

Managing Risk in Côte d'Ivoire's Cocoa Sector

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Summary of Côte d'Ivoire Cocoa Sector

- **Addressing Côte d'Ivoire cocoa sustainability issues is an industry and national imperative**
 - Both industry and country have significant stakes in the health of the cocoa sector in Côte d'Ivoire
- **Cocoa growing conditions in Côte d'Ivoire are bleak but can be improved**
 - Economic, social, environmental conditions are poor and in a downward spiral of decline
 - Conditions are already creating volume and quality risk
 - Turnaround of the cocoa sector in Côte d'Ivoire is both possible and needed along with improvements in other origins
- **Clear strategies exist to take corrective action – Stakeholders must mobilize urgently**
 - Priority should be placed on improving economics to the farmer
 - Solutions to improve farmer income are known but have not been successfully brought to scale
 - Improving farmer income will drive concurrent environmental and social improvements, in combination with other efforts
 - Addressing challenges in the cocoa sector can be integrated with broader agricultural development efforts
- **Achieving success will require a new level of collaboration**
 - Developing/working within a common agenda: government, NGOs, donors, supply chain and then a public-private governance structure for cocoa sector activities in Côte d'Ivoire
 - Integrating commercial interests in sustainability with “public goods” investments

Côte d'Ivoire Cocoa Case Study

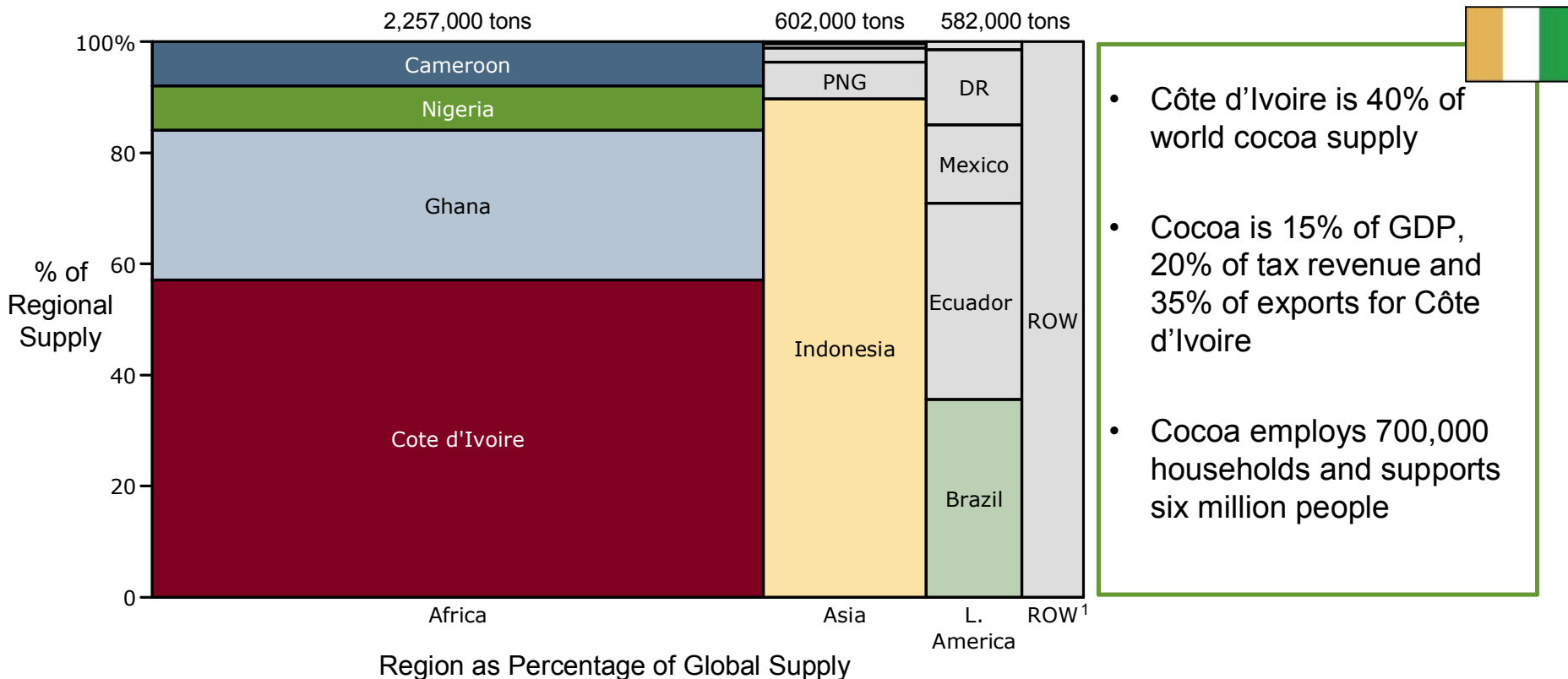
I. Situation Assessment

II. Vision and Strategies

III. Taking Action & Partnerships

Côte d'Ivoire Is the Leading Cocoa Producing Country in the World, Supplying More than Twice as Much as the Second Largest Country

