The risks of inclusion: shifts in governance processes and upgrading opportunities for cocoa farmers in Ghana
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The risks of inclusion

7.1 Introduction

It is clear that linking competitiveness with development demands a broader and more inclusive view on upgrading. In the value chain literature there are some different notions on what this concept entails and which elements deserve to be emphasised. For example, Gibbon and Ponte (2005) highlighted that the upgrading possibilities for most producers of primary export commodities are only marginal or sometimes even completely absent. Knorringa and Pegler (2006) worried about the lack of consideration for labourers in the upgrading debate. Others (for example KIT et al., 2006; Long, 2001) emphasised the importance of involving farmers in processes of chain management, which would contribute to empowerment of producers. In recent discussions ‘inclusive upgrading’ has also been linked to sustainable partnerships between public, private and civil actors (Vermeulen et al., 2008). Table 7.1 illustrates some the different notions on inclusive upgrading.

<table>
<thead>
<tr>
<th>Table 7.1</th>
<th>Notions on more inclusive upgrading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Some notions on ‘more inclusive’ upgrading</td>
<td>Authors</td>
</tr>
<tr>
<td>Reaching more producers, including more vulnerable groups (such as workers and women)</td>
<td>e.g. Barrientos et al., 2001; 2003; KIT et al., 2006; Knorringa and Pegler, 2006;</td>
</tr>
<tr>
<td>More equal distribution of added value in the chain and including producer/farmer view on upgrading (which can be perceived as ‘sub-optimal’ or marginal by actors higher up in the chain)</td>
<td>e.g. Long, 2001</td>
</tr>
<tr>
<td>Involving social and environmental elements; i.e. sustainable production</td>
<td>e.g. Abbot et al., 2004; Bolwig et al, 2008; Daviron and Ponte, 2005</td>
</tr>
<tr>
<td>Involving ‘institutional upgrading’ and empowerment of producers</td>
<td>e.g. Daviron and Ponte, 2005; KIT et al., 2006; Wennink et al, 2007.</td>
</tr>
<tr>
<td>Involving ‘diversification’ (both as type of risk management and strategy to increase remunerative income)</td>
<td>e.g. Gibbon, 2001</td>
</tr>
<tr>
<td>Contribute to the ability to create and control value</td>
<td>e.g. Daviron and Ponte, 2005</td>
</tr>
<tr>
<td>Sustainable partnerships</td>
<td>e.g. Vermeulen et al., 2008.</td>
</tr>
</tbody>
</table>

Source: composed by author.

In my study I integrate most of these different notions, albeit at different levels. In analysing inclusive upgrading strategies, I unravel strategies by looking at sub-strategies and interventions. The main analysis takes place on the level of interventions, where I make a difference between their: scope, impact, farmers’ perspective, constraints and trade-offs. In terms of scope, I analyse the interventions by looking at the number of smallholders that they reach. But in order to analyse
levels of ‘inclusiveness’ it is not enough to look at the number of farmers; it is also necessary to look at who exactly are included. In the previous chapter I already showed that upgrading opportunities are not equal for all farmers; for example, among my respondents, caretakers and farmers without any status were more vulnerable and generally had more difficulty obtaining access to land and services.

In terms of impact, I do not only look at competitiveness and adding value, the items that conventional approaches present as the main goals of upgrading. The reasons for this are that on the farm-level in Ghana ‘competitiveness’ is not a goal as such (see Chapter 5) and ‘adding value’ does not necessarily compensate for the costs of upgrading. Therefore, when assessing the impacts I make a distinction between ‘competitiveness’ (and adding value) and ‘remunerative farmer income’. But, because inclusion issues are closely related to levels of empowerment, I include ‘empowerment’ as a third type of impact in evaluating interventions. Empowerment is about vulnerable actors taking increased control over their lives and destiny. People need to exercise their ‘voice’ (Bebbington and Thompson, 2004). Empowerment can also result in ‘self-exclusion’; some groups of farmers for example may deliberately choose to remain outside a chain or intervention (Wennink et al., 2007). In terms of impact I will make a distinction between:

1. Competitiveness or adding value (for example strategies that support farmers in meeting [new] standards, increase the farmers’ margin, add value to the bean etc.);
2. Remunerative farmer income (for example strategies that support farmer productivity, efficiency in terms of cost-benefit ratios, volume of production, diversification of income, improved risk management); and
3. Empowerment (for example strategies that increase the farmers’ involvement in decision-making processes, provide trainings, that increase the farmers’ negotiating power, collective action, improve labour conditions, etc.).

In addition to scope and impact, I also analyse interventions on the farmer-perspective, the possible constraints and trade-offs. To explain why some strategies are (expected to be) more successful than others, I included the farmers’ view on the intervention (or on the problem the intervention seeks to address). In addition, I looked at possible constraints (for example institutional constraints) that made it difficult for farmers to benefit from specific actions. In terms of trade-offs, I refer to unexpected economic, social and/or environmental tensions that the intervention generates.

In my (mainly qualitative) analysis I will use two different matrixes. To illustrate the impact of an intervention on the farmers’ position in a chain (individual level) I employ the empowerment matrix, developed by KIT et al., (2006: 20-1). I developed the scenario matrix to reflect on the cocoa sector in its totality (collective level).

In the first matrix ‘empowerment’ refers to intervention strategies that enable farmers to strengthen their capacity to manage chains and to be involved in various chain activities. In addition to moving up in the chain, empowerment requires the farmers to obtain economic power by participating in chain management. This matrix, which should be regarded as a ‘tool for strategic thinking about chain development’, has two dimensions: who does what in the chain (vertical
integration), and who determines how things are done in the chain (horizontal integration). There are four distinct positions within the matrix: chain actor, chain activity integrator, chain partner and chain co-owner (Figure 7.1).

Figure 7.1 Chain empowerment matrix

In this matrix there are four empowerment strategies:

1. Upgrading as a chain actor – the farmers become crop specialists with a clear market orientation;
2. Adding value through vertical integration – the farmers move into joint processing and marketing in order to add value;
3. Developing chain partnerships – the farmers build long-term alliances with buyers, centred on shared interests and mutual growth;
4. Developing ownership over the chain – the farmers try to build direct linkages with consumers.

Chain empowerment can be ‘measured’ by comparing the situation after an intervention with the situation beforehand, as visualised in the next matrix (Figure 7.2).

Figure 7.2 Understanding empowerment

Source: KIT et al., 2006.
Although the matrix suggests that the ideal position for farmers is that of co-owner, that is not necessarily true. The best position (and the most effective intervention) depends on the specific context and may change over time (KIT et al., 2006: 23-4).

I use a second matrix to capture changes over time. Taking into account possible future scenarios will shed light on the current (and future) position of Ghanaian cocoa farmers in the global cocoa chain and the kind of interventions that can generate long-term benefits for the sector. This ‘scenario matrix’ is built around two dimensions: changes in demand, moving from ‘product’ to ‘process’ requirements, and the level of liberalisation (Figure 7.3).

![Scenario matrix](image)

Source: composed by author.

These are four different scenarios, which require different types of upgrading strategies, sub-strategies and interventions:

1. **Status quo with passive role of private sector** – This scenario reflects the current situation in Ghana, a status quo where international buyers and the Ghanaian government have a common interest in maintaining or perhaps only slightly changing the system. The sector is partly liberalised and the focus is on product quality and volume.

2. **Opening up** – This scenario reflects a shift away from primary demand for high quality cocoa beans (‘product requirements’) towards an increasing demand for example sustainable cocoa production (‘process requirements’). This would require more transparency and enhanced levels of public-private partnerships.

3. **Status quo with active role of private sector** – This scenario is a continuation of focusing on product quality. Instead of the Ghanaian government, the private sector coordinates supply. Because the Quality Control System of Cocobod is quite successful in ensuring certain quality standards, Cocobod could continue to play a supportive role. Another option is that in this scenario QCD is privatised.

4. **Loosing control** – This scenario is the most radical, reflecting changes in demand and an increased level of liberalisation. The government is no longer in control. Marketing channels are privatised and in order to remain competitive on the world market producers have to focus on process quality instead of (only) product quality.
This matrix does not ‘measure’ shifts; it provides an enhanced understanding of the vulnerability of the current system by looking at changes in context. This contributes to the identification of more inclusive upgrading strategies that are (also) effective on a longer term. In the next section I will start to unravel the upgrading strategies in the cocoa sector.

7.2 Upgrading strategies, sub-strategies and interventions in the cocoa sector

In Chapter 2, I described the different views on upgrading and the way that these perceptions complement each other (by linking types of upgrading more to the process of upgrading and its outcomes). In this chapter I will focus on these linkages by looking at the impact of different upgrading strategies and by identifying structures of rewards for different groups of cocoa producers. This is a rather complex exercise; there are multiple interventions leading to upgrading, which interact with each other and are executed by different actors involved in the cocoa chain. In order to make an understandable overview, I identified a large number of interventions that affect Ghanaian cocoa producers and structured these around sub-strategies. These are in turn linked to the three upgrading strategies identified by Gibbon (2001: 352-4):

- Strategy 1: Capturing higher margins for unprocessed commodities;
- Strategy 2: Producing new forms of existing commodities; and
- Strategy 3: Localising commodity processing and marketing.

Sub-strategies for capturing higher margins for unprocessed cocoa are contributing to producing better quality cocoa, increasing productivity and the production of higher volumes of cocoa, and producing under more remunerative contracts. Sub-strategies for producing new forms of existing commodities are divided into producing for specialty/niche markets, development of non-traditional uses of cocoa and diversification into non-traditional products, and other (non-farm) income-generating activities. Sub-strategies for localising commodity processing and marketing are processing cocoa waste, processing cocoa beans and the marketing of cocoa beans. As Figure 7.4 shows, different types of actors are involved in different upgrading (sub-) strategies.

It will not be possible to discuss each (sub-) strategy or to analyse each intervention in detail. Table 7.2 bellow gives a clear overview of the interventions I identified between 2003 and 2005. In particular it was not possible to analyse all these interventions thoroughly because some of them were still in a pilot phase while for others I was not able to interview the target group. These interventions are discussed in a more descriptive way.

Appendix 7.1 provides a more extensive overview of the different interventions in the cocoa sector in Ghana and discusses their mechanism, target group, (expected) impact, identified constraints and trade-offs. Based on this exercise, I made a
Figure 7.4 Overview of upgrading strategies, sub-strategies and the involved actors

Source: composed by author.
Table 7.2 Identified interventions affecting cocoa producers in Ghana

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Initiator of Intervention (between 2003 and 2005)</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STRATEGY 1: CAPTURING HIGHER MARGINS FOR UNPROCESSED COMMODITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sub-strategy 1.1</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capturing higher margins for unprocessed cocoa by producing better quality cocoa</td>
<td>International institutions</td>
<td>Setting standards</td>
</tr>
<tr>
<td></td>
<td>Food and Agricultural Organisation (FAO)/ European Union (EU)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>International buyers</td>
<td>Paying premium, rejecting beans</td>
</tr>
<tr>
<td></td>
<td>Ghanaian government</td>
<td>Quality control</td>
</tr>
<tr>
<td></td>
<td>QCD</td>
<td></td>
</tr>
<tr>
<td></td>
<td>MoFA</td>
<td>Extension services</td>
</tr>
<tr>
<td></td>
<td>CRIG</td>
<td>Research/listing recommended practices</td>
</tr>
<tr>
<td></td>
<td>CMC</td>
<td>Sanctioning LBCs</td>
</tr>
<tr>
<td></td>
<td>Local private sector</td>
<td>Quality control, drying cocoa, training farmers</td>
</tr>
<tr>
<td></td>
<td>Farmer groups</td>
<td></td>
</tr>
<tr>
<td></td>
<td>KKFU</td>
<td>Purple bean seminars, small bonus for dried cocoa</td>
</tr>
<tr>
<td></td>
<td>Individual farmers</td>
<td>Traditional fermentation and drying practices, pre-selection of good pods/beans, pest management, selling remnant beans</td>
</tr>
<tr>
<td><strong>Sub-strategy 1.2</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in productivity and higher volumes of production</td>
<td>International institutions</td>
<td>Research</td>
</tr>
<tr>
<td></td>
<td>Research institutes (for example CIRAD)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>International buyers</td>
<td>Research on pests and diseases, integrated pest management, new varieties, etc.</td>
</tr>
<tr>
<td></td>
<td>Ghanaian government</td>
<td>Increase producer-price, bonuses (compensation)</td>
</tr>
<tr>
<td></td>
<td>CODAPEC</td>
<td>Mass-spraying programme, High-tech programme (fertilizer on credit)</td>
</tr>
<tr>
<td></td>
<td>Cocobod</td>
<td>Rehabilitation of (abandoned) cocoa farms, Infrastructure</td>
</tr>
<tr>
<td></td>
<td>MoFA</td>
<td>Extension services</td>
</tr>
<tr>
<td></td>
<td>CSSVD</td>
<td>Swollen shoot programme</td>
</tr>
<tr>
<td></td>
<td>CRIG</td>
<td>Research and development of new varieties</td>
</tr>
<tr>
<td></td>
<td>Local private sector</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Wienco (input provider)</td>
<td>Provision of fertilizer on credit to farmer groups, combined with extension services</td>
</tr>
<tr>
<td></td>
<td>LBCs/PCs</td>
<td>Provision of credit</td>
</tr>
<tr>
<td></td>
<td>Banks</td>
<td>Provision of credit</td>
</tr>
<tr>
<td></td>
<td>Multi-stakeholder initiatives/PPP</td>
<td></td>
</tr>
<tr>
<td></td>
<td>STCP</td>
<td>Farmer Field Schools: farmer-based extension services and training (IPM)</td>
</tr>
<tr>
<td></td>
<td>CI, KKFU, MoFA and CRIG</td>
<td>FFSS in conservation areas</td>
</tr>
<tr>
<td></td>
<td>Farmer groups</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Informal (nnoboa)</td>
<td>Exchange labour and knowledge</td>
</tr>
<tr>
<td></td>
<td>KKFU</td>
<td>Credit unions</td>
</tr>
<tr>
<td></td>
<td>Ad hoc organisation</td>
<td>Get advice/training/access to products</td>
</tr>
<tr>
<td></td>
<td>Individual farmers</td>
<td>Planting new varieties, Applying good farm practices, Pest management, Using fallow land, Hire more labour, Savings and apply for credit, Participation in training, Apply higher levels of technology, On-farm investment</td>
</tr>
</tbody>
</table>
### Sub-strategy 1.3
Producing under more remunerative contracts

<table>
<thead>
<tr>
<th>International institutions</th>
<th>International banks</th>
<th>Financing forward sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>International buyers</td>
<td>Forward sales premium</td>
<td></td>
</tr>
<tr>
<td>Ghanaian government</td>
<td>Forward sales</td>
<td></td>
</tr>
</tbody>
</table>

Local private sector

<table>
<thead>
<tr>
<th>LBCs/PCs</th>
<th>Investment in (selection of) PCs, Prompt payment, provision of services, credit, subsidized inputs etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmer groups</td>
<td>Informal exchange labour contracts (nnoboa)</td>
</tr>
<tr>
<td>Nnoboa</td>
<td>Fair trade contract</td>
</tr>
<tr>
<td>KKFU</td>
<td></td>
</tr>
</tbody>
</table>

| Individual farmers        | Sharecontracts, Membership of KKFU, Loyalty to LBC                                             |

### STRATEGY 2: PRODUCING NEW FORMS OF EXISTING COMMODITIES

#### Sub-strategy 2.1
Producing for specialty/ niche markets

<table>
<thead>
<tr>
<th>International institutions</th>
<th>Opening of alternative marketing channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>International buyers</td>
<td>Installing processing facility for 'origin cocoa' from Ghana</td>
</tr>
<tr>
<td>ADM</td>
<td>Processing small amounts of organic/fair trade cocoa products</td>
</tr>
<tr>
<td>Barry Callebaut</td>
<td></td>
</tr>
<tr>
<td>Traders/processors/manu-</td>
<td>Paying premium for organic/fair trade cocoa</td>
</tr>
<tr>
<td>facturers/retailers/con-</td>
<td></td>
</tr>
<tr>
<td>sumers</td>
<td></td>
</tr>
<tr>
<td>Multi-stakeholder</td>
<td>Certification schemes (labour, sustainable trade)</td>
</tr>
<tr>
<td>initiatives/PPP</td>
<td></td>
</tr>
<tr>
<td>NGOs (AgroEco) and Cocobod</td>
<td>Organic cocoa</td>
</tr>
<tr>
<td>Farmer groups</td>
<td></td>
</tr>
<tr>
<td>KKFU</td>
<td>KKFU produces for fair trade market</td>
</tr>
<tr>
<td>Individual farmers</td>
<td>Become member of KKFU, Participation in organic cocoa projects</td>
</tr>
</tbody>
</table>

#### Sub-strategy 2.2
Development of non-traditional uses of cocoa

<table>
<thead>
<tr>
<th>Ghanaian government</th>
<th>Development and marketing of cocoa by-products</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRIG</td>
<td></td>
</tr>
</tbody>
</table>

#### Sub-strategy 2.3
Diversification into non-traditional products and other (non-farm) income-generating activities

<table>
<thead>
<tr>
<th>Multi-stakeholder initiatives/PPP</th>
<th>In FFS attention is focused on diversification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmer groups</td>
<td>Income generating projects for women</td>
</tr>
<tr>
<td>KKFU</td>
<td>Inter-cropping/shade management/production of other cash crops, other activities (cf. teaching)</td>
</tr>
<tr>
<td>Individual farmers</td>
<td></td>
</tr>
</tbody>
</table>

### STRATEGY 3: LOCALIZING COMMODITY PROCESSING AND MARKETING

#### Sub-strategy 3.1
Processing cocoa waste

<table>
<thead>
<tr>
<th>International buyers</th>
<th>Resigha</th>
<th>Buying inferior cocoa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghanaian government</td>
<td>Research, development and marketing of cocoa by-products (soap, fertilizer, liquor, food for poultry, etc.)</td>
<td></td>
</tr>
<tr>
<td>Farmer groups</td>
<td>Soap making</td>
<td></td>
</tr>
<tr>
<td>Individual farmers</td>
<td>Soap making</td>
<td></td>
</tr>
</tbody>
</table>

#### Sub-strategy 3.2
Processing cocoa beans

<table>
<thead>
<tr>
<th>International buyers</th>
<th>Outsourcing of processing to Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghanaian government</td>
<td>20 % discount on light-crop beans</td>
</tr>
</tbody>
</table>

#### Sub-strategy 3.3
Marketing cocoa beans

<table>
<thead>
<tr>
<th>Farmer groups</th>
<th>KKFU</th>
<th>KKFU is shareholder in Divine Chocolate, a chocolate marketing company based in UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual farmers</td>
<td>Become a PC</td>
<td></td>
</tr>
</tbody>
</table>

Source: composed by author.
selection of four interventions which are discussed in-depth in this chapter. The
main selection criteria were a) number and type of farmers being reached; b) type of
impact; and 3) available data. First, I will discuss two large-scale public
interventions; one aimed at the production of high quality cocoa and the other at
increasing the volumes of cocoa production. These interventions differ both in the
type of impact and type of farmers they reach. While the quality control system
reaches all farmers and helps them to be competitive on the world market, the mass
spraying programme is not equally accessible for all farmers. This is a problem,
because access to the spraying programme can result in higher yields and higher
incomes. Second, I discuss one medium-scale multi-stakeholder initiative (which
includes public, private and civil actors) namely the only formal farmer union, the
Kuapa Kokoo Farmer Union (KKFU). This Farmer Union, which encompasses around
50,000 farmers and their families, produces a small share of its beans for the fair
trade market. In addition to opening up an alternative marketing channel,
membership in the union also empowers farmers. Third, I will discuss briefly an
intervention by international processing companies, which outsourced part of their
processing capacity to Ghana. This intervention has no direct impact on farmers but
does contribute to the long-term demand for Ghanaian cocoa by consolidating
relations between Cocobod and international processing companies.

