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**Working Paper**

## Potentials for improving the socioeconomic situation of Ghanaian cocoa farmers: The role of sustainability initiatives

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**16/2023 RESEARCH REPORT**



# Potentials for Improving the Socioeconomic Situation of Ghanaian Cocoa Farmers: The Role of Sustainability Initiatives

Vienna, January 2023

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Study commissioned by Dreikönigsaktion –  
Hilfswerk der Katholischen Jungschar (DKA)



## 16/2023 RESEARCH REPORT

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## Abbreviations

CFI	Cocoa & Forests Initiative
CHED	Cocoa Health and Extension Division
CHF	Swiss Franc
CIGCI	Côte d'Ivoire-Ghana Cocoa Initiative
CLMRS	Child Labor Monitoring and Remediation System
CLP	Community Liaison People
CMC	Cocoa Marketing Company
CMS	Cocoa Management System
COCOBOD	Ghana Cocoa Board
CODAPEC	Cocoa Disease and Pest Control
CRIG	Cocoa Research Institute of Ghana
CSI	Corporate Sustainability Initiatives
DISCO	Dutch Initiative on Sustainable Cocoa
EC	European Commission
EU	European Union
FOB	Freight/Free on Board
FRISCO	French Initiative on Sustainable Cocoa
FT	Fairtrade International
GHC	Ghanaian Cedi
GISCO	German Initiative on Sustainable Cocoa
GVC	Global Value Chain
ICCO	International Cocoa Organization
ICI	International Cocoa Initiative
IDH	Sustainable Trade Initiative
ILO	International Labor Organization
IMF	International Monetary Fund
ISCOs	National Initiatives on Sustainable Cocoa
LBC	Licensed Buying Company
LID	Living Income Differential
NDC	National Democratic Congress
NGO	Non-Governmental Organization
NORC	National Opinion Research Center
NPP	New Patriotic Party
PC	Purchasing Clerk
PNDC	Provisional National Defence Council

PPP	Purchasing Power Parity
PPRC	Producer Price Review Committee
QCC	Quality Control Company
RFA	Rainforest Alliance
SECO	Swiss State Secretariat for Economic Affairs
SI	Sustainability Initiative
SPD	Seed Production Division
SWISSCO	Swiss Initiative on Sustainable Cocoa
UN-REDD	UN Collaborative Program on Reducing Emissions from Deforestation and Forest Degradation
USD	US Dollar
UTZ	UTZ certified
VSLA	Village Savings and Loan Association
VSS	Voluntary Sustainability Standard
WACP	West Africa Cocoa Program
WCF	World Cocoa Foundation

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## Executive Summary

Based on a longstanding colonial history of unequal exchange between the Global North and South, cocoa-based products and in particular chocolate nowadays belong to the staples of household consumption in many countries of the Global North, including in the European Union (EU). But only since the late 1990s has a public debate emerged that raises critical questions about the economic, social and ecological sustainability of cocoa production in the producer countries, located mostly in Africa and Latin America. Civil society organizations in particular raised the issue of child labor in cocoa bean cultivation, the low income of cocoa-producing smallholders and the lack of social infrastructure, and started to exert pressure on companies. At the same time, chocolate-producing companies became concerned about declining cocoa production against the backdrop of strongly increasing demand. Since then, some 25 years have passed and the cocoa and chocolate sector has seen many initiatives aiming both to increase productivity, to tackle sustainability issues, and to enhance the quality of life of cocoa farmers and people in cocoa communities. According to a variety of studies and evaluations, achievements – especially when measured against the aspirations – so far have delivered mixed results at best. Particularly critical voices even speak of two decades of failed interventions. Civil society initiatives, but also many corporations have increased their advocacy for the introduction of binding public rules with respect to the due diligence responsibilities of companies active in the cocoa-chocolate global value chain (GVC). Given similar problems in many other global value chains (e.g., in textiles & apparel, coffee, palm-oil etc.), an initiative for the introduction of a Europe-wide due diligence regulation has recently resulted in a legislative proposal on corporate due diligence by the European Commission, presented to the public in February 2022. With the discussion on the legislative proposal still ongoing at the time of writing this report, the legislation will undoubtedly have important consequences for the cocoa-chocolate GVC. An assessment of the successes and failures of initiatives to promote the sustainability of the cocoa-chocolate GVC with the aim to identify key conclusions and recommendations might thus be both timely and useful for the current policy discussion on binding rules for corporate responsibility in global value chains.

Based on an overview of both the global cocoa-chocolate value chain and the specifics of the cocoa industry in Ghana as well as the associated sustainability issues, this report provides a comprehensive review of sustainability initiatives in the cocoa-chocolate GVC initiated during the last 20 years with a specific focus on the socioeconomic situation of cocoa farmers and their communities in Ghana. The review includes both civil society and private sector-led initiatives, as well as state-led initiatives, both in Ghana as one of two major global producer countries and in the EU as a major global consumer. On the basis of this overview, we then proceed to assess the relative successes and shortcomings of the initiatives. We point to limitations, while also identifying best-practices and promising developments. In methodological terms, the assessment is based on expert interviews and a literature review. The report concludes with four recommendations.

The **first recommendation** argues that **binding rules for corporate governance in the cocoa-chocolate GVC are both timely and necessary**. Most importantly binding rules should include: (i) precise due diligence obligations for companies; ii) good and transparent reporting practices; and iii) liability obligations in the case of non-compliance. Compliance with standards and, in particular, their verification by audit firms should be decoupled from business interests. An independent EU authority that acts as a ‘certifier of certifications’ could improve the effectiveness of certifications.

The **second recommendation** focuses on **improving initiatives on the ground by more transparency, coordination and the scaling-up of best practices**. The limited impact of voluntary sustainability standards in the last decades – not at least with regard to child labor and deforestation – highlights the need for more comprehensive and coordinated approaches by firms. Today's sustainability challenges are well-known and these challenges require integrated approaches and the sharing of knowledge and data. In this context, it is important to critically examine companies' sustainability efforts and have an open debate about what works and what does not. We have highlighted several **best practices and innovative approaches such as Child Labor Monitoring & Remediation Systems (CLMRS) and direct cash transfers** that do make a difference on the ground due to their combined approach of awareness-raising and direct support. The cocoa sector needs to join forces to scale-up these best practices and coordinate efforts to benefit as many people as possible and reduce rates of child labor and deforestation. Also in this respect, the **exchange between consumer and producer countries**, as currently taking place within the framework of the EU's Sustainable Cocoa Initiative, should be **maintained and strengthened**.

In our **third recommendation**, we emphasize the need to **support producer countries' efforts to increase cocoa prices and stabilize income**. Higher prices and income stabilization for cocoa farming households are still a *conditio sine qua non* for the sustainability of the cocoa sector. European Due Diligence Legislation will not directly affect the prices of cocoa beans nor the income of farmers. As long as prices are determined at commodity exchanges and futures markets, they are prone to fluctuations and instability. In light of this, the **concept of the Living Income Differential (LID)**, introduced by Ghana, is a **step in the right direction**, though it suffers from structural weaknesses that need to be addressed. These structural weaknesses could be (partly) compensated, if the LID were to be extended beyond Ghana and Côte d'Ivoire and included other important producer countries. Another option would be the introduction of production quotas negotiated between producer countries. Also, **public and private actors in the EU should support the LID and its further implementation**. This can be done, for example, by providing financial support to COCOBOD's stabilization fund or by stopping circumvention strategies.

Our **fourth and final recommendation** emphasizes the need to consider issues in the cocoa sector in the framework of rural development more generally. The cocoa sector is a central part of Ghana's economy and agriculture in particular. The question on how the cocoa sector should develop is a structural issue, which affects rural livelihoods in its entirety. From this point of view, there are further questions that should be considered more intensively in the future. Firstly, this concerns the **different living conditions on cocoa farms**. While the general problems are well known and the focus of interest, little research has been done on the living conditions of sharecroppers, women, young people, and (seasonal) workers. As a result, sustainability initiatives often address them insufficiently. Secondly, despite their problematic situation, cocoa farmers in Ghana generally have a better income situation compared to other smallholders. The **strong focus on cocoa runs the risk of losing sight of other rural livelihoods** and not asking questions about how to improve the living conditions of other rural stakeholders. Taking these two points together, we recommend to consider issues in the cocoa sector as **issues of rural development**. This allows a more integrated approach, which for its effectiveness requires the inclusion of other rural stakeholders, both from the private and public sector.



# 1 Introduction

The history of cocoa production and chocolate consumption is closely related to European colonialism. At the beginning of the 16<sup>th</sup> century, Spanish colonialists first observed the use of cocoa and its beans in Guanaja (an island of present-day Honduras) and brought the fruit with them to Europe (cf. Poelmans/Swinnen 2016: 13). In the following centuries, cocoa consumption spread across the European continent and increased the demand for cocoa. Through colonialist interventions and the use of slaves and forced labor, cocoa bean production was increased and introduced in diverse non-European regions. In the current main producing countries of Ghana and Côte d'Ivoire, cocoa cultivation has only been practiced since 1879 and 1905, respectively, and thus started relatively late (cf. *ibid.*: 17f.). A first so-called chocolate boom took place between 1840 and 1940 and was based on the development of production techniques for cocoa powder, dark chocolate and milk chocolate. The boom led to an increase in cocoa bean production, mainly in West Africa, making the region the largest cocoa producer in the world (cf. *ibid.*: 20ff.).

The 1990s saw a second chocolate boom, with exponential growth of production because of increased demand and deregulation particularly in West Africa (cf. *ibid.*: 33). During this phase, questions about the socioeconomic, social, and ecological sustainability of cocoa production arose for the first time. Civil society organizations in particular raised the issue of child labor in cocoa bean cultivation, the low income of cocoa-producing smallholders and the lack of social infrastructure, and exerted pressure on companies (see Barrientos 2016: 213f.). Chocolate-producing companies were concerned about declining cocoa production while demand was increasing. Since then, more than 20 years have passed and the cocoa and chocolate sector has seen many initiatives aiming to increase productivity, to tackle sustainability issues, and to enhance the quality of life of cocoa farmers and people in cocoa communities. Achievements – especially when measured against the aspirations – are mixed at best. Particularly critical voices even speak of two decades of failed interventions (Fountain/Huetz-Adams 2020: 7).

This report reviews sustainability initiatives initiated during the last 20 years with a specific focus on the socioeconomic situation of cocoa farmers and their communities in Ghana. Conceptually, we argue that sustainability issues in the cocoa and chocolate sector need to be understood in the context of the cocoa-chocolate global value chain (GVC) and its political economy. In Chapter 2, thus, we describe the main characteristics of the cocoa-chocolate GVC, the importance of the cocoa sector to the Ghanaian (political) economy and the institutional framework of the Ghanaian cocoa sector. The final part of the chapter discusses the sector's key issues of social, economic, and environmental sustainability. Chapter 3 provides an overview of sustainability initiatives (SI) in Ghana and differentiates six institutional levels of implementers. We also distinguish between voluntary & private sector-led initiatives and regulatory & state-led initiatives. These SI are then evaluated in Chapter 4 based on eleven semi-structured expert interviews and relevant literature. This evaluation presents poverty as the key driver for sustainability issues, highlights best practices and shortcomings of SI and argues for more coordination, integration and transparency within the sector. Recent shifts in the regulatory framework towards more binding rules are discussed at the end of the chapter. The final Chapter 5 concludes this report and presents four policy recommendations.

## 2 Context of the Ghanaian Cocoa Sector<sup>1</sup>

In this chapter, we assess the structure, political economy, and key sustainability issues of the Ghanaian cocoa sector in the context of the cocoa-chocolate global value chain (GVC). The cocoa-chocolate GVC is characterized by a pronounced ‘South-to-North’ orientation (Squicciarini/Swinnen 2016). While cocoa is produced exclusively in tropical environments, in the so called cocoa belt that ranges from 15-20 degrees latitude north and south of the equator (WCF 2014), production and consumption is concentrated overwhelmingly in Europe and North America (Poelmans/Swinnen 2016).

Conceptually, the chapter is based on the GVC framework, focusing on the following four dimensions: (i) the **input-output structure**, i.e. the inputs and all production steps underlying a final product; (ii) the **geographic scope** of these steps; (iii) the **governance structure** of a chain, i.e. the relationships between firms and other actors involved in the chain; and (iv) the **institutional framework** in which the value chain is embedded (cf. Gereffi 1995: 113). The GVC framework allows us to specify the south-north orientation of the cocoa-chocolate GVC and the associated consequences for the actors and stakeholders involved, not least the cocoa-producing farmers’ households. The GVC approach is also applied to Ghana itself to understand the specifics of the Ghanaian cocoa-chocolate value chain and its political economy as well as to elaborate on its economic, social, and environmental sustainability issues.

### 2.1 The Cocoa-Chocolate Global Value Chain

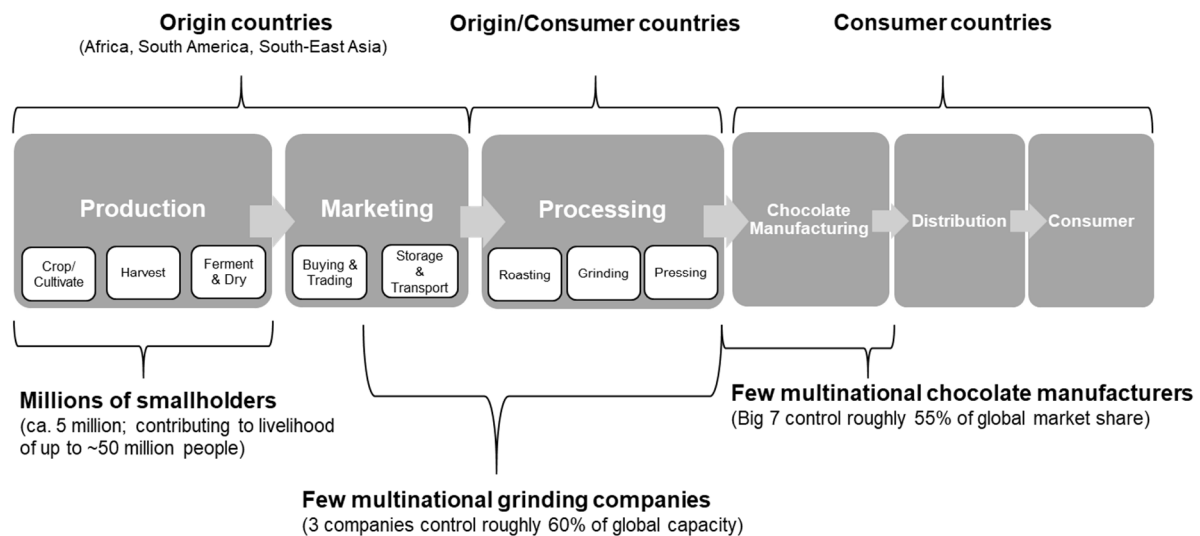
#### *Key activities and concentration*

The cocoa-chocolate GVC includes the following key activities: i) the cultivation of cocoa trees and production of cocoa beans, ii) cocoa grinding – i.e. producing the intermediate products cocoa liquor, butter, and powder – and iii) the manufacturing of chocolate and cocoa confectionary. Intermediate steps and further activities are the marketing of cocoa beans and the distribution to retailers and final consumers (see Figure 1). Roughly three-quarters of global cocoa bean production is located in West African countries, with Côte d’Ivoire (44 % of global production in the cocoa season 2019/20) and Ghana (16 %) being the largest cocoa bean producers (ICCO 2022a). The **production of cocoa beans** is labor-intensive. It is estimated that approximately five million smallholder households cultivate 95 % of the cocoa bean production on farmlands between two and five hectare, contributing to the livelihoods of 40 to 50 million people (Anga 2016: 4; Huetz-Adams et al. 2016; WCF 2014).

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<sup>1</sup> This chapter draws on earlier work conducted by ÖFSE and associated researchers, in particular on Grohs/Grumiller (2021), Grumiller (2018), Grumiller et al. (2018), Maile (2020), Staritz et al. (2022), Tröster et al. (2019).

Figure 1: Key Activities and Concentration in Chocolate-Cocoa GVC



Source: Own elaboration based on information from Anga (2016), Gayi/Tsowou (2017), Huetz-Adams et al. (2016), Squicciarini/Swinnen (2016), Terazono (2014), WCF (2014).

Note: Cocoa has other applications as well (pharmaceuticals, cosmetics), but they are comparatively insignificant in terms of consumption.

