

# **Integrating small farmers into GVCs: Confronting concentration in the cocoa sector**

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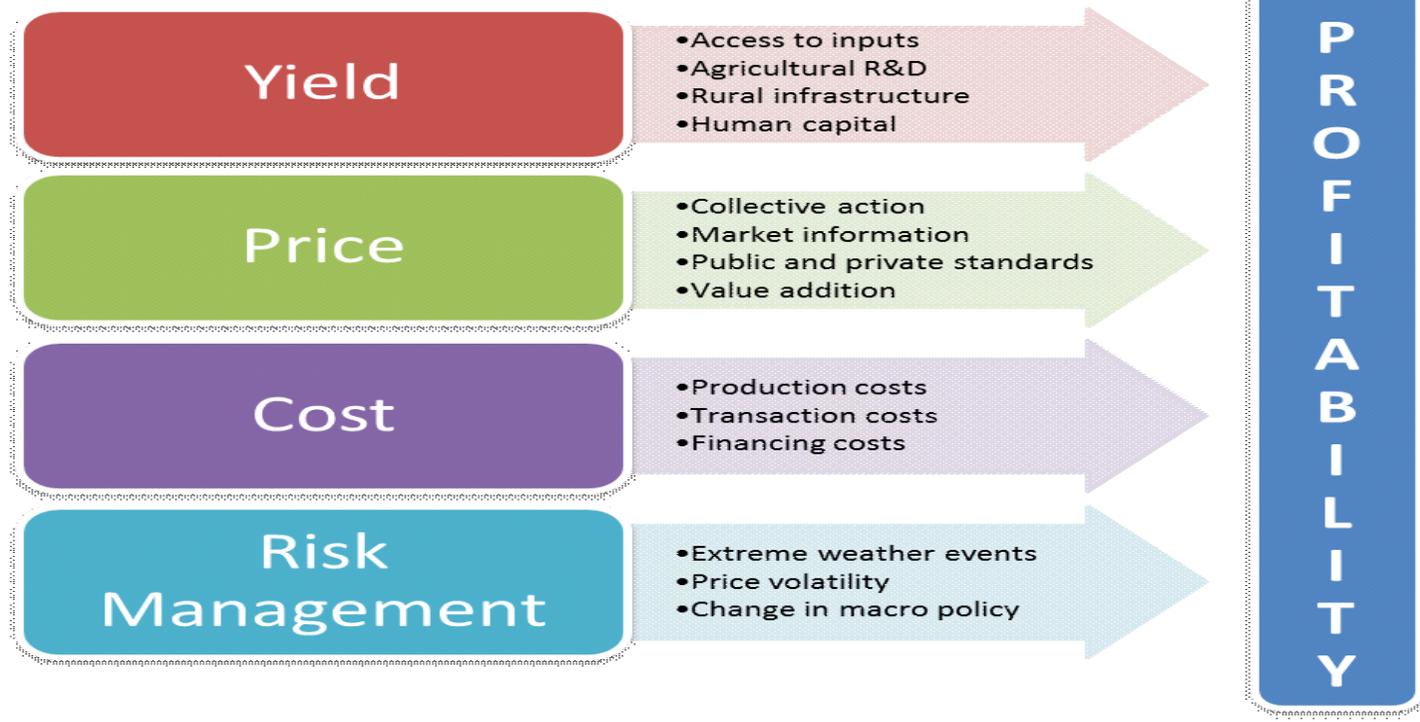
