

Sector supply-chain guidance – cocoa



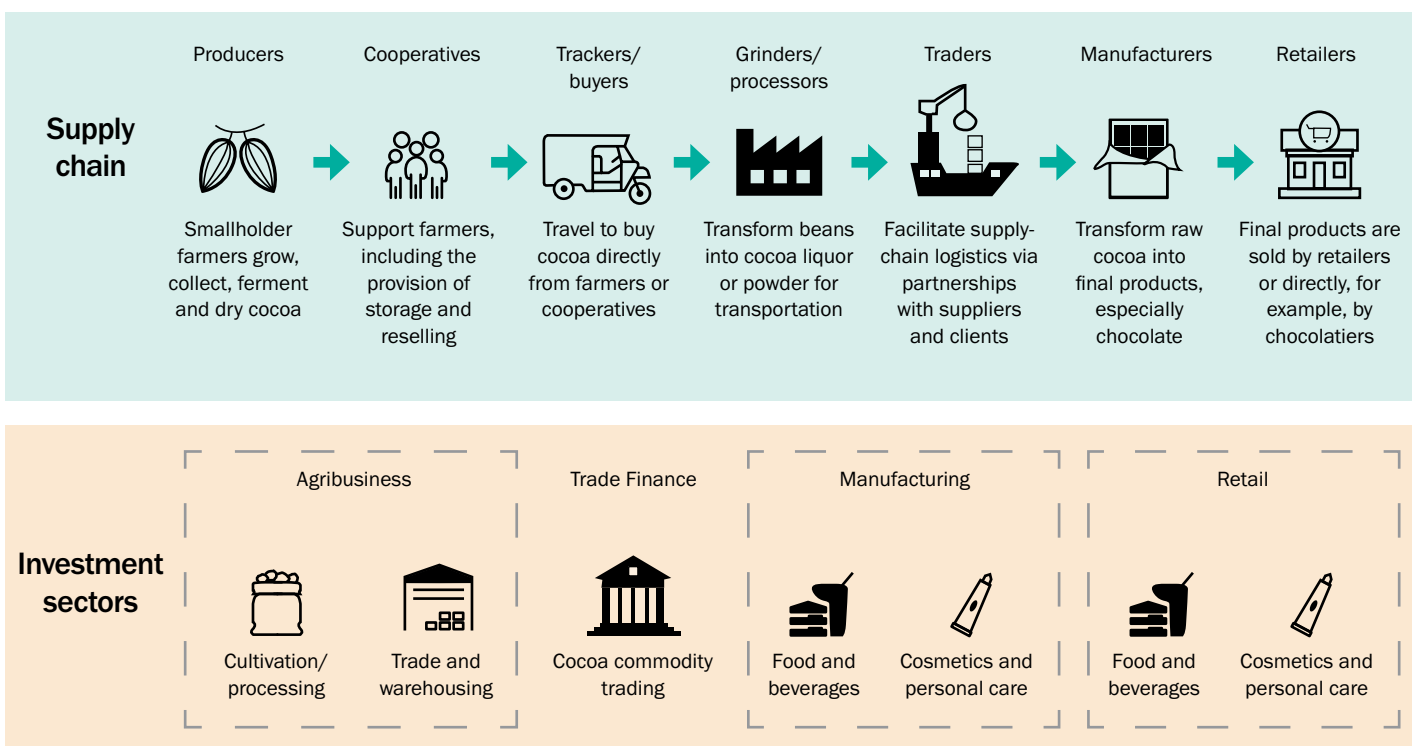
European Bank
for Reconstruction and Development

1. Introduction

This note focuses on actions a company in the cocoa supply chain can take to address environmental and social risks. The company may be an EBRD client to which the Bank is providing direct finance or a sub-borrower of an EBRD financial intermediary (FI). It may also be an investee company of a fund in which the EBRD is investing.

A generic cocoa supply-chain map, setting out the key elements of the supply chain, along with associated investment sectors, can be found in Figure 1.

Figure 1. Key elements of the supply chain and associated investment sectors



2. Supply-chain mapping and traceability

2.1. Production and supply-chain context

The cocoa supply chain is complex. On the lowest rung of the supply chain, millions of small-scale cocoa growers produce the vast majority of the world’s cocoa. In the upper tiers, the supply chain is highly concentrated: 60 per cent of cocoa processing is conducted by three companies (Barry Callebaut, Cargill and Olam) and more than half of global chocolate consumption is supplied by four companies (Ferrero, Mars, Mondelez and Nestlé).¹ In between are multiple layers, including local intermediaries and international traders, although the precise structure differs between key producer countries and depends on company purchasing practices.

