A chocolate-coated case for alternative international business models

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Introduction

Work to ensure minimum standards and conditions for salaried workers in industries like clothing, shoes, information, and technology is advancing. Many large companies are playing their part, prodded by NGOs and consumer lobbying. Codes of conduct and social auditing, while not 'solving' all problems, do provide a point of entry for continuous improvement and dialogue.

By contrast, since structural adjustment programmes (SAPs) were implemented in the 1980s, small farmers in developing countries have not received much support through state agricultural policies, unlike farmers in the USA, Japan, and Europe, even though 70 per cent of the world's poorest people live in rural areas. As 'self-employed', non-salaried, and not organised workers, most farmers are still beyond the reach of these new, voluntary corporate codes. Yet they are irrevocably if unaccountably connected to a few very large companies that broker raw materials, or brand and distribute the finished products, companies that operate far away from them. Chocolate companies, for instance, are still deemed to be not directly responsible for the impact of their commodity purchases on the farms of the developing world.

This article seeks to show the commercial and developmental importance to the long-term prospects of cash-crop farmers, and rural areas generally, of questioning and changing the status quo. The problems of this 'irrevocable but unaccountable connection' will be illustrated through the case of West African cocoa farmers, while the commercial chain developed over the past ten years from Ghanaian farmers to chocolate consumers in the USA and UK will be analysed as a living example of the opportunities and rationale for the large companies to amend their ways of working. In order to do this, the article aims to:

- review the context and set-up of a new cocoa farmers' organisation and trading company in Ghana upon partial liberalisation of the sector in 1993, and its growth and trajectory from 2,000 to 35,000 farmers by 2001;
- describe the simultaneous initiative to set up a new or alternative global chocolate company with the aim of breaking into a mature and concentrated market and addressing consumers with a new farmer-oriented voice;
- consider some of the lessons learned from this experience and the market challenges to poverty reduction among smallholders who rely on cash income from coffee and cocoa, as well as in countries where this income still constitutes the backbone of the economy;
- offer some concluding thoughts and ways for development practitioners and promoters of social justice to have wider impact in small- and medium-enterprise (SME) development or consumer education work.

The cocoa growers

The changing relationships between primary production, processing, and marketing

Much attention has been paid to the relationship between technological advances and the redundancy or devaluation of manual labour (e.g. Rifkind 1995). Agricultural labour has not escaped this. Yet for the most part, technological advances have impinged only indirectly on the lives of African cash-crop smallholders. For example, the boom in production of low-cost cocoa in Malaysia, which reached 10 per cent of world production in the 1980s, was largely due to the introduction of 'special', fast-growing cocoa trees. The timing was significant: cocoa prices reached new lows from 1989 to 1993 as Malaysia entered the free market.[1] Most producing countries, struggling to service their debts, promote traditional exports as a means to do so. When many countries did this all at once – sometimes called the 'composition effect' – they experienced falling prices, not the 'export-led growth' promised by the proponents of SAPs (Barratt Brown and Tiffen 1990). Increasing supply and stockholdings of beans relative to requirements for the raw materials at the processing or 'grinding' stages have continued to affect cocoa prices in the 1990s, driving these down – but so did market sentiment, as instability influences the differentials paid above or below the prevailing price.

The impact of structural adjustment and the response of the growers

Farmers in Ghana, like other West African smallholder-dominated systems, were operating without recognition of their strengths in the market. Farmers were protected from the market and prohibited access to information by monopolistic state marketing boards, but equally, and more surprisingly perhaps, the market was also detached from farmers and the mixed farming systems which favoured peasant farmers over plantation-style intensive systems and delivered good-quality cocoa beans.

Looking back from the vantage point of 2001, we see, by marked contrast, a new focus on the desirability of 'sustainable production' of key commodities like coffee and cocoa, the need for quality beans, and 'respect' for mixed farming systems (Giovanucci 2001).

In the 1980s farmers were on their own. Even development NGOs seldom opted to support small farmers: they were often not the 'poorest of the poor' or the 'lowest decile', or they required forms of assistance that bordered too closely on investment, and needed commercial know-how, which at that time was not recognised as a form of legitimate development assistance. And while many farmers wanted to 'act' because they held deep-seated grievances against the state monopolies and the officials who behaved in unaccountable and exploitative ways, practical responses were difficult to formulate – so strong was the push for free-market reforms. Further features of most SAPs were significant barriers to the development of pro-poor commercial institutions within the liberalised commodity sectors, for example:

- the speed of their implementation;
- the totality of the reforms;
- the lack of rural credit;
- the end of legitimate support for farmers;
- poor roads and infrastructure.

Above all, there was an almost total lack of preparation and process of awareness raising about the marketplace among farmers whose lives were being so altered. Lack of information about the workings of the market beyond the farm gate, and how these might affect farmers, produced significant apprehension and many mixed reactions.