**Trade and Development Board, sixty-third session  
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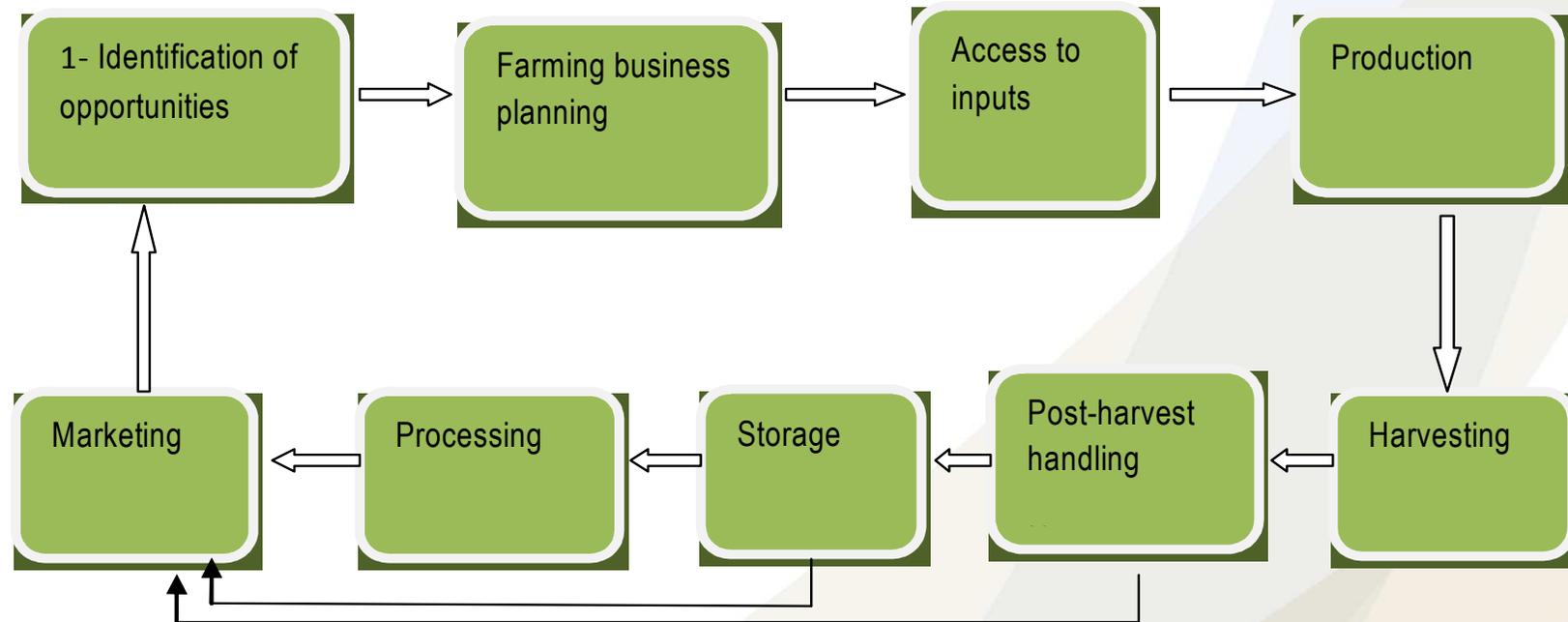
## **This presentation draws from two recent UNCTAD papers on this topic:**

