

— **Bittersweet Chocolate** —

Analysing the underlying factors that influence the prospect of transformative change in farmer sustainable livelihoods from an upgrading perspective



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List of Acronyms

CMC	Cocoa Marketing Company
Cocobod	Ghana Cocoa Board
CPC	Cocoa Processing Company
CRIG	Cocoa Research Institute of Ghana
CSR	Corporate Social Responsibility
FT	Fairtrade
GHC	Ghanaian Cedi
GVC(s)	Global Value Chain(s)
ICI	International Cocoa Initiative
LBC(s)	Licence Buying Company(ies)
PBC	Produce Buying Company
RA	Rainforest Alliance
UTZ	UTZ Certified
WCF	World Cocoa Foundation

1. Introduction

An analysis of the underlying factors accounting for the lack of transformative change in farmer livelihoods

“Our biggest constant North Star is ‘how do we have a better impact?’ We work with all these different companies on all these different issues and yet, things are actually worse today than they were 30 years ago”

(Interview Participant, Public-Private-Partnership Coordinator, 2019)

In 2009 chocolate manufacturer Nestlé announced its investment of more than \$110 million into its new initiative, the Nestlé Cocoa Plan, designed to improve the productivity of cocoa farming, improve cocoa farmer livelihoods and make cocoa production more sustainable. Three years later, Mondelez followed suit with a \$400 million investment into its Cocoa Life program, following similar objectives. Before the turn of the decade, Hershey’s, Mars and Ferrero had all launched their own initiatives, pumping an additional \$1.5 billion into the objectives of increasing cocoa farming productivity, improving cocoa farmer livelihoods and bettering the sustainability of the sector. The ‘big five’ of the chocolate industry had all made substantial commitments to drive positive change at farm level. Yet, very little has changed.

A large share of the world’s cocoa farmers face severe socio-economic challenges. Roughly 70% of global cocoa farmers live in West Africa, primarily in Côte d’Ivoire and Ghana (Swiss Platform for Sustainable Cocoa, 2017). It is estimated that out of these, more than two thirds earn below the World Bank’s extreme poverty line of \$1.90 a day (World Cocoa Foundation, 2020). Most of these farmers are smallholder producers who grow cocoa

on relatively small plots of land¹ and rely heavily on family labour (International Cocoa Organization, 2012). For many, the low economic return of cocoa production is interwoven with health issues, lack of education and poor living standards.

Most West-African cocoa farmers are integrated into global value chains (GVCs)², and the majority of cocoa produced in Ghana and Côte d'Ivoire is exported abroad to international cocoa processing and chocolate manufacturing companies (Huq & Tribe, 2018). Over the last decades these lead firms have expressed increased interest in improving the socio-economic status of farmers, primarily through increasing productivity, improving sector sustainability and by running various initiatives targeted at improving farmer wellbeing. Many of these lead firms have invested vast amounts of money into these objectives. Initiatives are often motivated by the international action plans of global cocoa organisations such as the World Cocoa Foundation (WCF) and the International Cocoa Initiative (ICI). These kind of attempts to improve the social and economic conditions of workers in global value chains are often labelled as economic and social upgrading (Gereffi, 2018).

However, it has been argued that these commitments and initiatives have had limited effect. It has been referred to as “*increased dialogue but little impact*” (Funtain & Huetz-Adams, 2018, p.25). Despite the industry efforts, many smallholder cocoa farmers are deprived of the economic and social necessities needed for sustainable livelihoods (Tyszler,

¹ Typically around 3 hectares

² Global value chain (GVC) is defined as “*the set of interlinked agents that produce, transform and market products that consumers are prepared to purchase*” (Devaux, Torero, Donovan & Horton, 2016, p.1)

Bymolt & Laven, 2018), and some would even argue that farmers are worse off today than what they were a few decades ago (Hainmueller, Hiscox & Tampe, 2011).

Research Question

This project sets out to analyse the lack of substantial improvements in farmer livelihoods despite the many stakeholder initiatives targeted at driving positive change. In particular, the project analyses the underlying factors that influence the prospects of improvements in cocoa farmer livelihoods. The focal point of the study is Ghanaian cocoa smallholder farmers and the Ghanaian cocoa industry. The project considers farmer livelihoods through the lens of cocoa farming, as cocoa farming is the key source of income³ for more than 800,000 Ghanaian cocoa smallholder farmers. In addition to its economic importance, cocoa farming is also deeply embedded in social, cultural and political domains. It has been central in debates surrounding development, economic reforms, politics and poverty reduction in Ghana (Kolavalli & Vigneri, 2011; Barrientos, 2011). The project sets out to answer the following research question:

Why is there yet to be seen a transformative change in Ghanaian smallholder cocoa farmer sustainable livelihoods?

The project uses literature on economic and social upgrading to conceptualise the trajectories to sustainable livelihoods. Drawing on qualitative research of the Ghanaian cocoa sector, this project answers the following three sub-questions:

³ It is estimated that cocoa farming accounts for two-thirds of cocoa farmers' household income

- *What are the trajectories to economic and social upgrading currently available to Ghanaian cocoa smallholder farmers?*
- *Can global value chain literature, particularly relating to upgrading and GVC governance shed light on the lack of transformative change in farmer livelihoods in Ghana?*
- *Are there other factors restricting a transformative change in farmer livelihoods?*

These questions will be addressed within the relevant empirical analysis chapters. Before turning to this, it is necessary to i) define and explain the relation between sustainable livelihoods and upgrading and ii) define ‘transformative change in farmer livelihoods’.

Linking Sustainable Livelihoods and Upgrading

The concept of *sustainable livelihoods* is a result of decades of both conceptual and practical work on poverty reduction. Today it is widely recognised that poverty goes beyond a lack of income and embodies multidimensional characteristics and causes (Ashley & Carney, 1999).

This multi-dimensional approach is captured in the concept of sustainable livelihoods:

A livelihood comprises the capabilities, assets (including both material and social resources) and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base. (DFID, 1999, p.1)

This project sets out to analyse the lack of sustainable cocoa farmer livelihoods and the multidimensional factors influencing this. The sustainable livelihood concept offers a people-centred, multi-dimensional approach to farmer poverty, and it captures the multiple challenges facing cocoa farmers from the low economic returns of farming to the various

capabilities, assets and activities necessary for smallholder cocoa farmers to live good, dignified lives. In order to understand poverty amongst cocoa smallholder farmers, it is crucial to take such a multi-dimensional approach.

In order to understand the lack of sustainable livelihoods, it is also central to understand the mechanisms which allows cocoa farmers to achieve sustainable livelihoods. This project will leverage the literature on *economic* and *social upgrading* to do so. Briefly put, economic upgrading refers to increasing the economic value capture of production by improving technology, skills and knowledge of producers (Gereffi, Humphrey & Sturgeon, 2005). Social upgrading refers to the ‘decency’ of work and improving the well-being of workers. The following chapter will explore these concepts in more depth.

Economic and social upgrading form important building blocks for ensuring sustainable livelihoods and applying these concepts cater for a multidimensional approach to livelihoods that extends beyond solely improving economic means. The project analysis is built on a premise that upgrading cocoa farmers economically and socially will allow them to live sustainable livelihoods. This aligns with Rossi (2011) who argues that when economic and social upgrading takes place in unison, it holds the potential of drastically improving the livelihoods of workers. Economic and social upgrading of cocoa farmers would require a substantial increase in the economic returns of cocoa farming, as well as an improvement of the many factors that compromise ‘decent’ work and the well-being of workers. Hence, the upgrading framework is used to identify trajectories (and the lack thereof) to sustainable livelihoods.

Moreover, using the upgrading framework to conceptualise trajectories to sustainable livelihoods has another clear advantage. Despite its strengths, the sustainable livelihood

concept fails to address the impact GVC governance and power structures have on farmer livelihoods (Ashley & Carney, 1999). In order to understand the factors influencing farmer livelihoods, it is crucial to consider cocoa farming in relation to the international production chain in which farmers operate, along with the governance and power relations within this chain. This is perhaps particularly true for Ghanaian cocoa farmers who are selling the vast majority of their produce to international chain actors. The lack of farmer livelihoods is often considered from a sustainable livelihoods perspective that highlights the lack of farmer capabilities, assets and activities. This include lack of agronomical knowledge and a low use of productivity enhancing inputs such as fertilisers and pesticides, whereas the challenges facing farmers are often also rooted in factors such as governance, power and political economy. The upgrading framework is centred around the impact of GVC governance on upgrading, hence applying this framework allows for a consideration of how cocoa GVC governance influences farmer sustainable livelihoods.

This project therefore links the concepts of sustainable livelihoods and upgrading. To be precise, it considers sustainable livelihoods as the overarching concept that can be approached from an upgrading perspective. Economic and social upgrading are considered as trajectories for achieving sustainable livelihoods. The project also borrows the governance focus of the upgrading literature to analyse what impact this has on farmer upgrading and livelihoods. Although there are several overlaps between the sustainable livelihood concept and upgrading, both also capture factors the other do not. Linking these concepts therefore allows for a comprehensive analysis that applies both the GVC governance-specific lens of upgrading, as well as the broader sustainable livelihood lens considering the various capabilities, assets and activities influencing farmer livelihoods. By doing so the project harvests the strengths of each individual concept.

Conceptualising farmer sustainable livelihoods is not a straightforward task (Angelsen et al., 2011). This project considers cocoa farming as the key source of farmer livelihoods and builds on a premise that economic and social upgrading will allow farmers to achieve sustainable livelihoods. Although it has been argued that this approach has clear benefits for this particular project, it also carries certain restrictions. I will return to this in the end of chapter 6.

Defining 'Transformative Change in Farmer Livelihoods'

This project analyses the underlying factors influencing the prospect of a *transformative change* in farmer livelihoods. In this project, 'transformative change in farmer livelihoods' is defined as a structural change that substantially improves the scope and scale of economic and social upgrading, and as a result substantially increases the number of Ghanaian cocoa farmers achieving sustainable livelihoods.

To date, initiatives targeted at improving cocoa farmer livelihoods such as those described in the introduction claim to have seen progress, however, this has been characterised by incremental, patchwork improvements on certain factors that compromise a livelihood (such as for example economic poverty), often in isolated areas. There is a need for a holistic, transformative change increasing the scale and scope of the multiple factors that make up a livelihood. The focus of this project is not to quantify an exact number of farmers that need to achieve sustainable livelihoods in order to claim that there has been a transformative change. This would imply that once a certain benchmark is reached the problems of improving cocoa farmer livelihoods has been 'solved'. Instead, the focus is on the underlying factors that restrict a *substantial* increase in livelihoods *across* the many

cocoa farming communities in Ghana. This would require widespread reduction in economic poverty (economic upgrading) and improvement on the various factors that comprises sustainable livelihoods such as worker wellbeing (social upgrading). This is likely to require structural changes in the industry that takes both a technical and a non-technical nature. To date, this has not been seen.

Contextualising the Study

The focal point of this project is Ghanaian smallholder cocoa farmers and the domestic Ghanaian cocoa value chain. The Ghanaian cocoa industry is a suitable case study for this project for three particular reasons.

Firstly, when it comes to cocoa farming, Ghana and Côte d'Ivoire are unparalleled. These two countries alone account for roughly 60-70% of the global cocoa production. Focusing on Ghana in particular was beneficial due to language factors.

Secondly, many Ghanaian cocoa farmers live in poverty and lack social welfare support such as health care and pension schemes. It has been estimated that the average daily income of Ghanaian cocoa farmers is between \$0.40-\$0.45 a day, leaving them well beyond the World Bank absolute poverty line (International Cocoa Initiative, 2017). This means that many Ghanaian cocoa farmers do not have the necessary economic and social means to live sustainable livelihoods. Chapter 4 will discuss the need for transformative change in Ghanaian cocoa farmer livelihoods in more depth.

Thirdly, recent years have seen an increased interest in improving farmer livelihoods across the various private, social and public stakeholders of the Ghanaian cocoa value chain. This has resulted in increased upgrading efforts, often through stakeholder partnerships that

only a few decades ago would be unforeseeable which has sparked new-found optimism: “*Whilst there are tensions between commercial and social pressures, we are (hopefully) seeing the beginning of a revisioning of socio-economic sustainability in cocoa production*” (Barrientos, 2011, p.13). Particularly international chocolate companies have expressed an increased interest in carrying out corporate social responsibility (CSR) initiatives targeted at increasing farmer productivity and improving farmer livelihoods. The international chocolate industry is highly oligopolistic in nature with a few key international firms controlling most of the market. This provides an interesting case for studying upgrading, as it in theory only takes the commitment of a few key firms to potentially see a transformative change in Ghanaian cocoa farmer livelihoods.

Key Findings and Thesis Roadmap

The core argument in this thesis is that the lack of transformative change in farmer livelihoods can partly be accounted for by the governance structure of the industry, as well as a range of other factors that are not directly related to the governance structure. The economic and social upgrading trajectories available to Ghanaian farmers are identified and it is argued that these are not comprehensive enough to see a transformative change in farmer livelihoods.

More specifically, the lack of upgrading is linked to the asymmetrical joint-governance structure of the industry. The governance structure yields asymmetrical power to a core of lead firms (cocoa processors and chocolate manufacturers) that have formed a joint-governance with Cocobod (the governmental institution overseeing cocoa production in Ghana) based on their common objective of ensuring a consistent supply of high-quality Ghanaian cocoa. This allows powerful lead firms to play a key role in designing the

upgrading agenda. The dominance of lead firms effectively acts as a barrier to transformative change in farmer livelihoods due to three particular reasons: i) it affects the value distribution in the chain, ii) lead firms control what kind of upgrading takes place, which limits upgrading trajectories that could substantially alter value capture in the chain, iii) the dominance of lead firms prevents a more consolidated, pre-competitive approach to upgrading which is needed in order to see transformative change in farmer livelihoods. This is currently not taking place as lead firms are incentivised to differentiate their upgrading efforts from competing firms to legitimise their business in the eyes of consumers who are becoming increasingly aware and concerned about the conditions under which cocoa is produced⁴.

It is further argued that the governance focused upgrading framework falls short of painting the full picture of why there is a lack of transformative change in Ghanaian cocoa farmer livelihoods. The upgrading framework primarily focuses on governance as a reason for why upgrading might (or might not) take place. By leaning on a more inductive approach focusing on the various capabilities, assets and activities that influence farmer livelihoods the project identified three additional barriers to transformative change. In contrast to the previous key argument, these are not directly related to the governance structure of the industry. The three factors are; i) the difficulties in upgrading unaffiliated farmers (farmers who are not members of a farmer organisation); ii) the shortcomings of the certification approach as a mechanism to improved livelihoods and; iii) the shortcomings of the approach of enhancing productivity as a mechanism to improved livelihoods. These three factors restrict the potential for transformative change in farmer livelihoods.

⁴ There are several studies who have found increased awareness amongst consumers and a significant increase in demand for certified cocoa. For more information see Pay, 2009: *The Market for Organic and Fair-Trade Cocoa*)

It was initially hypothesised that the understanding of *what* upgrading is and *how* it should be operationalised might differ across the various stakeholders in the cocoa GVC, and that a misalignment on this could be a potential reason for the lack of transformative change in farmer livelihoods. In upgrading literature, it is often assumed that what workers at the bottom of the value chain want in terms of upgrading is synonymous with what lead firms define and promote as upgrading (Gereffi & Lee, 2016). For this project, it was hypothesised that lead firms would primarily focus on economic upgrading (increasing the economic returns of cocoa farmers by improving technology, skills and knowledge), and that farmers and farmer cooperatives would be relatively more focused on the need for improving the ‘decency of work’ and the well-being of workers (social upgrading) compared to lead firms. If one assumes that there is a difference in how these actors understand upgrading, questions of who dictates the upgrading agenda arises.

The project found that the questions of *what* upgrading is and *how* this should be operationalised is largely dominated by lead firms. Lead firms play a key role in designing the upgrading agenda through organisations such as WCF and ICI and play an important role in operationalising upgrading initiatives at farm-level through lead firm CSR initiatives. As a result, there is little scope for other stakeholders to influence what kind of upgrading takes place and challenge how this is operationalised. Counter to the initial hypothesis that lead firms would be relatively more focused on economic upgrading while farmers and farmer cooperatives would be more focused on social upgrading, it was found that both farmers, farmer cooperatives and lead firms primarily focus on economic upgrading. It is argued that this might be due to there being a widespread belief that economic upgrading also enhances social upgrading, and due to the fact that many farmers lack basic necessities and are

therefore less concerned with ‘sophisticated’ social upgrading such as increased bargaining power and pension schemes.

The rest of this thesis is structured in the following way; *Chapter 2* introduces the upgrading literature that frames this project and outlines the contributions of the research. *Chapter 3* outlines the research methods applied and discusses the limitations of the study. *Chapter 4* focuses on Ghana and its cocoa industry. The domestic cocoa value chain functions are mapped and key cocoa stakeholders are identified. This is necessary for contextualising the arguments in the two following chapters. The chapter also builds on interviews with farmers to outline the various economic and social challenges cocoa farmers face, which motivates the need for transformative change in farmer livelihoods. *Chapter 5* analyses the lack of transformative change in farmer livelihoods through the lens of the upgrading literature, identifies trajectories to upgrading (and the mechanisms whereby these trajectories are enabled) and comments on the success of this. Moreover, the governance structure of the industry is identified, and the effects of this structure in relation to upgrading is explored.

Chapter 6 looks beyond the governance focus of the upgrading literature and presents three additional barriers to transformative change in farmer livelihoods. The chapter also returns to the question of whether farmer livelihoods should be considered through the lens of cocoa farming or whether there is a need to look beyond cocoa production in order to see a transformative change in farmer livelihoods. *Chapter 7* concludes the project by revisiting the upgrading literature and motivates further avenues of research.

2. Conceptual Framework

This chapter reviews the literature that frames this project. The first section introduces the upgrading literature and reviews studies that have applied this framework to agricultural sectors. The second section addresses the key debates in the literature and situates the study contributions in relation to this.

Review of Upgrading Literature

The upgrading literature is situated within the broader GVC literature. GVC analysis offers various ways of conceptualising value creation in contemporary capitalism. This field was first introduced by Hopkins and Wallerstein in 1986, who studied the growing complexity of global production chains and the unequal distribution of value that results from these. The literature has since advanced from discussing a dichotomy of producer-vs-buyer driven chains to more complex analyses of the multiple GVC structures encountered in the 21st century and have informed a wide range of fields from international business and political economy studies to development studies. GVC integration has been praised by some scholars as a new way of fostering development (Devaux et al., 2016; Gereffi, 2018), while others have paused to ask where and by whom value is captured in these chains (Humphrey & Schmitz, 2000).

A prominent branch within the development sphere of GVC analysis is the upgrading literature. Upgrading involves improving the economic and social status of workers in the GVC, and hence promote domestic economic development, worker wellbeing and job creation (Gereffi & Lee, 2016). It has been seen as a means for developing countries to catch-

up with the West and leapfrog the economic development process through knowledge and skill transfers within the chain (Taglioni & Winkler, 2016). Particularly East and Southeast Asian economies have embraced this as a means for development (Gereffi, 1995). Much of the research on upgrading has been carried out under ‘Capturing the Gains’, a three-year research project supported by the UK Department for International Development drawing on international competence to expand the knowledge about employment and wellbeing of workers in GVCs.

Defining Economic and Social Upgrading

Most studies distinguish between economic and social upgrading. Economic upgrading is defined as “*a move to higher-value activities in production, to improved technology, knowledge and skills, and to increased benefits or profits deriving from participation in GVCs*” (Gereffi, 2018, p.282). It is often distinguished between four different categories of economic upgrading (amongst others; Barrientos, Gereffi & Rossi, 2011; Barrientos & Visser, 2012):

- Product upgrading: producing higher quality products or producing new related products with enhanced features
- Process upgrading: increasing the productivity and efficiency of the production process and increasing the output per unit of input
- Functional upgrading: taking on new value chain functions, such as vertical integration
- Chain upgrading: shifting into a more technologically advanced value chain such as artificial production

Early upgrading studies mostly focused on upgrading as a firm-centric concept that promoted improved economic performance of labour-intensive industrial firms. Studies have for example been carried out on the prospect of upgrading of Asian firms in the apparel industry (Gereffi, 1999). It was often somewhat ignorantly assumed that upgrading firms economically would lead to trickle-down effects that could benefit individual workers and their communities. This paid little attention to the social, cultural and environmental spheres of employment (Puppim de Oliveira, 2008).

As a response to this, the concept of social upgrading was proposed. The social upgrading concept is derived from the International Labour Organization's Decent Work Agenda and is defined as "*the process of improvement in the rights and entitlements of workers as social actors and the enhancement of the quality of their employment*" (Barrientos et al., 2011, p.324). Social upgrading addresses access to better work and enhanced labour conditions (Gereffi & Lee, 2016). Social upgrading is less rigidly defined compared to economic upgrading and there is more uncertainty on what it looks like for workers. Taglioni & Winkler (2016) argue that it can be divided into two categories; measurable factors and non-measurable factors. Measurable factors include employment security, social protection, pension schemes and so on. Non-measurable factors include enabling rights such as empowerment, non-discrimination, freedom and rights to bargaining. Barrientos et al. (2011) argue that the benefits of social upgrading do not only accrue to direct employees but might also positively affect their dependants and their communities.

Upgrading in the Agricultural Sector

Although the majority of studies have focused on firm or industry level upgrading in labour-intensive industrial sectors, scholars have also applied these concepts to consider worker-centred upgrading in the agricultural sector.

Barrientos and Visser (2012) argue that European supermarkets and their private environmental and social standards are key mechanisms for social upgrading in South-African horticulture, but only for regular workers, partly at the expense of casual workers who experience job insecurity, low economic returns and few labour rights. Damiani (2008) studied a Mexican coffee producing cluster and a Chinese tobacco producing cluster and found three mechanisms that play a key role in driving economic and social upgrading; global certification standards (due to these products bringing increased economic returns), the establishment of small farmer associations in Mexico (this led to increased certification compliance and improved negotiation with global buyers) and the establishment of agro-processing firms in China (due to these providing tobacco seeds and teaching good agronomical practices).