An analysis of these interventions will provide insight in: how the interests of
the different players in the cocoa chain are manifested locally, who dominates the
upgrading agenda and which upgrading issues are prioritised? Furthermore, it
makes it possible to highlight the strengths and weaknesses of the interventions.
I will also discuss the farmers’ strategies and their responses to the different
interventions. Table 7.3 gives an overview of the selected strategies.

<table>
<thead>
<tr>
<th>Strategy Scope</th>
<th>Sub-strategy</th>
<th>Type of intervention</th>
<th>Actor involved in intervention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy 1</td>
<td>Sub-strategy 1.1: Quality control</td>
<td>Public intervention Large scale (all farmers)</td>
<td>Impact 1: Competitiveness</td>
</tr>
<tr>
<td></td>
<td>Sub-strategy 1.2: Mass spraying exercise</td>
<td>Public intervention CODAPEC Large-scale (the majority of farmers)</td>
<td>Impact 2: Remunerative income</td>
</tr>
<tr>
<td>Strategy 2</td>
<td>Sub-strategy 2.1: Production for fair trade cocoa niche market</td>
<td>Multi-stakeholder initiative Kuapa Kokoo Farmer Union, Twin trading, Fair trade organisation Medium scale (50,000 farmers)</td>
<td>Impact 3: Empowerment</td>
</tr>
<tr>
<td>Strategy 3</td>
<td>Sub-strategy 3.2: Processing cocoa beans</td>
<td>International buyers Large scale (all farmers)</td>
<td>No impact</td>
</tr>
</tbody>
</table>

Source: composed by author.
For each strategy, I will first explain what the specific upgrading strategy entails for Ghanaian cocoa producers. Second, I will provide a farmer’s perspective on different sub-strategies and explain the role of the producer in their implementation. Consequently, I will discuss the selected interventions in terms of their impact on producers. In the analysis, several key questions will be raised: Who intervenes? How do farmers benefit from these interventions? Through what kind of mechanisms do they benefit? Who exactly is targeted by the interventions and who is excluded? Why are some interventions not successful or not implemented at all? How do the different interventions interact? Are there constraints and/or unexpected side-effects (economic, social and environmental trade-offs)?

In order to measure the effectiveness of public interventions (the quality control system and the mass spraying programme) and the responses of farmers, I will mainly use qualitative data (based on in-depth interviews with different actors, group discussions with farmers and ‘grey’ literature), combined with quantitative data, based mainly on the farmer survey held in 2005. I will mainly use qualitative data to measure the effectiveness of private interventions and of multi-stakeholder initiatives.

7.2.1 Strategy 1: Capturing higher margins for unprocessed cocoa

High(er) margins for unprocessed cocoa (cocoa beans ready for storage, i.e. already fermented and dried) can be captured by producing premium quality cocoa, increasing productivity and offering a reliable supply of high volumes of cocoa, or by securing more remunerative (informal) contracts with buyers of cocoa (Figure 7.5).

Sub-strategy 1.1: Capturing higher margins by producing better quality cocoa

For a long time capturing higher margins through the production of better quality cocoa has not been considered an option as Ghana already grows the finest cocoa in the world, and is awarded a premium price (for producers there is no price-differentiation in Ghana for different quality beans). However, recent developments put ‘product upgrading’ back on the agenda. First, there were some problems as lower-grade cocoa beans got mixed in with premium cocoa beans. Second, a small part of Ghanaian cocoa was rejected on the world market due to excess levels of chemical residues. Third, Cocobod officials have been debating the lack of price-differentiation for some time now, exploring the possibility to introduce some kind of price-differentiation for producers. This would provide the incentive to produce the so-called ‘Ghana Super beans’ (or grade 93A).

In 1963 the international standard for cocoa was forged with Ghanaian cocoa as its base (at that time Ghana was the dominant producing country) (Daviron and Ponte, 2005: 9). The Ghanaian standard has not been adopted by other cocoa producing countries, but there have been attempts to adopt the Ghanaian system of quality control, for example in Vietnam (PSOM, 2004). It is generally assumed that the main positive distinguishing characteristic of Ghanaian premium cocoa is its post-harvest quality performance, where fermentation is particularly important as...
Actually, there are more elements that distinguish the Ghanaian standard:

- **Higher fat content** – Ghanaian cocoa has a higher fat content, which results in higher butter yield;
- **Lower levels of defects** – Ghana cocoa has a lower level of ‘moulty’ (not being dried well) and ‘slaty’ (not being fermented well) beans than other origins;
- **Preferred flavour** – as a result of better fermentation practices and the lower level of defective beans, Ghana cocoa produces liquor with a favour preferred by some end-users;
- **Shipping weight basis** – the CMC sells cocoa on a shipping weight basis;
- **Contract performance** – the CMC has the reputation of honouring its contracts with global buyers (or of alerting buyers to problems well in advance) (Cocobod, 2003).

Recently there have been some problems with Ghana’s quality performance. The ‘purple beans’ are threatening Ghana’s reputation as the producer of the world’s finest cocoa.\(^{151}\) Even though, formally none of the ‘purple beans’ were rejected on the world market, nevertheless international buyers did officially warn Ghana about the increasing quantities of infected beans (personal communication Cocobod Research Department, May 2007) and reduced the price offered for Ghanaian cocoa.
beans for the 2004/05 season. Generally LBCs and farmers are blamed for the drop in quality; but, as already illustrated in Chapter 5, there are different views on the exact cause of the decline. The next quotes illustrate some of the farmers’ perceptions of this issue and summarise their views:

- Companies are competing with each other to buy the cocoa and don’t really care if the cocoa is dry enough. That also explains the decline in the quality of cocoa. I believe if the companies are strict with the rules and regulations the quality of the cocoa will improve again.
- Farmers should not be blamed [for the purple beans], we are adhering strictly to the teachings of the Quality Control Board’s fermentation and drying of the beans but we still have the purple beans. (...) We don’t know the cause of this. It is creating a lot of problems for farmers.
- Some years back, when our forefathers were cultivating cocoa, the quality of cocoa was one of the best. The introduction of new farming techniques has resulted in the decline of quality cocoa.
- From the teachings we had on the fermentation and drying of the cocoa we have to cover the beans with plastic sacks. We have realised that this method is not very good for fermentation. We were also advised to leave the pods for a week before we break them but that is also not working, so we are confused now because when we send our cocoa to the buying companies they refuse to buy because the beans, they say, are not dried well. This has created a lot of hardship for farmers.
- The crisis in Côte d’Ivoire has brought hardships to farmers in Ghana, some of the cocoa farmers in Côte d’Ivoire brought their cocoa down to Ghana to sell and as a result their cocoa got mixed up with cocoa from Ghana and this affected the quality of the cocoa from Ghana. (...) that is why we have not received payment for our produce.
- The decline of the quality of the cocoa could also be attributed to the method used to dry it. Some new companies advise to dry the beans for three days instead of the six days the government proposes. I think the government should institute measures to make sure the beans are well dried for six to seven days. Six years ago farmers were drying the beans for six days and there was no problem with that, so I will suggest we stick to the six days (farmer profiles 2005; group discussions 2005).

These views illustrate not only the different perceptions of farmers and their confusion about the exact causes of the decline, but also their knowledge on developments in the sector and their responses.

Another critical issue with quality performance is meeting international standards on excess levels of pesticide residues. These violations occur due to inadequate extension services and the ‘widespread, excessive and abusive use of unapproved (not recommended) pesticides to protect the cocoa crop from insects, pests and diseases’. This takes place both during the growth cycle on farms as well as during cocoa storage. In Ghana the Cocoa Research Institute Ghana (CRIG) (a Cocobod subsidiary) is responsible for informing the farmers on the use of chemicals, for recommending appropriate remedies and for assuring that Ghanaian cocoa beans
are accepted on the world market. In some cases this is not enough, as legislation can change overtime. For example, after Japan introduced more restrictive legislation on maximum residue levels it consequently rejected Ghanaian beans.\(^{153}\)

In response to these problems with quality performance, in 2005 Cocobod issued sanctions against LBCs. Some LBCs temporarily stopped buying cocoa from farmers, which directly affected the farmers’ income. This (partial) shifting of risk from the government to the private sector and farmers contributed to growing tensions and mistrust between Cocobod, LBCs and farmers. Still, compared to other cocoa producing countries in the region and their decline in quality, Ghana’s cocoa is still considered as (relatively) good quality cocoa by buyers and they still offer a premium price.

**A farmer perspective on quality aspects and strategies to upgrade their beans**

In discussions on quality, the Ghanaian government and international buyers of cocoa mainly look at the quality standards of the beans. Farmers have a different perspective on quality and worry more about crop losses that take place earlier in the chain. The next Figure (7.6) indicates the main reasons for the quality decline, comparing season 2003/04 with season 2002/03, as perceived by farmers that participated in the survey held in 2005\(^{154}\) (FS 2005).

![Figure 7.6 Main reasons for the quality decline in 2003/04 – a farmer perspective](image)

According to farmers ‘diseased beans’ was the main cause for quality decline, followed by unfavourable weather conditions and the lack of input. From the perspective of farmers, the best way to avoid further losses is through more effective pest management. Many cocoa-producing countries face this problem of considerable ‘crop losses’. It is estimated that worldwide at least one-third of cocoa production is lost to pests and/or diseases every year.\(^{155}\) The largest part of this loss is discovered and dealt with at the farm-level. Farmers interviewed in Ghana indicated that for cocoa seasons 2002/03 and 2003/04 a considerable part of the cocoa pods was
affected by diseases. They pre-selected the bad pods and beans from the good ones. Of the good pods, around one fifth of the beans were of inferior quality, mainly due to pests and diseases (FS 2005). This pre-selection, which takes place prior to official procedures, obviously contributes to the high uniform quality of Ghanaian cocoa. However it implies additional costs for farmers, which are higher for larger farmer who have to hire labourers to perform this task.

The different perspectives on good quality performance show that ‘product quality’ is not always easy to separate from ‘process quality’. The farmer perspective informs that there are various options for ‘good quality performance’. There are alternatives to focusing only on the quality of the selected beans (by making sure adequate fermentation and drying takes place) and the excess levels of residues (such as reducing the number of discarded cocoa pods and beans through more effective pest management). These contrasting views can cause tensions. From a farmer perspective, pest management is the way forward, while for international buyers and their governments excess levels of pest residues are problematic and result in their rejection of Ghanaian cocoa.

Other interventions that contribute to the production of premium quality cocoa beans

Different interventions, taking place at different levels, aim to advance the production of premium quality cocoa. In the international market place, international institutions, such as the FAO and EU, are involved in standard setting. International buyers determine the premium price paid for good quality cocoa. Moreover, international buyers can reject beans if they do not meet the prescribed quality standards. Nationally, Cocobod and its subsidiaries control the quality of cocoa, provide information and extension services. This enables farmers to produce increasing quantities of premium quality cocoa. The previous chapters made it clear that extension services worsened since the introduction of reforms. In response to recent problems with quality performance, Cocobod started using sanctioning in order to avoid further down-grading of the product and in order to protect its good reputation. Local buyers of cocoa have also become involved in quality control procedures. Purchasing Clerks (PCs), hired by Licensed Buying Companies (LBCs) to buy cocoa in the communities, have been given the responsibility by QCD to conduct the first official quality check. Because of the problems with the quality of the beans, local buyers have been accused of ‘downgrading’ Ghanaian quality standards, by buying cocoa which is not adequately dried and fermented. PBC, the largest buying company, responded to this accusation by providing training to a number of their suppliers. In addition, LBCs intervene in quality control procedures by involvement in drying the cocoa they buy (normally farmers dry their cocoa themselves). For LBCs this is a good way to compete with other LBCs, as well as a way to overcome problems of ‘mouldiness’. For farmers it is also beneficial as they save the time and labour they would normally expend on drying the beans. Because LBCs compete on volume, they pay farmers the same price for the ‘wet’ cocoa as they would pay for well dried cocoa. This service provided by LBCs is especially lucrative for larger farms with higher labour costs.
In countries that have fully liberalised cocoa marketing and pricing systems (such as Côte d’Ivoire) the organisation of cocoa farmers in cooperatives is regarded as a way to safeguard quality standards. In Ghana, this was one of the main reasons to set-up farmer cooperatives in the 1920s (see Chapter 5). But, nowadays, formal organisation among Ghanaian cocoa farmers is scarce and has other goals. Only the Kuapa Kokoo Farmer Union (KKFU), the only major cocoa farmers’ union in Ghana that at the same time functions as a LBC, paid some attention to the issue by organising ‘purple beans seminars’ in season 2003/04. In addition, some of its members received a small extra bonus for thoroughly dried cocoa. Individually, farmers do play a key role in the production of premium quality cocoa. They contribute to good quality performance by applying traditional drying and fermentation techniques, by pre-selecting beans and by applying pest-management measures to reduce crop losses.

**Missing interventions**

Surprisingly, in Ghana there is no price-differentiation for the different categories of ‘accepted’ beans. At present, for ‘premium cocoa’ farmers receive an annually fixed percentage of the producer price; they can sell inferior cocoa at a very low price, equalling around 2 per cent of the producer-price, to the processing company Resigha (see next section). Another intervention that can safeguard quality but is not yet implemented is to assist farmers in their effort to set-up producer organisations and to provide capacity building training to existing farmer groups. While in other cocoa producing countries there is already supportive legislation in place; the Ghanaian government is very hesitant to take similar steps (see Chapter 5 and 6).

In the next paragraph I will analyse one of the main governmental strategies that secures the production of premium cocoa – a good quality control system.

**Intervention – the public quality control system**

The choice for gradual liberalisation was linked to the lessons learned from the negative experiences of other cocoa producing countries. There the privatisation of the system of quality control, together with a lack of professionalism among new local buyers, resulted in considerable losses in quality. Consequently, in Ghana Cocobod held on to its public quality control system, although some changes were introduced. In the past QCD held five quality inspections before exporting the beans; now the number is reduced to three: inspections at the up-country store (Picture 7.1), at the take-over point from the LBCs to the CMC, and at the point of export (Cocobod, 2003). As part of this last check QCD carries out ‘fumigation and disinfection’ of beans to ensure that only cocoa beans free of insects are exported. Additionally, to prevent damage to the stored beans rodent control takes place in all cocoa storage facilities (GAIN Report, 2005: 5).

Prior to these inspections, at the community level PCs used to check the quality at their buying stations: ‘they are to buy cocoa which is thoroughly dry, of uniform bean sizes, not slaty, not germinated or broken, and no evidence of adulteration’.
After this step, in the buying-depot at the district level, a representative of QCD checked the quality, by taking a sample of hundred beans out of each bag (see Picture 7.2).

The cocoa beans are graded according to bean size and strict international quality standards, established by the FAO. These standards are mainly based on adequate fermentation and drying of the beans. There are three Grades: Grade 1, Grade 2 and sub-standard cocoa. The rest is waste. A distinction is made between ‘main crop’ and ‘light crop’ beans, showing both distinctive patterns of bean size. Most main crop beans are large and receive a premium price on the world market, while most light
crop beans are medium and sold at a 20 per cent discount to local processing industries (Ministry of Finance, 1999: 66-7). Small and remnant beans can be sold directly to Resigha. In terms of capturing higher margins for unprocessed cocoa this option is a very marginal way of upgrading.