- **Gayi S and Tsowou K (2016). Cocoa industry: Integrating small farmers into the global value chain. UNCTAD/SUC/2015/4, New York and Geneva.**
- **UNCTAD (2016). Agricultural commodity value chains: The effects of market concentration on farmers and producing countries – the case of cocoa. TD/B/63/2.**

## Key message of UCDR (2015) : Smallholders can be sustainable business entities



## Key message of UCDR (2015): Smallholders need support throughout their business cycle

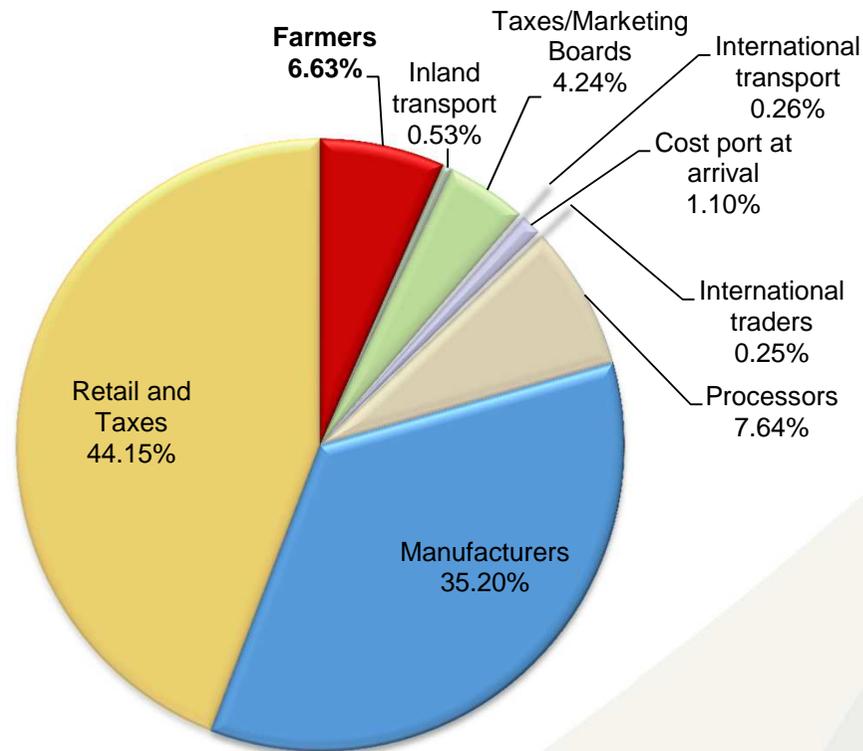


## Outline of presentation

- The concentration of the cocoa sector
- Sector-level consequences of concentration
- Impacts on farmers
- Policy recommendations

## Despite trade liberalization and the recent price boom, cocoa farmers still receive a small share of total value added.

### Distribution of value added to 1 ton of cocoa, 2015



### Net daily earnings of a 2ha cocoa farm, 2014

Country	\$/farm/day
Côte d'Ivoire	\$2.07
Ghana	\$2.69

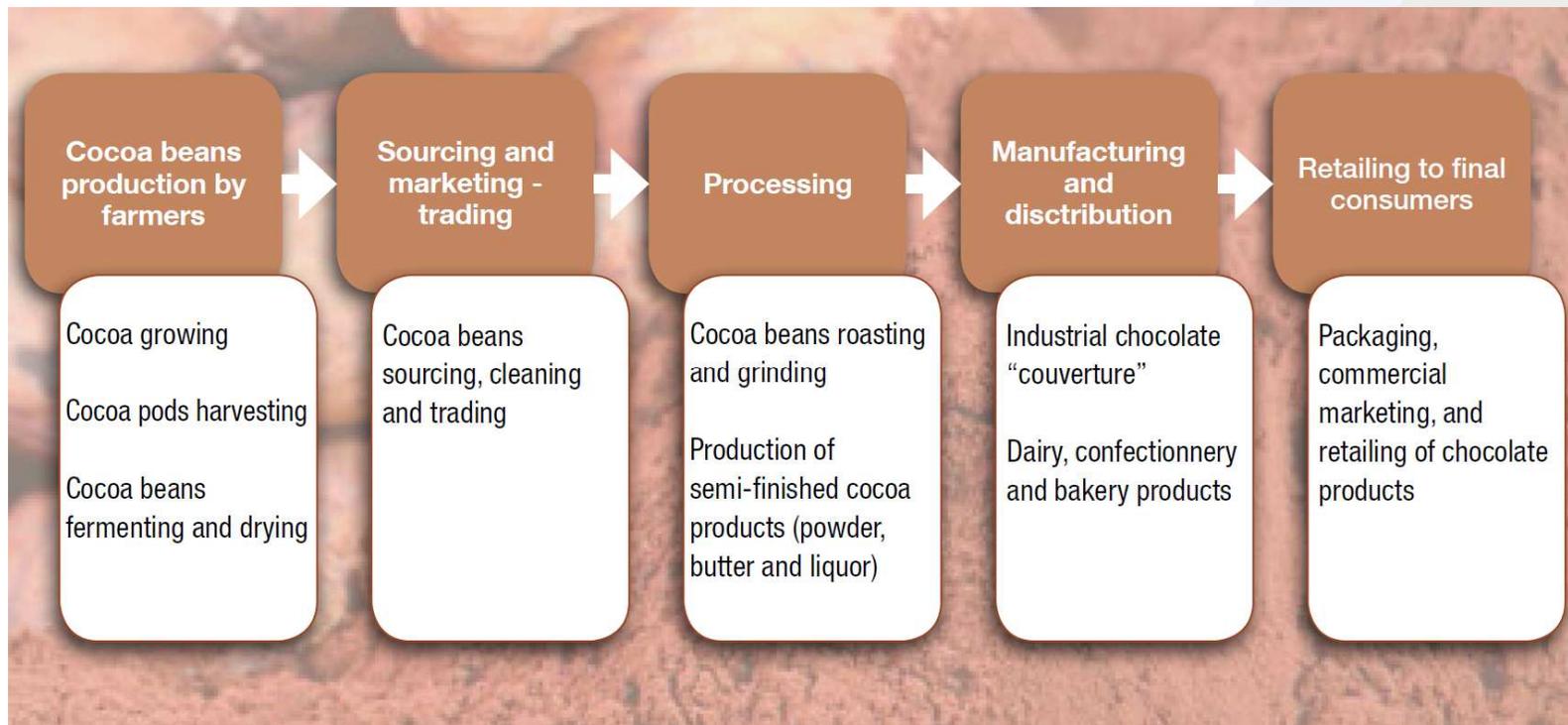
Source: International Labour Rights Forum