**Cocoa grinding**, on the other hand, is capital-intensive and highly concentrated. Today, three multinational companies dominate the industry: Barry Callebaut (Switzerland), Cargill (USA) and Olam (Singapore) account for roughly 60 % of the world's cocoa processing (Terazono 2014; Gayi/Tsowou 2017). Further important cocoa grinders are the companies Ecom (Switzerland), Sucden (France), and Touton (France) (see Fountain/Huetz-Adams 2020: 31). Cocoa processing used to be located almost exclusively in key consumption markets (i.e. in Europe and the US). However, multinational grinders have increasingly built-up grinding capacities in producer countries (*origin grinding*) in the context of industrial policies supporting local processing, technological advances in transportation, and shifting strategies of lead firms (Grumiller 2018). In the cocoa season 2019/20, roughly 46 % of the world cocoa bean harvest was processed in producer countries (esp. in Côte d'Ivoire 13 %, Indonesia 10 % and Ghana 6 %) (ICCO 2022b).

The **chocolate manufacturing sector** is also highly concentrated. Total sales of the world's top 100 chocolate manufacturers by revenue exceeded USD 132 billion in 2018. The seven leading chocolate manufacturers Mars Wrigley (USA), Ferrero Group (Luxembourg/Italy), Mondelez International (USA), Meiji Co. Ltd. (Japan), Hershey Co. (USA), Nestlé SA (Switzerland), and Lindt & Sprüngli (Switzerland) account for roughly 55 % of global sales.<sup>2</sup> For some of these companies, chocolate production represents only part of their food portfolio (Nestlé, Mondelez, Meiji), while others (Mars, Ferrero, Hershey) specialize in chocolate-based products.

The member states of the EU and the USA are by far the most important **consumer countries** of chocolate products. European countries, in particular Switzerland, Ireland, Austria, Germany and the UK, have the highest chocolate consumption per capita worldwide. However, Japan, Russia, Brazil and increasingly China and India are examples of important emerging markets for chocolate products (see Euromonitor 2017 in Lindt & Sprüngli 2018: 55). However, there has also been a strong increase (although from a low level, and thus low in absolute terms) of cocoa and chocolate consumption in Sub-Saharan Africa in recent years. Tamru and Swinnen (2016) explain this increase in chocolate consumption in Africa by rising income levels, increasing affordability (e.g., smaller packaging, low-priced products), a shift in taste (possibly related to the increasing

<sup>2</sup> Own calculations based on Candy Industry (2021).

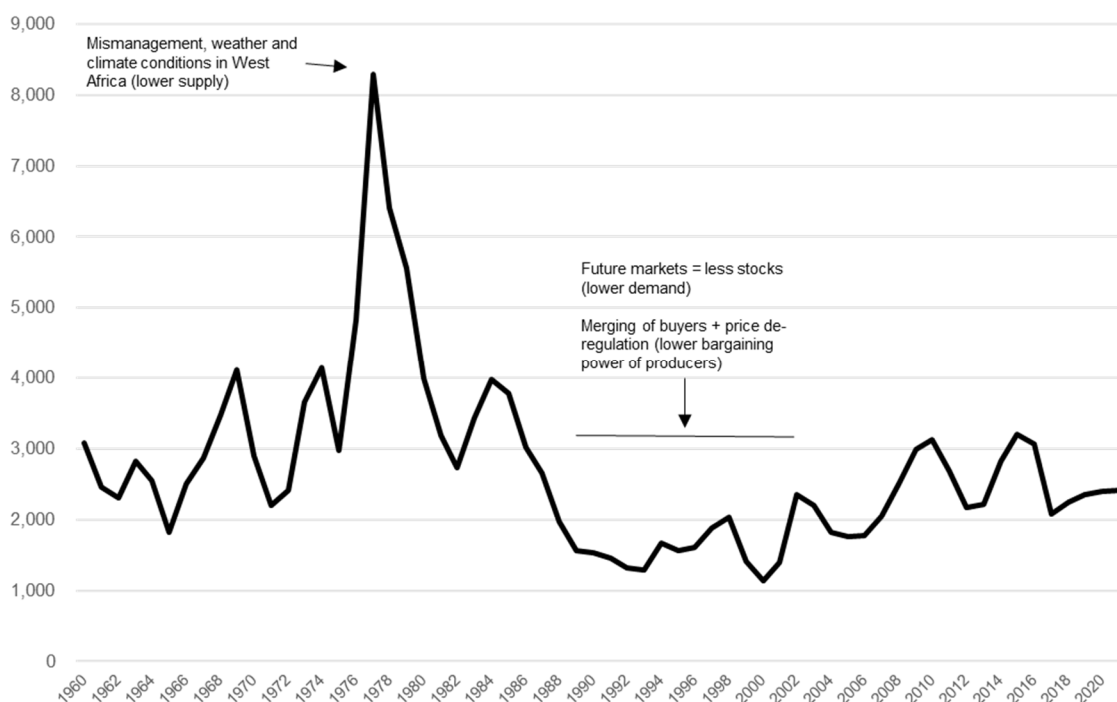
exposure to the western lifestyle and commercials, e.g., due to cable TV), rapid urbanization and the expansion of the retail sector.

### **Governance structure and power asymmetries**

The **governance structure** of the cocoa-chocolate GVC has been described as bi- or tripolar, given the power and position of grinders and chocolate manufacturers. For a long time, chocolate manufacturers and cocoa processing companies (grinders) were the most powerful actors governing the chain, even though chocolate manufacturers are generally able to extract higher economic rents (*bipolar*) (Araujo Bonjean/Brun 2016; Fold 2002; Fold/Neilson 2016). In recent years, large retailers gained power in the value chain (*tripolar*) (Fold/Larsen 2011; van Huellen/Abubakar 2021: 231, 236). Retailers set the price of chocolate products and decide whether to include certain products in their range of goods, exerting (price) pressure on chocolate manufacturers. The rise of supermarkets' own chocolate brands and products has further increased their leverage (Fountain/Huetz-Adams 2020: 32).

The increased concentration of grinding and manufacturing alongside with deregulation in cocoa producing countries exacerbated the **asymmetric power relations** in the cocoa-chocolate GVC have led to declining prices, in particular from the 1990s onwards (see Figure 2), and a declining share of the overall value of a chocolate bar that remains with the cocoa producers. Gilbert (2006) estimates that the value share of cocoa beans in a bar of milk chocolate in the UK has dropped from an average of 27 % between 1976 and 1985 to 9 % between 1996 and 2005. In addition, a comparative study by FAO and BASIC finds that in the case of a plain dark chocolate bar in France in 2018, 90 % of the total profit generated in the value chain goes to chocolate producers and retailers, and only 7.5 % of the profits are generated in the cocoa producing countries. The value share of smallholder farmers in the final price of a bar of dark chocolate averages 11 %, and 7 % in the case of milk chocolate (FAO, BASIC 2020: 6f.). Fountain and Huetz-Adams (2015: 29ff.) come to a similar conclusion and estimate that the value added of cocoa production is only 7 % due to the particularly high shares of chocolate production (35 %) and retailing (44 %). Transportation and trade as well as processing amount to 6 % and 8 %, respectively.

**Figure 2: Real cocoa prices 1960-2021 (USD/metric ton, annual data, 2010 USD)**



Source: World Bank commodity price data (retrieved: 01.09.2022), Maile (2020)

The global price of cocoa is set on futures markets, with the London Cocoa Futures, the ICE Cocoa Futures and Euro Cocoa Futures contracts serving as important benchmarks. Export prices on the national level are thus also determined by global prices – cocoa beans are sold at a premium or discount depending on the quality of the beans. Phenomena such as unexpected supply shocks due to weather conditions (e.g., El Niño, Sahara winds, rainfall), further added to the income volatility of farmers.

## 2.2 Ghana's Cocoa Sector

### *Historical and current importance*

Cocoa was introduced to Ghana in the late 19<sup>th</sup> century under British colonial rule. **In the cocoa season 1920/21, Ghana became the world largest producer of cocoa beans** (ca. 560,000 metric tons) and ever since the crop plays an important role in the political economy of the country. Between 1923 and 1932, cocoa accounted for an average of about 77 % of Ghana's total exports (Ton et al. 2008). Until today the cocoa sector is considered the backbone of the Ghanaian economy (Teye/Nikoi 2022). Likewise, cocoa has always played and continues to play an important role in Ghanaian politics, and changes in the regulation of the sector must also be seen in the context of political-economic interests and shifts in power (see e.g., *ibid.*; Ton et al. 2008; Vellema et al. 2016; Whitfield et al. 2015).

Accordingly, the story of Ghanaian cocoa is not a linear success story, but one with different phases shaped by interests and changing priorities. Until 1956, the colonial administration sought to promote and maintain the production of cocoa beans for export to raise revenue for the colony, but also to feed British industries (Teye/Nikoi 2022; Teye/Torvikey 2018). Changes were then introduced under the post-independence government led by Kwame Nkrumah. The socialist government of Nkrumah promoted production to feed local agro-based industries in line with export substitution policy (*ibid.*). The National Liberation Council overthrew Nkrumah in a military coup in 1966. A period of relatively rapid change of governments and military coups followed until the early 1980s (Whitfield et al. 2015). Since 1956, cocoa bean production declined sharply, especially from the early 1970s onwards. In 1977/78, Ghana's neighboring country Côte d'Ivoire took over the position of the world largest producer of cocoa beans. Today, the decreased output of cocoa beans during this period is attributed to clientelism in the cocoa sector and mismanagement combined with poor weather conditions, pests, and diseases (Teye/Nikoi 2022; Vellema et al. 2016).

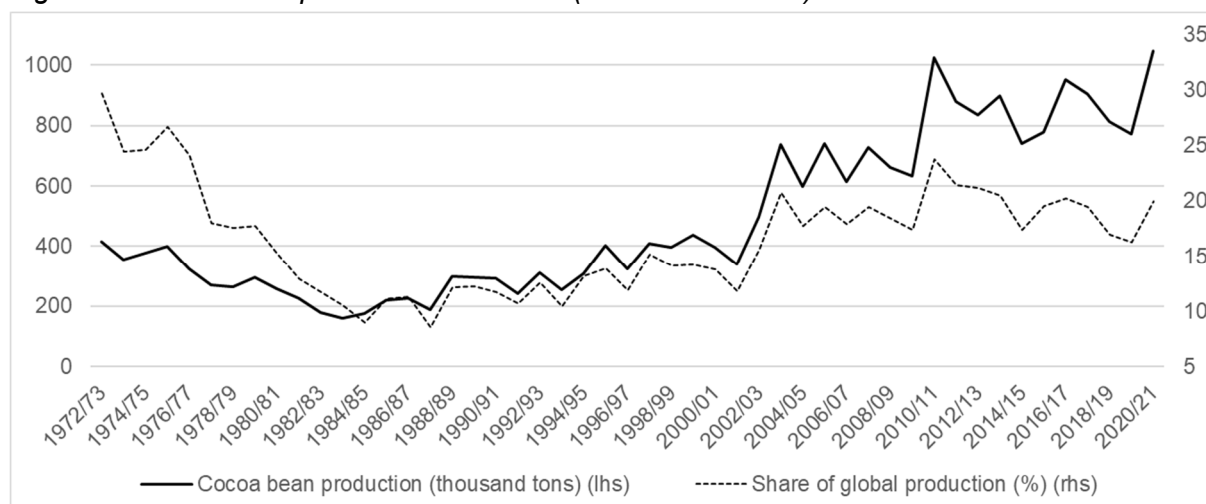
The rehabilitation of cocoa bean production was initiated in 1982/83, after the military regime of the Provisional National Defence Council (PNDC) lead by Jerry Rawlings took power and institutional reforms were introduced under the auspices of the World Bank and International Monetary Fund (IMF) (Whitfield et al. 2015). Production of cocoa beans has increased significantly since then, receiving an additional boost from the 2000s onwards (Figure 3). The latter is due to further internal reforms and increased interest and action by Western companies to increase productivity in West Africa (Teye/Nikoi 2022). In the 2019/2020 cocoa season, Ghana produced 771,000 metric tons of cocoa beans, accounting for 16 % of global production (ICCO 2022a)<sup>3</sup>. With this share, Ghana is still the **second largest global producer of cocoa beans**. Since 1992, Ghana has a democratic constitution. Since then, the main competing parties are the National Democratic Congress (NDC, successor to Rawlings PNDC) and the New Patriotic Party (NPP). 'Cocoa politics' is still of utmost importance in their election campaigns (cf. Teye/Nikoi 2022: 12)

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<sup>3</sup> Côte d'Ivoire's production amounted to 2,105,000 metric tons or 44 % of global production (ICCO 2022a).



Figure 3: Cocoa bean production in Ghana (1972/73-2020/21)



Note: 2020/21 = estimates

Source: Own elaboration based on Grumiller (2018) and updated with data provided by ICCO.

Economically, the importance of cocoa has declined in the last decade. This is in particular due to gold and oil extraction since 2018 (Staritz et al. 2022). However, cocoa remains Ghana's **most important commercial crop**. On average, it contributed 10.9 % to the agricultural GDP and 1.9 % to the total GDP between 2013 and 2020 (MOFA 2021). During the same period, 71 % of Ghanaian agricultural exports and 20 % of total Ghanaian exports were related to cocoa products on average (UN Comtrade 2022).

**The cocoa sector in Ghana** has been **highly regulated** since the 1940s and remained so throughout all the historical periods and regimes mentioned above. Still under colonial rule, the Cocoa Marketing Board was established in 1947 to centralize the internal and external marketing of cocoa beans (Ton et al. 2008). In the 1980s and early 1990s, Ghana resisted the demands of the Bretton Woods institutions and donor countries in the context of the Economic Recovery and Structural Adjustment Programs to comprehensively liberalize the cocoa sector. Instead, Ghana chose a more gradual approach to liberalization that allowed it to retain the state-owned cocoa marketing board – now called COCOBOD (ibid.). The most important policy changes included reforms of COCOBOD<sup>4</sup>, the expansion of processing activities and privatization of input distribution, and the liberalization of the internal marketing of cocoa beans from 1992 onwards (Teye/Nikoi 2022). Today, COCOBOD and its subsidiaries are still of indisputable importance to the Ghanaian cocoa sector. Their interventions comprise activities related to productivity, quality, internal and external marketing, and pricing (see details below and Figure 5).

### Cocoa Bean Production

In Ghana, up to six million people – roughly 25 % to 30 % of the population – are dependent on the cocoa sector for their livelihoods (ibid.). Cocoa production is concentrated in the forest zone in the South of the country, including the regions Ashanti, Bono, Bono East and Ahafo (former Brong-Ahafo), Volta and Oti (former Volta), Eastern Region, Central Region, and Western and Western North Region (former Western Region) (see Figure 4).<sup>5</sup> The Western and Western North Region are by far the most important cocoa regions, producing more than 50 % of the total output of cocoa beans in the 2016/17 season (Teye/Torvikey 2018).

<sup>4</sup> For instance, COCOBOD's staff was reduced by 90 % (Kolavalli/Vigneri 2017).

<sup>5</sup> The regions in Ghana underwent a reform in 2019. Instead of ten, there are now 16 administrative regions.

Figure 4: Cocoa Regions of Ghana



Note: Cocoa growing areas are in darker colors. The western north and western regions are additionally highlighted due to their importance for cocoa cultivation in Ghana.

Source: Own elaboration based on [https://de.wikipedia.org/wiki/Regionen\\_Ghanas#/media/Datei:Ghana\\_administrative\\_divisions\\_2018\\_-\\_de\\_-\\_colored.svg](https://de.wikipedia.org/wiki/Regionen_Ghanas#/media/Datei:Ghana_administrative_divisions_2018_-_de_-_colored.svg)

In total, cocoa is grown on approximately 1.8-1.9 million ha in Ghana by around 700,000-800,000 farmers (Bymolt et al. 2018: 117; Huetz-Adams et al. 2016: 26). Most cocoa farms cover an area between 2-3 ha (Fairtrade 2020: 17; Huetz-Adams et al. 2016: 26).<sup>6</sup> Cocoa trees yield crop after 3-5 years and remain productive for up to 40 years (and more), however, yields generally decline already after 25-30 years (Gayi/Tsowou 2017). Studies estimate that the yield per hectare in Ghana averages 400-500 kg (Bymolt et al. 2018: 194; Fairtrade 2020: 17; Huetz-Adams et al. 2016: 26). In addition, it is estimated that about 70-80 % of cocoa farmers own their land and that the remaining 20-30 % depend on sharecropping for cocoa production<sup>7</sup> either under the *abunu* or *abusu* system<sup>8</sup> (Asamoah/Owusu-Ansah 2017; World Bank 2013). Women have less access to land than men (cf. Fairtrade 2020: 20 and below).