There is a relatively brief literature applying the upgrading framework to Ghanaian cocoa farmers in particular. Laven (2011) argues that lead firm standards that enforce improved health and safety standards is a key mechanism for social upgrading of Ghanaian cocoa farmers. Moreover, she argues that improved market access can lead to economic upgrading but that vulnerable farmers such as landless- and female-farmers are often excluded from this. She also considers the role of the state in driving inclusive upgrading of cocoa farmers and argues that it acts both as a 'balancer' through mitigating risk for smallholders, but also

as a ‘bottleneck’ through preventing international buyers from establishing more direct relations with farmers which could lead to increased upgrading.

Gibbon and Ponte (2005) argue that there are few examples of successful upgrading of Ghanaian cocoa farmers. They argue that functional upgrading could potentially be key to increased local value capture, but that Ghana has not managed to establish a local processing sector that can compete with the international processing market. Moreover, they argue that single origin chocolate and certified chocolate products have the potential of being mechanisms for product upgrading but that this market is still limited.

Dormon et al. (2004) study the challenges to upgrading from farmers’ perspective in Ghana and find that these include biological causes (pest and diseases), inadequate crop management and socio-economic factors such as low producer price, lack of electricity, lack of capital, inability to buy inputs, lack of labour and poor road networks. They argue that low yield is the major problem facing Ghanaian cocoa farmers, and that biological and socio-economic causes are interrelated.

Barrientos (2014) marries upgrading studies with feminist political economy and argues that better remuneration and recognition of female farmers in Ghana could improve the potential for economic and social upgrading.

These studies have contributed greatly towards a better understanding of farmer-centric upgrading in a literature that has primarily focused on firm and industry-centric upgrading. This project seeks to continue this trend by addressing upgrading from the focal point of Ghanaian cocoa farmers. The following section addresses how this project intends to do so while also contributing to current literature debates.

Key Literature Debates and Study Contributions

This section will highlight key debates in the upgrading literature and situate the study contributions of the project in relation to this.

Under what conditions do upgrading take place?

A large amount of the upgrading literature is devoted to the debates surrounding the underlying conditions that facilitate and promote upgrading (Lee, Gereffi & Barrientos, 2011; Gereffi & Lee, 2016; Taglioni & Winkler, 2016). Most studies focus on the governance structure of the GVC as the key determining factor of whether upgrading takes place. Gereffi (1994, p.9) defines GVC governance as the “*authority and power relationships that determine how financial, material and human resources are allocated and flow within the chain*”. At forefront of the governance-branch is Gereffi and Lee’s (2016) synergistic governance framework. They argue that social and economic upgrading in is affected by the stakeholders present in the GVC, and that one needs to pay attention to the “*complex interactions - tensions, conflicts, displacement, complementarity and synergy – between public, social and private forms of governance*” (Gereffi & Lee, 2016, p.26). They argue that the presence of both horizontal and vertical private, social and public governance forces can create ‘synergistic governance’ which pressures lead firms to move beyond narrow cost-based models of competition and focus on both economic and social upgrading as shown in Table 1.

Table 1: Synergistic governance framework

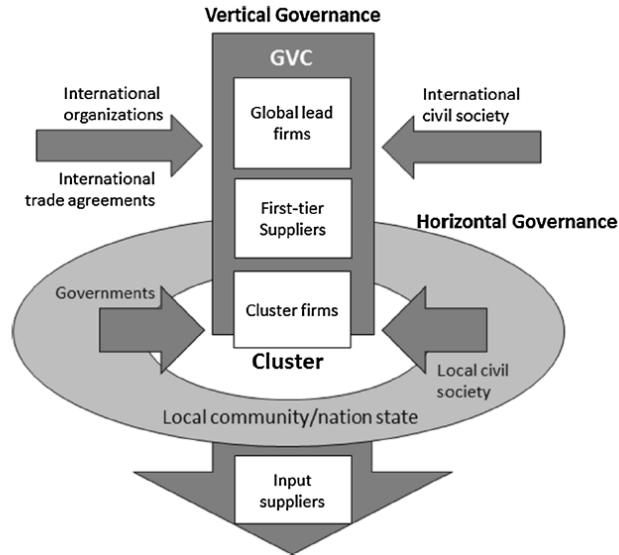
	Horizontal governance	Vertical governance
Private governance	Local collective efficiency: e.g. industrial associations and cooperatives	GVC lead firm governance: e.g. lead firms CSR initiatives
Social governance	Local civil society pressure: e.g. local NGOs	Global civil society pressure: e.g. international media and global NGOs
Public governance	Local, regional, national government regulations: e.g. domestic labour laws and environmental legislation	International organisations: e.g. the ILO and WTO

Source: Gereffi & Lee 2016.

Private governance upgrading pressure is exercised through for example producer cooperatives and lead firms' voluntary corporate social responsibility (CSR) initiatives. Social governance pressure can for example be in the form of market demand for improved labour conditions and is often exercised by local and global NGOs and media. Public governance can be in the form of legislative action by domestic governmental bodies and transnational organisations.

The confluence of private, public and social governance forces can lead to synergistic governance, which is argued to be the key determining factor for whether social and economic upgrading takes place. These mechanisms are shown in Figure 1.

Figure 1: The confluence of actors causing synergistic governance



Source: Gereffi & Lee, 2016.

It is argued that synergistic governance is not a given in all value chains, but that when present it offers a promising pathway for bringing together corporate, civil society and governmental actors in a global setting to work towards joint objectives (Lee, Gereffi & Barrientos, 2011; Gereffi & Lee, 2016; Taglioni & Winkler, 2016; Gayi & Toswou, 2016). The potential alignment of policy objectives and private incentives increases the likelihood of upgrading (Kanga, Moussa & Sanogo, 2019).

Gereffi and Lee (2016, p. 35) recognise that the relative strength of one form of governance might also lead to displacement of other forms of governance and hence restrict upgrading:

...i.e., one type of governance can pre-empt, displace, or crowd out other forms. Private governance like CSR, for instance, may replace public governance and weaken other forms of governance, such as local labour institutions or labour unions.

It has been questioned whether private governance act as a barrier or a springboard for upgrading (Lee, Gereffi & Beauvais, 2010; Lee, Gereffi & Barrientos, 2011). It is recognised that lead firms are often driven by commercial interest which can collide with upgrading interests.

This project will apply the synergistic governance framework to the Ghanaian cocoa sector. It will examine the governance structure of the industry, analyse whether it is a case of synergistic governance and consider whether any forms of governance displace or dominate other forms. This will contribute to a better understanding of the value of the synergistic governance framework in accounting for upgrading (or the lack thereof), something that has been questioned in literature:

It is not clear how much this chain governance-based theory adds to an understanding of upgrading. The conclusions drawn go little further than repeating the reasons that we have provided elsewhere for why lead firms adopt one kind of governance form rather than another. (Gibbon & Ponte, 2005, p.91).

More precisely, this will contribute towards a better understanding of the link between governance and upgrading; the role of private governance in promoting upgrading and; the potential effects a displacement of governance forces has on upgrading. This will challenge the existing boundaries of the upgrading framework.

What are the trajectories to upgrading in various industries?

It has been argued that there is a need for more research to gain a better understanding of what upgrading looks like in various sectors and how and by whom it is facilitated (Gibbon & Ponte, 2005; Barrientos, Gereffi & Rossi, 2011; Taglioni & Winkler, 2016; Gereffi & Lee,

2016). It is argued that this requires chain-by-chain empirical analysis of upgrading trajectories (Gibbon & Ponte, 2005).

This project will identify the trajectories to *economic* and *social* upgrading that are currently available to Ghanaian smallholder cocoa farmers, the mechanisms whereby these trajectories are enabled and the stakeholders facilitating these. The upgrading literature assumes that *economic upgrading* takes place according to four defined trajectories⁵. This project will analyse whether all these *economic upgrading* trajectories are currently available to Ghanaian smallholder cocoa farmers (and whether there are any other trajectories available) and contribute towards a better understanding of *social upgrading*, the latter being called for in literature (Taglioni & Winkler, 2016).

How does upgrading take place in situations of self-employment?

The upgrading literature has primarily focused on industrial sectors (Laven, 2011). The upgrading literature tends to look at upgrading through a sector- or firm-centric lens, rather than from a worker-centric perspective. As a result, it is somewhat unclear how upgrading, and particularly social upgrading would take place in a situation of self-employment and non-standard work contracts. According to current literature, upgrading is per definition concerned with improving the quality of *employment*. As laid out by Puppim de Oliveira, (2008, p.2-3), social upgrading entails “*a long-term development strategy based on formalized firms paying taxes; following environmental, labour, health and safety regulations and spurring social local development*”. This renders invisible self-employed

⁵ Product-, process-, functional-, and chain-upgrading

workers operating in GVCs which is a prominent feature of many chains, including the cocoa value chain. Little empirical evidence is presented on how upgrading takes place in the absence of a traditional employer who can provide pension schemes, improved work conditions, health and safety protection and so forth, factors that are often highlighted as typical social upgrading. Barrientos, Gereffi & Lee (2011) recognise the need for more research on how upgrading takes place in non-standard work contracts such as small-scale production, informal work and contract employment.

This project seeks to correct this imbalance in literature by analysing upgrading in a situation of self-employed smallholder cocoa farmers and will analyse which actors enable and promote upgrading in the absence of a traditional employer.

What is the relation between social and economic upgrading?

The upgrading literature has widely debated the direction of the relationship between social and economic upgrading. It is often argued that these two concepts are positively correlated (Knorringa, 2011; Puppim de Oliveira, 2008; Taglioni & Winkler, 2016). The claimed mechanisms behind this is that increased economic returns for the firm can positively influence worker wellbeing, and reversely social upgrading such as pension schemes and health support will make workers feel more connected to their employer and hence be more productive. However, a growing body of case studies question this positive correlation. Gereffi and Lee (2016) argue that social and economic upgrading can be in conflict⁶. Gereffi

⁶ For example, outsourcing production of clothes to sweatshop businesses that have a high level of productivity per worker, but have poor worker social standards can lead to economic upgrading while actively prevent social upgrading

and Lee (2016) further argue that lead firms often focus on commercial interests if economic and social upgrading is in conflict. Some studies have found no correlation between social and economic upgrading, whereas others have found a negative correlation (Bernhardt & Milberg, 2011; Taglioni & Winkler, 2016).

This project seeks to contribute to this debate by analysing the relation between economic and social upgrading in the particular farmer-centred case study context.

What is the role of certification schemes in promoting social upgrading?

The role of certification schemes⁷ in promoting upgrading is disputed in the literature (Henson & Reardon, 2005; Henson & Humphrey, 2010). Organisations such as the World Bank and Global G.A.P have promoted certification schemes as a means for upgrading. The World Bank (2005) argue that it is hard to draw general conclusions about the costs and benefits to workers who adopt certification schemes. They further argue that the costs of these schemes are often quite apparent while the benefits are experienced as intangible long-term rewards. Perez-Aleman and Sandilands (2008) argue that particularly Western lead firms play a key role in campaigning certification schemes as a means of promoting decent work and improve labour conditions for GVC workers in developing countries. Several authors argue that certification schemes can represent a significant barrier to GVC entry for vulnerable producers such as female and landless farmers (Perez-Aleman & Sandilands,

⁷ Certification schemes are a set of principles; often related to economic, environmental and social standards to which producers must adhere

2008; Fernandes, 2015; Laven, 2011). This has been argued to lead to increased inequalities as it might disadvantage vulnerable workers from participating in GVCs (Laven, 2011).

This project will contribute towards a better understanding of the role of certification schemes in promoting upgrading of Ghanaian cocoa farmers. It will analyse the three most prominent certification schemes in the Ghanaian cocoa industry; Fairtrade, Rainforest Alliance and UTZ Certified and the impact these have on upgrading and farmer livelihoods. It will also comment on whether certification schemes contribute towards increased inequalities among farmers. By doing so this project will speak to a relatively brief literature that has argued that certification compliance in the Ghanaian cocoa sector has led to marginal economic upgrading by increasing yields and promoting social upgrading through certification premiums financing community infrastructure projects (Laven 2010; Bethge, 2012; KPMG, 2012; Deppeler, Fromm & Aidoo, 2014).

In sum, this project will make several empirical contributions to current literature debates. It will frame the analysis within the upgrading literature, while at the same time allow for an inductive analysis of potential additional factors that influence the prospect of transformative change in farmer livelihoods.

3. Research Methods

This chapter explains the study design, the qualitative data collection and analysis methods employed in this project and discusses the study limitations.

Study Design

The study is farmer-centric and seeks to give voice to those at the bottom of a global value chain, a group that is often left behind in GVC upgrading literature and who often experience marginal upgrading (Laven, 2011). It is with this purpose in mind the study design was drawn. The focal point of this study is self-employed smallholder Ghanaian cocoa farmers. These are farmers that operate their own cocoa farms for commercial purposes on a few hectares of land. This is a suitable focal point of the study as it allows for an analysis of upgrading in a situation of self-employment and allows for a worker-centric perspective of upgrading. It should be noted that cocoa farmers in Ghana live diverse realities, and that addressing the ‘typical smallholder cocoa farmer’ tend to reduce the complex realities of real-life individuals. However, in order to present a coherent analysis of upgrading of Ghanaian cocoa farmers, it becomes necessary to draw certain generalisations across this group.

In order to fully understand upgrading of smallholder cocoa farmers, it is necessary to understand the various stakeholders that directly or indirectly influence upgrading of farmers. I therefore decided to conduct interviews of representatives from across the chain. Farmer cooperatives, lead firms (cocoa processors and chocolate manufacturers) and Cocobod were identified as key stakeholders in the chain. These key stakeholders were

identified through reading about the industry and having conversations with various researchers and business practitioners with knowledge of the Ghanaian cocoa industry prior to conducting the fieldwork. Moreover, it was identified that a lot of the upgrading initiatives in the cocoa industry is carried out through multi-stakeholder partnership platforms and it was therefore deemed advantageous for the study to include a public-private partnership organisation that works across various chain actors and that could provide a more ‘neutral’ and overarching perspective of the various stakeholders.

Qualitative Data Collection

This study primarily builds on qualitative semi-structured interviews. In total, 31 interviews were conducted. Before each interview oral consent was granted. Table 2 shows an overview of the interview participants and the coding⁸ that is used in the following parts of the thesis.

⁸ The interview participants have been anonymised to protect the identity of respondents

Table 2: Interview participants and codes

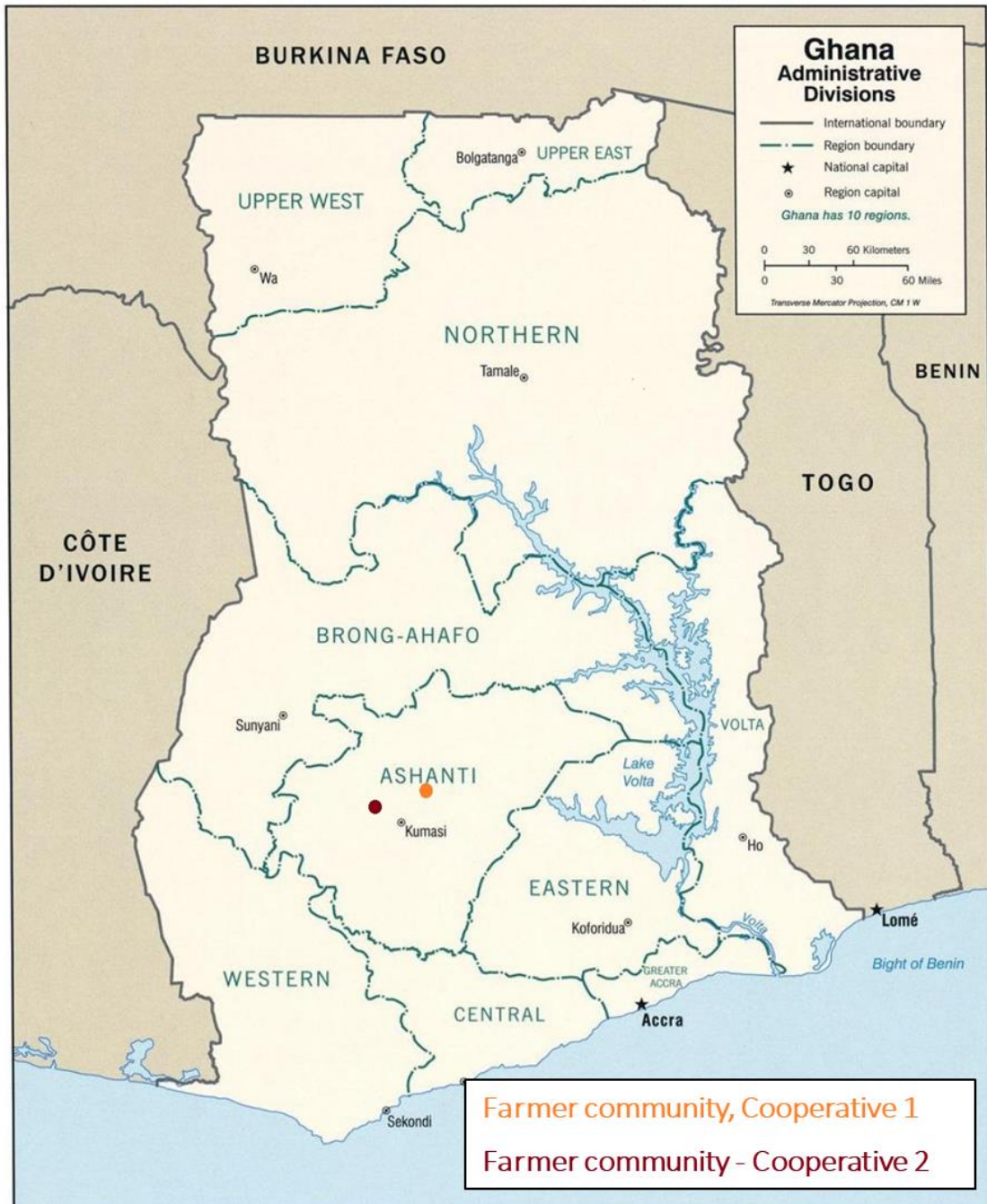
Stakeholder	Interviewees	Code
<i>Cocoa Cooperative 1</i>	3 managers 10 farmers	C1
<i>Cocoa Cooperative 2</i>	3 managers 8 farmers	C2
<i>Lead Firm 1 Cocoa Processor</i>	1 manager	LF1
<i>Lead Firm 2 Chocolate Manufacturer</i>	1 manager	LF2
<i>Lead Firm 3 Chocolate Manufacturer</i>	1 manager	LF3
<i>Cocobod</i>	2 officials	CB
<i>Private-Public Partnership Organisation</i>	2 cocoa programme coordinators	PPP
<i>Other</i>	Informal conversations with scholar, managers in input organisation and various other people	n/a

Due to the limited time and financial resources for conducting the fieldwork, I reached out to two organisations before going to the field; Yara International and the International Institute of Tropical Agriculture (IITA) to facilitate interviewee access. A contact in IITA introduced me to lead firm managers and managers in C1. A contact in Yara introduced me to managers in C2 and one of the Cocobod officials. This official directed me to an additional official in Cocobod.

Approval to carry out farmer interviews were given from both cooperatives. Each cooperative facilitated access to one cocoa producing community of their choice. Both these

communities were located in the Kumasi area in the Ashanti region as shown on the map below.

Figure 2: Map of Ghana



Individual interviews were carried out with 10 farmers in community 1 and 8 farmers in community 2. All these farmers were members of the respective cooperative. Of the total farmer sample, 13 were male farmers and 5 were female farmers. One of the farmers was also operating as a licensed buying company purchasing clerk⁹. Interviews were conducted in the communities to ensure minimum disruption to the farmers' workday. The questionnaire had two focus points; first various background questions were asked, such as their age, how long they had been members of the cooperative and what kind of crops they farm. The second part of the interview survey focused on social and economic upgrading and governance. Questions on governance structures and upgrading were tailored to the local context and understanding of value-chain issues. For example, questions did not address 'synergistic governance' directly, but asked about the various stakeholders that farmers were directly or indirectly in contact with and the kind of support offered from these. The questionnaire was slightly amended during the process as some questions yielded little response or gave very repetitive answers. For all farmer interviews, a translator fluent in English and the local language was used.

I recognise that there are certain limitations to this approach. Firstly, the cooperatives were able to choose the cocoa communities where I conducted interviews. It is possible that the cooperatives chose to portray their 'best' farmers in communities where the cooperatives had a strong presence and had carried out multiple upgrading initiatives. However, given the limited time for conducting fieldwork, I deemed it the most productive to agree to the communities suggested by the cooperatives, as getting approval for farmer research can be

⁹ The tasks of purchasing clerks will be explained in the following chapter

a cumbersome process where the researcher potentially need to go through community chiefs.

Moreover, using a translator also pose certain limitations. At times, it seemed that the translator would shape the responses to make answers more coherent and help me understand the reasoning of the farmers. The translator was not from the local community, which offers both advantages and disadvantages. It might for example be that certain power relations in the community was overseen, however, it might also have made responses more honest than what could have been the case if the farmers were talking to someone they already knew and would be able to place in the social, economic and cultural community hierarchy. Responses might be influenced by the gender and socio-economic position of the translator, who had extensive agronomical knowledge and spoke English as his mother tongue. Despite these limitations, I considered it the most productive for the fieldwork to have a translator that was knowledgeable of farming and farming practices, and who was fluent in both languages.

Interviews with cooperative managers were conducted in the cooperative headquarters. Three representatives with different fields of responsibility, such as certification compliance, data collection and HR were interviewed from each cooperative. The interviews covered topics such as the certification premium payment practice, certification compliance training and the cooperative farmer support. These interviews were very useful for contextualising findings from the farmer communities. The interviews were conducted in English and all interviews were recorded.

Interviews with lead firm managers were conducted in the Accra area at the beginning and end of the fieldwork. All lead firm managers were sent information about the purpose

of the research prior to the interviews. All interviews except one were recorded¹⁰. The questionnaire was slightly amended from interview to interview, but overall it focused on the farmer support offered through lead firm CSR initiatives, lead firm collaboration with cooperatives and certification practises.

One of the Cocobod official interviews was carried out at the Cocoa Research Institute of Ghana's (CRIG) research facility in New Tafo-Akim in Ghana's Eastern Region. The other Cocobod official was interviewed over phone. These interviews focused on Cocobod's role in the Ghanaian cocoa industry. The two interviews with the cocoa programme coordinators in the Private-Public Organisation were carried out over Skype due to geographical barriers. These interviews focused on multi-stakeholder platforms in the Ghanaian cocoa industry and the different roles played by various stakeholders in facilitating upgrading.

