# Raising the Bar on Chocolate: Cocoa Farmers in Ghana Shape the Future

https://www.e-ir.info/2010/07/03/raising-the-bar-on-chocolate-cocoa-farmers-in-ghana-shape-the-future/

PAULINE TIFFEN, JUL 3 2010

In 1993 the Government of Ghana initiated the partial liberalisation of its most significant economic export, cocoa beans. Having resisted World Bank pressure to liberalise fully, the Cocoa Marketing Board retained its monopoly on exports through the Cocoa Marketing Company. It thus sustained its farm-to-port quality control system of every sack and its authority to determine the terms of trade from farmer to free on board (fob).[1] This was an attempt to keep Ghana's premium status as the second largest cocoa supplier in the world and as a reliable exporter. In contrast to the situation in neighbouring Côte d'Ivoire, the largest supplier, it also left a dependable export channel for farmers in place.

In common with other liberalisations of the period, however, farmers – particularly the considerable number of women cocoa farmers in Ghana – were considered not as 'protagonists' in the exercise but as subjects. This assumption is epitomised by the terminology of the liberalisation itself, which granted trade licences to 'buying companies', ignoring the fact that what farmers want is to 'sell', not 'buy' cocoa.

In 1993, just over 2,000 farmers in 22 villages were therefore assisted by Twin, a UK NGO, and the Netherlands development organisation SNV to establish a co-operatively owned company to 'buy' its own cocoa and then 'sell' it to the Cocoa Marketing Company. From those modest beginnings, Kuapa Kokoo has evolved to become a complex, multifaceted institution working in five of the six growing regions of Ghana, with an active membership of more than 45,000 farmers in more than 1,300 villages or Kuapa Kokoo societies.[2]

There is a visible and positive trend in women's involvement at all levels of the organisation. Between 1998 and 2006 female representation increased at society executive level from 29 to 32 per cent, at area level from 29 to 45 per cent and on the National Executive Council from 15 to 60 per cent. This exceeded the target set in 2001 for 30 per cent female participation at all levels of decision-making (Ronchi, 2002). In addition, Kuapa Kokoo farmers have a direct and meaningful stake in the Divine chocolate brand marketed in the UK, Ireland and the USA and in several other countries. In this period, their equity stake in the UK company rose from 33 to 45 per cent.

At the heart of the growth of the Kuapa Kokoo project has been its transparency and its democratic process. It has seen the orderly arrival and departure of a number of leaders and, as noted above, a growing number of elected women. This structure distinguishes Kuapa Kokoo from its competitors, both at home in a now highly competitive cocoa trading environment (where a number of the major cocoa multinationals also operate), and overseas in the performance and impact of the two chocolate companies in which Kuapa Kokoo has a significant equity stake: The Day Chocolate Company (renamed Divine in 2006) in the UK and Divine Chocolate Inc., set up in 2007 in the USA.

## Conditions in the cocoa industry and chocolate market

### The cocoa industry in Ghana

Within Ghana the logic of partial liberalisation has proceeded, with more buying companies competing, including several transnational corporations. Tightening global supply due to climatic changes and more unpredictable harvests, together with stable demand, have led to rising prices for cocoa beans from below the fair trade 'minimum' level of US$1,600, reaching the highest level for 30 years in 2009. A continued global shortfall has persisted for four consecutive years, adding to incentives for buying companies and sharpening competitive practices at village level.

Independent research shows that Kuapa Kokoo has played an important role in shaping the expectations of all farmers familiar with their model, to the extent that there are now few licensed buying companies in Ghana who do not at least pay lip-service to social benefits. This usually means giving out small, discretionary rewards – salt, soap, pens, notebooks – and minor bonuses to cocoa agents or collectors at the point of purchase. However, only Kuapa Kokoo stresses local management and ownership of weighing scales – a vital tool and one of the main ways for buyers to cheat farmers in the villages.

The cocoa business in Ghana is fundamentally a volume business: the fixed operational costs are hard to control since the systems that all traders must follow are set out by the Cocoa Marketing Board. By achieving scale – around 35,000 tonnes annually – Kuapa Kokoo has the means to compete with the larger companies, but faces constant challenges from competitors. More significantly, the entry of international players has changed the dynamics in the local cocoa buying industry because they have:

- Access to externally sourced, lower cost trade finance; and

- An ability to hedge, i.e. to manage the risk of fluctuating prices through to the final purchaser, enabling cash rewards to feature in purchasing practices to ensure that supply and volumes are achieved.