Liberalisation programmes produced a social development paradox, here expressed by *The Economist* in relation to structural adjustment in Zambia:

> *In the past, a monopoly board bought up the crop, from all farmers, at a fixed nation-wide price. This, plus a subsidy, helped keep food prices low in the swelling cities. Peasant farmers did not do very well but at least they sold all they wanted at a guaranteed price. Now the market rules. Big farmers and those near the cities have prospered, as merchants compete to buy, paying better prices than before. But in remote parts, away from the roads, small farmers find that, as before, only one buyer turns up, but now a middleman, offering a pittance.*
> (*The Economist* 23 November 1996)

In Ghana, the state Cocoa Marketing Board was omnipresent and the cocoa farmers' will to organise had been sapped first by nationalisation and the deliberate destruction of local groups, and then by continued harassment of any farmers attempting to 'bargain' with the Cocoa Board officials (e.g. by owning independently calibrated scales). The Cocoa Board took the lion's share of the market price and operated a zealous and commercially valuable, but ultimately dehumanising, quality control system, earning premiums (to the nation) for better quality than cocoa from other origins. For example, extension workers would frequently arrive and spray the farm without first talking to the owners, the farmers. In the words of one farmer interviewed by the author in 1993, whose conversation and opinions were sought *before* a walk to see his farm: 'No one comes to visit us. We are not even farmers. We are just tree minders.'

Independent-minded Ghanaian cocoa farmers began to discuss the reforms and consider their options in 1992. Profit was part of the motive. The new pricing and extra 'buyer's margin' offered by the Cocoa Marketing Board appeared to give farmers an opportunity to increase their earnings and be 'sellers', not just growers, and to enter the market now as new licensed 'buyers'. But farmers had deeper motives. Setting up to do cocoa business appeared a way for them to:

- overcome their pent-up frustrations with cheating and delays in payments;
- find new options for credit;
- end the endless 'protocol' payments (i.e. bribes), often extracted with menace, even when entering the bank to deposit a cheque for sales of cocoa or to Cocoa Board officials;
- gain a better sense of identity and political status as farmers;
- prove themselves by setting up their own company, as this was now 'permitted'.

The 'switch' from being 'tree minders' to 'buyers and sellers' of their cocoa was a leap of thinking for farmers after many years of disempowerment, and this aspiration is reflected even in the name they eventually chose: Kuapa Kokoo, which in Twi means 'good cocoa farmer'. As momentum grew around the idea in early 1993, through discussions in many villages, and business-planning work supported by two NGOs (UK-based TWIN and the Dutch development organisation SNV), there was an interesting convergence of the generations in the villages. As farmers – men and women – prepared for registration of the first, and to date still the only, farmer-owned and cooperatively run company in Ghana, older farmers had much to contribute: they had 'been there before', running their own organisations, supplying the colonial traders up to independence. The organisational process consciously attempted to recapture the 'best elements' of the remembered past. The prior nationalisation experience was an impediment to mobilisation, however. In the words of one pioneer Kuapa Kokoo farmer in 1993: 'If we ever amount to anything, they'll nationalise us and steal everything ... again.'

Who supports farmers?

Small-scale farmers appear to have been invisible to the designers and implementers of SAPs in Ghana and elsewhere. Efforts to trigger a new private-sector presence in commodity marketing to replace parastatal bodies did not see farmers as potential 'entrepreneurial' players in the chain. No allowances – e.g. technical assistance or targeted financial facilities – were made for this. But farmers themselves, and a number of alternative traders and NGOs, were asking an awkward question: why should farmers not set up and run their own companies? Farmers are often prey to 'cut and thrust' and predatory merchants, urban-based companies or their agents who show only contempt for rural life and 'uneducated' rural people. Product quality, farmers' earnings, and 'confidence' are all threatened by this kind of result. The story of the formation and extraordinary results of the Kuapa Kokoo group is a tale of constructing a farmer-rooted response to liberalisation.

In retrospect, since Kuapa Kokoo has achieved such a significant level of recognition and attracted so much attention in print and in international development circles (ICCO, the World Bank, etc.), it is difficult to explain how rare and challenging the start-up was. Yet the need to build *a small farmers' response* to liberalisation looked so crucial that it gained much support and interest along the way. Debt and prejudice meant that farmers were viewed as high risks by formal institutions using traditional criteria. And sometimes for good reason: nobody could or would lend, prices were low, and small-scale farmers in Ghana were in a weak position to prepare for a period of significant transition to a new commercial régime. TWIN broke this schema by offering the new farmers' company operational and financial advice, a start-up loan, and a loan guarantee. This covered working capital and funds for the first 22 village groups to purchase their 'tools of the trade' (sacks, scales, tarpaulins, and wooden pallets). SNV offered village-level development and participatory training of committees, bookkeepers, and gender and development workers. Within three years the company had grown from 2000 to 8500 farmers; after four years the start-up loan was fully repaid; and after the second season, small bonuses from operating profits became feasible and added to the incentives for both pioneers and newcomers.