In addition to the formal primary data, a wide range of informal primary data sources were used. It is certainly impossible to spend a lot of time surrounded by Ghanaians without talking about cocoa. It seems most people have something to say about cocoa, regardless of their relation to the crop. I am thankful for the various conversations I have had with the people who have kindly offered their views on the sector, from taxi drivers and waitresses to scholars and researchers. These conversations have played a role in shaping this research.

It is critical to acknowledge my own positionality in this research project. As in any human interaction, being of a certain race, gender, age and coming from a certain background and university framed the responses given by my respondents. This is perhaps

¹⁰ Due to this being the preference of one of the managers

particularly true for being a white, young, female researcher in a largely male dominated industry. Although this is impossible to avoid, I overall found the interview setting to be open and a good space for sharing information, a feeling I hope was mutual.

I supplemented the primary interview data with a variety of non-primary data sources. These were used to contextualise information given in interviews. The key non-primary data sources used for this project are summarised in Table 3.

Table 3: Non-primary data sources

Information source	Description
<i>Lead firm documentation</i>	LF1, LF2 and LF3 CSR reports, newsletters, webpages, strategy briefings etc.
<i>Cooperative documentation</i>	Cooperative webpages, cooperative studies carried out by other researchers
<i>Certification reports</i>	Certification standards of Fairtrade, Rainforest Alliance and UTZ, certification body webpages, newsletters
<i>International cocoa organisations</i>	World Cocoa Foundation (WCF) and International Cocoa Initiative (ICI) agreements and initiative reports, organisation webpages, membership registers, strategy briefings etc.
<i>Other</i>	Cocoa Barometers 2015 – 2020, A wide range of academic research on the Ghanaian cocoa industry

Qualitative Data Analysis

In order to provide a comprehensible answer to the research question, a rigorous data analysis method was applied according to well-developed methods in qualitative case study research (Stake, 1995; Yin, 2014; Merriam & Tisdell, 2016). All stakeholders interviewed were asked to identify mechanisms that would upgrade farmers economically and socially and hence improve farmer livelihoods. The interview responses were transcribed and coded by using 'borrowed topical categories' (Merriam & Tisdell, 2016). The categories used are the various types of upgrading as identified in the literature review. These are used to identify the current trajectories of upgrading available to farmers, and the mechanisms whereby these trajectories are enabled:

- Product upgrading
- Process upgrading
- Functional upgrading
- Chain upgrading
- Social upgrading

For each category, primary and non-primary data were examined for patterns and reoccurring regularities. To the extent possible, information given in interviews was triangulated against reports and online information. Using borrowed categories is subject to the threat of hindering the generation of new, relevant categories as the effort is targeted at data selection rather than data generation (Glaser & Strauss, 1967). Therefore, the data was also analysed for additional sources of upgrading, which resulted in one additional category:

- Direct economic upgrading

This mapping of trajectories of upgrading helped contextualise the current upgrading status of Ghanaian cocoa farmers and it helped identifying the different stakeholders that drive and facilitate upgrading. It also allowed for an analysis of the relation between social and economic upgrading and how upgrading plays out in a situation of self-employment. It was also used to analyse the role of certification schemes in promoting upgrading.

In order to get a better understanding of the relation between upgrading and governance, all stakeholders interviewed, as well as other stakeholders that were identified as influential to upgrading were mapped according to Gereffi and Lee's (2016) synergistic governance framework. This allowed for a coherent analysis of the various governance forces at play in the industry. Following this, the effects of this governance structure were explored.

Moreover, the data was also screened for additional barriers to upgrading that could not be explained by the synergistic governance framework. This resulted in three additional categories built on the reoccurrence of these topics across various data sources. These are explored in chapter 6. This implies that the nature of the analysis was a combination of deductive and inductive, as data was analysed with reference to already established assumptions of upgrading and governance, while at the same time allowing for new topics.

Limitations

Although some limitations of the research method have already been addressed in previous sections, a few additional notes should be made.

I recognise that associating myself with Yara International and IITA might have certain limitations. Channelling through these two organisations allowed me access to cooperatives, lead firm managers and Cocobod officials. During the first farmer interviews, I experienced

that it was more challenging to get farmers to address social upgrading compared to economic upgrading. This is likely to be a combination of various factors, but I believe the association with Yara International, an agricultural input company and IITA, an agricultural research organisation made farmers inclined to address economic needs rather than social needs. As I gained more interview experience it was easier to direct the conversation by trialling and testing reframed questions. I recognise that associating myself with these organisation runs the possibility of affecting my positionality in the eyes of my respondents. To minimise the impact of this, I made sure to inform study participants that I was an independent researcher without any obligations to either of these organisations. Despite these possible limitations, I considered it to be in the best interest of the project to capitalise on the access opportunities granted by these two organisations offered. I believe the introduction from these organisations to cooperatives, lead firm managers and Cocobod officials resulted in the opportunity to interview people that would have been challenging to get access to otherwise.

Moreover, due to time and resource restrictions I did not interview additional farmer segments. In particular, I would have liked to interview unaffiliated farmers¹¹ and farmers who are members of lead firm CSR initiatives to see if these have a different understanding of upgrading. It might be that certain narratives were left out, however I believe the interviews I conducted were informative for understanding and drawing certain conclusions of how upgrading plays out for these farmer segments. Particularly interviews with cooperative farmers were informative for understanding the (limited) upgrading available to

¹¹ Farmers who are not members of a cooperative or lead firm CSR initiative. This will be explained further in the following chapter

unaffiliated farmers, as many of the cooperative farmers had themselves operated as unaffiliated farmers for several years prior to joining the cooperatives. All in all, it might have been useful to triangulate this information with additional farmer segments if time and finances allowed, however I believe the interviews conducted form an informative and comprehensive platform for answering the research question.

4. Ghana and its Cocoa Industry

The history of cocoa is as rich as the bean itself; from its initial discovery by the Mayans in Mesoamerica, it has developed from a barter currency and a drink of the Gods in Mayan civilisations to a multi-billion export commodity that is being shipped across the world in large quantities every day. Cocoa, its history, and its wide impact on contemporary West-Africa goes way beyond the production and consumption of chocolate products. This chapter sets out to introduce the Ghanaian cocoa economy, map the key steps and stakeholders in the domestic value chain and outline the key challenges of the sector. This motivates the need for upgrading and transformative change in farmer livelihoods and serves to contextualise the arguments proposed in the following chapters.

An Introduction to the Ghanaian Cocoa Economy

The cocoa bearing *Theobroma Cacao* tree was introduced to West-Africa in the late 19th century. The first Ghanaian to grow cocoa, Tetteh Quarshie, planted and cultivated around 300 cocoa trees (Leissle, 2018). Ghana proved to be fertile for cocoa production, as the *Theobroma Cacao* tree grows best in a belt around the equator in the shade of other plants, such as palm trees. Ghana soon developed to become a leading producer of cocoa worldwide and the British Colonial Administration therefore deemed it necessary to regulate the industry. During the Second World War the administration sought to protect the industry by adopting a cocoa control scheme which after the war was reconstructed as a permanent cocoa marketing board, today called Cocobod (Alence, 2001). The early objectives of Cocobod was to stabilise the industry in the face of volatile world market prices and the board was given monopoly right to export beans as the sole purchaser of Ghanaian cocoa. Although not

officially stated as an objective this allowed for collection of large financial reserves by paying a farm-gate price below global market price and taxing cocoa exports.

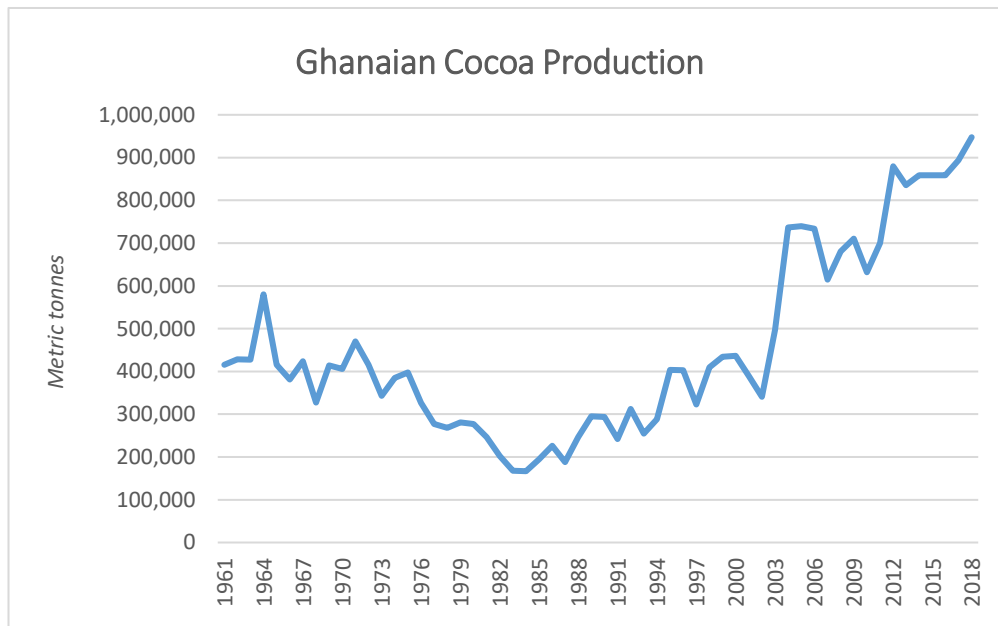
Following independence from Britain in 1957 these reserves were used by the newly formed government as a security to take out loans to fund import substitution strategies and extensive industrialisation projects. When the world price of cocoa dropped significantly in the mid-1960s, this threw Ghana into a spiral of depth. The situation was further worsened by a devaluation of the currency in the early 1970s which discouraged cocoa production and led to a collapse of official cocoa exports¹². As a result, the government obtained further loans and by doing so increased its debt which by the early 1980s caused the Ghanaian economy to reach a point of collapse (Berry, 1994). As a direct result of the collapse Ghana embarked on structural adjustment plans inspired by the World Bank and the IMF with the aim of reducing debts and drive economic productivity with minimal cost to the government.

In light of this, changes were also imposed on the cocoa sector. Reforming the cocoa sector and rehabilitating Ghanaian cocoa export was a priority of the government as cocoa exports was the biggest source of government revenue throughout the 1980's (Whitfield & Buur, 2014). Several functions of the Cocobod were privatised and efforts were made to improve the efficiency of the board. In particular, this involved liberalising the internal marketing of cocoa, allowing licensed buying companies to purchase cocoa directly from farmers, restructuring Cocobod to focus on quality control and external marketing and various measures to increase the producer price and improve productivity on cocoa farms (Whitfield & Buur, 2014). After the turn of the century, the results of the economic reforms could slowly be seen with cocoa production picking up from the all-time low of 159,000

¹² Some cocoa was smuggled into Côte d'Ivoire where it could be sold obtaining Francs rather than GHC

tonnes in the 1982-83 season, to more than 700,000 tonnes by 2005. By 2018 it has reached an all-time high of more than 900,000 tonnes per year. This development is summarised in Figure 3.

Figure 3: Ghanaian cocoa production 1961 – 2018



Source: FAOSTAT

In contrast to most other African nations that have undergone complete liberalisation and privatisation of their agro-sectors, Ghana is characterised by a partial liberalisation where Cocobod plays a key role in ensuring high quality cocoa supply to the world market. In the early 2000s, efforts were made to attract foreign investments in cocoa processing in Ghana. This led to an increased presence and influence of international lead firms and increased integration of the Ghanaian cocoa sector into global cocoa value chains.

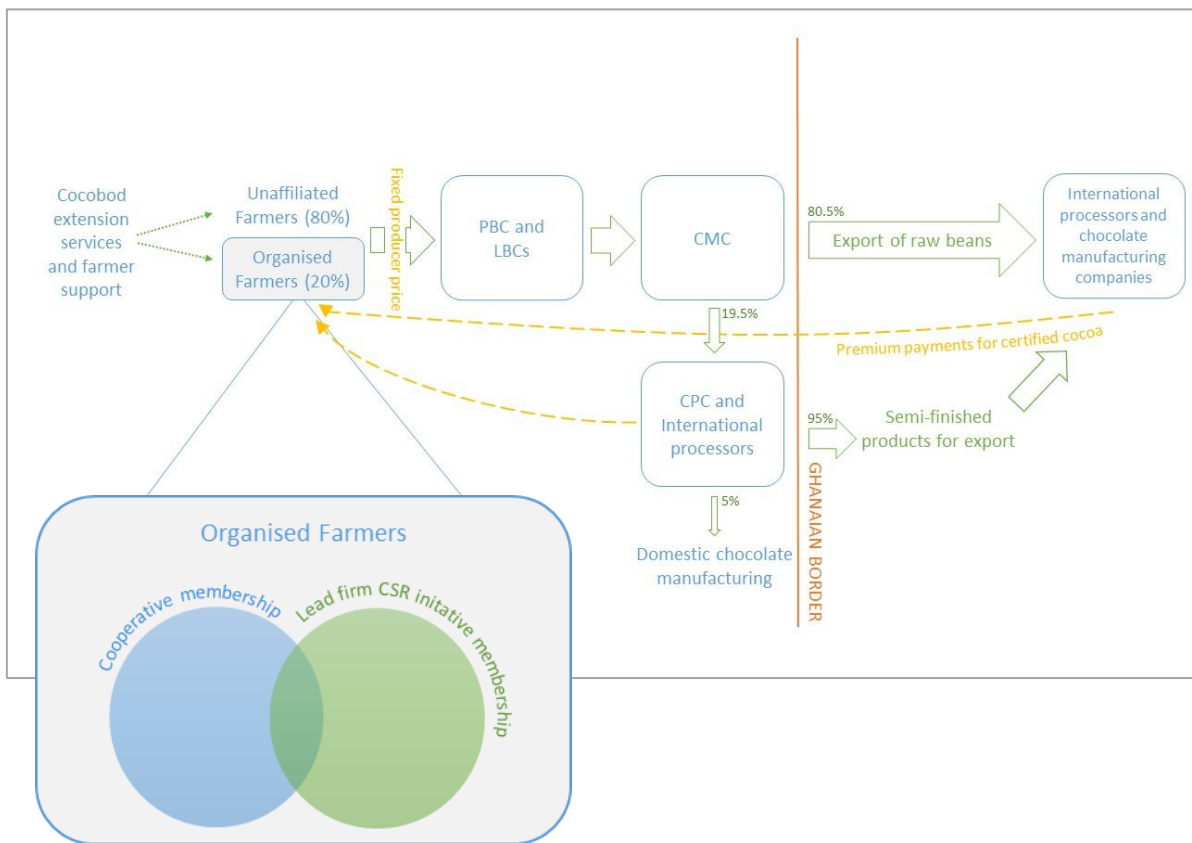
Today, cocoa production represents one of the biggest sector contributors to Ghana's GDP, and it is considered the very backbone of the economy (Laven, 2011). There are around 800,000 smallholder cocoa farmers in Ghana, and it has been estimated that 6.3 million

Ghanaians depend on cocoa for their livelihoods. This represents more than 20% of the total population (Laven, 2011).

The Ghanaian Cocoa Value Chain and its Key Stakeholders

The domestic leg of the cocoa GVC consists of multiple steps that are carried out by various stakeholders. Figure 4 offers a simplified overview of the chain.

Figure 4: The domestic cocoa value chain



Source: Author's own illustration. Export values adopted from Huq & Tribe, 2018.

This section will discuss these steps and the stakeholders involved.

The domestic cocoa value chain starts at farm level. Most cocoa production is undertaken by male smallholder farmers who produce on a few acres of land. Many cocoa farmers in Ghana grow other crops such as maize, plantain and cassava in addition to cocoa, both for consumption and commercial use. Cocoa cultivation is spread across six of Ghana's sixteen regions. Cocoa cultivation is still largely characterised by traditional, manual farming techniques and little use of modern technology. Despite the hard nature of the work, Ghanaian farmers take much pride in their cocoa production. In five to six months intervals, the cocoa pods ripen and are ready to be harvested manually. The main crop season takes place from September to March, while the mid-crop season runs from May to August. When harvested, the pods are cut open and the beans are put into piles that are covered with mats or leaves. This creates heat that ferments the beans and acts as an important step in ensuring a rich taste. Following this, the beans are dried in the sun in the local communities before being wrapped in bags and prepared for sale.

Farmers in Ghana generally operate in one of two ways; either as unaffiliated farmers or as organised in some type of farmer organisation. The total number of organised farmers is estimated to be around 145,000, which represents roughly 18% of the total number of Ghanaian cocoa smallholders (Cocobod, 2019). The most common organisation type is farmer cooperatives. Cooperatives are organisations where farmers come together to pool resources for mutual benefit. Cooperative membership usually comes at a small fee to the farmer but offers various benefits. Depending on the cooperative, these could include the opportunity to produce certified cocoa, democratic decision-making, increased exchange of knowledge both from the cooperative management to farmers and from farmers to farmers and often some form of community infrastructure development. Although the cooperative structure is less developed in Ghana compared to neighbouring Côte d'Ivoire, both the

number of cooperatives established and the size of existing ones have grown over the past decade. Cocobod has estimated that by mid-2019 there were 512 active cooperatives in Ghana (Cocobod, 2019).

Another widespread type of farmer organisation is lead firm CSR initiatives, where international cocoa processing and chocolate manufacturing firms ‘adopt’ one or more cocoa producing communities and implement various CSR initiatives. These programmes are often run as subsidiaries to the lead firm. This often involves setting up some form of organisational structure that allows for democratic farmer community decision-making and implementing various farmer wellbeing and community development projects. Lead firm CSR initiative membership is often at no cost to the farmer but tends to offer less extensive and less frequent support compared to the cooperatives. These initiatives are often used extensively in product marketing and brand building targeted at final consumers. Sometimes lead firm CSR initiatives and farmer cooperatives form partnerships. This could for example take place when a lead firm wishes to promote and source certified cocoa, but do not have the resources to organise a farmer community and train farmers to comply with the certification standards. They could then form partnerships with cooperatives who will carry out the training. Moreover, lead firms can also collaborate with cooperatives and adopt certain communities within the cooperatives where they carry out their CSR initiatives which eases the administrative burden on lead firms.

Both unaffiliated and organised farmers sell their cocoa in 62.5kg bags to local purchasing clerks at a fixed producer price¹³ determined by Cocobod. This producer price is

¹³ In theory this is a minimum price, however effectively it acts at a fixed price as purchasing clerks very rarely pay more than they are required to

set in relation to world market prices and is announced in October each year. The transactions usually take place in larger cocoa producing communities. Cocobod is in charge of granting the licenses needed to buy cocoa directly from farmers. Purchasing clerks are agents of the Produce Buying Company (PBC) or licensed buying companies (LBCs). The largest buying company is the PBC which is a former subsidiary of Cocobod that has been privatised and today accounts for roughly 57% of cocoa purchases. PBC is followed by LBCs such as Kuapa Kokoo Limited (a licensed leg of a Ghanaian cocoa cooperative), Armajaro (British commodity investment firm) and OLAM (Singaporean food and agri-business firm) (Bymolt, Laven & Tyszler, 2018). The task of purchasing clerks is to weigh the beans and pay farmers the fixed producer price. Sometimes purchasing clerks carry out additional drying if the beans do not meet the requirements from Cocobod. Farmers have numerous times accused PBC and LBC agents of scale adjustments and delayed payments. Some purchasing clerks offer loans to enable farmers with liquidity constraints to buy inputs, however due to the regularity of default re-payments, many clerks are no longer offering this service. Bags are then loaded on to trucks and driven to warehouses in the industrial export processing zone of Tema.

In Tema, the Cocoa Marketing Company (CMC), a subsidiary of Cocobod, buys the beans from the PBC and the LBCs. The system is set up so that the LBCs and the PBC pay farmers the fixed producer price and sell to CMC at a fixed sales price. Therefore, the purchasing companies increase profits by maximising the volume of beans purchased and sold, while minimising the ‘turnaround’ time. The CMC follows a quality grading system to negotiate prices with international processing firms and the Cocoa Processing Company (CPC) – another subsidiary of Cocobod. The vast majority of beans are exported as raw beans for processing abroad (80.5%), whereas a smaller share (19.5%) is processed

domestically by the CPC and international processing firms based in Tema (Huq & Tribe, 2018). The CPC and international processing firms convert cocoa beans into cocoa powder, butter, cake or liquor. Most of the beans processed domestically are exported as semi-finished products that are sold to international chocolate manufacturers, and only around 5% go into domestic chocolate manufacturing (Huq & Tribe, 2018). In addition to the CPC, there are only around 10 small domestic companies that produce finished confectionary products in Ghana (Huq & Tribe, 2018).

Most of the processing of Ghanaian cocoa beans takes place abroad in countries such as the United States, Germany, Belgium and Switzerland. One can generally distinguish between two types of lead firms in the international cocoa market. The processors, often referred to as ‘grinders’ or ‘traders’ process and trade cocoa. These companies are highly consolidated, and it is estimated that three companies; Barry Callebaut, Cargill and Olam alone capture around 60% of the world’s cocoa processing market (Terazono, 2014). These are often referred to as ‘hidden’ players, as they are mostly business-to-business actors, and their brands are less widely known among consumers. The other main category is the chocolate manufacturers. These buy the semi-finished product from the processors. Some of these companies have integrated vertically into upstream activities such as processing, but the general chocolate company would manufacture, package, market and sell products through retailers to final consumers. In 2016, the ‘big five’; Mars, Mondelēz, Ferrero, Nestlé and Hershey, accounted for almost two thirds of the global chocolate market (Leissle, 2018). Most cocoa goes into chocolate and confectionary products, while a small share of cocoa butter goes into other products such as cosmetics and toiletries.

Cocoa is usually sold to international cocoa processing and chocolate manufacturing firms either as conventional cocoa, or as certified cocoa. Certified cocoa has been produced

according to certain agronomical, environmental and social standards depending on the certification scheme. The aim of certification schemes is to provide increased transparency in cocoa value chain and improve farmer livelihoods. Cooperatives or lead firm CSR initiatives are often responsible for training farmers so that they comply with the standards. The farmer organisations are audited by international non-profit organisations who are responsible for designing the certification standards. The most common certification schemes in Ghanaian cocoa are Fairtrade (FT), UTZ Certified (UTZ) and Rainforest Alliance (RA). The most notable difference between the three is that FT offers a fixed premium, whereas RA and UTZ pay negotiable premiums that are decided upon in discussions between the farmer organisations and the lead firms. Recent years have also seen an increase in 'private' certification schemes where lead firms define the environmental and social compliance criteria themselves rather than following those of international bodies such as FT, RA and UTZ.