Annual Cocoa Production by Region, 2007



- Côte d'Ivoire is 40% of world cocoa supply
- Cocoa is 15% of GDP, 20% of tax revenue and 35% of exports for Côte d'Ivoire
- Cocoa employs 700,000 households and supports six million people

Côte d'Ivoire can become not just a volume leader, but a leader in sustainable, competitive, intensified and diversified cocoa farming systems

Source: Industry data; 1 – Cocoa from the rest of the world represents less than 10% of total production and is from smaller origin countries (e.g., Papua New Guinea)

Côte d'Ivoire Is Ranked Among the Low Human Development Countries according to the United Nations Human Development Indicators

Côte d'Ivoire Country-Level Development Challenges
<ul style="list-style-type: none"> • Political Uncertainty <ul style="list-style-type: none"> – Elections have been postponed several times and may not be held in 2009 • Weak Economic Growth and Outlook <ul style="list-style-type: none"> – Reduced foreign investment and slow economic growth have resulted from uncertain future – Per capita income down 15% since 1999 • Diminished Public Services and Investment <ul style="list-style-type: none"> – 72% of cocoa farming villages do not have a health center – 9% have no primary school within 3km



UN Human Development Indicator	Côte d'Ivoire Value	Côte d'Ivoire Rank Among All Nations	Côte d'Ivoire Rank Among Selected Cocoa-Producing Countries ¹
Life Expectancy at Birth	55 years ²	164 / 177	5 / 5
Adult Literacy	48.7%	125 / 139	5 / 5
Combined School Enrollment	39.6%	160 / 172	5 / 5
GDP Per Capita	\$1648	147 / 174	5 / 5
UN Human Development Index Total Ranking		166 / 177	5 / 5

Côte d'Ivoire leads in cocoa production, but not in development against other cocoa producing countries

Source: UNDP Human Development Report, CIA Factbook, Initial Diagnostic Report on Child Labor

1 – Selected cocoa-producing countries include Indonesia, Ghana, Cameroon, and Nigeria

2 – Data on life expectancy is from CIA Factbook; rankings are from UNDP Human Development Report

Cocoa Sustainability in Côte d'Ivoire—A Vision for Change

The Vast Majority of Cocoa Farmers in Côte d'Ivoire Are at Subsistence Level, With Limited Ability to Invest Sufficiently in Their Farms

Côte d'Ivoire Average Farm and Family-Level Economics



Key Farm Indicators	Cocoa Farming – Inefficient, under priced, subsistence...
Current Avg. Yield	<ul style="list-style-type: none"> • 450 Kg/Ha • Average farm size 3 Ha
Cocoa Volume	<ul style="list-style-type: none"> • 1.35 tons
Cocoa Price	<ul style="list-style-type: none"> • Recent farm gate price of \$1-1.40 / Kg
Income	<ul style="list-style-type: none"> • ~\$1600 (Gross Income) • Gross income too low to invest in optimal farm inputs <ul style="list-style-type: none"> – Cost of optimal farm inputs (\$300 / Ha or \$900 total on a 3 Ha farm)
Average Farmer Age ¹	<ul style="list-style-type: none"> • 49 years old
# of Kg of Cocoa Needed to Buy One Bag of Fertilizer	<ul style="list-style-type: none"> • Côte d'Ivoire: 52 kg of cocoa • Indonesia: 8 kg of cocoa

1 – In country expert interviews; François Ruf, CIRAD
Cocoa Sustainability in Côte d'Ivoire—A Vision for Change

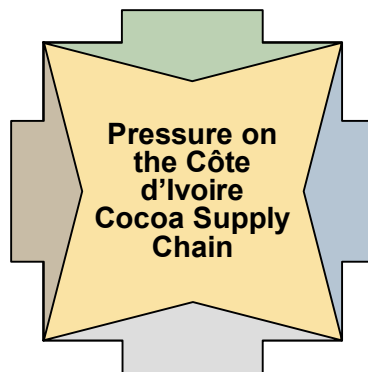
Challenging Economic, Environmental, Social and Political Conditions in Côte d'Ivoire Place Considerable Pressure on the Cocoa Supply Chain

Economic

- **Low Cocoa Yields** – 450 Kg/Ha
- **Tax Burden** – 34% versus ~15% in Ghana and zero to very small in other cocoa origins
- **Resulting Low Share of Prices to Farmers**

Environmental

- **Deforestation** – no new land
- **Full Sun Cocoa Systems¹** – 35% no shade
- **Declining Soil Fertility** – ~14% access to fertilizers



Social

- **Lack of Social Services** – Only ~28% of cocoa farming villages have a health center
- **Child Labor** – 89% of children, 43% injuries, 9% forced labor
- **Migration**