Cocoa production includes planting, crop management, harvesting, pod breaking and fermentation. Required inputs include seedlings, fertilizers and agrochemicals. After harvesting the pods from the trees, farmers break the pods open with machetes and pile them under banana leaves (or in boxes) for about a week of fermentation. After fermentation, the beans must be dried in the sun for five to ten days, requiring frequent

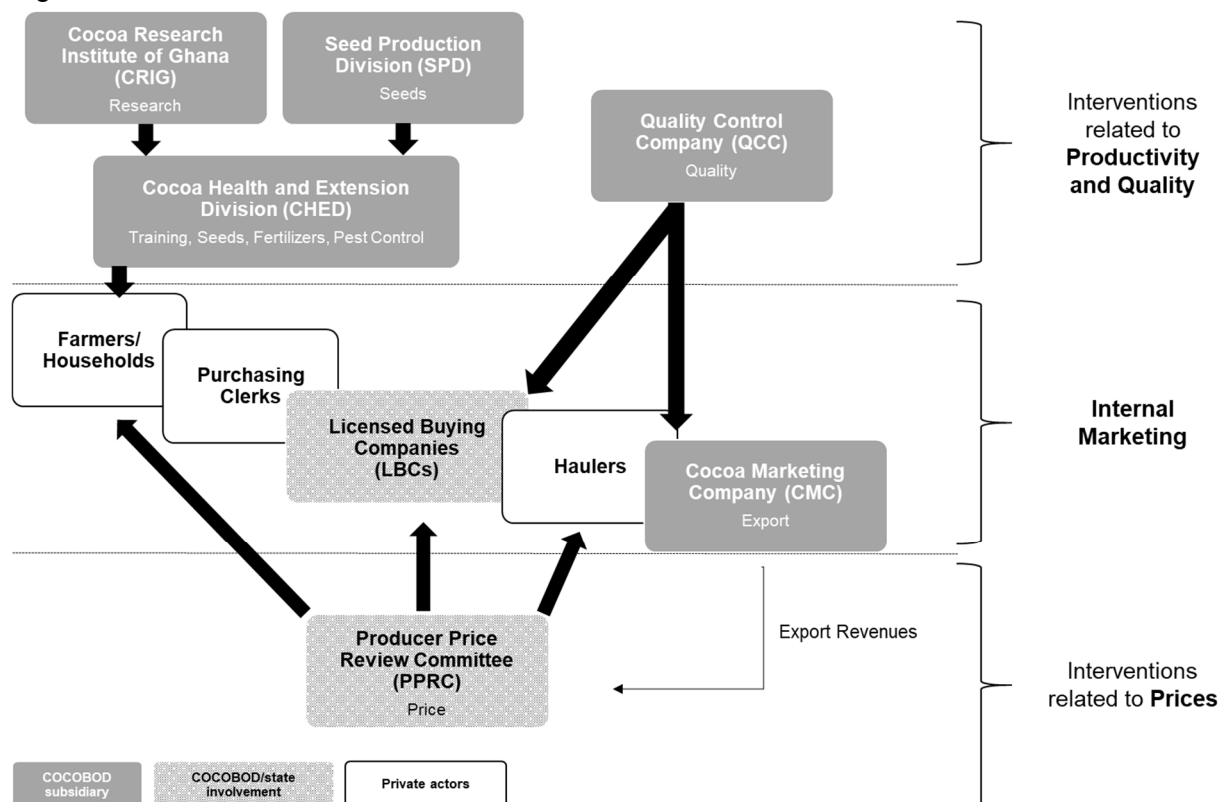
<sup>6</sup> Different studies present varying estimations, and regional differences also have to be considered (Bymolt et al. 2018: 117f.).

<sup>7</sup> The Ghanaian government usually presents lower figures (Fountain/Huetz-Adams 2020: 67).

<sup>8</sup> Under an *abunu* arrangement, the sharecropper converts land, which is not used by the owner, into a cocoa plantation. Once the plantation matures (four to twelve years), sharecroppers are obliged to return half of the land to the owner and are allowed to continue farming on the other half. Traditionally, this land becomes the property of the sharecropper. Under an *abusu* arrangement, the landowner establishes a farm and sharecroppers are responsible for farming and maintaining the plantation. Sharecroppers receive one third (or sometimes) half of the yield and have to give the rest to the landowner (Asamoah/Owusu-Ansah 2017: 7; Fountain/Huetz-Adams 2020: 67).

turning of the beans.<sup>9</sup> COCOBOD and its subsidiaries support farmers directly with the provision of inputs, in cocoa cultivation and cocoa bean production. Up to 90 % of COCOBOD's budget goes into supporting increased production and productivity (Kolavalli/Vigneri 2017: 69). The Cocoa Health and Extension Division (CHED) works directly together with cocoa farmers and households and draws on the findings of the Seed Production Division (SPD) and the Cocoa Research Institute of Ghana (CRIG) (Maile 2020). CHED controls for the cocoa swollen shoot virus disease, helps to rehabilitate old and unproductive farms and provides extension services.<sup>10</sup> In 2000/2001, COCOBOD introduced the Cocoa Disease and Pest Control (CODAPEC) program, a mass spraying project, which comes at no costs to farmers. So-called spraying gangs are supposed to spray each farm four times a year with pesticides and fungicides to prevent the cocoa disease capsids and black pod (see e.g., Bymolt et al. 2018: 151f.).<sup>11</sup> Further programs of COCOBOD/CHED include the distribution of free seedlings, hand pollination, mass pruning, and the subsidized fertilizer program.<sup>12</sup> Programs and services are funded by cocoa export revenues and their costs are included in the calculation of the *net freight on board (FOB) price*, which serves as a basis for the producer price (see below).

Figure 5: Institutional Framework of Ghana's Cocoa Sector



Source: Own elaboration based on Maile (2020: 54)

### Internal Marketing and Quality

Since 1993, the main actors in the internal marketing of cocoa beans are so-called Licensed Buying Companies (LBCs), which buy cocoa beans from farmers and transport and sell them to the COCOBOD-owned Cocoa Marketing Company (CMC) (Kolavalli/Vigneri 2017). CMC holds the exclusive right to export cocoa beans, i.e. to sell them to international buyers or international and national processors on the spot and

<sup>9</sup> See e.g., <https://www.icco.org/processing-cocoa/>

<sup>10</sup> See <https://cocobod.gh/subsidiaries-and-divisions/cocoa-health-and-extension-division>.

<sup>11</sup> See also <https://cocobod.gh/project/codapec>

<sup>12</sup> See section *Programs* on COCOBOD's website, <https://cocobod.gh/>



forward market (Grumiller et al. 2018; Maile 2020).<sup>13</sup> CMC thus operates as a monopsonist in the purchase of cocoa beans from LBCs and as a monopolist in the exportation of beans (Staritz et al. 2022).

Currently, about 40 LBCs operate in Ghana. To do so they need authorization from COCOBOD. LBCs hire Purchasing Clerks (PCs) to buy beans from farmers. PCs collect and purchase cocoa beans in one of 3,000 different buying stations that are located in villages throughout the cocoa growing regions (Kolavalli/Vigneri 2017; Maile 2020). From district warehouses, beans are transported to national warehouses in one of the three national ports in Tema, Takoradi and Kumasi. This is done by LBC-hired haulers. The haulers pass the beans on to CMC (ibid.). CMC controls the price margin for the different actors in the Ghanaian value chain. The LBCs operate with loans provided by CMC. The purchasing prices are regulated, thus overpayment or underpayment are not allowed, which leaves LBCs room to compete only on operational costs, volumes, reliability, speed and quality (Kolavalli/Vigneri 2017; Maile 2020). The loans through CMC are made possible, because CMC sells around 70 % of next season's cocoa bean production through forward sales ahead of the harvest season (Kolavalli/Vigneri 2017; van Huellen/Abubakar 2021).

Ghana is known for its relatively homogenous and high quality cocoa beans. While uniform-quality is a basic requirement in order to conduct forward sales (Kolavalli/Vigneri 2017), high quality allows CMC to achieve a higher than average price at the futures market (Staritz et al. 2022). Both is achieved through Ghana's centralized quality control system (Quarmin et al. 2014). The Quality Control Company (QCC) inspects the quality of cocoa beans at the district level when the beans arrive at LBCs and at port warehouses before the beans are exported (Maile 2020). In addition, CMC sells lower quality light beans at a discount to domestic processors. In this way, Ghana maintains its quality premium on the international market, as lower quality beans are not exported (van Huellen/Abubakar 2021: 245).

### **Price Setting**

In 1984, the Ghanaian government set up the Producer Price Review Committee (PPRC). It comprises farmer representatives, government officials, local research organizations, members of the Ministry of Finance, LBCs, haulers, and COCOBOD and has the task of determining the producer prices and the profit margins of other industry stakeholders for one year at the beginning of the main crop season (Kolavalli/Vigneri 2017; Quarmin et al. 2014).<sup>14</sup> Since 2000, the PPRC applies the *net freight on board (net FOB)* mechanism to determine producer prices and margins. The mechanism takes the *gross FOB* price for the season as a starting point. The *gross FOB* is based on CMC's forward sales, estimates for remaining spot sales during the season, and forecast average USD/GHC exchange rates. To obtain the *net FOB* price, industry costs for services provided by COCOBOD are deducted (e.g., for disease and pest control) (see Kolavalli/Vigneri 2017: 46). Since the mechanism's introduction, the PPRC aims for a share of at least 70 % of the *net FOB* price to be received by farmers (Quarmin et al. 2014; Staritz et al. 2022). Compilations for the years 1996/97 to 2012/13 show that this proportion was mostly achieved from 2001 onwards, and that the proportions were significantly lower before the mechanism was introduced (Kolavalli/Vigneri 2017: 49).

Based on forward sales, the *net FOB* mechanism allows export prices to be stabilized during the season (*intra-seasonal*). The remaining spot sales (ca. 30 %), however, are still potentially at risk to unexpected price declines. Therefore, Ghana introduced a stabilization fund in 2004-05 to support the intra-seasonal fixed producer price. Contrarily, if realized export prices are higher than expected, COCOBOD can pay a bonus to producers.

<sup>13</sup> For more information on cocoa grinding and chocolate manufacturing in Ghana see Grumiller et al. (2018).

<sup>14</sup> Before that, cocoa pricing decisions were taken solely by COCOBOD.

According to Staritz et al. (2022), this happened in twelve seasons between 2000/01 and 2015/16, but the bonus comprised only around 3 % of producer prices. More seriously, however, the mechanism has little influence on export price fluctuations between seasons (*inter-seasonal*) – despite some flexibility to increase the share of *net FOB* that farmers receive (70 %) when export prices drop (e.g., in 2015/16) (Staritz et al. 2022). The main challenge is that the mechanism still links domestic prices to global prices and is therefore largely at the latter's mercy. The so-called '*origin (or country) differential*' does not change this. It is negotiated by CMC in the forward-selling process with international buyers, which have to pay it on top of the world market price. Due to Ghana's uniform and high quality of cocoa beans (see above), export prices are higher than those of other comparable countries (Côte d'Ivoire, Nigeria, Cameroon) (*ibid.*). However, the '*origin differential*' ultimately accounts for only a small portion of the price.

The 2016/17 cocoa season exposed the vulnerability of the Ghanaian price setting mechanism, in which the world market price dropped by 35 %. The Ghanaian stabilization fund was not sufficient to cover this drop. Given its financial autonomy, COCOBOD, however, was still able to keep producer prices stable by issuing cocoa bonds. Yet it took on considerable debt to do so (*ibid.*). In response to this situation, Ghana and Côte d'Ivoire joined forces in early 2018 and signed the "Abidjan Declaration". In the bilateral cooperation agreement, the countries reaffirmed their willingness to define a common sustainable cocoa strategy with a focus on increasing prices received by cocoa farmers. To this end, the Côte d'Ivoire-Ghana Cocoa Initiative (CIGCI)<sup>15</sup> was founded to coordinate efforts. The first proposal of the initiative was the introduction of a minimum export price of USD 2,600/metric ton, of which the farmers would receive 70 % (= USD 1,820/metric ton). However, this proposal, which would have meant decoupling the minimum export price from futures prices, failed due to the resistance of international buyers (*ibid.*). Instead, after negotiations, government officials and international buyers agreed that the latter will pay a so-called *Living Income Differential* (LID). From the 2020/21 season, buyers would contribute USD 400/per metric ton in addition to the futures prices and the '*origin differential*' (FCC 2019). At the same time, the governments of Ghana and Côte d'Ivoire maintained their target of paying 70 % of the export price of USD 2,600 (USD 1,820/metric ton) as a minimum price to cocoa farmers. This means that if export prices (= futures prices + '*origin differential*' + LID) fall below USD 2,600/metric ton, the gap must be paid by the Ghanaian government or COCOBOD (Staritz et al. 2022). Initial experiences and challenges with the LID will be discussed in Chapter 3.2.1.

## 2.3 Key Sustainability Issues

The global cocoa sector is associated with some major sustainability issues. They mainly, but not exclusively (see deforestation), affect cocoa farming households. The West African cocoa growing countries Côte d'Ivoire and Ghana are particularly in focus here. In the following, we elaborate on economic, social, and environmental sustainability challenges with a focus on the Ghanaian cocoa sector.

### ***Economic sustainability***

A large number of studies have highlighted that low income and poverty among Ghanaian cocoa farmers and cocoa-farming households is a major problem (e.g., Bymolt et al. 2018; Fairtrade 2020; Fountain/Huetz-Adams 2020). For most Ghanaian cocoa farming households cocoa sales account for 60 % to 80 % of their income. A further 20 % of their household income are earned from other crops (Bymolt et al. 2018: 244; Smith/Sarpong 2018: 54; van Vliet et al. 2021: 10).

There are different ways of assessing the income of cocoa farming households. While the World Bank extreme poverty line, currently at USD 1.90/day, has been in use for

<sup>15</sup> See <https://www.cighci.org/>

decades<sup>16</sup>, the concept of a Living Income has been developed more recently. This concept goes beyond ensuring basic survival and pure subsistence, placing the emphasis on a decent standard of living. The concept of the living income is defined as:

*"The net annual income required for a household in a particular place to afford a decent standard of living for all members of that household. Elements of a decent standard of living include: food, water, housing, education, healthcare, transport, clothing, and other essential needs including provision for unexpected events."*<sup>17</sup>

Fountain and Huetz-Adams (2020: 39) make the general statement that almost no cocoa farmer in Ghana (and Côte d'Ivoire) earns a living income. The World Cocoa Foundation estimates that in some African cocoa growing countries more than two-thirds of cocoa farmers live below the poverty line.<sup>18</sup> To provide a more differentiated view, van Vliet et al. (2021) analyzed three data-sets derived from household questionnaires of 385, 731 and 1,384 Ghanaian cocoa producers. Across all data-sets, 30-58 % of households earn a gross income below the World Bank extreme poverty line and the great majority (73-89 %) do not have a living income.<sup>19</sup>

The farm area, labor cost (family based vs. hired labor), the yield per piece of land and the price farmers receive for their cocoa determine the income of Ghanaian cocoa farmers. These factors are interrelated as farmers earning little will not be able to invest in yield increasing measures while those that have higher incomes might be able to further increase their yields (ibid.: 3). Cocoa farmers are particularly vulnerable to low and volatile cocoa prices and factors that reduce yields (e.g., weather conditions, lack of input supply, old trees, illness etc.). Farmers – unlike companies – have little means to protect themselves against most of these risks (Fountain/Huetz-Adams 2020: 41).

The lack of capital and access to loans does not allow farmers to buy relevant pesticides, fertilizers, and seedlings, to expand their farms or to replace old trees (ibid.: 44). This problem is mitigated to some extent by free services provided by COCOBOD and its subdivisions. However, farmers increasingly complain about the quality of these services (Bymolt et al. 2018: 155f.). Also hiring additional labor – necessary to increase productivity – remains difficult for smallholders with limited financial means (ibid.: 163f.; Fountain/Huetz-Adams 2020: 44). Access to training is another component that would increase good agricultural practices and hence productivity, but is often missing.

In their analysis of the income situation of Ghanaian cocoa farming households, Bymolt et al. (2018: 252) point out that poverty is a 'rural smallholder phenomenon', rather than being specific to cocoa farmers.

### **Social sustainability and human rights**

Human rights challenges cannot entirely be separated from economic challenges as a decent income is a human right in itself according to Article 23 (3) of the Universal Declaration of Human Rights (United Nations 1948). Moreover, many of the human rights issues discussed in this chapter are linked to the economic situation of cocoa farmers.