Evidently, the cocoa producers are the main actors who determine cocoa quality and perform the first (unofficial) quality check. Local buyers and QCD officials, the Ministry of Food and Agriculture (MoFA) and the Cocoa Research Institute Ghana (CRIG) are all involved in the provision of extension services to make sure only recommended chemicals are applied. In addition, CRIG conducts cocoa research on quality related issues (Figure 7.7).

![Figure 7.7](image)

The quality control system in Ghana ensures the export of traceable high quality cocoa. After the first quality check of the QCD, the bags are sealed and stamped with a seal that indicates the grade, size, the buying station of the respective LBC and the...
person responsible for the quality control (interview with quality control examiners, 2003). In other cocoa producing countries quality control occurs much higher up in the chain, making it difficult to trace back the cocoa all the way to the source (Cocobod, 2003).

How do farmers benefit from this public intervention?
Cocobod sees the existing institutional framework for quality control as its main tool for securing the production of premium quality cocoa. Even if the costs for (maintaining) the production of premium quality cocoa are high, it has been recommended that the final quality control should remain in the hands of the QCD (Ministry of Finance 1999: 70). The international buyers of cocoa support this stance. Farmers also benefit from the export of premium quality cocoa. Ghana’s ability to sell quantities of consistently good quality cocoa contributed to its good reputation and favourable contracts with overseas buyers and international banks. As a result, Ghanaian cocoa farmers have no difficulty to sell their produce for a stable annually fixed price.

For the production (and consistent delivery) of uniform premium quality cocoa beans, Cocobod receives an extra high price, ranging from an extra €40-60 per metric tonne (between four and six per cent of the producer-price) (GAIN Report, 2005). The cost of grading and certifying a tonne of cocoa is estimated by QCD officials at around 10€ per metric ton (6,000 cedis per bag). It is not clear what part of the premium (if any) reaches the farmers. NGOs and researchers working in Ghana have stressed the importance of conducting further research on this topic. We have seen that the farmers bear the costs of pre-selecting pods and beans. Furthermore, the risks involved in the production of premium quality cocoa are unevenly distributed among the different actors in the chain. When the quality deteriorates (e.g. the purple beans problem) and the quality control system fails to intercept inferior beans, the risks are partly shifted towards the buying companies and the farmers (hitting farmers the hardest). Fragmentation of extension services also produced conflicting advice on quality issues.

The farmers always have the option to sell their remnant beans to a private buyer. Although the price for this type of beans is very low, it is an attractive opportunity for some additional income. In season 2002/03 less than 10 per cent of the farmers reported that they sold their remnant beans, while in 2003/04 this percentage multiplied manifold to around 43 per cent for this same group (FS 2005; FS 2003). Farmers that participated in the survey in 2005 did not equally take advantage of this option to sell to Resigha. Almost half of the farmers with a ‘very strong position/status’ in the community/chain (such as chief farmers) sold inferior beans to Resigha, while for farmers who held no position this percentage was only 31 per cent. Location also turned out to be significant. Farmers from the Central and Western Region made more use of this option than the respondents living in Brong Ahafo and the Ashanti Region. A possible explanation for this is that Resigha’s central depot is in Winneba (located in the Central Region, but also easily accessible from the Western Region).

In summary, the quality control system is central in helping the Ghanaian cocoa farmers to remain competitive on the world market with this premium quality
product and to distinguish themselves from other cocoa producing countries. This intervention reaches all farmers, but because there is no price-differentiation for different qualities farmers do not have the choice to produce lower quality cocoa (for example by selling unfermented beans) and save time for other activities. Due to a lack of transparency in recording the exact costs and benefits, it is not possible to determine whether the quality control system contributes directly to increasing farmer incomes. It is clear that it contributes to the stability of their income.

In terms of empowerment this intervention has no impact. Farmers have no control; they are not involved in setting quality standards; and the quality control system does not affect their negotiating power. The quality control system does not change the position of the farmer in the chain.

### Constraints and trade-offs of the quality control system

A positive side-effect of the quality control system is that it makes it possible to trace the Ghanaian bean (prior to bulk transport) back to the local buying centre. Another positive side-effect is that the QCD system contributes not only to Ghanaian cocoa obtaining a premium price but also reduces cost for international buyers. Both aspects contribute to the long-term demand for Ghanaian cocoa.

However, there are also some constraints and negative trade-offs. First, the fact that competition is based on volume provides little incentives for local buyers to be very strict on the quality control of the beans they buy locally. This also reduces the incentives for farmers to follow labour-intensive traditional fermentation and drying practices. A lack of incentives is also problematic for quality control officials. On several occasions (mainly during informal discussions with local buyers) it was mentioned that these officials are sometimes corrupt and allow inferior cocoa to enter the market. Farmers are not only lacking substantial incentives to produce high quality cocoa beans but in addition they are also confused regarding the mandated farming practices. The fragmentation of extension services is primarily to blame for the contradictory advice on how to produce good quality cocoa. A final negative aspect of the quality control system geared at delivering only premium cocoa is that farmers shoulder a large share of the costs and risks (Table 7.4).

The central question remains: why does Cocobod want so strongly to maintain control over the quality of cocoa and is reluctant to contract this out to the private sector? The main reason is the negative experiences in other countries where quality control was privatised, which convinced Cocobod that quality control should remain a public affair. There are also underlying reasons that are more difficult to identify. For Cocobod additional reforms would pose a threat to their powerful position. It is likely that privatisation of the quality control system, especially if successful, will be a catalyst for change and result in Cocobod losing control over its other subsidiaries, such as the Cocoa Marketing Company. This is likely to threaten the privileged position of many officials involved in the cocoa sector.

### Sub-strategy 1.2: Increase in productivity and higher volumes of production

Next to ‘product upgrading’, another way to capture higher margins for unprocessed cocoa is by upgrading the production process. In Ghana, cocoa is
### Table 7.4 Measuring the inclusiveness of the public quality control system

| Sub-strategy 1.1. Capturing higher margins for unprocessed cocoa by producing better quality cocoa | Ghanaian government | Quality control | All farmers | Impact 1: Meeting standards creates access to world market. | Little incentives for local buyers (PCs), who are responsible for first quality check to be strict on quality control, which also reduces incentives for farmers to follow incentives for farmers to follow traditional fermentation and drying practices. | + QCD system contributes to traceability of cocoa. |
|---|---|---|---|---|---|---|---|
| | | (compulsory) | | | | QCD system contributes to receiving a premium price for Ghanaian cocoa. |
| | QCD | | | Impact 2: Due to a lack of transparency it is not sure if farmers benefit from the premium. The quality control system does contribute to more remunerative contracts with international buyers. | Quality control system is expensive. There is no transparency on distribution of costs (and benefits). |
| | | | | Impact 3: This intervention does not contribute to empowering farmers. | Farmers shoulder a large share of the costs and risks for delivering only premium cocoa to the market. |

**Measuring inclusiveness**

The public quality control system involves all Ghanaian cocoa farmers and helps them in acquiring access to the world market. Nevertheless, in terms of inclusiveness the system is not optimal. The quality control system is compulsory and offers no stimulating incentives; farmers are not involved in standard-setting; farmers have no choice (there is no price differentiation) and the system does not enhance the farmers' capacity. The lack of transparency regarding the distribution of costs and benefits undermines to some extent the effectiveness of the system. In addition, the incentives for different local actors to support the system seem to be diminishing, this results in quality losses.
cultivated on some 1.6 million hectares in Southern and Central Ghana. About three quarters of output is produced by around 700,000 small-scale farms (Ton et al., 2008: 5). As the political and economic value of cocoa is very high for the Ghanaian government, it is one of the main initiators of programmes that aim to increase the productivity and increase the volumes of cocoa produced.

Cocoa has been dominating the political economy of Ghana since 1920s. There was one serious blow in the late 1960s when cocoa production plummeted (Figure 6.7), partly due to the outbreak of Cocoa Swollen Shoot Virus Disease (CSSVD), which was ‘cured’ by cutting down the sick trees. In the 1970s the government attempted to again increase scale of production by growing cocoa in plantations. This was not successful because of problems with land acquisition and the scarcity of labour (Ministry of Finance, 1999: 9). The government also attempted to rehabilitate cocoa areas in the Eastern Region and in the Ashanti Region, with loans from the World Bank. The first two attempts were unsuccessful. But, when the producer price almost doubled in 1987 (as part of Ghana’s Economic Recovery Programme [ERP]), farmers seemed to have enough incentive to return to their abandoned cocoa farms. For Ghana as a whole it is estimated that for the period 1990/91 to 1997/98 the harvested area increased by 73 per cent (from 707,000 ha to 1,220,000 ha) (Teal and Vigneri, 2004: 8).

In Chapter 5, I already pointed out that fluctuations in producer price have an impact on the volume of production of cocoa. But the way in which cocoa farmers respond to prices is generally complex. According to Anim-Kwapong and Frimpong (2004) farmers respond to price by changing the intensity with which they tend their farm (for example they stop with maintenance and with new planting activities). Conversely, if prices cover or exceed variable costs farmers will intensify farm management (for example by investing in harvesting, weeding and the use of inputs). Price responsiveness to price fluctuations is usually delayed (Anim-Kwapong and Frimpong, 2004). Figure 7.8 illustrates the causality between price fluctuations and volume of production and the delay in response.

This causality was the main reason behind the introduction of gradual reforms in the cocoa sector in the 1990s (Ministry of Finance, 1999; Fold, 2002). The government’s ambitious production targets were met (Chapter 5), however not only due to the price increase (see also Takane, 2002). There were also other explanations. A key-factor that boosted cocoa production, leading to record outputs in seasons 2003/04 and 2005/06, was the product life-cycle of cocoa (increasing and later decreasing cocoa yield after establishing a plantation) (Ruf, 2007a). As already mentioned in the previous chapter, smuggling from Côte d'Ivoire (and the end of smuggling from Ghana into neighbouring countries) also contributed to the increase in the volume of cocoa beans exported.

Although the volume of production increased, productivity remained relatively low. In the period 1990/91 to 1997/98, production increased only with 37 per cent, indicating a reduction in productivity of 21 per cent (FAOSTAT Database in Teal and Vigneri, 2004: 12). This was already pointed out in Chapter 6. According to their research, there is no evidence that reforms brought innovation in techniques.
Low productivity is also linked to the high costs involved in cocoa production. Pest management is relatively expensive and farmers have to pay world-market prices for chemicals. Farmers complained that the domestic cocoa price does not even covering all their production costs (interview MoFA, 2005; Mehra and Weise, 2007; FS 2005). Furthermore, farmers lack access to credit and have little savings, key constrains on investments. Low productivity is also linked to poor extension services and high levels of illiteracy, simply farmers do not know how to adequately apply the chemicals. Other causes include old trees, low tree density, reduced soil fertility, the type of varieties that dominate the tree stock, and the small scale of operations.

Farmer perspective on process upgrading
As explanation for the production increase in season 2003/04, farmers reported good farming practices as the main reason, followed by the additional use of chemicals, and third, the implementation of public mass spraying programme (Figure 7.9).

Examples of ‘good farm practices’ include regular weeding, pruning, cutting mistletoes, managing direct sunlight, adequate planting of trees, and others. Good farming practices and the use of farming input require access to equipment and labour. Farmers perceived the extra use of pesticides, fungicides, herbicides and fertilizer as one of the main reasons for increases in production. Despite the increase in the price of chemicals, the application of chemicals is growing in Ghana, partially due to their improved availability and due to interventions of Cocobod (mass spraying programme). In case farmers bought the inputs themselves it has been argued that the resulting increases in production-costs have led to ‘self-exploitation’ among farmers (interview MoFA, 2005; Blowfield, 2003).

Sadly, the majority of farmers have had regular exposure to harmful chemicals because they neglect to use protective clothing. More than 35 per cent of the farmers
that participated in the farmer survey held in 2005 reported that they sprayed Gammalin for capsid and termite control; one of Gammalin’s active ingredients is Lindane ‘which is on the forbidden list of Persistent Organic Pollutants (POPs) (CREM, 2002: 32).\textsuperscript{171} Almost 55 per cent used Kocide, which is a copper fungicide with acute toxic effects. Ridomil, used by 7 of the respondents, is only slightly toxic (FS 2005).

In Ghana the fragmentation of extension services and the privatisation of input distribution resulted in more providers of services and inputs. Although there is no firm data on changes in farmers’ input use over the years, a number of farmers complained that they receive conflicting advice.\textsuperscript{172} While the importance of following the advice of the national cocoa research institute is recognised by cocoa producers (FS 2005), the (informal) input providers can pose a problem as they mislead farmers by selling them the inappropriate (or even forbidden) chemicals (black market) (personal observations and \textit{Daily Graphic} 15 December 2005). In these cases, the illiteracy of the farmer greatly contributes to inefficient application.

Farmers indicated that the use of toxic chemicals caused health problems and affected the environment. Health problems are exacerbated due to the limited use of protective clothing. In 2005 only twenty per cent of the interviewed farmers protected themselves while sprayings on their farm.\textsuperscript{173} Inadequate spraying makes the negative impact of spraying even worse. Almost all the respondents sprayed their entire farm (FS 2005), even though fungicides can be locally applied. Also the timing of the sprayings is not always optimal, which affects the productivity of the cocoa farm. Inadequate spraying is particularly problematic if the chemicals are bought on credit. If the spraying did not result in higher yields, it may be difficult for farmers to pay back the loan. ‘Mass spraying’ was indicated as another important reason for the increase in production. The public mass spraying programme will be analysed later in this section.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure7_9.png}
\caption{Main reasons for improved yield in cocoa season 2003/2004}
\end{figure}

\textit{Source: FS 2005.}
Producers who experienced a decline in production in season 2003/04 (44 per cent of the respondents) reported pests and diseases (primarily Black Pod) as the main causes (Figure 7.10).

Figure 7.10  Main reasons for the production decrease in season 2003/4

![Bar chart showing main reasons for the production decrease in season 2003/4](chart.png)


Farmers are not idle, they take (both individual and collective) actions to remedy the challenges and to improve their production process. Almost 70 per cent of the respondents replied that they help each other with weeding, breaking pods and carrying fermented cocoa. The perceived positive effects of working together are primary time-efficiency and lower production costs; also the farmers report knowledge sharing as a positive side-effect (FS 2005). I already indicated that for my respondents the location, type of contract and gender influence whether they work together or not. Farmers who did not work together in these informal groups generally did not provide a concrete justification. Nevertheless, of the reasons provided two were mentioned most often: lack of trust and a lack of incentives to cooperate (FS 2005).

Other interventions that aim at increasing productivity and the volume of production

In Ghana, the majority of the interventions in the cocoa sector aim at increasing the volume of production and productivity levels. International (and national) research institutes and international buyers are both involved in research, for example researching new ways of combating pests and diseases or developing new (for example more resistant) crop varieties. However, the Ghanaian government is the main intervener; it set increased production volume and improved quality as the key priorities for the future development of the sector. I already mentioned some of the public interventions, such as the increase in producer price and the rehabilitation of abandoned cocoa farms. During the first two attempts at rehabilitation, in total
28,000 hectares of cocoa with high yielding varieties were replanted; however, the farmers were not interested to tend to their farms (Amoah, 1998). In 1987, the government was more successful with its Cocoa Rehabilitation Project and reached its objective, namely to increase cocoa production and yield, stabilising output at an annual level of about 300,000 tonnes. I have no information on which type of farmer was targeted by this intervention.

Another incentive given to farmers is government bonuses. This unique institutional arrangement supports the access of producers to rising world-market cocoa prices. Cocobod reinvests part of its marketing margin back into the cocoa sector, giving farmers incentives to remain involved in cocoa production and to increase their volume of production. This bonus is an outcome of the yearly recalculation of margins and prices by Cocobod (Ministry of Finance, 1999). This bonus is distributed by the Cocobod through the LBC’s and Purchasing Clerks. The total payments made to farmers between cocoa season 2000/2001 and 2005/2006 are presented in Table 7.5. The individual bonuses paid to farmers for cocoa season 2002/2003 and 2003/2004 was between 1 and 2 dollars per bag (FS 2005). Generally, for farmers this amount seemed to be disappointing, especially in light of the high expectations that the government raised, stressing the important contribution of cocoa farmers to the Ghanaian economy.174

Table 7.5  Total bonus payments to farmers 2000-2006

<table>
<thead>
<tr>
<th>Season</th>
<th>Amount in cedis</th>
<th>Amount in US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000/2001</td>
<td>€70.1 billion</td>
<td>6.79 million</td>
</tr>
<tr>
<td>2001/2002</td>
<td>€41.5 billion</td>
<td>4.12 million</td>
</tr>
<tr>
<td>2002/2003</td>
<td>€157.9 billion</td>
<td>15.30 million</td>
</tr>
<tr>
<td>2003/2004</td>
<td>€161.2 billion</td>
<td>15.62 million</td>
</tr>
<tr>
<td>2004/2005</td>
<td>None</td>
<td>17.26 million</td>
</tr>
<tr>
<td>2005/2006</td>
<td>€178.2 billion</td>
<td>58.99 million</td>
</tr>
<tr>
<td>Total</td>
<td>€608.9 billion</td>
<td>118.18 million</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, 2007.175

Access to this bonus is not without costs; the associated cost with fulfilling the administrative regulations make it less feasible in more remote areas. Furthermore, some farmers seem to have more difficulty in getting the bonus, e.g. respondents in the more remote Brong Ahafo region, the farmers without any social status and the caretakers176 (FS 2005; Figure 7.11). At the moment of conducting the interviews (winter 2005) around 12 per cent of the farmers had not received a bonus for seasons 2002/2003 and 2003/2004, while almost half had received only one of the bonuses in these two cocoa seasons. These findings reflect that some of Cocobod’s reinvestments into the cocoa economy clearly prove ineffective.

