The risks of inclusion: shifts in governance processes and upgrading opportunities for cocoa farmers in Ghana
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1 Local producers in a global economy

1.1 Introduction

Proponents of globalisation, consisting of advocates of both neo-liberal free markets and liberal civil society, have long argued that free trade will lead to economic growth and improvements in the livelihoods of all, including poor farmers in developing countries. But since the mid 1990s serious doubts have been raised about the supposed links between economic liberalisation, democracy, growth and equity (Kalb et al., 2004). It became clear that gains from globalisation are not distributed equally. Many of the poor farmers are excluded from integration in the world market and the ones that are included nevertheless suffer. In addition to other factors (such as market failures, failures of governments and NGOs and incompetent farmers), the existing power relations explain the difficulty that small farmers in developing countries face in improving their position in the world market.

Small farmers that produce for the export market are embedded in global value chains with strong multinational ‘lead firms’ that increasingly exercise power over these chains. Within the country in which the farmers live and work, farmers are embedded in a sector or cluster where power is also being exercised, for example by the government. Within farmer communities and within households, power relations are also present and can enable or hinder farmers to grasp opportunities to improve their position.

In the literature on competitiveness and upgrading for small and medium enterprises it is increasingly emphasised that in order to understand the relationship between power structures, poverty and upgrading it is important to look at the interaction between different governance levels (see Barrientos et al., 2003; Bolwig et al., 2008; Guiliani et al., 2005; Humphrey and Schmitz, 2000). I use this body of literature to look at this interaction and its connection to options for small farmers to improve their position by analysing in detail the cocoa sector in Ghana. In this study I aim to unravel ‘upgrading opportunities’ for cocoa producers in Ghana and the different outcomes for different types of farmers, with two clear goals in mind. First, I will seek to develop an understanding of the different power relations in which cocoa producers are embedded. Second, I will seek to identify the direction and options for change that favour different small-scale cocoa producers. Such knowledge is important as it adds to the understanding of how individual upgrading strategies and outcomes are linked to long-term trends towards ‘collective’ inclusion or exclusion. Insights in power relations and in reasons behind different outcomes for different types of producers help policy-makers and NGOs develop more effective
interventions that can reach the most vulnerable farmer groups. Moreover, it also helps the private sector to act more strategically in mitigating long-term risks for supplier failure and to aid specific groups in developing sustainable sourcing policies.

In the next sections of this chapter I will explain why I chose the cocoa sector in Ghana as a case-study and present the central question. But first I will present some background information on the concentration of poverty in Sub-Saharan Africa, and the different ideas on how poor farmers could realise change.

1.2 Rural poverty
More than 70 per cent of the world’s very poor and food deprived people live in rural areas, with agriculture as their primary source of income. Sub-Saharan Africa is home to the highest portion of the world’s poor. In 2002, 50 per cent of the total population (or 300 million people) lived on less than 1 USD per day in this region (World Bank, 2002). Poverty and slow economic growth is linked to the fact that the countries within Sub-Saharan Africa remain highly dependent on primary commodity exports; many of which are agricultural commodities: coffee, tea, cocoa, cotton, bananas, groundnut, rubber, tobacco and sugar. From 1980 to 2002 the prices of a number of such tropical agricultural commodities declined between 50 and 86 per cent (Oxfam, 2004: 3). This has resulted in high losses in export earnings for Sub-Saharan African countries in this period and contributed to the concentration of poverty in rural areas. In recent years many countries in this region enjoyed economic growth that strengthened their balance sheets; however, the recent economic crisis is expected to slow down this growth (IMF, 2009), and pushes commodity prices down again. This will have negative effects on export earnings and the external current account, fiscal revenues, and household incomes and is likely to erode the progress some African countries have achieved in attaining the ‘Millennium Development Goals’ (MDGs) (IMF, 2009).

The geographical concentration of poverty convinced international policy-makers to (re)focus their poverty reduction strategies on rural areas (e.g. IFAD, World Bank 2007a). The World Bank stressed the need for the transformation of the agricultural sector ‘from considering agricultural activities as simply a way of life to that of a profitable commercial and industrial occupation’ (2003: 37-9). It is emphasised that the ‘poor themselves have to seize responsibility, as agents of change, for their own development’ (IFAD, 2001; interview World Bank Ghana, 2005). This change, emphasising the agency of the poor rather than perceiving the poor as ‘passive victims’, is linked to a change in perception on the details of poverty. Poverty is not only about income levels, but also about capabilities and vulnerabilities (cf. Verrest, 2007). This change in perception contributed to the recognition of the differences among the poor which have to be taken into account.

