Case Studies


KOKOO
PAPA
PAA
Divine
HEAVENLY MILK CHOCOLATE
WITH A HEART

From Tree-minders to Global Players: Cocoa Farmers in Ghana

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1 Background

Ghana has experienced one of the fastest poverty reduction rates in Africa, with extreme poverty falling from over one-third to about one-quarter of the population and the economy growing at an average rate of 4.3 per cent during the 1990s.

Economic liberalization has been undertaken rapidly under pressure from the World Bank and the IMF, significant efforts by the aid community have sustained levels of development assistance and Ghana is a major recipient of foreign direct investment (FDI). Despite this, the manufacturing sector contracted during the 1990s and although there has been some success with horticultural and fruit exports, the economy remains dependent on three traditional export commodities – gold, timber and cocoa – the prices of which fluctuate considerably, making the country vulnerable to external shocks. As a result, doubts have been expressed as to whether Ghana will reach the Millennium Development Goals in a number of key areas, including halving the number of people living in poverty by 2015.

Women in Ghana have a significant and socially accepted role in local trading, and are also involved in informal food production and processing activities. Although some government programmes (for example the PAMSCAD-ENOWID[1] programme (up to 1996), the Rural Finance Scheme (1996) and the Emergency Relief Fund (2001)) have focused on women's economic activities, they have reached relatively few women and women are virtually excluded from mainstream banking and credit systems. Similarly, programmes imple-

Opposite: *Divine Chocolate Bar from the Day Choolate Company.* PICTURE: THE DAY CHOCOLATE COMPANY mented by NGOs have reached women in more depressed areas of the country on a limited scale, but have failed to have a significant impact on poverty.

Cocoa: Cocoa is a 'traditional' cash crop and export commodity. First grown in Central America, cocoa products have featured in the European and, later, 'New World' economies for more than 150 years. Like many such conventional commodities, the market has been mediated for most of the post-war era by an international body, the International Cocoa Organization (ICCO), based in London, which operates as a negotiating platform between nation states denominated as producers and consumers. Like most raw materials cocoa is not taxed on entry to G-8 countries unless it is processed into the next ingredient stage, butter, powder or cocoa liquor which are derived from grinding the dried, fermented cocoa beans. In this sense the traditional call to achieve 'value added' at source has not been realized on any scale.[2] Cocoa, a strictly tropical crop, is not grown in the European Union or the US, so there is no direct subsidized competition. However, chocolate and, by default, cocoa are sensitive to sugar and milk trade policy – these latter ingredients far outweigh the cocoa content in a typical chocolate product – and are affected by labelling regulations, i.e. when cocoa butter may be substituted for other subsidized and cheaper fats.

Globally, including in West Africa, plantation and large-scale production of cocoa is widespread. Ghana is somewhat of an exception with cocoa farms typically less than three hectares. These are worked on by the whole family, extended family and some tenant or hired assistance under traditional land tenure systems called *abunu* and *abusa*.[3] There are no large farms or plantations with traditional, salaried farmworkers and no mechanized production or intensive forms of agriculture. Cocoa is also socially important – for both men and women. Many women own cocoa farms and work them in their own right. Often women receive cocoa farms as inheritance gifts from their husband's or father's extended family lands to ensure that they have an income and are protected from destitution, especially in old age. Tenant or share-cropper families, many from the poorer northern regions of Ghana, frequently take up cocoa farming, the *abunu* and *abusa* systems offering some social mobility (including the future opportunity to buy some of the land) or a chance to send remittances to families left behind at home. In common with many cash crops in sub-Saharan Africa, it is cocoa that provides most rural families in Ghana with the means to enter the cash or formal economy, to buy medicine and other basic goods and to pay for school uniforms and fees.

Ghana was the leading world exporter of cocoa from the 1920s until the 1970s. Tax levied on cocoa has contributed significantly to overall government revenues, contributing between 4 and 14.7 per cent of tax revenue between

1995 and 2000. More than 1.5 million people are now involved in production and transportation up to export. Prior to liberalization in 1992–93, the numbers were greater, with a vast army of employees of the state marketing board and related cocoa bodies (quality, agronomy, buying and transportation) almost matching the number of farmers and eroding the growers' income to a low of 29 per cent of the Free on Board (FOB) price in 1983. Perhaps unsurprisingly, volumes fell with poor incentives and disease problems, culminating in a very low production in 1983–84 of 154,000 tonnes.

IMF and World Bank pressure to liberalize internal and external commodity marketing functions in West Africa generally, and in Ghana in particular, aimed to end the role of marketing boards and the significant waste, economic rent-seeking and corruption that they fostered. Pro-liberalizers can point to a rising share of FOB price going to farmers in Ghana and elsewhere as a result. Equally, anti-liberalizers can point to the chaos, losses, quality deterioration and loss of market value across the region caused by the collapse of many ancillary and important services provided to farmers such as equipment and input supply and quality control. In Ghana, liberalization has been more successful than in many neighbouring countries as it has been partial, with quality and export functions retained under the control of the state.

Since the reforms in the cocoa sector from the mid-1980s, and the partial liberalization of internal marketing in 1992–93, volumes of cocoa production and exports have begun to grow again – although Ghana has not reached its earlier overall levels. In an attempt to overcome this problem, the government has committed itself to passing on at least 70 per cent of the FOB price to farmers by the 2004–2005 cocoa year to improve their returns. Cocoa still accounts for 45 per cent of Ghana's exports, but the bloated Ghana Cocoa Board and its subsidiaries and divisions are a thing of the past.

The free market can lead to significant changes in farmers' experiences of marketing cocoa. First, they normally face fluctuating market prices more directly and second, they may suffer greater exploitation at the hands of private traders instead of the state with little or no recourse to protection. To try to avoid these problems, the government of Ghana, both previous and current, has resisted full liberalization of cocoa in the face of considerable pressure from multilateral institutions; although since 2000 regulations for the liberalization of external marketing have been drawn up, they have not yet been implemented. The government maintains full control of exports and offers a guaranteed 'minimum' internal price, called the 'producer price' in local currency. But in the early 1990s the internal organization of production and marketing did change fundamentally in Ghana and it is this that opened up 'space' for new initiatives in the sector.

2 Kuapa Kokoo Cooperative

History

Liberalization of the internal market for cocoa in 1992–93 meant the end of the state-owned buying company's monopoly role as purchaser of cocoa from farmers. This represented both a threat and opportunity to cocoa farmers in Ghana. Many farmers understood this conjuncture; they hated the old system, characterized by significant levels of cheating (fixed scales, underpaying), cheques that bounced, systematic bribery and considerable harassment of those who complained of misdeeds by the government buying clerks called 'Kookoo Krakye', but they also feared the arrival of new private buyers who would not be accountable at all.

Local organization

Older farmers in Ghana had had considerable success in organizing cocoa collection, transportation and sales prior to independence. The British colonial authorities even encouraged this, because it reduced the need for investment in the 'interior'. In newly independent Ghana, the farmers' cooperatives were nationalized. Over the subsequent decades farmers' status, opportunities and remuneration declined: the price they received for their cocoa reached a nadir of 29 per cent of the FOB price in 1983. Control of the sector through the Cocoa Marketing Board of Ghana, later named the Ghana Cocoa Board, was comprehensive: all purchases, all inputs, all quality control, all exports and cocoa research. More than just complaining about falling income, however, many farmers interviewed in 1993 expressed frustration and rued their loss of dignity during this stifling period, feeling themselves reduced to the status of 'tree-minders'.