Table 1. Key points of control

<p>Cooperatives</p>	<p>As part of supply-chain mapping, an important consideration is whether producers are organised into cooperatives. Cooperatives can play a major role in supporting traceability, by providing companies with a means to gain visibility over the production tier of the supply chain. In addition, cooperatives can play a key role in implementing monitoring and remediation activities.</p>
<p>Grinders/ processors</p>	<p>Sixty per cent of global cocoa processing is carried out by three companies: Barry Callebaut, Cargill and Olam.² Actions by these companies, including cascading requirements, would have a substantial impact on the cocoa supply chain.</p>

¹ See Fern (2018). ² Ibid.

2.2. Sourcing and purchasing practices

Côte d'Ivoire and Ghana, which together produce more than 60 per cent of global cocoa beans, have heavily regulated cocoa sectors. Governing bodies regulate quality and cocoa trading and, because they have a monopoly on exports and sell forward 70-80 per cent of the upcoming season's crop, are able to fix prices. This means farmers receive a guaranteed stable price – a “farm gate price” – throughout the season, and there are fixed margins for each actor in the local supply chain, including cooperatives, transporters and buyers. While the farm gate prices are fixed, buyers can also offer an additional premium, for example, as part of certification or sustainability programmes.

In other major cocoa-producing countries, the cocoa sector is liberalised and there is no public price-setting mechanism. Here, prices are set on the spot based on negotiations between farmers (sometimes organised collectively in cooperatives) and buyers, using the world market price as a benchmark.

2.3. Traceability

At present, cocoa supply chains are not considered amenable to large-scale physical traceability and most certification schemes rely on a mass balance model. Cocoa beans are generally supplied in bulk and mixed together during shipping and manufacturing, so achieving product segregation is considered prohibitively difficult and expensive. One stakeholder consultation concluded that trying to impose physical traceability on the cocoa supply chain would severely restrict benefits to farmers, and few purchasers would be willing to pay the additional costs.³ Reliance on a mass-balance chain-of-custody model means that cocoa traders and processors do not distinguish between certified and non-certified cocoa.

Cocoa traceability is generally only possible to the level of the cooperative. In Côte d'Ivoire, three in five cocoa farmers are not part of a cooperative, so are outside the traceability system.⁴

Key resources on traceability

- [Verité Supply Chain Traceability Matrix, Cocoa](#)

Table 2. Overview of potential actions to improve mapping and traceability

	Examples of foundational actions	Examples of intermediate actions	Examples of leading practice
Mapping and traceability	<p>Maintaining a complete and accurate list of business partners supplying cocoa, including location and contact information.</p> <p>Recording and tracing the flow of cocoa and identifying cocoa beans according to their country of origin.</p> <p>Participating in a credible certification scheme, for example, Fairtrade or Rainforest Alliance/UTZ.</p>	<p>Having clear management practices to verify and ensure that samples of incoming volumes match corresponding traceability documentation for certified cocoa.</p> <p>Developing plans to increase traceability – by purchasing segregated or semi-identified preserved volumes (for example, through sustainability certification).</p> <p>Using external data sources relevant to the cocoa supply chain, for example, Farm-Trace, Mighty Earth Cocoa Accountability Map, Global Forest Watch and Trase. Note that external data sources are also equipped to use satellite images to identify and track deforestation.</p>	<p>Having an action plan that maps out key principles, steps and milestones in achieving 100 per cent of cocoa sourcing traceable from farm to first purchase point, encompassing all national and international traders.</p> <p>Working with a collaborative supply-chain initiative, such as Farmer Connect or Chainpoint.</p>
Transparency and disclosures		<p>Public disclosure of key suppliers.</p> <p>Progressive time-bound commitment to increase cocoa supply-chain traceability and reports on progress.</p>	<p>Having detailed public disclosure of cocoa supply chains, for example, showing the names, locations and total number of farmers in each farmer group from which cocoa is sourced.</p>

³ See IDH, GISCO and C-lever.org (2021a). ⁴ See IDH, GISCO and C-lever.org (2021b).

3. Risk identification

3.1. Linked upstream and downstream risks

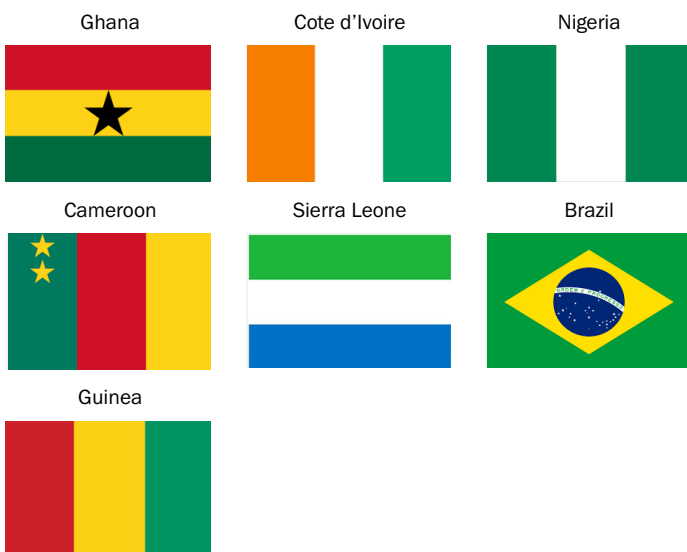
3.1.1. Producers

The most significant risks in the cocoa supply chain are at the production level.