Certified cocoa is sold at a premium, and most premium payments are made directly from cocoa processors or chocolate manufacturers to the farmer organisation responsible for the certification compliance training. Agreements are usually drawn ahead of the harvesting season, and lead firms commit to buy a certain volume of certified beans. Most certified cocoa is sourced using the mass balance approach. This means that the lead firm pays a premium equal to the volume of certified beans they have agreed to source from the farmer organisation. This is paid directly to the farmer organisation at the end of the season. The lead firm gets their cocoa from the CMC, and there is no guarantee that the cocoa they receive is produced by farmers in the organisation to which they paid the premium as the CMC does not have a widely adapted traceability system. However, having paid the premium gives the lead firm the right to certify an equivalent volume of finished products to

that they have paid a premium for. There are attempts at increasing traceability of cocoa so that it can be tracked back to the farmer community, however this is a costly system and has not been as widely adopted in the cocoa GVC as in for example the coffee and banana GVCs.

As can be seen, the Cocobod plays a vital role in almost all steps of the domestic value chain from farm gate to export. The main objective of Cocobod is to undertake cocoa quality control, internal and external marketing and cocoa R&D. In addition to the fixed price setting, granting LBC licences, controlling cocoa exports through the CMC and running the CPC, Cocobod also controls inputs that are used in cocoa production. Input organisations need to go through an approval process carried out by the Cocoa Research Institute of Ghana (CRIG), another subsidiary of Cocobod. Cocobod, its subsidiaries and the Ministry of Food and Agriculture in collaboration also run extension services to improve farming practices and various farmer support schemes such as subsidised fertilisers and pesticides and free seedlings. These programmes are financed by cocoa export revenues (Vigneri & Kolavalli, 2018).

The cocoa GVC extends beyond what is outlined in Figure 4. The final steps of the chain are retailing and end-consumers. In many ways, the cocoa sector can be thought of as the shape of an hourglass, with a large base of international smallholder cocoa farmers growing the beans, a very concentrated core of processing and manufacturing lead firms and a large end-consumer segment. The end-consumer is as diverse as the chocolate products offered on the market. Although many consumers are still mostly occupied with price, later years have seen consumers growing increasingly aware of the socio-economic challenges facing cocoa farmers. Some consumer segments have shown interest in paying a higher price for products that are deemed to be socially and environmentally considerate, often distinguished by certification labels (Barrientos, 2011).

There are also some international stakeholders that indirectly influence the Ghanaian cocoa GVC. These include international NGOs and multi-stakeholder organisations such as the World Cocoa Foundation (WCF) and the International Cocoa Initiative (ICI). The two latter are important platforms where various cocoa stakeholders such as lead firms, Cocobod and cooperatives come together to discuss and draw the agenda for what needs to take place in the sector in terms of upgrading. This will be discussed further in the following chapter.

The Need for Transformative Change in Farmer Livelihoods

The Ghanaian cocoa industry is characterised by multiple challenges that motivates the need for transformative change in farmer livelihoods¹⁴. This section will discuss the key issues that were flagged in conversations with farmers. Many of these challenges are interlinked, however for the sake of clarity, these are treated as separate sub-sections.

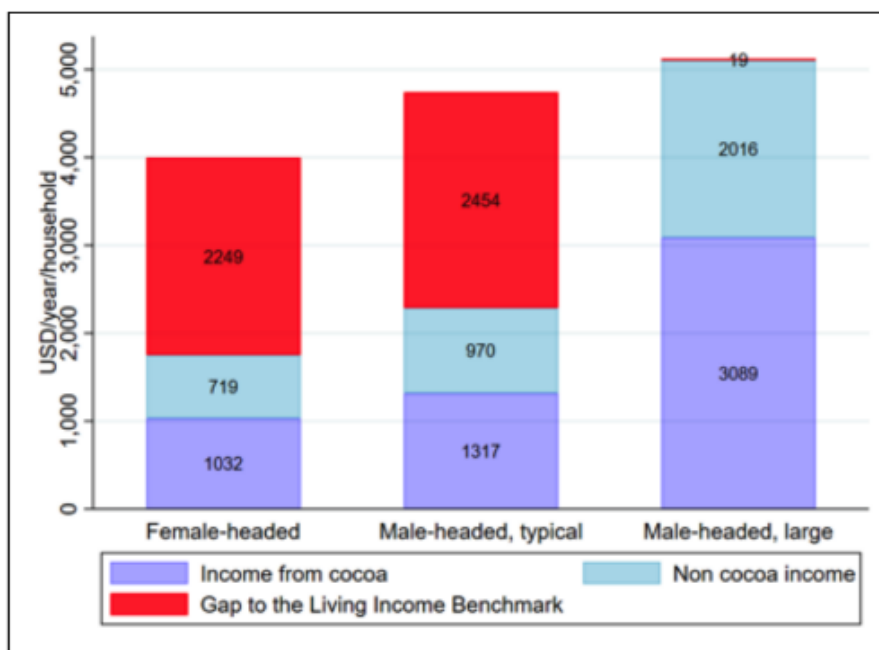
Income & Poverty

Most Ghanaian smallholder cocoa farmers earn low incomes from producing cocoa. The fixed producer price is relatively low and even farmers who receive certification premiums often struggle with making ends meet. Many cocoa farmers earn below the living income¹⁵ as shown in Figure 5:

¹⁴ As defined in the introduction, this project understands transformative change in farmer livelihoods as ‘a structural change that substantially improves the scope and scale of economic and social upgrading, and as a result substantially increases the number of Ghanaian cocoa farmers achieving sustainable livelihoods.

¹⁵ Living income is a measure for the income required for a standard family to afford a decent way of living in rural cocoa growing areas of Ghana, and includes factors such as food, healthcare, housing, transport and education.

Figure 5: Gap between living income and actual income



Source: Tyszler, Bymolt & Laven, 2018.

Both female-headed cocoa producing households and typical male-headed households (less than 4 hectares of productive cocoa) have a substantial negative gap between actual income and living income. Large male-headed households (4 hectares or more of productive cocoa) earn more or less what is needed for living income, partly due to non-cocoa sources of income. However, it should be noted that living income is not a goal in itself, it is the bare minimum of what is needed to have a decent way of living.

Most of the value of cocoa is captured further down in the chain. It has been estimated that smallholder farmers receive around 4% of the total value of a standard bar of milk chocolate, while processors and manufacturers capture around 50%, advertising captures 6.5% and retailers 28%, with transport and shipping costs accounting for the difference

(Barrientos, 2011). The media often address a potential supply-demand deficit as many farmers are turning away from cocoa production to find more profitable work elsewhere. Downstream actors show little interest in increasing farm gate price by paying farmers more than the fixed price set by Cocobod, which seems to be the elephant in the room when it comes to ensuring living income and incentivising farmers to stick to cocoa production.

Partly as a consequence of the low economic returns of cocoa farming, many cocoa producing communities struggle with widespread poverty. The Multidimensional Poverty Index¹⁶ (MPI) for Ghana shows that 30% of the population is considered multi-dimensional poor (Oxford Poverty and Human Development Initiative, 2010). The incidence of multi-dimensional poverty is notably higher for rural areas, where most smallholder cocoa farmers live. Rural Ghanaians are particularly deprived in access to electricity and sanitation.

Farmers interviewed expressed concerns with the low economic returns from farming cocoa. Many farmers expressed a wish to grow other crops in addition to cocoa to diversify their income, but it was often stated that they did not have available land or resources to do so. Farmers also stated that they struggled with distributing the bi-annual harvest payments throughout the year due to the low total returns. This often means that farmers do not have money to buy inputs at the start of the season which can contribute to even lower yields and income.

¹⁶ According to the MPI, a person is considered multi-dimensional poor when she/he is deprived in at least 30% of the weighted indicators. The indicators include measurements of health, education and living standards.

Productivity

Cocoa farming in Ghana is characterised by low productivity due to a lack of agronomical knowledge, low use of inputs such as fertilisers and the spread of diseases such as Black Pod Disease and Cacao Swollen Shoot Virus (CSSV) (Kanga, Moussa & Sanogo, 2019). The low productivity of Ghanaian cocoa farmers has often been linked to farmer livelihoods and poverty challenges and it has been argued that farmers are trapped in low-productivity-low-profitability traps (Kanga, Moussa & Sanogo, 2019):

The total quantity produced by smallholders and the incomes they generate from it are not significant enough to clearly push them out of poverty [...] Increasing land productivity would clearly be important for making crops like cocoa effective instruments of poverty reduction. (Vigneri & Kolavalli, 2018, p. 17)

It is difficult for farmers to reinvest in their farms to increase productivity due to financial constraints. Increasing the productivity of cocoa farmers and increasing cocoa yields had been a key part of many of the initiatives targeted at improving cocoa farmer livelihoods and making cocoa farming more profitable. Productivity initiatives are often targeted at improving farmer agronomical knowledge through sharing of best practices and increase the use of agrochemical inputs. These initiatives are often carried out through lead firm CSR initiatives, Cocobod, and cooperatives, and often focus on promoting adoption of certification schemes that enforce improved agronomical practices.

Market-power

Smallholder Ghanaian cocoa farmers hold very little effective market power in the value chain. Combined with the highly consolidated structure of downstream actors, smallholder

farmers ultimately have a marginal voice in both the domestic, but particularly the international cocoa market.

Infrastructure

Most cocoa growing communities in Ghana lack basic rural infrastructure, such as good roads, clean water, sanitation and energy. This presents a challenge for cocoa producing communities and impacts both cocoa production and farmer well-being. Farmers in the communities visited reported on lacking infrastructure, and particularly irrigation systems for dry periods.

Health

The manual and labour-intensive nature of cocoa farming combined with limited medical services often leads to poor farmer health. A few farmers in the interview sample stressed issues concerning health. Some farmers addressed the need for more extensive medical services and health insurance and expressed concerns with the manual nature of their work and the need for hired labour to cover this, which they could not necessarily afford.

Further Challenges

The challenges facing Ghanaian cocoa smallholders are not limited to those discussed here. Additional challenges that were not addressed in interviews but might very well influence farmer livelihoods include gender inequality, inadequate land tenure systems, the effects of climate change and corruption. The international narratives of the sector also often focus on issues such as child labour and deforestation. This is often linked with an increased consumer

awareness of these issues and have formed a key part of many lead firm CSR initiatives. These are complex issues that undoubtedly shape the industry, however this section has focused on the issues that were raised in conversations with farmers and it is likely that some narratives were left out.

Chapter Conclusion

This chapter has introduced the workings of the Ghanaian cocoa industry and the main stakeholders in the sector. It is clear that the industry has been shaped by the socio-political developments taking place over the decades. Despite the neoliberal reforms in the 1980s and 1990s Cocobod remains a key actor throughout the domestic chain. In addition, there is a core of highly consolidated lead firms that hold much market power. The chapter has also clearly motivated the need for upgrading and transformative change in farmer livelihoods. The focus will now turn to analysing the sector through the upgrading framework to consider the reasons for why there is a lack of transformative change in farmer livelihoods.

5. Analysing the Lack of Transformative Change in Farmer Livelihoods Through the Lens of Upgrading and Governance

This chapter sets out to analyse the lack of transformative change in farmer livelihoods through the lens of the upgrading literature and will argue that the governance structure of the industry restricts transformative change in farmer livelihoods. To make this argument, the chapter is divided into five sections:

The first section identifies the trajectories to economic and social upgrading available to cocoa farmers and examines the mechanisms whereby these trajectories are enabled and the key stakeholders facilitating this. The second section comment on the success of upgrading. It is argued that current upgrading trajectories are not sufficient to drive transformational change in farmer livelihoods. The third section links the lack of upgrading with the governance structure of the industry. Key GVC stakeholders are mapped according to Gereffi and Lee's (2016) synergistic governance framework, and it is argued that even though the industry shows signs of synergistic governance, it is best characterised by having an asymmetrical joint-governance structure between powerful lead firms and Cocobod. The fourth section explores the effects of this governance structure in relation to farmer livelihoods and argues that it allows lead firms to pursue an upgrading agenda that is influenced by corporate goals and does not necessarily drive transformational change in farmer livelihoods. As a consequence of the governance structure there is uneven value distribution in the chain, a lack of functional upgrading and a fragmented lead firm approach to upgrading. This effectively acts as barriers to transformative change in farmer livelihoods. The fifth and final section concludes the chapter by arguing that there is a need to look

beyond the synergistic governance upgrading framework to fully understand the factors that influence the prospect of transformative change in farmer livelihoods.

Identifying Upgrading Trajectories

In contrast to the upgrading trajectories identified in literature¹⁷ (Barrientos, Gereffi & Rossi, 2011; Barrientos & Visser, 2012), this project found that upgrading of Ghanaian smallholder cocoa farmers is largely limited to product upgrading, process upgrading, occasional direct economic upgrading and occasional social upgrading. Being part of a farmer organisation, like a cooperative or a lead firm CSR initiative and complying with certification standards are important mechanisms whereby upgrading trajectories are enabled. Upgrading is limited, and it fails to fully address all the challenges of cocoa farmers identified in the previous chapter. Table 4 shows an overview of upgrading trajectories available to Ghanaian cocoa farmers, the mechanisms of these and the key stakeholders facilitating upgrading. Upgrading trajectories are often interlinked and might reinforce each other, such as for example product upgrading (though certification compliance) reinforcing social upgrading (improvements in the rights and entitlements of farmers as a result of certification ‘social’ standards), however for the sake of providing a coherent analysis, they are treated as separate trajectories.

¹⁷ Product-, process-, functional-, chain-, and social-upgrading

Table 4: Economic and social upgrading of smallholder cocoa farmers in Ghana

ECONOMIC UPGRADING	
Product upgrading	Yes, but limited
<p><i>Mechanisms:</i> <i>Compliance with certification scheme → enhanced product features → premium payment → ec. upgrading</i></p> <ul style="list-style-type: none"> • C1: Fairtrade, Utz and RA • C2: Utz and RA • LF1: Utz and RA (some beans, strategy to increase share) • LF2: Utz and RA (all beans) • LF3: private certification scheme (some beans, strategy to increase share) • <u>Utz: certifies both unaffiliated and organised farmers*</u> 	
Process upgrading	Yes, but limited
<p><i>Mechanisms:</i> <i>Adoption of 'best ag. practices (reinforced by certification compliance)/subsidised fertilisers → increased productivity and improved yields → ec. upgrading</i></p> <ul style="list-style-type: none"> • C1, C2, LF1, LF2, LF3: teaches 'best ag. practices', adheres to certification production standards, input provision • <u>Cocobod: extension services for 'best ag. practices', mass spraying to prevent diseases, pollination etc* →</u> 	
Functional upgrading	Very limited
Chain upgrading	No
Direct ec. upgrading	Yes, but only occasionally
<ul style="list-style-type: none"> • <u>Cocobod: upwards adjustment of producer price* → ec. upgrading</u> 	
Social upgrading	Yes, but limited
<p><i>Mechanisms:</i> <i>Farmer organisation membership/certification compliance → increased quality of employment/community development → social upgrading</i></p> <ul style="list-style-type: none"> • C1 and C2: adhere to certification standards, democratic decision making, infrastructure development projects: boreholes (C1 & C2), public toilets (C1), cocoa shelter (C2), improved bargaining power, pension scheme (C2) • LF1, LF2, LF3: farmer wellbeing initiatives, community development projects, mostly in partnership with NGOs • <u>Cocobod: health insurance, health clinics*</u> 	
<p><u>*Underlined: available to both unaffiliated and organised farmers, the rest is reserved for organised farmers only</u></p>	

Source: Author

Product Upgrading

Product upgrading involves farmers producing higher quality products or producing new related products with enhanced features. There are relatively few opportunities for product-upgrading for smallholder cocoa farmers, as the cocoa bean is a commodity product with little scope for product and quality differentiation. LBC agents are required to pay the fixed producer price regardless of the quality of the produce and there is little scope for differentiating on quality, as the beans have not undergone much processing beyond drying and fermenting when reaching the LBC agents. If LBC agents are not satisfied with how this has been carried out, they often carry out additional fermenting and drying of the beans themselves. Hence, LBC agents are reluctant to go above the fixed producer price set by Cocobod and there are therefore little incentives for farmers to focus on quality differentiation. The only source of product upgrading for Ghanaian cocoa farmers is to produce certified cocoa which has enhanced social and environmental features. This allows farmers to receive a premium payment on top of the producer price set by Cocobod and hence upgrade economically.

Certified cocoa beans are perceived to have enhanced features compared to non-certified beans. End consumers are often willing to pay a higher price for products that are associated with improved social and environmental standards. Consumers' willingness to pay a higher price for certified chocolate products trickle down to increased economic returns for farmers who receive a premium payment on top of the fixed producer price. The increase in economic returns from this vary. FT certified beans operate with a fixed premium of roughly 70 GHC¹⁸

¹⁸ Based on C1 data of Fairtrade Premium of \$200 pr. tonne, as per January 2020 exchange rate USD to GHC

per bag of cocoa on top of the fixed producer price. This is collected at cooperative level at the end of the season, and part of the money is saved for infrastructure development projects, training expenses and so on, whereas the rest is paid as a cash premium to farmers. At the very most this premium can account for up to a 15% income increase¹⁹ for smallholder farmers depending on how much is held back at cooperative level. This is not an insignificant amount for smallholder cocoa farmers, but it is also generally not enough to ensure a living income and transform farmer livelihoods. C1 managers claimed that premium payments are distributed equally across all members, however one farmer interviewed stated that he had never received a premium payment despite being a member of the cooperative for more than 5 years. Premiums for UTZ and RA vary, as these are determined in negotiations between farmer organisations and lead firms but are normally below that of FT.

Certification compliance training is carried out by farmer organisations such as cooperatives and lead firm CSR initiatives. All beans produced by C1 farmers are FT, UTZ and RA certified while all beans produced by C2 farmers are UTZ and RA certified (although not all beans are sold as certified beans – this will be discussed in the following chapter). Both FT and RA certification standards require that farmers must be part of a farmer organisation, meaning that these certification schemes are only available to farmers who are members of a cooperative or a lead firm CSR initiative. UTZ certifies both organised and unaffiliated farmers, leaving this as the only possible product upgrading trajectory for the latter.

LF1 and LF2 do not carry out certification compliance training through their lead firm CSR initiatives but they indirectly promote product upgrading by sourcing certified beans.

¹⁹ Based on the fixed producer price of 475 GHC in the 2019 season

LF1 sources some UTZ and RA certified beans, whereas all beans sourced by LF2 is UTZ and RA certified. Many of the lead firms sourcing Ghanaian cocoa beans have committed to sourcing 100% certified beans in the future, however today it is still common that certain chocolate brands are produced with certified cocoa, and others are not, even though they are produced by the same umbrella chocolate manufacturer. LF3 has changed its strategy from sourcing FT beans to sourcing beans that comply with their own private certification scheme. Compliance training is carried out through LF3's lead firm CSR initiative. Standards for this scheme is defined by LF3 and are very similar to those of FT, and it also guarantees fixed premiums equal to that of FT. Hence, lead firms indirectly play a role in promoting product upgrading through certification.

Process Upgrading

Process upgrading involves increasing the productivity and efficiency of the production process and increasing the output per unit of input. Process upgrading of cocoa farmers has been high on the agenda in the cocoa industry, particularly following the International Cocoa Agreement of 2001 which called for heavier involvement of the private sector in supporting a sustainable cocoa industry through process upgrading as opposed to product upgrading at farm level (Laven, 2011). This shift was consolidated with the International Cocoa Initiative (ICI) moving from a 'physical product quality' focus to 'total quality' and lead firms strengthening their efforts to provide smallholders with agronomical knowledge and inputs that could increase yields and improve productivity in the sector.

The key source of process upgrading for Ghanaian cocoa farmers is the adoption of 'best agronomical practices'. This involves extension services where the cooperatives or lead

firms teach farmers agronomical practices, such as for example how and when to apply fertilisers, what type of fertilisers to apply, how much should be applied per acre, good techniques for harvesting and so on. This can improve the productivity of the farming process and increase yields, which means that farmers can sell more bags of cocoa and earn more income. It is common that the cooperatives or lead firms have field officers that are tasked with visiting communities and teach farmers productivity enhancing farming techniques, or by using train-the-trainer approaches where best agronomical practices are cascaded through group leaders and influential farmers in the communities.

Farmers emphasised the importance of learning ‘best agronomical practices’ and this was frequently referred to as the key benefit of being in a farmer organisation. ‘Best agronomical practices’ are often also reinforced if farmers are part of a certification scheme. Certification schemes often have standards for good agronomical practices which can increase productivity and improve yields. This includes standards for how to handle agrochemicals and good methods of production planning.

Some cooperatives also provide subsidised fertilisers which is seen as an important driver of process upgrading. This was frequently reported as a key source of increased yields. C2 offer a credit scheme for fertilisers, and all C2 farmers asked claimed to have received this. Responses were somewhat mixed in C1, where some farmers claimed to have received fertilisers, whereas others claimed they had never received this from C1²⁰.

²⁰ This contradiction might be due to confusion in who supplied the inputs, as Cocobod would sometimes distribute inputs through the cooperative structure, hence C1 inputs might have been mistaken for Cocobod inputs.

Cocobod is also playing a role in process upgrading for smallholder farmers. CRIG is devoting resources to research into productivity enhancing activities. This has resulted in state-run extension services and dissemination of ‘best agronomical practices’, as well as state-run support such as mass spraying with the aim of disease control, pruning, artificial pollination services, provision of hybrid seedlings and rehabilitating of diseased cocoa farms. Some of these services have been offered at no cost to the farmers. There have also been various attempts at providing inputs such as fertilizers subsidised or on credit, however, these schemes have proved difficult to operate. Due to the large number of farmers spread over geographical distances, it has been challenging to provide consistent, inclusive Cocobod farmer support. The majority of farmers interviewed reported of difficulties with the input support provided by Cocobod. Farmers claimed it was often delayed or insufficient which resulted in sub-optimal harvests.

Functional Upgrading

Functional upgrading would involve for smallholder cocoa farmers to undertake new value chain functions, such as vertical integration into downstream activities. This would imply that farmers would have to change the mix of the activities they perform to undertake higher value-adding tasks, such as moving into purchasing (low value capture) and processing (high value capture) of cocoa beans. However, this is very challenging for farmers given the current market structure.