When the government of Ghana published the new regulations on liberalization in 1992–93, a number of leading farmers, including a visionary farmer representative on the Ghana Cocoa Board, Nana Frimpong Abrebrese, came to realize that they had the opportunity to organize, as farmers, to take on the internal marketing function. This would mean they could set up a company to sell their own cocoa to the Cocoa Marketing Company, the state-owned company that would continue to be the single exporter of Ghana cocoa. No official support was offered to would-be licensees, as it was believed that this would constrain free and fair competition and the emergence of a new private sector in cocoa trading. There were considerable obstacles to overcome to comply and obtain a licence to trade. For example, in order to qualify new licensed buying companies had to:

- operate in at least three cocoa growing regions from the outset;

Women's soap-making enterprise funded through the fair trade bonus. PICTURE: THE DAY CHOCOLATE COMPANY

- provide collateral and financing for operations (i.e. there were no advances from CMC for future deliveries);
- set up fully-equipped operational buying centres – with scales, sacks, tarpaulins and grates on which to store cocoa professionally; and
- pass inspection by the Quality Control Division of Cocobod.

By mid-1993, when the regulations were due to be implemented in the upcoming main season (October 1993–February 1994), farmers attempting to start a new, collectively organized company had been effectively thwarted in their efforts. While they were looked on favourably by some in Cocobod, they lacked capital and credibility. At this point, the Kuapa Kokoo founding Chairman, Nana Frimpong, linked up with two development NGOs, SNV in the Netherlands and Twin Trading in the UK. Each of these organizations was prepared to support the local efforts to get a new, farmer-owned, company off the ground. After a short and intense mobilization – consisting of awareness raising and village-level discussion about the historic change in the trading regime and the idea of starting a new farmer-owned company – there was an upsurge of interest in joining the initiative. Around 2,000 farmers from 22 villages volunteered to organize their facilities to satisfy the authorities and committed to deliver at least 100 tonnes of cocoa beans per village.

At village level these new emerging groups were called Kuapa Kokoo village 'societies'. The company was formed, named Kuapa Kokoo Ltd. ('Good Cocoa Farmers' in Twi, the local language), with a handful of 'founding father' farmers representing three regions, staking the title to their land as collateral and with financial backing in the form of a loan guarantee by Twin Trading. Kuapa Kokoo presented its case in the form of a modest business plan to obtain a licence to trade to the special independent commission established by Cocobod for this task.

'Cooperative means coming together and caring about each other's welfare. All of the profit comes to farmers, we're not just producers. Compared to other buying agencies, Kuapa is unique.'[4]

Growth

The Board issued the licence and Kuapa began to trade. The start-up was painful, with problems including:

- confusion throughout the sector on the ways the new regime should work, with differing interpretations of the new regulations in the regions;
- delayed payments to new licensing companies by Cocobod, causing extreme cash flow crises;
- re-emergence of some 'bad habits' from the previous regime, especially among the recorders (the Kuapa version of 'clerks' or Kookoo Krakye) trusted by the farmers to manage their books at village level;
- the sudden death of the founding chairman and the chief accountant during the first season.

However, farmers rallied around the 'idea', if not the first season's performance, which resulted in a sudden and significant operating loss and debt to Twin Trading (although not to the local banks which were paid off in full). By the second season, the 'light crop', with significant effort and further mobilization, Kuapa Kokoo started to become a standard setter for quality, prompt payment, and 'honest scales'.[5] It even recorded a small operating profit and promptly distributed this as a bonus. In the words of one delegate to the first Kuapa Kokoo farmers' annual general meeting in 1994, 'seeing became believing'. The subsequent growth in sales (see Table 1) demonstrates clearly the rise of Kuapa's presence and market share.

Twin Trading, an alternative trade organization, and the UK charity TWIN (Third World Information Network), Kuapa Kokoo's business and

Box 1: Certified Fair Trade Cocoa – Terms

Fair trade is about development and trading standards that stipulate that buyers must:

- Buy from registered groups which are democratically organized;
- Pay a price to producers that covers the costs of sustainable production and living – namely not less than US$1,600 per tonne;
- Pay a 'premium' that producers can invest in development – namely US$150 per tonne;
- Make partial advance payments when requested by producers;
- Sign contracts that allow for long-term planning and sustainable production practices.

An independent body, Fair Trade Labelling International, monitors and inspects producers and buyers to ensure confidence in the guarantees being offered behind the claim of 'fair trade'.

More information is available at: *http://www.Fair trade.net/pdf/sp/english/cocoa.pdf*

development partners, facilitated Kuapa Kokoo's introduction and acceptance on the Fair Trade Labelling International cocoa producer register in 1993. This enabled importers, chocolate companies and The Body Shop International to source beans from Kuapa under fair trade conditions (see Box 1).

The fair trade terms celebrate Kuapa Kokoo's structure and its dedication to its members and offer a minimum price and social premium. Only a small percentage of Kuapa Kokoo's cocoa beans have been sold each year on fair trade terms because of the low market demand. However, the contact Kuapa Kokoo has with the outside world – with companies and activists of all kinds – has been attributable to its fair trade links. The fair trade social premium fosters a wider programme of support to members and the communities in which they live.

As can be seen in Table 1, while the bulk of Kuapa Kokoo's sales go through the conventional marketing channels of the CMC, a significant proportion is separated and tagged to the fair trade market.

Table 1: Growth – Kuapa Kokoo Performance Indicators since 1993

	Fair Trade Cocoa Sales (mt); % of Total		Number of Village Societies	Total Tonnage of Cocoa	Number of Cocoa Growing Regions
1993–1994	50	3	22	1,540	3
1994–1995	550	21	41	2,629	3
1995–1996	792	17	57	4,620	3
1996–1997	598	8	95	7,811	3
1997–1998	600	5	182	12,500	4
1998–1999	450	2	275	19,000	5
1999–2000	850	3	462	32,350	5
2000–2001	400	1	672	34,000	5
2001–2002	650	2	937	37,000	5
2002–2003	1,300	3	890	38,700	5

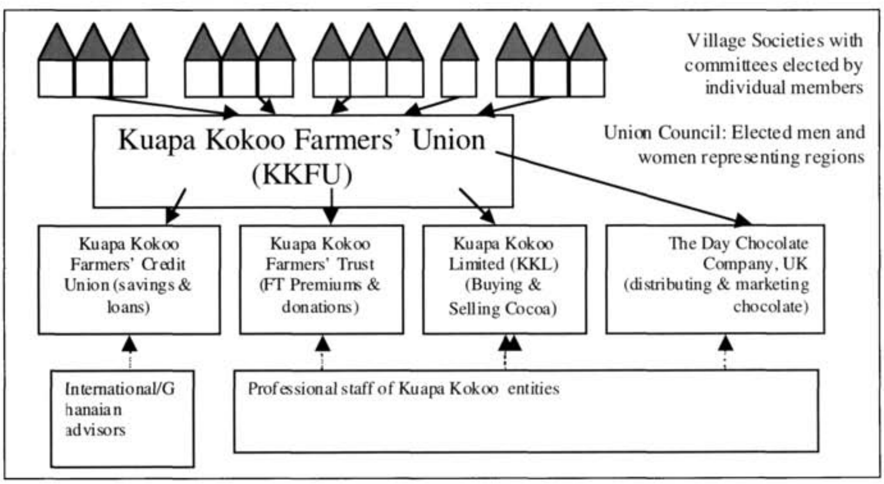
Source: FLO International; the Day Chocolate Company; Kuapa Kokoo

Structure

In late 2003, when several thousand farmers from Kuapa Kokoo came together to celebrate the tenth anniversary of the organization, more than 45,000 farmers in 600 villages could boast of being 'organized' in a democratic union and 'owners' of a successful cocoa trading company, a farmers' trust (or non-profit foundation), a credit union and a chocolate company (the Day Chocolate Company) in the United Kingdom (founded in 1997).