Kuapa Kokoo is now an organisation of some 35,000 farmers, around 30 per cent of whom are women, with village groups operating in more than 600 villages across most cocoa-growing areas of Ghana, and trading 7.2 per cent of Ghana's national production in 2000/01 (more than 30,000 tons). It has recorded a profit each year since 1994, which is distributed among its members, and more than US$850,000 has been paid out in bonuses derived from efficiency and from fair trade premiums to date. Kuapa Kokoo quickly outshone the competitors by focusing on 'small' but pivotal operational goals – for example, a reputation for not 'fixing' the scales (i.e. cheating), for cheques that do not bounce, and so on.

In parallel to its commercial activities, Kuapa Kokoo set up a separate Farmers' Trust, run by elected farmers, selected Ghanaian advisers (non-executive), and funded through grants, profits, and fair trade social premiums. To date the trust has sponsored medical programmes (with mobile clinics that have reached more than 100,000 individuals), scholarships, school and latrine construction, and fresh-water wells in members' villages. This means that while on average Kuapa Kokoo members make up around 7 to 10 per cent of farmers in a medium-sized village, the reach is beyond these farmers into the wider community. A recent DfID-funded evaluation notes that altruism is considered an indicator of wealth locally, and the ability to support such help to the sick was something 'new that could now be afforded'. Given the market context of low prices, and the relatively small amount of fair trade sales (5 per cent), the impacts of the institutional success of Kuapa Kokoo are apparently not fundamentally, or purely, material. This is in keeping with the original vision of rebuilding dignity for farmers and combating their sense of powerlessness and inability to influence their society.

Kuapa Kokoo is run for and by Ghanaians. Since 1996 no international staff or advisers have been part of the management teams or formal structures. Professional advisers operating on a voluntary or paid basis are drawn from both international and national networks, in fields such as cocoa agronomy or export marketing. Kuapa Kokoo has managed to attract and retain skilled Ghanaian professionals. There has also been significant advance in the representation and presence of women in all parts of the organisation – farmer-members, elected leaders, staff, and managers. But it is vital, if perhaps awkward to some, to acknowledge that colonial history and race did influence the farmers' perceptions and types of roles played by external (foreign) supporters at the outset. How?

- First, by example: the TWIN-SNV programme was at all stages a mixed-nationality team, from the UK and Ghana, with an innovative (adaptive, risk-taking) but cooperative approach and sensitive but firm leadership style. The early programme was run by two women – one Ghanaian, one British – and this clearly set a strong gender lead. The international partners and their support focused on the international dimension of the project – quality cocoa marketing.
- Second, by direct participation: farmers themselves have stated that, cheated so much by fellow Ghanaians up to 1993, the presence of impartial *obruni* or white people added to Kuapa Kokoo's credibility in their eyes. Some have reported to the author that they felt that made it more likely that the rules and policies – paying dues, delivering cocoa, membership terms, attendance at meetings, and so on – that they implemented would (have to) be adhered to by all. This was clearly not the norm, nor expected, despite its desirability. TWIN and SNV acknowledged this at the outset and did, periodically, 'take sides' to resolve conflicts. This was, arguably, atypical NGO behaviour, but the TWIN contribution was introduced in a 'commercial framework', not a developmental one: no grants, only loans.[2]
- Third, by simple 'appearances': the reappearance of foreigners in the cocoa villages added credence to the market reforms and made the planned trading activities of Kuapa Kokoo look more feasible.

Appreciation of the tradition of high-quality on-farm processing was directly expressed by visitors to farmers, who at last could take great pride in their skills and high cocoa quality. Kuapa Kokoo's slogan is: *pa pa pa!* ('the best of the best beans').

Sources of knowledge and learning behind the intervention

In the case of Ghana, there were a number of sources of learning and operational 'triggers' to the intervention. The comprehensiveness of the vision enabled the mobilisation, step by step, of sustained support for these cocoa farmers' efforts to organise and become dignified 'protagonists' in their own market. These included the empirical, the experiential, and the opportune:

a In 1989 we undertook research on SAPs and export-led growth for the Transnational Institute, funded by the Swiss government. It showed a paradigm with a dead-end for bulk commodities from sub-Saharan Africa. There was simply no market for all the extra supply or production being urged on these already skewed economies (see Barrett Brown and Tiffen 1990).