Note: Global poverty line is \$1.90/person/day, World Bank, October 2015.

Source: UNCTAD secretariat calculations, based on Cocoa Barometer 2015, available at <http://www.cocoabarometer.org>, accessed 27 June 2016

## Global value chains are increasingly being concentrated, but farmers remain dispersed.

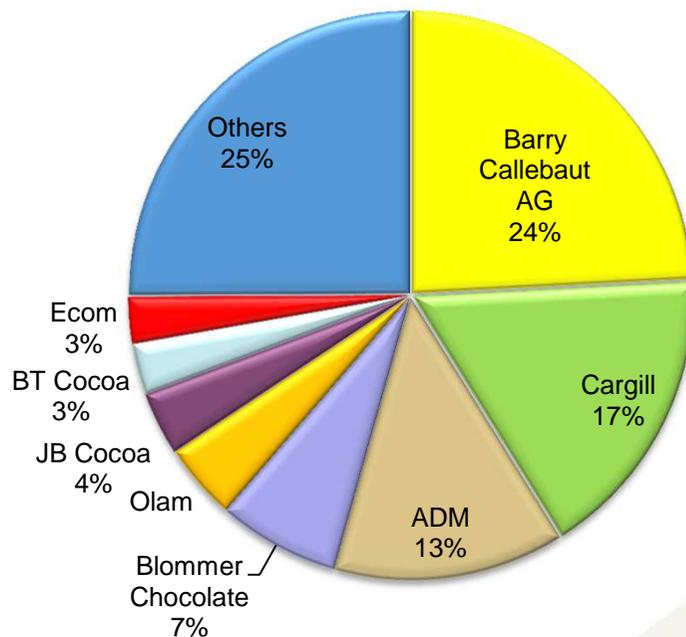
### Overview of the global value chain for cocoa – from farmers to consumers



