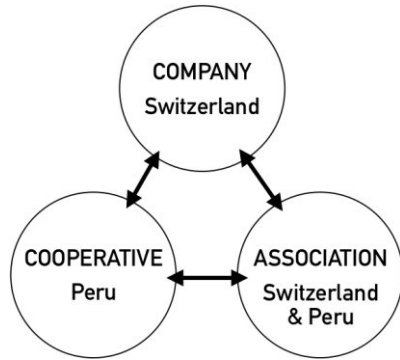
By prototyping its experience, Choba Choba plans to stimulate and support other entrepreneurs, governments, NGOs and further stakeholders to **replicate and disseminate its alternative model** in the chocolate industry and beyond. Linking it to the global agenda, our venture will thereby contribute to the transformation process that the Sustainable Development Goals (SDGs) of the UN promote on a local, regional and on a global level.



“Solution Circle” of tomorrow: Strong cooperatives with well informed and trained cocoa farmers that maintain direct relations to all the different small and middle-size actors in the chocolate value chain permit transparency, fair value distribution and solidary ties among all involved stakeholders. Cocoa producers know their chocolate consumers and vice versa. Consumers are aware of the story behind chocolate production and therefore choose more sustainable products.

A hybrid organizational model

In order to fulfil its social mission and ensure the sustainability of the project, Choba Choba has established three complementary entities: a) a company based in Switzerland with the main purpose of producing and marketing the chocolate, b) a cooperative based in Peru in charge of marketing the cocoa of the affiliated farmers and c) a farmer association headquartered in Switzerland but composed of the same affiliated farmers as those of the cooperative. This third structure is the main farmer empowerment tool of the project, allowing farmers to become shareholders in the company but also to develop their competences in organic farming, entrepreneurship, investigation and nature conservation.



Shareholders of the company:

- 36 Peruvian cocoa farmers
- Co-founders Christoph Inauen and Eric Garnier

Members of the cooperative:

- 36 Peruvian cocoa farmers

Members of the association:

- 36 Peruvian cocoa farmers
- Chocolate change-makers – consumers and other institutional actors supporting the dissemination of the *Chocolate Revolution* (in future)

3. MEASURING AND SCALING UP IMPACTS

Measuring impact

Any innovative concept is only as good as how it is put in practice. The project is therefore developing in 2017 a comprehensive impact assessment system in order to measure the scope of its impacts on the following major indicators:

1. Improved farmer livelihoods |
2. Farmer professional entrepreneurship |
3. Environmental conservation |
4. Conscious chocolate consumer community |
5. Financial viability of business model |
6. Scaling the impact

Connecting these major indicators to the UN Global Agenda on Sustainable Development 2030, the following links can be established to at least one of the 17 SDGs:



IMPACT 1 addresses core issues of SDG 1 NO POVERTY with its main objectives to end poverty in all its forms, increase access to basic services and support people harmed by economic, social and environmental shocks.



IMPACT 2 relates with SDG 8 DECENT WORK AND ECONOMIC GROWTH that focuses on sustained, inclusive and sustainable economic growth and decent work for all.



IMPACT 3 equally like SDG 15 LIFE ON LAND aims for protection, restoration and promotion of sustainable use of terrestrial ecosystems, sustainable management of forests and the halting of biodiversity loss.



IMPACT 4 corresponds to SDG 12 RESPONSIBLE CONSUMPTION AND PRODUCTION with its main objective to ensure sustainable consumption and production patterns.



IMPACT 5 that fosters decision power and financial benefits for the farmers addresses SDG 10 REDUCED INEQUALITIES with its main objective to reach higher levels of social equality within and among countries.



IMPACT 6 lastly refers to SDG 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE with its main objectives to build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

By end of 2017 a comprehensive project baseline report with focus on the main indicators 1. Farmer livelihoods 2. Farmer professional entrepreneurship and 3. Ecological conservation will be concluded and provide a solid information base for future studies. From 2018, regular impact analyses with one-year and five-year cycles will be performed to learn from our experience as well as improve and share our lessons learnt to those interested in the model. In the meantime, you will find hereunder the account of O. del Castillo, Presidente de la ACCC, and three tables displaying the first main impacts on the Choba Choba farmers.