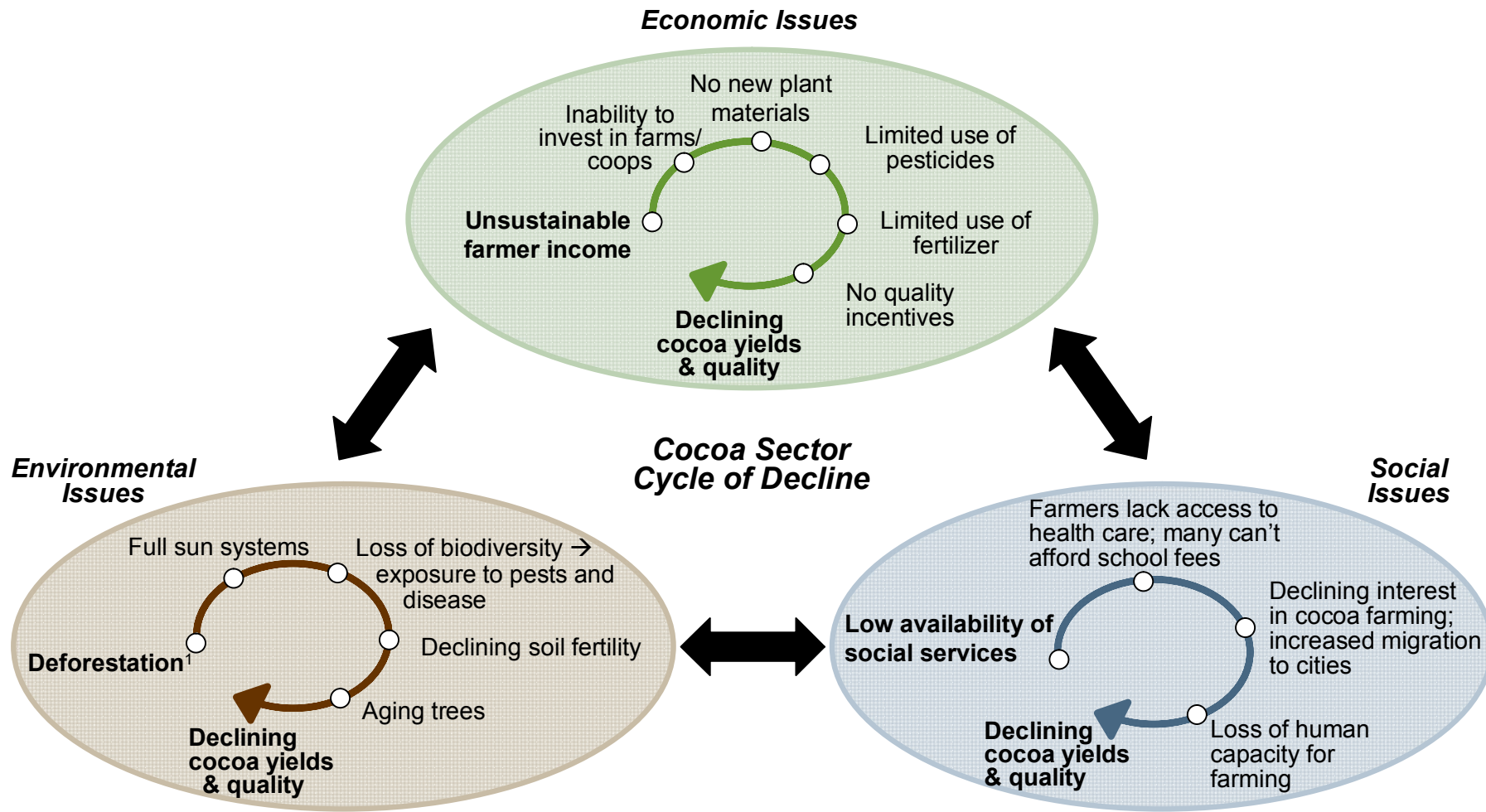
Political and Regulatory

- **Evolving Political Environment**
- **Launch of New Cocoa Sector Governing Body**
- **Land Tenure Rights**

Notes: 1- This does not include farms that have 18 shade trees, the acceptable shade level for several certification programs.

Source: Industry Documents, United Nations, World Bank
Cocoa Sustainability in Côte d'Ivoire—A Vision for Change