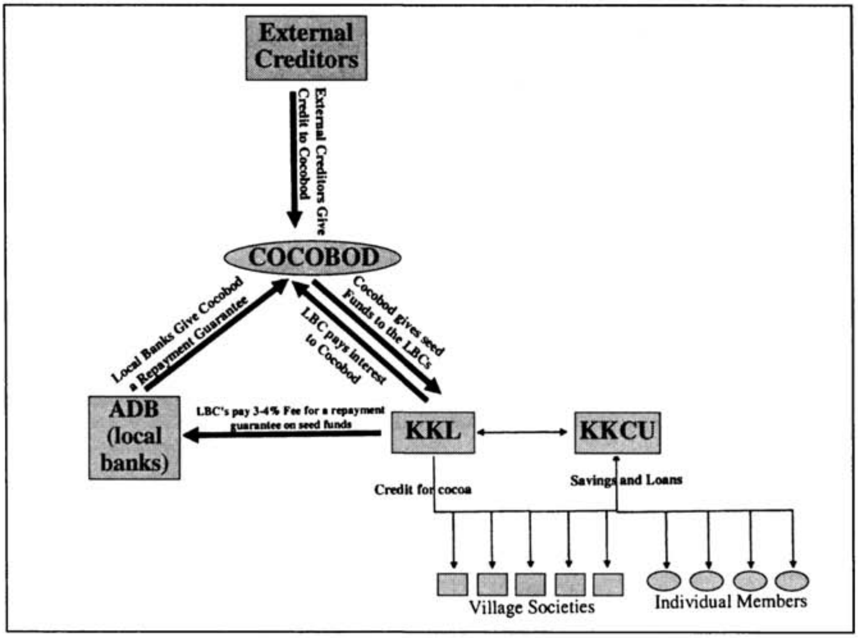
The growth of the cooperative and its complex structure (Figure 1) reflects the special circumstances and needs of farmers in Ghana as much as the

Figure 1: Structure of Kuapa Kokoo Cooperative 'Group'



organizing efforts of the leaders and NGO supporters. For example, the existence of the CMC meant that Kuapa Kokoo was always guaranteed a market for all the good quality cocoa ('good fermented quality') collected from members for a predictable price. Full liberalization would have plunged them immediately into a turbulent and cut-throat international market, dominated by some of the largest multinational corporations in the world. Structured finance, possible only because of the 'single conduit' into the international market via the CMC, made it possible, although not easy, for Kuapa Kokoo to obtain working capital. This was via the financing arrangements through local commercial banks offered to all licensed cocoa buying companies by the Cocoa Marketing Board, called 'seed funds' (Figure 2).

Figure 2: Flows of Credit to Kuapa Kokoo Farmers' Union Members



Source: Commodity Risk Management Group, World Bank

Key: KKFU – Kuapa Kokoo Farmers' Union; KKL – Kuapa Kokoo Limited; KKCU – Kuapa Kokoo Credit Union

The rising numbers of farmers who want to join Kuapa, and their determination, reflects their 'relief' at an honest and accountable buyer in the market after years of degrading and exploitative treatment at the hands of the employees of the Produce Buying Company and the local banks. In addition, over time there have been growing and palpable benefits – cash bonuses paid from profits and fair trade premiums, community projects, for example drinking water wells, scholarships, prizes for societies and individuals for achievement and women's income-generating projects. Kuapa representatives have toured the UK, Germany and the US, and have participated by invitation in many international events, including a symposium sponsored by the International Cocoa Organisation. In turn, there have been many visitors – journalists, writers, students and officials – to Kuapa Kokoo village societies from the US, Europe and other West African countries. The full range of reasons for the growth of Kuapa Kokoo membership is outlined in Box 2.

Box 2: Reasons for the Rapid Growth of Kuapa Kokoo Membership

- Sustained investment in village level education and skills with trainers, called society development officers, financed by the farmers' own company with some development assistance from time to time.
- Strong differentiation in management systems from previous state-owned buying companies, including a code of conduct and a requirement for respectful attitudes by employees towards farmers.
- A role for women at all levels (society, regional and national): this has been guaranteed and defended assiduously and publicly, leading more and more women to come forward.
- Devolution of responsibility: for example, formerly the buying clerks were not from the village and were only accountable to government HQ; now all local recorders (the new name was to signify a new era) are selected by and accountable to the farmers they serve.
- Swift and final punishment for cheats at all levels (including jail).
- Independently monitored elections – giving farmers a chance to eject unpopular leaders and ensuring full participation of women.
- Visible accountability – financial accounts are distributed, read aloud for all to hear and discussed at AGMs each financial year.
- Profit sharing ('dividends' and 'bonuses') in a transparent and consistent manner (from profitable performance and fair trade premiums).
- Foundation of an accountable trust to manage donations and fair trade premiums and to implement projects of wider benefit to members and their communities.
- Participation by elected farmers in all decision-making bodies, including the management of the Day Chocolate Company in London.

Involvement of national government

Each year officials from the government and the Cocoa Marketing Board have attended the annual general meeting of Kuapa Kokoo to pay their respects, explain and answer for government policies and offer congratulations. Kuapa Kokoo has the best overall credit track record to date of all new buying companies, with zero debt to the Cocoa Board or banks.[6] In early 2002, the rise in the farmers' 'visibility' and status culminated in a visit to the farm of Comfort Kwasibea, a woman member of Kuapa Kokoo, by the British Prime Minister, Tony Blair, and the newly elected President Kufour. Because of the contrast between the behaviour and performance of Kuapa Kokoo and other new buying companies entering the market, unsurprisingly, Kuapa has also become attractive to many cocoa farmers. There is a 'queue' of village societies wanting to join. Not all new licensed companies have thrived. In fact, several have ceased trading or have gone bankrupt, with spectacular debts to Cocobod, the government and the banking system. Profit sharing and paying above the government's minimum recommended 'producer price' – which are characteristic of Kuapa Kokoo – are not common elsewhere.

In the past, dedicated parastatal bodies ran all aspects of the cocoa sector. The importance of cocoa to the economy even meant that there was a Minister for Cocoa in the 1970s. In the 1980s and early 1990s, supervision was under the Office of the President. Supervision currently falls under the Ministry of Finance. There was no programmatic support in terms of seminars on business, marketing training, corporate governance or other technical assistance for any of the new companies entering the market from 1993 onwards, and farmers were certainly not envisaged as potential new licensees. The language of the regulations always refers to 'cocoa buying', while it was commonly believed that farmers effectively need only to 'sell' not 'buy' their cocoa. That said, there were a number of figures in key positions within the Cocoa Marketing Board who showed interest when they were canvassed in 1993 on the proposal to set up a farmer-owned buying company. They saw the process as an interesting pilot.

The cocoa marketing structure in Ghana has been defended strongly by the government. Even its vision of full liberalization is different from that of other countries (Table 2), based on lessons learned from neighbouring countries. The current structure (partially liberalized) has sustained international demand for Ghanaian cocoa which, with its high quality and sound export reputation, receives a price premium in the international market over cocoa from other sources. One important dimension of this structure is the role of a single exporter. All cocoa must pass through the Cocoa Marketing Company. This gives the CMC a strong negotiating position with the handful

Table 2: Ghana Cocoa Board Functions Before, During and After Full Liberalization

Function	Before Liberalization	After Partial Liberalization	Ghana: Full Liberalization*	Typical Full Liberalization
Agronomic assistance	Intensive, large number of workers	Limited, pest control emphasis	Limited, pest control emphasis	Rare, usually none
Cocoa research	Prestigious institution, significant research and field trials	Cut backs, reduced staff	Reduced activities, requiring donor support	Requires donor support
Buying	Monopoly parastatal acting as buyer of all cocoa produced	Local private companies emerge; role of parastatal declines	Local private companies	No parastatal, only private sector, usually international companies
Quality control	Comprehensive system	Comprehensive system still in place	System remains in place	None; or regulations and standards seldom enforced; quality problems
Input supply	State-owned companies source and provide all inputs	Private sector enters market; some state intervention in purchase and free distribution of critical inputs	Private sector role	Only private sector import and resell
Financing	Operated through Central Bank and state companies	Government borrowing and on-lending through local commercial banks	Private borrowing; discontinuation of seed fund lending by government	No 'central' source of credit, only local commercial banks
Export	All exports through state company	All exports through state company	Bona fide local buying companies permitted to export 30% directly	Exports by licensed companies permitted

* At proposal stage only, not yet implemented in Ghana

of major multinational corporations which buy cocoa on the open market. The market for cocoa and chocolate outside Ghana is a dominated market, i.e. one with relatively few large players.[7] This makes value adding harder, disadvantages smaller players and makes the market prone to speculative behaviour.[8] After discussion, and despite the importance of this system, the CMC agreed an exceptional 'set aside' mechanism for a small proportion of Kuapa Kokoo's cocoa to be sold in a transparent way (that is, not 'bulked up' with other cocoa in Ghana), for use in fair trade certified products. The rationale was that the Kuapa Kokoo operation is small overall, and the new (fair trade) export markets would not erode the CMC's bargaining power with the large companies. Moreover, the cooperative could provide tangible economic benefits directly to farmers and benefit Ghana's reputation, goals shared by the CMC.