A central social sustainability issue is **child labor**. According to the latest report of the National Opinion Research Center (NORC) at the University of Chicago, there were roughly 770,000 children working in cocoa production in Ghana in 2018/19. The vast majority (93 %) of these children were exposed to at least one component of hazardous work or what is defined by the ILO as 'worst forms of child labor'.<sup>20</sup> Almost all (97 %) of the

<sup>16</sup> See <https://www.worldbank.org/en/topic/measuringpoverty>

<sup>17</sup> See <https://www.living-income.com/the-concept>

<sup>18</sup> See <https://www.worldcocoaafoundation.org/focus-areas/prosperous-farmers/>

<sup>19</sup> Living income benchmark > USD 5.81/person/day (PPP, 2018); extreme poverty line benchmark < USD 2.12/person/day (PPP, 2018) (van Vliet et al. 2021: 7).

<sup>20</sup> Worst forms of child labor include the involvement in activities such as land clearing, carrying heavy loads, and using sharp tools, and exposure to agro-chemicals, long working hours, and night work.

children working on cocoa farms are either working for their parents or close relatives. Overall, 55 % of Ghanaian children living in agricultural households in cocoa growing areas were engaged in child labor and 51 % in hazardous work in cocoa production (NORC 2020). Comparisons to earlier studies conducted by the Tulane University in 2008/09 and 2013/14 (Tulane University 2015) reveal that – despite the fact that child labor in cocoa is on the international agenda since the early 2000s – the proportion of children working on cocoa farms increased in Ghana from 44 % to 55 % between 2008/9 and 2018/19.<sup>21</sup> Increases in overall child labor prevalence in cocoa over the last decade in Ghana are in particular due to increases in low and medium production areas, while the rate within areas with historically high cocoa production was stable (NORC 2020).

The reasons for child labor are manifold and require a differentiated perspective. Cocoa cultivation and harvesting are largely family-based. Recourse to the labor of family members and especially children occurs primarily (but by no means exclusively) at the peak of the cocoa harvest (Thorsen/Maconachie 2021). Access to hired labor is a challenge and is usually not affordable for farmers due to their low income (Vigneri et al. 2016). While Vigneri et. al. (2016) argue that the absence of schools contributes to increased child labor, the NORC survey shows that in 2018/19, the great majority of children who work in cocoa are also in school (96 % compared to 89 % in 2008/9) (NORC 2020). However, sociocultural factors play a role as well (e.g., parents want children to participate in cocoa cultivation and harvesting as part of their education and upbringing). There are (anthropological) studies that try to balance the views of the local population and western concepts of a work-free childhood (Busquet et al. 2021). At the same time, it is important that a political-economic perspective is not abandoned. The occurrence of child labor and poverty are simply inseparable.

In Ghanaian cocoa producing regions, **gender inequality** is deeply engrained in customary norms and practices. This has serious implications for the wellbeing of women as well as for cocoa production. Access to land is a prerequisite to be recognized as a cocoa farmer. In Ghana only about a fifth of women own land, as a consequence of which it is hardly possible for women to access training, extension services, finance, cooperative membership and passbooks that are required to sell to LBCs (Barrientos/Bobie 2016: 4; Skolidou 2020: 5). Women also play a crucial, but often not recognized role in cocoa production on the plots owned by their husbands or other family members. They are particularly involved in caring for young cocoa plants, fermentation and drying of the cocoa beans. These activities are crucial for the quality of beans and productivity of farms (Barrientos/Bobie 2016: 8f.). Yet, women's contributions are often not directly financially rewarded, which can push them into looking for additional sources of income, adding up to their workload and exposing them to forced labor (Ahrin 2022; LeBaron/Gore 2020: 1110; Marston 2016: 11).

On cocoa farms, farmers and laborers also encounter **health and safety issues**. The use of agrochemicals threatens the well-being of farmers, in particular combined with a lack of information about corresponding hazards. Moreover, not only the applicators of pesticides are at risk but also those who work in treated farms or wash contaminated clothes. Most at risk from the widely used neonicotinoids are pregnant women and girls (PAN 2018: 2). Challenges for farmers also include **uncertain land tenure**. Lack of legal documentation, disputes between sharecroppers and landowners, and the high cost of land levies are frequently reported issues (Asamoah/Owusu-Ansah 2017).

The **low level of organization** (e.g., in farmer cooperatives or associations) results in a limited ability for collective bargaining and vulnerability to pressure from other actors. In addition, being a member of a farmer association facilitates the access to training, to inputs and mechanized farm-equipment, to market information and better access to buyers.

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<sup>21</sup> It is often noted here that the extent of cocoa cultivation has developed even more rapidly and that the use of child labor is therefore relatively lower.



Members may also benefit from enhanced social contacts and increased knowledge exchange between farmers (Bymolt et al. 2018: 178). Being part of a farmers' cooperative also increases the likelihood to engage in certification and sustainability programs, and thus receiving income-increasing premiums. There are only rough estimates of how many farmers are organized. According to a study commissioned by Fairtrade (2020: 4) only 11 % to 50 % of farmers are part of a cooperative across Ghana and Côte d'Ivoire. In the sample of Bymolt et al. (2018: 191) (n = 1,560), only 11 % of cocoa households interviewed were part of a producer group.

Studies increasingly underline that the **living and working conditions of sharecroppers** are often overlooked and subsumed under the broader challenges of cocoa farming. The same applies to **seasonal work on cocoa farms**. These short-term working arrangements are hardly investigated and considered, neither in studies nor in sustainability and company programs (Fairtrade 2020: 18f.). In addition, the **situation of young cocoa farmers** needs to be considered, since they face a number of specific challenges. This is in particular true when it comes to access to land and capital. Young cocoa farmers are often engaged in sharecropper arrangements, which is – under the *abunu* system (see Footnote 8) – a feasible way to acquire land ownership. However, also this arrangement requires investments and thus capital, which young people often lack (ibid.: 21). Young people are also hired as 'interns' to give them the opportunity to gain experience in cocoa farming by older farmers before they start with sharecropping. Such 'internships' are usually paid in the form of room and board rather than money (ibid.: 19).

### **Environmental sustainability**

Environmental issues are an external as well as an internal factor influencing the cultivation of cocoa beans. Externally, **climate change** is affecting the cocoa sector. Farmers are experiencing more erratic and reduced rainfall patterns, making certain areas less suitable for cocoa farming (cf. Schroth et al. 2016). At the same time, the cocoa sector actively contributes to climate change and degradation of natural habitats, particularly through **deforestation**. In West Africa, cocoa cultivation contributed to the disappearance of 2.3 million ha of rainforest between 1990 and 2010 (Gockowski/Sonwa 2011: 310). In Ghana, forest cover declined by approximately 25 % from 1.64 million ha in 1975 to 1.24 million ha between 1975 and 2013.<sup>22</sup> Other sources estimate that about 27 % of Ghana's total deforestation between 1990 and 2008 have been driven by cocoa cultivation (Kroeger et al. 2017). Rates of tree cover loss in protected areas with cocoa cultivation is almost double in comparison to losses in other protected areas in Ghana (2.79 % to 4.85 %) (Higonnet 2017).

The expansion of cocoa farms into forested areas is not only caused by increased demand for land, but is also related to the 'forest rent', which denotes the advantage of producing cocoa in or near virgin forests. Fertile soils and a pest free environment offer good yields and reduce the required labor for tending the crop. After about 15-30 years the benefits of this forest rent vanish and new land is occupied (or increased costs have to be incurred for a continued cultivation on the same plot) (Ruf/Schroth 2015: 6f.). This also highlights the trade-off between labor requirements to intensify production on existing plots and environmental protection (Kolavalli/Vigneri 2017: 73).

Yet, deforestation is not the only negative environmental externality of cocoa production. **Pesticides and fertilizers** are widely used in cocoa production and have negative effects, not only on humans, but also on environmental health through their toxic effect and during production when considerable amounts of greenhouse gases (GHG) are emitted (Wainaina et al. 2021: 3). Though the intention of using chemicals is to increase yields, the opposite could occur in the long run. Midges that appear to be very sensitive to neonicotinoids are the main pollinators of cocoa. Yet, these insecticides are heavily used

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<sup>22</sup> See <https://eros.usgs.gov/westafrica/land-cover/land-use-land-cover-and-trends-ghana>

in cocoa production and there are indications that production could suffer from a reduced number of pollinators (PAN 2018: 3f.).

Organic production practices and agroforestry offer alternatives to intensive and rainforest-destroying cultivation practices and have already shown initial success and positive results (cf. e.g., Akrofi-Atitianti et al. 2018; Asigbaase et al. 2021).

### 3 Initiatives to Strengthen Farmers' and Communities' Socioeconomic Situation

In the early 2000s, media in the EU and the U.S. reported on child labor in West African cocoa farms, drawing the attention of chocolate-consuming countries to issues of sustainability in cocoa-producing countries for the first time. In the wake of these revelations, two US senators developed the so-called Harkin-Engel Protocol that was signed by eight major chocolate companies. In the protocol, which operates as a voluntary, international agreement, chocolate manufacturers committed to develop – jointly with governments, international NGOs (Non-Governmental Organizations) and trade unions – industry-wide standards and certifications that guarantee that cocoa is produced without recourse to the worst forms of child labor (Fold/Neilson 2016: 204). Social sustainability issues were not the only concerns in this period. Companies were increasingly concerned about the medium- to long-term supply security of cocoa beans in light of low productivity and investment levels while demand was increasing (Barrientos 2016: 213f.). Consequently, efforts to promote improved cultivation techniques were increased and private sector initiatives aiming to tackle productivity and sustainability issues emerged (see Figure 6).

**International Platforms and Initiatives** made the beginning. In 2000, cocoa and chocolate companies joined forces institutionally for the first time with the establishment of the *World Cocoa Foundation* (WCF) (Fold/Neilson 2016: 203). In 2002, the *International Cocoa Initiative* (ICI) was established against the backdrop of public debates on child labor.<sup>23</sup> By the late 2000s, **Voluntary Sustainability Standards** (VSS) (e.g., Rainforest Alliance, UTZ certified, Fairtrade) were seen as the central means for achieving socioeconomic sustainability in the cocoa sector (Fountain/Huetz-Adams 2020a: 34; Fold/Neilson 2016: 204). **Multinational companies** made use of these certifications, but in parallel increasingly developed their own **in-house sustainability programs** to support farmers, cooperatives and their communities. By this time, the sustainability debate in the cocoa sector was already beyond the focus on child labor and security of supply. Poverty and the general socioeconomic situation of cocoa farmers and their communities had been brought into the conversation as a second major issue in the late 2000s. More recently, deforestation has been identified as a third major challenge for the cocoa sector. (Fountain/Huetz-Adams 2020: 71). This triad of challenges is also reflected in the programs and actions of **National Multi-Stakeholder and Civil Society Initiatives** in chocolate producing and consuming countries, the establishment of which represents a rather recent development.

All these initiatives can be categorized under *voluntary and/or private sector-led* actions. In contrast, *regulatory & state-led initiatives* target sustainability issues in the Ghanaian and global cocoa sector with binding rules. As described above, initiatives and programs of the (colonial and then) Ghanaian government have shaped the cocoa sector from the beginning. These include (i) concrete programs by COCOBOD and its subsidiaries, (ii) more far reaching cocoa sector and agricultural strategies, and (iii) general policies and commitments such as the ratification of the core ILO conventions, including the Forced

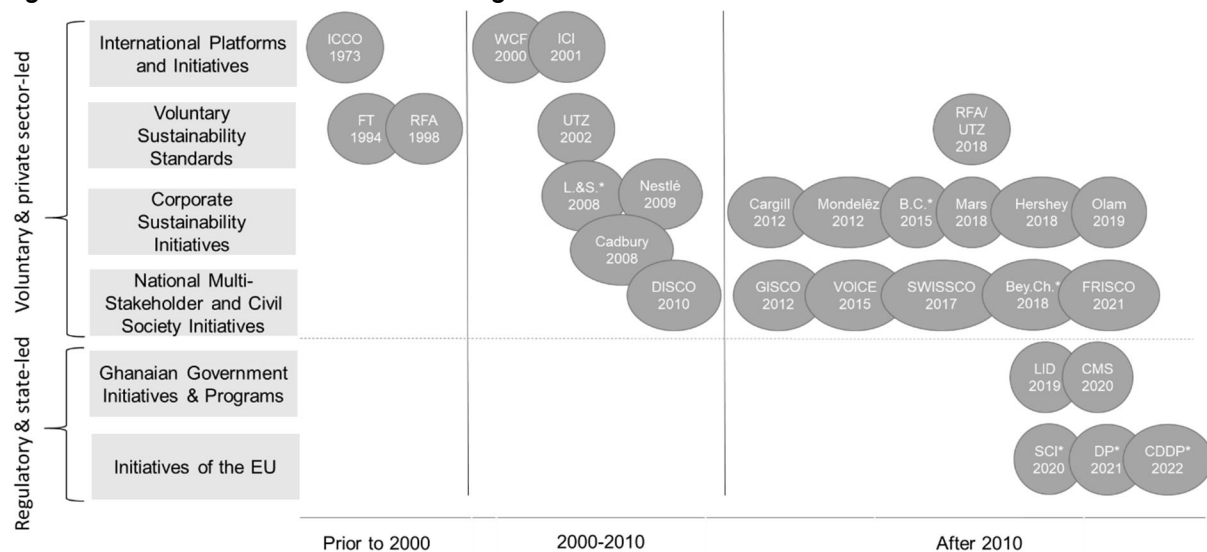
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<sup>23</sup> See <https://cocoainitiative.org/>

Labour (C29) and Worst Forms of Child Labour Convention (C182) or being partner in the UN Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation (UN-REDD).

Accordingly, the governance and political economy of the global and Ghanaian cocoa sector needs to be understood as a public-private governance hybrid (Fold/Neilson 2016). For this reason, the following sections will not only present more details and examples of *voluntary/private sector-led initiatives*, but also address recent *regulatory & state-led initiatives* by the Ghanaian government and current policy developments and debates in the European Union (EU) (potentially) affecting the cocoa sector. Figure 6 provides an overview of initiatives and programs. It shows that the number of initiatives has increased over the last ten years in particular.

Figure 6: Overview of Initiatives & Programs



Note: \* L.&S.=Lindt & Sprüngli; B.C.=Barry Callebaut; Bey.Ch.=Beyond Chocolate; SCI=Sustainable Cocoa Initiative; DP=Deforestation Proposals; CDDP=Corporate Due Diligence Proposal; all other abbreviations can be found on p. ii  
Source: own elaboration based on website information

## 3.1 Voluntary & Private Sector-led Initiatives

### 3.1.1 International Platforms and Initiatives

There are three major international platforms or initiatives, which are of particular importance to the cocoa sector. The *International Cocoa Organization (ICCO)* is an association of states and was founded in 1973 under the auspices of the UN. Its members include 22 cocoa exporting countries and 29 cocoa importing countries. These countries cover more than 90 % of cocoa exports and 80 % of cocoa imports. ICCO's mandate is mainly to provide statistics, forecasts and market development reports. It also organizes World Cocoa Conferences biannually. While the ICCO is implementing some small-scale projects, it is actively intervening in the cocoa sector to a limited extent only.<sup>24</sup>

The first international platform on a company level was founded in 2000, when chocolate and cocoa companies became associated under the umbrella of the *World Cocoa Foundation (WCF)* – headquartered in Washington DC. Today, about one hundred companies are organized in the WCF representing approximately 80 % of the global cocoa and chocolate market. The great majority is located in the global North.<sup>25</sup> The industry's realization that sustainable cocoa production would not be possible without increased

<sup>24</sup> See <https://www.icco.org/>

<sup>25</sup> See <https://www.worldcocoafoundation.org/about-wcf/members/>

attention to the living conditions of farmers is described as the reason for the founding of the WCF.<sup>26</sup> The long-term goals of the association are prosperous cocoa farmers, strengthened cocoa communities, and a healthy planet, a phrase used to describe environmentally sustainable production.<sup>27</sup> Since the end of the 2000s, several large-scale programs were initiated by the WCF of which the African Cocoa Initiative II and the Cocoa & Forests Initiative (CFI) are still active in Ghana. With these programs, but also through industry collaboration and policy dialogue with governments, the WCF aims to increase farmer income, combat child and forced labor and end deforestation in the cocoa supply chain.<sup>28</sup>

The *International Cocoa Initiative (ICI)* is the third major international initiative relevant for the cocoa sector. It was founded in 2002, against the backdrop of public debates on child labor.<sup>29</sup> The Swiss-based initiative, which is largely financed by the industry and has national offices in Côte d'Ivoire and Ghana, focusses on the core issues of the Harkin-Engel Protocol. Since 2007, ICI provides operational support to members and partners on the ground implementing community development approaches that aim at child protection and access to education. Since 2012, ICI actively supports actors in the cocoa sector to introduce Child Labor Monitoring and Remediation Systems (CLMRS, see below). In addition, ICI conducts research and develops, tests, and evaluates innovative approaches. It further aims to bring together different actors of the cocoa sector to align goals, approaches and objectives.<sup>30</sup>

### **WCF: CocoaAction and Cocoa & Forests Initiative**

The CocoaAction strategy was the WCF's most important program in recent years. It strived to provide a coordinated response to issues in the cocoa-chocolate GVC, with a focus on Côte d'Ivoire and Ghana. Under the WCF's umbrella, Barry Callebaut, Blommer, Cargill, Hershey, Ferrero, Mars, Mondelēz, Nestlé and Olam launched the strategy in 2014 for a period of five years. The strategy was based on greater collaboration by companies with the governments of Côte d'Ivoire and Ghana, as well as other stakeholders. It aimed at joint action on priority issues, enabling scale through common interventions and an agreed upon framework for measuring results while taking a holistic view of the problems faced by smallholder farmers and their communities. The focus of the CocoaAction Strategy, which ended in 2019, was on increased productivity and on community development (WCF 2016: 2). To support the CocoaAction strategy, the African Cocoa Initiative II was launched in 2016 by WCF and USAID. It is implemented in Côte d'Ivoire, Ghana, Nigeria and Cameroon with USD 6 million financial support from the US government and USD 7 million from WCF members. So far, 120,000 farmers were trained on how to improve cocoa flavor quality, 1,200 members participated in Village Savings and Loan Associations (VSLAs)<sup>31</sup> and some 2,600 cocoa clones were planted. In addition, a study was carried out on the cost of digital payments in the cocoa value chain. The program ran until the end of May 2022 (WCF 2021). A final evaluation is still pending.