Local buying companies do not have these advantages. Since the cost of finance available to local companies, including Kuapa Kokoo, is extremely high (16–24%), this quickly erodes operating profitability and margins. The credit crunch is now rendering local cocoa trade finance yet more costly and less available.

According to interviews in 2008, the Cocoa Marketing Board continues to find Kuapa Kokoo a model that gives significant financial and other returns to farmers. It particularly noted that Kuapa Kokoo was the only buying company that accounted to farmers by reporting in public each year to its membership. Kuapa Kokoo's segregated export channel – essential for their small but growing proportion of fair trade cocoa sales – remains the same as when it launched its trading in 1993. Around 8 per cent of its cocoa ends up in Fairtrade certified products. However, pressure is growing for more 'traceability', organic beans and semi-processed products (in one of the several cocoa processing facilities now built in Ghana with foreign direct investment). Concessions are being made, especially to transnationals and their end clients, which is putting the future of this professional, third party mechanism in question. The cocoa trading world is a small one, with just a few intensely competing players. Being forced to enter this world directly could prove a significant new barrier to Kuapa Kokoo accessing conventional cocoa export markets in its own right. It could directly inhibit the entry of many new women's or farmers' groups in Ghana; indeed, most of the new farmer-centred initiatives there are sponsored by transnational cocoa and chocolate corporations.

**The international chocolate market**

The international chocolate market has undergone a transformation in the last decade. In common with many other product sectors, the market has been 'broken up', not in terms of ownership of the brands and products – which, if anything has undergone yet further concentration – but in terms of product segmentation. Previously, single origin cocoas (i.e. chocolate bars that proclaim the actual provenance of the beans) were virtually unheard of. Now there is a proliferation of single origin bars, providing important opportunities for cocoa farmers across the tropics. Similarly, the distribution of niche products – unusual flavours, messages and ingredients – as well as certified organic chocolate, has been growing, leading to the take-over of a number of emerging niche brands such as Green & Black's and Dagoba by the major chocolate companies (Cadbury and Hershey, respectively).

In addition, the community of cocoa processors – those who turn beans into cocoa butter, liquor and cocoa powder – has contracted even further, with firms like Barry Callebaut now responsible for most of the world's processed cocoa after an aggressive expansion and investment in all continents. This narrowing of the channels to markets inhibits grassroots initiatives from getting off the ground (and into the marketplace) without the direct collaboration – and therefore control – of the major cocoa/chocolate firms.

Within this context, this case study looks at the experience of the Kuapa Kokoo-Divine relationship and trading model in terms of its impact on Ghana's cocoa farmers, especially women, and on the international chocolate market as a whole.

**Kuapa Kokoo and Divine Chocolate: cocoa farmers influencing their own lives and international consumer markets**

**History and purpose**

Divine Chocolate was founded in 1998 by Kuapa Kokoo, Twin Trading UK, The Body Shop International plc and other direct supporters of fair trade, such as Christian Aid and Comic Relief. Divine is a unique kind of chocolate branding and marketing company, co-owned by Kuapa Kokoo whose members have a 45 per cent equity share in the company.

Divine set out to improve the livelihoods of smallholder cocoa producers in West Africa by establishing their own dynamic brand in the UK chocolate market, thus putting them higher up the value chain. The way Divine sought to do this was to:

- Take a quality and affordable range of fair trade chocolate bars into the mainstream chocolate market;
- Raise awareness of fair trade issues among UK retailers and consumers of all age groups; and
- Be highly visible and vocal in the chocolate sector and thereby act as a catalyst for change.

**Achievements in the international market**

Building on its provenance and farmers' direct ownership, Divine has achieved all these aims in a little over ten years. It offers a range of more than 30 high quality products distributed in all major UK supermarkets and many other outlets. It has been commended for its role in prompting a major sea-change in the chocolate market generally. The proudly displayed *adinkra**[3]*** symbols on Divine products emphasise the brand's authenticity.