'Fair Trade helps to boost the morale of farmers and helps us financially. We are very proud of the coca that we grow; it is the bridge that brings people together.'[9]

Involvement of international players

Twin Trading, a UK based fair trade organization, concluded by 1990 that small-scale farmers were not being supported appropriately during structural adjustment programmes, but were being left to fend for themselves against new private companies entering the market.[10] It used its own funds to offer working capital and bank guarantees to Kuapa Kokoo and obtained an *ad hoc* grant from the Small Enterprise Department of the UK Department for International Development (DfID) (then called the Ministry of Overseas Development) to enable farmers to take advantage of liberalization. Twin Trading began work in Ghana (cocoa) and Tanzania (coffee) in 1992–93. Comic Relief, a UK development agency, and the Netherlands Max Havelaar Foundation also contributed to the technical assistance work of Twin Trading during the first three years. In Europe, fair trade certification of cocoa and chocolate products was launched in 1993–94 by the Max Havelaar Foundation, following the successful entry of fair trade certified coffee into the Dutch market in 1989. There was demand for Ghana cocoa to make the Fair Trade Certification system attractive to chocolate companies, with West African cocoa needed to be added to Latin American sources to meet the taste profile of European palates. In Europe most chocolate is made with African cocoa which has a different flavour. To introduce fair trade cocoa to mainstream chocolate companies, Ghana cocoa was needed for taste and quality as only Latin American farmers had been registered up to that point.

The Dutch development agency SNV was primed by the Max Havelaar Foundation in The Netherlands to explore cocoa from Ghana for fair trade markets. In 1993 SNV had only just set up offices in Ghana and it joined with Twin Trading in supporting the foundation of Kuapa Kokoo with finance for personnel and local staff and training for farmers during the first three to four years. Later, other donors and public and private sector organizations (see Box 3) worked with and through the emerging Kuapa Kokoo structures to enable a variety of other projects to proceed. These include better conservation of the environment, organic production and pest management pilots, women's diversification and income-generating projects, new schools, scholarships and training courses, a healthcare service, credit union and savings/loan systems and preparation for full liberalization and export capacity building.

Box 3: Partners and Donors to Kuapa Kokoo

The Body Shop International	USAID (via STCP)
Conservation International	DfID (formerly ODM)
Women's Vision	FLO International
International Cocoa Organisation	SNV
Cadbury	Comic Relief
The Max Havelaar Foundation	Twin Trading

3 The Cocoa Commodity Chain

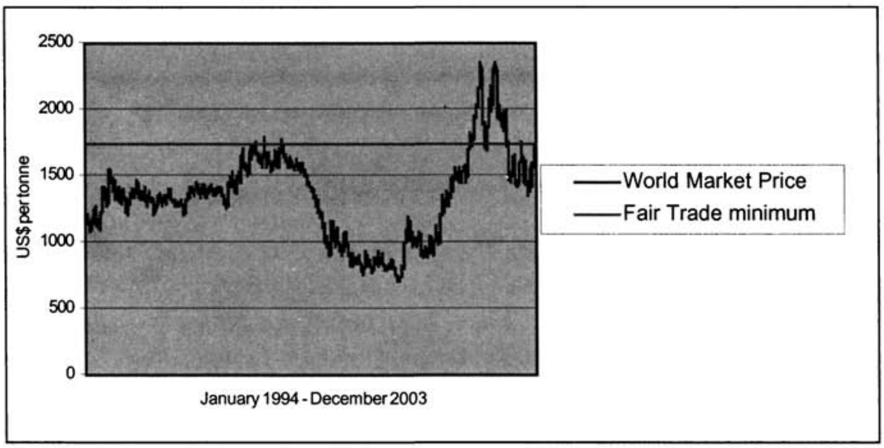
Who does and gets what?

Cocoa beans are an international exchange traded commodity produced in tropical countries. The main producing countries are Côte d'Ivoire, Ghana, Nigeria, Indonesia, Malaysia, Cameroon and, until recently, Brazil. Africa produces about half of all world cocoa consumed, followed by Latin America and then Asia. Processing, called 'grinding', is almost all done in OECD countries except for countries where there is domestic consumption or manufacturing such as Brazil and Peru. Chocolate is the main end product – although the cosmetics industry also uses some cocoa butter. Chocolate is a mature market; it is large, with diverse uses, and well-established, with many familiar and strong branded names. With globalization and internationalization of branding strategies, many of these chocolate products, such as Mars Bars or Kit Kats, are well on the way to becoming universally sold.

The international cocoa market is now unregulated and subject to price fluctuations based on the usual factors: stocks, projected harvests, disease afflicting cocoa production, and demand and supply problems (for example civil unrest).[11] The volatility of the prices gained for Ghana's key export commodities (gold and cocoa) affects absolutely the income of the growers and the country as a whole.[12] In Ghana, cocoa farmers have seen the share of the FOB price they receive rise since liberalization (Figure 3) but the rises over the last decade have frequently been offset by devaluation internally and significant fluctuations in world market prices internationally. Prices fell to historic lows, for example, in 2002.

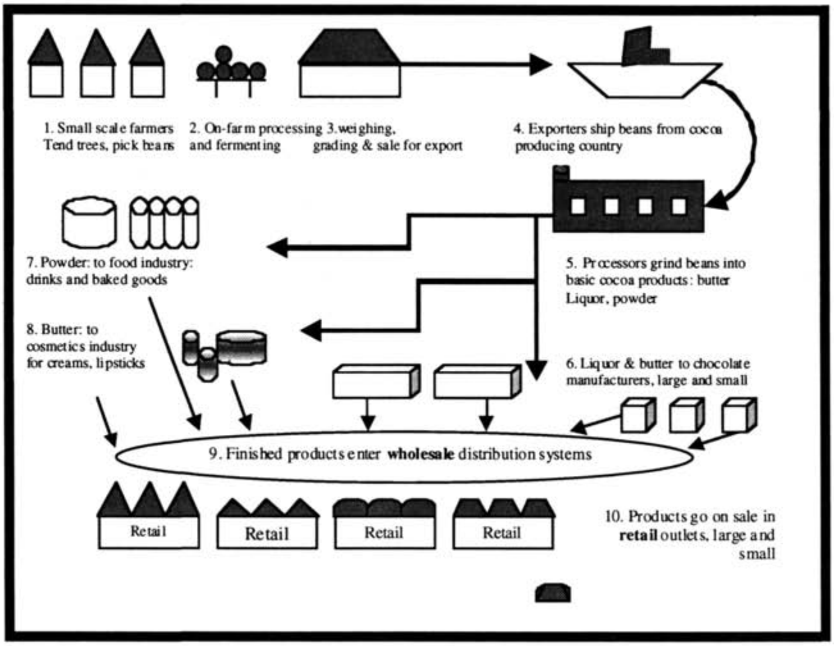
At the same time, the share of overall value going to raw materials producers like Ghanaian cocoa farmers has contracted compared with that going to 'brand owners'. Value adding, the concept where investment in processing and supplier performance is assumed to bring greater financial rewards in the marketing chain of traditional crops like coffee and cocoa, is less certain to deliver rewards now than, ultimately, ownership and promotion of a recognized and valued end product, a brand.[13] The processing of 'beans-to-bar' is a highly competitive business, with a few very large-scale operations operating on wafer thin margins occupying a commanding position in the market.

