STUDY ON THE ESTABLISHMENT OF A COCOA SUSTAINABILITY FUND

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Content

List of Abbreviations

BCI	Better Cotton Initiative
BMZ	German Federal Ministry for Economic Cooperation and Development
CCE	Certification Capacity Enhancement
CEN	European Committee for Standardization
CmiA	Cotton made in Africa
CORIB	Cocoa Rehabilitation and Intensification Programme
DANIDA	Danish International Development Agency
ECF	European Coffee Foundation
GAP	Good Agricultural Practice
GIZ	German Agency for International Cooperation
ICI	International Cocoa Initiative
ICCO	International Cocoa Organization
ICO	International Coffee Organization
IDH	Sustainable Trade Initiative
IFC	International Finance Corporation
IMF	International Monetary Fund
ISO	International Organization for Standardization
FCC	Federation of Cocoa Commerce
KPI	Key Performance Indicator
NGO	Non-Governmental Organization
SAN	Sustainable Agricultural Network
SCP	Sustainable Coffee Program
SECO	Swiss State Secretariat for Economic Affairs
SIDA	Swedish International Development Cooperation Agency
WCC	World Cocoa Conference
WCF	World Cocoa Foundation
WTO	World Trade Organization

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1. Executive Summary

Background

1. The cocoa sector faces a number of severe challenges, including low yields and productivity, poverty among small-scale cocoa farmers, an ageing population of farmers, child labour and price volatility, to name just a few. All key stakeholders in the cocoa value chain - including the governments of both cocoa exporting and cocoa importing countries, international developmental institutions, non-governmental organizations and companies – are aware that the precarious situation faced by cocoa farmers must improve. The Global Cocoa Agenda (ICCO 2012) defines the most urgent needs of the sector.

2. Companies have started committing themselves to source their cocoa from sustainable origins, mainly working with voluntary standard setting bodies. Realizing that certification is not enough to enable cocoa farmers to obtain a decent income, many companies have set up their own projects supporting farmers, although the challenges are too great for a single company and need the “buy in” of all stakeholders of the value chain.

3. In view of these factors, the ICCO has commissioned a study to explore the options for a Cocoa Sustainability Fund, which would address the problems faced by small-scale cocoa farmers who are responsible for almost 90% of the world’s cocoa production. The Cocoa Sustainability Fund should be able to mobilize a significant amount of funds, guarantee the participation of the key stakeholders, and be able to address the most urgent problems faced by small-scale cocoa farmers. Proposals for fundraising, management and distribution of the raised funds should be made, based on the experience of similar efforts in other agricultural sectors, for example, in palm oil, cotton, meat and coffee.

Fundraising

4. Research by ICCO on the impact of a levy imposed as a potential source of contribution to the Fund has indicated that it should be at the end of the value chain farthest away from the farmers, so that the burden of such a levy would have the least negative impact on the prices paid to cocoa farmers.

5. Financial resources can be mobilized through different mechanisms: Cotton made in Africa (CmiA) and the Roundtable on Sustainable Palm Oil (RSPO) charge an additional fee on their certification costs. The German Initiative Tierwohl imposes a levy on every kg of pork or poultry meat sold at retail level, while in the coffee sector, funds are mainly financed by companies’ CSR efforts complemented by public grants.

6. Another innovative financing mechanism is the air ticket levy, placing a small additional amount on airplane tickets, which is charged by several countries. Another example is the UK government’s announcement to introduce a tax on sugary soft drinks, which will come into effect in two years’ time.

7. Based on these experiences, funds in the cocoa sector could be raised through:

- A voluntary approach, addressing the participants of the cocoa market who are willing to contribute. If the eight dominant traders could be convinced to join the Fund, the bulk of globally traded cocoa could be charged a voluntary levy for the Fund.
- Another option is a voluntary approach among the largest chocolate producers to add a small fee to every bar of chocolate sold.
- A multi-stakeholder voluntary approach, including cocoa trading and processing companies as well as retailers, governments, development cooperation and NGOs. The Fund would not only be based at the industry level, but would be able to mobilize further private and public funds from other sources.
- A compulsory system charging all participants of the cocoa sector with a fee, which needs to be raised at a determined level of the value chain. Such an initiative could be based on legislation or on an agreement supported by all participants of the value chain.

8. Sources for funds might be:

- An additional fee charged on certified cocoa. The accumulated funds could be completely or partly disbursed to farmers to assist them to meet the criteria of standard setting organizations.
- A fee on transactions on the cocoa futures markets.
- A fee on non-certified cocoa. This fee could be as high as the premium of certified cocoa. As more and more certified cocoa is produced, the burden and size of the Fund would progressively get smaller. This fee could be introduced
    - on a voluntary basis, if so agreed by the large cocoa and chocolate companies;
    - on a compulsory basis, if contract terms from the Federation of Cocoa Commerce (FCC) and other contract terms setting institution would include a fee on non-certified cocoa.
- A voluntary levy on every bar of chocolate.
- Fees, levies or taxes raised by governments. Due to the different interests within the group of cocoa producing countries themselves, and between producing and consuming countries, the introduction of a Cocoa Sustainability Fund at government level could be a highly bureaucratic and complicated process.

The following list is a summary of the different options[1] as described in the study indicating different financial sources for a Cocoa Sustainability Fund.

Option	Mechanism of collection	Where in the value chain	Pro	Con
Extra fee charged on certified cocoa	Scheme linked to the collection of fees on certified cocoa charged by standard setting organizations.	Depends on decision of certification body	Use of existing structures in the cocoa value chain; Can be started by a limited number of companies	Implementation depends on acceptance of standard setting organizations; System adds an extra burden on already certified cocoa; Risk that the fee puts pressure on farm gate price.
Voluntary fee charged on non-certified cocoa beans used	Large companies voluntarily introduce the fee which is equivalent to the premium of certified cocoa.	Depends on decision of the companies involved	Certified and uncertified cocoa would be traded at the same price; Companies can create a level playing field for their suppliers; Can be started by a limited number of companies. As more cocoas are certified and less funding is required, the Fund would progressively get smaller.	Risk that the fee puts pressure on farm gate price.
Fee charged on transactions on the cocoa futures markets	Compulsory fee collected by cocoa futures platforms	Cocoa trade	Easy to set up and low collection and administrative cost	Strong resistance from cocoa industry and financial sector against such schemes. A levy that is too high may affect market liquidity.
Compulsory fee for non-certified cocoa	FCC and other contract terms setting institutions include fee in contractual and operational frameworks and supervises that traders transfer the due amount to	Cocoa trade	Certified and uncertified cocoa would be traded at the same price; Companies can create a level playing field for their suppliers; Can be started by a limited number of companies.	Risk that the fee puts pressure on farm gate price; Risk of non-acceptance by industry.

[1] More options based on tax provisions are considered in the main report but are deemed not to be viable. For that reason they are not listed in this table.

	the fund structure.			
Compulsory fee for all cocoa	FCC and other contract terms setting institutions include fee in contractual and operational frameworks and supervises that traders transfer the due amount to the fund structure.	Cocoa trade	All cocoa is charged; Can be started by a limited number of companies.	Risk that the fee puts pressure on farm gate price; Risk of non-acceptance by industry.
Levy on every bar of chocolate sold	Voluntary contribution transferred to the Fund structure	Retailer	Fee far from the cocoa farmer reduces risk of pressure on farm-gate price.	High acceptance by industry needed; Complicated and bureaucratic processes necessary.
Institutional-controlled levy on finished cocoa products	Governmental taxation system	Retailer	Group of like-minded governments can start process; Fee far from the cocoa farmer reduces risk of pressure on farm-gate price	Levy needs to be linked to a tax specifically targeting cocoa products.