1.2.1 Poor farmers as rural entrepreneurs
Small producers in developing countries must improve or upgrade their businesses, if they are to cope with the challenges of globalisation, increased competition and
price fluctuations. This may involve acquiring new capabilities that enable them to participate in particular value chains or clusters, or to access new market segments (Humphrey, 2004).

The many actors involved throughout a value chain – producers and traders, processors, manufacturers, (multinational) retailers, supermarkets and consumers – are becoming ever more intimately connected. This is due to market developments, changing consumer preferences and demands, increasing risks for supplier failure and the fact that small and medium enterprises (SMEs) in developing countries are increasingly becoming integrated into the world trading system.

Little is known about the conditions under which rural entrepreneurs in developing countries are inserted in value chains and little is known about the different outcomes for different types of farmers. Upgrading opportunities available for farmers and their outcomes depend (at least) partly on power relations in which they are embedded. For weaker actors within a chain, upgrading does not happen automatically, but can be enabled or hindered by more powerful players, for example governments or existing social structures.

There are different opinions on which strategies small farmers should follow. There are also different ideas on which actors should facilitate and/or support the poor in this process. International institutions, such as the World Bank, emphasise that farmers themselves are responsible for change. In the process of adding value to their product or production process, farmers can learn from ‘lead firms’ higher up in the value chain (the value chain perspective) or can realise change through joint action and collective efficiency (clustering perspective). Others argue that in less developed countries, where the majority of raw material production is in the hands of small producers, capturing higher margins for unprocessed commodities requires public action (Gibbon, 2001: 352-3; see also Kalb, 2004). Traditionally this ‘public action’ was in the form of state-supported cooperative systems that combined measures to establish and maintain export quality (input supply, research and extension, price incentives, grading) with the functions of forecasting volumes and forward sales (Gibbon, 2001). However, the introduction of the Structural Adjustment Programs (SAPs) by the World Bank in the 1980s reduced the involvement of the state in the marketing of agricultural export commodities and its provision of services to producers of these commodities. These traditional systems were often removed too fast without providing an adequate replacement.

1.2.2 Empowering poor farmers

In order for small farmers to benefit from participating in global value chains, they need to be empowered to make their own informed decisions about their work and livelihoods. In fact, empowerment can lead to ‘self-exclusion’- farmers choosing to remain outside or leave a chain because they foresee too little profit and too many risks (Wennink et al. 2007).

When addressing the role of farmers in value chains there are two key aspects to take into consideration: who does what in the chain (vertical integration), and
who determines how things are done (horizontal integration) (KIT et al., 2006). Farmers may be concerned only with production: they prepare the land, plant seeds, apply fertilizer, control pests and weeds, and harvest the crop. But they may also be involved in activities higher up in a chain, including sorting and grading, processing or trading their produce. If farmers are involved in a wide range of activities in addition to production, this contributes to their empowerment. But true ‘chain empowerment’ requires that these producers gain economic power by becoming involved in managing the chain. Farmers can participate in various aspects of management, such as controlling the terms of payment, defining grades and standards, or managing innovation. Important questions include how to obtain this power and what kind of strategies contribute to empowerment and as a consequence insertion under favourable terms or ‘self-exclusion’?

1.3 Research choices

1.3.1 A multi-level approach towards upgrading

The global value chain (GVC) approach offers an interesting framework for assessing the increased interdependency between global buyers and local suppliers. Within the global value chain literature, the value chain is considered a dynamic open system where producers in developing countries can act as active agents and upgrade their product, process or function in the chain (or apply their competences to a different chain) (Gereffi, 1999; Humphrey and Schmitz, 2002). In theory the identification of upgrading strategies is perceived as a way of changing power relations within a chain. However, in this thesis I will question this ‘transformative character’ of interventions in value chains by arguing that ‘upgrading’ often reinforces already existing power relations.