Figure 3: Cocoa Price Fluctuations, 1994–2003



The processing of beans to ingredients and then ingredients to a vast range of processed food products makes the marketing chain long and complex (Figure 4). Chocolate is made from two of the three by-products produced from a processed cocoa bean, namely cocoa butter and cocoa liquor. The third by-product, cocoa powder, is used for industrial flavourings, drinks and baking. In a finished product containing cocoa the value of the beans in the final price is generally negligible.

Figure 4: From Bean to Bar – The Cocoa Marketing Chain



Chocolate manufacture in Europe often had humanitarian beginnings, being the preserve of Quaker-owned companies such as Fry's and Rowntrees. Product development has typically followed technology, for example the ability to mix milk with cocoa (Nestlé) or the first chocolate 'bar' (Fry's). Many products invented in the early 1930s are still with us; Mars Bars and Kit Kats have become household names, part of the landscape of consumption. While on an average shop shelf a customer may find as many as 600 bars to choose from, behind the colourful and prolific offering there is a simple story of market concentration. Over the last decade, smaller companies have been purchased one by one and absorbed by the major chocolate multinationals – Nestlé, Mars, Cadbury, Hershey and Philip Morris/Kraft. As a result, in key markets such as the US (worth $13 billion) and the UK (worth £4 billion), just three companies have more than 75 per cent market share. Beyond the brand owners are, similarly, a handful of major agribusinesses. Perhaps as many as 60 per cent of trading houses have been forced out of the market in the last decade, leaving giants such as Callebaut, Cargill, ADM and E.D. & F. Man to buy and process the raw materials for the manufacturers. Small and medium-sized 'grinders' and chocolate manufacturers have almost disappeared, except at the niche and gourmet end of the market.

Fair trade

In the non-multinational owned chocolate sector – sometimes called the independent chocolate sector – a few smaller, niche or specialist brands survive on their credentials and unique qualities. Fair trade and organic certification of commodities like coffee, tea and cocoa have given some of the independents new life. Trading directly with farmers can be labour intensive and may require active developmental assistance or, at least, relationship building. This has not traditionally been the preserve of – or even of interest to – the larger multinationals. In fact, unlike coffees, teas, wines and other major commodities sold to end consumers in packaged and processed form, cocoa-based products are rarely identified by their origin – their country, region, estate or farm. So the specialist companies, which are building a 'new' market where producers are identified and origins transparently identified, frequently become targets for take-over once they are successful. An example of this is the pioneering UK organic chocolate company Green and Blacks, which now counts global giant Cadbury among its investors and owners.

These trends informed the thinking behind the new Kuapa Kokoo chocolate company in the UK, formed in 1997. Characteristics of the company include:

- **A fair cocoa bean price:** The company, the Day Chocolate Company,[14] respects the needs of farmers for a remunerative cocoa bean price and uses cocoa purchased from Kuapa Kokoo under terms established by the international fair trade certification movement for cocoa trading (see Box 1).

- **Profit-sharing and equity:** The company recognizes in its structure a number of the market phenomena described above, including the 'devaluation' of the raw material and 'invisibility' of cocoa farmers. Kuapa Kokoo in Ghana owns equity in the UK company (one-third), holds two seats on the Board of Directors and its representatives are active in all decision making. As owners and shareholders, Kuapa Kokoo farmers share in the profits from all chocolate sold.

- **Social investment:** A small levy on each of the products – Divine and Dubble bars – sold by Day is returned to Kuapa Kokoo for it to continue its work of awareness raising, support for projects and training in the villages.

- **Visibility:** Central to the public marketing of Divine and Dubble chocolate products is the cultural identity of the cocoa farmers in Kuapa Kokoo villages. Via their chocolate company they actively join in promotions and materials, links and educational resources; the public relations work of the company is focused on representing and communicating positively farmers' interests, way of life and aspirations.

'We want them [Divine Customers] *to know that we work hard to produce cocoa beans and that they are produced under good conditions, with great care and pride!'*[15]

Since 1999, other consumer messages and approaches to cocoa marketing have also been developed. Two in particular stand out. They do not incorporate the fair trade emphasis on democratic farmer organization, relationships and a fair price, but they are designed to address two other serious systemic problems in cocoa production: environmental damage to primary and virgin forest, and child slavery.

Environment

In West Africa, the Sustainable Tree Crops Programme has been launched – an initiative of the Federation of Cocoa Commerce and a number of international development agencies such as USAID. The programme covers cocoa, cashew and coffee, and has active pilots in several countries. These include supporting research, technology transfer, capacity building, including Kuapa Kokoo, learning about integrated pest management methods, developing sustainable tree crop systems and improving productivity while conserving biodiversity.

Child Labour

In 2000, allegations were broadcast of widespread slave labour, including child trafficking, in the cocoa sector in Côte d'Ivoire. Journalists and human rights campaigners have followed this up with research and are publicizing the hardship, including slave-labour conditions, of workers on cocoa plantations in Côte d'Ivoire and putting pressure on the large companies to address the problems promptly. A report which has been part sponsored by the chocolate industry indicates that 200,000 children were involved in 'hazardous' work on cocoa farms in 2002. A US Congressional committee has committed US chocolate market leaders to work through a six-point action plan, called the Global Protocol, to eradicate all slave labour from the cocoa chain by 2005. In the light of this, and fearing adverse publicity, many large companies have started to review their buying systems to assess whether they can guarantee to a concerned public that there is no such malpractice behind their products. Since most buy in bulk, through local agents or middlemen, without documented connections to smallholders, this is proving difficult. Informally, industry representatives point to the fact that formalizing and making accountable commercial relations with millions of individuals will depress further the prices received by cocoa farmers because of the high transaction costs which will have to be covered.[16]

How is local linked to global?

Cocoa is an imported cash crop that is not indigenous to the African region, which has become the primary supplier. Planting was often imposed on farmers in francophone colonies. There are no real local uses for cocoa and Ghanaian farmers do not consume it. There is a small urban market for by-products like cocoa powder drink and some rural use of cocoa soap made from the husks of the pods, but the ultimate use – in chocolate, cosmetics and food – takes place in distant markets and beyond the knowledge and daily experience of the estimated 11 million farmers in the region.

Prices for cocoa are set in international commodity markets and there is little information and experience about this at the village level. In this respect, the role of the Cocoa Board in Ghana has been a double-edged weapon: it has shielded farmers from the unpredictability of the marketplace by offering guaranteed prices, but has deprived them of insights and contact. The value of the end markets has, as noted above, attracted the largest and most sophisticated multinationals in the world. The millions of farmers and their families are lined up on the other side of the bargaining table to these giants.

As a product with no meaningful local market, cocoa and the farmers who grow it must be linked to the international marketplace to turn their crop into a commodity and income provider. There is pressure on the government of Ghana to take the final step in liberalizing the cocoa sector and allow free export of cocoa; but the date is not set. Some of the modalities have been developed. For example, *bona fide* local licensed buying companies with good operational track records, like Kuapa Kokoo, would be permitted to export up to one-third of their cocoa directly into the market. However, even if plans for full liberalization are implemented, many doubt whether Kuapa and other local companies could reap big rewards. At present, an efficient, though state-owned, company, the CMC, tenders and negotiates sales of all Ghana's cocoa with the multinationals. All buyers must pre-qualify by joining the Ghana Cocoa Buyers' Association of London and bid competitively for Ghana's premium quality production against each other. In other countries, availability of capital and willingness to invest in local trading infrastructure would be the main determinant of acquisition of cocoa. Local companies, if they are able to get finance for operations at all, pay significantly higher interest rates than the subsidiaries of multinationals. This disadvantages local players and has left most liberalized commodity markets in sub-Saharan Africa in the hands of a few international companies. This is the trend even when, post-liberalization, large numbers of companies initially enter the market and start up in business.[17]

'Everything at the AGM [2003] *was very well organized and I am very much overwhelmed by Kuapa Kokoo's accountability to farmers. We will report to the farmers what happened and how transparent it is. None of the other buying agencies are like this. The bonus is also very welcome by farmers.'* [18]

In this initiative, farmers in Ghana have gained access to the global market through a joint venture company, buying shares and earning their place in the market in a dignified and sustainable manner. Kuapa's fair trade cocoa passes through, but is tagged and separated from, the system handling the vast tonnages of national production. So the access-to-market was not achieved at the expense of this vital 'bargaining mechanism' for the rest of Ghana's cocoa. Further, the linkage both respects the important role of the CMC in mediating between the millions of farmers and their families and the major buyers, and ensures an accountable counterpart for farmers – too often cheated by the canny, literate representatives of large companies and middlemen in free markets. The CMC remains a promptly paying buyer for all the farmers' quality cocoa that is not sold to fair trade partners. This type of controlled access does not exist in other cocoa producing countries. Most Kuapa Kokoo cocoa beans enter the conventional international market through the CMC and are sold as generic 'Ghana cocoa'. Clearly it would be advantageous to Kuapa Kokoo members to sell more under fair trade terms, but the market, although growing, is still small. The purpose and role of Kuapa Kokoo's chocolate subsidiary (the Day Chocolate Company) is to galvanize customers and gain market share for a range of fine fair trade chocolate products.