b Additionally, the research, which focused on the demand side, showed that in the view of the manufacturers interviewed, the cocoa market highly valued African, smallholder-produced cocoa ('the best basic cocoa worldwide'). But this market information came against a backdrop of its competitive destruction by heavy investment in Asian plantations!

c Twin Trading (the trading associate of TWIN) had had extensive previous experience helping coffee, sesame, and honey farmers in Latin America to become exporters, where liberalisation and the withdrawal of state subsidies preceded SAPs in Africa.

d Given the poor track record and performance of the marketing boards, it did not seem too difficult to help farmers set up a more rewarding alternative. This system, which became known at Kuapa Kokoo as 'pick up and pay', recognised a fundamental fact – that money costs more than cocoa when interest rates are above 45 per cent and loans are difficult to obtain. It was based on the modern manufacturing techniques of 'just-in-time' deliveries and the sometimes ignored fact that, while often illiterate, farmers are able to count.

e All the original operating systems were designed through a combined effort and aimed to reinforce village responsibility, not central or top-down control. The villagers held the key decision on who to employ as 'recorder' (or group bookkeeper), a position requiring the absolute trust of the many illiterate farmers in the community, and therefore not to be imposed from 'outside' as before. Where effective, these experiences created virtuous circles and were refreshingly different and inspiring for the farmers who first mobilised.

f Twin Trading founded a new coffee coalition in the UK (Cafédirect, launched in 1990) and by 1993, it had national distribution, a reasonable market share (3 per cent), and was approaching profitability. Cafédirect represented an outlet and opportunity for many smallholder cooperative suppliers to 'apprentice', or make their 'first-time' exports, without fear of penalty or losses.

g It seemed likely, as 'fair trade' markets were growing, that the same essential, sympathetic market space could be developed for cocoa farmers. Fair trade cocoa was just starting (1993/94) in The Netherlands and Switzerland.

h The coffee market-development work had taken place against a similar discouraging and adverse market background, including historically low prices (1992 saw the lowest coffee prices since the 1930s, until the drop to below 50 cents per pound in August 2001).

i International development agencies, including the UK's Overseas Development Agency (now DfID), were concerned about the impact of SAPs on farmers, and encouraged TWIN – which had no direct cocoa trading experience – with a small 'experimental' grant to build on its Latin American experiences and to explore the consequences of liberalisation and possible interventions in two sub-Saharan African countries.[3]

In Ghana, TWIN found a willing partner in SNV, with its focus on rural development, gender, and participatory techniques. SNV, an NGO modelled on VSO, also financed (locally and through TWIN) a number of personnel to take up posts *within* the emerging Kuapa Kokoo structures, until the organisation could afford to fill these posts itself. This facilitated the development of a highly professional, but accountable, management culture in the organisation, which still persists. Similarly, apprehension among local professionals about the wisdom of joining the new farmers' venture – suspicion was at least as high as among the banking community – was more easily mitigated with initial mediation between the farmers and these professionals by foreign third parties. The bad practices of the past by state cocoa 'clerks' – mainly stealing but also being disrespectful to farmers – were aggressively combated. Training opportunities were offered to farmers and staff. The staff of Kuapa Kokoo Ltd are also shareholders in the company and have rights to join the credit union (founded in 2000), just like the farmers themselves, and thus benefit directly from good financial performance.

Later partners have included Conservation International, a US NGO bringing support for integrated and organic farming pilots, and The Body Shop International, which has significantly contributed to Kuapa Kokoo's ability to finance development activities in its members' villages, through the sourcing of all its cocoa butter from the cooperative at fair trade prices.[4]

The chocolate market

Competition in the marketplace and the battle for shelf space

Mounting an effective export programme for small-volume shippers of cocoa beans is challenging for a number of reasons, which distinguish cocoa from other commodities. First, the number of buyers is limited. Second, there are diminishing numbers of processing facilities and relatively few end-users in the market. Two trends exemplify this: (a) increasing bulk, loose, and non-containerised shipping; and (b) the concentration of ownership (of factories and consumer brands). Just a few large companies – five in Europe overall, two in the USA, and three in the UK – account for 75 per cent of the chocolate market. They are: Cadbury-Schweppes, Nestlé, Mars, Hershey, and Philip Morris-Jacobs-Suchard. The UK market for chocolate is worth over US$5.6 billion a year. The market is dominated by brands. Difficult to evaluate and intangible, product 'branding' clearly does add value. The most valuable brands have had a long life: Mars Bars and Kit Kats, for example, have been around since the 1930s.