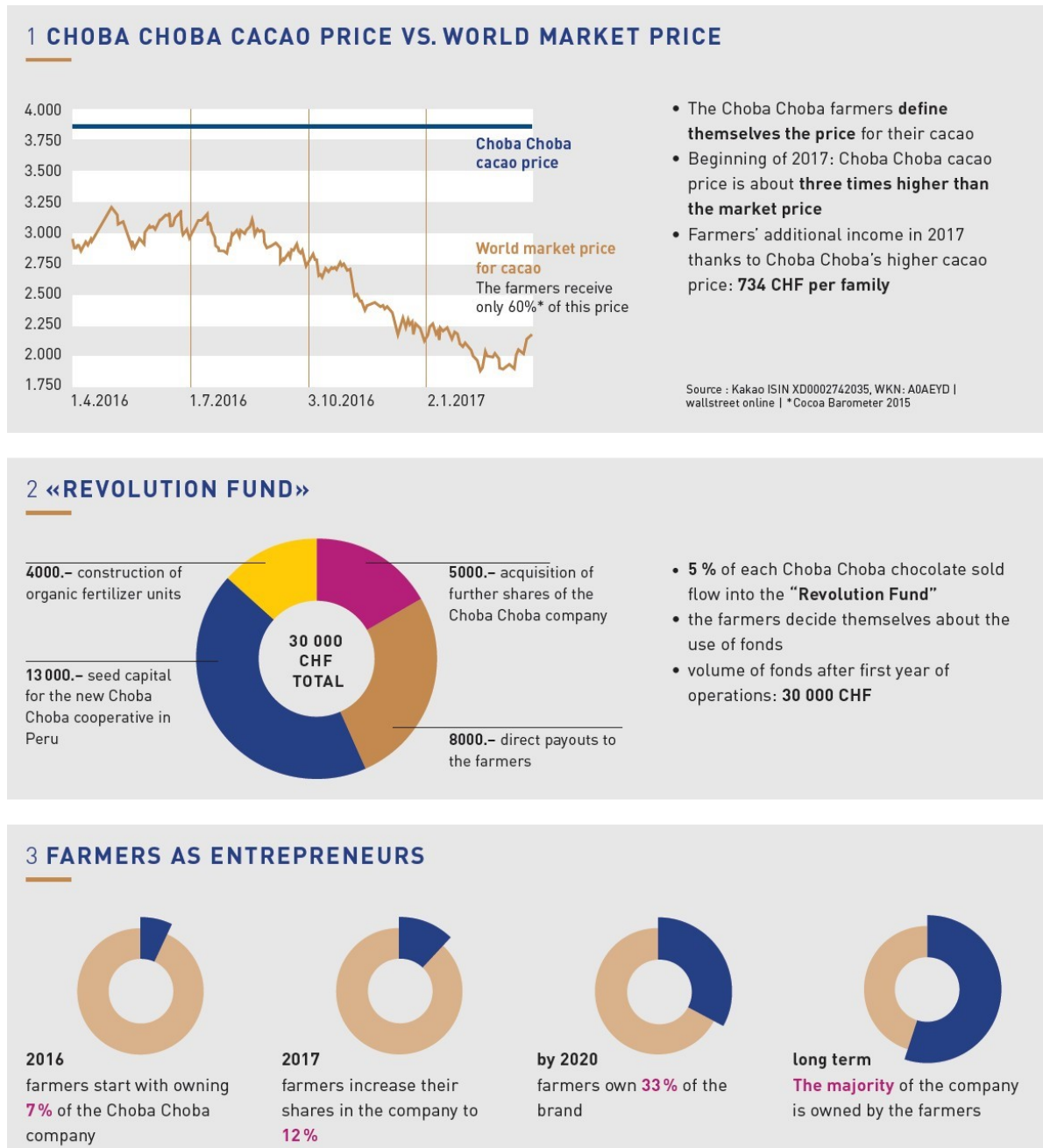
Figure 1: Testimony of a farmer and chocolate entrepreneur

«2016 was a great year for Choba Choba! We have been growing as a company and as an organisation. All of us have had the opportunity to learn new things: we reached improvement in our farming management, we had intensive exchanges with our company in Switzerland and four of us even had the chance to travel to Europe, meet our customers and experience how our cocoa is transformed into fine chocolate.

Our greatest wish for the next years is to have the opportunity to further develop Choba Choba and improve our lives. Of course, it's still a young company facing many challenges, but we believe that we are on good track! We also wish to further develop eco-tourism so that people can know more about what we do, enjoy the beautiful conservation area that we are taking care of and later share their experiences. For us it's important to diversify our activities and sources of income. At the same time, it's very enriching to meet people from outside that come to our communities.»

Oswaldo del Castillo, President of ACCC (Asociación de Cacaoteros de Choba Choba)

First achievements using some of Choba Choba key impact tools



Scaling up impact

Choba Choba has a clear vision on how to scale up impact without compromising its depth of impact and original values. As such, it does not intend to grow into a multi-billion chocolate company. Instead, the project aims to demonstrate that an alternative business model in which smallholder farmers are the central actors and beneficiaries is viable, prosperous and can be replicated. By prototyping its venture, developing toolkits and sharing its experiences and learning, Choba Choba's goal is to support other social entrepreneurs (including smallholder producers), governments, NGOs as well as the chocolate industry to use part or all of its model and adapt it to their own reality. Some ideas to support this scaling-up process could include a Choba Choba Academy for social entrepreneurs, partnerships with universities and business schools, development of MOOCS (massive online open courses) to reach a larger number of change-makers around the world. Moreover, through advocacy within the chocolate world (including the industry and the consumers) and with local, regional and

national governments and NGOs, Choba Choba wishes to instigate and fuel a deep systematic change in the way producers and consumers relate to each other's and in the extent smallholder producers participate and benefit in the chocolate business and beyond. In that process, the Peruvian Choba Choba smallholder producers themselves will play a central role as pioneers of this ground-breaking approach to think and make business.

CREDITS & CONTACT

Choba Choba is an award-winning project:

2017 Cocoa of Excellence World Final at the Salon du Chocolat in Paris¹

2016 UBS-Ashoka Social Innovator

2016 SEIF Jury Award

2016 Cocoa of Excellence Award - 5th best cocoa of Peru

Interested in knowing more about Choba Choba model and experience, please contact Nicolas Porchet at Nicolas@chobachoba.com.

¹ (qualified and expecting results at the time this article is submitted)