'The scales are very honest. We are paid accurately. The amount due will be paid without question.'[19]

Kuapa Kokoo's contribution to poverty alleviation

There has been a gradual regular decline in cocoa prices since the 1970s. In the last decade this fall has accelerated but there have also been some price 'spikes' (1997 and 2003) – i.e. short cycles of high prices. Shortages of cocoa affect prices considerably as, unlike some other commodities, the cocoa industry requires relatively long lead times for processing and production of finished goods.[20] The volatility and decline of prices have provided the backdrop for the rise of alternative trading initiatives like Kuapa Kokoo and the Day Chocolate Company and, more generally, of fair trade product certification.[21] The rise is being underpinned by a growth in the Western World of more 'conscious consumption' and the growing 'visibility' and awareness of cause-and-effect relationships between poverty, economic stability, terrorism, economic migration and civil unrest in commodity-dependent countries and local communities.

In Ghana, where as much as 10 per cent of the population is dependent on cocoa income in some form, the impact of radical business-oriented projects like Divine chocolate from Kuapa Kokoo beans has been both economic and psychological.

As recent thinking on development assistance and poverty reduction has shown, many intangibles are also critical to the processes by which people can improve their conditions. Morale, self-help, confidence and the growth of civil society organizations are part of the process of essential change. In this sense Kuapa Kokoo is making an impact, giving men and women farmers a mediating mechanism for their voice to be heard nationally and internationally. Kuapa Kokoo has embraced both large and small farmers – the small far outnumbering the large (70 per cent). Women farmers make up almost one-third of its membership of more than 40,000 cocoa growers.

The recent impact evaluation work of independent researchers such as Ronchi (2002) quantifies many of the facts and figures of the outcomes of Kuapa Kokoo – especially the premiums earned and the extra income generated from an effective organization in the form of profit and fair trade bonuses. Within the fair trade purchasing terms for cocoa beans there is a social premium of US$150 per tonne. This, plus the difference between the prevailing market price and the fair trade 'floor' or minimum price, contributed US$1 million additional income to Kuapa Kokoo farmers in the period 1993–2001. This additional income has been put to use in ways that effectively contribute to reaching the same poverty targets as are aimed at by the Millennium Development Goals: drinking water, education, women's income generation and healthcare (Table 3).

Table 3: Kuapa Kokoo Farmers' Trust Investments in Community Development

Potable Water Hand-dug Wells	Corn Mills	Schools	Public Places of Convenience	Small Bridges
174	27	4	2	1

Adapted from Kuapa Kokoo Annual Report, 2003

Kuapa has invested in improving the livelihoods of individual members and their communities across all the five cocoa growing areas where it operates. For example 100,000 people, both members and non-members, have received free medical attention under Kuapa Kokoo's healthcare programme.

Cocoa farmers are rated among the poorest people in Ghanaian society, often living in villages with minimal social services. Kuapa, through the

Kuapa Kokoo Farmers' Trust, has made a significant impact on the improvement of village infrastructure and social services. Significantly, through the provision of hand-dug wells in some communities, Kuapa has improved access to potable water which not only contributes to health improvement but also reduces the physical burden on women and children. Schools projects have targeted the various levels: nurseries that relieve women so that they can attend to their economic activities and provide a safe environment for children when their parents are away, and an improved learning environment at primary level enabling more children to have access to quality basic education. Opportunities have been created for thousands of people in communities where Kuapa operates.

Interestingly, farmers' own perceptions of a positive impact include the ability to diversify so as to reduce their dependence on cocoa income by starting some other economic activity and their 'ability to donate and help others', indicating raised self-esteem and sense of a proactive role in their society. This is indeed a far step from the 'tree-minders' of the monopoly marketing board era. Kuapa is now incubating a 'sister' organization, Sompa, to extend the reach of the Kuapa approach and benefits to more farmers in Ghana.

In a 'local is global' setting, Kuapa's farmers have also learned to defend their reputation and to represent themselves, their industry and their country in many forums. The goal of women's participation at village level is for there to be at least two female representatives on every committee. To date, approximately 60 per cent of all societies have met this goal, demonstrating both progress and the hurdles to women's participation in the cocoa business. Nevertheless, women hold all positions – members of boards of directors, society presidents, society recorders and employees of trading companies – and they travel at least as frequently as men when overseas representation is required (Box 4).

4 The Future

Replicability of Kuapa Kokoo within Ghana

The Kuapa Kokoo story can provide a model and inspiration to organize based on efficiency and business ethics, particularly where there has been perceived mismanagement in the past. Further, it represents a genuine attempt to ensure that women play important roles, and to promote and insist on these until they become closer to being a 'norm'. It shows that farmers can raise and manage finance, negotiate better market terms and gain direct recognition and reward for quality production. In a period when state-owned service companies have all but disappeared, the responsibility for purchasing and distributing inputs, or equipment such as reliable scales, can be

Box 4: UK and US Tours, 2002 and 2003

Comfort Kwasibea, aged 43, hails from Akropong in the Eastern Region of Ghana and is married with two children. She farms at Nankese where she has a large acreage of cocoa farm. She is an active member of Kuapa Kokoo Farmers' Union and a Director of Kuapa Kokoo Limited. The President of Ghana and Tony Blair visited her farm in March 2002. She came to the UK in March 2003 for Fair Trade Fortnight, travelling around the north of England and Scotland. She said that she was the first woman recorder in Kuapa and that she has helped other women in her area to also become recorders by working with them and showing them that they can do it. She recently spent more than a week with a newly elected female recorder to give her confidence. She also runs an active women's society which has initiated activities such as palm oil production and baking bread.

Comfort Kumeah and Mary Antwi Nyamekye did the tour in 2002. They tasted chocolate cake at a Women's Institute stall in Bristol; it was the first chocolate cake they had tasted and they thought it was great – they were keen to take some back to Ghana. Comfort, who is a teacher with five children and in her early 50s, said that fair trade was a lifeline for her family. 'We would like more cocoa to be sold fair trade because it means we get a better price for the producers. Before Kuapa Kokoo we farmers were cheated. People adjusted the scales. We got little money from the purchasing clerks and no bonuses. The farmer's welfare was neglected.'

Mary, aged 53, a widow with seven children, stated: 'Life before the farmer co-operative was set up was extremely difficult – even buying bread was a problem. There were lots of worries on my shoulders. Now, people look at me and they can't believe that I have money. I can now afford for my children to come home and I can feed them. Before I joined Kuapa I never had a voice. Now I am treasurer of my society and I can speak.' She is also on the board of KKFT.

Source: The Day Chocolate Company

devolved to farmers as long as there is an institution to mediate, define and implement these activities.

As rural finance mechanisms have increasingly dwindled or become heavily indebted and discredited, Kuapa Kokoo has reinvigorated and sustained financial flows through credit to farmers. It keeps records and has developed savings and creditworthiness for more than 40,000 farmers, as well as providing timely support to economic activities and for social needs. Kuapa Kokoo's self-financing (i.e. commercially viable) operations show that in the absence of heavily staffed and costly parastatals, the high unit cost of the outreach needed to reach many thousands of smallholders producing commodities can be covered.[22]

Further, as seen above, Kuapa Kokoo is setting up a sister organization, called Sompa, to extend the reach of the Kuapa approach in Ghana.