Entering this market looked more daunting than the coffee market had been (and the conventional wisdom at the time of the launch of Cafédirect was that 'it could not be done'). Marketing expenditure on these household names is considerable, part of a wider trend perhaps to imbue products with other meanings. (Some US$300 billion is spent on advertising globally to conserve these kinds of product differences – US$16 billion in the UK alone.) Brand values are the means by which market leaders seek to find a competitive edge among otherwise similar ranges of products. Some estimates indicate that more than 12 per cent of corporate wealth is now tied up in the intangibility of brands (Tiffen 2000). It is perhaps difficult to contemplate that the product empire nestling under a brand name such as 'Heinz' is worth more than US$13 billion, an amount equivalent to the total annual sales of chocolate in the USA.

Big chocolate brands do not feature cocoa origins as part of the message. And the big companies have resisted any direct association with or claims for the sustainability of their brands based on the fair trade model – namely, buying from cooperatives, through auditable or traceable chains, and ensuring terms that reward the farmers for their work. The market is mature – all sorts of people of all ages eat chocolate, know what it is, and can be subject to marketing. There are many failed chocolate launches and the old favourites often 'see off' newcomers through anti-competitive pricing, exclusive distribution deals, and so on.

When Kuapa Kokoo and its partners in the UK, Twin Trading, The Body Shop, and other fair trade supporters, joined together to make a link with chocolate lovers, setting up a new and unprecedented international joint venture called the Day Chocolate Company in 1998, the initiative received a resounding counter-attack from giant rivals. The product quality was impeccable and received no adverse comment, but Nestlé and Cadbury in particular took very firm public positions to counter the claims of fair trade companies like Day and insisted that their own activities were fair and in the long-term interests of producers. Nestlé went on record at the launch of Divine (Day's first chocolate bar) with spokeswoman Hilary Parsons stating:

> *Yorkie and all our other chocolate products are produced fairly. Nestlé cocoa is fairly traded. It is in Nestlé's interest as well as the growers' to ensure a guaranteed supply of quality cocoa. To this end we work closely with cocoa farmers. In many countries we supply them with extensive agricultural and technical advice and training to help them improve their crops and hence their income ... ultimately the price paid to growers depended on the balance between supply and demand. But developing and sustaining world demand for cocoa products Nestlé supports the price paid to all growers and their opportunities for development.*
> (Hilary Parsons cited in *York Evening Press* 3 October 1998)

In the same article Terry's spokesperson Richard Johnson defended his company's record claiming: 'Significant resources had been invested to help cocoa producers improve the quality of their product and protect against disease.' However, when this article was shown to a representative of Kuapa Kokoo visiting the UK in March 1999, his response was unequivocal: 'When these companies say producers or growers they do not mean us, the farmers!'

And this contrasting understanding epitomises some of the fundamental institutional questions and prejudices that were encountered at the outset of the cocoa work and that still prevent interventions based upon seeing farmers as legitimate participants in international commercial trading projects in their own right. For example:

- Viewing farmers as worthy counterparts or partners is considered too costly and infeasible for large companies.
- Since liberalisation, no systematic attempt has been made to support organisational development in rural areas to enable farmers to take up the challenge of trading in place of parastatals.
- Direct work with farmers as trading counterparts by the mainstream chocolate industry would require significant changes in trading chains and practices, which large companies are simply not prepared to make.[5]
- The equation of free trade – the balance between supply and demand – with fair trade looks implausible, not least because there is an emerging and verified definition for the words 'fairly traded' in consumer marketing. Fair trade mark initiatives have high profiles and ranges of 'certified' products in most G-8 countries. Mainstream chocolate company practices do not come close to such standards and guidelines for trading partnerships that benefit smallholders.
- Cocoa and chocolate markets are increasingly so dominated by a few companies that they are clearly uncontested and uncontestable – new entrants have to be as large as the smallest transnational chocolate company to succeed.

The Day Chocolate Company was launched with part of the company's financing underpinned by a guarantee facility provided by DfID. DfID's intervention reflects the realisation that market-based poverty-reduction initiatives are of developmental interest and suited for experimental support. This guarantee was provided to overcome a market failure, i.e. the gap between the necessary rate of return from financing of high-risk ventures – launches into mature and 'hard-to-contest' markets – and efforts to improve producers' livelihoods.

Why did setting up a chocolate company become a part of the overall project? In fact the Day Chocolate Company is a response to a number of problems and the need for new international business models that connect smallholders and very poor farmers more appropriately into global markets. Many point to the fact that liberalisation has increased the share of the market price for cocoa that a farmer can get – from around 30 per cent in the early 1980s to more than 65 per cent in the late 1990s in the case of Ghana. But when this is a share of a shrinking pie, i.e. a highly depressed market price, and when it is placed in the context of the overall value generated by the cocoa component in processed chocolate products – less than one penny in an average 100g bar – it looks inequitable.