The implementation of the 2014-2019 CocoaAction strategy has been assessed by KPMG (2020). It points out that the project's target of full implementation of the so-called 'productivity package' by 300,000 farmers was clearly missed. While 346,179 farmers had been reached by the package, only 1,165 farmers, and thus a relatively small proportion, implemented the package, which targeted a yield increase to 700 kg/ha, in its entirety. The target of 1,200 communities reached with the strategy's 'community development package' was surpassed. However, the level of implementation is not known (ibid.). The

<sup>26</sup> See <https://www.worldcocoafoundation.org/about-wcf/history/>

<sup>27</sup> See <https://www.worldcocoafoundation.org/about-wcf/vision-mission/>

<sup>28</sup> See <https://www.worldcocoafoundation.org/initiatives/>

<sup>29</sup> See <https://cocoainitiative.org/>

<sup>30</sup> See <https://www.cocoainitiative.org/our-work>

<sup>31</sup> VSLAs create self-managed and self-capitalized savings groups that use members' savings to lend each other. Usually, they comprise between 10 and 25 members. See <https://www.vsla.net/>



evaluation criticized the strategy's exclusive focus on productivity as a tool for poverty alleviation, its failure to take external stakeholders into account in its formulation, resulting in an approach that was insufficiently holistic and out of step with the realities of countries of origin, and a lack of accountability (ibid.).

Since 2017, the Cocoa and Forests Initiative (CFI) is WCF's major project. The foundation coordinates it together with the Sustainable Trade Initiative (IDH). CFI brings together 35 chocolate companies and the governments of Ghana and Côte d'Ivoire with the aim of ending deforestation. Financially, the Dutch, British, German, US and Swiss governments and the World Bank, with contributions from many companies, currently support the initiative.<sup>32</sup> CFI rests on the pillars "forest protection and restoration", "sustainable cocoa and farmer livelihoods", and "community engagement and social inclusion" (CFI 2022). So far, three reports document the initiative's progress in its operating countries Côte d'Ivoire and Ghana (for Ghana see ibid.; CFI 2021, 2020). The figures presented are extensive and cover a wide range of aspects and measures. However, it remains unclear which measures are attributable to the CFI as such and which come from other programs and work toward the goals of the initiative. In total, the CFI's 2021 summary table for Ghana lists more than 40 measurable private and public sector actions (CFI 2022: 8f.). Yet, the effectiveness of the initiative remains controversial (see e.g., Carodenuto/Buluran 2021; Mighty Earth 2022).

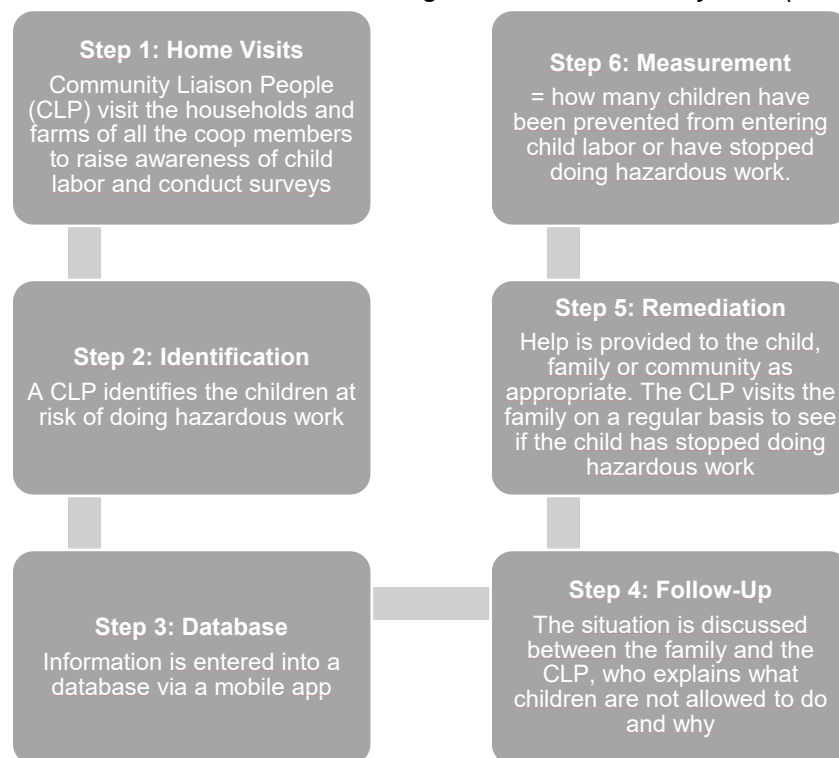
### ***ICI: Child Labor Monitoring and Remediation System (CLMRS) and direct income support***

ICI aims to cover 100 % of the Ghanaian cocoa supply chain with child protection systems to prevent and remediate child labor. In addition, relevant Human Rights Due Diligence measures will be applied by 2025 to prevent and remediate forced labor where there is a specific risk (ICI 2020). In collaboration with Nestlé, ICI developed the CLMRS approach from 2012 onwards. First rolled out in Côte d'Ivoire, Nestlé started implementing the CLMRS approach in Ghana in 2017. The CLMRS approach works with community facilitators (community liaison people – CLP) who raise awareness among cocoa households and identify cases of child labor (see Figure 7). If cases of child labor are identified, remedial action is taken by providing access to education, supporting farmers to diversify their income and empowering women. This includes – amongst other things – the implementation of VSLAs. In its latest annual report, ICI highlights that the initiative has improved child protection for more than 422,000 children between 2015 and 2020 in Ghana and Côte d'Ivoire and that its approaches (community development and CLMRS) have led to a 20 % reduction in child labor in ICI-assisted communities. Further, a 50 % reduction in hazardous child labor amongst at-risk children identified by ICI's monitoring system was reached (ICI 2021).

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<sup>32</sup> See <https://www.worldcocoafoundation.org/initiative/cocoa-forests-initiative/>

Figure 7: ICI and Nestlé Child Labor Monitoring and Remediation System (CLMRS)



Source: own elaboration based on Nestlé (2020)

Next to the role out of CLMRS and community approaches, ICI implements (innovative) projects with cooperation partners. Five projects are currently highlighted on the ICI website, two of which are targeting Ghana directly. In the project “Target income support to reduce child labor” (January 2020 – December 2021), ICI together with Nestlé and Ecom and financed by the Swiss State Secretariat of Economic Affairs (SECO) developed a risk model to predict whether households use child labor. According to ICI’s website, the model correctly predicts child labor in 88 % of cases.<sup>33</sup> In addition, the project tested the effects of direct income support. About 645 cocoa farming households in Ghana – identified as at risk of child labor – received unconditional cash transfers over a six-month period. The monthly amount ranged between USD 18 and USD 37 depending on the number of school-age kids. This corresponds to about 25 % of households’ monthly estimated expenditure. The cash transfers were paid via mobile money. There were no conditions on the receipt and use of the money. However, transfers were accompanied by an information campaign encouraging farmers to use it to support their children and protect them from hazardous work. The evaluation of the project shows that the cash transfer allowed households to build up wealth and made them more resilient to adverse shocks. In terms of child labor, the prevalence of hazardous child labor decreased to 58 %, a 16 % reduction (ICI 2022).

In the project “Tackling child and forced labor in Ghanaian cocoa and gold mining” (March 2021 – December 2023), ICI joins forces with the NGO Solidaridad and the Rainforest Alliance (RFA). The project is funded by the Norwegian Agency for Development Cooperation (NORAD) with approximately USD 3.1 Mio.<sup>34</sup> The program includes – amongst other things – training and capacity building and awareness raising activities with community members and community-based organizations, engagement with government and local authorities, and setting up of VSLAs.<sup>35</sup>

<sup>33</sup> See <https://www.cocoainitiative.org/our-work/highlighted-projects/targeted-income-support-reduce-child-labour>

<sup>34</sup> See <https://resultater.norad.no/agreement/GHA-21/0002>

<sup>35</sup> See <https://www.cocoainitiative.org/our-work/highlighted-projects/tackling-child-and-forced-labour-ghanaian-cocoa-and-gold-mining>

### 3.1.2 Voluntary Sustainability Standards (VSSs)

As the debate on socioeconomic sustainability became central in the early 2000s, voluntary sustainability standards (VSSs) driven by civil society/NGOs quickly gained importance. They were seen as key means by which the industry could meet its commitment to ‘credible standards’ under the above mentioned Harkin-Engel-Protocol (Fold/Neilson 2016: 204). VSSs are most prominent in the agriculture sector and first emerged in the 1990s, increasing in number through the early 2010s. Growth slowed down thereafter and is stagnating since 2017 (UNFSS 2020). This general trend is echoed in the cocoa value chain where the volume of cocoa certified by civil society driven VSSs saw a substantial increase between 2009 and 2014 before the private sector also started to develop its own certification standards and alternative sustainability initiatives (Thorlakson 2018). In a recent analysis, Krauss and Barrientos (2021) identify a considerable shift from civil-society-led initiatives towards more corporate-led initiatives, in particular with regard to certification.

The Rainforest Alliance (RFA), UTZ certified (UTZ) and Fairtrade International (FT) are the most prominent certification schemes. RFA was founded as one of the first environmental certification standards in 1987 and first certified cocoa in 1998. UTZ was founded in 2002. It quickly developed into the world leading certification standard for cocoa (see below). The very similar approach of the certification standards led to their merger in 2018. Certifications continue as RFA while the UTZ label will phase out. The merger also led to the development of the new “2020 Rainforest Alliance Certification Program”.<sup>36</sup> The Fairtrade Foundation was established in the UK in 1992 followed by the establishment of Fairtrade International in 1997. The first Fairtrade chocolate was marketed in 1994.<sup>37</sup>

The criteria of the standards relate to cultivation and farm management as well as to social and environmental aspects. The exact criteria that farmers must meet in order to be certified varies between the standards (see Fairtrade International 2019; RFA 2017; UTZ 2015). However, all three standards refer to the central conventions of the International Labor Organization (ILO) and formulate corresponding specifications. Key rights of workers (freedom from discrimination, freedom of association and collective bargaining, right to contracts, adequate wages and benefits) and measures to ensure their health and safety at work are taken into account, as is the exclusion of forced labor and child labor. The definition of child labor follows the ILO definition and refers to children under the age of 15. All standards allow traditional work within the family for children under 15, provided that the work takes place after school or during vacations, is supervised, does not exceed a certain number of hours, and is appropriate to the age and physical conditions of the children. With regard to environmental standards, all standards specify the (non-)use of pesticides and the general preservation of biodiversity and natural resources. However, RFA and FT do not imply organic certification. None of the standards allows for activities that have led to deforestation in the past or will lead to it in the future. Historically, UTZ Certified and RFA have focused more on farm management and farming practices, whereas Fairtrade International has emphasized social and economic components.

A comparison of the figures provided by the certification programs on the scope of their certifications in 2020 and the ICCO's production figures for the 2019/2020 cocoa season shows that about 45 % of cocoa was grown under a certification. UTZ is by far the most important standard with a certification ratio of 27 % of global cocoa production in 2020 (FT 13 %, RFA 7 %). In Ghana, UTZ certified 254,295 metric tons of cocoa beans in 2020. This amounts to 33 % of Ghana's production. FT certified 87,854 metric tons (11 %), RFA 76,854 (10 %). In sum, about 419,000 metric tons or 54 % of Ghana's cocoa production were certified in 2020.<sup>38</sup> However, these numbers need to be interpreted with caution. A

<sup>36</sup> See <https://www.rainforest-alliance.org/for-business/2020-certification-program/>

<sup>37</sup> See <https://www.fairtrade.org.uk/what-is-fairtrade/the-impact-of-our-work/the-history-of-fairtrade/>

<sup>38</sup> Own calculations based on ICCO (2022a), RFA (2022), and <https://www.fairtrade.net/impact/top-7-products-dashboard>. Numbers correspond to previous findings by e.g., Voora et al. (2019) and ITC et al. (2019).

significant amount of cocoa is double and even triple certified (Fountain/Huetz-Adams 2020: 33). RFA (2022: 30; 55) points out that 19 % of UTZ and 23 % of RFA producers' groups and individual farms were certified for at least one other standard. Eventually, the fact that cocoa is grown under a certification does not mean that it is also sold as such. In Ghana, only 49 % of cocoa produced under UTZ was sold as certified, the ratios for RFA and FT amount to 35 % and 9 % respectively. The latter number is historically low. Globally, a ratio of 56 % of cocoa produced under a certification was sold as such, which amounts to a share in overall global production of about 25 %. Again, double and triple certifications distort these numbers.

Certification standards work with producers' groups. It is in the nature of VSSs that the pressure to adapt lies on farmers. They have to align their processes and practices to ensure that their cocoa is certified. This comes with costs. Via premium models, VSSs create incentives for farmers to convert their operations. In recent years, RFA and FT have increasingly undertaken additional projects and have not limited themselves to certifications. This includes advocating for a sustainable cocoa sector, which goes beyond directly promoting their standards (Fountain/Huetz-Adams 2020: 36). As far as certification is concerned, the increasing establishment of internal sustainability programs by multinational companies and the introduction of corporate certification standards (e.g., Barry Callebaut's Cocoa Horizon or Lindt & Sprüngli's Farming Program) has led to a decreasing importance of RFA and FT certification as of the early 2010s (cf. Krauss/Barrientos 2021 and below).

### **UTZ/RFA Premiums & Programs**

The new *Rainforest Alliance 2020 Certification Program* commenced in July 2022. Buyers of RFA certified cocoa are required to pay a so-called *Sustainability Differential* and *Sustainability Investments*. The Sustainability Differential is a fixed premium of USD 70/metric ton benefiting individual farmers. The Sustainability Investments benefits the cooperative and is negotiated between cooperative and buyer. There is no minimum price guaranteed by the new RFA standard.<sup>39</sup> However, in comparison to the previous RFA standard, the premium is a new feature. Before 2020, there were no premiums in the program.<sup>40</sup> Buyers of UTZ certified cocoa had to pay a premium on top of the market price already before. The premium was negotiated between the farmers or their cooperatives and the purchasing company. In 2021, this premium averaged EUR 93/metric ton in African countries (RFA 2022: 45).

RFA is a partner in ICI's "Tackling child and forced labor in Ghanaian cocoa and gold mining" (see above) and teamed up with Nestlé on the company's Nestlé Cocoa Plan (RFA 2021). It is also part of the EU funded "Landscapes and Environmental Agility across the Nation" project (2020-2024). The project uses a landscape approach to improve land management and sustainability, to improve incomes and to diversify crops for 36,000 farmers with an annual budget of USD 1 million.<sup>41</sup>

### **Fairtrade Premiums & Programs**

FT offers both a guaranteed minimum price and a fixed premium that buyers of certified cocoa have to pay. In 2019, for the first time since 2011 the minimum price was increased from USD 2,000 to USD 2,400/metric ton (FOB) and the premium from USD 200 to USD 240/metric ton. For organic cocoa, the FT minimum price is USD 300 above the regular FT minimum price or the market price, depending on which is higher at the time of sale (Fairtrade International 2018).