## Concentration spans the cocoa value chain: fewer suppliers at each step and larger, more integrated firms.

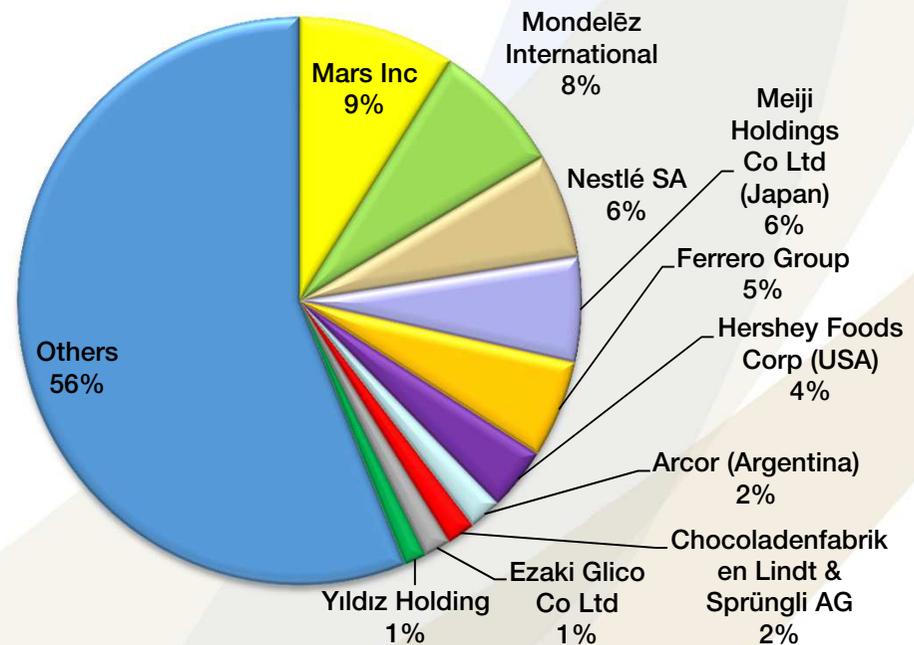
### PROCESSING:

Grinding capacity of major processors, 2011-2014



### RETAILING:

Market share of chocolate manufacturers, 2013



Source: Based on data from Hardman & Co, 2014; and ICCO, 2015.

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**At a sectoral level, increased concentration threatens competition and the equitable distribution of value added.**

### Consequences of concentration in the cocoa sector

#### Positive impacts

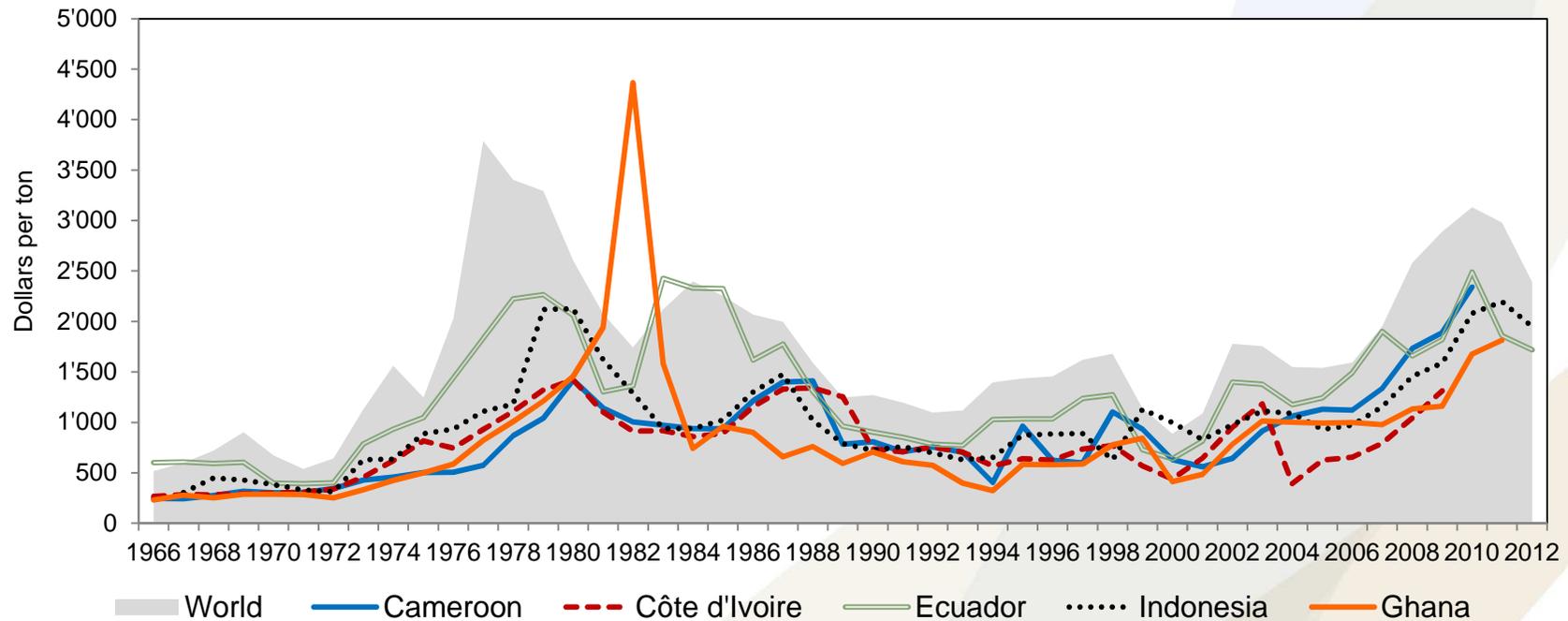
- Better allocation of resources
- Economies of scale
- Increased sector-level cost efficiency
- Vertically integrated firms have increased control over quality and standards