But this is more than 'unjust'. A dichotomy is emerging for a number of tropical commodities such as coffee, cotton, and cocoa, between the high retail prices charged on the one hand, and farm-gate prices on the other, which are now falling well below the cost of production for even the most efficient farmer. This is a severe market detachment or 'disconnect', one that enables coffee beans to retail at US$10 per pound versus the US$50 cents paid to the Guatemalan who grew and exported the beans (*San Francisco Chronicle* March 2001) or that allows for only nine pence of every pound sterling spent on food in the UK to return to farmers, compared with 50 to 60 pence 50 years ago (cited in the *Guardian* 3 March 2001). The Day Chocolate Company explicitly confronts this reality by making farmers the equity owners of the brands and upstream added-value chocolate and cocoa products that are on sale.

Farming as a business is about permanent investment and perpetual risk from price and climatic volatility. The low level of return on labour and investment by farmers is being extracted because of how the market is controlled, not just as a result of supply and demand. It cannot be justified given the enormous and widening gap between rich and poor. And this perception is increasingly widely held, not just in the chocolate chain, but in vocal parts of 'active' civil society, for example. In the protests at WTO meetings in and since Seattle, one of the most prominent slogans has been: 'Free trade is not fair trade!'

Supply and demand as a neutral mechanism of price setting has not been a part of the Ghana cocoa story in any farmer's living memory; value has not trickled down and bargaining power is dissipated, since most farmers are not organised. Social and economic formations like Kuapa Kokoo are the exception – conventional trading practices and marketing chains do not encourage the formation of 'good' farmers' organisations; rather, they prey on farmers' weaknesses, illiteracy, and distance from urban centres, and frequently prevent their development and evolution. The macro-level impacts of large mainstream market players – whether in the government or the private sector – cannot be assumed to have positive consequences for micro-groupings of farmers unless specifically designed to do so.

Struggle and new forms of social and economic relations

It would be unrealistic to expect no response from the 'choc giants' as initiatives like Day capture the public imagination. Chocolate is a deeply emotive product in any case! Day celebrated three years of trading in October 2001. It has certainly touched many pulses in civil society, offering a new, and arguably irresistible, alternative – tasty, gratifying, and involving practical individual action – to a prevailing and harmful mainstream business model.

Day has mobilised support at many levels, with outreach and practices relevant for both consumers and Kuapa Kokoo. Partnership and the harnessing of social capital is part of its essential strength, for example:

- Public messages and 'marketing' are part of Kuapa Kokoo's support for the company – farmers have visited cities all over the UK where local authorities and church, campaign, and fair trade groups come together and declare the place a 'Divine town'.
- Kuapa Kokoo has two representatives on the Board to oversee policy and strategy. They attend all meetings and at least one Board meeting a year is held in Ghana.
- Comic Relief organised a competition to design a new chocolate bar – a product for children by children. There were 16,000 entries and the winner visited Kuapa Kokoo (with her mother). Comic Relief is piloting teachers' packs (for pupils aged 4 to 14 years) and Internet links between teachers in the UK and schools in Kuapa Kokoo villages within the framework of the UK national curriculum.[6]
- Christian Aid and other trade campaigners have mobilised their effective debt campaign networks to lobby other chocolate companies and buy the product in supermarkets.
- Trade unions, MPs, student unions, the Women's Institute – all forms of civil society – have 'adopted' Day's chocolate and its partnership message as a symbol of their commitment to social or economic justice and fair trade.

- National distribution – in more than 10,000 outlets – was achieved within less than one year, including outlets not previously engaged in fair trade or 'sustainable' product promotion, e.g. garage forecourts and the large cash and carry (wholesalers) which reach the smallest 'corner shops'.
- A process of transition to the USA has begun, with fair trade coming onto the consumer agenda and a coalition of alternative and sustainable business supporters, human rights activists, and trade campaigners coming together around this unusual political and commercial proposition.

The company has also been validated in other ways, receiving a number of awards for its innovation and example. When Kuapa Kokoo won a prestigious Government Millennium award for innovation, the 'difference' was summarised as follows:

> *There is nothing earth shattering about forward-thinking companies recognising the need to innovate. The real thorny issue surrounds the way companies put good intentions into practice. Theory proliferates yet success is far more difficult to achieve ... [The] Day Chocolate [Co.] was awarded the Millennium Product accolade not so much for their chocolate – which has the same taste qualities of many of Britain's most popular chocolates – but because of their innovative approach in giving cocoa farmers at the beginning of the production chain a significant stake in the operation.* (Duncan 1999)

Lessons and challenges

The lessons of the cocoa-to-chocolate chain experience need to be articulated because the problems that were overcome are widespread and the scope for replication and the specific challenges they represent need to be addressed. They can be divided into three areas.