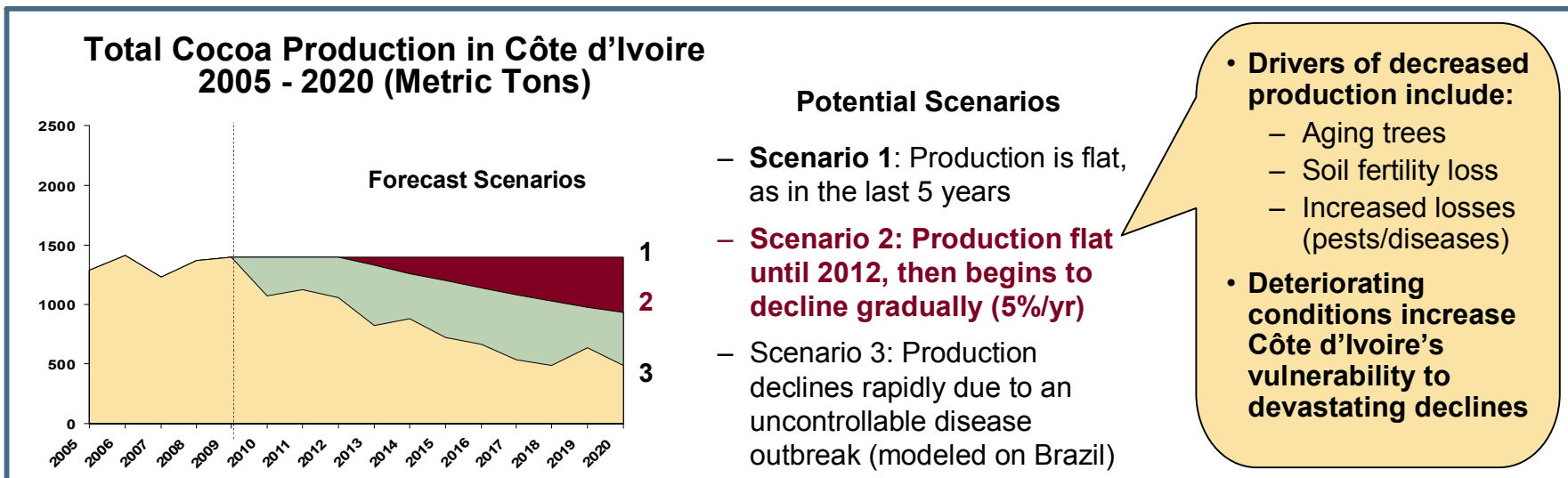
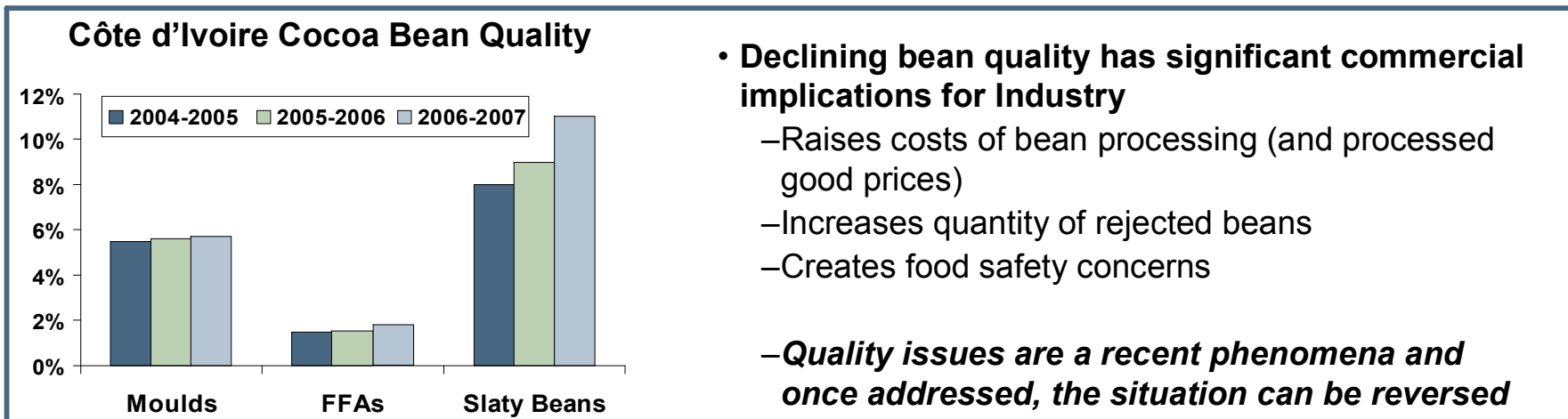
Cocoa Sector Sustainability Conditions Are Currently in a Mutually Reinforcing Downward Spiral



In the absence of corrective action, these negative trends will accelerate and threaten overall cocoa production levels and quality

1 – ~90,000 Ha/ year attributable to cocoa farming; 3 million ha of total rain forest remain in Côte d'Ivoire
Cocoa Sustainability in Côte d'Ivoire—A Vision for Change