The establishment of the Cocoa National Cocoa Disease and Pest Control Committee (CODAPEC) in June 2001 made another important contribution to the recent increase in the volume of cocoa production. It consisted of two main programmes of
combined Capsid (insecticides) and Black Pod (fungicides) control, known as the ‘mass spraying programme’, and the provision of fertilizer on credit, known as the ‘high-tech programme’. The high-tech programme did not survive the pilot phase due to problems with loan repayment. The private sector (Wienco) has successfully taken over this initiative, albeit on a smaller scale (see Box 7.1).

**Box 7.1  THE COCOA ABRABO-PA PACKAGE**

The private sector also got involved in extension services. Wienco for example, one of the major input providers, is active in educating farmers on the effective use of inputs and the importance of good farming practices. Although their main objective is to sell chemicals to farmers, they also train farmers on general farming practices and efficient pest management (FS 2005).

The Cocoa Abrabo-pa package brings together inputs (agro chemicals) and services (training and credit). The inputs contain fertilizer (for the soil), fungicides (Ridomil for spraying at the beginning of the season and Nordox at the end of the season to combat black pods) and a chemical named Confidor (to combat capsid). This combination of inputs and know-how on spraying techniques (adequate input and timing of spraying) will increase productivity considerably (interview Wienco, 2005).

The introduction of the package has been remarkably successful:
- average farm production increased by 20 %
- the increase in production was worth nearly three times the value of the loan (10 % had difficulty repaying the loan).

What contributed to its success was that farmers were grouped and jointly responsible for paying back the loan. A problem that occurred was a nearly 40% drop-out, mainly due to inconsistent use of the inputs.
The Ministry of Food and Agriculture (MoFA) also actively intervenes by informing farmers on good agricultural practices and pest management. It took over the responsibility from to provide extension services the Cocoa Services Division. The CSSVD Division intervenes through the swollen shoot programme, removing sick cocoa trees in order to stop the spread of the disease. The Cocoa Research Institute is involved in research and in bringing the research results to the farmers. Finally, a last identified intervention by the government concerns road rehabilitation in cocoa growing areas. This has improved the movement of high volumes of dry beans to the ports in good time for shipment. This measure directly targeted at farmers but has contributed to increasing the volume of exported beans.

Private input suppliers provide fertilizer on credit to farmer groups and provide farmers with advice on how to apply input in an adequate way. Also local buyers occasionally provide farmers with inputs. Local buyers of cocoa also share the farmers’ interest to increase production levels and productivity. If farmers produce more, LBCs can buy more and thus increase their income. Cocoa production can be stimulated by providing micro-credits that can enable the farmers to buy input or hire labour. Also some banks provide credit to farmers; still it should be emphasised that formal credit services are very limited. Besides purely private initiatives, there have been some public-private initiatives, such as the farmer field schools. They trained farmers in good agricultural practices, in the use of new types, more environmentally friendly and more efficient ways of pest management (for more information on FFSs in Ghana see Box 7.2).

<table>
<thead>
<tr>
<th>Box 7.2</th>
<th>Farmer Field Schools</th>
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<tr>
<td>Conservation International (CI) Ghana initiated the Farmer Field Schools (FFSs). In 2000 CI was awarded a grant by USAID to develop a pilot program in agroforestry. This pilot provided the opportunity to test the linkages between agroforestry and biodiversity. Corridor strategies were chosen (linking protected areas) in order to provide ‘a greater potential for biodiversity conservation that is consistent with the needs of the local residents and preserve ecological services vital to the well being of those residents’ (CI, no date: 5). In Ghana the pilot is implemented together with existing organisations. CI formed a partnership with CRIG and MoFA’s Integrated Crop Pest Management Unit (ICPM) to assist the Kuapa Kokoo Farmer Union (KKFU) in developing its own extension service by using the FFS approach. The location of the project was the corridor surrounding the Kakum Park, in the Central Region.</td>
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<tr>
<td>The system relies on farmers themselves learning by doing and passing the information on to their children, neighbours and association members; in short CI:</td>
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<tr>
<td>- promotes agro-ecological approaches to farming adapted to local conditions;</td>
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<tr>
<td>- supports the development of sustainable marketing approaches that bring more revenue to farmers and thus provides an incentive to maintain these systems;</td>
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<tr>
<td>- develops markets for cocoa that provide benefits to farmers and their environment;</td>
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<tr>
<td>- researches and monitors the landscape where cocoa is grown in order to better understand the links between this cropping approach and biodiversity (Adapted from CI, no date: 3).</td>
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<tr>
<td>The goal of FFS is to ‘foster farmer learning by experimentation with known practices to identify those that work best under local circumstances’, by making use of a farmer-driven mechanism (CI, no date: 6). According to CI this approach towards extension has been successful around the world.</td>
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and is highly recommended (see also KIT et al., 2006: 31). In Ghana one of the main successes was the bringing together of two governmental agencies. This initiated a process of collective learning, which for years had been prevented by politics (CI, no date: 6).

There is also some criticism of FFSs. A key limitation is cost, it is very expensive to establish the schools, mainly due to the high number of expensive experts who are involved (interview CI, 2005). Another critique is that evaluations on the effectiveness and impact of FFSs are not always made public, which makes it difficult for farmers, researchers and policy-makers to learn from these experiences.

The pilot program in agroforestry in Ghana introduced improved cocoa varieties (hybrids) through five demonstration agroforestry nurseries in four communities surrounding the Kakum Park. Between 30 and 50 farmers per community participated in the pilot phase of FFS. Lead farmers were trained as Trainer of Trainers (ToTs). The first ToTs included people from the Kuapa Research and Development Office, the MoFA extension unit and exceptional Kuapa and non-Kuapa farmers. Then, these 19 trainers each further trained 25 to 30 farmers (jointly in groups of three). In the pilot phase between 120 and 150 farmers were trained. Preliminary findings of the socio-economic study showed that the farmers are adopting many of the practices being tested under the validation phase, noting for example an increase in the numbers of farmers who set up their own cocoa nurseries (CI, no date: 7-8). The pilot project ended in 2003.

Perspectives of farmers participating in FFS
In general, the small number of farmers that I interviewed who participated in FFS reported that they were very pleased with the FFS initiative, and the attention they received. They indicated that their yield increased because of their participation in FFS. This was mainly the result of increased weeding and better prevention against insect/pest infestations. According to the interviewed participants, the FFS training mainly focused on Integrated Pest Management (IPM) where they learned to make a distinction between insects that destroy and those that help the crop. Other frequently mentioned topics included good planting methods and good farming practices (such as weeding and pruning). The ToT aspect of FFS was evaluated positively; most of the participants indicated that they still meet and exchange knowledge regularly, even after the ending of the pilot project (farmer profiles 2005).

Only a very small part of the cocoa farmers in Ghana participated in FFS. Although FFS claims to be open for everyone, its obvious link with the KKFU (which accepts caretakers as members only under very stringent conditions) has resulted in limited caretaker participation. Also, the farmers who participated in FFS outlined several additional constraints:
- Financial constraints make it impossible to weed and/or prune as much as required;
- Financial constraints make it difficult to buy the necessary inputs;
- Although FFS were open to everyone, only few farmers were willing to cooperate because a lot of they face time constraints;
- There is limited availability of chemicals and spraying machines (farmer profiles, 2005).

CI would like to continue its activities in the Western region, where forests are being rapidly converted for agricultural uses. Recently, the STCP followed up the work initiated by CI and started a pilot with FFS in the Ashanti region. In 2007 around 15,000 farmers were trained (as ToTs) by the STCP (personal communication Mars, 2007).
Individually farmers follow different strategies that aim at increasing productivity and the volume of production: planting new varieties, applying good farming practices, pest management, using fallow land, hiring more labour, saving more and applying for credit to make on-farm investments, and participating in training programmes. Many farmers work together in labour exchange groups; this saves them time that that they can invest in their farm or in other activities. During this collective work farmers also share knowledge on farming practices, which helps them improve their yields.

**Missing interventions**

Although international buyers have an interest in increasing volume of production and productivity, most intervene only indirectly, through research and participation in multi-stakeholder initiatives, such as the STCP. On the one hand, this seems logical; there is no apparent need to intervene as the volume of production is continually improving. On the other hand, it can be argued that the Ghanaian system, where the government plays a central role, does not allow international buyers to intervene directly, for example by trading directly with farmers and paying them higher (or lower) prices. In other cocoa producing countries that fully liberalised their cocoa sector, direct relations between international buyers and local suppliers are being established, whereby international buyers increasingly tend to buy directly from farmer organisations. Also, an increasing number of farmers are trained by multi-stakeholder initiatives in these countries. I have no data that could demonstrate the effect these activities have on production levels and productivity in these countries.

Another missing intervention is process upgrading through regional supply management. Cocoa production is concentrated in West-Africa. Together, Côte d’Ivoire, Ghana, Cameroon and Nigeria supply more than 70 per cent of the world’s cocoa. However, this geographically concentrated supply has not resulted (yet) in the formation of an effective production-cartel. According to Bass (2006: 259) an explanation might be ‘that the largest producer country (Côte d’Ivoire) did not have sufficient incentives to join the agreements [to limit production or to set up physical buffer stocks]’. In Ghana, the government seem to have closer alliances with international buyers of cocoa than with other producing countries. Some farmers gave their own reason. They argued that currently there are no options to manage supply; the high costs of living make it impossible for farmers to delay shipments (Group discussions 2005).

In the next paragraph I will analyse one of the main governmental strategies that has successfully contributed to increasing production, namely the mass spraying programme.

**Public intervention: Mass spraying programme**

CODAPEC, a subsidiary of Cocobod, is responsible for the mass-spraying programme, which is principally open for everybody. In order to combat Capsid and Black Pod, it envisages the spraying of every maintained farm four times a season with insecticides and fungicides. The national headquarters of CODAPEC is stationed in Accra, within
the Cocobod office; where also the national coordination committee and the technical head office group are located. There are six regional committees with regional coordinators. At district level, there is a ‘district Task Force Coordinator’, who monitors the work in the district. At the village level there is also a ‘village task force’. This unit supervises actual spraying by the ‘spraying gangs’, checks all the inputs and logistics and makes sure that the spraying is implemented well. In these village tasks force the following actors participate: a spraying gang leader (chosen by the ‘gang’), village chief farmer, one representative of a LBC, and a farmer (interview CODAPEC, 2005). I do not have data on the selection criteria for farmers to be part of this gang.

**How do farmers benefit from this public intervention?**

According to CODAPEC the success of mass spraying is obvious: the government provides all the inputs and logistics, ‘farmers pay nothing’, ‘the yield almost doubled, [and] farmers receive higher incomes’ (interview CODAPEC, 2005). The success of the mass spraying exercise is partly explained by the explicit link between farm maintenance and spraying; good farm maintenance (which in itself contributes to increasing farm productivity) is a precondition for participating in the programme.

Farmers generally confirm this success; in 2003, 93 per cent of the farmers observed an improvement and indicated that for the season 2001/2002 the mass spraying programme was the main reason for increased productivity (FS 2003). In 2005 the response of this same group of farmers (n=103) was still positive, but their enthusiasm was somewhat tempered; less than 65 per cent of these producers (fully) agreed with the statement that the mass-spraying programme had helped them. Of the farmers who actually experienced a production increase in 2003/2004, around 65 per cent indicated that they received a minimum of two sessions of mass spraying (FS 2005).

One of the most striking results of the 2005 survey was that only 6.3 per cent of farm were sprayed the planned four times (see Figure 7.12) (similar findings are shared by GCFS182, 2002, 2004 in Teal et al., 2006: 15).

**Figure 7.12 Frequency of mass spraying in season 2003/04**

![Bar Chart](image)

Although compared to other interventions the public mass spraying programme is a large scale intervention that reaches the majority of cocoa farmers, farmers do not have equal access to this programme. For example, in Brong Ahafo almost 90 per cent of the respondents received a minimum of 2 sprayings (n = 44), while in the Western region this percentage was lower than 50 (n = 113) and in the Central region less than 35 per cent received a minimum of 2 sprayings (n = 31) (FS 2005). This is quite remarkable as the density of the population in Brong Ahafo is generally low, communities are more remote and the infrastructure is weak. Research of Teal et al (2006), who gathered data on the mean number of visits of a government spray gang to the three main producing regions, confirms my findings for Brong Ahafo. Their explanation for the remarkable outcome is that Brong Ahafo received most visits of these spraying gangs. Earlier I already showed that use of technologies, such as the knapsack sprayer and mistblower is also relatively high in this region.

A farmer’s position in the community or chain also mattered as it enhanced access to sprayings. Around half of the respondents with a strong position (e.g. chief farmer), received 3 or 4 sprayings, while for the farmers with a weak position this was only true in 30 per cent of the cases and for the farmers with no social status this was around 22 per cent (Table 7.6). The survey (FS 2005) also showed that the interviewed farmers who worked together had slightly more chances of receiving a higher number of sprayings. This can be explained by the mutual assistance of farmers in clearing each others farms, which was a condition to get your farm sprayed by fungicides and pesticides.

Next to location and working together, a significant variable is the farmer’s position in the community (Table 7.6). The correlation of this relationship is rather weak (FS 2005).

Table 7.6 Cross-tabulation between position in community or chain and frequency of mass sprayings; horizontal percentages

<table>
<thead>
<tr>
<th></th>
<th>0-2 spraying</th>
<th>3-4 spraying</th>
<th>n</th>
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<tbody>
<tr>
<td>position in community</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>no (significant) position/status</td>
<td>76,6%</td>
<td>23,4%</td>
<td>107</td>
</tr>
<tr>
<td>moderate-strong position/status</td>
<td>61,5%</td>
<td>38,5%</td>
<td>13</td>
</tr>
<tr>
<td>very strong position/status</td>
<td>61,3%</td>
<td>38,7%</td>
<td>75</td>
</tr>
<tr>
<td>Total</td>
<td>195 (100%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Gamma 0,174* (FS 2005).

The qualitative data gathered shows a stronger correlation between social network and the benefits from the mass-spraying programme. This is illustrated by the complaints that farmers raised on the functioning of spraying gangs:

...they are very greedy. They only spray their own farms and their relations ... The sprayers are not reliable and they don’t spray it properly because it is not their farm.
My farm is on a hill and the sprayers were very reluctant to go there, I wasn’t the only one, even those who had their farms on lower grounds could not get their farms sprayed. It is politics whom you know (farmer profiles 2005).

However, a high position or a good network does not always help. One of the regional chief farmers, because of his position, did not want his (very large) farm to be sprayed more than one time:

I am the regional chief farmer; if I insisted they spray my farm, people would start questioning why that was so. I could not push them to spray my farm. Moreover I have my own machines to spray my farm (farmer profiles 2005).

When we asked a farmer who did not receive the four times mass spraying, if he knew who was responsible for spraying his farm, he said: ‘I know the leader he is even married to my daughter, I complained to him but he did nothing about it’ (farmer profiles 2005). Farmers also stressed more logistical problems, such as insufficient quantities of chemicals and fuel for the spraying machines: ‘When we enquired they told us there was no fuel to put in the spraying machines, they also told us the chemicals were insufficient’; and ‘When the sprayers got to my farm they told me to buy the fuel for the machine after I had done that they told me the chemical for spraying was finished’ (farmer profiles 2005)

CODAPEC recognised some of these difficulties and argues that they are mainly due to the large scale of the programme. According to CODAPEC delays in spraying mostly happen because of logistical problems and bad infrastructure. There are also indications that supervision is not optimal and that cheating is a problem (stolen chemicals are sold on the black market).

In the media complaints have been raised about the over-politicisation of the mass-sprays; ‘(...) too many NPP [New Patriotic Party] party activists were serving as chairmen of the task forces’. In addition, several cases were mentioned where spraying gangs had been put in place without the presence of a task force and without the farmer’s knowledge. But in general, farmers do know who is responsible for spraying and most of them did complain about the insufficient number of sprayings, unfortunately without results. Several times during the discussions and in-depth interviews, the suggestion was made to give farmers the chemicals and to let them do the spraying themselves, in a response to the problems with cheating or clientelism in these programmes.

*Impact of the mass spraying programme*

The mass spraying programme contributed to an increase in the volume of production of Ghanaian cocoa beans. For some farmers this directly resulted in higher incomes. Others reported different reasons for the increase in production (such as weeding prior to spraying their farms), but did acknowledge that mass spraying also played a role. For some farmers, the mass spraying replaced the spraying they normally did. For others facing a decline in production, the mass spraying programme limited their loss of income. Some farmers could not gauge the impact, as so many factors played a role.
In terms of empowerment, the idea behind the mass spraying programme was to show farmers the benefits from spraying and clearing their farm. Besides this ‘training’ element there is no impact in terms of empowerment; farmers were not involved in the organisation of the exercise or other management issues, nor did the intervention change the type of activities farmers normally take or their management skills.

**Constraints, trade-offs and flexibility of the mass spraying programme**

Although the spraying exercise is presented as free of charge, in reality farmers do pay for spraying their farms. According to a member of the Ghanaian Parliament, 564.9 billion Cedis was spent on the exercise in the 2005/06 cocoa season and 479.91 billion Cedis in the following season.187 This money has been set aside in the current 2006/2007 season from the export value (gross FOB value) of cocoa (see Chapter 5, Table 5.3) and was reinvested in the cocoa sector. Thus all farmers pay for this programme, regardless whether they receive the promised number of sprayings, less than the promised or no sprayings at all.

Another negative trade-off is the environmental cost of the exercise. As long as the mass-spraying exercise continues, it will be a serious obstacle for the introduction of organic cocoa in Ghana. In addition, it obstructs current attempts to introduce more environmentally friendly pest management, such as Integrated Pest Management (IPM), in the FFSs. Some recipients of the IPM training refused the spraying of their farm. A positive social trade-off of the program was that it provided ‘white collar jobs’ for rural young people (interview CODAPEC, 2005).

