By Antonie Fountain – Chocoa 2014

When we were writing the previous Cocoa Barometer we were looking at "Beyond Productivity". And one of the core questions that came up: but what is the farmer actually profiting from this? We started looking around, and found virtually no research that looked at this issue.

So we started making our own calculations. They shocked us to such an extent that we went back and made the same calculations again. And again. Then we started shifting the parameters, taking more hopeful estimates in farm size, FOB% etc, to create an image that might be less disastrous than our initial results.

And we ended up with this: an average cocoa farmer in Ghana is earning just 47% of what he needs to earn to actually hit the 'Absolute Poverty' line – broken down per dependent – and 30% to hit the poverty line. A Ghanaian cocoa farmer would have to see his income more than triple to escape absolute poverty. For Ivorian farmers, it's worse. A lot worse. An average Ivorian cocoa farmer currently earns 9% of the absolute poverty line, and just 6% of the poverty line. He'd need to see his income go up by almost a factor ten, just to reach absolute poverty line. It would have to go up by 1600 percent to actually escape absolute poverty.

After ten years of working on sustainability in cocoa – although in all honesty, it hadn't really kicked off until five years ago, we still don't seem to be getting very far in actually helping farmers out of poverty.

I think it is pretty fair to say that unless we manage to alleviate the poverty for the people at the bottom of the supply chain, all of our sustainability efforts are mostly in place to make ourselves feel good.

For a long time, we didn't really know what had to be done. So we turned to the only tool we seemed to have: certification. And when all you have is a hammer, every problem starts looking like a nail, and you just bang on it. But sometimes you need a saw, or a chisel.

Most of the certification systems have been modelled on the coffee sector, where labourers are wage workers on larger estates. When alleviating poverty, you need to look at who is poor. Cocoa is different, because it's almost exclusively grown by smallholders. So a wage discussion doesn't work here.

Certification can be a very useful tool for ensuring environmental and social conditions are acceptable, and that premiums are distributed. But it's not going to solve the core problems of the main business of the cocoa industry. And the main business of the cocoa industry is not to produce cocoa to make chocolate; the core business of the cocoa industry – growers, pisteurs, traders, grinders, and manufacturers alike – is to produce cocoa to make chocolate while at the same time making a <u>profit</u>.

Smallholder farmers are entrepreneurs. To put it simply, there are only four factors that determine an entrepreneur's income:

1) Quality of your product
2) Quantity of your product
3) Cost to make your product
4) Price you receive for your product

Though a lot of the efforts in sustainability over the last years has gone into improving quality and quantity of product, through GAP training, increasing yields, planting materials, fertilisers and what have you, it seems that very little thought has been given to the last two bullet points: how much will it actually cost the smallholder entrepreneur to achieve this quantity and quality increase, and how does that compare to the price of the product he is making.

Cocoa prices now are less than half of what they were thirty years ago, when adjusted for inflation. A cocoa farmer needs to grow twice as much cocoa to receive the same income as his father did a generation before him. However, the average yield per hectare in cocoa has – if anything – gone down, not up. Additionally, the average size of cocoa farms has declined drastically, through redistrubition through inheritance and other issues. No wonder most youths don't want to be involved in cocoa anymore. You have to grow twice as much cocoa, on half the land, for half the price. It's just not worth the effort.

But it gets worse. Currently, the industry's efforts to resolve this part of the problem revolves almost exclusively around yield increase, with a bit of crop diversification thrown in the mix. However, increasing yield also increases costs. In fact, it increases costs incredibly. The only research we've been able to find is a McKinsey report for the Bill and Melinda Gates foundation, which states that in Ghana, doubling yield will increase income from $2005 by just $434. In Côte d'Ivôire it would raise the income of $1164 by just $252 dollars. That's not even 22%. So you double your yield, but due to extra costs, you increase your income by barely a fifth.

And yes, crop diversification would make a difference. But no one has ever published a decent calculation of what kind of difference that would make, whether there is a market for the diversified products, what the costs and benefits would be, and so on.

Simply put, much of the training on making farmers 'better farmers' hasn't been going into making them better businessmen. They are still in poverty.

In the last thirty years, prices have drastically declined for the farmer. Chocolate has become far and far cheaper over the decades. And the price has been squeezed dramatically for people throughout the supply. It is very unclear who is earning what in the supply chain. This is why – with the Barometer Consortium – we are currently attempting to make a Value Distribution analysis in the cocoa chain, the first findings of which we hope to be able to present at the WCC in June, also here in Amsterdam.

However, all of my talk up to now has mostly been on revenue. It has not included the <u>needs</u> of the farmer. A living income calculation also takes into account what is needed, not just what is received. At present not a single sustainability initiative has any criteria on what a living income should constitute. This is why we have also embarked on a research on Living Income calculations, which we hope to present with the Value Distrubition research at the World Cocoa Conference. In that, we can learn from some of the conversations currently going on around the 'living wage' discussion, and we're glad too see that standards are working together to try to streamline these definitions.

Being a cocoa farmer has become a very bleak prospect for almost all of West Africa's cocoa growers. It is impossible to speak of a sustainable supply chain, if smallholder cocoa farmers do not have the possibility of earning a living income. Unless we manage to turn that tide, West African cocoa is going to be in for a very stormy decade to follow.

This is a responsibility we *all* share. So what needs to happen?

Quite simply we need to start looking at the business model of a cocoa farmer, and ensuring that the math actually works for him. This will require a re-evaluation of the mechanism that sets the price for the product; it will require a re-evaluation of the level of transparency of profits earned, and for a more equitable distribution of value added throughout the supply chain. It means we're going to have be willing to share a little bit more of the profits with the rest of the chain, especially the farmers. And it will also mean that we're going to have to charge more for our chocolate. Quite simply put: consumers are not paying the price it costs to actually make the product. That price is being transferred in time and place. Later generations will be paying the price of our cheap chocolate. And current generations of cocoa farmers are too.

This must change, and it's something we are all, together, responsible for.