Quality Declines Are Tangible, Production Declines Are Likely



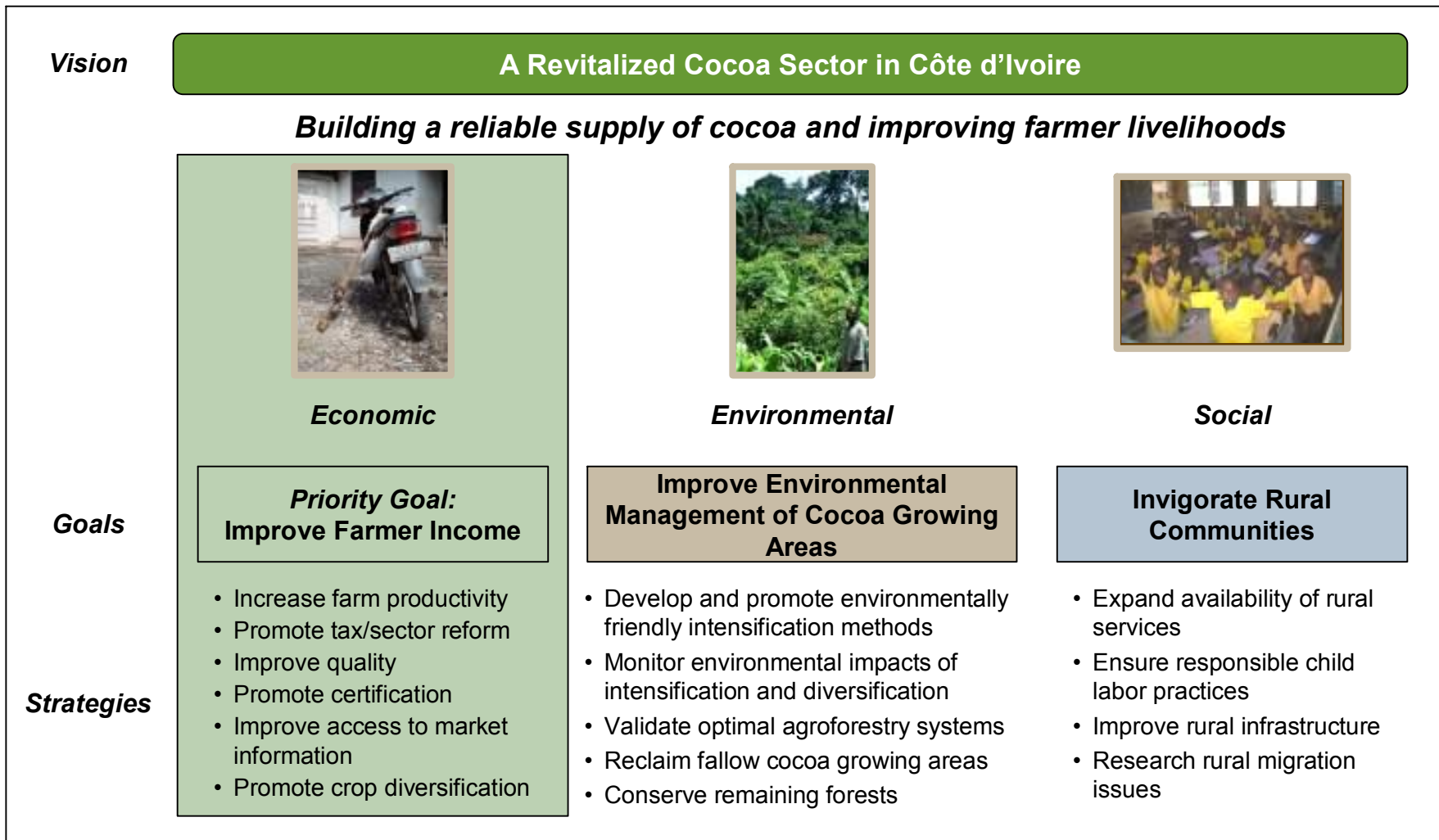
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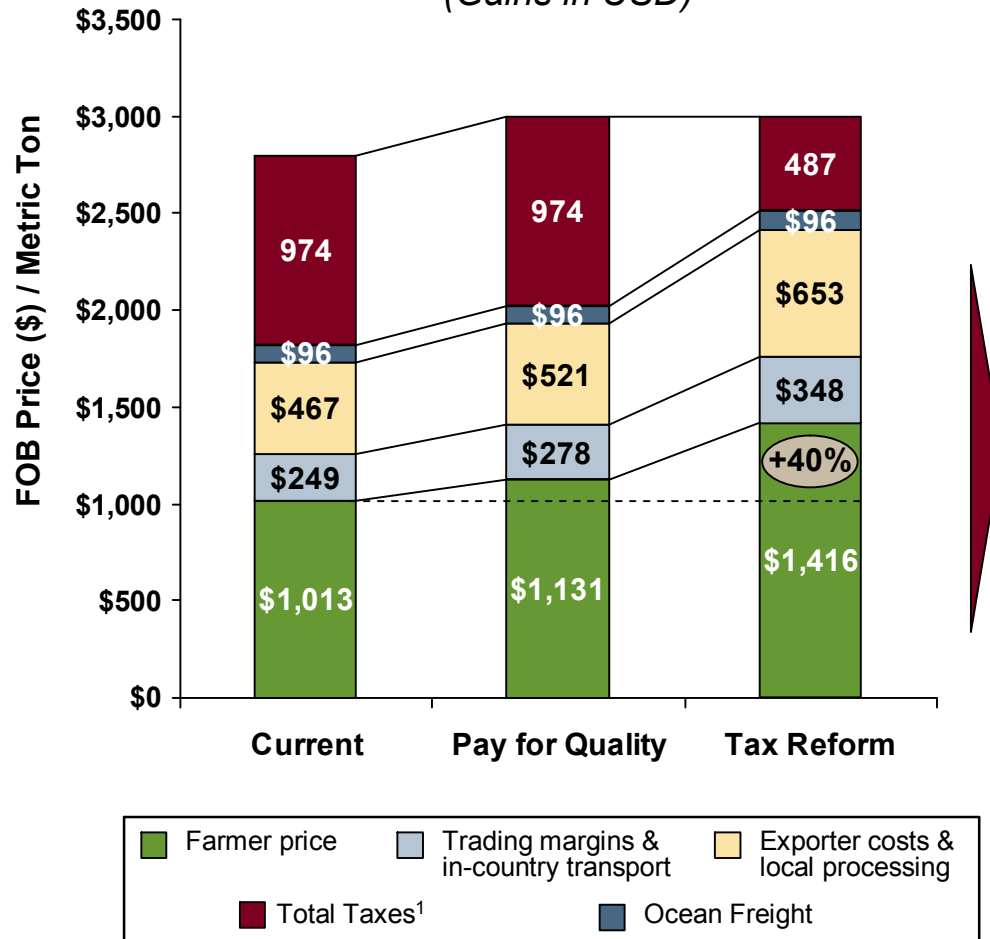
A New Comprehensive Vision of Cocoa Sustainability, Shared by All Stakeholders, Is Urgently Needed in Côte d'Ivoire