Possible objectives and programmes

9. Cocoa farmers who wish to work profitably and sustainably in line with good agricultural practices need support to improve their businesses. This support is often not available. Following the liberalization of the cocoa market in most producing countries during the final decades of the 20th century, many farmers ran into serious problems. Most of the functions of state-run or regulating entities were not taken over by private companies. Crucial support for farmers through the provision of services like market price information, price stability over a harvesting season, research, extension services, and disease control were not sufficiently provided.

10. A Cocoa Sustainability Fund could invest in pre-competitive ways to provide this necessary support for farmers. These investments should build on existing projects and develop successful pilot projects towards sector-wide initiatives.

11. One possible application could be through initial investments for a sector-wide approach, based on:

- a common definition of existing problems in the cocoa sector, as well as consensus on possible solutions and which stakeholders are to be involved;
- an agreed definition in relation to the beneficiaries;
- a definition of key performance indicators and a mechanism to monitor the benefits.

12. The range of measures could encompass, for example:

- training of trainers;
- training of farmers;
- support for farmers' organizations;
- support for farmers' access to inputs, farming tools, training and credits;
- community development;
- support for farmers to adapt to climate change;
- security of land tenure;
- provision of market information to farmers.

13. Another way to address the existing problems could be as direct support to farmers, including:

- financial support to meet certification standards;
- support of pension provisions for farmers.

Management and governance structure

14. The governance structure of the Fund may vary according to its envisaged aim. It might be a revolving fund, a fund based on licence fees or levies, or a charity foundation. All are subject to different legal requirements.

15. To satisfy the different interests, the governance structure must

- guarantee the transparent and impact-oriented use of funds collected;
- address the interests of the financial contributors (companies and public entities) using the financial resources in the most effective and efficient way;
- constantly reflect on the best way to improve the income situation of small-scale cocoa producers;
- assure the representation of the beneficiaries in decision-making.

16. The governance structure should be built on a multi-stakeholder approach, with transparent decision mechanisms, and with a management body able to guarantee the Fund's compliance with the highest financial and accountability standards.

2. Introduction

Since 2000, cocoa production has often made headlines in the international media. These articles and TV reports have usually focused on the issues confronting the sector, in particular the plight of smallholder cocoa farmers; poverty, child labour, supply risks and price volatility. Key stakeholders in the cocoa value chain, such as governments of both cocoa exporting and importing countries, international developmental institutions, non-governmental organisations and companies have become more active and have begun to implement projects to address the highlighted issues. Consequently, more and more companies have made commitments and undertaken programmes to source their cocoa from sustainable origins. Some have gone as far as to set target dates when this would be achieved, for example by 2020. Many, particularly the bigger companies, have begun to work with voluntary standard setting bodies, planning to use more and more cocoa from certified farms in the finished products.

It has taken some time to realize that certification alone would not be sufficient to provide a better future for cocoa farmers. Additionally, companies recognize that the tough competition they are used to at the point-of-sale of chocolate has not fostered the implementation of measures to improve the cocoa sector; to achieve a better impact the usually competing companies can profit from sharing information about best practices. Additionally, they need to combine their efforts to tackle problems which affect the whole sector. As a result, the companies and other stakeholders of the sector have started to look at other options where mutually beneficial outcomes could be obtained, including creating a pre-competitive space for cooperation and collaboration among competitors. If more and more companies agree that a precompetitive approach is necessary, a critical mass of interested actors could be reached. This could be the basis for a common approach of the whole sector to achieve a more sustainable business.

Lucas Simons, from NewForesight, has analysed such processes in cocoa and other crops. He summarizes the perceived development in a graph to show the stages from a purely competitive starting point to a situation where a whole industry together with regulative bodies try to change a sector (see fig.1).

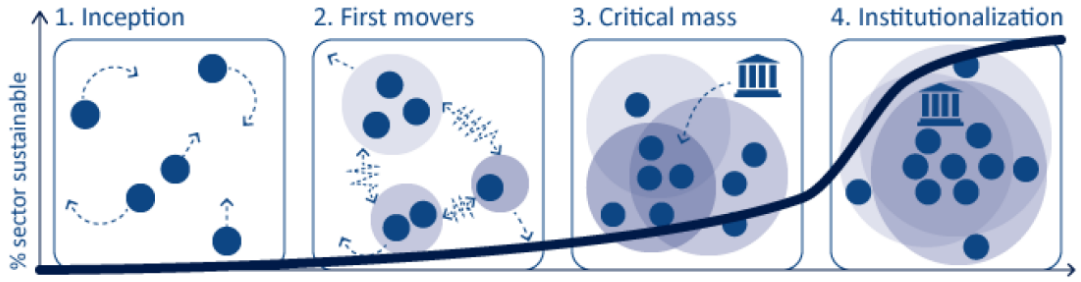

Fig. 1: The sustainable transformation curve (IFC 2013:6).

Simons notes that the cocoa sector is at the forefront of the agrobusiness. According to him, the companies have realized that due to the grave situation in the cocoa sector, they have to join forces:

"It essentially requires reorganising and rebuilding cocoa farming in West Africa as well as in many other parts of the world. As you can imagine, this challenge is too big for a single company, and the companies now understand this. (…) Ultimately, large parts of the cocoa industry need to be aligned with this vision, share the same notion of urgency, accept its implications, and start working together. Even more importantly, the overarching vision should be coordinated with national governments, ministries, and institutes. These public agencies are tremendously important to the realization of the vision. The same is true for large donors such as the World Bank, development agencies and charity organizations, funding agencies, and sustainability standards. The first challenge is to stop the fragmentation of these programs and projects, and to align the interventions and resources instead around one common vision and one set of key performance indicators (KPIs)" (Simons 2015: 138-139).

In order to tackle these problems, considerable capital for major investments is needed. Ideally, the stakeholders within the value chain would agree that it is necessary to generate capital across the broad market base for example, by increasing the price for chocolate. But due to fierce competition, the margins in the different parts of the value chain of cocoa are very low, giving little room for the spending of additional investments to achieve a sustainable sector.

The low price and high volatility of prices are important reasons for poverty of small-scale farmers. Additionally, more investment is needed to improve infrastructure, rehabilitate farms with old trees, train farmers in good agricultural practices et cetera. The squeezed value chain of chocolate makes it difficult for individual companies or even groups of companies to raise enough money for the investments to make the value chain sustainable. As it is highly unlikely that this will change in the near future, an additional second-best way to raise the

necessary capital to develop a sustainable cocoa sector could be a Cocoa Sustainability Fund.

While huge investments are required, the returns on such an attempt – if properly coordinated – could be substantial compared to each stakeholder pursuing its own sustainability agenda through individual (company) initiatives. Furthermore, the impact of a coordinated approach will be more visible and this could drive the momentum to attract "buy-in" by all stakeholders in the value chain. A coordinated approach could bring about the required transformational change in the way cocoa business is carried out.

A decision to set up a Cocoa Sustainability Fund could create a platform to include all actors in the value chain to adopt a collective agenda of all companies, including the ones that are not very active at the moment, as well as retailers and those that are considered by some as "free riders". Such a platform could also serve as a forum for the governments of the cocoa producing and cocoa consuming countries and facilitate the development of a common approach of private actors and state institutions to achieve sustainability in the cocoa sector. Therefore, the fund could open a window of opportunity to gather the "critical mass" which, according to Simons, is necessary to create the momentum to achieve a sustainable cocoa market.

Sustainability funds have been created for different agricultural commodities, however not all of these funds were able to collect sufficient financial resources in order to have significant measurable impact.

Being aware of the existing challenges and untested ground concerning sustainability funds, the International Cocoa Organization (ICCO) has commissioned the authors of this paper to elaborate on different scenarios leading towards the feasibility of establishing a Cocoa Sustainability Fund. To do this, we begin with an analysis of the problems facing the cocoa sector and continue with a description of existing funds in other agricultural commodity markets. Subsequently, we describe how capital could be raised. The next chapter engages in the discussion on how the funds collected could be spent. We then conclude with a brief description of how a fund could be managed, followed by some ideas for the next steps.