As seen in the domestic value-chain map in the previous chapter, the next step in the value chain is LBC purchasing and processing of beans. There is some potential for farmers to operate as LBC purchasing clerks, and one farmer in C1 stated that she had gone from

farming cocoa to becoming an LBC purchasing clerk. However, this is not a viable option for most farmers for several reasons. Firstly, LBC status must be granted by Cocobod. A subsidiary function of C1 is certified as an LBC, hence for farmers in this cooperative it is easier to move into becoming purchasing clerks as the cooperative already has the needed license. However, for most farmers, cocoa purchasing is undertaken by an external LBC that is employing its own purchasing clerks. This often requires quite different skills from farming, such as bookkeeping and driving licences which many farmers do not have. Moreover, being an LBC purchasing clerk normally does not offer high economic returns, and the clerk in C1 reported that it was a tiring job as many farmers turn to the LBC clerks to ask for loans, which had impacted her personal finances. So, despite there potentially being some limited scope for becoming purchasing clerks, it is usually not a viable option to substantially improve livelihoods.

The real potential of functional upgrading involves moving even further downstream in the value-chain. There are potential economic returns to be made from processing cocoa beans, as the value capture of this is significantly higher than from selling raw beans. However, in the current market structure it is extremely challenging for farmers to move into cocoa processing. As outlined in the previous chapter, the cocoa processing market is highly concentrated with three processing firms; Barry Callebaut, Cargill and Olam alone capturing around 60% of the global market (Terazono, 2014). These firms have substantial economies of scale advantages, which makes it extremely hard for farmers to compete on economic grounds. Generally, there might be opportunities to compete on other grounds, such as for example single-origin farmer-produced chocolate products for market segments where consumers are seeking products with a fairer share of value capture, however, this is still a limited market. Moreover, these kind of products is often perceived to have a lower quality

rating compared to chocolate products produced in the North (Gibbon & Ponte, 2005). Cocoa processing also requires farmers to acquire new skills and undertake initial machine investments which is likely to far exceed what is financially plausible for the general Ghanaian cocoa farmer. Moreover, if farmers were to produce semi-finished or finished chocolate products, they would likely still have to buy ingredients at world market prices, which will pose a financial challenge to many farmers (Whitfield & Bruun, 2014). None of the farmers interviewed identified functional upgrading as a plausible trajectory to economic upgrading.

It might be argued that the scope of functional upgrading is somewhat greater for farmers in farmer organisations compared to unaffiliated farmers. One example of this is Kuapa Kokoo, one of Ghana's largest farmer cooperatives who was one of the founders of Divine Chocolate, a chocolate manufacturer where it now owns 45% of the shares (Kuapa Kokoo, 2017). Kuapa Kokoo receives 44% of Divine's distributed profits, and Divine directly invests 2% of its turnover in Kuapa Kokoo projects which indirectly impacts its members. However, this is most certainly the exception to the rule rather than the standard and it can be argued that the economic benefits of this functional upgrading are mostly reaped before reaching farm level.

Chain Upgrading

Chain upgrading would require for the whole cocoa value chain to shift to a more technologically advanced production chain. Currently, cocoa farming is very labour-intensive and characterised by 'old fashioned' farming techniques. If the cocoa value chain was to become more technologically advanced, this would likely involve moving towards

larger industrial farms and plantations that are less labour intensive and have higher productivity levels or moving into artificially produced cocoa flavours. From a farmer's perspective, this is likely to mean a loss of their chief livelihood. For reasons explained in the previous sub-section, it is unlikely that farmers would have the required skills to easily move into more skill intensive rather than labour intensive farming activities. Hence, chain upgrading of the cocoa value chain might lead to more productive and less labour-intensive global cocoa production, but it is not likely to improve cocoa farmer livelihoods. It would most likely do rather the opposite, forcing smallholder cocoa farmers to abandon cocoa production and apply their farming skills to grow other, potentially less profitable crops (many farmers claimed that cocoa was the most profitable crop they could farm). This shows how the upgrading literature considers upgrading and potential increased economic returns from a firm and sector wide perspective rather than from a worker perspective. None of the farmers in the study identified chain upgrading as a plausible trajectory to upgrading.

Direct Economic Upgrading

In addition to the categories identified in the literature, this project found one additional source of economic upgrading. This is the direct economic upgrading taking place when Cocobod occasionally adjusts the fixed producer price upwards. This type of upgrading is not properly addressed by current literature, where it is assumed that economic upgrading comes as a result of one of the aforementioned sources. Direct economic upgrading does not necessarily imply an improvement in product quality or process but rather a direct adjustment of the product price. The current producer price for a 62.5 kg cocoa bag is fixed at 475 GHC, but the fixed price is set to increase to 515 GHC for the next cocoa season (Adu-Gyamrah & Ali, 2019). The adjustments in producer price made by Cocobod is

subject to fluctuations in the world market price, which again is influenced by multiple, complex factors such as the impact of weather on cocoa production and commodity future trading. Although the farm-gate price has tended to be adjusted upwards over the years to pass on increased world market prices for cocoa to farmers, this is highly dependent on world market price and therefore not a sustainable and predictable trajectory to economic upgrading.

Social Upgrading

Social upgrading involves improving the rights and entitlements of farmers and improving the quality of their employment, benefits that might not only accrue to direct employees but also to their dependants and their communities. The project found that the key source to social upgrading is being in a farmer organisation, such as a cooperative or a lead firm CSR initiative, and particularly so when these organisations are also complying with certification schemes. Farmers who are part of farmer organisations experience increased quality of employment and community development which leads to social upgrading, however these benefits are far from sufficient to see transformative change at farm level and often take place on an occasional basis.

There are various mechanisms to social upgrading for organised farmers. Social upgrading is often provided through cooperative or lead firm CSR initiative membership, certification compliance or a mix of all of these. For example, C1 focus on improving the quality of employment for their members through improving the communities as workplaces by supporting infrastructure projects, such as boreholes and public toilets. C2 has recently built a cocoa shelter to make it easier for farmers to store their beans before sale. One farmer

in C1 mentioned that she had received training in alternative commercial activities through a collective soup-making practice. C2 operates a pension scheme where farmers must contribute the monetary equivalent to one bag of cocoa per acre per year. C1 offers health insurance, however, none of the farmers interviewed were covered by this due to financial hurdles. Moreover, certification compliance can also bring about social upgrading. To comply with FT, RA and UTZ standards, cooperatives are responsible for ensuring that their members have the right to be free from discrimination and the right to join collective bargaining. Moreover, certification compliance has the benefit of enforcing democratic decision-making processes which increase the bargaining power of farmers.

The lead firms also reported of having implemented various infrastructure and farmer wellbeing initiatives in the communities where they run their lead firm CSR initiatives. It is a common feature that these projects are run in partnership with local or international NGOs. Lead firm CSR initiatives work with farmers in specific communities and tend to be quite geographically isolated. Which communities to target is determined by lead firms in cooperation with Cocobod, hence there is little scope for the general farmers to become a member on his or her own initiative.

For unaffiliated farmers who are not part of farmer organisations social upgrading is very limited. Cocobod offers a health insurance scheme, but it is limited in reach and many farmers are not aware of its existence. Cocobod also offers a small number of health clinics in certain cocoa producing regions. There has been talk about setting up a state-run pension scheme for cocoa farmers, however most stakeholders (including the CB officials) had little knowledge of this and it is not clear how it would be operated.

Contrary to the initial project hypothesis of farmers being relatively more focused on social upgrading compared to lead firms, the project found that farmers were particularly interested in addressing economic upgrading through product and process upgrading rather than addressing the need for social upgrading. It was common that farmers only spoke about the need for social upgrading such as pensions and health concerns when prompted to do so, while they were eager to speak about the need for economic upgrading. There might be many reasons for this, but it is unlikely that it is due to farmers being ignorant to social upgrading. As mentioned in the study limitations, it is likely that the positionality of the researcher and the association with a cocoa input and a research organisation influenced this. Interestingly, all interview participants, including the non-farmer participants, identified social and economic upgrading to be positively correlated. As discussed in the literature review, this has been identified to vary across different sectors, however in the Ghanaian cocoa industry participants were united in claiming that improving one of the dimensions would enhance the other. Farmers' trust in economic upgrading enhancing social upgrading might explain why social upgrading was less prevalent in interviews and why economic upgrading was the primary concern of most farmers. It might also be due to farmers being more focused on the present, rather than long-term factors such as the need for pension schemes and health insurance. Moreover, given that many Ghanaian cocoa farmers do not earn a living income²¹, they might not be inclined to address the need for more 'sophisticated' social upgrading such as non-discrimination and bargaining power when basic necessities might not be met.

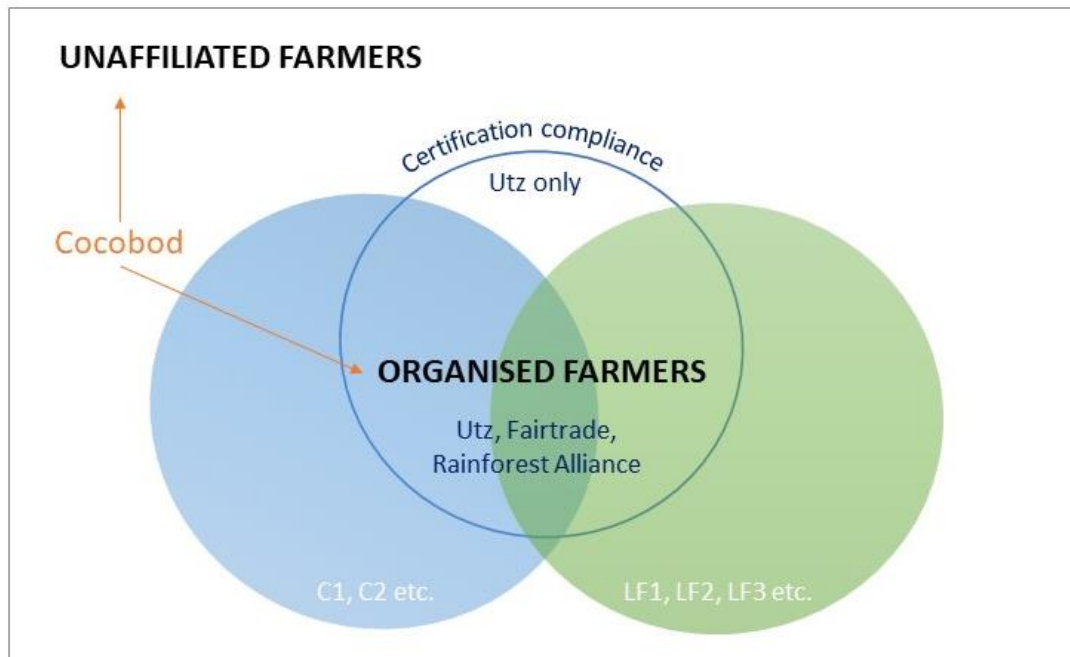
²¹ As can be seen in Figure 5 on page 49

Evaluating the Success of Upgrading

In sum, the trajectories to upgrading for Ghanaian cocoa farmers are limited to product upgrading, process upgrading, occasional direct economic upgrading and occasional social upgrading. There is very limited scope for functional upgrading and no scope for chain upgrading. There is a need for improving both the scope and scale of economic and social upgrading of Ghanaian cocoa farmers to see a transformative change in livelihoods. This is particularly true for social upgrading, as the current agenda is mostly focused on economic upgrading. Although economic upgrading is an important building block for sustainable livelihoods, it should not be considered as an all-encompassing measure for sustainable livelihoods. It is also worth noting that much of the upgrading initiatives seen has taken place in a context of rising world cocoa prices, which has tended to increase margins of stakeholders in the chain and allowed these to invest more time and resources in farmer upgrading, which might not always be the case (Vigneri & Kolavalli, 2018).

In the absence of a traditional employer, the limited upgrading that is taking place is primarily facilitated by membership in a farmer organisation, such as a cooperative or a lead firm CSR initiative. This leads to an uneven distribution of upgrading across farmers. Certain farmers will have better prospect for upgrading than others, as shown in Figure 6:

Figure 6: Upgrading disparities between unaffiliated farmers and organised farmers



Unaffiliated Farmers

no membership of any organisation

Organised Farmers

cooperative membership

lead firm CSR initiative membership

Source: Author

The most notable difference is between unaffiliated farmers (represented by the white background in the figure) and farmers that are organised in a cooperative or a lead firm CSR initiative (blue or green). Organised farmers are normally better off in terms of upgrading compared to unaffiliated farmers as they have more readily available trajectories to upgrading, such as access to ‘best agronomical practices’ that can increase productivity of cocoa farming. Farmers that are in either a cooperative or a lead firm CSR initiative *and* are producing certified beans²² have a better chance of experiencing upgrading as the

²² Fairtrade, UTZ and Rainforest Alliance, or a mix of all three

certification standards reinforce upgrading through product, process and social upgrading. The farmers that are the best off are those who are members of a cooperative that collaborate with lead firms and have adopted one or more certification standards (the overlapping area in the figure). These farmers are linked with three different channels to upgrading, as well as the state-run support provided by Cocobod. The cooperative collaboration with lead firms often leads to more financial resources for upgrading, as lead firms tend to have larger upgrading budgets compared to cooperatives, however cooperatives tend to offer a more consistent presence in the communities. Lead firm CSR initiatives are often also hampered by being fragmented, something that will be explored in a following sub-section.

Contrastingly, unaffiliated farmers face limited scope for upgrading. Out of the three main schemes used in cocoa production, only UTZ is available to unaffiliated farmers, as FT and RA require farmers to be member of a farmer's organisation to qualify for certification. Effectively, this drastically limits the potential for unaffiliated farmers to achieve upgrading through certification compliance. Moreover, UTZ does not operate with a fixed premium meaning that the size of the premium is up for negotiation between farmers and LBC agents. Unaffiliated farmers are likely to have much lower bargaining power than organised farmers. Unaffiliated farmers are therefore likely to receive a lower premium than organised farmers. There seemed to be confusion as to how UTZ carries out certification of unaffiliated farmers, and there was a general perception that it is not a very robust system. Furthermore, RA and UTZ have agreed on a merger, and a new common standard is to be announced mid-2020, and it is unknown whether the new standard will allow unaffiliated farmers to achieve certification.

Both organised farmers and unaffiliated farmers are eligible for the Cocobod support but argued that this is often insufficient or delayed. This was also recognised by a Cocobod official:

We are working with farmers across the country. All together there are 800,000 cocoa farmers in Ghana. But I can say that not all of them have benefitted from this pollination and pruning program. The idea is that we are doing demos. From this district we have selected about 4-5-10 farmers so that others will see and be able to replicate on their own farms. That's where the challenge is, money to hire labour [to do the demos] [...] So, we are not covering all 800,000 farmers, but the government is doing bit by bit. (CB Official).

As a result, there are little scope for transformative change in farmer livelihoods for unaffiliated farmers, as the only available mechanisms enabling upgrading are UTZ certification and the limited Cocobod support. The current upgrading structure is likely to increase disparities between organised and unaffiliated farmers. Organised farmers have (limited) scope for upgrading through the mechanisms explored in the previous section, whereas unaffiliated farmers are left with little to no scope for upgrading. The following chapter will build on this analysis and explore the challenges in extending the farmer organisation structure.

There are also disparities in the access to upgrading amongst organised farmers. Given that FT, UTZ and RA certifications pay different premiums, farmers in C1 are likely to receive a somewhat higher premium payments than those in C2 as the fixed FT premium is usually above that of RA and UTZ. Disparities can also be found within the cooperatives. For example, certain C1 farmers had received training in alternative livelihoods whereas others had not. One community in C2 had received funding for a communal cocoa shelter to facilitate the storage of beans, whereas other communities in the same cooperative have not received similar infrastructure support.

Interviews confirmed that there is still a long way to go to see a transformative change in farmer livelihoods. As addressed in upgrading literature, the provision of upgrading (or lack thereof) can often be linked with the governance structure of the value chain. The following section will analyse governance in the Ghanaian cocoa industry and link the governance structure with the lack of upgrading of smallholder farmers.

Governance in the Ghanaian Cocoa Industry

This section will analyse the Ghanaian cocoa industry through the lens of Gereffi and Lee's (2016) synergistic governance framework. The key argument in Gereffi and Lee's (2016) framework is that a confluence of horizontal and vertical private, public and social governance²³ leads to synergistic governance which increases the likelihood of upgrading. It will be argued that although the Ghanaian cocoa industry shows signs of synergistic governance, it is best described by an asymmetrical joint-governance structure, which affords lead firms a disproportionate amount of power.

Table 5 uses Gereffi and Lee's (2016) synergistic governance framework to map the key enablers of upgrading identified in the previous section, as well as other stakeholders that were identified as important sources of GVC governance:

²³ This project defines governance as the “*authority and power relationships that determine how financial, material and human resources are allocated and flow within the chain*” (Gereffi, 1994, p.9).

Table 5: Synergistic governance in the Ghanaian cocoa industry

	Horizontal Governance	Vertical Governance
Private governance	Local collective efficiency: Farmer cooperatives (C1, C2)	GVC lead firm governance: Cocoa processors and chocolate manufacturers (LF1, LF2, LF3)
Social governance	Local civil society pressure: Local CSOs/NGOs: Ghana Civil Society Organisations Cocoa Platform	Global civil society pressure: International media NGOs: Fairtrade Foundation, the Rainforest Alliance, UTZ Certified etc Research bodies
Public governance	Local, regional, national government regulations: Cocobod and its sub-divisions	International organisations: The World Trade Organization

WCF, ICI, PPP Organisation

Source: Author, framework adapted from Gereffi & Lee, 2016.

Private Governance

Private governance in the Ghanaian industry is influenced by both local and global forces. On a local level, farmer cooperatives are important facilitators of upgrading, and are used to overcome the constraint of smallness. However, the majority of Ghanaian farmers remain outside this structure.

The Ghanaian cocoa sector is heavily influenced by global private governance forces. Consolidated, powerful lead firms have a strong position in the domestic market through interacting directly with the CMC, carrying out some domestic processing and operating CSR initiatives on the ground. Their governance power has increased over the past years due to the consolidation of the industry and the trend of vertical and horizontal integrating into upstream activities such as obtaining LBC status (Gayi & Tsowou, 2016). Their position

relative to stakeholders such as Cocobod, farmer cooperatives and local and international civil society actors makes them extremely powerful.

Social Governance

The local civil society pressure is notably less impactful compared to the private governance forces at play. Although 2019 saw a strengthening of the role of local civil-society actors with the launch of the Ghana Civil Society Organisations Cocoa Platform (GCCP), it has limited impact on the sector. This platform was launched due to the realisation that most Ghanaian cocoa CSOs were not well organised with a lot of duplicated objectives and the lack of a strong CSO voice in multi-stakeholder partnerships.

On a global level, there is a substantial civil society pressure on lead firms. This is largely due to media coverage of the challenges of the cocoa industry, particularly on topics such as child labour, the lack of living incomes and environmental challenges. As argued by Leissle (2018), part of the widespread media coverage of the cocoa sector might be due to the global interest in chocolate, almost to the point of fetishization, and its association with love and pleasure. In addition, there is a myriad of non-profit organisations with particularly important ones being the Fairtrade Foundation, the Rainforest Alliance and UTZ Certified. These play an important role in setting standards for how cocoa farming is carried out. Research institutions also play a role in exercising pressure on lead firms to adopt more sustainable and fair practices.

Public Governance

In terms of local public governance, Ghana is unique compared to other cocoa producing countries that have substantially reduced the power of state marketing boards. Although the public governance structure underwent a transformation with the privatisation of certain Cocobod functions following the economic collapse of the 1980s, Cocobod still holds substantial governance power of the cocoa industry through influencing almost every step of the domestic cocoa value chain. Despite its strong governance position, Cocobod plays a less important role on the upgrading scene compared to farmer cooperatives and lead firms as identified in the previous section.

The domestic cocoa sector is also influenced by cocoa trade regulation set by the World Trade Organisation, but this has little direct impact on upgrading.

Other sources of Governance

It should be noted that not all organisations can be neatly categorised according to the framework presented by Gereffi and Lee (2016). Many organisations operate in the blurred lines between the different categories of governance. Important examples of this is the World Cocoa Foundation (WCF) and the International Cocoa Initiative (ICI). These are multi-stakeholder initiatives but are mostly dominated by lead firms. The WCF consists of more than 100 members, mostly private sector actors such as cocoa processors and chocolate manufacturers, but also cocoa cooperatives and other local and international civil society actors. The ICI consists of members from the private sector, civil society and governments. These organisations play a significant indirect role on the upgrading scene, as they represent

some of the most powerful lead firms in the industry and offer an important arena for discussing what needs to take place in terms of upgrading.

Moreover, the private-public partnership organisation interviewed for this project is another example of organisations that does not fit into Gereffi and Lee's (2016) framework. It was established by a European government with the aim of convening upgrading coalitions between social, private and public cocoa stakeholders. It works to align the goals of governments, companies, CSOs and investors, and is therefore cutting across different sources of governance.

Asymmetrical Joint-Governance

As identified, global lead firms, global civil society and Cocobod are the most impactful sources of governance in the Ghanaian cocoa industry. This sub-section will argue that the governance exercised by global civil society has led to signs of synergistic governance, however, that the Ghanaian cocoa industry is best characterised by an asymmetrical joint-governance structure, where the power of lead firms displaces social and public governance. It will be argued that Cocobod is the only stakeholder with sufficient governance power to challenge this asymmetry, but it is not incentivised to do so due to its dependence on lead firms and due to its objectives overlapping with those of lead firms. As a result, lead firms play a dominant role in the 'design' and operationalisation of the upgrading agenda.

Gereffi and Lee's (2016) synergistic governance framework argues that a confluence of private, social and public governance can lead to synergistic governance which increases the likelihood of upgrading. On the one hand, the Ghanaian cocoa industry shows signs of synergistic governance. This is likely to be largely on account of the relatively strong

presence of global social governance exercised by civil society. This has flagged upgrading to be included on the agenda of global lead firms. Since the early 2000s, NGO concerns and media campaigns portraying the challenges of the cocoa industry has plagued chocolate companies (Barrientos, 2011). The presence of social governance has undoubtedly played a role in lead firms slowly moving from indirectly promoting upgrading through sourcing certified beans towards more direct involvement at farm level. Lead firm CSR initiatives have been recognised as strategically important for commercial success and as a way of legitimising business activities in the eyes of consumers and civil society who are becoming increasingly concerned about the conditions under which cocoa is produced. Most of the large lead firms are now either operating their own lead firm CSR initiative or collaborating with cooperatives and NGOs to carry out upgrading initiatives. As expressed by a manager in C1:

They [the lead firms] think that they need something in addition to certification. As a marketing tool to sell. So not just 'we buy UTZ' or 'we buy Fairtrade' but 'we're developing programmes with this cooperative (Manager, C1).