Action should prioritize economic issues as they unlock the ability to make concurrent improvements in environmental and social dimensions

Opportunities Exist To Increase the Farmer's Share of FOB Cocoa Prices by Approximately 40% Through Tax Reform and Quality Initiatives

Potential Impact of Price-Based Gains
(Gains in USD)



Price-Based Gains

- Cocoa farmers can realize up to 40% more value for their cocoa through:
 - **Quality Premium** – Achieve up to USD \$200 (premium received in Ghana), allocated proportionally to farmers and supply chain partners for quality and traceability
 - **Tax Reform** – Reduction of total taxes from 35% to 17.5% with benefits accruing proportionally across the supply chain
- **Market Information System** – Cocoa farmers can also increase farm gate price through improved market pricing information (not yet estimated)

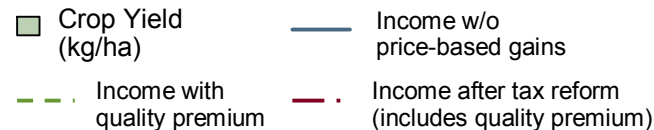
Note: FOB is "freight on board" (export price)

1 – Total taxes include both export tax and paraprofessional tax

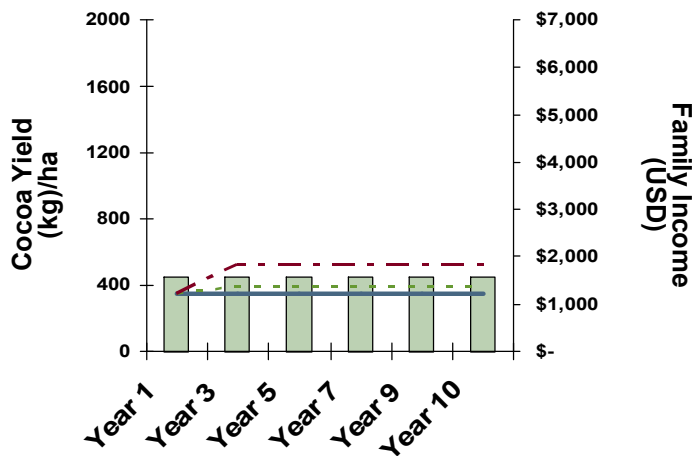
Source: 2006 industry data adapted to September 2008 prices, In-country research, expert interviews
Cocoa Sustainability in Côte d'Ivoire—A Vision for Change

Volume-Based Gains in Combination with Priced-Based Gains Can Generate Significant Net Income Improvements

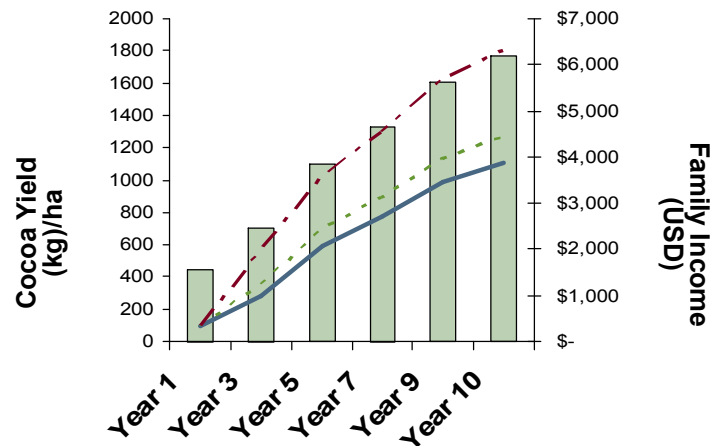
- **Price-based gains¹** produce a modest but direct increase in farmers' bottom line (i.e., require no investment)
- **Volume-based gains²** in combination with price-based gains generate significantly more income, but require up-front investment by farmers in farm inputs



Price-Based Gains¹
(Potential Family Net Income Impact)



Volume- and Price-Based Gains²
(Potential Family Net Income Impact)