3. Cocoa Sector at the Crossroads

3.1. Structure of Cocoa Production

Cocoa is a crop produced by smallholders. More than 90% of the world's cocoa production is harvested on farms with an average size of 2 to 5 hectares. It is estimated that 5 to 6 million smallholders engage in cocoa production globally and that they earn a living for 40 to 50 million people. All the tasks in the pre-processing of cocoa involve hard physical and manual labour: weeding, pruning, fertilizer and insecticide application, harvesting, collection and transportation of the cocoa beans, pod-breaking, fermentation and drying process of the cocoa beans.

The structure of cocoa production varies between countries. In general, farmers in the Caribbean, in Central and South America are often more organized into cooperatives or other forms of farmers' groups and there are some large plantations. The situation is similar in Indonesia. In contrast, the percentage of organized farmers in West Africa is low. Due to a lack of exact data, only estimates are possible. Until a few years ago, it was estimated that less than 20% of the farmers were organized in groups. However, there are currently intensive efforts to increase the number of organised farmers, especially in West Africa.

During the 2014/15 harvesting season, the world production of cocoa was as high as 4.2 million tonnes with a value of approximately 12 billion USD. 73% of this harvested cocoa was grown in West Africa, 18% on the American continent and 10% in Asia. The most important producer countries were Côte d'Ivoire (43% of world production), Ghana (18%), Indonesia (8%), Ecuador (6%), Brazil, Cameroon and Nigeria (calculation based on: ICCO 2015: Table 1 and 2).

The difference in quality of internationally traded cocoa is generally not sufficiently valued by the market. Fine and flavour cocoa origins are the main source of differentiated cocoa marketed. Approximately 50% of the world's fine and flavour cocoa is grown in Ecuador. Global production of fine and flavour cocoa accounts for about 7% of world's production. Fine and flavour cocoa receives a premium as a quality product.

Another way to obtain a premium is through the production of certified cocoa. Three major standards bodies dominate the certified market: UTZ Certified, Rainforest Alliance and Fairtrade. The production of certified cocoa has increased dramatically over the last few years (see table 1). However, a considerable amount of certified cocoa is certified against more than one standard. Therefore, the simple addition of all cocoa certified by one of the three organisations which adds up to 40% of world production, does not give a true picture of the available tonnages. Market sources think that only 50% of this is available on the market.

A 20% share of the world market is an immense increase compared to only five years ago. Farmers are often confronted with the problem that they invest to produce their cocoa according to the criteria of a standard setting organisation, but find no traders who want to buy the certified cocoa and pay a premium. As a result, large amounts of certified cocoa are sold on the conventional market without any premium - a big disappointment for many farmers. Additionally, the level of premiums has decreased during the last years, when more and more certified cocoa reached the world market.

Certified cocoa: production/sold	**2009 produced**	**2011 Produced**	**2013 produced**	**2013 sold certified**	**2014 produced**	**2014 sold certified**
UTZ Certified	5.396	214.172	691.490	297.341	879.771	390.416
Rainforest Alliance	13.300	98.417	571.695	278.870	575.000	238.000
Fairtrade	106.000	124.000	176.400	60.400	218.000	70.600
Total certified/sold	**124.696**	**436.589**	**1.439.585**	**636.611**	**1.672.771**	**699.016**

Table 1: Certified Cocoa by standards in tonnes (Hütz-Adams/Fountain 2012, Fountain/Hütz-Adams 2015, authors' own research).

3.2. Poverty and Lack of Investment

During the last two decades, several studies have indicated that many aspects of the cocoa value chain are not sustainable. The problems in the sector are numerous. Cocoa farms have been in a crisis since the decrease of the cocoa price to a historically low level around the year 2000. Poverty is widespread among cocoa farmers. They will remain trapped in poverty if no drastic steps are taken to get them out of the vicious cycle. They have to survive on low incomes, and often lack adequate support by governments and companies. Many of the cocoa farmers in West Africa are older than 50 years. Younger generations have the tendency to leave the cocoa sector, or – if they choose to remain in agriculture – switch to other more profitable crops. The lack of investments has hampered efforts to rejuvenate and replace old cocoa tree stocks. As a result, many producing countries have low yields and low productivity. Thus, the livelihoods of cocoa farmers in these countries have been deteriorating over time.

In order to achieve a living income for the self-employed farmer and to earn a living wage for hired labourers on the farms, substantial investments are needed. This covers a wide range of areas (see next chapter). Without these investments, it is possible that many old farmers will leave cocoa production, while at the same time no young farmers will take over the farms. It could also lead to reduced yields due to lack of an affordable labour force, or to a

reduction of areas planted with cocoa trees. Another risk for the cocoa supply is that young farmers take over cocoa farms and decide to grow other crops which might be more attractive financially.

From an ecological perspective, the depletion of soils is a threat to the farmers. In the past when soils were depleted after years of planting cocoa, farmers expanded onto new land. Nowadays, in many cocoa-producing areas in West Africa, farmers cannot move to other new areas, such as primary forest areas, as there is not much forest left. In addition, due to environmental concerns over the rate of deforestation and climate change, many countries have put in place legislation against activities, which may result in further deforestation. In addition, regions suitable to grow cocoa will be further reduced due to climate change as temperatures continue to rise.

On the demand side, many experts project slow but steady increase, mainly attributed to the increasing demand for chocolate in emerging economies.

3.3. Substantial Investments Needed

All stakeholders of the cocoa industry are aware of these problems. Numerous projects have been set up to support farmers. Additionally, a holistic approach for the industry was discussed at many conferences. Two conferences were important starting points: The meetings of the “Round Table for a Sustainable Cocoa Economy” which took place in Accra in 2007 and in Trinidad and Tobago in 2009.

The “Accra Agenda” was followed by an intensive debate on what has changed in the cocoa business. A series of discussion papers led to a final document which included a list of action points which could lead to a sustainable cocoa business. This document was published at the second Roundtable in Trinidad and Tobago. All stakeholders agreed that economic, environmental and social targets had to be set for the whole sector. Producers, trade and industry, governments, and consumers all have a role to play in order to achieve a sustainable cocoa business. The stakeholders also agreed on a set of drivers to achieve these improvements (see box).

Drivers for the implementation of a sustainable cocoa economy:

For cocoa producers:

Economic:

- Better prices
- Increased yield/ revenue
- Reduced production costs
- Reduced wastage
- Reduced storage losses
- Improved organisational structure
- Improved access to reliable inputs
- Improved access to market/supply chain
- More stable commercial relationships

Environmental:

- Better soil quality (leading to increased productivity, longer production period)
- Healthier trees
- Improved waste management
- Carbon credits

Social:

- Improved sanitation and health of farm workers and communities
- Improved skills and education of farm workers and communities
- Improved community and worker relations

For trade and industry:

- Reduced storage losses
- Reduced monitoring costs
- Product differentiation
- Securing a supply stable in quality and quantity
- Higher transparency along the chain
- Increased market efficiency
- Corporate social responsibility (CSR)

For governments of cocoa exporting countries:

- Higher awareness for economic, environmental and social sustainability
- Reducing monitoring costs
- Increased attractiveness for support programmes and investment in the cocoa sector
- Displaying commitment to future-oriented long-term action plan/strategy for cocoa,
- Support national poverty reduction strategy (e.g. MDGs)

For governments of cocoa consuming countries:

- Securing supply of sustainable products
- Securing supply of cocoa and chocolate products that meet food safety requirements
- Displaying commitment to future-oriented, long-term action plan/strategy for cocoa
- Coordinated strategy of economic support for producing countries and product sourcing interests
- Support national poverty reduction strategy in cocoa exporting countries (e.g. MDGs)

For consumers of cocoa products:

- Market transparency/Information on where a product derives from
- Market transparency/Information on how a product has been produced
- Market transparency/Information about compliance with certain sustainability criteria"

Source: based on RSCE 2009: 8 with some additions

At the First World Cocoa Conference (WCC1), held in Abidjan, Côte d'Ivoire, in November 2012, the participants stressed that it was necessary to reform the cocoa sector and to make it more attractive for farmers. They agreed on the Global Cocoa Agenda which serves as a framework to define components of what needs to be changed in the sector.