Growth in sales and presence in the UK market, and more recently in the USA, have undoubtedly added to the credibility of the 'strategic project' of bringing cocoa farmers to the fore of their high value, glamorous industry, transforming them from the ignominious role of 'tree minders'. In 2005/06, Divine's total UK sales were almost £9 million and for 2006/07 £10.7 million. This represented a 100 per cent increase on the first year's sales for 1998/99 of £103,000.

As Fairtrade certified products have found space in mainstream retail outlets, cafés, restaurants, cinemas and offices, a number of large companies have opted to 'go fair trade', at least to an extent, in order not to 'miss out' on this growing market and to indicate their company's social credentials. Opting to apply Fairtrade certification to a whole range of own label or branded products has become one of the major drivers of growth in fair trade markets worldwide. One commentator from a chocolate competitor acknowledged: 'I would go as far to say that Divine are the architects of retailer own label fair trade chocolate' (cited in Twin, 2008).

Chocolate is a highly processed product. While cocoa beans have a high market value, they are bought and sold as a commodity. This is the situation for all farmers in the world except those at Kuapa Kokoo. The most significant aspect of brand ownership of a chocolate company by cocoa farmers is their stake in the brand equity of the end product –

and thereby their right to earn financial returns from the intangible value generated by brands in the final marketplace.

Commercially, the impact has been radical. Nobody expected a small newcomer to the mature £4 billion chocolate market, with such a different structure and vision, to succeed. When the Co-op Food Group in the UK switched its whole own label chocolate range to fair trade in 2002, in partnership with Divine and Kuapa Kokoo, the (then) head commented:

It was the strength of the Divine Fairtrade branding and the Fairtrade provenance. I don't think there was anybody else doing Fairtrade chocolate in the way and with the credibility Divine did it and the links back to the producers because from our point of view, the links back to the producers are key.

(David Croft, cited in Twin, 2008)

Subsequently, there have been full transitions to fair trade by retailers of their own label ranges of coffee, tea and bananas at Sainsbury's and Marks & Spencer, massively expanding farmers' opportunities, consumer accessibility and Fairtrade's profile in the marketplace.

With chocolate, however, apart from a few tiny niche players, there was no movement for about five years. Then, within the last 18 months, something shifted. In March 2009 Cadbury announced it would convert its iconic Cadbury Dairy Milk brand to Fairtrade certified status by the end of 2009.[4] Selling 300 million bars a year in the UK and Ireland, Cadbury will start to source its cocoa from Fairtrade farmers in Ghana, potentially tripling the amount of fairly traded cocoa coming into the international market from that country. It is the biggest brand of its kind to make the move. Even companies like Marks & Spencer, which have done full own label conversions in other product areas, have not done so for chocolate. Large companies like Nestlé have apparently stopped at the launch of one single new Fairtrade coffee product, 'Partners' Blend', out of a potential 8,000 existing products that could have been converted.

Mars, the largest end user of cocoa in the world, has eschewed the fair trade approach, but in April 2009 made a commitment to transform all of the US$10 billion worth of cocoa it sources annually to 'sustainably sourced' by 2020 (Wiggens, 2009). Among its cited motives is a desire to 'secure our long-term sourcing' and the expectations of consumers and employees of Mars 'to do the right thing'. It may be tempting to chocolate activists the world over to ask these employees what 'the right thing' might be when compared to the model of farmer-ownership, in-market participation, women's empowerment and consumer education espoused by Divine.

In this sense then, with a 'generation' of conscious chocolate consumers now active in the market place, the international impact is continuing.

**Impact on cocoa farmers in Ghana**

In 2007 Divine paid its first dividend, i.e. share of profits, to its shareholders, including Kuapa Kokoo farmers as co-owners of the brand, and it has followed on with further dividend payments in 2008–2009. In the global economy today, fully one-third of the major corporations' balance sheets are accounted for by intangible, rather than tangible, assets. That is, their brands, symbols, logos, designs and patents versus their factories, buildings and machinery. This revenue stream for Kuapa Kokoo's farmers is a great source of distinction and pride. It adds to two other important revenue streams:

1. *Divine's fund for producers' support and development.* To date this amounts to more than £700,000. These funds are provided directly by the consumers of Divine with every bar purchased, and they are applied to women's projects, organisational development, farmer education and co-operative training. This income stream is built into the model, i.e. it is not discretionary aid, periodic project investment or PR-motivated social project work. It is a recognition that to mature, cope and grow, all organisations need to continually learn, change and experiment.