The use of the GVC framework tends to ignore governance structures at the national and local level. The state and other institutions are not perceived as active agents but more as enablers (or hinderers) of economic development. Global value chain analysis is also limited in providing insight into the heterogeneity in outcomes for different types of producers. Therefore, I will complement this global approach with the cluster approach, which focuses on local power structures. Cluster studies focus on local level governance structures, which are viewed as the main facilitators of upgrading and innovation. In order to deal with national governance structures I will make use of a comparative framework for studying public-private interaction in a global value chain (e.g. state involvement versus coordination through market mechanisms) (Griffiths and Zammuto, 2005; Ton et al., 2008). In this framework a link is made between the strategic management theory and political economy.

In this study I focus on the interaction between these global, national and local governance structures. Therefore, the central question of this study is how different governance structures interact in creating opportunities and constraints for more inclusive upgrading among small-scale cocoa farmers in Ghana.
1.3.2 Cocoa

Cocoa production employs around 14 million workers worldwide, and it is estimated that about 3 million smallholders account for the lion’s share (90 per cent) of production. The worldwide production of cocoa beans in the season 2007/08 was around 3.7 million tonnes and is concentrated in West Africa. Côte d’Ivoire, Ghana, Nigeria and Cameroon together account for around 70 per cent of the world’s cocoa production, and in turn generate substantial export revenues (TCC, 2009).

Cocoa is a primary commodity produced for export, with little added value. Cocoa is traded internationally in the form of beans or as semi-finished products. Looking at the developments in the futures market, high price fluctuations are noticeable. Over the last years the price remained rather stable between 1700 and 2200 USD per tonne, until mid 2007 when it increased significantly (corresponding to price developments in the oil sector). Since the beginning of 2007 the price of conventional cocoa more than doubled, which put traders, processors and manufacturers under financial strains pressure. The drop in cocoa exports from Côte d’Ivoire is a major reason for this price-increase.

The high concentration of cocoa production in West Africa and the low levels of productivity are a risk for global buyers of cocoa. These risks in combination with liberalisation of state marketing systems and the changes in consumer demand for sustainable cocoa have increased the inter-dependency between actors in the chain. Until recently, manufacturers and processors rarely bought directly from producers, unless they had installed processing facilities in the producing countries. Traditionally, the global buyers acquired their beans through a network of trade houses and brokers (Jaeger, 1999: 10). But there is a trend towards building partnerships with development organisations, research institutes, and government agencies, as well as a growing need to develop a ‘closer interaction with the cocoa growing regions and with the cocoa farmers’ (Helferich, 1999: 2; LMC International and University of Ghana, 2001). Building a sustainable cocoa economy has become the concern for key-actors involved in the industry. The common understanding that a sustainable cocoa economy is in the interest of all stakeholders is also reflected in the round table meetings on building a sustainable cocoa economy, which were hosted by the International Cocoa Organisation (ICCO) and took place in Accra, Ghana in 2007 and in March 2009 in Port of Spain, Trinidad & Tobago.

A sustainable cocoa economy refers to the three pillars of sustainability: economic, environmental and social. Often economic sustainability is put forward as a prerequisite for small producers to take up environmental and social challenges. Productivity levels of small-scale producers of cocoa are generally low, because of the prevalence of pests and diseases, soil degradation and the generally old age of farmers, their farms and the trees. The combination of relatively high costs of inputs, weak institutional support and the lack of adequate credit facilities make it difficult for small-scale cocoa farmers to generate a profit. At the same time the environment is deteriorating. The goal of achieving a sustainable cocoa economy makes it both a challenge and necessity to look for win-win opportunities that can accomplish environmental and social objectives while, at the same time, creating economic opportunities for cocoa smallholders.
It is complicated to create the right conditions for sustainable development in cocoa because the developments in the global value chain of cocoa steer in the direction of concentrating production in a small number of countries and vertical integration of upstream activities by a handful of international cocoa processing firms (Daviron and Gibbon, 2005; Losch, 2002; Abbot et al., 2005). This two-fold process of economic concentration affects the bargaining power and price setting between the different chain actors. These concentration processes also determine, together with the taxes and levies applied on various transactions within the chain, the farm-gate price and thus the economic perspectives for producers.