<sup>39</sup> See <https://www.rainforest-alliance.org/business/tag/2020-certification-program/>

<sup>40</sup> An exception was the transition period to the new program since April 2021. During this period, premiums also had to be paid under the RFA standard. The average premium paid in Ghana in 2021 amounted to 65€/metric ton (RFA 2022: 18).

<sup>41</sup> See <https://www.rainforest-alliance.org/in-the-field/lean-project/> and <https://www.gcca.eu/stories/ghana-lean-project-preservation-biodiversity>

FT currently runs three projects in Ghana. The Women's School of Leadership project, running from 2017-2023, aims at changing cultural norms among cocoa farmers. Women and men receive training over one year and then go on to train community members. Sankofa, running from 2018-2023, addresses climate change and living income by introducing a dynamic agroforestry approach that allows the 2,900 participating farmers to increase their income through diversification and better crop husbandry.<sup>42</sup> One of the larger programs, the West Africa Cocoa Program (WACP), works with 270 producer organizations in Ghana and Côte d'Ivoire and has reached more than 160,000 farmers since 2016 (Fairtrade International 2021). This project is part of Fairtrade's Living Income Strategy developed in 2017, which aims for 'tangible progress towards living income' for cocoa growing households (Fairtrade International 2020).

### 3.1.3 Corporate Sustainability Initiatives

From the early 2010s onwards, multinational cocoa processors and chocolate manufacturers increasingly relied on in-house sustainability programs (Fold/Neilson 2016: 205). Many corporate sustainability initiatives (CSIs) started their sustainability programs about ten years ago. Other initiatives started more recently such as Olam (2019), Hershey (2018) and Mars (2018). While often collaborating with VSSs, the private sector not only expanded on its own sustainability programs but also introduced its own certification schemes (e.g., Barry Callebaut's Cocoa Horizons). Peham (2022) analyzed the CSIs of the six largest cocoa processors and traders and the six largest chocolate manufacturers (see Table 1). We reproduce this analysis here and point to the original study for a better understanding of the underlying methodology and more detailed information.

*Table 1: Largest cocoa processors/traders & manufacturers by cocoa used*

Trader/Processor	Cocoa used in 2019 in 1,000 metric tons
<i>Barry Callebaut</i>	1,028
<i>Olam</i>	1,000
<i>Cargill</i>	828
<i>ECOM</i>	735
<i>Sucden</i>	500
<i>Touto</i>	440
<b>Manufacturers</b>	
<i>Nestlé</i>	414
<i>Mondelēz</i>	400
<i>Mars</i>	400
<i>Hershey</i>	200
<i>Lindt &amp; Sprüngli</i>	148
<i>Ferrero</i>	135

Note: To calculate cocoa used ICCO conversion rates were used: cocoa butter 1.33, cocoa paste/liquor 1.25, cocoa powder/cocoa cake 1.28.

Source: Fountain/Huetz-Adams (2020: 31-33)

Objectives of CSIs mostly focus on production (all but OLAM and Hershey), income increase (all but ECOM and Ferrero), child labor and forest / biodiversity protection (all companies). Though every initiative has indicated some activity in forest protection, commitments vary and many of them cite their participation in the CFI as a contribution to forest protection. Only two CSIs (Cargill, Olam) were found to also include the reduction of GHG in the company's operations (transport and processing). Those that provide information on budgets<sup>43</sup> invest between USD 30-40 million annually for their entire programs with the exception of Mars that pledges to invest USD 100 million annually.

<sup>42</sup> See <https://fairtradeafrica.net/sankofa-2/>

<sup>43</sup> Barry Callebaut, Mars, Mondelēz, Nestlé, and Hershey



Lindt & Sprüngli only provides an annual budget for their Farming Program at USD 3.3 million annually. There is a striking difference between the information provided by processors/traders and manufacturers. While many manufacturers disclose their budgets, few processors/traders provide detailed information on budgets, program content and targets. Barry Callebaut, a fully vertically integrated processor and main producer of industrial chocolate, is an exception. Manufacturers who are closer to customers are probably more concerned about their brand reputation than processors who do not hit the headlines. The same probably applies to Barry Callebaut as a supplier to and owner of some well-known brands.

In the following, we will highlight two CSIs. The Mondelēz Cocoa Life Program stands out as one of the most transparent and in terms of numbers ambitious programs. The website depicts the program's progress by country and information is transparently presented. The Nestlé Cocoa Plan was selected for its innovative approach.

### ***Mondelēz Cocoa Life***

*Mondelēz Cocoa Life* was launched in 2012 building on the Cadbury Cocoa Partnership established in 2008. The program envisions investments of USD 400 million by 2022 to empower at least 200,000 cocoa farmers and reach one million community members. The program's three areas of intervention are i) sustainable cocoa farming businesses; ii) empowered cocoa communities; and iii) conserved and restored forests.<sup>44</sup> In its 2021 Cocoa Life report, Mondelēz announced that it already exceeded its 2022 goal with nearly 210,000 Cocoa Life registered farmers by the end of 2021 and an investment of USD 404 million.<sup>45</sup> According to the *Mondelēz Cocoa Life* website, the program currently reaches 81,159 farmers and 818 cocoa communities in Ghana. All these communities have Child Protection Committees and CLMRSs (or an equivalent). About 782,000 community members were educated on issues of (forced) child labor. 68,285 community members participate in one of 1,426 operational VSLAs. In the context of forest conservation and restoration, 187,000 community members were trained on Good Agricultural Practices, about 94,000 farms mapped and monitored and 2.5 million shade trees distributed.<sup>46</sup> All these figures are based on the company's own disclosures.

### ***Nestlé Cocoa Plan & Income Accelerator***

Nestlé is committed to address social and environmental issues in the cocoa supply chain by its *Nestlé Cocoa Plan* launched in 2009. It is implemented in cooperation with several partners, such as RFA, ICI, and SWISSCO (see below). The Nestlé Cocoa Plan builds on the pillars "Better Farming", "Better Lives", and "Better Cocoa". Under the first pillar, it provides training and resources to help farmers improve their farming practices, increasing their income and improve their livelihoods. "Better Lives" are to be achieved by tackling child labor, empowering women and improving education to help communities thrive. "Better Cocoa" aims at enhancing supply chain traceability and tackling deforestation. The *Nestlé Cocoa Plan* wants to build up long-term relationships with farmer cooperatives and to source 100 % of its cocoa through the program by 2025. In 2021, 50.6 % of the company's cocoa were sourced through the *Nestlé Cocoa Plan*, 152,236 famers were engaged in the program, and 1,038,900 forest and fruit tress distributed globally. In addition, 193 VSLA groups were created globally to help communities save and empower women.<sup>47</sup> A breakdown by country for these numbers is partly available in special reports. The company's "Tackling Child Labor 2019 Report" states that in the context of CLMRS 82 CLPs covered 2,859 farmers and 2,430 children by August 2019 in Ghanaian cocoa communities (Nestlé 2020: 12). Nestlé's "Towards Forest Positive Cocoa Report 2022" shows that the company has already reached its targets with regards to deforestation in

<sup>44</sup> See <https://www.cocoalife.org/the-program/approach>

<sup>45</sup> See <https://www.cocoalife.org/in-the-cocoa-origins/cocoa-life-in-ghana>

<sup>46</sup> See <https://www.cocoalife.org/in-the-cocoa-origins/cocoa-life-in-ghana>

<sup>47</sup> See <https://www.nestle.com/sustainability/sustainable-sourcing/cocoa>

Ghana. By 2021, Nestlé mapped about 29,000 cocoa plots in its direct supply chain, distributed more than 309.000 multi-purpose trees for on-farming planting since 2018 and reached 18,258 farmers by good agricultural practices (Nestlé 2022).

In 2020, Nestlé introduced a novel approach, the *Income Accelerator Program*, which provides cash payments via mobile phones to families if they adhere to one or all of the following practices:

- enrolling their children in school,
- applying good agricultural practices that are supported by training and subsidized pruning groups,
- implementing agroforestry activities by planting free fruit and forest trees, and
- diversifying income towards other crops and raising livestock.

For the adherence to each of those practices, families receive CHF 100 per annum and if they adhere to all four, they will receive an extra CHF 100. Thus, families can receive a total of CHF 500 per annum in cash transfers for the first two years. Thereafter the amount will be reduced to CHF 250. The amount is split between female and male heads of household to empower women. Alongside the cash payments, VSLAs are implemented to further empower women. The program, piloted in 2020 with 1,000 families in Côte d'Ivoire, is implemented in collaboration with the KIT (Royal Tropical Institute), ICI, IDH and the RFA. Currently (in 2022), a test at scale with 10,000 families is implemented in Côte d'Ivoire and by 2024, the program should be extended to Ghana and the global supply chain. Nestlé plans to reach all cocoa-farming families (about 160,000) in their global supply chain with the program by 2030.<sup>48</sup>

### 3.1.4 National Initiatives on Sustainable Cocoa and Civil Society

From 2010 onwards, so-called National Initiatives on Sustainable Cocoa (ISCOs) were formed in European producer countries. ISCOs want to live up to the Global North's responsibility for a sustainable cocoa-chocolate GVC. The initiatives vary in their composition, but mainly consist of government agencies, the private sector, VSSs, NGOs, and research organizations. They all aim for a sustainable cocoa-chocolate GVC and employ different strategies to achieve this goal. Currently, there are five ISCOs in Europe, namely in the Netherlands (DISCO), Germany (GISCO), Switzerland (SWISSCO), Belgium (Beyond Chocolate), and France (FRISCO).

In 2021, the national initiatives signed a Memorandum of Understanding to improve collaboration as ISCOs, aiming at a more sustainable cocoa sector in Europe through knowledge exchange and capacity building, the engagement at the EU multi-stakeholder dialogue and joint research (Beyond Chocolate et al. 2021). In September 2022, the first joint *ISCOConference* took place, in which also FRISCO – only founded at the end of 2021 – joined the MoU.<sup>49</sup> Recent developments indicate an expansion of the initiatives on sustainable cocoa to Great Britain.<sup>50</sup>

In addition to ISCOs, many civil society organizations in producing countries are engaged in pressuring for a more sustainable cocoa-chocolate GVC. They do so by conducting research and publishing reports but also by launching campaigns. Oxfam and Mighty Earth are two prominent examples of NGOs that have issued recent reports critically elaborating on the efforts of the private sector and their sustainability initiatives (e.g., Ahrin 2022; Mighty Earth 2022). NGOs based in Ghana (e.g., EcoCare and SEND Ghana) are also active in advocacy work around cocoa. However, only one European based CSO – the VOICE Network – has a single focus on cocoa. It will be described in more detail below.

<sup>48</sup> See <https://www.nestle.com/sustainability/human-rights/living-income/cocoa>

<sup>49</sup> See <https://www.kakaoforum.de/en/news-service/news/news-detail/first-joint-isconference-2022-915/>

<sup>50</sup> See <https://www.idhsustainabletrade.com/publication/terms-of-reference-scoping-the-potential-for-a-british-sustainable-cocoa-program-and-securing-stakeholder-engagement/>

Before that, we present SWISSCO in more detail to give one concrete example of an ISCO. Moreover, SWISSCO has a programmatic focus on Ghana.

## **SWISSCO**

SWISSCO, founded in 2017 and located in Bern, Switzerland, currently has 69 members (38 manufacturers and traders, 6 retailers, 13 NGOs/VSS, 5 research organizations). As a non-profit organization it aims at pooling efforts, promoting dialogue in producer countries and increasing demand for sustainable cocoa. SWISSCO also contributes to the ICCO Global Cocoa Agenda and the SDGs (SWISSCO 2019). The members of the Cocoa Platform commit to engaging in a peer learning network, implementing joint projects, measuring progress with a common Monitoring, Evaluation and Learning framework and by collaborating internationally with authorities and organizations in producing countries.<sup>51</sup> In its Roadmap 2030, SWISSCO identifies four target areas: contributing to a living income for cocoa farmers, engaging in the development of a deforestation-free and climate-friendly cocoa supply chain, tackling child labor and improving perspectives of youth as well as committing to transparency and traceability within the cocoa supply chain. In addition, two transversal themes, gender and innovation are listed in the roadmap. Focus countries are Ghana and Peru (SWISSCO 2021).

SWISSCO aims at directing most resources to joint projects that are funded by members and are co-financed by the Swiss State Secretariat for Economic Affairs (SECO). So far 14 projects have started (and some of them ended again) that target almost 100,000 cocoa farmers, the bulk of them (78,500) in Ghana. Based on the project fact sheets, an estimated USD 24 million (about 20 million thereof in Ghana) were invested in these programs so far, with the Swiss government (through SECO) contributing about USD 7.6 million.<sup>52</sup> Project durations are surprisingly short with an average of only 2.5 years and a duration of 4 years in only three projects.

## **VOICE Network**

The VOICE Network started as a project and is a legal entity under Dutch law since 2015. It is a global network made up of 20 members (NGOs and Trade Unions), that work on sustainability in cocoa. The network's mission is to be a "watchdog and catalyst for a reformed cocoa sector".<sup>53</sup> The network pursues this mission by informing and coordinating civil society, undertaking research and advocating at global and regional level. Strategically VOICE focusses on a living income, human rights, environmental protection as well as transparency and accountability. VOICE also coordinates the biennial publication of the Cocoa Barometer, one of the most cited documents in the cocoa sector that was first published in 2009. The network engages actively in the Cocoa Coalition, which is an informal group of companies, VSSs, NGOs and a multi-stakeholder initiative.<sup>54</sup>

## **3.2 Recent Regulatory & State-led Initiatives**

### **3.2.1 Ghanaian Government Initiatives and Programs**

Initiatives and programs of the Ghanaian government have always shaped the cocoa sector (see Chapter 2.2). In this chapter, we present two current initiatives: the Living Income Differential (LID) and the Cocoa Management System (CMS).

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<sup>51</sup> See <https://www.kakaoplattform.ch/our-activities>

<sup>52</sup> Total budgets for the seven projects starting in 2020 are not disclosed. For these the co-financing contribution from SECO was doubled as for most of the previous seven projects the co-financing contribution was 50 % of the total budget.

<sup>53</sup> See <https://voicenetwork.cc/>

<sup>54</sup> Ferrero, Mars Wrigley, Mondelēz International, Nestlé, Tony's Chocolonely, Unilever, FT, RFA, Fair Trade Advocacy Office, VOICE Network, ICI



### ***Living Income Differential (LID)***

Following the introduction of the LID (see Chapter 2.2), a variety of challenges emerged. By the end of 2019, it was reported that some international buyers reduced their forward purchases after the announcement of the LID.<sup>55</sup> In addition, many companies such as Hershey and Bloomer were accused of sourcing unusually large amounts of cocoa from other producer countries. With regard to traders and grinders, it was reported that they prioritized their stocks instead of sourcing new beans from Ghana and Côte d'Ivoire (Maile et al. 2022). The introduction of the LID had also serious implication for the 'origin differentials'. In May 2022, the CIGCI announced that the 'origin differentials' for Ghana and Côte d'Ivoire have fallen by over 150 % in the last three years. Ghana's origin differential for the month of June was at GBP 60/metric ton below the ICE EU Terminal Market and hence even negative.<sup>56</sup> Since the quality cocoa beans did not change, this indicates that buyers use low origin differentials as a way to mitigate higher prices due to the LID. Since the end of May 2022, Ghana and Côte d'Ivoire publish the origin differentials on a monthly basis "to guarantee transparency vis-à-vis market players." In July 2022, CIGCI announced that Ghana and Côte d'Ivoire will not sell cocoa at origin differentials below zero anymore.<sup>57</sup> As of September 2022, Ghana's origin differential is at GBP 20/metric ton above the ICE EU Terminal Market. CIGCI emphasizes that this amount is indicative and reflects the minimum level at which Ghana would sell its cocoa.<sup>58</sup>

Finally, the situation was complicated by the fact that, apart from the change in companies' strategies because of the LID, the COVID19 pandemic also put pressure on demand and forward sales. Demand slumped and international buyers stopped signing forward contracts due to demand and transport uncertainties in the context of the pandemic (Maile et al. 2022). Despite these distortions, Ghana was able to keep the producer price stable at USD 1,820/metric ton in nominal terms in the last selling season 2021/22. However, it did so by means of subsidies, which increased COCOBOD's external debt (IMF 2021). In addition, high inflation in Ghana considerably reduced the real value of farmers' income (Maile et al. 2022).