Producer organisations: purpose and context

Ghana faced a particular experience of atomisation: the state dominated and did not promote (or enforce) cooperative organisations at village level, in contrast with many other African experiences, which led to a quick recognition of the importance of each individual (cocoa farmer) as a player within voluntary groupings. The groupings that emerged after liberalisation were therefore quite mixed and spontaneously formed – big farmers worked alongside small and tenant farmers. As such, they are even now very diverse in nature and style, while still operating within a common framework. This made a focus on effective and profitable business the main entry point. Social-oriented activities, gender opportunity, and 'developmental' discourse in Ghana took place within the fabric of business development and farmer participation, not as ends in themselves. Efforts to 'use' the cocoa business structure for purely development projects – e.g. by well-meaning NGOs – have seldom worked and are frequently rejected by farmers.

In countries where cooperatives were supported and artificially sustained, often gaining a poor reputation in the process, the dilemmas may differ – for example, whether to reform or start again – but the internal dynamics and development processes and challenges are similar to those faced in Ghana. There are significant prejudices about cooperatives at all levels. Yet new NGO-sponsored producer organisations often do not last much beyond the usually finite duration of direct external technical assistance. There is little systematic or strategic work on the challenge of developing viable producer organisations for business activities. Credit in rural areas for cash-crop production, has more or less dried up, microfinance has not reached many rural areas, and the high and sometimes exploitative nature of informal finance systems erode farmers' earnings further. In addition, there are few state institutions or NGOs with the capacity to underpin rural development programmes with market analysis, finance, investment decision-making skills, and an understanding of commodity market fundamentals.

The lack of a farmer-to-market connection

An estimated 11 million smallholders grow cocoa in West Africa.[7] Large cocoa plantations, for example, have not flourished in much of West Africa, and private, smallholder production has remained the norm and accounted for most of the large increase in production and export from the Ivory Coast in the 1990s. Small in this context means less than 10 hectares. But few cocoa farmers in Ivory Coast, Ghana, and elsewhere are aware of the destination of their beans beyond the village. Few have any concept of chocolate, have not tasted or seen it, and have no awareness of consumers or their concerns. They do not use cocoa beans locally at all. Conversely, despite long commercial track records in the producing countries, trading houses have little or no connection or contact with farmers, working mainly through subsidiaries and middlemen or agents. Commercial intermediation is usually local, by indigenous companies or individuals, as indeed it was during the colonial era. So the margins and terms of trade between all the parties in a cocoa-to-chocolate chain are not subject, at first sight, to the chocolate manufacturers' direct control, and it is the local intermediaries who have the access and 'relationship' with farmers. State-sponsored or private, it is hardly ever a developmental or mutually beneficial relationship. It is not yet one prepared or equipped to mediate fairly between consumer interests and farmers' needs.

The role of consumers

Consumers also play a role in the 'disconnect'. While most consumers know that cocoa is 'tropical', until recently few could trace the cocoa content of their favourite chocolate product back to its origins: Côte d'Ivoire, Ghana, Nigeria, Sierra Leone, etc.[8] And the connotations are not positive. Chocolate contrasts starkly and unfortunately with wines, coffees, teas, and cotton, as well as with the added-value and cachet derived from their place of origin. Efforts to change this rely on long-term investment in consumer awareness and responsible and articulate marketing – far from existing chocolate style. But, with the support of loyal and aware consumers, there can be a move away from an emphasis on purely voluntary initiatives, towards an obligation on the part of all chocolate companies to demonstrate purchasing systems that deliver fairer and more sustainable trade for all smallholder cocoa farmers.

Conclusions

Globalisation has led to stronger transnational companies and global brands but not necessarily to more integration of commodity marketing chains. This makes it more difficult for newcomers into these markets to succeed. Current commodity chains and prevailing practices are entrenched. The existing trading model for cash crops is harmful to the interests of smallholders, and it does not respect their needs and right to economic return for their labour or investment. Farmers are disconnected from the consumers, and they fall outside the reach of the social protection that is offered under ethical or other supply-chain management schemes. Supply-chain management work does not address structural inequity or power relations *per se*. The weaker players are losing the means to negotiate a return on their investment.

Mainstream commodity and food-branding companies, the most significant purchasers of cocoa, coffee, and cotton from smallholders, are not openly addressing this problem. All have eschewed the fair trade, direct-to-farmer model, and they have even openly criticised it. Codes of conduct do not reach farmers or influence the terms of trade between parties in the supply chain. Therefore they do not address the unequal bargaining relationship between the farmers and these global giants.

The problem needs to be acknowledged because to focus only on the 'local' will make interventions less effective. SME and other organisational support must be adapted and positioned firmly within the context of the global marketing chains of which low-income smallholders are now part.