**Sub-strategy 1.3: Producing under more remunerative contracts**

In the beginning of this chapter I made a selection of different interventions that fall under different sub-strategies. For this sub-strategy (1.3) I will not analyse any intervention in particular and will limit myself to providing a description of the different types of remunerative contracts.

The literature sees contract farming as a central feature of the restructuring of agro-food systems and perceives it as ‘an alternative to parastatal marketing boards [...] to avoid government-regulated markets and price controls’ (Little, 1994: 219). In this context, contract farming or contract production has been defined as ‘arrangements between a farmer and firms (for example local buyers, exporter, processor, etc.) in which non-transferable contracts specify one or more conditions of marketing and production’ (based on definition Glover and Kusterer, 1990: 4 in Little and Watts, 1994: 4). These arrangements are extremely varied. It can involve several small individual farmers under contract from a foreign-owned export company, or for example it may involve a contract between a large state-owned estate with thousands of highly differentiated outgrowers (Little and Watts, 1994: 5).

In Ghana the parastatal marketing board is still in place and the partial reforms did not give much room for the private sector to get involved in these types of arrangements. I already elaborated in Chapter 5 on the inability of LBCs to compete on prices. The partially liberalised system did not give LBCs many incentives to invest in building relationships with their suppliers. Nevertheless, LBCs do make
Table 7.7 Measuring the inclusiveness of the public mass-spraying programme

<table>
<thead>
<tr>
<th>Strategy 1: Capturing higher margins for unprocessed cocoa</th>
<th>Intervention Activity</th>
<th>Mechanism</th>
<th>Farmers reached</th>
<th>Expected impact</th>
<th>Constraints</th>
<th>Trade-offs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-strategy 1.2 Capturing higher margins for unprocessed cocoa by increasing productivity and volume of cocoa</td>
<td>CODAPEC Mass-spraying</td>
<td>Economic incentive and learning (stimulating)</td>
<td>Exclusive: Farmer survey in 2005 indicates that only 6 per cent received 4 sprayings. Frequency of spraying depended significantly on region and social position</td>
<td>Impact 1: Mass spraying exercise does not lead to competitiveness and gives no added value to the beans</td>
<td>Spraying gangs favour their relations and these farmers obtain a stronger position. Part of the chemicals is transferred to the black market. Logistical problems (fuel, timing, etc.)</td>
<td>+ A condition for receiving spraying was weeding. This in itself contributed to higher yields. - The mass spraying programme is supposed to be 'free'. But costs are paid from difference between net and gross FoB price. The mass spraying programme obstructs the introduction of more friendly methods of pest management and makes it more difficult to introduce the production of organic cocoa.</td>
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</table>

**Measuring inclusiveness**

The mass-spraying programme is a large scale programme that reaches many farmers. However, while indirectly all farmers pay for the programme they do not benefit accordingly and also not equally. The programme is not transparent on its effectiveness. Among the respondents, especially the farmers working in the Western and Central Region had difficulty in getting the full number of sprayings. Access was also relatively difficult for farmers who have no or a weak position in the chain. Nevertheless, the programme reached most farmers, and the majority appreciates the government's support. The difficulties with distribution of the chemicals have raised questions on alternative ways of getting farmers to use the chemicals.
small investments in trust building and social capital (Chapter 5); these are relatively novel efforts, mainly informal and still in an experimental stage. The farmer survey showed that prompt payment and social relations were most important reasons for the farmers to select a buyer. It also showed that there is no formalised arrangement. Loyalty between farmers and buyers is not guaranteed. Farmers can decide to sell to another buyer. But also local buyers are not always trustworthy; the survey showed that despite promises only a small number of the farmers received any services or bonuses from LBCs. The ones who did were mainly farm-owners and farmers living in the Western and Central region (where competition between LBCs is more intense) (FS 2003).

There is one example of a more institutionalised arrangement between farmers and their local buyer, namely the farmer-owned LBC, Kuapa Kokoo Farmer Union. This union produces a small part of its cocoa for the fair trade market and has to meet specific demands with respect to process quality.

There are different reasons why contract farming in Ghana did not succeed. The still predominant role of the government in the coordination of economic activities is one clear reason. Another reason is that farmers are not organised, which would make contract farming very difficult due to the large number of smallholders involved. Another constraint is more general and has to do with problems of land acquisition; contract farming becomes more lucrative for buyers if they have some economies of scale. The Ghanaian government experimented with growing cocoa on a plantation basis but this did not work out well.

There is a type of ‘contract farming’ that does take place between farm-owners and their caretakers (shareholders). There are two types of share contracts, Nhewsoo (Abusa) and Yemayenkye (Abunu) (Chapter 6). Even though, almost all caretakers claimed to be satisfied with their contract, working under a Yemayenkye contract is generally more favourable. In this respect, shifting from a Nhewsoo contract to a Yemayenkye contract would be considered ‘upgrading’. The opportunity to become a landowner has significant advantages. In addition to providing income, farms are perceived as a form of social security/inheritance and can be used as collateral to take out a loan (FS 2005). In terms of these kinds of remunerative contracts, also working for a number of different farmers can be considered upgrading. My survey showed that as a risk management tool, part of the caretakers work under different contracts and they also have other sources of income or some land available for other activities.

In addition to ‘contract farming’ there are also other kinds of arrangements between different actors in the chain. On the international level there was a cocoa commodity agreement, but it is now abandoned (Chapter 4). Another type of contract relevant for producers is the forward sales contract between international buyers and the Ghanaian government. Forward sales enable different chain actors to plan their economic activities according to the agreement and contributed to favourable contracts between international buyers and the Ghanaian government (Ministry of Finance, 1999). This secured an effective marketing channel for Ghanaian producers and the export of premium quality cocoa.

Informally, the labour exchange groups function under similar conditions, based on mutual trust. Every involved farmer agrees on a rotating scheme where
each farmer provides an equal amount of labour on someone else’s farm. The importance of trust is illustrated by the next quote by a farmer who is not participating in nnoboa: ‘It [nnoboa] is a good idea but some of the farmers are cheats when it gets to their turn to work on their farm they usually give you the most difficult places to weed’ (farmer profiles 2005).

In summary, producing under more remunerative contracts or arrangements can have an impact not only on the farmer’s income, but can also result in additional benefits (for example access to know-how, inputs etc.). There are different types of contracts, which influence how farmers benefit from cocoa production. Some of these contracts are formal and some informal; some are between actors further up in the chain; some arrangements are made between the private sector and farmers; and some are made among the farmers themselves, for example between farm-owners and their caretakers (sharecroppers). What hinders ‘contract farming’ in Ghana is the dominant role of the state in coordinating cocoa activities; it leaves little space for direct relationships between farmers and actors further up in the chain.

**Conclusions on Strategy 1**
Looking at the different sub-strategies that aim to increase the margins for unprocessed cocoa and at the interventions, I observed that the government plays a dominant role and leaves little room for other actors, especially for international buyers, to intervene.

Analysing effective interventions in terms of inclusiveness shows that both governmental interventions that were discussed are large-scale and reached the majority of farmers. However, their large scale and the weak institutional environment made these types of interventions also vulnerable, for example to corruption or clientalism. The lack of transparency on (the distribution of) costs and the benefits of these interventions makes it difficult to discuss their effectiveness. The interventions of the government are major reinvestments in the sector, paid mainly from the export value. Other actors cannot duplicate these governmental efforts on the same scale.

Farmers have little to say about these kinds of government intervention. The public quality control system involves all farmers and also here, similarly to the mass-spraying programme farmers have little choice. Although all farmers are not obliged to have their farms sprayed, as I demonstrated all of them do pay for this exercise. The idea is that the mass-spraying programme works as an incentive for farmers to start spraying their farms, but in reality some farmers take government spraying more as a time-saving exercise – they don’t have to spray by themselves. The end result is that it does not stimulate entrepreneurial behaviour automatically.

Looking at impact, both interventions have a positive impact in terms of providing access to international markets and remunerative contracts; however, they do not contribute to empowerment. The farmers remain chain actors and do not move (vertically or horizontally) in the empowerment matrix (see Figure 7.13). In terms of inclusiveness both interventions are sub-optimal. Although the quality control system reaches all farmers, it is compulsory and does not stimulate entrepreneurial behaviour: farmers are not involved in standard-setting; farmers
have no choice (there is no price differentiation); and the system does not support farmers in building their capacity. The lack of transparency on distribution of costs and benefits to some extent undermines the effectiveness of the system. In addition the incentives for different local actors to support the system seem to be diminishing. The second intervention, the mass-spraying programme, is a large scale programme that reaches the majority of farmers. However, while indirectly all farmers pay for the programme they do not benefit accordingly and also not equally. Especially interviewed farmers working in the Western and Central region had difficulty in obtaining the total number of sprayings. Farmers who had no position or a very weak position in the chain also face challenges with access. Nevertheless, the programme did reach most farmers, and the majority is appreciative of government support. The difficulties with distribution of the chemicals raised question: Why not give farmers the money so they could do the spraying themselves?

Conditions under which farmers are included
When discussing the different sub-strategies (under Strategy 1) it becomes clear that the conditions under which different groups of farmers are inserted in the cocoa chain have changed over time. For example, in the early 1920s quality was safeguarded through the formation of farmer groups, later these farmer groups disappeared. Another example is the fragmentation of Cocobod’s extension services, which used to support farmers in the production of premium quality cocoa. There is an observed lack of transparency regarding the costs, benefits and risks involved in ‘product-upgrading’ and how these are distributed among the different actors involved. The weakened institutional environment and the lack of transparency reduced the incentives for LBCs and farmers to invest in quality, and mounted tensions between Cocobod, LBCs and farmers.

7.2.2 Strategy 2: Producing new forms of existing commodities
There are different ways to produce new forms of existing commodities. For example cocoa can be produced for other types of markets, such as specialty or organic
markets. Some authors perceive this as product upgrading (producing a more sophisticated product) and others as a way of process upgrading (producing according to more responsibility demanding practices). Alternatively, new forms of existing products can refer to the use of cocoa beans as ingredients for other types of products, such as cosmetic or health products. A third way is to look for diversification opportunities for income and production of a diversity of cash crops. This can result in a shift towards non-traditional products or investments in non-farm activities.

Figure 7.14  Strategy 2: Producing new forms of existing commodities

Sub-strategy 2.1: Producing new forms of existing commodities by producing for niche markets

Production for niche markets is considered as upgrading because producers of these more sophisticated products generally receive a higher price. Traceability is one of the key-conditions for selling on niche-markets. Ghana is considered to be the only cocoa producing country where cocoa is still traceable back to the community where the cocoa was sold to a local PC. However, the increase in bulk transport of cocoa (where bags are removed prior to shipping) is threatening the current state of full traceability.

The main niche markets for cocoa are organic cocoa and fair trade cocoa. Both products receive premium prices on the world market. If we look at the origin of organic certified cocoa, this cocoa is mainly produced in Latin American countries. The Dominican Republic is by far the largest producer. According to estimates by a large trader in organic products (Tradin Organic Agriculture), the Dominican Republic produced around 30,000 tonnes of organic cocoa in 2008, around two-thirds of the world’s total organic cocoa production. African countries produced 3,000 tons, mainly coming from Tanzania, Uganda and Sao Tome. In Latin America
around 10,000 tonnes were produced (with Peru and Ecuador as main contributors). Taken all together, the organic market represents only a very small share of the total cocoa market, estimated at less than 0.5 per cent (ICCO, 2007). Between 2003 and 2005 the annual growth rate of organic cocoa was 38 per cent, with a total production of almost 21,865 tons in 2006, mainly in Latin American countries. In 2008, total organic cocoa production was around 40,000 tons (see Table 7.8).

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<tbody>
<tr>
<td>Production in Tonnes</td>
<td>8,390</td>
<td>13,050</td>
<td>18,065</td>
<td>21,865</td>
<td>28,575</td>
<td>40,000</td>
</tr>
<tr>
<td>Growth rate</td>
<td>-</td>
<td>56%</td>
<td>38%</td>
<td>21%</td>
<td>31%</td>
<td>39%</td>
</tr>
</tbody>
</table>

Source: KIT et al., forthcoming.

According to Ayenor (et al., 2004: 263), in Ghana the concept of organic might be new, but the production of organic cocoa has a long tradition: ‘some do not use inorganic pesticides because they cannot afford to use them and others because they consider them poisonous and hazardous to human health’. There have been several attempts in Ghana to introduce the production of organic cocoa (see further down in this chapter).

Organic cocoa production has an intrinsic environmental value, promoting and enhancing the health of agro-ecosystem. It is also interesting from an economic perspective as organic cocoa commands a higher price than conventional cocoa and attracts premiums (ICCO, 2007). This premium should cover both the cost of fulfilling organic cocoa production requirements and the fees paid to certification bodies. The costs of certification can be perceived as a problem, especially when the production volumes are low. Considering the lack of adequate organic inputs to combat pests and diseases in Africa, producing organic cocoa does not automatically translate into increased incomes for the farmers (Koning and Steenhuijsen Pite’s, 2009; Laan, 2007).

Cocoa is a very suitable product for organic trade. It is consumed in large quantities, has structured trade channels, and is processed into a luxury item that has a high perceived value and few substitutes. For this reason, large traditional chocolate processors and manufacturers have moved into organic cocoa by-products and chocolate, making the organic sector increasingly mainstream. The only issue is limited processing opportunities, organic cocoa needs to be processed separately from regular cocoa and not all factories have this capacity.

The price for organic cocoa beans is formed by adding a price premium on top of the spot market price of mainstream cocoa. There are no official numbers on the development of the premium paid for organic cocoa, as this depends on the specific buyer and seller, as well as the negotiations between them. Organic premiums fell sharply in 2001 to USD 100–200 per tonne above conventional cocoa prices. Premiums began to recover in 2003, reaching USD 200–300 per tonne at the end of the year. In April 2007 the premium for organic cocoa varied between USD 500 and 1,500 per tonne. This maximum of 1,500 USD was also paid in mid 2008. Since then
the level of the premium drastically declined to a value of a few hundred dollars and even to zero when there was a situation of oversupply (February 2009). Based on experiences with organic cocoa production, it is estimated that a premium of USD 200 per ton is the minimum needed to sustain organic production (KIT et al, forthcoming).

As the worldwide demand for organic cocoa greatly outstrips supply capacity, it is expected that market prices for organic cocoa beans will remain high in the coming years. However, the world prices for conventional cocoa beans have also increased, which has put traders, processors and manufacturers under pressure of high commodity prices. More importantly, the supply of organic cocoa increased steadily. These two trends affected the premiums paid for organic cocoa. Especially countries that produce relatively high quality cocoa (and sell over the London future market) and are not subject to discounts, seem to out-price themselves when the premiums are too high. Recently this was the case with organic cocoa production in Ghana.190

More and more organic certified commodities also apply for a fair trade certificate from the Fair Trade Labelling Organisation (FLO). The most essential characteristic of fair-trade is that producer organisations receive a higher price for their cocoa beans. Even though, worldwide the demand for fair trade cocoa is growing, in season 2003/04 the cocoa beans sold with the fair-trade label captured a very small share of the cocoa market (0.1 percent or 2 687 tonnes) (ICCO, 2005). In 2005, fifteen producer organisations were FLO certified, of which twelve were located in Latin America and the Caribbean. The largest fair trade producer organisation is based in Ghana (Kuapa Kokoo Farmer Union); together with Conacado (based in the Dominican Republic) they are responsible for around 90 per cent of the fair trade sales. In Africa two other FLO producer organisations were set up in Cameroon and Côte d’Ivoire. In season 2003/04 they were not actively selling on the fair trade market (ICCO, 2005: 9). In recent years also the fair trade market has become more ‘mainstream’, just like the organic cocoa market. For example, the Dutch company Verkade is 100% fair trade and Barry Callebaut is processing fair trade cocoa beans for the Dutch ‘media-bar’ of Tony Chocolonely.191 Also Cadbury and Mars have committed themselves to sustainable cocoa sourcing.

In contrast to organic premiums, fair trade premiums are not decided at moment of purchase, but are rather fixed beforehand. Fair trade prices are calculated on the basis of world market prices, plus fair-trade premiums of US$150 per tonne of cocoa beans. The minimum price for fair-trade standard quality cocoa, including the premium, is US$1,750 per tonne. If the world market price of the standard qualities rises above US$1600 per tonne, the fair-trade price will correspond to the sum of the world market price and the US$150 premium per tonne (ICCO, 2005: 3). For fair trade cocoa that also has an organic certification, there is an additional organic premium of USD 200 per tonne. Fair trade organic cocoa beans cost a minimum of USD 1,950 per tonne.192

In Ghana an additional premium for quality and consistent delivery is added to the fair trade price. Generally a large part of the social premium is allocated to a social fund; farmers receive only a small part of it. The producer organisations
decide on the desired use for the social fund. Most producer organisations sell only part of their cocoa under the fair-trade arrangement; the benefits are distributed among all of their members. Certified producer organisations pay part of the certification costs. The financial benefits and the additional costs for co-operatives associated with fair-trade, compared to the conventional market are summarised below (adapted from ICCO, 2005: 5):

**Sources of additional benefits**
- Fair-trade price – the FOB price paid to the co-operative is higher than the conventional price and, by definition, more stable;
- Direct sales – the fair-trade supply chain does not usually involve as many intermediaries as the conventional one;

**Sources of additional costs**
- Cost of participation in the FLO system – certification fees, documentation costs, and other associated costs;
- Production costs of meeting FLO standards – possible additional labour, social and environmental costs.