#### Negative impacts

- Unequal distribution of cost savings
- Disproportionate bargaining power of processors and distributors (oligopsony)
- Increased risk of anti-competitive practices, such as price collusion
- **Exclusion of farmers**

## Liberalization has exposed farmers to market prices, but also to their volatility.

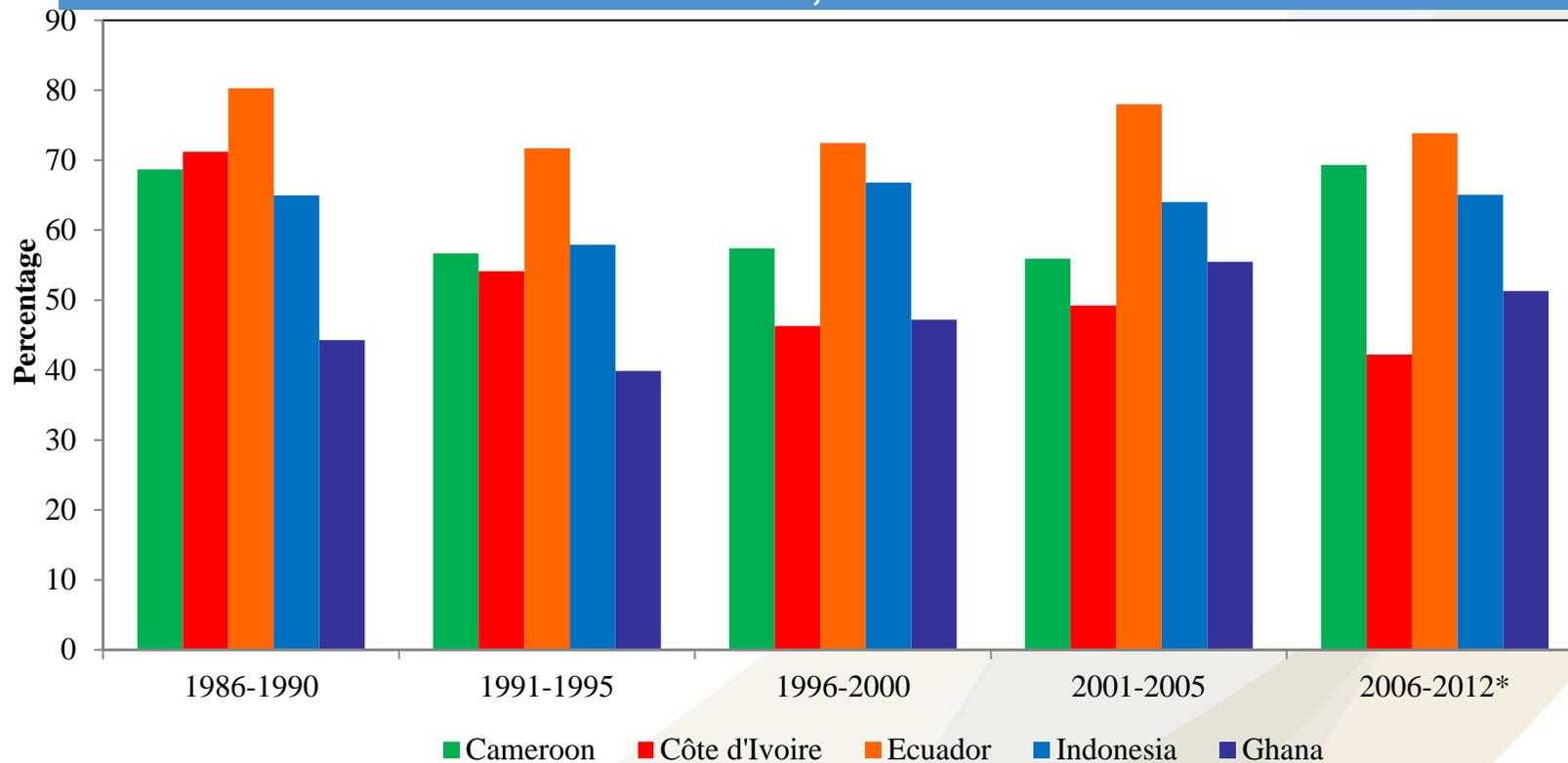
Producer prices vs. world prices for cocoa in selected producing countries, 1966-2012