As a result, cocoa processors and chocolate manufacturers have emerged as important players in facilitating, and particularly financing upgrading. This shows signs of the type of synergistic governance Gereffi and Lee (2016) argue needs to be present for upgrading to take place.

However, on the other hand, Gereffi and Lee (2016) also recognise the risk of certain types of governance displacing other types which can restrict upgrading. It is recognised that the risk of private governance displacing, pre-empting and crowding out other types of governance is particularly high (Lee, Gereffi & Beauvais, 2010; Lee, Gereffi & Barrientos, 2011). This can be seen in the Ghanaian cocoa industry. The consolidation of lead firms that

have taken place over the past years result in these exercising an asymmetrical level of governance power, at the expense of other sources of governance.

Cocobod is the only stakeholder with real power to challenge this asymmetry, however it has little incentive to do so and instead conforms to a joint-governance structure dominated by lead firms. Cocobod plays a passive role in contesting the power asymmetry due to its dependence on lead firms and due to its objectives overlapping with those of the firms. Cocobod is dependent on exporting cocoa to lead firms, and export revenues play a crucial role in financing the operations of the board (this will be explored further in the following section). Moreover, the objective of ensuring a consistent supply of high-quality cocoa gives Cocobod and lead firms common ground, and disincentivises Cocobod from contesting the asymmetrical power exercised by lead firms. As a result, the industry is best characterised by an *asymmetrical joint-governance structure* between lead firms and Cocobod. The asymmetrical nature of this relationship is further consolidated by Cocobod representing a large number of smallholder farmers with a marginal voice, whereas lead firms are highly concentrated, resulting in a few companies ultimately controlling much of the cocoa industry, both domestically but also internationally.

Lead firms exercise the power that comes with the asymmetrical joint-governance structure by playing a key role in designing the agenda of what should (and should not) take place in terms of upgrading. This project found that upgrading is largely determined by the agendas set out by organisations such as the WCF and ICI:

Most of what the private sector is doing is based on the global agenda set by international organisations. You can say that the agenda is set by the international cocoa environment – and then these projects trickle down to companies. (Manager, LF 2)

This view was confirmed by a cocoa programme coordinator who pointed out that lead firm CSR initiatives differ but are built on the same global cocoa agendas:

I think everyone has different views on how to achieve the agenda. However, I think the general cocoa agenda is accepted by everyone, but there are different ideas on how to address the issues. That is manifested in the fact that many of the chocolate brands already have their own sustainability programs [...] I think everyone has a different way of addressing the issues, but I think everyone agrees that they want to address the issues. (Cocoa Programme Coordinator, PPP Organisation)

The skewed power imbalance that characterises the cocoa value chain is reflected in international organisations such as WCF and ICI. As an example, WCF was established by an association of lead firms, and although social and public governance bodies have gradually been given more seats at the table, this has happened ‘*too late in the game*’ for it to have substantial impact on the global upgrading agenda (Cocoa Barometer, 2015). Despite the increased presence of civil society actors, cocoa cooperatives and public officials on these arenas, effectively, a small core of very powerful global lead firms design much of the international cocoa upgrading agenda, partly to their own benefit. This agenda is then adopted and operationalised by the same lead firms on the ground. All the lead firms interviewed are members of WCF and ICI and have adopted WCF’s CocoaAction agenda and several of the lead firms have adopted ICI’s Harking Engel Protocol Plan and use these as guidelines when building their own CSR initiatives.

Effectively, the asymmetrical joint-governance structure in the Ghanaian cocoa industry means that lead firms hold considerable power in designing an upgrading agenda that is to their own benefit, with other stakeholders, including farmers themselves having little to no say in what is prioritised in terms of upgrading. Hence, in relation to the initial hypothesis of a potential misalignment between GVC stakeholders on *what* upgrading is and *how* it should be operationalised acting as a barrier to transformative change in farmer livelihoods,

it was found that this is not the case. There might potentially be misalignments on how upgrading is defined and understood, however the dominance of lead firms leaves little room for this to be brought into the global upgrading conversation. Relating to its impact on farmer livelihoods, a potential misalignment is not the barrier, the problem lies in the underrepresentation and lack of governance power yielded to farmers, civil and public governance bodies who could voice a potential misalignment in the first place.

These findings emphasise the importance of power distribution in the governance structure of the industry. Gereffi and Lee (2016) go little further than arguing that this can restrict, displace and pre-empt upgrading. The following section will dive into the specific effects the asymmetrical joint-governance structure has on providing upgrading of Ghanaian cocoa smallholder farmers. By doing so, this project contributes towards challenging the existing boundaries of the upgrading framework.

The Effects of the Asymmetrical Joint-Governance Structure

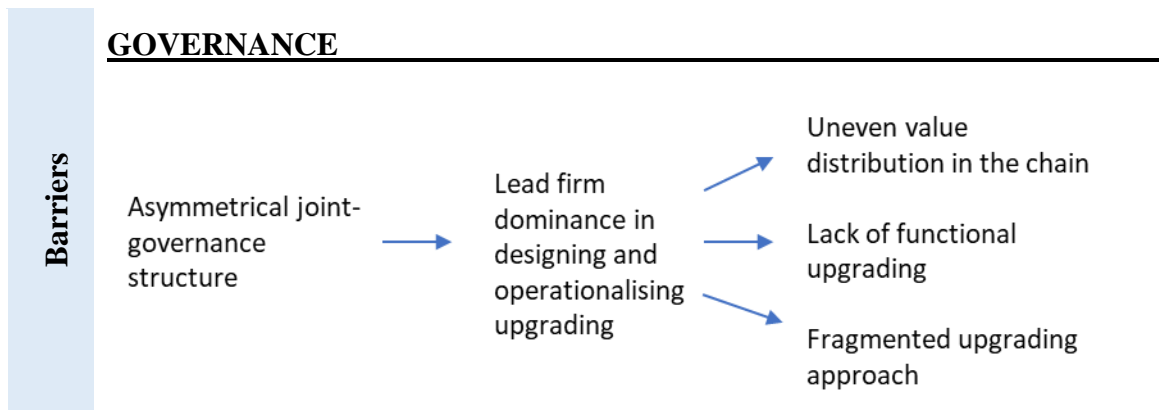
The effect of the asymmetrical joint-governance structure is an upgrading agenda that is designed to the benefit of lead firms with limited input from other stakeholders. This agenda is serving the objectives of lead firms rather than driving transformative change in farmer livelihoods. These two objectives are often presented as two sides of the same coin, whereas in reality they are not necessarily always perfectly aligned. Lead firms are fundamentally profit-maximising enterprises, and therefore the type of upgrading initiatives they pursue and the way these are operationalised is influenced by the objective of increasing shareholder value. Current product-, process- and social-upgrading serve this objective. Product upgrading through certifications is contributing to legitimising the industry in the eyes of consumers and can improve brand reputation. Process upgrading promotes an increase in

farmer productivity, which can lead to increased supply and downwards pressure on the world cocoa price. Social upgrading is likely to be motivated by a combination of the governance pressure from social and public actors and the marketing value in communicating social upgrading initiatives to increasingly aware end-consumers.

This is not to not write-off the value of lead firm CSR initiatives. Upgrading that benefits lead firms is not automatically disadvantageous for farmers. Social upgrading such as infrastructure development projects facilitated by lead firms have benefitted farmer communities. It is advantageous that lead firms are considering the need for upgrading regardless of whether this is due to profit maximisation, pressure from social and public actors, ethical considerations, or most realistically – a mix of all.

However, the asymmetrical joint-governance structure leads to a scenario where lead firms play a key role in designing and operationalising upgrading. This has the effect of uneven value distribution, lack of functional upgrading and a fragmented upgrading approach. This acts as barriers to transformative change in farmer livelihoods. This is shown in Figure 7.

Figure 7: Governance barriers to farmer sustainable livelihoods



Source: Author

The following sub-sections will explore these three effects in more depth.

Value Distribution in the Chain

The most obvious effect of the asymmetrical joint-governance structure is lead firms' ability to control value distribution in the chain. Most of the value in the industry is captured by processors, chocolate manufacturers and final retailers (Barrientos, 2011; Cocoa Barometer, 2015). Lead firms could redistribute value to cocoa farmers through the direct economic upgrading trajectory. However, lead firms benefit from low cocoa price, as this can increase their margins. Despite the many commitments to reduce farmer poverty made by lead firms, they have proved reluctant to increase the price received at farm level and have primarily focused on poverty initiatives that target productivity rather than cocoa price (the impacts of this on farmer livelihoods will be explored in the following chapter). As a result, transformative change in farmer livelihoods is restricted.

The challenge of low economic returns is especially true for farmers who do not produce certified cocoa and therefore do not receive premium payments, however this project found

that this issue is not limited to these farmers. Farmers who produce certified cocoa and earn premiums also struggle with low economic returns. Two of the three most prominent certification schemes in the Ghanaian cocoa sector operate with negotiable premiums. For RA and UTZ certification, premiums are set in negotiations between unaffiliated farmers (UTZ only) or farmer cooperatives (UTZ and RA) and lead firms²⁴. Only FT offers a fixed premium. The premiums for RA and UTZ are therefore dependent on the bargaining power of unaffiliated farmers and farmer cooperatives and the willingness of lead firms to increase premiums. The asymmetrical governance structure means that both unaffiliated farmers and farmer cooperatives experience a low level of bargaining power in these negotiations. C1, which is a relatively large cooperative reported of having little bargaining power in price negotiations with lead firms, and several managers stated that the result is a premium that is set far below what is needed to ensure living incomes.

Cocobod has limited leverage to challenge the uneven value distribution. It is in the interest of Cocobod to see its farmers in a good financial position, exemplified by its willingness to act as a buffer for disadvantageous fluctuations in the world price of cocoa through fixing the price each season and by doing so taking on risk that would otherwise rest with farmers. However, the power asymmetry in the industry, the dependence on exports to lead firms and the price competition amongst cocoa producing countries have given Cocobod limited leverage to put pressure on lead firms to alter the value distribution in the chain.

²⁴ As seen in Figure 4 on page 41 certification premiums are generally made directly from cocoa processors and chocolate manufacturers, and not through LBC agents

This might however change in the near future. Cocobod and Côte d'Ivoire's Conseil du Café-Cacao have recently agreed to coordinate a fixed minimum export price for the 2020-2021 crop season. Côte d'Ivoire is by far the largest cocoa producing country in the world (roughly 40% of global production) and the collective production from these two countries represents two thirds of the total world production. Hence, this agreement shows potential for collectivising public governance efforts to challenge the skewed value distribution. This will be of benefit to Ghanaian cocoa farmers, but it is still unknown how much of this price increase will trickle down to farmers as the fixed floor price applies to the CMC export price rather than farm gate producer price²⁵. Given that the agreed minimum export price is not too different from the world price over the past years²⁶, it is unlikely this will be enough to drive transformative change in farmer livelihoods. Moreover, there is uncertainty as to how this will be implemented.

There is little doubt that the asymmetrical joint-governance structure influences the value capture at farm level. However, it is worth noting that despite uneven distribution of returns, the challenges of the cocoa industry go beyond a 'farmer versus lead firm' dichotomy. One of the biggest beneficiaries of the chocolate industry; retailers of final products, are often outside the scope of scrutiny of value distribution, despite the fact that they capture up to 28% of the final product value of chocolate (Barrientos, 2011). Although the value distribution of cocoa production undoubtedly is very skewed, part of the problem ultimately also lies in the final product price not reflecting the true cost of producing chocolate.

²⁵ LBC margins, transportation and local tax expenses account for the difference between the farm gate price and the CMC export price.

²⁶ The floor price is agreed to be \$2,500 per tonne. Over the last 5 years the world price has ranged from \$1,900 – \$2,600 per tonne (Trading Economics: Cocoa 1959-2020 data).

The Lack of Functional Upgrading

A transformative change in farmer livelihoods is likely to require multiple upgrading trajectories taking place simultaneously. At current, there is very little to no functional and chain upgrading taking place. As explained earlier, chain upgrading would likely have negative impact on farmer livelihoods due to farming becoming less labour intensive, however functional upgrading holds substantial potential of improving farmer livelihoods. One of the key problems of the lack of farmer livelihoods is the lack of living incomes. Functional upgrading could lead to more value-adding activities such as processing taking place at farm level. However, the asymmetrical joint-governance structure acts as a barrier to functional upgrading. The skewed market power of the industry caters for powerful actors that are not incentivised to change the current set-up and alter value capture distribution.

Lead firms are not incentivised to promote processing at farm, community or cooperative level. For this to take place, there is a need for knowledge sharing between upstream and downstream chain actors. This is not in the interest of processing firms who are currently benefitting from their oligopolistic position in the world market. As a result, lead firms have fostered enclave processing where most processing is undertaken by international lead firms that capture the value and transfers this abroad.

In similarity to lead firms, Cocobod is not incentivised to increase the share of local processing. As Laven (2011, p.125) writes;

Despite reforms, governments might continue to represent the interests of certain economic sectors and groups, or still defend their own interest as a chain actor which is not necessarily 'pro-poor'.

In order for Cocobod to uphold its current operations, it is vital that the CMC retains its position as the key exporter of Ghanaian cocoa. The CMC sell the majority of beans on

forward contracts which gives it collateral for foreign loans that finance Cocobod operations, allows for price fixing and makes it possible for Cocobod to offer loans to LBCs. This is possible due to the CMC controlling all cocoa exports. Most of this export goes to international processing lead firms. Hence, increasing local processing risks the supply linkages formed with processing firms and would require a new supply structure that exports directly to chocolate manufacturers. Cocoa processors have built much competence in cocoa processing over the years and have also formed strong supply linkages to chocolate manufacturers. It would therefore be very challenging for Cocobod and local farmers to undertake farm-level processing and bypass the processing lead firms and supply directly to chocolate manufacturers. This would be a risky move and would have the potential of reducing the flow of beans that is exported through the CMC, which would weaken Cocobod's key source of finance and its ability to carry out its operations. Hence the joint-governance structure does not cater for functional upgrading of smallholder farmers. As Whitfield & Bruun (2014, p.141) write:

Alliances that led Ghana to become the producer of the best cocoa beans in the world were not able to solve the challenges encountered in upgrading and creating a national processing industry.

As a result, the joint-governance structure formed between lead firms and Cocobod acts as a barrier to increased processing at farm level. Very little value capture is taking place locally and the prospects of transformative change in farmer livelihoods in the absence of functional upgrading is limited. The Ghanaian cocoa industry continues to be characterised by a dependence on export of raw cocoa beans, and the local value capture of a global industry worth close to \$50 billion remains trivial.

It is worth noting that the potential for functional upgrading is not dependent on governance structure alone, but also on factors such as farmers' ability to adapt technology,

lack of initial capital to invest in machinery and so on. However, it is clear that the governance structure of the industry act as a significant barrier to functional upgrading of Ghanaian cocoa farmers.

The Fragmented Lead Firm Approach

Another consequence of the asymmetrical joint-governance structure is the highly fragmented lead firm approach to upgrading. Lead firm CSR initiatives are often quite isolated and limited to specific communities that lead firms have ‘adopted’. Lead firms are not incentivised to form pre-competitive partnerships to extend this support, and this restricts the potential for transformative change in farmer livelihoods. Lead firms play a key role in upholding the current fragmented upgrading structure due to their dominance of the upgrading agenda and their objectives of differentiating themselves from competitors.

All three lead firms interviewed for this study are running their own upgrading initiatives and despite these being relatively similar, transformative pre-competitive partnerships are rare. High-level pre-competitive agreements are limited to international cocoa interest organisations such as WCF and ICI, but this is rarely reflected when lead firms design their CSR initiatives which carries out upgrading at farm level. Table 6 shows an overview²⁷ of the key features CSR initiatives run by the lead firms interviewed.

²⁷ Information adapted from lead firm CSR initiative programmes. The table only shows key features to protect the identity of the interview participants

Table 6: Key features of lead firm upgrading initiatives

LF1	LF2	LF3
Roughly 31,000 ²⁸ members	Roughly 17,000 members	Roughly 40,000 members
Multi-stakeholder approach	Multi-stakeholder approach	Multi-stakeholder approach
<ul style="list-style-type: none"> • Building farmer capacity • Professionalising farmers • Environmental protection 	<ul style="list-style-type: none"> • Improve farming practices • Promote sustainable, high-quality cocoa production • Improve farmer livelihoods • Environmental protection 	<ul style="list-style-type: none"> • Improve farming practices • Professionalising farmers • Empower communities • Environmental protection

Source: lead firm CSR reports

These initiatives are characterised by multi-stakeholder partnerships, mostly with international and domestic NGOs and cooperatives but rarely with competing lead firms. There are a few examples of partnerships between cocoa processors and chocolate manufacturers, but seldom between two or more competing cocoa processors or two or more competing chocolate manufacturers. The asymmetrical governance structure is mirrored in these partnerships, where a few very powerful lead firms can choose between a myriad of social and public actors to form partnerships with.

This unwillingness to cooperate across competing firms act as a barrier to transformative change in farmer livelihoods. There is likely to be much upgrading potential in bundling lead

²⁸ This number was reported in interviews. However, online documentation state that the initiative reaches 15,000 farmers

firm CSR initiatives together. This was recognised in an interview with a manager from the PPP organisation:

We need to stop having this fragmented approach. For example, we will work with one company and cooperative X on some services like access to finance and women's business skills. Then we will work with another company and cooperative Y on other services. All of this doesn't make sense, you need to centralise, you need to bundle services together [...] Because what happens is that you have necessary services, like access to finance, but they are not sufficient. You will never have any real impact because it's either not going to be sustainable or it's going to last one or two years depending on the project, or it is going to be incomplete. You can't just have access to finance if you don't know what to do with that finance... (Cocoa Programme Coordinator, PPP Organisation).

The complexity and intertwined nature of many of the challenges faced by smallholder cocoa farmers makes it unlikely that isolated private sector initiatives will offer the livelihood improvements needed. Furthermore, it is likely that bundling lead firm CSR initiatives together holds large upgrading potential, as this could allow for each lead firm to develop expertise areas. Despite the similarity of lead firm CSR initiatives, interviews revealed that within the industry, different lead firms are known for focusing on different upgrading topics such as for example building community infrastructure or promoting farmer education. This was recognised by both lead firm managers and other stakeholders such as cooperative managers and Cocoa Programme Coordinators. Bundling lead firm CSR initiatives together therefore holds the opportunity of each lead firm specialising on certain types of upgrading. This could lead to more targeted upgrading where lead firms focus on a specific source of upgrading across various communities, rather than trying to provide 'a little bit of everything' in isolated communities.

In order to gain consumer loyalty and maximise shareholder value, lead firms are incentivised to capitalise on their upgrading efforts in product marketing and branding. Lead firms are concerned with positioning themselves as social and environmentally friendly to

capture consumer segments that are becoming increasingly aware of the challenges of cocoa farmers. There seem to be value in covering a lot of ground when it comes to upgrading, as exemplified by the wide scope of most of the lead firm CSR initiatives in Ghana. Lead firms are reluctant to focus on ‘expertise areas’ only. Any lead firm focusing on their ‘expertise’ topic alone runs the risk of other companies being perceived as more socially and environmentally concerned as they are covering more themes. As a result, the focus areas of lead firm CSR initiatives are spread out thinly rather than harvesting each other’s expertise. This restrains the scope for transformative change in farmer livelihoods.

This has led to a fragmented upgrading approach with various lead firms running isolated initiatives in specific geographic locations. In interviews with lead firm managers, this was often recognised but legitimised by the concern of duplication:

In order to avoid duplication, we go to Cocobod and ask ‘where can we go?’. We tell them our criteria. We do this because we don’t want to go to places where there are programmes already running. (Manager, Lead Firm 3).

This would be a reasonable concern if the lead firm CSR initiatives were driving transformative change in farmer livelihoods. However, this project identified that there is still a long way to go regarding farmer livelihoods, and the duplication concern is likely to rest in lead firms’ concern of differentiating their initiatives from those of competitors. As argued by managers in one of the cooperatives, lead firms are still preoccupied with being able to ‘tell stories’ of community development driven by their firm, and their firm only.

Lead firm managers argued that the problem of duplication could be solved by Cocobod offering a database of current initiatives and geographical location. The lead firms interviewed are currently collecting their own data on the demographic and location of the farmers they are working with however this is not centralised and “*certainly not public data*”

as expressed by one of the Cocoa Programme Coordinators in the PPP organisation. It can be questioned how valid the claimed duplication problem is. The consolidated nature of the cocoa sector in Ghana implies that most of the big players will have a decent idea of which areas their competitors are operating in, something that was pointed out in interviews. If the duplication concern voiced by lead firms rooted in a real concern of ensuring inclusive transformative change in farmer livelihoods, it is likely that lead firms would share their data collection of the demographic and location of the farmers they are working with. However, none of the lead firm managers expressed interest in this, and it is likely that this concern is primarily caused by the preference for implementing lead firm CSR initiatives in communities where farmers are not affiliated with any other lead firm. Moreover, out of the farmers asked, none reported of being part of multiple initiatives. Given that current initiatives are not sufficient to drive transformative change in farmer livelihoods, double coverage is likely to be of positive benefit to farmers, whereas lead firms' concerns ground in differentiation needs for carrying out successful marketing and branding strategies.

There is some scope for capitalising on the cooperative structure to consolidate the fragmented lead firm approach. As explained in chapter 4, some lead firms choose to collaborate with cooperatives and implement their CSR initiatives through the cooperative structure. Cooperatives are often less isolated compared to lead firm CSR initiatives and in contrast to lead firm CSR initiatives, farmers can generally become members of cooperatives on their own initiative. Cooperatives could potentially be used as a vehicle to amalgamate upgrading efforts. Consolidating lead firm upgrading initiatives through cooperatives could lead to a more effective operationalisation of upgrading for multiple reasons. Firstly, the majority of organised farmers are linked to the cooperative structure, so implementing lead firm upgrading efforts through cooperatives have the potential of reaching more farmers.