Another niche is specialty or ‘single origin’ commodities. This trend is already clearly visible in the coffee market (the coffee sector is a front runner in more aspects, for example in organic production, fair trade and mainstream certification) (e.g. Daviron and Ponte, 2005). Although cocoa has a different marketing process than coffee (it is only one of the ingredients of the end-product) this trend is increasingly noticeable also in the cocoa sector. ‘Single origin’ cocoa is being launched by major chocolate manufacturers, such as Barry Callebaut and ADM. Cadbury, which has sourced its most important raw material from Ghana since 1908, always had a focus on ‘origin’ cocoa-products.

**Farmer perspective on producing for alternative markets**
The perspectives of farmers on niche markets and their benefits are discussed in the analysis of this multi-stakeholder intervention. A general comment is that most farmers are not familiar with concepts such as organic and fair trade. This is likely to change as a result of mainstream initiatives of large cocoa buyers, such as Cadbury and Mars, that aim at sustainable sourcing of (part of) their cocoa supply.

**Interventions that aim to open alternative marketing channels**
There were several attempts to launch the production of Ghanaian organic cocoa. The first came from the NGO Conservation International Ghana (CI Ghana) in 1998. The Ghanaian government obstructed the joint CI Ghana and Kuapa Kokoo Farmer Union pilot project to produce organic cocoa in the Central Region. According to CI Ghana the government opposed the promotion of organic cocoa. So far, more recent attempts of the Dutch Rabobank Foundation to create a marketing channel for organic cocoa also failed due to Cocobod opposition. It is suspected that Cocobod fears loosing their grip on state-controlled marketing and pricing systems if they allow new foreign buyers in the country. A recent attempt by the international company AgroEco was more successful. The likely reason for this success is the
partnership with Cocobod. In 2008, around 250 cocoa farmers from the Eastern Region produce 8,000 ton of organic cocoa for export under this project.

A multi-stakeholder partnership (involving Kuapa Kokoo Farmer Union and Twin trading) introduced the production of fair trade cocoa in Ghana (discussed in-depth below in this section). Farmers can become involved in fair trade cocoa production through membership of the farmer union. I already mentioned that ADM constructed a new processing facility for ‘single origin cocoa-products’.

**Missing interventions**

The government in Ghana prioritises the production of conventional cocoa and focuses clearly on product quality and not on process quality. Although recently the Ghanaian government was rather proactive by supporting events such as the Round Table “Towards a Sustainable Cocoa Economy” and worked together with AgroEco on the introduction of organic cocoa, it is not proactively engaging in the production for niche markets. It will be exciting to watch how the government responds to more mainstream activities in this field. These initiatives demand support from Cocobod for opening separate marketing channels, but it is not yet clear how these initiatives will develop. In the next paragraph I will discuss the third selected intervention – fair trade cocoa production.

**Intervention fair trade cocoa production**

The involvement of Ghanaian cocoa farmers in fair trade cocoa production started with an influential cocoa farmer (see also Chapter 5). In the mid 90s he set up, together with support of two foreign NGOs a farmer-owned LBC, Kuapa Kokoo Ltd (KKL) together with a farmer union, the Kuapa Kokoo Farmer Union (KKFU). When KKL received its license to trade, it simultaneously negotiated a special agreement with Cocobod for some of its members’ cocoa to be set apart and exported under fair trade terms. This small proportion of Kuapa Kokoo’s cocoa receives the minimum fair trade price and an additional fair trade social premium.

The farmer’s union is a democratically elected union of primary societies with a National Executive Council of local leaders. It has grown quickly from the original 22 farmer groups or village based ‘societies’ with 2,200 members, to a very wide expansive net in 2004 (48,854 registered members who hailed from 1,124 societies located in nineteen areas in six cocoa regions) (Kuapa Kokoo Annual Report, 2004: 38). Membership is open to farm-owners who sell their entire cocoa harvest to KKL. If a caretaker wants to become a full member he/she needs certification of the owner of the farm (interview Research and Development Officer KKFU, 2003).

Throughout the years, the Kuapa Kokoo group has developed into a complex organisation, with a number of different bodies and committees that manage key aspects of its operations and mandate (Figure 7.15).

The KKFU’s mission is to ‘empower farmers in their efforts to gain a dignified livelihood, to increase women’s participation in all of its activities, and to develop environmentally friendly cultivation’ (Kuapa Kokoo Annual Report, 2001/2002). KKFU produces only a small part of its cocoa as ‘fair trade cocoa’ for the Max
Havelaar Foundation. In the 2003/2004 season, KKL purchased a total of 64,975 tonnes of cocoa, with a portion of fair trade sales totalling 1,800 tonnes (2.7%) (Kuapa Kokoo Annual Report 2004: 38). In season 2005/2006 the purchases of KKL reduced to 42,676 tonnes (see Chapter 5, table 5.2). The portion of fair trade sales has increased somewhat over the last years but still remains fairly low. Divine Chocolate Ltd purchases around half of total fair trade sales.

**How do farmers benefit from their multi-stakeholder partnerships?**

KKFU receives a fair trade minimum price of US$1,600 per tonne and the social premium is US$150 per tonne. In Ghana farmers are assured a fixed price. Kuapa Kokoo farmers received part of the fair trade premium in terms of small cash bonuses. While the number of Kuapa Kokoo members has greatly increased in the past decade, the increase in fair trade sales is marginal, mainly due to low consumer demand.

The social premium was allocated to the Kuapa Kokoo Farmers Trust (KKFT) which used this income to fund a range of activities, including the construction of water wells, schools, women’s income generating projects, medical facilities, etc. (see also Vuure, 2007). For the past four years, Cadbury Ghana Limited (a major chocolate manufacturer) has been channelling some of its social projects to the Trust Fund and donated an average of forty wells per year to farmer communities where KKFU is active (Annual Report 2004: 10). In 2004 the three primary expenses of the Trust 2004 were to provide additional farmer income (55 per cent); to support the Farmers Union.
(e.g. the educational programme of the Union) (16 per cent); to purchase Union President Vehicle (27 per cent)/Office Renovation (2 per cent). Remarkably, almost one-third of the fund was allocated to the purchase of a vehicle for the president.\

The farmers also benefit from the two credit schemes (Kuapa Kokoo Women’s Revolving Scheme and Kuapa Kokoo Farmers Credit Scheme), where farmers can save money and apply for a loan. In 2004, almost 20,000 Kuapa Kokoo members (around 41 per cent of total members) were also members of the Credit Union (an increase of almost 17 per cent over the previous year). The members were 77 per cent men, 21 per cent women and 2 per cent farmer groups. Compared to the previous year savings increased by 41 per cent (Kuapa Kokoo Annual report 2004: 27).

In addition to its activities in cocoa production and internal marketing, KKFU is an official shareholder of the Day Chocolate Company that distributes and sells Divine fair trade milk chocolate in the UK (the Divine company is not involved in cocoa processing). Recently KKFU became the major shareholder of Day Chocolate Company; it owns 45 per cent of the company and has two seats on its Board. As a shareholder in the Divine Company, KKFU has a voice in strategic decision-making. Moreover, ownership contributes to a sense of pride, trust and commitment among the cocoa farmers involved. Being a shareholder also contributes to empowering the farmers through training and by involving them in a democratic decision-making processes.

As shareholders, the farmers also receive a share of the profits from the Divine Chocolate Company. In 2007, it was the first year that ownership brought some direct (although marginal) economic benefits to the farmers. The ‘success’ of Divine chocolate can be explained by the fruitful partnership between a consolidated producer organisation, an experienced NGO (Twin Trading has a lot of experience in the coffee sector with ‘Cafedirect’), NGOs with a large network of consumers and celebrities (such as Christian Aid and Comic Relief) and the Divine office, with a managing director with excellent marketing skills. The branding strategy centred on farmer ownership played a key part in this success. (Doherty and Tranchell, 2005; Koning and Steenhuijsen-Piters, 2009)

**Impact of the intervention**

The introduction of fair trade cocoa had several impacts at the level of the farmer and upgraded their position from a chain-actor to an official chain-owner. Through membership of KKFU, farmers became the official owners of the farmer union and recently they also became shareholders of the Divine Chocolate Company. Moreover, members of Kuapa Kokoo had easier access to training programmes, such as the farmer field schools and benefited from the support of community development projects. In terms of direct economic results, the benefits are only marginal: they receive small bonuses and have received the first dividend of the chocolate company; each member received a direct payment of USD1 (personal communication KKFU research division, 2007).

**Constraints, trade-offs and flexibility of the scheme**

In general the achievements of the KKFU are evaluated positively (see evaluations by Mayoux, no date; Tiffen, no date; Vuure, 2006). Besides a (marginal) extra income...
that the farmers appreciate, through their membership of Kuapa Kokoo farmers also had access to new marketing channels, the opportunity to become involved in chain management, had ownership, had access to training (such as FFSs) and had a chance to have a funded community project in their village. Other main benefits mentioned by Kuapa Kokoo members in 2005 concern the financial advantages, such as access to credit (from the credit unions) and extra bonuses.

Despite the successes of the Kuapa Kokoo Farmer Union and the positive evaluations, I find it rather difficult to assess their achievements. Not only because I interviewed only a small number of registered Kuapa Kokoo members, but also due to the absence of critical self-reflection among Kuapa Kokoo’s staff-members. Fieldwork indicated that not all farmers who sell of their cocoa to KKL are aware of its semi-cooperative status and consider KKL similar to any other LBC (FS 2003; interview Nana Osafo-Ansong, Senior Advisor SNV, 2003). Despite that selling all your cocoa to KKL is a pre-condition for membership of the farmer union, it is common practice for farmers to sell a part of their cocoa also to other LBCs.

Moreover, also farmers who are not members of Kuapa Kokoo can sell to the PC of the farmer union; the result is that ‘fair trade cocoa’ is mixed with conventional cocoa. Also the empowerment of farmers is not optimal. Some farmers complained about promises that were never fulfilled and about being cheated on weighing scales. Especially with regard to the credit union several constraints were identified. According to some of the farmers the amount of credit was too low and the union lacked transparency. Sometimes the union was located too far away. The next quote illustrates some of these complaints:

When Kuapa arrived they did not paint any picture that it is a farmer’s organisation. All they told us is to bring our produce to them to sell, so that if farmers needed any financial support
they will also help them. I sent my produce to them and when I needed financial assistance they told me it is a new company so they are facing teething problems so they could not assist us. There is a saying in Akan that onyeame boa onnea woaboa no ho literally meaning “heaven helps those who help themselves”. I did honour my promise by selling my produce to them but they failed to give me a loan (farmer profiles, 2005).

Ownership of KKFU and being a shareholder of Divine was not mentioned by the farmers as a reason to join this union, and the direct benefits of it were not directly clear. While officially farmers own KKFU’s LBC, this seemed a rather abstract idea for most of the farmers. But over time, it is possible that the benefits resulting from KKFU membership will become more apparent to farmers.

One of the conclusions is that both KKFU and promotions of its fair trade principles depend to a high extent on the benevolence and skills of the PC who buys the cocoa beans from the farmer.

Sub-strategy 2.2 and Sub-strategy 2.3
In the introduction of this chapter, which discussed the link between upgrading and exclusion, I raised the question on the extent to which vulnerable groups are prepared to leave the cocoa farm and their realistic alternatives. Although in conventional upgrading debates ‘diversification’ is not considered as an upgrading strategy, it seems vital to acknowledge diversification as a strategy, especially for countries that depend heavily on only a few export commodities with little added value, and for farmers who depend heavily on cocoa. More of the players in the cocoa sector have come to appreciate diversification and stimulate farmers to invest in multi-cropping, shade management and other practices. Also, ‘diversification’ is part of the curriculum of the farmer field schools (public-private partnerships).

There are different types of diversification. In the section above I already demonstrated that production for niche markets is a good way to open alternative marketing channels. Another strategy (Sub-strategy 2.2) is to use cocoa beans as an ingredient for non-chocolate products, such as cosmetics (there is a variety of cocoa products available in the Body Shop) and health products. This strategy is however not directly accessible for farmers; farmers sell their beans to CMC and have no influence on the further allocation of their beans. In Ghana only the cocoa research body of Cocobod (CRIG) is involved in investigating and developing alternative uses of cocoa. For farmers diversification mainly involves producing other crops or becoming involved in other income-generating activities (off-farm).

For almost all cocoa farmers that participated in the farmer survey (FS 2005) cocoa-farming is perceived as a life-fulfilling occupation. A farm does not only generate immediate income but is also regarded as a way of advancing social security and inheritance. For most respondents cocoa provided a considerable part or almost all of their income (FS 2005). As already indicated, diversification in terms of producing other crops is common, for example: cassava, palm oil, plantain and cocoyam. These other crops are planted both on separate farms and directly on the cocoa farms. Almost 80 per cent of the respondents owned and/or cultivated other land. Caretakers often worked under more than one contract and/or took care of
Table 7.9 Measuring inclusiveness of membership in the Kuapa Kokoo Farmer Union

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Producing Intervention</th>
<th>Activity</th>
<th>Expected impact</th>
<th>Constraints</th>
<th>Mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Farmer KKFU produces economic incentive</td>
<td>through training</td>
<td>+ income generating activities for women</td>
<td>- little demand for fair trade</td>
<td>KKFU produces economic incentive; Exclusive. Only members</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(stimulating)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sub-strategy 2.1

Farmers who do not reach all community development projects are excluded. The KKFU is able to reach up to 70% of farmers, but it remains difficult to become a member of the KKFU.

Dependence on good will of KKFU is an important driver of membership and is critical. There is little demand for fair trade cocoa, and the status of fair trade cocoa in Ghana is problematic. The importance of new forms of trade-offs remains uncertain.

The membership of Kuapa Kokoo is not fully inclusive in numbers (excluding caretakers); however, in terms of impact it is more inclusive than public interventions. The success of Kuapa Kokoo can be largely explained as a fruitful partnership that links producer organisations to investors and consumers.

The problem is low demand for fair trade cocoa. Another difficulty is that the status of ownership of the Kuapa Kokoo and of the chocolate company is primarily symbolic, it takes a long time before the farmers feel direct benefits and ownership becomes a tangible variable. The success of Kuapa Kokoo can be largely explained as a fruitful partnership that links producer organisations to investors and consumers.
several farms (under the same contract). Table 7.10 illustrates how farmers use this extra land.

Table 7.10 Main uses of extra land

<table>
<thead>
<tr>
<th>extra land mainly used</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>planting</td>
<td>40</td>
</tr>
<tr>
<td>food crops</td>
<td>30</td>
</tr>
<tr>
<td>cash crops</td>
<td>10</td>
</tr>
<tr>
<td>rent out</td>
<td>50</td>
</tr>
<tr>
<td>falling</td>
<td>20</td>
</tr>
<tr>
<td>other</td>
<td>10</td>
</tr>
</tbody>
</table>


The main reasons behind diversification include generating extra food and money and also spreading out the risks of depending on a seasonal crop such as cocoa (FS 2003). In case of inter-cropping and shade management this contributes to the establishment of a ‘natural eco-system’. However, in the Western Region, marked by the most rapid cocoa production increases in the country, there is another trend. In this region, almost 30 per cent of the cocoa is cultivated without any form of shade-management. This is worrisome as it causes rapid soil depletion (Gockowski, 2007).

Diversification does not necessarily involve on-farm activities. Almost 20 per cent of farmers interviewed in 2005 obtained additional income from non-farm activities, for example teaching (FS 2005). Different sources of income help cocoa farmers to be more flexible and even negotiate; farmers can choose to dedicate more/less time to cocoa in case of price-fluctuations. Clearly, diversification directly contributes to empowering farmers.

Conclusions on Strategy 2
There are many actors involved in producing new forms of existing commodities. In the development of niche markets, NGOs take the leading role and work together with farmer groups and governmental bodies. The government plays a facilitating role in the organic and fair trade market, but has also hindered a number of earlier attempts by NGOs and international banks to introduce organic cocoa in Ghana. Without governmental support the opening of alternative marketing channels is not possible in Ghana. Niche markets tend to work positively for farmers, but only affect a very small portion of farmers. For example, in the case of fair trade cocoa
caretakers have difficulty to become a member of a farmer union. In another example with organic cocoa, it was only cultivated by a very small number of farmers in the Eastern region. In addition, the assumed benefits are not always realised, for example fair trade cocoa does not automatically result in improved income for farmers.

In terms of impact, a difference with state interventions is that the main impact of these types of public-private partnerships is empowerment. Farmers who are reached by these interventions receive training, participate in decision-making processes and are involved in activities higher up in the value chain (in the case of fair trade the farmers are involved in internal marketing of their produce) (Figure 7.16).

![Figure 7.16 Changes in the empowerment matrix due to a multi-stakeholder initiative](image)

Source: author.

In terms of inclusiveness the production of fair trade cocoa and membership in the farmer union are more optimal than the interventions that aim at increasing margins for unprocessed cocoa (Strategy 1). Membership in the Kuapa Kokoo union is voluntary and stimulating. There are different incentives for farmers to become a member of this group, membership rewards include access to training, credit schemes and community development. Members are owners of the union and they are also owners of a chocolate company. Their involvement in trade and in decision-making processes significantly contributed to enhancing their empowerment. Still, this intervention is not optimal as it reaches only a small number of farmers and caretakers have difficulty becoming members. The economic benefits from membership of KKFU are marginal. A main cause is that the fair trade share of the total cocoa production by Kuapa’s members is very small. The benefits of selling part of the cocoa as fair trade cocoa are divided among all members.