Globalisation, strong civil society groupings, and information technology also have other effects. They make networking and international partnerships less abstract and more feasible. The Ghanaian cocoa farmers and Day Chocolate Company cooperation show that linkages can be built within a development framework: trading is the focus and the means, the call to action but not the end. Successful trading means successful human development for farmers and their neighbours as well as for 'empowered' consumers. This also contests the market norm. There are significant barriers to changing the commodity markets but there is a need to do so because of the vast numbers of farmers involved – and there are many opportunities.

The Day Chocolate Company model is more than material – prices, tons, units sold. It is psychological and also remedial – helping to overcome the worst aspects of the past, and aiming to overcome the 'disconnect' in conventional business chains. Counter-arguments of 'scale' and 'unfeasibility' seem weak. Increasingly, consumers are aware that if large companies do not know for certain where their primary products or raw materials are sourced, they are not in a position to satisfy consumer concerns about a range of issues as diverse as genetic modification (of lecithin in chocolate), social welfare, child and forced labour, sustainable farming practices, and good quality raw materials.

Examples like Day and Kuapa Kokoo can therefore have an impact beyond their sales figures, numbers of households, or sacks of cocoa. Now development organisations are being approached by large companies to assist with reviewing and assessing their 'social impact'. Rural areas in particular need significant but appropriate attention. Clearly, SME skills and capacity-building projects are needed to support farmers in their efforts to organise and 'relate' to their clients' and the end-consumers' concerns (for quality, for pesticide-free production, and so on). Complex and costly structures for top-down auditing and scrutiny do not necessarily assist farmers to improve their status. Other writers on corporate social responsibility have commented on the unintentional adverse impacts of large companies adopting codes of conduct, for example, when this has resulted in their 'removing' the smaller companies and commercial entities from the supplier list because they could not afford to 'comply' quickly.

Traditional focus on SME and purely localised support will not empower farmers but rather consolidate existing trading chains and their characteristics if they lack components aimed to challenge the status quo and create alternatives such as:

- empowerment and awareness raising about the market;
- synchronised programmes (consumers and farmers are part of an integrated chain, even though operating at a distance, separated only by middlemen);
- interventions to create more bargaining power and access to fairly priced finance for the smaller, weaker player at the point of purchase or sale into the international market;
- financial and commercial realism, including attention to cost and scale;
- recognition of the competitive and concentrated nature of the global markets in which even the smallest farmers and growers of commodities now operate.

Development interventions need to address the whole value chain – relative power, worth, and weaknesses – from the perspective of allocation of value. This requires a clear strategic goal or vision, 'staying power', and multi-layered and international partnerships. The Kuapa–Day Chocolate experience, while still at its early stages, points to some ways in which leverage can be gained at different stages, from village to final customer, and how some of the broader goals of empowerment and 'voice', so often sought in development projects and so needed by millions of atomised cash-crop farmers, can be incorporated.

Notes

1 The expansion of cocoa production was similar in magnitude and impact to the recent Vietnamese coffee producers' leap to second place in world production of coffee. There was no comparable public attention to the social and economic consequences for cocoa farmers then as there is now for coffee growers.

2 All outstanding loans for the start-up were repaid to TWIN within four years of the launch. Interest was charged at a rate of 12 per cent.

3 The grant in 1993 was for three years, and totalled US$50,000. Other smaller donors included the Max Havelaar Foundation (US$15,000) and Comic Relief (US$60,000 in year 2). An 'outcome' was the formation of Kuapa Kokoo in Ghana and the establishment of export departments at a number of coffee farmer cooperative unions in Tanzania – all of which survive to this day. A more recent grant from DfID has assisted in the documentation of these experiences in a number of essays and case studies (see Tiffen and Murray 2000).

4 The fair trade minimum or floor price is currently US$1600 per ton with an additional US$150 per ton as a social premium, totalling US$1750. This compares with prevailing market prices averaging less than US$1000 in recent years. Fair trade in practice also means democratic and accountable organisations, pre-finance facilities, and direct and long-term relationships.

5 Recent allegations of abusive child labour on cocoa plantations in West Africa are stimulating debate on the roles and opportunities of private companies, governments, and NGOs to improve conditions, and a joint industry and NGO taskforce is being formed to look at the practices and possibilities of eradicating such exploitation from the chocolate chain. Direct farmer trading on an alternative or fair trade model is to date not viewed as a feasible option by the chocolate trade.

6 See www.divinechocolate.com or www.dubble.co.uk (the joint product with Comic Relief and education-teacher link-up site).

7 George Foulkes, MP, speech to the International Cocoa Organisation, London, 1999.

8 See numerous articles since late 2000 on forced labour and slavery in cocoa plantations, e.g. 'Malians work to free child laborers' (*Miami Herald* 25 June 2001); 'Help End Child Slave Labour' at www.oneworld.org/ni/issue304/contents.html; in addition to BBC documentaries and many campaign websites promoting action over revelations in the cocoa sector (e.g. www.act.actforchange.com/).

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