Source: Based on UNCTADStat, FAOStat and ICCO databases.

**By contrast, producers' share of the world cocoa price stagnated throughout two decades of liberalization.**

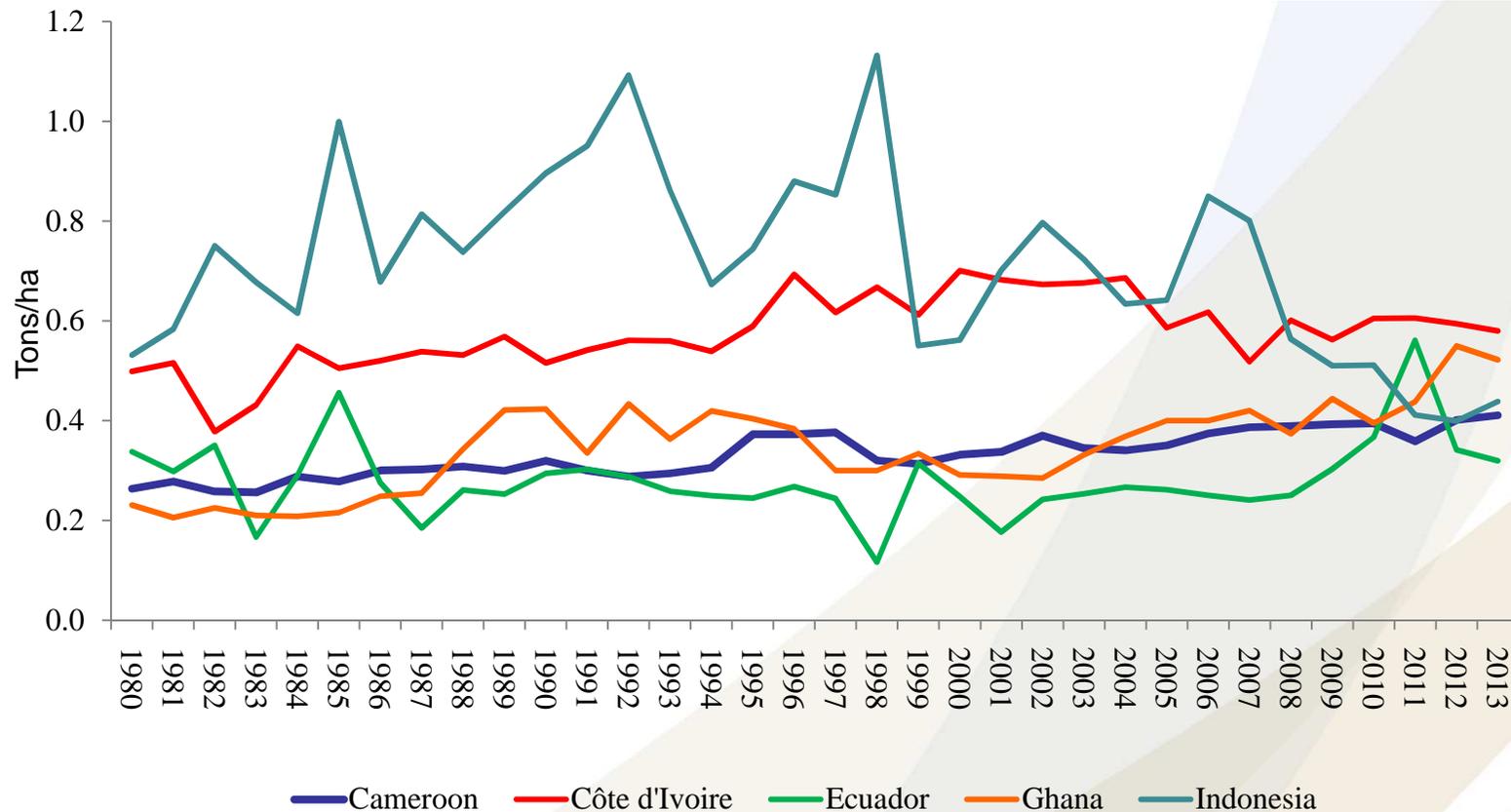
Cocoa producer prices as a percentage of the world price in selected countries, 1986-2012