**Conditions under which farmers are included**

The opening of alternative markets in Ghana cannot take place without the involvement of Cocobod. The government is mainly interested in product quality and increasing volumes of production. As a result only a few initiatives have been realised so far. Another requirement for the opening of alternative markets is the
set-up or formalisation of farmer groups. This is not an easy task as trust is lacking and farmers need to be convinced that farmer organisation has tangible benefits. As I illustrated, in Ghana the introduction of reforms did not go hand-in-hand with incentives for farmers to organise themselves.

Compared to farmers who continued with the production of only conventional cocoa the conditions for farmers who produce niche cocoa are generally favourable. However, it can also be a risky affair. For example, producing certified organic cocoa requires an effort from the farmers; organic cocoa production demands more intensive farm management. In theory, the premium paid for organic cocoa more than compensates for these costs; but, premiums fluctuate. It is possible that sometimes the premium does not cover the increased costs of production.

### 7.2.3 Strategy 3: Localising commodity processing and marketing

Localising commodity processing and marketing involves different sub-strategies. For example, farmers can add value to their cocoa by processing cocoa waste. Involvement in marketing of cocoa is another option, although this option is limited to involvement in internal marketing (external marketing is still under state control). Another sub-strategy is the local processing of cocoa (by-)products (Figure 7.17).

**Figure 7.17  Strategy 3: Localising commodity processing and marketing**

**Sub-strategy 3.1: Processing of cocoa waste**

Material from the cocoa pod and from the cocoa beans (which is normally discarded [ICCO, 2003 in Bass, 2006: 260 and personal observation]) can be used as an ingredient for other commodities. Processing cocoa waste adds value to cocoa-bean production. For example, cocoa processing companies separate the shell from the
cocoa beans they buy from CMC and export these as fertilizer, mainly suitable for application in gardens. Recently there were some experiments with using shells as bio fuel. The national cocoa research institute (CRIG) is also exploring ways of using cocoa waste as input for fertilizer, soap making, cocoa liquor, cocoa jam and animal food. In 2005 they organised a workshop where they tried to find over-sea marketing channels for these products. The primary aim of CRIG was to generate new sources of income for the research institute itself; it did not aim to improve the income generating opportunities for farmers (interview CRIG, 2003). On the level of the farmers there is little involvement in the processing of cocoa waste into by-products. Only ‘soap making’ occurs on a regular basis; in 2003 around 28% of the interviewed farmers (mainly women) used cocoa waste for the production of soap (FS 2003; Norde and van Duursen, 2003). This soap is mainly used for domestic consumption, with a small portion being sold at the local market. During my fieldwork in 2005 I met several women’s groups involved in soap making. There is also a farmers’ cooperative that was established in Asikuma (Central Region) to concentrate on soap making. The government promised to give assistance for scaling-up soap production and commercialising soap making activities in Asikuma, but in 2005 farmers complained that the government did not fulfil its promise. It would be worthwhile to explore new opportunities for farmers to utilise cocoa waste, especially as fuel and as fertilizer (which is an expensive input for farmers).

Sub-strategy 3.2: Localising processing of cocoa products
Localising processing and marketing of cocoa products, i.e. functional upgrading, are in theory presented as the most promising fields of adding value to cocoa. Gibbon and Ponte (2005: 153) put it more firmly by arguing that in the case of cocoa second-tier suppliers (in the form of local exporters or smallholder cooperatives) ‘can upgrade only by taking on first-tier supplier roles – that is, by engaging in international trading/or grinding’. Similar to coffee, serious physical and financial obstacles constrain the development of a local grinding industry. In Ghana the government has been actively involved in setting up local grinding facilities. It also actively stimulated foreign processors to outsource part of their processing facilities to Ghana, by offering processing companies a 20 per cent discount on light-crop beans. Without this subsidy cocoa processing in Ghana is not a profitable business (informal discussions with industry, 2007). The Ghanaian beans are relatively expensive, building a factory is a tremendous investment and the other ingredients for making chocolate have to be bought at world-market prices. Although cocoa processing entails a cost for both international processors and the Ghanaian government, it is also a strategic interest of both parties. For the government it is a way of securing the future demand for their product, while for international buyers outsourcing of their processing facilities to producing countries is a way of ‘physically’ moving closer to the Ghanaian farmers. This will become especially important if the process of liberalisation proceeds any further. Moreover, the political crisis and the relatively low farm gate price of cocoa in Cote d’Ivoire have encouraged the movement of cocoa into Ghana. In the analysis on the intervention I will provide more information on processing that is currently taking place in Ghana.
The farmers’ perspective on processing cocoa products

The processing of cocoa into cocoa-products, such as liquor, cocoa powder, cocoa paste etc., which are used in chocolate manufacturing and confectionary stage, requires large financial investments and a completely different type of knowledge than is needed in the production phase. For individual farmers direct involvement in local processing of cocoa is not a goal. There are no interventions that aim to involve farmers in cocoa processing. In the next section I will discuss the fourth intervention – private grinding activities in Ghana.

Private intervention outsourcing of grinding activities in Ghana

In the period 1985-1995 parastatals and public/private joint ventures in Ghana and especially Côte d’Ivoire established local grinding operations. Today, most of these ventures are in foreign hands (and can no longer be seen as a way to upgrade). In 2004 in Ghana four processing factories were operational (Table 7.11).

<table>
<thead>
<tr>
<th>Cocoa processing companies</th>
<th>Owner</th>
<th>Type of production</th>
<th>Installed processing capacity in 2004 (tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PORTEM (Tema)</td>
<td>Privatised in 2002, but Cocobod is major stakeholder (Golden Tree Chocolate)</td>
<td>Consumer products</td>
<td>65,000</td>
</tr>
<tr>
<td>WAM and WAMCO II (Takoradi)</td>
<td>Joint venture Cocobod/ Schroeder of German Hosta Group</td>
<td>Semi-finished products</td>
<td>70,000</td>
</tr>
<tr>
<td>Barry Callebaut (Tema)</td>
<td>Barry Callebaut</td>
<td>Semi-finished products</td>
<td>75,000</td>
</tr>
<tr>
<td>Cargill</td>
<td>Cargill</td>
<td>Semi-finished products</td>
<td>Not yet installed</td>
</tr>
<tr>
<td>ADM</td>
<td>ADM</td>
<td>Semi-finished original products</td>
<td>Not yet installed</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>210,000</strong></td>
</tr>
</tbody>
</table>

Source: Adapted from Bass, 2006: 251 and completed (based on interviews with CPC, Barry Callebaut and Cargill in 2005).

The Coca Processing Company Limited PORTEM (CPC) at the harbour city Tema (Greater Accra) used to be a subsidiary of Cocobod but now is privatised with Cocobod as its major shareholder (picture 7.4). Its products, the Golden Tree Chocolate, are consumed in Ghana and surrounding countries. The Ghanaian government is actively promoting domestic consumption of cocoa. In these campaigns there is a strong emphasis on the consumption of chocolate and its positive effects on health.

Two other processing factories in Takoradi (harbour city in the Western Region) are run by WAM and WAMCO II, a joint venture between Cocobod and a small German processor. They process semi-finished products. In 1999, all of these processors used between 18 and 22 per cent of Ghana’s total bean production (Ministry of Finance, 1999). A fourth processing company was installed in 2004 in Tema, by the Swiss ‘giant’ Barry Callebaut, with an installed capacity 75,000 tonnes per year. In 2006
Cargill also opened a processing facility in Tema, with a processing capacity of 65,000 tonne per year\textsuperscript{201}. Very recently, in October 2009, ADM opened a new processing plant in Kumasi for ‘single source origin’ cocoa, with a processing capacity of 65,000 tonne per year.\textsuperscript{202} In ADM’s press release on this issue (June 7, 2007), Mark Bemis, the president of ADM Cocoa, stated that this investment:

also represents Ghana’s growing importance in the cocoa processing value chain. By locating the plant in Kumasi, we will be processing cocoa closer to the farmers and providing local jobs to the community, [...] In addition, it fits securely within the Ghanaian government’s strategic and economic objectives of adding value to its cocoa production.

**Benefits for farmers**

These cocoa processing companies use small (high quality) beans from the low season, which they buy at a 20 per cent discount. Even though the farmers receive the same price for light crop beans as for mid crop beans, indirectly they actually subsidise industry because the discount is paid from the export value (gross FOB).

In the long-run the outsourcing of grinding facilities to Ghana does help to guarantee the future demand for Ghanaian cocoa. Moreover, the export of cocoa beans and cocoa-products makes significant contributions to the country’s budget; cocoa bean exports account for about 40 percent of the country’s foreign exchange earnings. Cocoa provides the second largest source of export dollars to Ghana.
bringing in almost $500 million yearly to the Ghanaian government (Bass, 2006). A portion from the profit from cocoa is (partly) reinvested in the economy.

It is interesting that the Ghanaian government (in its cocoa strategy published in 1999) questioned the fairness of the discount provided to processing industries: ‘there arises a fundamental question of fairness as to whether removing subsidies at farm level [on inputs] but providing them at the level of processing industries at the expense of reduced prices to farmers is fair’ (Ministry of Finance, 1999: 77).

Constraints, trade-offs of intervention
Ghana just like other West African countries enjoys tariff-exempt status for exporting to the European Union through the Lomé/Cotonou Treaties. However this did not lead to a favourable situation for Ghana to export semi-processed and processed cocoa beans. The grinding facilities are almost exclusively owned by the same multinationals that dominate the international cocoa business, thus reducing possibilities for technology transfer (Bass, 2006: 251). There is also a constraint for international processing companies – there are not enough light crop beans to meet the expansion of cocoa processing capacities. This means that the government cannot fulfil its promises to all the processors of cocoa, which affects adversely the relations between Cocobod and the foreign processors (informal discussions with industry, 2007). A positive trade-off for processors is that their presence in Ghana helps to consolidate their relationship with Cocobod and it also helps them gain insight into local dynamics. If changes do occur (in terms of further liberalisation or in demand) they will be better able to respond.

For farmers there is a negative trade-off. The discount given to multinational processors is actually paid by the cocoa farmers themselves. Farmers have no idea how reinvestments in the sector take place and who benefits from these interventions.

Sub-strategy 3.3: Marketing of cocoa beans
The marketing of cocoa beans is still controlled by Cocobod. Despite the introduction of gradual reforms, external marketing is not liberalised. Internal marketing is liberalised and in hands of Licensed Buying Companies. Currently there is one farmer organisation that also functions as a LBC. The establishment of a private buying company is a way of moving up in the value chain: if farmers become owners of a buying company they become involved in activities higher up in the chain, which adds value to their cocoa beans. LBCs are paid a fixed margin of the FoB for their marketing activities. Becoming a LBC also involves costs as the cocoa has to be collected, stored and there is also a process of quality control to administer. Also, internal trading demands time and skilled local purchasers with a good reputation in the community where they buy the cocoa. It also requires a license, which is obtained from Cocobod (see Chapter 5). In short, obtaining a LBC licence requires experience, investment, and must be grounded in a long-term approach. Foremost, obtaining a license requires good contacts with Cocobod (interviews with different LBCs, 2005). So far only one farmer organisation (Kuapa Kokoo Farmer Union) established a buying company (Kuapa Kokoo Ltd.) (recently the same organisation established a second LBC).
<table>
<thead>
<tr>
<th>Sub-strategy</th>
<th>International Outsourcing cocoa (long-term demand for this is not unpragmatic, because it is indirectly paid by farmers (part of gross FOB))</th>
<th>farmers reached</th>
<th>Impact 1: Contribution to Ghana cocoa processing in Ghana</th>
<th>farmers reached</th>
<th>Impact 2: Securing cocoa processors in Ghana</th>
</tr>
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<tr>
<td></td>
<td><em>Processing of cocoa</em></td>
<td><strong>Expected Impact</strong></td>
<td><strong>Constraints</strong></td>
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<td></td>
<td>International</td>
<td>farmers reached</td>
<td>Impact 1: Contribution to Ghana cocoa processing in Ghana</td>
<td>farmers reached</td>
<td>Impact 2: Securing cocoa processors in Ghana</td>
</tr>
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This type of intervention is not inclusive. Farmers are not involved, and do not directly benefit. However, it does secure a future outlet for their products. In addition, the presence of international buyers will stimulate the government to adapt more proactively to changes on the world market. It is likely that some of the processors that have outsourced part of their activities to Ghana will ask for ways of certification of their mainstream product. This pressure gives some weight to the alliance between processors and Cocobod. Furthermore, if liberalisation proceeds it will be easier for international buyers to establish direct relationships with farmers, as they would have already present on the ground.

Table 7.12 Measuring the inclusiveness of cocoa processing in Ghana.
Farmers can become involved in marketing cocoa beans through membership in Kuapa Kokoo, or in a more direct way by applying for the job of local purchaser of cocoa (PC). Generally LBCs look for literate clerks with a good social network. The purchasers of cocoa are paid on commission basis and most PCs are also cocoa farmers.

Conclusions on Strategy 3
The private sector is the main player involved in the local processing of cocoa. There are some joint ventures where Cocobod is shareholder. Local processing within Ghana is beneficial for both multinational processors as well as for the Ghanaian government. The Ghanaian government has a strategic interest in attracting this type of industry to their country; it helps to secure long-term demand for their product and to consolidate their relationship with this industry. Multinational processors are very interest in Ghanaian cocoa because of its high quality and dependable delivery. In addition the political instability in Cote d’Ivoire and a growing interest in traceability made Ghana an even more attractive source country. This alliance between Cocobod and international buyers does have an impact on the farmer, but this impact is indirect. Farmers are not directly reached by these types of interventions and are not involved in processing activities.

Figure 7.18
Changes in the empowerment matrix due to outsourcing of local processing of cocoa to Ghana

In terms of inclusiveness this intervention is not effective. Farmers are not involved and do not directly benefit from the presence of foreign processors.

Conditions under which farmers are included
Since the introduction of reforms the number of foreign processors in Ghana gradually increased. These processors process cocoa-beans into cocoa-products which they then export. Moving ‘physically’ closer to the farmers has not altered the conditions under which cocoa farmers run their businesses. The planned activities of individual buyers of cocoa, for example Cargill, give some indication that this might change. There is a large number of training activities for farmers that are
planned to take place in 2012 (TCC, 2009) (see also Chapter 4). The involvement of buyers in certification schemes and their commitment to sustainable cocoa sourcing are other indications that the conditions under which farmers are included might change. It is not yet clear exactly which groups of farmers will be targeted by these kind of programmes, and which groups will be excluded.

7.3 Discussion on more inclusive upgrading for cocoa farmers in Ghana

In this chapter I analysed a small number of interventions. In order to understand the rationale behind these interventions and their impact, I placed them in a broader context, providing some information on other interventions and some background information on the corresponding sub-strategies. Earlier in this chapter I made some concluding remarks on the three strategies and discussed the main drivers of the selected interventions, their impact and the (changing) institutional environment that facilitates the interventions. In this section I will look at all the identified interventions (presented at the beginning of this chapter) and unravel some patterns of upgrading, with an emphasis on different their different impacts. A full summary of the analysis will be presented in the appendix (7.1).

7.3.1 Upgrading patterns in Strategy 1: Capturing higher margins for unprocessed cocoa

This strategy defines the objective of most farmers – to increase the volume of production and to improve productivity (thus earning more with cocoa production). This first strategy is dominated by large-scale interventions. The Ghanaian government is the main intervener in safeguarding quality standards and increasing volumes of production. International buyers share the agenda of the government but play a rather passive role. Control and standard setting affect all farmers, but interventions that provide services are not easily accessible to everyone. For my respondents, the main determining factors were ownership, social position in the community and location (region). The farmers themselves are responsible for producing high quality cocoa, but toil under diminished incentives. In terms of volumes of production and productivity, the farmers are actively involved and have developed different ways of increasing their volume of production, for example through effective pest management, planting new varieties of cocoa and working together in labour exchange groups.

Competitiveness

Interventions that aim at the production of premium quality beans (Sub-strategy 1.1) contribute to the good reputation of Ghanaian cocoa and its competitive advantage on the world market. In addition, the premium that Ghana receives for its beans adds value to the produce and offers farmers a stable income. Generally these are
compulsory measures; but (at the same time), they are also beneficial for all farmers. Due to a lack of transparency in the distribution of costs, benefits and risks it is not possible to measure whether the production of premium quality beans ultimately results in higher incomes for farmers. These interventions do not empower cocoa farmers.

The incentives for the local private sector, quality control officials and farmers to invest in quality management are reducing. Farmers shoulder part of the risks in case quality problems result in lower prices or rejected produce.

The farmers’ knowledge on producing high quality cocoa beans mainly comes from their families. Traditionally, also extension services play an important role. Access to advice on quality issues depends significantly on ownership, kind of contract, yield, position in the community and region.

**Remunerative income**

Interventions that aim at the production of increased quantities of cocoa and higher levels of productivity (Sub-strategy 1.2) generally contribute to farmers obtaining higher returns. The scale of interventions varies; governmental interventions are large-scale. Generally, the measures taken to increase production levels are stimulating and exclusive, with three important determinant variables: the farmers’ position in the community, his/her position on the farm and the location of the farm. Among the interviewed caretakers also the type of contract mattered.

The cocoa farmers’ main objective is to invest in higher volumes of production; although many of them are constrained by the high production costs and the lack of credit. The opportunities for farmers to invest (time or money) in their farm are not equal and farmers make different choices. Some farmers for example chose not to work together in exchange labour groups or were constrained (for example by gender or type of contract). In some cases the region where farmers work determined their investment (for example planting new varieties of trees).

Interventions in the field of more remunerative contracts (Sub-strategy 1.3) are generally stimulating. Contract farming between farmers and actors higher up in the value chain does not exist (due to the gatekeeper role played by Cocobod). The type of share contracts between owners and caretakers is determined by the owner. Caretakers do have a choice in working under more than one contract.