Relevance to other sectors in Ghana

The experience of Kuapa Kokoo has relevance for a number of other key cash crops in Ghana: shea nuts, cotton, rice, coffee, fresh fruit (bananas and pineapples), which are export crops, and palm oil for local and regional markets. Fair trade initiatives have already started with banana plantation workers in the Volta Region, one of the poorest and least developed areas of central Ghana, and there is also a direct link-up between the Swiss Migros supermarket chain and oil palm producers which is still at a pilot stage.

Given the stark poverty profile of northern Ghana, comparable initiatives in the shea butter and cotton sectors could have considerable impact. Leading the way, The Body Shop International has set up a linkage within its community trade programme with women producing shea nut butter since 1993. Replication of support for producer organizations and international linkages for this valuable crop could benefit producers with few alternatives in a semi-arid region who currently sell their crop into a market dominated by large multinational trading houses.

Financing crises in rural and commodities sectors have worsened since liberalization and there is a lack of effective and 'reliable' counterparts: traders, cooperatives, processors and input providers. Recent commodity price falls have often manifested themselves in producing countries as financial crises, with producers unable to repay credit and governments having to refinance debt through the banking system for the sector to survive at all. Cotton in Ghana is a case in point with accumulated debt levels of producers, input suppliers and banks significantly higher than revenues. In this case, US and EU subsidies to cotton production mean that depressed prices are likely to prevail for some time. A grouping of West African producing countries are currently pressing a claim for compensation through the World Trade Organization (WTO) for this vital income that is being lost to US and other subsidized farmers.

Robust market-linked farmers' organizations can gain momentum, become responsive to market signals and generate a strong motive to succeed because of improved returns and credibility. This, in turn, can translate into better credit track records in quality production and loan repayment.

Replicability in other countries

There are at least two dimensions to outreach and replication of this initiative in other countries, in the North and the South. In the North, the UK is Ghana's main export partner, followed by the US. Kuapa Kokoo's chocolate bar, Divine, has followed these traditional routes into the UK and US markets, which are chocolate markets of considerable scale. New linkages for Ghana in a range of different product categories (similar to those produced by the Day Chocolate Company) may be feasible with US companies, in particular, because of:

- the growing trade and export volume between the US and Ghana;
- the periodic initiatives being launched by the US to promote growth and opportunity in sub-Saharan Africa, giving 'windows' of opportunity and access to Ghanaian companies, for example the African Growth and Opportunity Act (AGOA);
- a growing awareness among US consumers of the connection between trade and national security, and a considerable interest in environmental protection and conservation.

Smaller individual markets in Europe may also be ripe for new initiatives, given the higher overall visibility of 'ethical' or 'conscious consumerism' there. There is a widespread realization by large and small private companies sourcing goods from overseas that good supply chain management requires investment and long-term vision about the local impact of their purchases. This trend stands to benefit new initiatives if partnerships between the private sector, development assistance organizations in Ghana and farmers can be forged with market-makers in OECD markets generally.

In the South, there is a potential for South–South exchanges and learning. Initial efforts have been made by Kuapa Kokoo to connect with other producing organizations in the region; South–South linkages could be fostered to the considerable benefit of neighbouring countries. For instance, the Cameroon has suffered significant problems in the coffee and cocoa sectors since liberalization, with many organizations weakened or simply collapsing. There has also been a rise in ruthlessness and exploitative practices by the middlemen and traders. Countries such as Sierra Leone, for which cocoa has been important in the past, could also benefit from learning about start-ups. Significant exploitation has taken place during the deterioration of the sector and its marketing systems. Such efforts will not be easy, given language barriers and other cultural and historic differences – cooperatives, for example, have had a troubled past in many francophone countries, frequently being co-opted by governments.

5 Lessons Learned

The lessons learned from this initiative are far reaching and diverse, covering trade and policy, brand equity and reputation, and farmers as 'businessmen and business women'.

Overview

Liberalization

Official opinions on marketing boards during the the period of liberalization in West Africa do not acknowledge the potential value of a 'gradual' liberalization, instead of outright full abolition of marketing boards, especially for local companies. The partial liberalization in Ghana gave Kuapa Kokoo a chance to develop internally without having to pit itself immediately against larger, better-financed and well-connected global players in its early years. Retention of the Quality Control Division under Cocobod in the public service has sustained attention to quality production and Ghana's negotiating edge in the market. Moreover, a single export company operating a tender system among the large multinationals offers an opportunity to negotiate strongly for terms and for syndicated finance.

Producer prices

Even as the share of the FOB value of cocoa rises, it is worth noting that a free market system does not guarantee that this extra share will be passed back to farmers. No new licensed buyers other than Kuapa Kokoo have offered significant incentives to farmers. It is inimical to private traders to share profit with growers. Thus this indicator, while often used to show the beneficial impacts of adjustment, is somewhat deceptive. Similarly, 70 per cent of a depressed, low market price, such as the price in 2002, may from a producers' perspective represent less than the costs of production, and the benefits of a new trade regime may not be directly felt, only the volatility of the market. The government of Ghana, through the Cocoa Marketing Board, still attempts to absorb some of the negative effects at the interface between the farmer and free market though setting a minimum producer price. This enables farmers to know at what level to invest in their farms (time, inputs) in advance each year. This is a significant difference from fully freed-up markets.

Commodity finance

The poor practices and corrupt histories of cooperatives mean that many key players in the sector – banks, government and farmers – view them with suspicion. Kuapa Kokoo started as a farmer-owned (shareholding) company and not as a cooperative. There has been a failure of imagination, however, about helping farmers to find other ways to aggregate purchases (inputs) and outputs (crops to market) since the generalized collapse of cooperatives in the region. The challenge is made all the greater by a continuing difficulty in pressing claims and obtaining clear and legal title for goods, land and inheritance in Ghana. This prevents people coming forward to offer collateral – as did a number of farmers at the outset of the initiative – and effectively excludes them from the formal economy.

A woman cocoa farmer. PICTURE: BRIAN MOODY

Trade policy

In the trade policy area, sugar tariffs and labelling legislation have a direct bearing on the end market for cocoa – chocolate. Being able to label as chocolate a bar made with cheaper cocoa butter substitutes has become a contentious issue within the European Union, and low-priced, subsidized European beet sugar and oils have become important factors for large firms in controlling product pricing. This implies that non-European based manufacturers will not be able to compete and, in another form, African growers of tropical crops are being displaced by subsidized Western – and soon Eastern – European farmers producing 'alternatives', i.e. beet sugar.

Credible farmers' organizations

Over time, Kuapa Kokoo has gained momentum through developing – at every stage and in each marketplace – its track record, including repayment of loans and delivery of consistent high quality products (beans and bars). Reputation and brand equity provide significant ballast for initiatives at firm level, adding value and creating support and loyalty from users and service providers. Thus, successful farmer-oriented business promotion can produce impacts beyond agricultural production. There are few resources for, and many hurdles in the way of, investment in farmer-owned businesses. Often farmers are not seen as potential 'players' at all; they are considered to be ignorant of the market and illiterate. While this is often true – they have little if any access to market information and erratic schooling beyond primary level – it is surprising that so few inroads into enabling farmers to emerge as businessmen and women have been made. Financing rural economies – and many thousands of small-scale farmers – is becoming a major development challenge, one that is not met by the micro-finance revolution which, in West Africa at least, is predominantly an urban phenomenon. In this sense the initiative could serve as an example of how to support farmers to become proactive players in the marketplace.