The challenges of the cocoa market are outlined in the document: "*The current business model for many cocoa farmers is unsustainable as it is characterized by poor and uneconomic production systems with limited or no access to improved planting material, extension services, inputs, credit, especially at affordable interest rates, coupled with poor organizational base for producers leading to weak marketing opportunities and generally low*

returns. Other challenges include adaptation and mitigation of climate change, adverse effects on the environment as well as social and labour challenges" (ICCO 2012: 14).

To improve their situation farmers should use "*better planting material and inputs, innovative technology, integrated pest management to control pests and diseases* [and] *comply with international labour standards*" (ICCO 2012: 15). Farmers need support in order to achieve this. It is necessary to "*enable cocoa farmers to operate as members of viable farmers' organisations supported by adequate education and training in Good Agricultural Practices backed up with affordable and accessible credit facilities and extension services, adequately managing soil fertility, adaption and mitigation of climate change and preserving biodiversity and existing ecosystems, including promoting crop diversification*" (ICCO 2012: 15).

In the Global Cocoa Agenda and its "Technical Annex" the responsibilities are clearly annotated and defined. The document stresses the need for collaboration within stakeholders groups, and with others under the PPP platforms. Additionally, it highlights the necessity for a better alignment and coordination of existing projects. Governments are requested to *"develop a national cocoa development plan which outlines the vision and strategies in cooperation with the other national actors involved in the sector, taking into consideration the international perspective, to deliver a sustainable cocoa economy. The participatory approach in each country would be ensured through public-private partnership, with government institutions in charge of cocoa in the lead, with all relevant strategic partners involved in the process. A body in charge of the monitoring of the progress made would also ensure adequate coordination of national cocoa initiatives*" (ICCO 2012: 22).

The Global Cocoa Agenda highlights a key message: All participants in the cocoa business agree that farmers need more support via extension services, well-functioning farmer organisations, with adequate access to affordable inputs and credits for long term sustainability. Additionally, the infrastructure of many cocoa producing areas has to be improved in order to reduce production costs and to encourage people to stay in rural areas.

3.4. Many Projects - limited impact

During the last decade, hundreds of projects have been started in the cocoa sector and many of these are still on-going. Beside governments and donors, large enterprises have provided considerable funds in order to improve smallholders' livelihood conditions. Some of the world's largest companies support projects with budgets of more than ten million US Dollar annually.

Projects run by companies often started a couple of years ago with the main target to increase yields. Many of these projects were not successful due to the proliferation of initiatives each going at its own pace without a concerted holistic approach: farmers who do

not have the necessary funds to invest in the farms are often not able to practise what they have learned in Farmer Field Schools or other training facilities. A successful model has to reach out beyond training of farmers, and needs to be connected with access to saving facilities, credits, inputs and the setup of farmer organisations.

The second widespread approach was the cooperation between the companies and standard-setting organisations like Fairtrade, UTZ Certified and the Rainforest Alliance. Many of the projects worked in close cooperation with implementing organizations like Solidaridad, Technoserve, GIZ or SwissContact. Other projects focused on combating child labour, improving the situation of women, attracting young farmers to stay in cocoa, supporting farmer organisations or helping farmers to diversify their income.

There is no reliable data available on how many farmers have been reached by such projects so far, though it is estimated that at most 650.000 farmers had been reached by different projects until 2014. However, it is not clear if “reached” means that these farmers now run a sustainable cocoa farming business or the impact has made a real difference to improve farmers’ livelihood. Furthermore, the first farmers to participate in the projects were often the ones who were easy to reach and who could comply with the criteria of the different projects quickly, the so-called low-hanging fruits. These farmers are in many cases already organized in some way. Compared to this, farmers without any level of organization and many from remote areas are not as easy to reach through projects. Consequently, the majority of farmers who have highest demand and need for support have not been reached so far. The costs per farmer for their integration into projects are likely to increase far beyond what is spent for each farmer in the existing projects (Fountain/Hütz-Adams 2015: 27). What was evident from the World Cocoa Conference was that despite the efforts to promote certification, only 30% of global cocoa production is certified thus far. Hence, interventions beyond free market forces are necessary to reach the remainder 70% of smallholder farmers. These interventions would require additional sources of funding from some sort of a sustainability mechanism.

3.5. Lack of Coordination

Transparent and accurate statistics on amounts and purpose of the money spent in the existing projects are lacking. Due to competition between companies, NGOs and development organisations, many of the involved stakeholders do not coordinate their approaches. There is no agreed procedure to exchange information. Therefore, there is no formal way to enable that different stakeholders can learn from each other to identify best practices in this regard. Due to this lack of coordination it is also impossible to identify the

reason why even these cocoa farmers who do have access to projects often do not adopt what they have learned.

A common agenda within a fund-financed structure could support the scaling-up of existing projects and additionally create knowledge management to facilitate exchange of experiences and emulate established best practices.

4. Funds in Other Agricultural Sectors – Experiences from the Palm Oil, Cotton, Meat and Coffee Sector

This chapter describes existing funds in four different agricultural sectors: palm oil, cotton, animal husbandry and coffee. These funds could serve – at least in part, or adapted where appropriate and feasible – as role models leading to the establishment of a fund in the cocoa sector.

Each subchapter gives a brief introduction of the structure of the market, followed by the description of the objective, target groups, functionality and governance structure of the respective fund.

4.1. Palm Oil: RSPO Smallholder Support Fund

In recent years, the cultivation of oil palms has expanded very rapidly. One of the reasons is that the oil yield per hectare for oil palms is much higher than other competing products such as rapeseed or soy. Furthermore, palm oil is known for its versatility in its wide variety of use in numerous different products.

Oil palms grow solely in tropical climate. The most important producer and export countries worldwide are Indonesia and Malaysia. These two countries export approximately 85% of globally traded palm oil. Cultivation in African states as well as in countries in Middle and South America is increasing.

4.1.1. Production Structure

Deforestation of large primary forests and conflicts over land are well documented as key problems of the expansion of oil palm plantations. Working conditions on plantations in Indonesia and Malaysia are reportedly poor. However, the cultivation of oil palms has contributed to economic development in many producing countries. Plantations create employment opportunities in rural areas, promote investments in infrastructure, improve medical and educational facilities, and generate considerable tax revenues for governments.

Oil palms are predominantly grown on large plantations – unlike cocoa, coffee and cotton. In Indonesia, the average size of plantations ranges from 3,400 to 3,900 hectares. The estates of some large companies or private owners are even much bigger. Moreover, they often operate their own processing plants. In 2004, the Indonesian government simplified the process for the opening of new plantations and the access to land for foreign companies. In

addition, it is now legal to possess as much as 100,000 hectares of land. In Malaysia, most plantations are large as well.

Despite the dominance of large estates, approximately a third of all oil palm in Indonesia is grown by smallholders. It has been a long-standing objective of the Indonesian government to support this sector. Production by smallholders is organized in two different ways: some farms work independently during all phases of production; others are formally bound to large plantations for which they produce and from whom they receive support. The Indonesian government promotes this kind of production system – large plantations with 'satellite' smallholders – as a means for rural development and poverty reduction. Often, companies cultivate community land that becomes the centre of an oil palm plantation. Smallholders cultivate their own areas with oil palms next to the big plantations. They receive training provided by the large plantations. Additionally all these large plantations buy the fresh fruit bunches which have to be processed within 24 hours after being harvested. This should prevent them from turning rancid, which would affect the quality of the crude palm oil produced. The risk for farmers is their dependency on the operators of large plantations in terms of access to credits, technologies, and inputs. Nevertheless, oil palm production can be reasonably economical and can reduce poverty among smallholders (Brandi et al. 2013: 43 ff; Rist et al. 2010: 1011 ff; Rhein 2015: 10).