### ***Cocoa Management System (CMS)***

In late 2020, COCOBOD announced to develop a comprehensive Cocoa Management System (CMS). The CMS should be based on the collection of in-depth socioeconomic data on cocoa farmers and their communities in Ghana. It aims to create a database of all cocoa farmers and farms and all cocoa transactions (including services and production inputs).<sup>59</sup> The CMS strives to ensure full cocoa traceability to the farm level. So far, cocoa can be traced only to the community level by PCs.<sup>60</sup> In addition, COCOBOD hopes to better match cocoa farms with service and input providers. Registered farmers receive a Cocoa Identification Card (CIC) linked to the National Identification System. CICs will be the primary identification documents with which the farmers can access production inputs and extension services. Through CMS, COCOBOD also wants to introduce digital payments, making transactions easier and more secure. The registration of approximately 800,000 cocoa households and the related number of farms and farmers will cost about USD 10.7 million. In the first months of the project, COCOBOD collected data of around 1,000 farmers as a pilot.<sup>61</sup>

By the end of 2021, mapping and counting had been completed in the cocoa regions Wester South, Ashanti, and Central. In total, 845,635 farms and 515,762 farmers have

<sup>55</sup> See <https://www.reuters.com/article/us-cocoa-premiums-idUSKBN1YL1W7>

<sup>56</sup> See <https://www.cighci.org/publication-of-cocoa-origin-differentials-for-cote-divoire-and-ghana-2/>

<sup>57</sup> See <https://www.cighci.org/cote-divoire-and-ghana-decide-to-no-longer-sell-their-cocoa-at-origin-differentials-below-zero/>

<sup>58</sup> See <https://www.cighci.org/>

<sup>59</sup> See <https://thecocapost.com/10-things-to-know-about-ghanas-cocoa-management-system/>

<sup>60</sup> See <https://www.idhsustainabletrade.com/news/cocobod-makes-strides-towards-fully-traceable-cocoa-through-the-new-cocoa-management-system-cms-in-ghana/>

<sup>61</sup> See <https://bartalks.net/cocobod-forms-cocoa-management-system/>

been registered by this time (CFI 2022). CFI (ibid.) estimates that 72 % of the total cocoa area has been covered so far and expected the exercise to be completed in August 2022. Originally, CMS was planned to be completely operational by the end of 2021.<sup>62</sup> In September 2022, Ghana's Deputy Minister of Food and Agriculture announced that CMS was nearly complete with 664,529 farmers covered and only one cocoa growing area missing.<sup>63</sup> The consequences of such a system for landless farmers or those who do not have an identification card (e.g., sharecroppers, women, who do not officially own farms) needs to be evaluated critically.

### **3.2.2 EU Initiatives**

The active engagement of the European Union (EU) in the cocoa sector started recently. In 2020, it launched its Sustainable Cocoa Initiative. At the same time, the European Commission's (EC) proposals on a corporate sustainability due diligence (Feb. 2022) and deforestation (Nov. 2021) will affect companies operating in cocoa processing and chocolate production and thus the cocoa sector.

#### ***The Sustainable Cocoa Initiative and Cocoa Talks***

The objectives of the EU's Sustainable Cocoa Initiative were to i) advance the elimination of child labor and trafficking in cocoa supply chains; ii) strengthen forest protection and restoration in cocoa producing regions; and iii) ensure a decent living income for cocoa farmers. In the framework of the initiative, eight "Cocoa Talks" on key sustainability issues were held. These multi-stakeholder dialogue meetings were organized by the EC and took place from January to December 2021. The talks were attended by EU stakeholders, including representatives of Member States, the European Parliament, industry and civil society organizations, and representatives of Côte d'Ivoire, Ghana and Cameroon. According to the EC, the Sustainable Cocoa Initiative supplements the EU legislations on corporate sustainability due diligence and on tackling global deforestation (EC 2022c). In June 2022, a concluding high-level event took place that adopted a roadmap with concrete action points on how to improve sustainability in the cocoa supply chain.<sup>64</sup>

The Roadmap foresees – amongst other things – the launch of two focus groups on i) prices and markets and ii) standards and traceability. The groups will gather a limited number of experts and representatives of the different stakeholder groups and run for 6 months initially. Its mission is to develop concrete recommendations on market mechanisms and government policies to help increase farmers income and to improve standards and traceability. The roadmap further encourages the creation, implementation and strengthening of National Strategies and Actions Plans; bilateral policy dialogue on sustainability issues in the EPA Committees and on development cooperation; and support through EU development cooperation and finance. In April 2023, a high-level conference will be organized to take stock of the progress achieved. Further, a report on the implementation of the roadmap's action points is to be issued to supplement the debate (EC 2022a).

#### ***Due Diligence and Deforestation laws***

In February 2022, the European Commission (EC) adopted a proposal for a "Directive on Corporate Sustainability Due Diligence". This directive will apply to large EU limited liability companies of more than 500 employees and EUR 150 Mio. turnover worldwide. It also applies to companies that operate in high impact sectors (such as agriculture), with more than 250 employees and EUR 40 million turnover worldwide. The directive will also apply

<sup>62</sup> See <https://www.idhsustainabletrade.com/news/cocobod-makes-strides-towards-fully-traceable-cocoa-through-the-new-cocoa-management-system-cms-in-ghana/>

<sup>63</sup> See <https://citibusinessnews.com/2022/09/cocoa-management-system-almost-ready-deputy-agric-minister-discloses/>

<sup>64</sup> See [https://international-partnerships.ec.europa.eu/news-and-events/news/eu-cote-divoire-ghana-and-cocoa-sector-endorse-alliance-sustainable-cocoa-2022-06-28\\_en](https://international-partnerships.ec.europa.eu/news-and-events/news/eu-cote-divoire-ghana-and-cocoa-sector-endorse-alliance-sustainable-cocoa-2022-06-28_en)

to non-EU companies that operate in the EU with the same thresholds as for EU companies if the turnover is generated in the EU. The core intention of the directive is to embed human rights and environmental considerations in companies' operations and their corporate governance. This intention is detailed in the corporate due diligence duty and duties for directors of EU companies. The corporate due diligence duty obliges companies to "identify, bring to an end, prevent, mitigate and account for negative human rights and environmental impacts in their own operations, subsidiaries and value chains" (EC 2022b: 2). Directors of these companies are responsible for setting up and overseeing due diligence processes and integrating them into corporate strategy. The costs for establishing and transitioning to these due diligence obligations will remain with the companies (EC 2022b). The approval of the proposal by the European Parliament and the Council is pending. Once adopted, Member States will have two years to transpose the Directive into national law.<sup>65</sup>

Back in November 2021, the EC adopted a proposal that aims at restricting deforestation and forest degradation caused by products consumed in the European market. The reasoning behind this regulation is that certain commodities, including cocoa and chocolate, drive forest degradation and deforestation through expansion of agricultural land. Thus, the regulation aims at minimizing the consumption of products that are associated with deforestation and forest degradation. The regulation is also expected to reduce the emission of GHGs and the loss of biodiversity. Companies will be obliged to put in place due diligence mechanisms that ensure that their products are not linked to deforestation. Central in the regulation is the establishment of the geolocation of the producing areas that will have to be revealed to authorities (EC 2021). In December 2022, the European Parliament and the Council reached an agreement on the EC's proposal, and the regulation is expected to enter into force in 2023. Once this is the case, companies will have 18 months to implement the new rules.<sup>66</sup>

The cocoa and chocolate sector is aware that both pieces of legislation will have an impact on the sector's business practices. Indeed, stakeholders organized in the Cocoa Coalition point out that they have been calling for the adoption of such legislation for some time and explicitly welcome the initiatives by the EC. They expect the directive and the regulation to contribute to greater social and environmental sustainability, not least by creating a level playing field and consistency for companies operating in the sector (Cocoa Coalition 2021).

## 4 Evaluation of Initiatives

Chapter 3 illustrated the wide spectrum of sustainability initiatives in the global and Ghanaian cocoa sector. Yet the impact to date have been very modest and some speak of two decades of failed interventions (Fountain/Huetz-Adams 2020: 8). Based on eleven interviews with experts (see Annex: List of Interviews) and supported by literature this chapter assesses recent efforts in the cocoa sector with a focus on Ghana.

### 4.1 Poverty as a Key Driver of Sustainability Challenges

Virtually all interviewees agreed that poverty among cocoa farming households is a key driver of sustainability challenges in the cocoa sector, confirming assessments in the literature (Bymolt et al. 2018, Fountain/Huetz-Adams 2020, Grumiller/Grohs 2022, van Vliet et al. 2021). The majority of interviewees, therefore, considers steps toward a living income a necessary starting point not only for greater economic, but also for social and

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<sup>65</sup> See [https://commission.europa.eu/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence\\_en](https://commission.europa.eu/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en)

<sup>66</sup> See [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_22\\_7444](https://ec.europa.eu/commission/presscorner/detail/en/ip_22_7444)

environmental sustainability. However, strategies and opinions on how to achieve a living income differ.

Boosting productivity and yields is seen as one way forward (Interview 11 – Res). Currently, average yields in Ghana are between 400-500 kg/ha (see Chapter 2.2). There are estimates that yields could be increased significantly by optimizing management practices (Interview 11 – RES; van Vliet et al. 2021: 4). However, the experiences of WCF'S CocoaAction demonstrate that this optimization is not achieved easily. Even though the targeted number of farmers was reached through programs towards good agricultural practices, adoption rates of these practices were extremely low. This may indicate that the practices were inappropriate for small-scale farmers and designed by outsiders rather than in cooperation with farmers (Interview 1 – RES). Low adoption rates are a widespread challenge that productivity-increasing initiatives face (Interview 11 – RES). In this context, one interview partner pointed out that the current output of 400-500 kg/ha might actually be the optimum output for many farmers who carefully have to balance risks, input costs and potential revenue (Interview 8 – CSO). For smallholder farmers who have to consider different livelihood options, yield and profit maximization might not be the first priority (Neilson et al. 2018: 420). Furthermore, the assumption that productivity increases will automatically increase farmer incomes is flawed, not at least due to inter-seasonal price fluctuations that do not allow farmers to plan long term (Interview 3, 8). Increased productivity also may cause oversupply and a decline in prices, as well as negative environmental impact associated with intensifying production. Proponents of increased productivity acknowledge this risk and call for effective supply management and strategies for a sustainable intensification of smallholder cocoa production (Interview 11 – RES). Others, however, criticized this focus on productivity for being one-dimensional and suggesting that the problem of poverty rests with the poor performance of farmers rather than with the system of global trade and companies' objective of maximizing profits (Interview 10 – CSO).

Thus, many interviewees see the substantial increase and stabilization of producer prices as a key measure towards a living income and towards resolving other sustainability challenges in the sector (Interview 3, 4, 8, 9, 10). Also a sustainability manager from a leading chocolate producer, quoted by an interview partner, was of the opinion that it would not be possible to move towards a sustainable cocoa sector without a significantly higher price (Interview 8 – CSO). Premiums paid by VSSs and CSIs are overwhelmingly considered too low to contribute to a living income. According to a VSS representative, the RFA premium of USD 70/metric ton is "small money", particularly for small producers who harvest even less than a metric ton (Interview 3 – VSS). Despite an established minimum price and a higher premium, the payments of FT do not add up to a living income for farmers either (Interview 10 – CSO). Premiums paid by corporate VSSs are in general much lower (Interview 6 – PS). According to some interviewees, the main reason why substantial price increases have not yet taken place, is due to the business interests of companies: higher prices result in lower profits or a lower market share (Interview 3). To put it in the words of a private sector representative: buying at the lowest (world market) price "is our fiduciary duty to our shareholders" (Interview 6 – PS).

While there are strong arguments for higher prices, Kiewisch/Waarts (2020) argue that larger farmers with higher production would benefit most from price increases and those with limited production would not reach a living income. Nevertheless, doubling of prices means a doubling of income, irrespective of the income level at which farmers find themselves (Interview 8 – CSO). Increased prices may also lead to increased production by existing farmers or by farmers who are drawn into the sector in prospect of good economic returns. This could result in oversupply and in turn declining prices and environmental degradation (Interview 11 – RES).

Whichever way this is taken, it shows that the eradication of poverty cannot be achieved with cocoa production alone, but needs to consider on-farm diversification and alternative



income sources. As one of the interviewees put it: “[...] the cocoa system will not pay everyone a living income” (Interview 11 – RES). Despite the criticism that too little is done to assist farmers in diversifying their income sources away from cocoa (Interview 5 – RES), positive examples do exist. Farmers in Ghana were assisted successfully with planting material and training on cassava production of specific varieties that were in great demand in Nigeria. However, this was a small-scale project (Interview 8 – CSO). One of the difficulties in diversifying away from cocoa is that other cash crops offer less income than cocoa (Bymolt et al. 2018; Waarts et al. 2021). Thus, off-farm income support such as direct cash payments and VSLAs were viewed as good alternatives to increase income (Interview 1, 8, 10, 11). However, it also needs to be acknowledged that poverty is not restricted to cocoa farmers but to Ghanaian small-scale agricultural production in general. In fact, cocoa farmers are often better off than other farmers (Interview 1, 11).

## 4.2 Best Practices and Shortcomings

According to interviewees (2, 3, 4, 5, 6) and studies (Fountain/Huetz-Adams 2020, Grumiller/Grohs 2022), the price of cocoa highly affects sustainability issues in the cocoa sector such as child labor and deforestation. However, it was also pointed out that tackling social and environmental aspects will require additional interventions (Interview 7 – NGO).

In terms of social sustainability, ICI’s CLMRS is considered a best practice example. The reduction of child labor by 30 % in communities where the system has been applied is a presentable result (Interview 10 – CSO). In addition, another interviewee stated that interventions to reduce child labor do have an impact, even though they are counter-acted by increases in production (Interview 8 – CSO). More research is desired on what exactly reduced the number of children in child labor and how programs can be duplicated and scaled up (Interview 10 – CSO).

With regard to additional and alternative income streams, VSLAs are cited as promising tools (Interview 7, 10). These community-based savings groups provide their members with agency and autonomy, which means they are not dependent on donations from outside. Inherent in the approach are elements of consumption smoothing and asset accumulation that have an effect on cocoa production and productivity, but potentially also allow to move away from cocoa. Women are also economically empowered as they have access to finance and are able to engage in income generating activities that help to diversify household income (Interview 7, 10).

The recently introduced Nestlé Income Accelerator program was mentioned as a positive example in several interviews (Interview 2, 3, 4, 5, 8, 10, 11). Despite its early days and limited data on the effects of the program, many appreciated the approach since it separates the poverty discussion from the market dynamics of prices and volumes (Interview 3, 10, 11). Due to the decoupling of production and cash payment, poorer households will benefit more in relative terms (Interview 8 – CSO). The cash payments are conditional on following certain practices but not on how the cash is spent, which leaves the decision-making power with farmers (Interview 5 – RES). Additionally, the program empowers women by providing half of the income directly to them, which strengthens their position in the household (Interview 10, 11). One interview partner, however, was concerned that this program might either draw more people into cocoa production or prevent a diversification away from cocoa since cash transfers are only made to cocoa farmers (Interview 5 – RES).

WCF’s flagship program, the CFI, has joined the public and private sector in West Africa to tackle deforestation. One of the recent successes it contributed to is the establishment of the CMS that allows for improved traceability of cocoa.<sup>67</sup> However, the achievements of

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<sup>67</sup> See <https://www.idhsustainabletrade.com/news/cocobod-makes-strides-towards-fully-traceable-cocoa-through-the-new-cocoa-management-system-cms-in-ghana/>

the initiative to date are controversial. An analysis of action plans of companies under the CFI by Carodenuto/Buluran (2021) revealed that many of the plans lacked specificity regarding timelines, definitions and implementation strategies. Furthermore, these plans targeted the direct supply chain of companies but not the indirect sourcing from cocoa farms. The CFI progress report 2020 has been heavily criticized for lack of transparency and for omitting any quantification of deforestation but rather focusing on distribution of seedlings and improvements on traceability (Mighty Earth 2022).

In public perception, VSSs are still the most prominent initiatives, not least because they are most advertised and most noticeable in supermarkets. The buyer of a chocolate product expects from certifications that at least a certain level of standards has been met. However, as one interview partner puts it:

*“Certified cocoa does not mean that farmers are not poor. It does not mean that trees are not being cut down and it does not mean that children are not in child labor. Now those would probably be the three main reasons why consumers buy certified cocoa, right? So there is a very big disconnect between consumer expectation and reality on the ground.” (Interview 10 – CSO)*

According to another interview partner it was the “limited impact and cases of non-compliance with standards, [which] led the private sector to move towards own sustainability programs” (Interview 6 – PS, see also Thorlakson 2018). These private sector programs/CSIs have their obvious weaknesses: Any information that could potentially be damaging to the brand may be omitted in reports or communications. This goes further to the extent that some activities are discontinued if they do not provide results that are communicable to customers or shareholders (Interview 7 – PS). Other information leaves room for interpretation. For example, a reduction in child labor of X % that is celebrated in a report, could have been caused by children abandoning child labor for education or because they outgrew the age bracket in which they would have been considered child laborers (Interview 8 – CSO). Some interviewed researchers felt that data on cocoa farmers from the private sector was virtually impossible to access and thus not verifiable (Interview 1, 8).