Child labour

More than 85 per cent of the world's cocoa is produced in countries where the cocoa sector has been identified by the US Department of Labor as using child labour:⁵

Figure 2. Cocoa-producing countries identified by the US Department of Labor as using child labour

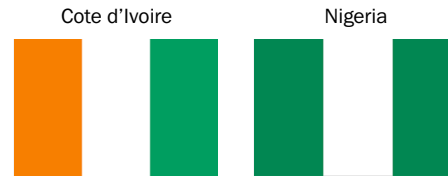


Child labour in cocoa production has been the subject of international attention since the 1990s, yet despite concerted efforts by various stakeholders, there is little evidence of significant improvement. There are particular challenges relating to child labour in West Africa. In Ghana, 55 per cent of children living in agricultural households in cocoa-growing areas are involved in child labour, while the figure is 38 per cent in Côte d'Ivoire.⁶ Between 2008/09 and 2018/19, the prevalence of child labour in cocoa-growing areas increased in both countries by 14 percentage points.⁷ The majority of child labour in cocoa production is hazardous, involving the use of sharp tools, heavy loads, exposure to agrochemicals and land-clearing activities.

Forced labour

Almost half of all cocoa is produced in countries whose cocoa sector the US Department of Labor lists as using forced labour.⁸

Figure 3. Countries that produce almost half of all cocoa are listed by the US Department of Labor as using forced labour



In both Côte d'Ivoire and Nigeria, the issues generally involve forced child labour, with migrant children particularly vulnerable. Estimates suggest that there are 4,000 children producing cocoa in forced labour conditions in Côte d'Ivoire, many of whom were sold by their parents to traffickers, were kidnapped or migrated willingly, but became victims of traffickers. Traffickers sell children to recruiters or farmers, who refuse to let the children leave until the cost of their purchase has been worked off. Children are frequently held against their will and not paid for their work.⁹

Deforestation

Cocoa is a significant driver of deforestation. All land that is currently used for cocoa production was once tropical forest, creating significant risks of deforestation and the degradation of tropical rainforest areas.

While cocoa is traditionally cultivated in the shade of canopy trees, farmers are increasingly switching to hybrid plants that produce faster without shade. "Full sun" cocoa production is associated with increased yields in the short and medium term, but also creates significant threats to biodiversity and sustainability. The removal of shade trees is associated with lower soil moisture, lower soil fertility, erosion and disturbed rainfall, all of which contribute to reduced yields in the longer term. This produces a vicious cycle whereby replanting is less financially viable than opening up new areas of forest.¹⁰

It is estimated that, over the last 30 years, Côte d'Ivoire has lost 90 per cent of its forests, while Ghana has lost 65 per cent – much of it directly attributable to cocoa production.¹¹ Evidence further suggests that, despite commitments to tackle deforestation, extensive forest loss is still occurring and, in some cases, accelerating, including in protected areas.¹²

⁵ See US Department of Labor (2022). ⁶ See NORC (n.d.). ⁷ Ibid. ⁸ See US Department of Labor (2022). ⁹ Ibid. ⁹ Ibid. ¹⁰ See Fern (2019).

¹¹ See Mighty Earth (2022). ¹² Ibid.

3.2. Overview of potential risk identification actions

Table 3. Actions to identify potential risk

Examples of foundational actions	Examples of intermediate actions	Examples of leading practice
<p>Identifying and verifying supply-chain risks using self-assessment questionnaires for suppliers.</p> <p>Overlaying mapping information with social/risk information that has a geographical component, for example, whether cocoa is sourced from a country where there is a known risk of forced labour (Côte d'Ivoire and Nigeria) or child labour (Côte d'Ivoire, Nigeria, Ghana, Cameroon, Sierra Leone, Brazil and Guinea).</p>	<p>Conducting or commissioning risk assessments to prioritise key countries and sourcing regions within the cocoa supply chain and to identify in greater detail salient labour rights and deforestation issues.</p> <p>Adapting a risk identification approach to differences in supply-chain structure, for example, industry structure and production context.</p>	<p>Developing a comprehensive approach to risk assessment consistent with United Nations Guiding Principles and Organisation for Economic Cooperation and Development guidelines, including proactively identifying risks and impacts and prioritising these according to materiality and saliency.</p> <p>Conducting farm mapping (including identifying and collecting cocoa farm boundaries polygon data) within supply chains to verify that cocoa is not being sourced from forest land (for example, using Global Forest Watch).</p> <p>Having deforestation risk assessments in all sourcing areas.</p>