4.1.2. RSPO Smallholder Support Fund

After the establishment of the Roundtable on Sustainable Palm Oil (RSPO) the participants recognized that the barriers for smallholders to become part of the system are very high. Many smallholders have to invest substantially into their plantations to be able to meet the criteria but often they have no access to the necessary investment capital. Therefore the RSPO Smallholder Support Fund "*was created by RSPO to support the oil palm smallholders*" (RSPO 2014: 1). The RSPO Board of Governors approved the foundation of the fund on 29th Oct 2012.

As these smallholders still constitute a substantial proportion of the global production the fund was created to support smallholders to become certified and to improve their livelihoods.

A paper on the "Governance Policy" describes in detail how the fund should operate. The most important objective is the facilitation of smallholders who want to have access to RSPO certification. The fund aims to enable small-scale farmers to become part of the certification process and improve their production practices, by making money available for the necessary investments. This could lead to improved livelihoods through improved production systems that meet best-practice standards. In addition, it is possible that the fund finances

"*investments in yield improvements (e.g. fertilizer input or replanting). The scope might be broadened to include scheme smallholders and associated smallholders and yield improvement investments, not only from a social impact perspective, but from a risk perspective as well*" (RSPO 2014: 1-2).

Target group

The RSPO Smallholder Support Fund has an independent position within the RSPO. The collected capital is earmarked "*to facilitate the inclusion of smallholders within RSPO certification, specifically:*

> *a. Focus on direct assistance for Oil Palm producing smallholders to attain RSPO certification. The beneficiaries are smallholders in the Oil Palm Sector, and the applicants of the fund can be Group Managers of independent smallholders and other supporting agencies.*
>
> *b. Provide assistance to the development of certification systems, tools, and other related mechanisms, to enable facilitation or simplification of RSPO certification for smallholders. The beneficiaries and applicants will be RSPO Working Groups, Task Forces, or other initiatives recognized by the RSPO*" (RSPO 2014: 1).

Depending on the size and the needs, potentially supported projects may differ. Until more money is available, the financing of projects is focused on already existing and better-developed projects, which "*are close to achieving certification (quick-wins) and can become a success story that will inspire others to follow. In addition to these 'quick-wins', the fund will also support some projects in the early stage of a certification process i.e. that focus on early stages of training and group formation; such project applications are allowed to have an initial focus on promoting sustainable production practices, while certification itself is only considered as a mid-term goal out of the scope of the funding proposal*" (RSPO 2014: 2).

Fund Raising

Currently approximately 20% of the harvested palm oil is certified by RSPO. The RSPO has created a simple system to collect money which is closely connected with their already existing financing system: 10% of the revenues collected by the RSPO for certifying palm oil is set aside for the fund. Additionally, the fund gets 50% of annual surpluses within the RSPO structures. The annually raised capital will increase if more palm oil is sold certified (RSPO 2014: 1).

To set up this structure to collect the money, no new institution and controlling system had to be set up as the fundraising is connected to the payment of fees for getting certified.

Governing Board

The governance of the system is separated from the RSPO board. It is managed by a "Smallholder Fund Panel" (SFP) and by the "RSPO Smallholder Support Fund Manager". "*The SFP is formed as a panel to approve project investment decisions and monitor progress and implementation of this Governance Policy; and the Panel will be working closely with the Smallholder Fund Manager. This includes the possibility of setting aside a specific proportion of the overall Fund for specific project commissioned by the Panel.*" Members of the panel are three members of the Smallholder Working Group (SHWG) which is "*set up under the Standard and Certification Standing Committee of the RSPO Board*", and two persons of the RSPO Secretariat. Their work is supervised by the RSPO Board of Governors (BOG), which is "*responsible for RSPO policies and strategy*". The Smallholder Fund Manager "i*s staff of the RSPO Secretariat, and works in collaboration with the SFP*." This manager runs the daily business of the Fund: development of the systems, protocol and documentation, assessment of applications for funding and improvement of money on behalf of the SFP (RSPO 2014: 4-5).

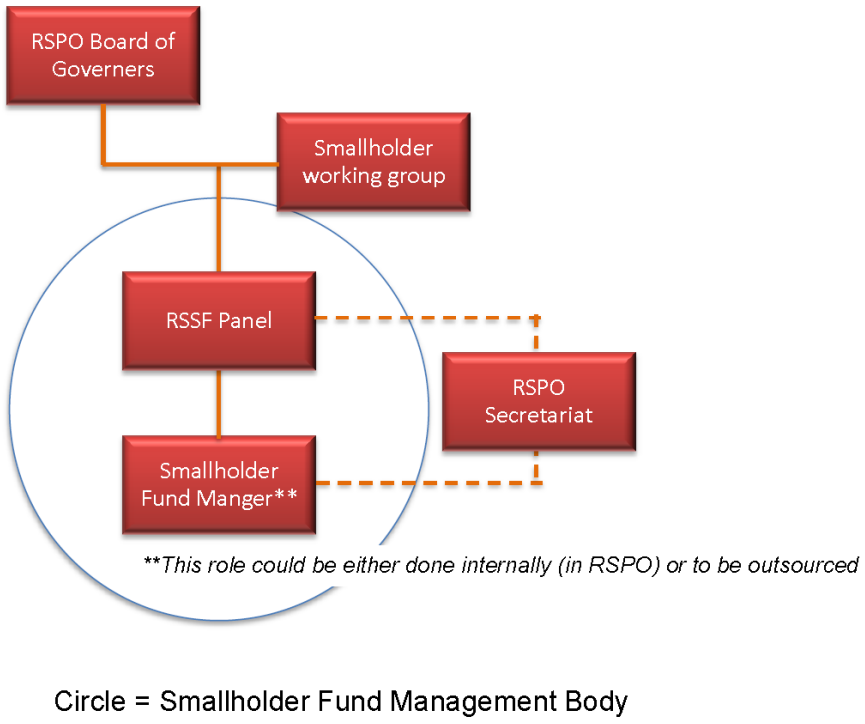

Fig. 2: Governance of Smallholder Support Fund (RSPO 2014:5).

Disbursement of the Money

The focus of the fund is to support certification of smallholders. Therefore, the fund can directly support farmers who are in the process of certification. This includes the potential coverage of all audit costs but also payments "*for training in Better Management Practices, building a shed for the storage of pesticides, starting the build-up of a documented system,*

financial literacy training of one or more potential group managers." The level of potential funding is relatively low: "*The maximum funding per project that can be awarded from the Fund is USD100,000 per year. Subject to recommendation made by the SFP and after considering the status/ balance of fund, higher budgets can be granted, provided applicants have a proven track record in implementing smallholder project.*" (RSPO 2014: 2-3).

Usually money is awarded for one year and projects with co-funding are preferred. The fund can pay:

- "*100% of certification audit costs*
- *At least 40% of other initial costs with committed co-funding*
- *At least 40% of recurring costs with committed co-funding*" (RSPO 2014: 2-3).

Applicants who want to get access to money have to follow a certain procedure. They have to submit their application, which is reviewed and assessed by the fund management within four weeks. Progress and impact have to be reported (RSPO 2014: 9).

Steps	What	Who	Duration	Remarks
1	Submission of application proposal	Smallholders/ Group Manager	Continuous process	
2	Review & assessment of application proposal	Smallholder Fund Manager	4 weeks	
3	Review of endorsement	SH Fund Panel	1 day	4 times a year (Feb, May, Aug, Nov)
4	Announcement of decision to applicants	Fund Manager	1 week	Note: Unsuccessful applicant(s) can submit proposal and will be treated as a new application
5	Contracting	Fund Manager / RSPO Secretariat	4 weeks	
6	Progress and impact reporting	SH / Group Manager	Annually	

Table 2: Steps in the application procedure (RSPO 2014: 9).