Despite their shortcomings regarding a limited market share and premiums that still do not allow for a living income (see above), VSSs changed the marketing of cocoa (Interview 3, 4, 9, 10). While there is some impact on the income of farmers, the premiums are even more important for the cooperatives, guaranteeing their survival (Interview 11 – CSO). FT was rated as the best standard that offers higher premiums to both farmers and cooperatives and providing institutional support (Interview 4, 9, 10). The FT standard was the basis for CSOs that pressurized RFA to make improvements to their premium payment policy (Interview 10 – CSO). In addition, the infrastructure built up by certification schemes such as RFA and FT served as “a skeleton on which other interventions can be built up and designed on” (Interview 10 – CSO).

Hardly any literature was found on the impact of multi-stakeholder initiatives. In interviews these initiatives were not mentioned actively by interview partners (except for the interview with a representative of a NMSI), when asked about successful or promising developments. This suggests that they are either not communicating their achievements actively enough or they are not perceived as players with sufficient weight. For example, multinational companies viewed an engagement at GISCO level as duplication of efforts and therefore refrained from a meaningful engagement (Interview 8 – CSO). SWISSCO on the other hand might be an example, how such initiatives could provide additional support in an already crowded field. In its activities, SWISSCO focuses on Ghana and implements innovative programs. One of the success stories of this collaborative approach is the development of cocoa production using a dynamic agroforestry system. Despite great initial skepticism, the CRIG has now realized the potential and will continue with its own research on the topic (Interview 2 – MSI). Beyond Chocolate is criticized in terms of

its investments (roughly USD 2.4 million annually) and the population reached (12,600 farmers), which are less than a medium sized program alone could achieve. Considering that Belgium plays an important role in cocoa trade and chocolate manufacturing, this raises questions about the motivation of such programs and suggests that the engagement is nothing more than ticking the sustainability box (Interview 5 – RES).

### 4.3 Coordination and Integrated Approaches

The magnitude of the challenges in the cocoa sector is enormous, and even private sector representatives believe that the current CSIs are only “mitigating here and there” (Interview 6 – PS). Others point out that SI have contributed to positive impacts, yet still confined to small numbers of farmers or to specific groups of farmers (Interview 3, 6, 7, 8). Despite the large number of farmers targeted and reported to benefit from the CSIs, there are (unconfirmed) claims that less than 10 % of Ghanaian farmers are reached by SI (Interview 8 – CSO).<sup>68</sup> Partly this may be the result of a high concentration and considerable overlap of initiatives in easy to access cocoa producing areas (Fairtrade 2020).

Listing numbers is a popular practice among companies, when it comes to highlighting sustainability efforts. Qualitative evaluations of the programs are often missing. Interviews indicate that it is not only the limited number of farmers reached that is a problem, but also the scope of CSIs. Private sector partners often view programs with a comprehensive package of interventions that aim at addressing multidimensional problems as too expensive (Interview 8 – CSO). This leads to one-dimensional programs that merely focus on the problems that exist on the farm (Interview 10 – CSO). In fact, 71 % of all SI in Ghana and Côte d'Ivoire focus on skills training and provision of inputs (Fairtrade 2020: 28). It comes with no surprise that a private sector representative speaks of “smaller pockets of success” (Interview 6 – PS), but also acknowledges that the magnitude of challenges was completely underestimated when the private sector started to implement SI.

This underestimation was caused in part by the private sector's lack of experience in community and development work (Interview 2 – MSI). This lack, in turn, was reflected in the absence of involvement of farmers and their communities in the design of the initiatives. One interview partner points out that far too often outsiders create programs and trainings that are not appropriate for rural communities (Interview 1 – RES). Particularly approaches to promote diversification among cocoa farmers are often poorly designed, not considering local market dynamics and opportunities or the lack thereof (Interview 2, 3). Since farmers are not a homogeneous group, hearing the voices of different community members, farmers and sharecroppers as well as trying to understand the reasoning behind farmers' decisions would improve the design and outcomes of programs (Interview 1 – RES). Another interview partner notes the lack of coordination amongst initiatives, but also by the government, donors and the private sector, which hampers efforts (Interview 8 – CSO).

However, due to the complexity and interconnectedness of sustainability challenges in the cocoa sector, holistic views and integrated approaches are urgently needed. The experience with WCF's CocoaAction Strategy shows that a holistic claim is not sufficient if the ideas and tools are missing to actually implement it in programs and actions. Transparency at different levels is key to achieve better coordination and cooperation in the cocoa sector. Foremost, this applies to multinational companies, which are very reluctant to give out their data and information (Interview 1, 9). Disclosure of data would allow the cocoa sector to work more collaboratively and effectively. COCOBOD's CMS is a new approach on data collection and traceability, and hence transparency, which is welcomed by the industry (cf. CFI 2022: 27). However, the question about the motivation of the industry to adhere to a system like the CMS or engage in SI in general remains. Interviews confirmed that engaging in sustainability has become a ‘must’ for companies

<sup>68</sup> See also <https://sendwestafrica.org/nu/gh/only-about-10-of-cocoa-farmers-in-ghana-are-involved-in-the-countless-sustainability-programmes-csos/>

and that the reputational risk has become one of the main drivers for them to invest in sustainability initiatives (Interview 1, 2, 4, 6, 7). Besides improvements that can be expected from CMS, it can be also another tool to help industry to check off “sustainability boxes”, while failing to attend the needs of cocoa farmers and in particular more vulnerable groups, such as women, sharecroppers, seasonal workers or illiterate people. Civil society continues to have an important role to play in this regard, pointing out the extent to which promises of transparency and sustainability are actually being kept. In this context, one interviewee pointed to the inconsistency of regular announcements from companies: While they call for more cooperation in the sector, they fail to share data and information. And while they publicly acknowledge the need to pay higher prices for cocoa, they circumvent higher prices such as the LID or the country premiums (Interview 10 – CSO, see chapter 3.2.1).

Eventually, when it comes to integrated approaches, it is not sufficient to speak about cocoa alone. Poverty needs to be considered a rural smallholder challenge (Interview 12 – RES). In this regard, landscape approaches are promising. They work in an entire geographical area rather than only along cocoa production. They are viewed as a successful way of collaboration where many players, including those from outside the cocoa value chain, join forces (Interview 3 – VSS).

#### **4.4 Binding Rules and Global Responsibility**

Recent years have seen a significant institutional shift from voluntary initiatives to binding rules such as the LID and the EU regulations (see Grumiller/Grohs 2022 and Interviews 1, 4, 6, 8, 10, 11). Despite the challenges of the LID (highlighted in chapter 3.2.1), “the LID is exactly the kind of thing that the Ivorian and Ghanaian government needed to do” (Interview 10 – CSO). However, the chocolate industry is clearly using its bargaining power to limit the application of the LID, despite their public acceptance of the new regulation (Interview 6, 8, 10). This underlines that without supply regulation, the market power of producer countries is limited (Interview 5, 6, 8, 10). Supply regulation efforts, however, may suffer from disagreement among producer countries. While Ghana strives for a production increase, Côte d’Ivoire is ready to control future production (Interview 6 – PS).

CMS is another recent example for COCOBOD’s and thus the Ghanaian government’s involvement in the cocoa sector. While in many other agricultural sectors traceability programs are still implemented and (self-)controlled by the private sector, Ghana is responding to the demands of increased transparency with its own initiatives.

The recent EU proposals on deforestation and due diligence are efforts to establish binding rules in consuming countries that hold companies from the Global North legally accountable for their actions. Most interestingly, companies announced to be in favor of such regulations – amongst other things, because they create a level playing field for their activities. Accordingly, companies already position themselves to fulfil these regulations (Interview 6 – PS). According to one interviewee, civil society organizations with the support from some private sector players were instrumental in pushing for these regulations (Interview 9 – VSS). Interview partners (Interview 4, 9) in particular underscored VOICE’s contribution to the advancement of the recent EU regulations on deforestation and due diligence.

In working towards a sustainable cocoa sector, VOICE – together with the so-called Cocoa Coalition – is pursuing a dual strategy. While pushing for an EU-wide regulation, they underline that “its effectiveness will be limited unless it is coupled with the creation of [an] enabling environment [...] within cocoa-producing countries” (Cocoa Coalition 2021). They call on the EU to establish long-term partnerships with cocoa-producing countries, which include time-bound frameworks for actions for all parties involved. The EU’s Sustainable Cocoa Initiative and Cocoa Talks are initial steps towards such partnerships. Although concrete results and outcomes are still pending, they are a clear sign towards exchange



and shared responsibility. In addition, ISCOs also show to some extent that producer/consumer countries are more aware of their responsibilities. Here, too, however, it is important to question the initiatives in terms of their actual effects. There are also signs of positive institutional change in the private sector where a gradual integration of sustainability efforts in different departments of the business is progressing. Despite continuing internal discussions about priorities, this is an indication that sustainability efforts are entering the core business and receive attention in all departments (Interview 6 – PS).

## 5 Conclusions and Recommendations

This report highlighted that the socioeconomic situation of cocoa farmers and cocoa farming households in Ghana needs to be understood in the context of the cocoa-chocolate GVC. Within the cocoa-chocolate GVC and the Ghanaian cocoa sector, we identified key sustainability issues that affect the socioeconomic situation of farmers. In the following, we portrayed initiatives aimed at addressing these issues at the private-sector and the governmental level. Based on eleven expert interviews and a literature review, we presented an assessment of these initiatives and highlight why their impact on the livelihood of the average cocoa farming household has often been limited. However, we also identify best practice examples and promising developments. We conclude this report with four recommendations. The first relates to structural issue of binding rules; the second is focused on the operational level. In our third recommendation, we express the need to support producer countries' efforts to increase cocoa prices and stabilize income. Finally, we recommend to consider issues in the cocoa sector in the framework of rural development.

### **Recommendation 1: Continue to pursue the path of binding rules**

The shift to binding rules in the cocoa sector is necessary and overdue. The past 20 years have demonstrated that voluntary agreements (VSS, CSIs and others) have had limited success only. We thus argue that binding rules implemented by states/political entities with large markets (e.g., the EU) are crucial to improve the sustainability in the cocoa sector in a meaningful way. In this context, actors in the Global North increasingly seem to acknowledge their responsibility. This window of opportunity must be seized to ensure that sustainability efforts do not remain mere lip service or are reduced to ticking technical and administrative boxes in companies' sustainability reports.

Binding rules, therefore, need to include *i) precise obligations for companies; ii) good and transparent reporting practices; and iii) liabilities in the case of non-compliance*. The prerequisite for all this are clearly defined standards and their public monitoring. The cocoa sector in particular has shown that the uncontrolled growth of different standards leads to a lack of clarity and to incomparability, limiting positive effects for farmers. Compliance with standards and, most importantly, their verification by audit firms should be decoupled from business interests, in order to ensure that they serve the people who are at risk in the value chain. An independent EU authority that acts as a 'certifier of certifications' could improve the effectiveness of certifications.

### **Recommendation 2: Improve coordination, scale up best practices, maintain exchange on global level**

The limited effects of voluntary sustainability standards in the last decades – not at least with regard to child labor and deforestation – highlights not only the need for binding rules, but also for more comprehensive and coordinated approaches by firms. In general, today's sustainability challenges are well known and these challenges require integrated

approaches and the sharing of knowledge and data. The task of civil society organizations, such as VOICE, is to demand that companies deliver on their promises and to exert pressure to that end. In this context, it is important to critically examine companies' sustainability efforts and have an open debate about what works and what does not. We have highlighted several best practices and innovative approaches such as CLMRS and direct cash transfer that seem to be making a difference on the ground due to their combined approach of raising awareness and direct support. *The cocoa sector should join forces to scale up these best practices and coordinate efforts to benefit as many people as possible and reduce rates of child labor and deforestation.*

The cocoa sector should continue on the path of acknowledging problems and trying to mitigate and eventually eradicate them. For too long, unrealistic goals were set, such as the elimination of child labor in the shortest time possible. The meaningful expansion of programs is challenging and the governance of such efforts is not trivial. Mechanisms are needed to ensure that sustainability efforts have continuity and are not just snapshots captured in reports. Moreover, the measures must be still sufficient to actually address the problems. Again, questions of appropriate monitoring and auditing arise and refer back to what an effective due diligence legislation must be able to deliver. However, questions also arise at the national level about the extent to which Ghana's policies provide an enabling environment for scaling up efforts. In this respect, *the exchange between consumer and producer countries*, as currently taking place within the framework of the EU's Sustainable Cocoa Initiative, *should be maintained and strengthened.*

### **Recommendation 3: Support producer countries' efforts to increase cocoa prices and stabilize income**

Higher prices and income stabilization for cocoa farming households are still a *conditio sine qua non* for the sustainability of the cocoa sector. European Due Diligence Legislation will not directly affect the prices of cocoa beans nor the income of farmers. As long as prices are determined at the stock exchange and futures markets, they are prone to fluctuations. In addition, farmers and producer countries carry the price risks, which reflects the power asymmetries of the cocoa-chocolate GVC. In light of this, the LID, which is a step in the right direction, has structural weaknesses that severely compromise its (long-term) effectiveness. Companies' circumvention strategies have shown that firms still have plenty of scope to squeeze prices; e.g., by reducing the 'origin differential' or by turning to other supplying countries.

These structural weaknesses could be (partly) compensated, if the LID is extended beyond Ghana and Côte d'Ivoire. Another option is the introduction of production quotas. This would undercut buyer strategies to play suppliers off against each other and create a clear starting point for negotiations. Public and private actors in the EU should support the LID and its further implementation. This can be done, for example, by providing financial support to COCOBOD's stabilization fund or by stopping circumvention strategies. In addition, and due to the current intensification of debates on higher and stable prices, the opportunity can be taken to also think about more unconventional measures for price regulation. This includes considerations on an *international stabilization fund for global prices* and/or possibilities of *delinking the cocoa bean trade from the futures markets*. These measures are undoubtedly demanding in their design and implementation and require a close look at historical experiences of success and failure in similar attempts. However, if the cocoa sector really wants to address the problem of prices, such ideas should not be ruled out from the outset.

#### **Recommendation 4: Consider issues in the cocoa sector in the framework of rural development**

The cocoa sector is a central part of Ghana's economy and agriculture in particular. Questions on how the cocoa sector should develop are structural questions, which affect rural livelihoods as such. From this point of view, there are further questions that should be considered more intensively in the future. Firstly, this concerns the different living conditions on cocoa farms. While the general problems are well known and the focus of interest, little research has been done on the living conditions of sharecroppers, women, young people, and (seasonal) workers. As a result, SIs also often insufficiently address them. Secondly, despite their poor situation, cocoa farmers in Ghana generally have a better income situation compared to other smallholders, albeit at a low level. The strong focus on cocoa runs the risk of losing sight of other rural livelihoods and not asking questions about how to improve their living conditions.

Taking these two points together, we recommend – in particular from a development policy perspective – to consider issues in the cocoa sector as issues of rural development. This allows a broader analysis and the inclusion of livelihoods that are lost in the narrow focus of most SIs on cocoa and cocoa farms. The centrality of cocoa to the Ghanaian economy remains intact in such a perspective, but it additionally enables to ask broader questions concerning rural development.

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*All hyperlinks were last checked for validity on December 15, 2022.*

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## Annex: List of Interviews

No.	Date	Country	Position	Organization Type
1	27/04/2022	Ghana	Researcher	Researcher
2	28/04/2022	Europe	Executive Director	NMSI
3	04/05/2022	Netherlands	Monitoring, Evaluation and Learning for Development	VSS
4	09/05/2022	Austria	Research Fellow	Researcher
5	10/05/2022	UK	Research Fellow	Researcher
6	11/05/2022	Switzerland	Research, Monitoring and Evaluation, Verification, and Learning Manager	Private Sector
7	12/05/2022	Cameroon	Senior Technical Advisor, Corporate Partnership	NGO
8	12/05/2022	Germany	Research Fellow	CSO
9	13/05/2022	UK	Senior MEL Manager at The Fairtrade Foundation	VSS
10	17/05/2022	Netherlands	Managing Director	CSO
11	28/06/2022	Netherlands	Researcher	Research