More importantly, this means that lead firms would work with ‘cooperative farmers’ rather than ‘lead firm *x*’ or ‘lead firm *y*’ farmers, which could create a platform for various lead firms implementing their upgrading initiatives in the same communities. Moreover, it could also potentially lead to more efficient upgrading, as data collection on demographics and so on could be centralised on a cooperative level rather than being carried out by each individual lead firm in the various communities.

The potential benefits of strengthening the cooperative structure was recognised by managers in two of the three lead firms interviewed. A manager in LF 1 expressed:

We wish to put all our farmers into cooperatives, we want to register them and strengthen their capacity so that they can have a voice. This will also make it easier for us to implement our strategy and for it to have a wider impact compared to delivering the projects through individual farmers. (Manger, LF1)

Equally, a manager in LF 2 expressed:

I think cooperatives are the way forward. Farmer empowerment is better in cooperatives, as the governance structure gives farmers decision making power [...] LBCs offer some services to farmers, but it is clear to me that the cooperative system is better. The cooperative system is legally binding. LBC associations can also be good and do offer some services like training – but cooperatives are the way forward. (Manager, LF2)

Despite the expressed lead firm interest in expanding the cooperative structure, it is likely that the operationalisation of this is hampered by the lead firm objective of differentiation. LF1 and LF2 are sourcing certified beans from cooperatives, however despite the expressed interest, all three lead firms are running their CSR initiatives in isolated farmer communities that are not covered by cooperatives. Lead firms might be particularly concerned with partnering with a cooperative like C1 who already has quite a strong ‘identity’ and brand value on its own. This is exemplified by LF3 who moved from a partnership with C1 to implementing its own CSR initiative in farmer communities that are not affiliated with C1.

As frustratingly expressed by one cooperative manager the lead firms want farmers to “*carry a brand t-shirt rather than a cooperative t-shirt*” (Manager, C1).

Despite the potential for capitalising on the cooperative structure to consolidate the fragmented lead firm approach, the fragmented approach is upheld due to lead firms’ power over designing and operationalising the upgrading agenda. As a result, upgrading of Ghanaian smallholder cocoa farmers resemble a patchwork of various upgrading initiatives without the consolidated approach needed to drive transformative change in farmer livelihoods.

Chapter Conclusion

This chapter has analysed the Ghanaian cocoa industry from an upgrading and governance perspective. By doing so, it has answered the two sub-questions:

- *What are the trajectories to economic and social upgrading currently available to Ghanaian cocoa smallholder farmers?*
- *Can global value chain literature, particularly relating to upgrading and GVC governance shed light on the lack of transformative change in farmer livelihoods in Ghana?*

In sum, the chapter has showed that farmer upgrading is limited to product-, process-, occasional direct economic- and occasional social upgrading. It was found that farmer organisation membership, certification compliance and productivity enhancing measures such as adoption of ‘best agronomical practices’ and input provision were key mechanisms of upgrading. It has also been argued that large disparities exist, particularly between unaffiliated and organised farmers. The lack of upgrading has been linked to the governance

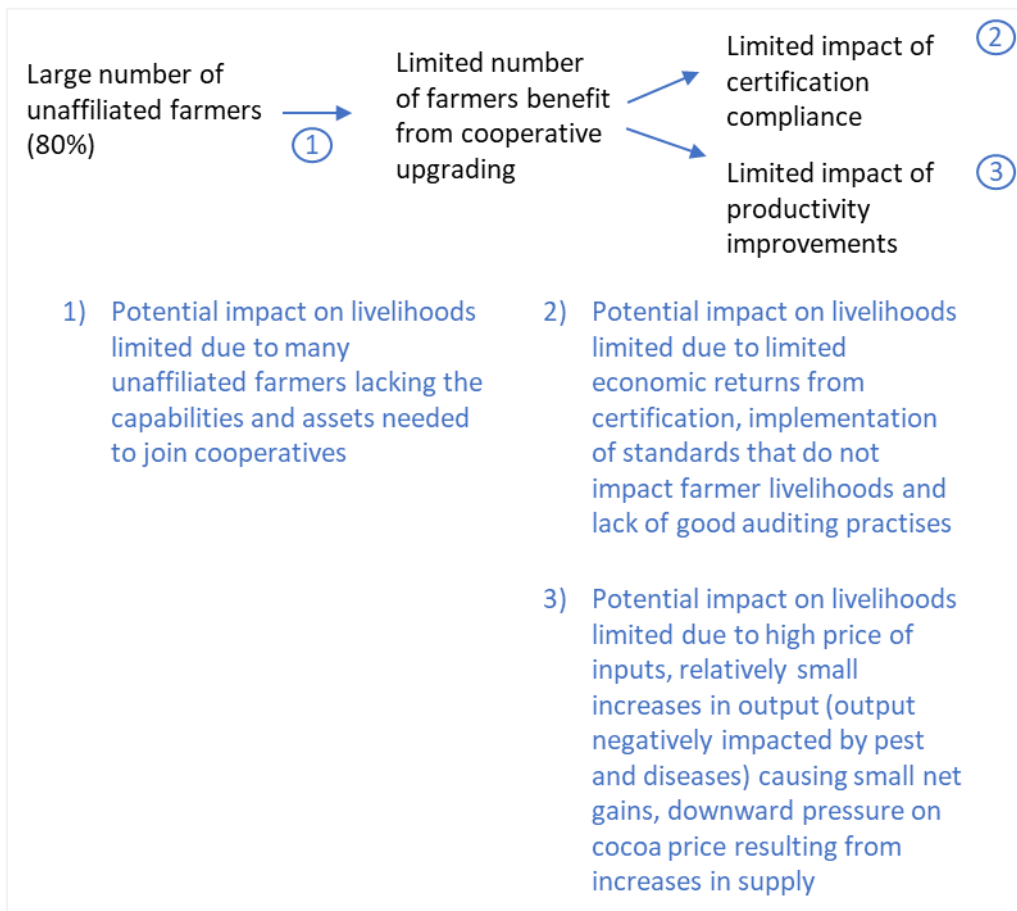
structure of the industry, which is best characterised as an asymmetrical joint-governance structure between powerful lead firms and Cocobod. The governance structure allows lead firms to control the upgrading agenda, which results in unequal value distribution in the chain, a lack of functional upgrading and a fragmented lead firm approach to upgrading. This acts as barriers to transformative change in farmer livelihoods. Ultimately, those with power of the industry are not incentivised to take the necessary steps, namely increase the producer price of cocoa, promote functional upgrading and consolidate lead firm upgrading efforts needed to drive transformative change in farmer livelihoods.

As outlined in this chapter, there is little doubt that the governance structure of the industry influences the prospect of transformative change in farmer livelihoods. However, considering GVC governance in isolation is not sufficient for painting the full picture of why there is a lack of transformative change in farmer livelihoods. There are additional factors that influence this that cannot be directly linked to the governance structure of the industry. The next chapter will turn to this.

6. Beyond Governance – Identifying Barriers to Transformative Change in Farmer Livelihoods

As outlined in the introduction to this thesis, sustainable livelihoods build on multi-dimensional factors that span across economic, social, cultural and political spheres. The previous chapter considered the lack of transformative change in farmer livelihoods from an upgrading and GVC governance perspective. This chapter will lean more on an inductive approach and consider factors that influence the “*capabilities, assets (including both material and social resources) and activities required for a means of living*” (DFID, 1999, p.1). As outlined in the previous chapter, being a member of a farmer organisation, certification compliance and productivity enhancement (process upgrading through effective use of fertilisers and adoption of best agronomical practices) are some of the key mechanisms enabling upgrading and hence improving farmer livelihoods. This chapter will dive into specific factors that influence the prospect of these mechanisms as drivers of transformative change in farmer livelihoods. An overview of this can be seen in Figure 8:

Figure 8: Additional barriers to farmer sustainable livelihoods



Source: Author

These factors will be explored in the three first sections of this chapter.

This project has considered farmer livelihoods through the lens of cocoa farming. The fourth and final section of this chapter will elevate this perspective and discuss whether cocoa farming indeed holds the potential of being a source of sustainable livelihoods.

Unaffiliated Farmers and Farmer Livelihoods

In the previous chapter it was identified that in the absence of traditional employers, a lot of upgrading initiatives targeted at improving farmer livelihoods are driven by farmer

organisations, such as cooperatives or lead firm CSR initiatives (or in a few cases, both). The vast majority of Ghanaian smallholder cocoa farmers remain outside this structure. It is estimated that only about 145,000 farmers are members of farmer organisations (Cocobod, 2019), leaving more than 80% of all Ghanaian smallholder cocoa farmers with little to no scope for receiving this support. In order to promote improved livelihoods for the large number of unaffiliated farmers there is a need for expanding the farmer organisations structure.

The previous chapter argued that lead firm CSR initiatives are hampered by fragmentation. Moreover, farmers are generally not able to become members of lead firm CSR initiatives on their own initiative, as lead firms identify communities to ‘adopt’ in collaboration with Cocobod. In contrast, cooperatives hold potential for consolidating the fragmented lead firm approach, and can serve as a mechanism for product-, process-, and social-upgrading through the mechanisms explained in the previous chapter. Although cooperatives are no panacea to ensuring farmer livelihoods, expanding the cooperative structure holds big potential in terms of improving livelihoods for unaffiliated farmers (this is particularly true for cooperatives who collaborate with lead firms and therefore often have better access to resources). As expressed by one farmer; *“They [the cooperative] give me a quality life, I now got a big belly!”* (Male farmer, C2). The government has also publicly expressed interest in expanding the cooperative structure (Banks, 2019; Business Ghana, 2018), and it is argued that this can simplify the process of delivering the state-run support *“Come together as a unit and the government will help you”* (CB Official). Cooperatives hold the potential of being a source of improved livelihoods for unaffiliated farmers. However, a lot of unaffiliated farmers lack the capabilities and assets to join cooperatives. The capabilities, assets and activities needed to become cooperative members vary from

cooperative to cooperative, however it is common that it involves fees, farm requirements (such as size and maturity of farm) and social resources such as being able to form a group with neighbouring farmers to apply for collective membership.

For C1 and C2 it is required that farmers join in groups, pay registration fees and annual dues. Fees and annual dues are usually quite low (C1 operates with a 1 GHC fee per year) and is usually not a significant factor restricting membership. However, unaffiliated farmers do not necessarily have the social resources needed or might be located too far away from cooperatives.

To qualify for C2, farmers must join in groups of 3-12 people, and each group needs to select 3 executives who are responsible for a collective savings account. Money from this account is used when the group need finance for services such as transportation of inputs from the cooperative warehouse to their farms. In addition, all group members must have mature cocoa farms of at least 1 hectare or more²⁹. This means that to join the cooperative, farmers are dependent on having other farmers within their community that also operate mature cocoa farms and that are willing to form farmer groups.

To qualify for C1, a specified group number is not set, but farmers must apply as a group and go through a period of a year where they receive training to comply with the requirements set by the cooperative. The decision on whether the group can join the cooperative is then left to the AGM, which is the highest level of farmer-elected representatives. The AGM reserves the right to decline applications if they do not trust that

²⁹ Farms are considered mature when trees yield cocoa pods. This generally takes 3-5 years

the group adheres to C1 requirements or if they deem the group to be too far away to effectively be a part of the cooperative.

This poses challenges to unaffiliated farmers who do not necessarily have the capabilities and assets to meet these requirements. Particularly the lack of social resources to form groups might restrict many potential members. Especially vulnerable groups such as female farmers, farmers struggling with diseased farms or those who for various reasons are perceived to have a low social status in the community might struggle with finding farmers to form groups with. Moreover, these farmers might struggle finding farmers who are willing to open a collective savings account, such as required for C2 membership. Hence, farmers who already experience social exclusion, albeit the ones most in need of upgrading, are likely to face the most challenges in meeting the entry requirements. As a result, the divide between unaffiliated farmers and organised farmers is growing and the potential for transformative change in the livelihoods of unaffiliated farmers is limited.

Certifications and Farmer Livelihoods

The previous chapter identified certification compliance as an important source of product-, process- and social-upgrading that can potentially improve farmer livelihoods. This section will argue that the prospect of improving farmer livelihoods through certification compliance is limited due to three factors i) economic returns from producing certified cocoa is limited ii) some of the standards enforced by certification schemes do not necessarily align with what farmers and farmer cooperatives identify as necessary to improve farmer livelihoods, and iii) the potential impact of certification compliance on farmer livelihoods is hampered by standards not necessarily being enforced, and auditing practices being insufficient.

Limited Economic Returns: Costs of Producing Certified Beans and Lack of Buyers and Consumer Knowledge

The previous chapter argued that economic returns from producing certified cocoa is limited due to the lack of farmer cooperative bargaining power in premium negotiations. This subsection will explore several additional factors that further limits the economic returns from producing certified cocoa.

The Cocoa Barometer (2015) estimates that the average certification premium represents a 10% increase in revenue, however this does not take the costs of producing certified beans into account. These expenses are often charged at cooperative level. This include expenses related to bookkeeping, training of farmers to comply with certification standards and so on. These costs are indirectly charged to farmers as premium payments are collected by the cooperative and then the redistributed to farmers once all certification related expenses have been covered. These expenses combined with the uncertainty around the size of UTZ and RA premiums (due to these being determined in annual negotiations between cooperatives and lead firms) make it difficult for farmers and cooperatives to make calculated decisions on whether producing RA and UTZ certified cocoa brings about increases in the economic returns of farmers and whether it is worth undertaking the risk of producing certified beans.

Moreover, there is a lack of lead firms willing to source certified cocoa. In 2013 it was estimated that LF1, LF2 and LF3 sourced only 21%, 11% and 11% of their total global purchases as certified cocoa respectively³⁰ (Cocoa Barometer, 2015). Although C1 and C2 farmers produce all their beans according to certification requirements³¹, only a share of the

³⁰ Cocoa Barometer defines certification as any type of cocoa certification, including privately run certification schemes (as is the case for LF3)

³¹ C1: FT, RA and UTZ. C2: RA and UTZ

total number of beans is sold as certified cocoa. The supply of certified beans is larger than the demand for certified beans (Cocoa Barometer, 2015), which results in some certified beans being sold as conventional cocoa:

At the end of the day, maybe we are able to produce 50,000 metric tonnes or 60,000 metric tonnes, and we can sell 20-30% on the certified market, meaning that the rest will go as conventional cocoa. Meanwhile we have invested in producing for the certified market, so it comes with losses. (Manager, C1).

No premium is received on the sale of conventional cocoa. Farmer organisations invest in the training and bookkeeping required to comply with certification schemes, whereas it is normal that only a small share of the total production of cocoa beans is sold at a premium. The share of beans sold as certified varies over time as it is usually agreed ahead of each season with each buyer. C1 and C2 have undertaken long-term commitments by investing in training all its farmers to comply with these schemes, while there is a risk of season-to-season changes in demand for certified beans. It can therefore be difficult to estimate the net gain of selling certified beans.

The demand for certified cocoa is predicted to increase in the coming years due to increased consumer interest in social and environmental standards in GVCs (Euromonitor International, 2016), which has led to several lead firm commitments to source 100% certified beans (Funtain & Huetz-Adams, 2018). Although the demand for certified cocoa is increasing, there are still challenges connected to consumer awareness and knowledge of the certification market. ‘*Certified cocoa*’ has developed as an all-encompassing umbrella term. It is likely that most ‘conscious consumers’ are primarily concerned with buying *certified* cocoa products, whereas there is less awareness and knowledge of the exact differences between schemes and the various effects they have on farmer livelihoods (Fountain & Huetz-Adam, 2018). This allows lead firms to choose the ‘cheapest labels’, that require less

economic commitment while still acquiring the right to label products as ‘*certified*’. This can be seen in global sourcing patterns of certified cocoa. Compared to RA and UTZ, FT beans represent a much smaller percentage of global sales. FT arguably has a greater potential for improving farmer livelihoods as it is a more comprehensive scheme that guarantees a fixed premium which normally requires a bigger economic commitment by lead firms compared to UTZ and RA. At current, none of the lead firms interviewed source FT cocoa from Ghana and a manager in C1 stated that due to the limited demand for FT beans, the cooperative deemed it necessary to adopt UTZ and RA standards in addition. Ultimately, this impacts the potential of certification as a driving force for improving farmer livelihoods, as cooperatives are currently competing for a limited number of buyers who are likely to be looking for the cheapest possible label.

The use of ‘*certified cocoa*’ as an umbrella term has led to an uncritical narrative where consumers often confuse ‘*certified cocoa*’ as a product that brings about a decent way of life and a living income for the farmers that produce it. In reality, certification is just one potential means to improved farmer livelihoods and certification compliance alone is not likely to be the panacea to transformative change in farmer livelihoods as it is often presented to be. Given the industry narrative of ‘*certified cocoa*’ as a means for transformative change in farmer livelihoods, one might question whether it is creating a false sense of resolution to a far more comprehensive challenge.

Limited Capability Building: Driving Improvements on the Wrong Standards?

The certification schemes have a list of standards that must be adhered to for the beans to be approved as certified. A lot of this cover agronomical standards such as the ‘best

agronomical practices' addressed in previous chapters, however common for FT, RA and UTZ is that they also cover various non-agronomical requirements such as health and safety standards, decision making structures and so on. Both farmers and cooperative managers flagged that these standards do not necessarily drive the capabilities, assets and activities needed for farmers to experience sustainable livelihoods.

Particularly FT have a strong focus on 'social standards' such as democratic decision-making structures, bookkeeping and good administrative practices (see appendix A). Both farmers and cooperative managers in C1 stated that FT put too much emphasis on ensuring the bureaucratic structure that supports the democratic decision-making processes in the cooperative.

From a farmer perspective the value attached to the strictly enforced democratic decision-making structure varied. Many of the farmers interviewed had been to community and district meetings and expressed content with this channel of communication as a means for voicing challenges and concerns that were later improved. Others explained how practical challenges restricted them from attending, such as being unavailable at the time of the meeting or not being able to afford the transportation to meetings that were taking place outside the community. Some farmers stated that they were uncomfortable with raising their voices and concerns in the decision-making forums and said that they were not interested in running for elections to represent their community as they did not like the politics of this and perceived their social status in the community to be too low to get elected.

From a cooperative perspective it was voiced that upholding the bureaucratic standards and the democratic decision-making structure required much time and resources. This involved planning and organising meetings, bookkeeping, data collection and so on. The

cooperative managers expressed frustration with the time and resources that went into ensuring this structure, without seeing a notable impact on farmer livelihoods. When asked about the administrative process requirements of FT one manager frustratingly stated: “*There are certain things that do not necessarily change the life of the farmer*” (Manager, C1). This was also emphasised by a manager in LF3, who explained that LF3 used to source FT beans, but have moved to sourcing beans that comply with their own private certification scheme instead. This scheme has a lot of standards that are similar to those of FT, however the manager argued that it allowed them to avoid enforcing FT standards that they did not feel have a substantial impact on farmer livelihoods.

It is worth questioning how and by whom the standard setting is undertaken, and what practical impact the standards have on improving farmer livelihoods. Several of these certification bodies have been criticised for not having enough farmer representation in the process of designing standards. The findings from this project suggests that there is scope for reviewing standards to ensure that what is being enforced actually makes a difference in terms of farmer livelihoods.

Limited Impact: Insufficient Auditing Practices

The impact of certification schemes on farmer livelihoods is dependent on standards being enforced, and not only adopted. Receiving approval for producing certified beans is not necessarily perfectly correlated with adhering to all standards. Cooperatives are audited on a regular basis but given the size of some cooperatives and the geographical spread of cocoa farms and communities, it is hard to ensure perfect compliance. Moreover, audits are often announced beforehand allowing certain aspects to be manipulated or prepared, which means

that audits do not necessarily verify normal practices, but more so desired practices (Cocoa Barometer, 2015).

In sum, this is not to argue that there is no value in certification schemes. However, the potential improvement in farmer livelihoods resulting from certification compliance is dependent on factors such as; premium sizes that are large enough to offset the costs involved in producing certified cocoa; increased consumer knowledge which can drive demand for cocoa produced according to comprehensive certification schemes; a review of cocoa standards to ensure these address capabilities and activities that improve farmer livelihoods and; improved auditing practices. There is harm in the current industry narrative presenting certifications as a ‘solution’ to the challenges of cocoa farmers. It is crucial that the narrative changes towards recognising certification as a potential means for improving livelihoods, but only when operationalised in a way that caters for the aforementioned factors.

Productivity and Farmer Livelihoods

In almost all interviews conducted for this research, respondents emphasised productivity increases (increased yield per unit of land) as an important means for improving farmer livelihoods. GVC stakeholders actively advocated for productivity increases through process upgrading (agrochemical input provision and dissemination of ‘best agronomical practices’). This was frequently referred to as a key mechanism for transformative change in farmer livelihoods. As expressed by one interview participant: *“No premium can be equal to the revenue from one extra bag of cocoa sold”* (Manager, C1).

Although productivity increases can lead to cocoa farmers selling larger quantities of cocoa beans, it is not a given that this will improve their livelihoods. This is often overlooked and

downplayed in the industry narrative of productivity enhancement acting as a catalysator for widespread improvements in farmer livelihoods.

Industry Narrative: Establishing the Link Between Productivity, Poverty and Livelihoods

It is often argued that agricultural productivity growth is a pre-requisite for widespread poverty reduction and livelihood improvements (Dorward et al., 2004). Put simply, the claimed mechanism of this is that increased productivity leads to more produce, increased economic returns and improved farmer livelihoods (Vigneri & Kolavalli, 2018). The industry often emphasises the large potential for productivity increases in Ghanaian cocoa production given the relatively low starting point compared to other cocoa producing countries (Breisinger et al., 2008).

It is likely that the strong productivity narrative is connected with the dominance of lead firms. Lead firms are incentivised to promote supply increases that can contribute towards driving down the world price of cocoa. Moreover, the increased social and public governance pressure has put poverty reduction and farmer livelihoods on the agenda of lead firms, however lead firms have proved reluctant to tackle this by promoting increases in producer price and have instead focused on productivity increases as a means for reducing farmer poverty. As an example, WCF refers to the “*Power of Productivity*”, and argues that investing in productivity can “*improve farmer livelihoods and enable cocoa-growing communities to thrive*” (World Cocoa Foundation, 2020, n.a.).

There are additional stakeholders that are also incentivised to promote productivity increases in cocoa farming. As argued in the previous chapter, it is in Cocobod’s interest to ensure high volumes of cocoa flowing through its subsidiaries to uphold its operations. The

various incentives for promoting productivity enhancements has resulted in a sector-wide focus on tackling farmer poverty through productivity enhancement.