The fund manager is responsible for organizing the monitoring and the evaluation of the impact of the fund. The applicants have to provide mid-term reports and annual Project Progress & Impact Reports. A non-mandatory part of the monitoring process is an external evaluation on a case-to-case basis (RSPO 2014: 12).

Functioning of the fund

The SFP's responsibility is to decide on spending the money and it meets four times a year and has to report every six months to the SHWG and BOG. The SFP evaluates the funding proposals and if necessary adjusts the fund strategy. The decisions have to be based on consensus (RSPO 2014: 6).

Who can apply for money?

The SFP has set up criteria for farmers' organisations who want to be supported. First of all they have to be a legal entity and are not involved in illegal businesses. They have to prove that they are experienced in working with smallholders and that the project is connected to RSPO certification (see Box).

"Farmers who want to get access to the fund have to fulfil a set of criteria:
i. The applicant should be a legal based organization, either a group manager or supporting agency (private or non-profit) and not be involved in illegal practices or land right conflicts.
ii. The applicant has sufficient experience or knowledge in working with smallholders and/or in the oil palm sector, or can be an independent smallholder, or be an RSPO Working Group, Task Force, or an RSPO recognized initiative.
iii. The project should concern activities which are directly related to obtaining RSPO certification and the promotion of sustainable production practices of independent smallholders, OR will facilitate and simplify the RSPO certification process for smallholders.
iv. The project has a maximum duration of three years with clear milestones set after the first year (when projects are performing well, the funding for the second year will be released). The SFP may consider exceptional projects of more than three years on a case by case basis.
v. The project will correspond to the co-funding criteria as described under Item 1.5(d) of this document.
a. A condition to receive grants is that the project should share results; lessons learned and developed training/guidance material with the Smallholder Working Group and beyond.
b. The fund eligibility criteria could be reviewed, added and/or amended as deem necessary by the SFP" (RSPO 2014: 8).

Size of the fund

Despite its far reaching ambitions, the fund has only very limited capital. According to the annual report of the RSPO, the budget of the fund for the year 2015 was 13,681,000 RM, roughly 2.8 million €. During the year 2015, 2,137,000 RM (462,000 €) were added to the

capital. During the same year, the commitments due to be disbursed within one year or within up to 3 years added up to only 1,393,000 RM (301,000 €) (RSPO 2015: 23-24).

Some NGOs criticized the structure of the fund for being too bureaucratic and not capable to serve the needs of groups of small-scale producers or NGOs working with these. Others claim that many of the projects presented to the fund were not good enough to be supported.

4.2. Cotton: Cotton made in Africa

4.2.1. Production Structure

More than 100 million families worldwide depend on cotton production. Global production for the season 2014/15 adds up to 26 million tons. India and China (both roughly 6.5 million tonnes), the United States of America (3.5 million tonnes), Pakistan (2.3 million tonnes) and Brazil (1.5 million tonnes) were the biggest producers (USDA 2016: 5). Cotton production in the USA is highly mechanized and usually takes place on large plantations. However, the bulk of cotton worldwide is cultivated by smallholders. More than 90% of these farmers hold less than 2 hectares of arable land. The productivity (kg of cotton per hectare) of their farms is mostly low. Many of these smallholders are indebted due to their purchasing of agricultural inputs on credit (IFC 2013:17-18). Over and over again, cases of small producers in India committing suicide because of their high debts have been reported.

A major problem in the cotton market is the volatility of world market prices. Some cotton associations have a monopoly on processing in producer regions. Some of these engage in hedging in order to stabilize prices for producers. As cotton futures are sold at the beginning of the production period or even before that, producers already know in advance the price they will obtain for their cotton in a few months' time (Peltzer/Roettger 2013:18-20).

Cotton Production in Africa

In the producing regions in Sub-Saharan Africa, smallholders normally hold 5 to 6 hectares of land of which 1.9 hectares are on average used for the cultivation of cotton (Peltzer/Roettger 2013:3). Cotton production – unlike the cultivation of cocoa or coffee – is organized and well-structured in most of the producer countries. This is due to the production process: Harvested cotton is processed in ginneries. These are mostly located in the producer regions, as the transportation of harvested cotton is not profitable. To be viable, the owners of the ginneries have to operate their factories at full capacity. It is therefore in their interest that the farmers increase the productivity of their planted areas to provide the necessary and consistent supply of raw materials for the ginneries to run efficiently.

In Sub-Saharan Africa, farmers – on average – grow cotton on less than half of their arable land. Hence, they may switch to the production of other food or cash crops if cotton yields are low or if prices for cotton are declining. This is a risk for the ginneries which might run on reduced capacity in this case.

The share of certified cotton in world production is still small. While the volumes produced by farmers which are certified by Cotton made in Africa, Fairtrade and Organic stagnated during

the last few years, the Better Cotton Initiative (BCI) is growing fast (Lernoud et al. 2015: 91). BCI aspires to attain a market share of 30% in 2020 (IFC 2013: 46), but to reach this goal they still have a long way to go: in 2013 the market share was 3% (Lernoud et al. 2015: 89).
BCI just launched its Growth and Innovation Fund (January 19th, 2016). Through the fund BCI wants to support projects in cotton-growing regions around the world. The portfolio is jointly run by BCI, its partners and members from business, civil society and governments. The Fund is managed by the Sustainable Trade Initiative (IDH).

4.2.2. Cotton made in Africa – the fund

In Sub-Saharan Africa, around 3.4 million smallholders grow cotton. More than 20 million people, including smallholders' families, depend mainly or partially on the revenues from cotton production. Around 8% of world cotton production is located in Sub-Saharan Africa where cotton is mostly grown by small producers.
In 2005, the initiative Cotton made in Africa (CmiA) was founded. Its objective is to improve living conditions among cotton farmers in Sub-Saharan Africa. Their approach focuses on trade: Farmers are trained in efficient and environmentally compatible cultivation methods by CmiA experts. In particular, the initiative aims at building an international alliance among textile companies. These companies create the demand for CmiA's cotton and pay license fees in order to label their products. The revenues from the fees are reinvested in the project regions (CmiA undated). In order to sell their cotton through CmiA, farmers need to adhere to certain minimum criteria. Step by step, higher social and environmental criteria are to be met. The cotton associations must keep record of the efforts that are made to meet these criteria. In order to realize this, they need a functioning management system. Building on these records, independent verification through farmer interviews will take place. This system is supposed to lower the costs of audits.

Encourage Improvements

One of the focus points of CmiA is the cooperation with the cotton associations, which also operate the ginneries in the producer regions. Cotton farmers usually live and work in proximity to the ginneries. In addition to cotton they grow other crops as well. As cotton is not a permanent crop like cocoa or coffee, it must be sown every year. Hence, farmers may decide from year to year whether they grow cotton or other crops. The cotton associations, whose ginneries might risk running on reduced capacity, must convince farmers from year to year to continue their cotton cultivation. These aspects make cotton production and its pre-processing different from permanent crops like cocoa or coffee.

Ideally, the cotton associations are the entry points for change in the African producer countries. They play an important role in the supply and distribution of inputs (seeds, fertilizers, pesticides) and in the financing of these inputs. In many regions, cotton associations have long-term contracts with farmers. In some cases, their business relationship is similar to that of contract farming. Therefore, the cotton associations even finance large investments like farm machines or oxen. What is more, they coordinate numerous networks of agricultural extension workers and farmers in pilot schemes (Peltzer/Roettger 2013: 6-7). This very short value chain creates a direct link between CmiA and the farmers.

Experiences in different countries have proven that a close relationship between cotton producers and cotton associations is indispensable in order to guarantee the payback of credits and avoid side selling (Peltzer/Roettger 2013: 12).