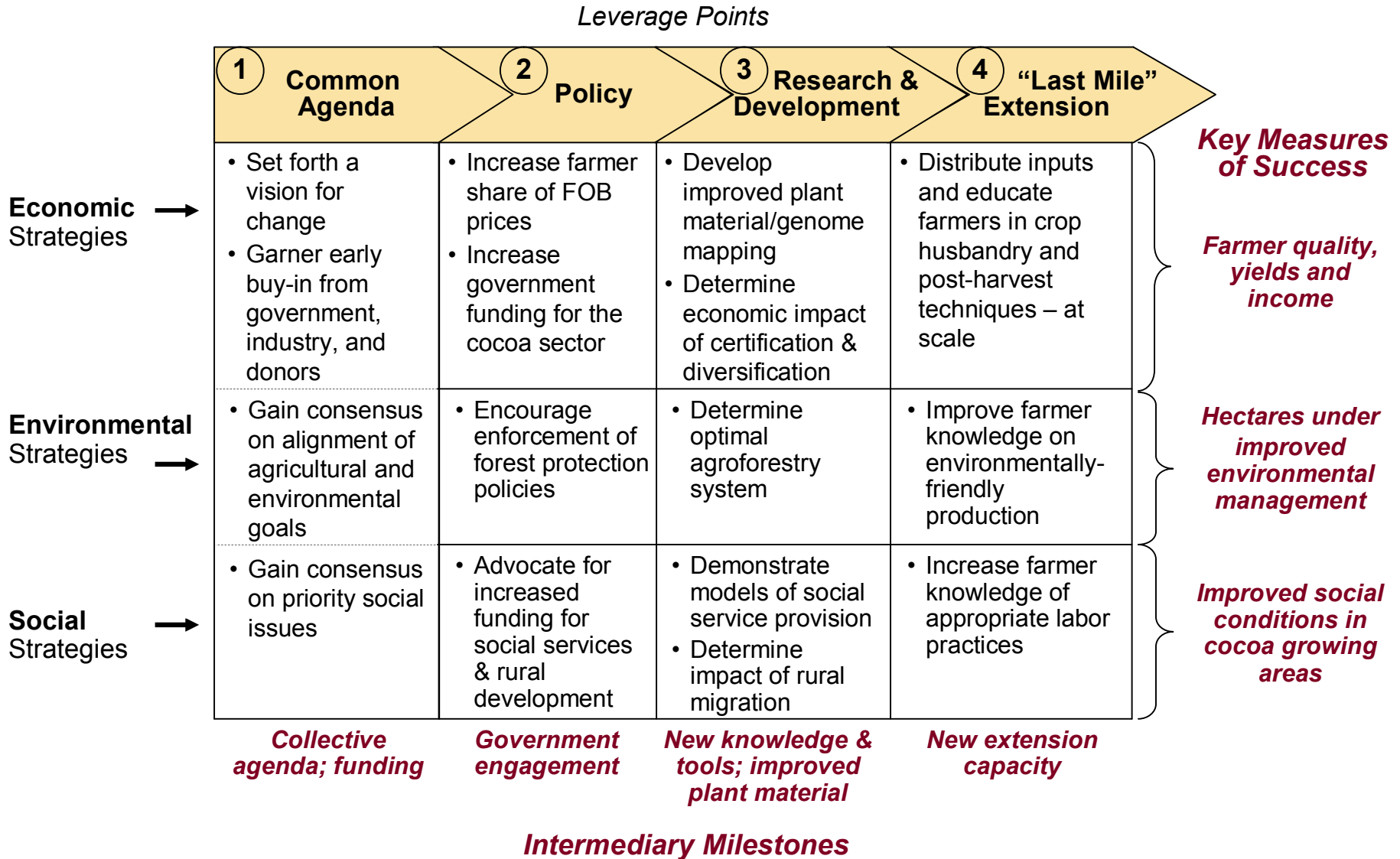


1, 2: Income impact is shown as net of input/plant material costs for graph on right (2). Both graphs assume 12% increase in farmer income due to quality premium in year 2; additional 25% increase in income due to tax reform in year 3. Graph on right (2) assumes 30% productivity increase in year 2 from pest management techniques; additional 50% increase in year 3 from improved pest management and plant material; additional 33% increase in year 4 from improved pest management and plant material; additional 30% in year 5 from use of fertilizer; and additional 10% each year thereafter until optimal yield of 1500 kg/ha is achieved. Source: Expert interviews and FSG analysis

Four Leverage Points Will Be Critical to Realizing the Goals of the Sustainability Vision

- 1** Development of a Common Agenda that defines the problem and sets forth a vision for change, strategies for achieving the vision, and resource requirements is essential for sector-level impact
- 2** Policy Reform will help underpin the effort to achieve sector-level improvements in economic, environmental, and social conditions
- 3** Further Research & Development is necessary in several key impact areas (e.g., optimal plant material, agroforestry systems)
- 4** “Last Mile” Extension refers to the development of efficient new mechanisms to efficiently distribute farm inputs and transfer knowledge at scale