Complicating the Narrative: Considering Input Costs, Pest and Diseases and Increases in Supply

There is a need for more nuance in this industry narrative. Contrasting to what is often portrayed by industry stakeholders, the potential impact of productivity increases on farmer livelihoods is limited due to several factors.

Historically, productivity increases in the Ghanaian cocoa sector has been characterised by intensive use of family labour (Vigneri, 2008) rather than by innovation or adoption of improved technology. This type of productivity growth has had little impact on improving farmer livelihoods. In later years, dissemination of ‘best agronomical practices’ focused on efficient use of fertilisers has become a more prominent means to increase productivity. This comes at a cost to the farmer. The net gains from productivity increases depend on input price relative to output price and the extent to which the inputs increase productivity. Respondents argued that the high cost of fertilisers and the relatively small increases in productivity is not sufficient to substantially increase profits. It was further argued that even though Cocobod and some cooperatives offer subsidised fertilisers, the size of the subsidy is not enough to offset the high cost of fertilisers. Although agrochemicals can increase yields and potentially free up time and resources for farmers to pursue other income generating activities, at current level of input technology the increase in yield is not likely to be great enough to pay back investments and substantially increase revenue margins. Moreover, cocoa farmers earn a per capita daily average income of approximately \$0.40-

\$0.45 per person (International Cocoa Initiative, 2017), so even a drastical increase in productivity is still likely to generate relatively low earnings.

It can be questioned how big of an effect subsidised fertilisers can have on increasing yields if not supported by other productivity initiatives. The productivity of Ghanaian cocoa land is negatively impacted by high incidences of pest and diseases and ageing cocoa trees (cocoa trees have a total lifespan of up to 100 years but are the most productive in the first 5-30 years) (Wessel & Wessel-Quist, 2015). Due to the low economic returns to farming, farmers often do not have the financial means to address this. Cocobod is running pest and disease spraying programmes and provides cocoa seedlings for free, however respondents argued that this provision is often insufficient in volume or delayed.

It has been argued that the low productivity of current cocoa land can be overcome by expanding cocoa farming to new land which has better soil nutrition (Onumah et al., 2013), however this is complicated given the global pressure to curb deforestation and Ghanaian land tenure systems that govern the forest zone that is suitable for cocoa production. As a result, there are many hurdles to increasing productivity, and there is a need for both larger fertiliser subsidies and improved pest and disease programmes for this to take place.

Moreover, farmers are not necessarily collectively better off from productivity increases. A widespread productivity increase can lead to a surge in supply. The impact of this on farmer incomes depends on changes in global demand for cocoa and the price elasticity of demand. Global chocolate demand is predicted to increase in the coming years (mostly due to larger demand in emerging markets and for premium products) (Research and Markets, 2020), however the price elasticity of agrarian products such as cocoa is generally perceived to be very low (Whitfield, 2012; Tothmihaly, 2018). As a result, a surge in supply would most likely lead to downward pressure on world prices of cocoa, and only a very drastic

increase in global demand for cocoa could counter this. The seasonal Cocobod fixed farm-gate price could potentially protect farmers from global short-term price decreases, however a persistent drop in world price would eventually force Cocobod to adjust the farm-gate price downwards as it does not have indefinite financial means. This would be beneficial to lead firm profit margins, while it would likely have a negative impact on farmer livelihoods, the latter often being left out of the industry narrative portrayed by particularly lead firms.

In sum, it is unlikely that the net gains from the productivity enhancing measures available to farmers will lift farmers out of poverty and lead to a transformative change in farmer livelihoods. This is not to say that there is no value in smaller net revenue gains, however there is harm in the industry narrative that presents productivity gains as panacea to ensuring farmer livelihoods, as this is unlikely to be the case. At current, productivity-targeted initiatives seems to create a smoke screen generating the impression of stakeholder engagement in improving farmer livelihoods.

Beyond Cocoa?

Finally, in the introduction to this thesis two key premises forming the foundation of the project was presented. Firstly, it was argued that economic and social upgrading of cocoa farmers act as mechanisms that allow farmers to achieve sustainable livelihoods. Secondly, it was argued that considering farmer livelihoods through the lens of cocoa farming was constructive due to cocoa being central to farmer livelihoods – as a key source of income and as a crop that is deeply embedded in social, cultural and political domains. It was promised that these premises would be revisited. It is to this cause focus now turns.

In reference to the first premise, one clear limitation stands out. The economic and social upgrading framework considers upgrading from an industry perspective, which is valuable for identifying industry-specific impacts on improving the economic and social situation of workers. However, it falls short of recognising the multidimensional factors that makes a sustainable livelihood. It reduces livelihoods to something that can be ‘fixed’ through employment in a specific industry. As a result, it runs the risk of considering the need of *the cocoa farmer* as separate or different from those of *the individual, the husband, the mother* and so on. As Laven (2011, p.124) writes: “*people are not simply workers or managers, they are also consumers, citizens, church-goers and community members*”.

This industry-specific focus can be recognised in the way cocoa stakeholders address livelihood initiatives. With the exception of occasional social upgrading such as community development, most of the initiatives identified in this project have a cocoa-specific focus; such as certification schemes for *cocoa*, promotion of best agronomical practices for *cocoa* farming, promoting *cocoa* cooperatives and so on. However, the factors influencing farmer livelihoods go beyond what can be accounted for by cocoa farming in isolation. Consequently, the impact of these industry-specific initiatives is limited as it does not necessarily transfer to improvements in other sources of income and livelihood, such as farming of other crops. In order to see transformative change in farmer livelihoods, there is a need for initiatives to have a wider scope and be less crop specific. The limitations of this industry-specific approach to farmer livelihoods is perhaps best exemplified by a manager in C1 who expressed his frustration with farmers who spent the money earned from farming cocoa on school fees for their children rather than on fertilisers.

Moreover, the industry is very much focused on economic upgrading and the importance of increasing the returns of cocoa farming. However, it is not a given that a high cocoa price

is purely beneficial to cocoa farmers. Leissle (2018) writes; “*If cocoa’s price were to rise very high, it would likely be because many farmers had suffered a dramatic loss of their chief livelihood*”. For example, poor weather conditions, climate change and farm diseases combined with large scale farmer emigration from the industry (due to for example the tough economic and social conditions of cocoa farming) could potentially lead to a drastic decrease in the amount of cocoa produced. This could potentially benefit those farmers who stay in the industry as excess demand for cocoa might drive up the global cocoa price in the short run, but this would be at the expense of other cocoa farmers, assuming that not all those who have exited the industry can easily find other sources of livelihood. Moreover, it is likely to be a short-term increase that would de-stabilise itself by new cocoa producers entering the industry. It is imaginable that this could mean the entry of larger and more productive cocoa producing plantations that could drive down production costs and potentially squeeze farmer margins even further. It could therefore be questioned whether smallholder cocoa farmers can earn *sustained, high economic returns* from farming cocoa, and consequently whether a transformative change in farmer livelihoods for all cocoa farmers is inherently possible under the current capitalistic system.

The second premise of this project is that cocoa farming is central to farmer livelihoods. Before concluding the findings of this project, it is worth elevating this perspective and consider what impact farming cocoa can have on farmer livelihoods. Building on the previous arguments, it can be questioned whether cocoa farming is indeed a good means for driving transformative change in farmer livelihoods. Ironically so, to promote transformative change in farmer livelihoods might indeed be to promote a change in livelihoods. Despite the efforts of the industry, it is questionable whether farming cocoa beans can ever be a means to improving livelihoods on a large scale. There is certainly a need for diversifying

income sources given the low economic returns of cocoa farming, but to truly improve livelihoods might in fact require farmers to stop farming cocoa and move to more profitable employment elsewhere. As Whitfield (2012, p.251) writes “*All advanced industrial countries underwent processes where the share of manufacturing increased and the share of agriculture decreased, in terms of both GDP and percentage of labour force employed*”. Although transforming Ghana into a more industrial country does not automatically improve livelihoods, it might carry greater potential of doing so than for farmers to stay in an industry that is incentivised to promote persistent supply of cheap cocoa.

Chapter Conclusion

This chapter has answered the third sub-question:

- *Are there other factors restricting a transformative change in farmer livelihoods?*

It has been argued that transformative change in farmer livelihoods is restricted due to the various challenges unaffiliated farmers face in joining cooperatives and due to the various factors limiting the impact of certification compliance and productivity enhancement on farmer livelihoods.

The final section of the chapter discussed the premises that formed the foundation of this project and argued that there might indeed be a need for looking beyond cocoa farming in order to improve farmer livelihoods on a large scale.

The following chapter will draw the conclusions of the project.

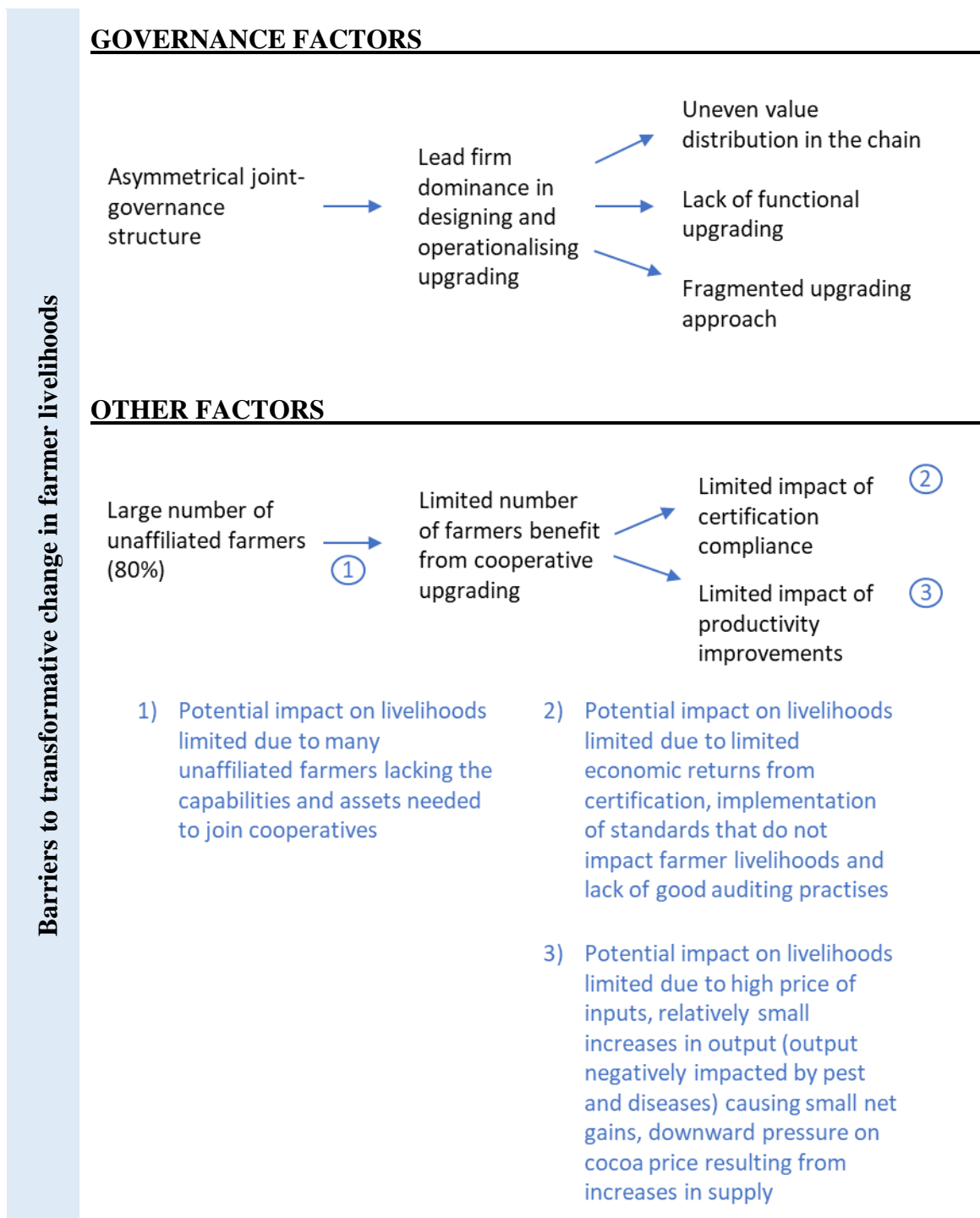
7. Conclusion

Almost 150 years have passed since Tetteh Quarshie returned from his trip to Equatorial Guinea and planted the very first cocoa trees in Ghana. At the time, it was probably hard to foresee the remarkable impact cocoa would have on economics, politics and life in Ghana. Cocoa has been a curse and a blessing; a driver for at times remarkable economic growth while also arguably a source of commodity dependence that has trapped farmers at the bottom of the value chain. This project set out to answer the following research question:

Why is there yet to be seen a transformative change in Ghanaian smallholder cocoa farmer sustainable livelihoods?

To examine the research question, this project has undertaken a farmer-centric upgrading analysis focusing on GVC governance combined with a broader inductive analysis of the various factors that influence Ghanaian smallholder cocoa farmer livelihoods. The key findings of the project are summarised in Figure 9:

Figure 9: Barriers to transformative change in farmer livelihoods



Source: Author

Chapter 5 applied Gereffi and Lee’s (2016) synergistic governance framework and outlined the impacts of the asymmetrical joint-governance structure on farmer livelihoods.

The governance structure affords power to dominant lead firms. Through their strong presence in international organisations such as WCF and ICI, these firms play a crucial role in designing the upgrading agenda of the cocoa industry. As a result, there is uneven value distribution, a lack of functional upgrading and a fragmented upgrading initiative approach. This acts as barriers to transformative improvements in farmer livelihoods. The upgrading framework offers insight on how GVC governance influence the prospect of farmer upgrading, however it does not capture the full picture of why there is a lack of sustainable farmer livelihoods.

Chapter 6 emphasised the importance of considering the lack of livelihoods from a multidimensional perspective beyond the governance focus on the upgrading literature. It was argued that the prospect of transformative change in farmer livelihoods is restricted by multiple factors, such as the difficulties unaffiliated farmers experience in joining cooperatives and the shortcomings of certification compliance and productivity enhancement as means for improving livelihoods. The two latter are often advocated as ‘solutions’ to the lack of sustainable farmer livelihoods by various actors across the chain. It was also argued that there is a need for looking beyond cocoa and cocoa production in isolation to promote a transformative change in farmer livelihoods.

It is worth noting that although this project has addressed ‘governance factors’ and ‘other factors’ as separate domains, it is likely that these overlap and potentially also reinforce each other. For example, the industry focus on productivity as a mechanism for improving farmer livelihoods is likely to be reinforced by the powerful position of lead firms. The various factors influencing the prospect of transformative change in farmer livelihoods outlined in this project cannot, and should not, be understood as separate, isolated causes, but as a map

of intertwined causes that as a whole restrict the potential for transformative change in farmer livelihoods.

The comprehensive, partially intertwined nature of the many barriers facing cocoa farmers consequently calls for comprehensive solutions. Parts of the barriers could be overcome with technical solutions, such as reviewing certification standards, introducing more and better auditing practices, increasing fertiliser subsidies and so on. However, the lack of farmer livelihoods cannot be addressed by purely technical solutions. Part of the challenge lies in challenging the governance structure and the power asymmetry in the cocoa chain, which calls for structural changes in the industry. The multifaceted nature of the barriers makes it challenging to drive transformative change in farmer livelihoods.

Looking forward, there might be a modest reason for optimism. Given that cocoa farmer livelihoods to a large extent is left in the hands of capitalistic forces, one can hope that a continued trend of increased numbers of informed ‘conscious consumers’ that are concerned about the conditions under which cocoa farmers produce and live will eventually hold enough consumer power to demand real change and improvement on both technical and governance factors. Although there is still a long way to go, an increased demand for cocoa products that do not leave a bittersweet taste at farm level could eventually guide the industry down a better path.

Revisiting the Upgrading Literature

This section will bring the findings of this project into conversation with the key literature debates and suggest avenues for future research.

Under what conditions do upgrading take place?

The findings from this project suggests that Gereffi and Lee's (2016) synergistic governance framework is a good way of conceptualising how a confluence of private, social and public governance forces in the Ghanaian cocoa industry have led lead firms to consider the socio-economic challenges of cocoa farmers. This can consequently account for a flourishing of lead firm CSR initiatives and increased focus on upgrading.

The framework highlights how different sources of governance can displace and pre-empt each other; however, it does not go into depth on what implications this has on upgrading beyond stating that it might restrict it. This project contributes with empirical evidence on the impact of the asymmetrical joint-governance structure of the Ghanaian cocoa industry and identified three ways in which this restricts upgrading. These findings emphasise the importance of GVC governance, and it suggests that in an asymmetrical chain like the cocoa GVC upgrading that could be disadvantageous to lead firms is not likely to take place.

What are the trajectories to upgrading in various industries and what is the role of certification schemes in promoting social upgrading?

This project identified the mechanisms allowing a limited level of product-, process-, and social-upgrading in the Ghanaian industry and argued that this is largely due to cooperative or lead firm CSR membership and certification scheme compliance. Certification schemes was found to be a limited mechanism to upgrading in the Ghanaian cocoa industry due to three factors: i) it yields limited economic returns (due to costs of producing certified beans and the lack of global demand for certified cocoa); ii) some standards can lead to unnecessary administrative burden and implement standards that do not necessarily benefit farmers and

iii) insufficient auditing practices allows for limited compliance with standards.

It was further argued that Ghanaian smallholder cocoa farmers face little to no scope for functional-, and chain-upgrading. The project also identified a novel trajectory to economic upgrading: direct-economic upgrading. This comes about when Cocobod adjusts the farm-gate price upwards, however it was argued that this is not a predictable mechanism for economic upgrading as it is a direct consequence of changes in world cocoa market price which can fluctuate in either direction.

How does upgrading take place in situations of self-employment?

The findings from this project contribute towards a better understanding of upgrading in situations of self-employment. In the absence of traditional employers, Ghanaian cocoa farmers rely on cooperatives and lead firms to enable upgrading. It would be interesting to see how the findings from this project compare with upgrading in other situations of self-employment. It would for example be interesting to see whether the absence of cooperatives enhances the role of lead firms as drivers of upgrading and vice versa. This could be pursued in future research.

What is the relation between social and economic upgrading?

This project found that farmer-centric economic and social upgrading is perceived to be positively related. However, interview responses emphasised the need for economic upgrading relative to the need for social upgrading, as this was seen as a means for improving both dimensions.

The findings from this project suggests that upgrading should be understood in relation to

the context in which it takes place. Many smallholder cocoa farmers are deprived of basic necessities and living income, problems which naturally dominated much of the interview responses. It is imaginable that smallholder cocoa farmers in Ghana are less likely to address the need for more ‘sophisticated’ social upgrading such as improved bargaining power and pension schemes, as many farmers do not have the economic means to secure immediate necessities such as food and clean water. This suggests that the lower the socio-economic status of workers, the more important economic upgrading is perceived to be relative to social upgrading, however, this conclusion is only indicative and calls for more research. Future research could for example analyse the emphasis placed on social upgrading across different income level groups. It would be interesting to see whether farmers who are in a better economic situation are more inclined to address the need for more ‘sophisticated’ social upgrading and have different views on the relation between economic and social upgrading.

In conclusion, this project has attempted to answer the research question in a comprehensive way. However, ‘livelihood’ is a complex concept that can be defined in multiple ways and that span across a wide variety of factors. It is likely that some of these were not identified and addressed by this project. Future research could for example address farmer livelihoods from a different approach to the ‘upgrading’ and ‘sustainable livelihoods’ lens applied in this research. It would for example be interesting to consider farmer livelihoods from a capability approach that focuses on individuals’ “*capability to lead the kind of lives that people have reason to value*” (Drèze & Sen, 2013, p.43), or by focusing on other measures of wellbeing such as happiness and life satisfaction. This might lead to very

different findings on the link between the cocoa industry and farmer livelihoods from what was explored in this project.

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Appendix

Appendix A – A selection of Fairtrade Democracy, Participation and Transparency Criteria

	4.2	Democracy, Participation and Transparency	
4.2.1	4.2.0.01	The General Assembly is the highest decision-making body where all major decisions are discussed and all members have equal voting rights.	M
4.2.1	4.2.0.02	The elections of the board are free, fair and transparent.	M
4.2.1	4.2.0.03	Organisations have implemented statutes or internal regulations for a delegate system (if applicable). The system is based on the principle that each member organisation has the equal or proportional number of delegates.	C
4.2.2	4.2.0.07	You have written membership rules.	C
4.2.2	4.2.0.08	You have a member list in place that at least includes the following information: - name, contact information - gender - date of birth - registration date with the SPO - farm location and farm size - members who are also members of any other Fairtrade certified organizations - production volume - volume sold to the organizations - number of workers (permanent/temporary) indicating employment above or below 30 hours per week..	C
4.2.3	4.2.0.09	You follow your own rules and regulations (constitution, by-laws and internal policies, including election and membership processes and board term limit) and a delegate system (if applicable).	C
4.2.4	4.2.0.10	You hold a General Assembly at least once a year.	C
4.2.5	4.2.0.13	You inform your members in good time when the General Assembly will take place.	C
4.2.6	4.2.0.14	Minutes of the General Assembly are documented and signed by the president of the Board and at least one other member.	C
4.2.6	4.2.0.15	The minutes contain a signed list of participants of the General Assembly.	C
4.2.7	4.2.0.16	You present the annual report, budgets and accounts to the General Assembly for approval.	C
4.2.8	4.2.0.17	You have an administration in place with at least one person or committee who is responsible for managing the administration and book keeping.	C
4.2.9	4.2.0.18	You keep records and books. All members have access to these records and books.	C
4.2.10	4.2.0.19	You have a bank account in the name of the organization with more than one signatory (unless this is not possible).	C
4.2.12	4.2.0.25	(Only applicable to organizations certified before 1 July 2019) In case there are non-members on the board of the SPO, this is approved by the General assembly in accordance with national legislation and the constitution/statutes of the organization and it is specified whether they have a voting or advisory role.	C
Cocoa 3.1.2	4.2.0.28	(1 January 2018) (Cocoa) Your member records include: up-to-date information related to training programs attended, Fairtrade-related inspections performed on the farm and their outcomes, cocoa sales of the previous season and estimated member production.	C