CmiA controls that the price of inputs delivered by the cotton associations who are part of the project does not exceed common local prices. The organization of farmers and their outreach through the cotton associations contributed to the establishment of a top-down system. Key points are the provision of trainings, the teaching of good agricultural practices (GAP) and the dissemination of technologies in agriculture. What is more, farmer business schools teach skills in business administration that go beyond the mere knowledge on cotton production. This approach might also promote diversification in crop production. The fact that farmers are organised makes it much easier to reach them with services and supplies at low transaction costs.

Governing Board

CmiA is a project of the Aid by Trade Foundation. Therefore, the board of this foundation is the decision-making committee in CmiA. It decides e.g. about the allocation of funds. CmiA is currently the only project of the foundation. Its management team consists of 10 members.

Disbursement of the Money

Companies are required to pay a license fee in order to process or sell CmiA cotton. This fee is calculated according to trading volumes and is either paid by the textile manufacturer or by the fashion brand that sells the final product to consumers. Whether the fee is paid by the manufacturer or the brand, is subject to negotiations between them. Currently, sales of CmiA cotton remain relatively static as demand increases only slowly. Through the fees, CmiA has to cover the cost of its tasks such as certification of cotton, implementation of social projects in producer regions, management of CmiA itself and the promotion of sales in order to increase demand. Fund surpluses are used to partially finance qualification measures for certified cotton associations and to enhance sustainability efforts among small producers.

The revenues from license fees were 1 million € in 2014. Another 1 million € was generated through allowances and donations (CmiA 2014).

The revenues from license fees finance the running expenses of CmiA. Currently (until the end of 2016), the surpluses go to a transnational support measure called COMPACI (for detailed information see their website: http://www.compaci.org/en/). COMPACI is a contractor of CmiA and engages cotton associations as subcontractors. COMPACI is only partially funded through the license fees by CmiA. Other donors are: the cotton associations themselves, the Bill and Melinda Gates Foundation, and the German Federal Ministry for Development and Economic Cooperation (BMZ). The funds are utilized to support the cotton associations in their task to improve the livelihoods of farmers.[2]

The cooperation with COMPACI will finish soon. One of the reasons is the cessation of the Gates Foundation's engagement. Therefore, CmiA will need to establish a new organizational frame. An "expert house" will be created. It is supposed to bring together various stakeholders from the cotton sector: ACTIF, the Aid by Trade Foundation and the GFA Consulting Group. Its objective is to further train and qualify the cotton associations, which in turn shall lead to innovations, trainings and improved exchange of knowledge.

Why do companies engage in CmiA?

CmiA combines two aspects: the establishment of a label (which allows companies to mark their textiles with certified cotton and which allows consumers to identify these textiles) and support measures for cotton farmers. However, the participation of companies has not met expectations so far. The levied license fees are too low to pay for the demand of support programs for the cotton production. Between 2014 and 2015, the increase in revenues from fees was minimal.

[2] The budget plan for COMPACI 2013 – 2016 is US$ 74,3 Mio. targeting 840,000 smallholders, for details see http://www.compaci.org/en/downloads/general/158-compaci-flyer-3/file

4.3. Initiative Tierwohl – a Fund for the German Animal Husbandry Sector

4.3.1. Production Structure

Initiative Tierwohl is concerned with the conditions in pig and poultry production in Germany. Actors from different levels of the value chain are engaged (Initiative Tierwohl 2015a). Generalizing across subsectors, the meat value chain comprises the following levels: animal production on farms – marketing by the farmer or through a producers' association – animal slaughter in slaughterhouses – meat processing – wholesale – retail sale. Butcheries may carry out several of these steps from slaughter to retail sale (ZMP 2015).

Pig Production

Stocks in 2014 counted over 28 million pigs, including piglets, sows and hogs (DESTATIS 2014a). Hogs that are fattened for slaughter represent the majority of pigs: over 17 million (DESTATIS 2013a). 27,100 farms engaged in pig production in 2014, which is a decline by 10,8% since 2007 (DESTATIS 2014a, DBV 2015). Structural change cannot only be witnessed in the decreasing number of farms, but also in growing farm sizes and increasing regional concentration. Intensity of pig production is highest in two Federal States: Lower Saxony (31.4% of all German pigs) and North Rhine-Westphalia (26.3% of all German pigs). About 15,000 of 27,100 German farms are located in these two States (DESTATIS 2014a). In these two Federal States, stock sizes are the highest in Germany: on average approximately 1,300 pigs per farm in Lower Saxony and approximately 900 pigs per farm in North Rhine-Westphalia (DESTATIS 2014a). About 80% of all pigs in Lower Saxony and about 70% of all pigs in North Rhine-Westphalia are kept in stocks with more than 1,000 animals (DBV 2015). A comparison with other European countries shows that even larger stocks, but also much smaller stocks are to be found. While a farmer in Denmark keeps approximately 2,600 pigs on average, farmers in South-eastern Europe keep much less than 100 pigs on average (e.g. Austria, Slovenia, Hungary) (ZMP 2015).

Poultry Production

The number of poultry increased by 40% since 2010 (DESTATIS 2013b), leading to poultry stocks in 2014 as high as 161 million (DESTATIS 2013a). In the statistics reviewed for this study, poultry refers to not only laying hens, chicks and fattening chickens, but also to other species, such as chickens, turkeys, ducks, geese and guinea fowls. 65% of poultry in Germany for meat production – which means fattening of livestock – is chicken, and 30%

turkey (DESTATIS 2014b). 56,600 farms were engaged in poultry production in 2013 (DESTATIS 2013b). Like in the pig sector, poultry production is highly regionally concentrated. 55% of all poultry is kept in Lower Saxony and about 7% in North Rhine-Westphalia and Bavaria respectively (DESTATIS 2013a). Most stocks (including laying hens) count more than 50.000 poultry each; 77% of poultry in Lower Saxony, 50% of poultry in Bavaria and 45% of poultry in North Rhine-Westphalia is kept in stocks with more than 50.000 animals (DESTATIS 2013a).

Slaughter Sector

The slaughter sector is highly concentrated. Although most of the 350 slaughterhouses in Germany are small and medium sized enterprises, 3 large slaughterhouses dominate the pig slaughter market (HBS et al. 2014). Tönnies, Vion and Westfleisch hold together a market share of more than 50% (ISN 2014). Poultry slaughter is dominated by the PHW Group (HBS et al. 2014). In 2014 (preliminary data), 58.9 million pigs were slaughtered in Germany, which equals a total carcass weight of 5.5 million tonnes (ZMP 2015). While pig slaughters were steady over the last years, poultry slaughter has increased by 50% over the last 10 years. In 2014, 725 million poultry with a total carcass weight of 1.5 million tonnes were slaughtered (DESTATIS 2014b).

Retail Sale

Retail sale of pork and poultry meat products in Germany is, like the slaughter sector, concentrated. Only 4 enterprises (EDEKA Group, Schwarz Group, REWE Group and ALDI) hold a market share of 85% (ISN 2014). Nevertheless, only about a third of meat products are sold through retail sale. The rest is exported, sold in butcheries and processed in catering (estimates from industry).

4.3.2. Aim of the fund

Initiative Tierwohl was created in 2015 to bring together actors from across the meat value chain: pig and poultry farmers, slaughterhouses, retailers and agricultural and industry associations (Initiative Tierwohl 2015a). The five largest German retail chains (EDEKA Group, Schwarz Group, REWE Group, ALDI and Metro Group) as well as the smaller retailers Kaiser's Tengelmann and WASGAU form part of the initiative (Initiative Tierwohl 2015d, 2015f). The initiative aims at improving farmers' practices in animal keeping and enhancing animal welfare at farm level (Initiative Tierwohl 2015a). Furthermore, it strengthens the competitiveness of farmers who comply with high animal welfare standards. Increasing costs associated with the implementation of these standards would make smaller

farms lose their competitiveness otherwise (ISN 2014). Payments to farmers are made from the fund of Initiative Tierwohl which is endowed with 225 million € for a 3 year period from 2015-17 (Initiative Tierwohl 2015e).