2. *The fair trade social premium.* Divine has contributed more than US$1 million in Fairtrade social premium

payments to Kuapa Kokoo over the last ten years. This has been spent largely on reaching the same poverty targets as are aimed at by the Millennium Development Goals: clean water, education, women's income generation and health care.

Kuapa Kokoo records suggest that the total value of additional bonus payments made to members over the last 12 years is in excess of £1.7 million. This Divine fair trade package compares very favourably to other recently introduced cocoa certification systems. The fundamental differences with these other systems, which aim to offer reassurance on farm management practices, are that they:

1. Do not directly address price and the terms of trade between very unequal partners in any systematic manner;

2. Leave the conventional trading relationship unchanged and unaudited;

3. Leave premiums (higher prices for cocoa beans) as a discretionary item; and

4. Do not support organisational development through self-managed social premiums or any focus on participatory or democratic organisations.

**Knock-on effects throughout the value chain**

Divine's efforts at wrapping a quite different 'package' up in a bar of chocolate, selling more chocolate year by year, communicating effectively about ideals and connectivity, reaching young people in a fun and unprecedented manner through schools and educational linkages between Ghana and the UK all make its partnership with Kuapa Kokoo unique in the global chocolate industry. It is still a benchmark of what the major players – few though there are – could be aiming for.

Perhaps the most important contribution to the evolving chocolate industry has been Divine and Kuapa Kokoo's emphasis on the formal nature of their relationship. There is representation at the heart of the Kuapa Kokoo-Divine structure, cemented and provided for in the election of leaders, direct representation on each others' boards and decision-making bodies and ownership of shares.

Supply chain best practice certainly now widely promotes the notion of 'linkages' to producers of raw materials. Many producers have started to learn about the routes their product takes to market and the various players with whom they may need to connect in order to be able to influence their market destiny. Furthermore, many socially responsible companies lay public claim to 'partnerships' with their developing country suppliers. However, their definition of partnership usually lacks structure, has few if any defined mutual rights and obligations, and certainly has no legal force. 'Partnership' is becoming a new catchword for aid-financed development projects.

In the context of the major chocolate corporations' valid concerns about the future supply of their important raw material, it is not difficult to see the proliferation of new investments by chocolate companies in a sceptical light. The figures bandied around are very high: 'tens of millions of dollars' (Mars), '£1.5 million' (Cadbury) (Wiggens, 2009). New cocoa industry bodies formed in the wake of child slavery scandals[5] have struggled to engage with cocoa farmers at all. NGOs, governments and the private sector still dominate these forums, with strong cocoa farmer organisations few and far between. Local governments in cocoa-producing areas also face a dilemma: the power of the chocolate companies is clearly daunting, the language is constructive (the discourse is all about sustainability), but nothing much is changing in the underlying top-down structure of the relationships between corporates and farmers in West Africa. Efforts to develop a sustainable cocoa partnership in Ghana have followed this traditional style, despite the intervention of Fairtrade certifiers.

Kuapa Kokoo representatives have been active and vocal in explaining their lives and their challenges and learning about the overseas societies in which chocolate is sold, how branding companies are run and what makes great chocolate. All this has a direct impact on the status of cocoa farming in Ghana, the farmers' attention to quality, the confidence of farmer leaders, and especially the visibility of women in the organisation and overseas.

**Lessons learned**

There are important lessons to be learned from the experiences of Kuapa Kokoo and Divine. Among these are:

1. Competing in a global business and changing business environment requires guts, tenacity and allies; these are more easily found when they can be mobilised around an inspiring vision and prospect for change (not to mention delicious products!).

2. Kuapa Kokoo has learned, in a harshly competitive local environment, that permanent education and local marketing is important to sustain its members' support, raise farmers' consciousness of their industry and continuously improve services and operations. Promoting its story, values and vision is a local and not just an international priority.

3. Branding, brand equity and producers' stories and images are increasingly important to the large companies promoting products made from traditional raw materials sourced in the developing world. Divine has forced the issue of farmer-ownership onto the agenda in ways that few of the larger, more dominant brand owners have yet tackled. For farmers to negotiate and leverage value from their intellectual property – i.e. their systems, their names and their values – from large international companies for their own benefit requires courage, information, helpful tools (such as prior consent agreements) and moral, and sometimes legal, support.