Source: Based on UNCTADStat, FAOStat and ICCO databases.

**In response, farmers lack access to the credit and insurance they need to boost productivity and compete.**

Cocoa yields in selected producing countries, 1980-2013



Source: Based on FAOStat database.



## **Sustainable livelihoods for farmers require stronger competition laws, as well as farmer-centric policies.**

### ***Policy recommendations - macro***

- Reinforce competition law and policy at the national and international levels.
- Improve the domestic policy environment, including:
  - A stable macroeconomic framework;
  - Predictable trade and agricultural development policies;
  - Policies designed and implemented to support the development of cocoa farming and increase farmers' incomes; and
  - Determining an optimal level of taxation that will support national development priorities, without stifling farmers' incomes.

## **A level playing field requires greater market transparency and local participation in value-added activities.**

### ***Policy recommendations - meso***

- Improve transparency in cocoa markets, allowing farmers to negotiate better prices for their beans:
  - Examples include the CocoaLink pilot project in Ghana and the Esoko service in several African countries.
- Reduce barriers for small, local traders and grinders to enter the market, by:
  - Providing investment tax allowances or partial tax exemptions for small, local firms;
  - Improving access to energy in rural areas; and
  - Building reliable road and port infrastructure.

## **Farmers' organizations and greater access to credit and insurance empower farmers to seize opportunities.**

### ***Policy recommendations - micro (1)***

- Foster the formation of commercially oriented farmer-based organizations (FBOs), to help farmers:
  - Aggregate output and achieve economies of scale;
  - Negotiate better prices for their beans;
  - Procure inputs such as seeds and fertilizer in bulk;
  - Access to credit, insurance and extension services; and
  - Gain a political voice in national policy discussions.

## **Farmers' organizations and greater access to credit and insurance empower farmers to seize opportunities.**

### ***Policy recommendations - micro (2)***

- Improve farmers' access to credit and risk management tools.
- Support product differentiation to higher-margin niche markets:
  - Increase the share of organic production;
  - Provide assistance for FBO group certification under standards schemes.
  - Harmonize standards schemes at the national, regional and international levels.

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