4. Risk mitigation

Effective risk mitigation for the cocoa sector is likely to include participation in industry certification schemes and multi-stakeholder initiatives. Another key area is engaging with the root-cause drivers of complex socioeconomic and environmental challenges that underpin the key risk issues.

4.1. Certification schemes

There are currently two main standard-setting bodies in the cocoa sector, Fairtrade International and the Rainforest Alliance (which merged with UTZ Certification in 2018).

Key resources
<ul style="list-style-type: none"> • Rainforest Alliance Certification Programme – Cocoa • Fairtrade International – Cocoa

4.2. Multi-stakeholder initiatives

Overall, 40 per cent of cocoa is exported to Europe to be processed. Major European processing and consuming countries have developed national cocoa platforms focusing on sustainability, which bring together partners including chocolate and confectionary companies, retailers, the public sector and civil society. The most active of these are as follows:

The [German Initiative on Sustainable Cocoa \(GISCO\)](#)'s flagship project is [Pro-planteurs](#), which seeks to professionalise 30,000 family farms and cocoa farmer organisations in Côte d'Ivoire. In particular, the project aims to provide opportunities for women to achieve a better income and better food security for their families.

- The [Swiss Kakao Platform \(SWISSCO\)](#)'s [Roadmap for 2030](#) sets out action in four target areas: 1) towards a living income for cocoa farmers and their families; 2) a deforestation-free and climate-friendly cocoa supply chain; 3) tackling child labour and 4) enhancing transparency and traceability.
- The [Dutch Initiative on Sustainable Cocoa \(DISCO\)](#) targets living incomes for farmers and an end to all forms of child and forced labour, in particular, by supporting the deployment of child-labour prevention, monitoring and remediation systems.
- [Beyond Chocolate](#) is funded by the Belgian Ministry of Foreign Affairs. It focuses on increasing certification, promoting a living income for farmers, ending deforestation and improving access to education.
- In addition to national platforms, the [EU Sustainable Cocoa Initiative](#) is an informal dialogue to support a sustainable cocoa sector at the social, economic and environmental levels. In June 2022, all sides agreed to a set of time-bound actions focusing on deforestation, child labour and living income.¹³

⁹ See EU Sustainable Cocoa Initiative (2022).

4.3. Overview of potential risk mitigation actions

Specific risk-mitigation actions should be based on the results of mapping and risk identification. Given the overall risk profile of cocoa, focus areas are likely to include deforestation and child labour linked to cocoa production.

Table 4. Actions to mitigate potential risk

	Examples of foundational actions	Examples of intermediate actions	Examples of leading practice
Overarching		<p>Coordinating with others, for example, through multi-stakeholder initiatives or bilateral engagement with other companies sourcing cocoa.</p> <p>Having a responsible purchasing/procurement policy that reflects cocoa supply-chain characteristics, risks and traceability.</p>	<p>Being a member of relevant and credible national, regional or global sustainable and responsible cocoa initiatives, such as DISCO (Netherlands), Beyond Chocolate (Belgium), GISCO (Germany) and SwissCo (Switzerland).</p>
Deforestation		<p>Publicly committing to halting the conversion of any forest land for cocoa production and to eliminating the production and sourcing of cocoa from protected areas.</p>	<p>Achieving 100 per cent deforestation/conversion-free procurement for purchased cocoa or having a clear, time-bound action plan in place to reach this target.</p> <p>Engaging with credible and proven activities to address the root causes of deforestation in cocoa-growing areas. This includes support for the Cocoa & Forests Initiative in Ghana and Côte d'Ivoire, the Ghana Cocoa REDD+ Programme (GCFRP), Proforest, Royal Tropical Institute (KIT) and Tropical Forest Alliance.</p>
Child labour and forced labour	<p>Having a public commitment to tackling child labour and forced labour in cocoa supply chains.</p>	<p>Pursuing relevant partnerships to engage with the root causes of child and forced labour, for example, through multi-stakeholder initiatives.</p>	<p>Investing in projects in cocoa-growing areas that address the root causes of child labour and forced labour. This may include the integration of child labour monitoring and remediation systems in cocoa supply-chain sustainability programmes and projects.</p>

5. References

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Five Bank Street
London E14 4BG
United Kingdom

www.ebrd.com

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