4. Women's rights need to be proactively defended and mutual respect fostered. Kuapa Kokoo has since its outset practised a quota system for representation, a practice that has seen women gain confidence and visibility over time. Women outnumber men in many Kuapa Kokoo bodies, notably the National Executive Council.

There are also lessons for governments concerning policy and reputation. First, export policy and marketing structures directly affect low-income producers and their access to markets. They can make or break the fortunes of local companies, especially when these are pitted against the resources and interests of transnationals. Second, a country's reputation is important and derives from many sources: the performance of its 'best ambassador companies'; its attitudes, which are duly enshrined in policy, towards complex issues such as child labour, fair competition, and access to finance and financial services; and its defence of women's roles and rights.

For international agencies promoting transparency and equity in supply chains, the Kuapa Kokoo and Divine story also offers some revealing lessons. Certification systems matter a great deal in the retail environment; they inform and shape consumer expectations and action. As certification in the chocolate industry is expanding, reflection and great care needs to be taken in order:

- To ensure cocoa producers are not taken advantage of in a new generation of top-down supply chain arrangements;
- For women's and low-income producers' advocates not to lose a vision of empowerment as part and parcel of the 'deal' in the face of commercial expediency, familiar brands and what can only be called the allure of 'large numbers';
- To communicate the core values of different brands and certification marks to consumers honestly and fully, including, where necessary, calling all players to account through civil society action or even legal mechanisms (e.g. the Advertising Standards Authority that monitors the veracity of claims).

In this way farmers can progress from their role as raw material producers, and consumers can continue to play an informed and vital role in driving forward change in business practice among major companies through the continued discriminating application of their purchasing power.

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***Pauline Tiffen*** *was the founder of two pioneering fair trade companies: Cafedirect and The Day Chocolate Company, including the supply chain/farmer participation. From 1989-1997, she served as the Executive and Managing Director of Twin Trading, Ltd. Pauline was a Founding Board member of the International Federation of Alternative Trade (IFAT) and, since 2003, Board Member and adviser of the North American Fair Trade Federation, a network of 200 innovative Fair Trade businesses. Since 2000 she has been an Operations Adviser to the World Bank.*

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[1] Free on board means that the price quoted by the supplier includes delivery of the goods to a specific destination (e.g. on board a ship) without extra cost to the purchaser.

[2] For a detailed history of Kuapa Kokoo and its progress up to 2002, see Tiffen *et al.* (2004).

[3] Asante tribe symbols found everywhere in Ghana, most often stamped on cloth, that are often linked to proverbs or folk tales.

[4] It is notable, perhaps, that David Croft, formerly with the Co-op Food Group, moved on in 2005 to work first as Ethical Sourcing Director and then as Global Director of Conformance and Sustainability at Cadbury Schweppes.

[5] In 2000, there were allegations of widespread slave labour, including child trafficking, in the cocoa industry. While mainly relating to Côte d'Ivoire, rather than Ghana, these allegations resulted in campaigners putting pressure on large companies to address the problem promptly and brought about concern that formalising accountable commercial relations with millions of individual cocoa farmers would depress the prices they received because of the high transaction costs involved in monitoring.

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*This article is an excerpt from:*

**Trading Stories: Experiences with Gender and Trade, Edited by *Marilyn Carr and Mariama Williams***
*ISBN: 978-0-85092-873-0*

Through twenty regional and country case studies, *Trading Stories* pulls together the key links between trade, gender and economic development. Ten case studies focus on the gender impacts of trade policies, detailing differential consequences on men and women; and ten focus on linking women with global markets – including FairTrade, organic, niche and mainstream markets – through a range of best practices involving government, NGOs, people's organisations and associations, private sector and international agencies.

The book draws on three recent Commonwealth Secretariat publications on gender and trade: *Gender Mainstreaming in the Multilateral Trading System*; *Chains of Fortune: Linking Women Producers and Workers with Global Markets*; and *Gender and Trade Action Guide* and is a useful addition to the growing body of evidence that will help governments to effectively mainstream gender in their trade policy.