The Completion of Several Activities Within Each Leverage Point Will Lead to the Revitalization of the Cocoa Sector in Côte d'Ivoire



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Today, a Multitude of Disconnected Investments Fail to Transform the Cocoa Sector From Extensive to Intensive and Diversified Farming

Economic Initiatives

- Farmer Productivity
- Quality
- Taxation
- Market Information

Environmental Investments

- Deforestation
- Farming Practices
- Climate Change

Social Investments

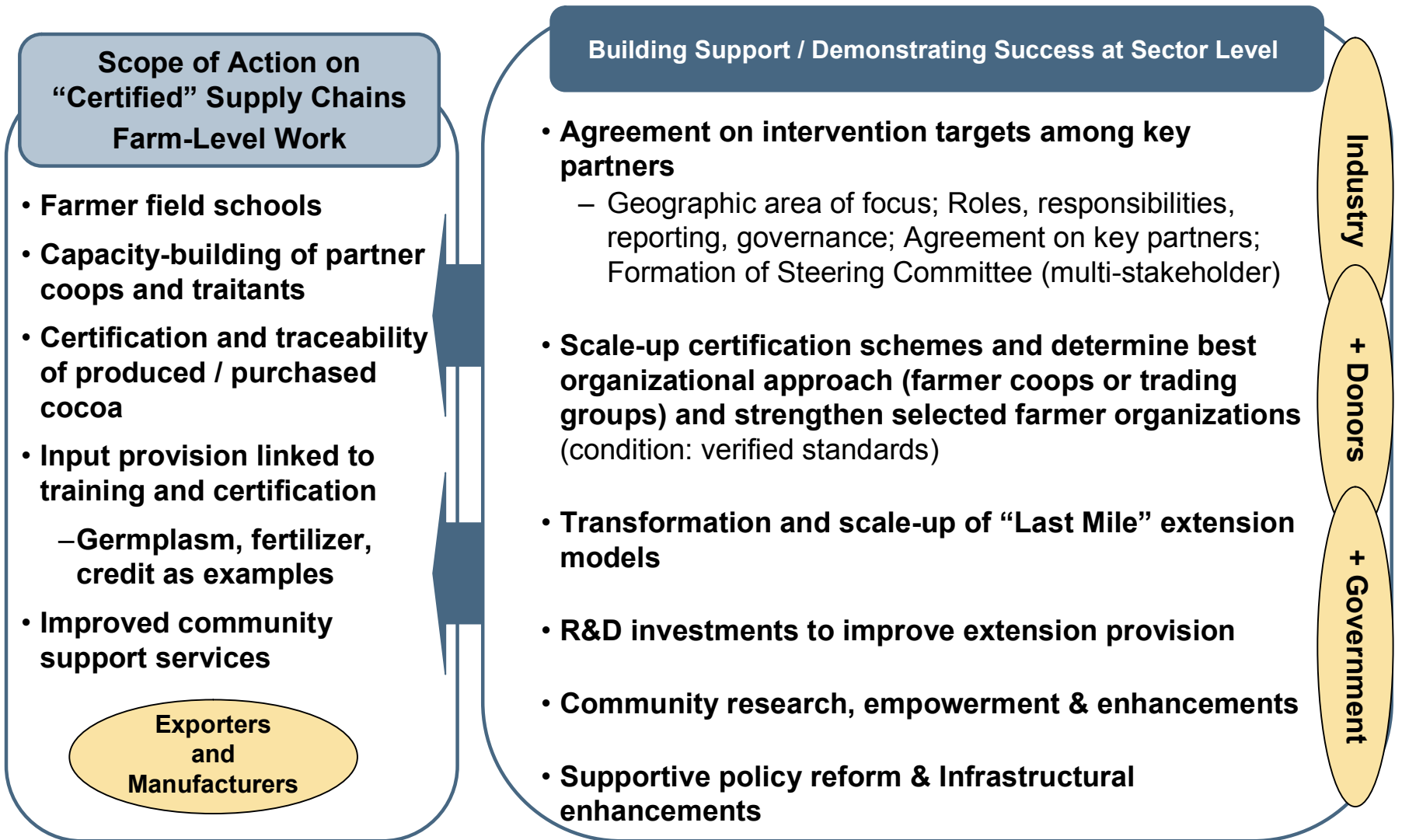
- Responsible Labor Practices
- Improving Living Conditions

Sample of Actors Currently Working in Côte d'Ivoire's Cocoa Sector



Current efforts are insufficient; Revitalizing the cocoa sector will require deeper integration of respective efforts and competencies

Building a Common Agenda Should Focus on Defining Location-Specific Integration of Dedicated Efforts with Sector-Level Support



There Are Many Reasons To Believe a Cocoa Sector Transformation Is Possible

Conditions supporting Côte d'Ivoire Cocoa Sector Transformation



Willing and interested beneficiaries



Common understanding of both sector challenges and solutions



Commitment and motivation among stakeholders



Sector-level approach takes into account commercial self-interest



Realistic acknowledgement of government and sector policy conditions



Other agricultural sector transformation examples exist to draw from