1.3.3 Ghana
Ghana is the world’s second largest producer of cocoa. Although its importance is somewhat declining, the cocoa sector makes the highest contribution to the Gross Domestic Product (GDP) (mainly through duties paid on exports) and is considered as the economic backbone of the country (Tiffen et al., 2002: 8; Wayo Seini, 2002: 2). According to recent estimates by Masterfoods,6 around 30 per cent of Ghana’s total earnings come from cocoa exports and around 6.3 million Ghanaians depend on cocoa for their livelihood (representing almost a third of the population). In season 2007/08, Ghana produced almost 700,000 tonnes. In comparison, Côte d’Ivoire, world’s largest producer, produced almost 1,400,000 tonnes for the same season.

In addition to being world’s second largest producer, Ghana has some particularities that make it an interesting case for assessing the interaction between private and public policies. First, Ghana is the only cocoa producing country in the region that has only partly liberalised its marketing and pricing system: the government still plays a governing role in the sector. Second, it is the only country that provides traceable cocoa and the high quality cocoa it produces fetches an additional premium.

A number of important insights will arise from the Ghanaian case. First, it contributes to increased understanding of how producers of agricultural export commodities benefit from being inserted in a global value chain, one which is increasingly driven by multinational cocoa processors and chocolate manufacturers. Second, it contributes to the recent discussion on hybrid governance structures, where both public and private actors play a governing role. Ghana is unique because of this strong role of the state. Examining this strong state will put the discussion of the role of the state in agricultural agenda back on the agenda. Lastly, this study will contribute to understanding how upgrading connects to development aims.

1.4 A guide to the study
After this introduction, Chapter 2 will focus on the ‘upgrading’ debate. In the literature upgrading is presented as a way for small-scale entrepreneurs in developing countries to remain competitive on the world market. The conventional approaches towards upgrading (namely GVC approach and Local Clustering) will be discussed. Chapter 2 will provide insight in the exact meaning of both approaches
and their scope. It will show the relevance of the interaction between vertical and horizontal networks in understanding existing opportunities for more inclusive upgrading strategies. Also it will point out the necessity to theorise the role of the state within this process. Chapter 3 will elaborate on the research questions and how these are operationalised, thus building a framework for more inclusive upgrading. Furthermore, in this chapter I will share some reflections on the research process and the validity of its results.

Chapters 4 and 5 will demonstrate that upgrading in the cocoa chain is not only driven by local interests, but also by national and global interests. Chapter 4 focuses on the developments in the global cocoa chain. Chapter 5 focuses on developments within the cocoa sector in Ghana. These chapters will show that context is an integral part of the analysis that helps to explain the dynamics of current governance structures. Three developments are particularly relevant: (1) the processes of liberalisation and privatisation in the cocoa sector; (2) the growing importance of non-price competition, together with increasing concerns for sustainable development issues; and (3) the increasing risk of supplier failure that (international) lead firms face. In order to validate the shifts in governance that are taking place and show how they affect producers of cocoa, I will make some comparisons over time (before and after the reforms) and some comparisons with the current situation in other cocoa producing countries in West-Africa. Chapter 6 will explore the heterogeneity among cocoa producers. This is an important exercise as it will contribute to increasing the understanding of how upgrading strategies are linked to development goals. Although not presented as such, upgrading is a selective process. In order to evaluate the relative strength of upgrading strategies, it is necessary to take a look at issues of social in- and exclusion. ‘Social position’ is an important intermediate variable that helps explain why, under equal conditions, some producers benefit more from upgrading strategies than others. The aim is not only to explain how structures determine the behaviour/actions of agents, but by understanding this relationship, to seek improvements and successful interventions by the competent agents.

In Chapter 7, I will analyse different upgrading strategies by looking at sub-strategies and their interventions. I will propose a more inclusive way of looking at upgrading: focusing the analysis on the goal of interventions, their impact and who is targeted. In addition, I will consider economic, environmental and social trade-offs. In this chapter I link individual upgrading strategies to collective upgrading by looking at possible future scenarios. Chapter 8 is the concluding chapter. In this chapter I will come back to the questions posed in this study and propose a model for upgrading that acknowledges the contribution (positive or negative) of hybrid governance structures to upgrading. In this chapter, I will also reflect on the transformative character of governance structures, and how power relations on different scale levels can be altered in order to produce more favourable outcomes for small producers. Finally, I will reflect on current policies and practices.