**Empowerment**

Some of the interventions made in order to increase production levels contributed the empowerment of farmers (mainly through training and extension services). These types of stimulating measurements are exclusive. It is simply too costly to provide training to all cocoa farmers. Another reason is that since the merger of Cocobod’s extension services with MoFA’s services the quality of the service declined and less cocoa farmers have been reached.

Generally, caretakers have more difficulty accessing training programmes than farm owners. The position in the community also influences the opportunity to receive public extension services. Location was another significant variable. Farmers in (the more remote) Brong Ahafo and Ashanti Region had less access to services
than farmers working in the Western or Central Region. Unfortunately, training and extension do not always yield positive effects. Adoption rates are low (related to high costs of input), inputs are often not applied adequately and services are generally top-down.

There are two multi-stakeholder initiatives that use the concept of farmer field schools (FFSs). These schools provide farmer-based extension services. Both initiatives are stimulating, small-scale and exclusive (implemented as pilots in specific regions); both contributed to empowering farmers.

7.3.2 Upgrading patterns in Strategy 2: Producing new forms of existing commodities

The second strategy concerns mainly multi-stakeholder initiatives and NGOs, which are generally small-scale and exclusive. Among the respondents ownership and region played a decisive role in access to this type of strategy.

**Competitiveness**

Interventions that aim at the production of cocoa for niche markets (Sub-strategy 2.1) open alternative markets that generally pay higher prices for unprocessed beans (although this premium not automatically benefits the involved producer). These types of interventions are still in a pilot phase or small-scale; initiated by international buyers and/or NGOs, they are heavily dependent on good collaboration with Cocobod. These interventions involve small groups of cocoa farmers in specific locations. Some of these interventions are stimulating, paying farmers a bonus or offering other types of benefits. An exception is a recent initiative to produce ‘single origin cocoa-products’. The production of ‘specialty cocoa’ however does not benefit Ghanaian farmers directly. Because the beans (and cocoa products) are still marketed by Cocobod, farmers do not get a higher price. They still do obtain some financial benefits as this has a positive effect on long-term demand.

Cocobod has been reluctant to open up separate marketing channels for niche cocoa and obstructed several attempts to introduce organic cocoa production in the country. This consistent resistance resulted in absence of product differentiation in Ghana.

**Remunerative income**

There are more interventions that aim at fostering non-traditional uses of cocoa (health and cosmetics) and local consumption (Sub-strategy 2.2), however many of them are still in an initial (research) stage. So far, these types of interventions do not directly benefit farmers; there are no separate marketing channels and there is no product or price differentiation.

The development and marketing of cocoa by-products (Sub-strategy 2.3) do not involve cocoa farmers directly (they do not have the technologies, knowledge and marketing opportunities). CRIG does invest in cocoa by-product research, but the initial aim is to increase its own budget.
Producing other cash crops and food crops in order to diversify sources of income is a common strategy used by farmers. Around 20 per cent of the farmers generate some income from non-farm activities. Generally diversification is a risk management tool and the means to obtain some additional income throughout the entire year.

**Empowerment**

The production for niche markets can have additional benefits for farmers in terms of empowerment. The Kuapa Kokoo Farmer Union is an example in Ghana. It produces a small amount of cocoa for the fair trade market and is a dominant shareholder in a small chocolate marketing company based in the UK. The members of the union (around 50,000) also formally own the union, which is at the same time a LBC. The farmers’ involvement in decision-making processes and in activities higher up in the value chain, in combination with access to training programmes (such as the FFSs) and income-generating activities contributed to their empowerment.

Caretakers are generally excluded from membership of KKFU (as they need permission of the farm-owner). Women, on the other hand, are a specific target-group of KKFU; women are stimulated to become members and receive training on (other) income-generating activities. So far, the economic benefits resulting from KKFU membership have been marginal.

### 7.3.3 Upgrading patterns in Strategy 3: Localising commodity processing and marketing

The third strategy is exclusive or does not reach farmers at all. The multinational buyers are the main interveners, they share an interest with the government in outsourcing part of their processing capacity to Ghana. The interventions aimed at marketing reach farmers indirectly.

**Competitiveness**

The government intervened in localised processing (Sub-strategy 3.2) by providing cocoa processors with a 20 per cent discount on mid-crop beans and by offering other incentives. As a result, over the last years an increasing number of processors have opened local processing facilities. The impact on farmers is indirect. Farmers still market their cocoa through Cocobod and have no direct relations with international buyers. But it is likely that the establishment of cocoa processing facilities within the country will contribute to the long-term demand for Ghanaian beans, which benefits all farmers.

The incentives given to international processors are financed from the gross FOB price; thus, indirectly farmers do pay for the subsidies given to these multinationals.

**Remunerative income**

Processing cocoa waste (Sub-strategy 3.1) takes different forms. Cocoa processing companies are involved in this activity on a large-scale, but this does not have an impact on farmers. Soap making by (groups of) farmers does take place on a regular
basis, mainly for domestic consumption and for small scale trading on local markets. Women are the main producers of soap. Whether or not they benefit from this depends on the arrangements within the household. Generally, the economic benefits resulting from soap production are small. The government is minimally involved and provides no substantial benefits.

**Empowerment**

Farmers are involved in cocoa marketing activities (Sub-strategy 3.3) in different ways. In discussing Strategy 2, I already indicated that through membership in the KKFU farmers get involved in internal and external marketing activities. The economic benefits are marginal, but involvement in these kinds of activities can potentially have an empowering effect. Another way for farmers to become involved in marketing is by becoming a society member or by becoming a Purchasing Clerk.

### 7.4 Capturing dynamics, thinking in scenarios

The Ghanaian case, often presented as best practice, embodies two important dimensions: first, it is unique due to its partially liberalised economy; and second, it is exceptional for its production of large quantities of premium quality cocoa. The partially liberalised system reflects partly the strong role of the Ghanaian state and partly the global buyers’ interest to maintain or only slightly to modify the Ghanaian system. The production of premium quality cocoa reflects both the capacity of the national government to coordinate the supply chain as well as the existing high demand for premium quality cocoa.

The upgrading strategies taking place in Ghana, which focus on quality and volume of production, reflect these dimensions. But the conditions underlying these dimensions are not fixed. First, there is a trend in the global cocoa chain that product requirements become less important. Gibbon and Ponte (2005: 200) warned of the potential for exclusion and marginalisation if African farms fail to meet the new expectations concerning: quality, lead times, volumes, and prices. A risk is that they will fail to capitalise and actively participate in shaping new standards to their advantage – including those that are related to social and environmental concerns raised by Northern NGOs. There is also a risk that achieving/maintaining high quality standards may not attract higher prices (or add value) for producers. Second, it is not sure if a partially liberalised system is the end-stage of the reforms. So far, global buyers of cocoa support the Ghanaian government and Cocobod in continuing its coordinating role and are prepared to pay a premium price for Ghanaian cocoa. But preferences of global buyers can change or pressure for change can come from the World Bank or can come from within.

Understanding the position of Ghanaian cocoa farmers in the chain and the kind of upgrading strategies that are beneficial for farmers require a dynamic perspective, not only by drawing lessons from the past and making comparisons with experiences in fully liberalised countries, but also by taking into account possible future scenarios. Ghanaian farmers are better off now, but what if the main pillars that underpin their strong position disappear?
Ongoing liberalisation and/or a growing demand for process standards (such as environmental and social standards) require other types of upgrading strategies and interventions. I use the 'scenario matrix', as introduced at the beginning of this chapter, to understand better the vulnerability of the current system. Already in Figure 7.3 (Section 7.1) I distinguished four possible scenarios: 1) Status quo with passive private sector; 2) Opening up; 3) Loosing control; and 4) Status quo with active private sector. The first scenario reflects the current situation. For each scenario I will discuss briefly its main features, I will reflect on the kind of interventions that are needed to guarantee benefits for farmers under these changed conditions. Furthermore, I will indicate what developments possibly trigger moving from one scenario into another. This exercise of ‘thinking in scenarios’ is based on my findings presented in the previous chapters, particularly on the chapter analysing the comparison with other fully liberalised cocoa producing countries and on the trend among global buyers to source cocoa sustainably.

7.4.1 Scenario 1: Status quo with passive role of private sector

In this scenario, the cocoa sector in Ghana is partly liberalised and there is high demand for premium quality cocoa beans (product quality). This scenario reflects the current situation. Currently, the state controls the supply chain and the demand for premium quality cocoa is high. In order to remain competitive farmers will have to continue to produce high quantities of premium quality cocoa. For this purpose, the Ghanaian government intervenes actively in the sector, for example through its quality control system and the mass spraying programme. These large-scale interventions have been mainly contributing to competitiveness of the cocoa sector as a whole and also to increased and stable incomes for farmers. Still, this scenario, which is supported by the alliance between international buyers and the national state, disregards some of the interests of the farmer and of the local private sector and the system in place does not automatically provide sufficient incentives for farmers and for actors higher up in the chain to continue with the production of high volumes of high quality cocoa. Without such incentives and without more transparency regarding the distribution of costs, benefits and risks Ghana’s cocoa sector might become locked in a negative quality performance spiral. Without better extension services and the provision of (input on) credit farmers will have difficulty to prevent or overcome diseases, which hinder farmers continuing to produce high volumes of cocoa and to increase their productivity.

Still, comparing to cocoa farmers in neighbouring countries and comparing to other type of farmers in Ghana, Ghanaian cocoa farmers are relatively better of (World Bank, 2007b). But how is this if (one of) the main pillars that underpin Ghana’s relatively favourable position disappear? There are a few developments that might trigger change, such as the global trend of product requirements becoming less important in favour of process requirements. But as demand for Ghana’s premium quality cocoa (product quality) remains high, Ghana has been rather slow in broadening its focus and has obstructed for example cocoa production for niche markets (such as organic cocoa) (process quality). While Ghana has the capacity to
develop new domains of rent, they put little effort and continue to focus on current activities. Considering the increasing attempts of global buyers to look for sustainable sourcing of cocoa, there is a risk that the Ghanaian government may start to become an obstacle instead of an enabler in facilitating ‘inclusive’ upgrading strategies.

The risk of inertia is also put forward by the IMF (2009); it argues that governments ‘should do well to pay attention to structural dynamics in global trade such as new trends in market information processing, logistics, customer analysis etc. in order to explore emerging and niche markets’ (IMF, 2009).

7.4.2 Scenario 2: Opening up

This scenario reflects a partially liberalised system and increasing demand for process requirement. Currently Ghana is the only country where cocoa beans are still consistently separated by national origin for grinding purposes (Gibbon and Ponte, 2005: 136). Product quality is getting even more important as processors, such as ADM, started to build processing facilities for ‘origin cocoa products’ from Ghana. Nevertheless, globally there is an increasing demand for process requirements (or performance requirements). Consumer behaviour is not only determined by ‘price-quality’ decisions; consumers (and supermarkets) are also increasingly interested in conditions under which the cocoa is produced. Evidence for practices of child labour and slavery in cocoa supplying countries contributed to this demand, but it is also a reflection of a growing global demand for organic and healthier products. The attention given to corporate social responsibility is (partly) a response to this. Global buyers of cocoa have become increasingly involved in public-private partnerships that aim at securing sustainable sourcing for part of their cocoa, at strengthening farmer organisations and at exploring niche markets.

Inclusive upgrading: moving from scenario 1 → 2

If Ghana moves from scenario 1 to scenario 2, other kinds of strategies will be required (Figure 7.19 illustrates this shift).

The current interventions that aim at more sustainable practices are small-scale and mainly initiated by public-private partnerships. It is necessary to up-scale these initiatives. The high cost of these types of programmes (such as the farmer field schools) is a clear constraint. More inclusive upgrading in this situation would also call for more transparency with respect to the state’s re-investments in the sector. Ghana is doing relatively well but a lack of transparency and information makes it impossible for other actors in the chain to evaluate the Ghanaian situation and to act accordingly. Research and more information on, for example, child labour in the sector can help to demonstrate Ghana’s level of sustainability.

In order to motivate farmers to produce cocoa differently, extension services and credit services have to be improved. In addition, farmers should also be given price-incentives, which would require the introduction of a system of price and product-differentiation. Sustainability is not only about producing cocoa differently but also about improving the method of cocoa production, enabling higher levels of
productivity, and about strengthening farmer organisations. Lastly, it is about environmental objectives. In all areas Ghana is currently lacking behind.

7.4.3 Scenario 3: Loosing control
This scenario reflects the continuation of focusing primarily on product quality. But instead of an active role of the Ghanaian government, it assigns the coordination of the supply to the private sector. Cocobod can play a supportive (or hindering) role, or its subsidiaries can be privatised.

Ghana is an exceptional case because it is only partially liberalised. The current status quo reflects partly the interests of multinational buyers that are currently benefiting from the Ghanaian mixed system, and partly the strength of the Ghanaian government in resisting World Bank pressure to fully liberalise its cocoa economy. Officially, the reasoning behind the gradual introduction of reforms is that Ghanaian government wants to give the private sector more time to build its capacity to become successfully engaged in external marketing. But, so far, local buyers have not been given the license to export part of their cocoa directly on the open world market. Even though this persistent resistance has frustrated some of the larger buyers, it is understandable from the point of view of the government. They are looking to the neighbouring countries and their negative experiences with fully liberalised cocoa producing systems. The result is that LBCs can only compete on volume and receive little incentive to invest in quality control and in building relationships with farmers. This has also frustrated farmers as purchasing clerks cheat farmers on scales and do not honour their promises.

Ghana is the only country that produces premium quality cocoa, a necessary ingredient for making good quality cocoa products. The growing outsourcing of processing activities to Ghana (for example by Cargill and ADM) seems to indicate that future demand for Ghanaian cocoa is secured. Nevertheless, a push for further reforms could come from international buyers. Global buyers choose to intervene in cocoa production or processing only if it helps them mitigate their risks. These risks can be global and in particular it should be emphasised that the solutions they
propose are not necessarily beneficial for individual source countries (See Chapter 4). A push for further liberalisation could also come (again) from international institutions. Looking at the impact of the recent financial crisis on Sub-Saharan Africa, the IMF (2009) suggested that ‘countries should also seize the opportunity to advance their structural reform agendas in order to boost prospects for growth’.

**Inclusive upgrading, moving from scenario 1 → 3**

Moving from a partially liberalised system to a fully liberalised system (Figure 7.20) has some implications for upgrading.

![Figure 7.20: Moving from scenario 1 → 3](source: composed by author)

Looking at experiences in other fully liberalised cocoa producing countries, it already became clear (Chapter 5) that in such a setting prices tend to fluctuate, the costs of cocoa production generally increase, and the quality of the cocoa declines. All together this causes loss of premiums and losses in demand. Full liberalisation without offering incentives to farmers to produce premium quality cocoa (for which in this scenario there is still demand) and without offering incentives to local buyers and private quality controllers in order to make sure product quality standards are met is likely to cause problems. In addition to strategies that help secure the production of high volumes of quality cocoa, in this situation there is a need for strategies that support farmer organisation. The partially liberalised system does not provide the incentives for farmers to organise themselves. In a fully liberalised setting this neglect could be disastrous. Individual farmers cannot deal directly with large buyers and have no bargaining position. A fully liberalised setting would also require investments in the relations between smallholders and traders. Moreover, in order to secure tangible benefits for the farmers, a fully liberalised setting demands an effective information system and price-differentiation.

### 7.4.4 Scenario 4: Status quo with an active role of the private sector

This scenario, where the sector is fully liberalised and the demand for process-requirements increases, is not likely to occur over-night. However, increasing
demand for process requirements can exert pressure on the Ghanaian government to open up alternative marketing channels for ‘sustainable cocoa’. It can also result in elevated demands for increasing the transparency and traceability of the Ghanaian cocoa sector or it could push for an alternative ‘process quality control system’. These different steps can accumulate and push Ghana into the direction of introducing additional reforms. In a situation where the strong Ghanaian government becomes a hindrance instead of an ally of international buyers, the status quo of a partial liberalised system is at risk. This could be the case if for example the Ghanaian government was reluctant to participate in mainstream certification programmes.

**Inclusive upgrading: moving from scenario 1 → 4**

This scenario would demand a variety of interventions in order to contribute to developing inclusive approaches for upgrading, combining the interventions already mentioned in Strategies 2 and 3.

![Figure 7.21 Moving from scenario 1 → 4](source: composed by author)

This scenario would require the upscaling of sustainable practices, more transparency, better services for the farmers and the strengthening of their organization capacity. In addition, this shift requires capacity building of other actors involved in the cocoa sector that are taking over public tasks. An option is to reorganise Cocobod and its subsidiaries, thus enabling them to continue to play a meaningful role. It should be avoided to create a situation similar to Côte d’Ivoire where even though the sector is liberalised, the government still collects a large share of the margin but does not reinvest money back into the cocoa sector.

**Final reflections**

Ghana is not well-prepared for change. Farmers and the private sector are particularly vulnerable in the current system. Looking at experiences in other cocoa growing countries in the region that fully liberalised their cocoa sector it has become clear that weak farmer organisations and a weak private sector are severe bottlenecks for farmers to benefit from further reforms. Nevertheless, the Ghanaian
government is not investing in capacity development of private buyers of cocoa and farmer organisations. The lack of investment in farmer organisation also makes it increasingly difficult to meet (changes in) demand, for which being organised becomes more and more a prerequisite. Moreover, this has contributed to a lack of agency among farmers to change their position and to benefit more from the current partially liberalised system. More inclusive upgrading requires more emphasis to be placed on empowering farmers and local private actors, it also requires more awareness (beforehand) of whom interventions are likely to include and whether they intensify unequal social structures in the Ghanaian society or contribute to transforming them.