Lessons for local organizations

The project has shown the importance of democratic organization and structures to ensure participation. Making women's place in the organization a *sine qua non* has required sustained effort and encouragement. Given the 'bad' experiences of many farmers working in cooperatives or in organizations run by professionals and literate urban staff, a good governance system with a role for independents and the presence of external local and expatriate resource persons was of key importance. The cocoa marketing system in Ghana kept farmers insulated from the external market. Kuapa Kokoo has enabled farmers and their representatives to open up to the international marketplace and deal effectively with international institutions. The farmers in Kuapa Kokoo have learned to represent themselves in a variety of fora – the International Cocoa Organisation, the Ghana government, aid agencies and the press – and to collaborate with researchers. Farmers need reliable and trustworthy professionals to help them run a complex business. To do this they need to be able to attract and retain high calibre professionals with integrity. Undoubtedly, the presence of international NGOs at the start-up phase meant that good candidates were interested. However, Kuapa Kokoo has trained its own staff, relies on them to comply with the code of conduct (including respect for farmers) and offers rewards. (The staff also have a shareholding and profit goes into a staff fund as well as farmers' pockets.) Finally, farmers' leaders have had to learn how to evaluate projects, and how to gain a mandate for and invest in new market opportunities. This has included expansion into regional operational centres and purchase of infrastructure, as the cooperative has grown, and also, given the nature of cocoa as a commodity, working overseas, it has involved developing their own company, the Day Chocolate Company and building a loyal consumer base.

Lessons for national governments

The government of Ghana entered the liberalization process without seeing farmers as needing help in the transition. The conventional wisdom implied that a new private sector would emerge – and indeed a dozen companies have tried to set up buying operations since 1993 although only a few have attained sustained growth. Farmers were not 'visible' as businessmen and women. A lack of any mediating institutions for rural sector business development in cocoa meant that farmers were on their own. They seized the opportunity that partial liberalization represented, but without official support. New institutions are needed which are cost effective and businesslike, but able to deal with many thousands of atomized individual farmers. This is a very significant challenge for which there are few corporate models. Co-operatives are one of the few, but much discredited, institutional models available. Traditional outreach to farmers has been through agricultural extension workers, but these employees do not work with reference to the market or market trends (for example interest in organic or low pesticide input production) and seldom have the objective or capacity to help build solid commercial grassroots producer organizations despite their access to farmers *in situ*. Reforms in the banking sector are needed to support the private sector, especially perceived high-risk groups such as farmers' organizations.

In the UK, the initial support of DfID was *ad hoc* and based on a desire to find out, through the project's work, if and how the outcomes of abolishing state marketing boards could be beneficial for small farmers. Later, in requesting a loan guarantee from DfID to support banking facilities in the UK for the new joint venture enterprise (the Day Chocolate Company), significant internal learning took place: the project called for a number of departments to come together (private sector, agriculture, country, ethical trade and environment) for support to be obtained. This was an unprecedented 'co-operation' of departments in a 'joined up' and holistic project, with sign-off also coming from Ghana's Ministry of Finance. However, although there is now interest elsewhere in the model (for example in US ethical and social investment circles), it is not being replicated by DfID and was therefore a one-off effort.

Lessons for international agencies

While there are an increasing number of NGOs entering the marketing and business development assistance track, dangers are involved. Frequently, production and local organization are supported without reference to the international market at all. The result is a lack of markets or false assumptions about market outlets. Many NGOs do not see the marketing chain as a whole. Thus, they underestimate the need to pressure multinational companies for 'space' and market share to ensure that positive negotiations are feasible. And NGOs can come under criticism (including, sometimes, from multinationals) for supporting 'commerce' with public funds. Sometimes developmental indicators are pushed for at the expense of commercial success and farmers' interest wanes.

NGOs do not always appreciate long-term commercial viability of their development interventions as a process for poverty reduction. Individual relief-type benefits tend to be the goal together with short-term impact. Bad experiences with cooperatives have scared many NGOs away from such ventures. Further pitfalls for NGOs include the 'funding cycle' – where support becomes untenable beyond the precise period of a project or where professional expertise is not available to provide what farmers really need. Traders, for example, do not often work for 'non-profit' salaries. The Kuapa Kokoo development process involved a sustained but flexible technical assistance effort for a number of years. What many NGOs and campaign groups have realized is the importance of ensuring that farmers' voices are heard in international fora: at the invitation of an NGO, Kuapa Kokoo representatives have been at Cancún, the ICCO and many international meetings. Cocoa farmers in Ghana have now accessed a global network and have a gained a platform for their product and their voices.

Notes

1 PAMSCAD – Programme of Action to Mitigate the Social Cost of Adjustment; ENOWID – Enhanced Opportunities for Women in Development.
2 Processing of cocoa is more widespread in countries that have become net importers due to a decline in production and rise in domestic consumption, for example Brazil and Peru. Most Ghanaians have never tasted chocolate.
3 Under these arrangements, the income to the worker from the – often absentee or aged – owner may be half (*abunu*) or one-third (*abusa*) of the revenue gained from the farm.
4 Anthony Bempong, President of the Ohaho Society, Kuapa Kokoo Ltd.
5 To this day, ensuring that the scale weighs cocoa accurately is a primary goal of Kuapa and the societies; many officers carry 'weight stones' in their trucks and vehicles and members are encouraged to 'know your own weight' and step on the scales themselves.
6 As well as repayment of loans and 'seed funds', the criteria for judging the performance of licensed buying companies used by the CMB include delivery of all cocoa purchased, consistent and high grade quality, fast turnaround of capital employed and payment of the producer price in full to farmers.
7 Just four companies – Mars, Nestlé, Cadbury and Hershey – account for most chocolate sold globally.
8 One company, Amanjaro, recently cornered the market, sending prices artificially high for a short period.
9 Helena Bempong, Ohaho Society, Kuapa Kokoo Ltd.
10 Twin Trading had worked since 1986 with farmers in Latin America (Mexico and Peru) where liberalization was also taking place; the organization specifically studied and published work on sub-Saharan export-led development prospects (*Short Changed – Africa and World Trade*, Pluto Press, 1990).
11 An international 'quota' and stock management system was in place in the 1970s and 1980s and was mediated between producing and consuming countries under the auspices of the ICCO.
12 In 1992, for example, 220,000 tonnes generated US$272 million. One year later, earnings were 10 per cent less, despite export volumes being greater (253,000 tonnes).
13 Of course, a brand is an abstract concept and accountants have struggled to value appropriately established brands; on balance sheets these become the 'intangibles', evidenced in valuations of, or the prices paid for, companies on sale. Hershey was recently valued at US$10 billion before being withdrawn from sale under pressure from workers and stakeholders
14 The Day Chocolate Company was named after one of Kuapa Kokoo's early UK advisers, Richard Day, who died suddenly in 1996. Day trades products under two brand names of its own, 'Divine' and 'Dubble', and also makes products for other companies which are prepared to respect the work of the organization, including the UK's Co-op with 2,400 shops and Starbucks, UK.

15 Helena Bempong, Ohaho Society, Kuapa Kokoo Ltd.
16 Some reports on child labour in Côte d'Ivoire have revealed that there may have been some confusion on this matter and have suggested that most of the children in the cocoa fields were the children of plantation owners or knew the intermediaries or brokers who hired them. The exact situation remains unclear.
17 For example, in Uganda more than 100 companies started out in coffee trading at liberalization; almost ten years later five multinationals dominate (more than 70 per cent) with many of the start-ups, mainly local companies, bankrupt and no longer in business.
18 Paul and Helena Bempong, Ohaho Society, Kuapa Kokoo Ltd.
19 Anthony Bempong, President, Ohaho Society, Kuapa Kokoo Ltd.
20 In the 2002–2003 season some of the reasons included civil unrest in Côte d'Ivoire, the world's biggest producer; falling production of cocoa in Brazil because of disease, to the extent that it became a net importer for domestic consumption; and falling production generally spurred by historically low prices.
21 In the last six years growth in fairly traded cocoa beans from Ghana and other countries has risen from 708 tonnes to more than 1,600 tonnes (FLO International).
22 One struggling cooperative reported in the 1990s that in the absence of any formal credit middlemen were offering to trade one sack of rice – provided during the 'hungry period', when no or little food production was possible – for one sack of cocoa beans at harvest time.

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