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

Yanchun Zhang
Chief, CPIOS
Special Unit on Commodities
UNCTAD

Trade and Development Board, sixty-third session
5 December 2016
This presentation draws from two recent UNCTAD papers on this topic:

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

**Yield**
- Access to inputs
- Agricultural R&D
- Rural infrastructure
- Human capital

**Price**
- Collective action
- Market information
- Public and private standards
- Value addition

**Cost**
- Production costs
- Transaction costs
- Financing costs

**Risk Management**
- Extreme weather events
- Price volatility
- Change in macro policy
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

<table>
<thead>
<tr>
<th>Category</th>
<th>Value Added (2015)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmers</td>
<td>6.63%</td>
</tr>
<tr>
<td>Inland transport</td>
<td>0.53%</td>
</tr>
<tr>
<td>Taxes/Marketing Boards</td>
<td>4.24%</td>
</tr>
<tr>
<td>International transport</td>
<td>0.26%</td>
</tr>
<tr>
<td>Cost port at arrival</td>
<td>1.10%</td>
</tr>
<tr>
<td>International traders</td>
<td>0.25%</td>
</tr>
<tr>
<td>Processors</td>
<td>7.64%</td>
</tr>
<tr>
<td>Retail and Taxes</td>
<td>44.15%</td>
</tr>
<tr>
<td>Manufacturers</td>
<td>35.20%</td>
</tr>
</tbody>
</table>


Net daily earnings of a 2ha cocoa farm, 2014

<table>
<thead>
<tr>
<th>Country</th>
<th>$/farm/day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Côte d'Ivoire</td>
<td>$2.07</td>
</tr>
<tr>
<td>Ghana</td>
<td>$2.69</td>
</tr>
</tbody>
</table>

Source: International Labour Rights Forum

Note: Global poverty line is $1.90/person/day, World Bank, October 2015.
Global value chains are increasingly being concentrated, but farmers remain dispersed.

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

- **Cocoa beans production by farmers**
  - Cocoa growing
  - Cocoa pods harvesting
  - Cocoa beans fermenting and drying

- **Sourcing and marketing - trading**
  - Cocoa beans sourcing, cleaning and trading

- **Processing**
  - Cocoa beans roasting and grinding
  - Production of semi-finished cocoa products (powder, butter and liquor)

- **Manufacturing and distribution**
  - Industrial chocolate “couverture”
  - Dairy, confectionery and bakery products

- **Retailing to final consumers**
  - Packaging, commercial marketing, and retailing of chocolate products
Concentration spans the cocoa value chain: fewer suppliers at each step and larger, more integrated firms.

**PROCESSING:**
Grinding capacity of major processors, 2011-2014

- Barry Callebaut AG: 24%
- Cargill: 17%
- ADM: 13%
- Olam: 7%
- BT Cocoa: 3%
- Ecom: 3%
- JB Cocoa: 4%
- Blommer Chocolate: 7%
- Others: 25%

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

**RETAILING:**
Market share of chocolate manufacturers, 2013

- Mars Inc International: 9%
- Mondelēz International: 8%
- Nestlé SA: 6%
- Meiji Holdings Co Ltd (Japan): 6%
- Ferrero Group: 5%
- Hershey Foods Corp (USA): 4%
- Arcor (Argentina): 2%
- Chocoladenfabrik en Lindt & Sprüngli AG: 2%
- Yıldız Holding Co Ltd: 1%
- Ezaki Glico Co Ltd: 1%
- Others: 56%

Source: Based on data from Hardman & Co, 2014; and ICCO, 2015.
At a sectoral level, increased concentration threatens competition and the equitable distribution of value added.

<table>
<thead>
<tr>
<th>Consequences of concentration in the cocoa sector</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Positive impacts</strong></td>
</tr>
<tr>
<td>• Better allocation of resources</td>
</tr>
<tr>
<td>• Economies of scale</td>
</tr>
<tr>
<td>• Increased sector-level cost efficiency</td>
</tr>
<tr>
<td>• Vertically integrated firms have increased control over quality and standards</td>
</tr>
</tbody>
</table>
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.