Target Group

The initiative targets pig and poultry farmers. The registration phase for pig farmers closed in April 2015. More than 2,000 farmers with 12 million pigs were successfully audited until July 2015 (Initiative Tierwohl 2015a, 2015b). This represents more than 40% of 28 million German pigs. An even greater share was initially registered but was not audited due to limited capacities of the fund: 4,700 farmers with 25.5 million pigs tried to enter the system (more than 90% of all German pigs) (Initiative Tierwohl 2015a). Poultry farmers were registered in July 2015 and audited in October 2015. 900 farms with 255 million poultry (per year) were admitted to the audits. Again, not all of the 1.400 registered farmers were audited (Initiative Tierwohl 2015c). Roughly a third of the 725 million poultry slaughtered in Germany per year will have experienced better animal welfare, as a result of the fund.

Payments from the fund differ across pig and poultry production. While audited pig farmers receive payments for 3 years, poultry farmers receive it only for 2 years (Initiative Tierwohl 2015b, 2015c). The high number of registered farmers indicates that the acceptance of Initiative Tierwohl among farmers seems extraordinarily high. Possible reasons are the guaranteed payment that the farmers receive for numerous years, and that they receive the payments regardless of how they market animals, and regardless of the size of their farms.

Fund raising and size of the fund

The participating food retailers are the only actors paying into the fund so far. For each kg of sold meat product 0.04 €/kg is paid for the share of pork or poultry meat that it contains. Food retailers pay 85 million € per year from 2015-17, endowing the fund with 225 million € during this 3 year period (Initiative Tierwohl 2015e).

Governing board

The umbrella organization of the initiative is held by several shareholders, which are associations from agriculture and the meat and food industry, e.g. the German Farmers' Association, the German Poultry Producers Organization and German Meat Industry Association. Within one of these organizations, retailers are also member and therefore indirectly represented in the board. That means that all stakeholder of the market are represented within the board. The board appoints the members of the technical committees who developed the criteria of the fund.

How is the money spent?

Registration and audits are organized through the so-called “Bündler” who are mostly professionals and belong to agricultural extension services or producer associations. They are responsible for registering farmers and for commissioning a third party certification for the audits (Initiative Tierwohl 2015a). In addition to this, they report the number of animals that the farmers deliver to slaughterhouses or other farms quarterly to the initiative. These data are crosschecked with weekly reports from the slaughterhouses (Initiative Tierwohl undated).

Successfully audited farmers receive payments from the IT fund. Pig farmers receive 500 € per farm when basic criteria are met: (1) analysis of antibiotics consumption of their animals, (2) daylight in stalls and (3) yearly control of stall climate. They receive additional payment if additional criteria are met: e.g. 10% more space for pigs or access to coarse fodder (Zeug 2015). At a maximum, a farmer can receive 3 €/piglet, 6 €/sow and 9 €/hog. Due to production periods the payment is limited to 3.5 pigs per stock place per year (Initiative Tierwohl undated). This means for a farm with 1,000 hogs; maximum payment per year = 500 € + 9 €/hog * 1,000 hogs * 3.5 = 32.000 €.

Poultry farmers receive their payment per kg live weight of poultry that they deliver to the slaughterhouses. Maximum payments are 3.6 ct/kg for chickens, 3.25 ct/kg for turkey hens and 4.0 ct/kg for turkey roosters (Initiative Tierwohl 2015g).

Payments to farmers are disbursed by the clearinghouse of the IT fund which is monitored by the initiative. On the 1st day of a calendar quarter payments for the last quarter are determined. Payments are disbursed to the farmers 6 months later (Initiative Tierwohl 2015g).

Critique

Critique on the initiative is widespread. Often, its lack of transparency for the consumer is criticized. Because the initiative lacks a label, the consumer cannot determine whether a meat product comes from a farm which adheres to the criteria of Initiative Tierwohl. Many critics think that the criteria are not strict enough to achieve tangible improvements in animal welfare. Moreover, it is demanded that the fund needs to be endowed with more money, because many farmers were denied participation (Zeug 2015).

The German Farmers’ Associations claims that food retailers shall pay 0.12 €/kg of sold pork or poultry meat instead of 0.04 €/kg (Agrarheute 2016). Others criticize that the retail chains are the only actors paying into the fund. They demand that slaughterhouses and meat processors pay as well (WAZ 2015).

Considering that only about one third of meat is marketed through retail chains and that the rest is exported, sold in butcheries or processed in catering, other actors should engage as well. Initiative Tierwohl reacted to these demands and is working to convince more

enterprises to participate and pay into the fund. They concentrate on wholesalers, caterers and meat processers (Initiative Tierwohl 2015c). One approach could be to not levy the payment on retail level, but on slaughterhouse level. This would hold the advantage that payment is raised on all meat to be processed, not only on such that is sold in retail chains.

The agricultural policy advisory council to the German Federal Ministry of Agriculture considers Initiative Tierwohl a viable approach and a promising model that is to be extended. In order to include more pig and poultry farmers the budget of the initiative needs to be multiplied. The advisory council also proposes the creation of a risk fund to compensate farmers for income losses due to the implementation of criteria (WBA 2015).

4.4. Coffee

4.4.1. Production Structure

Coffee is cultivated by an estimated 20 to 25 million farmers in more than 80 countries worldwide. The most important producer countries are Brazil (32% of world production), Vietnam (18%), Indonesia (6%), Columbia (6%), and Ethiopia (5%). In the harvesting period 2014/15, total world production was 8.5 million tons (ICO 2016). Approximately 80% of coffee worldwide is cultivated by smallholders. Labour costs for the care of coffee trees and for the first steps of processing on farm level account for up to 80% of production costs (Feldt 2013: 15).

Production structures vary across producer countries and even across producer regions in the respective countries. There are large plantations with high yields per hectare in Brazil, which harvest their coffee with machines and process it on an industrial scale. In African producer countries, India, and Indonesia, farmers usually cultivate less than two hectares, often even less than one hectare. Yields are usually low at much less than one ton per hectare (Feldt 2013: 16-24). In Vietnam, farmers mostly hold small plantations. They grow few alternative crops and cultivation of coffee is rarely mechanized (IFC 2013: 13f). While coffee farmers are quite well organized in Latin America, the level of organization in Africa is low.

Coffee is a permanent crop. Plantations only bear fruit after several years. They need to be maintained for quite a long time before famers can harvest a considerable amount of fruit. It is hardly possible for farmers to switch to another cash crop if prices are low.

Depending on the coffee variety, regional specialties, and processing efforts, quality of coffee varies between different varieties. Therefore, the coffee market is highly differentiated. Apart from the varieties Robusta and Arabica and their blends, numerous regional coffee specialties are available on the market.

In recent years, the amount of coffee produced according to a standard has increased rapidly. This is especially true for 4C coffee, which focuses on mainstream coffee.

The 4C standard has primarily reached those farmers who cultivate larger plantations. It is estimated that 90% of farmers do not produce according to any standards. Many of the farms who produce according to the criteria of 4C work on fields bigger than the average coffee producers. As a result, in 2013, 40% of world coffee production was certified. Only 15% was sold under certification (Panhuysen/Pierrot, 2014). This data does not portray the full picture, as it does not take into account double or triple certification. Nevertheless, one can be certain that the supply of certified coffee is outstripping demand.

There is reason for concern that supply of coffee in general will not be able to meet demand in a few years' time. More and more producer regions are affected by climate change. Some regions might not be able to produce coffee anymore, or may not be as conducive for coffee production as they are today due to agro-climatic conditions as a consequence of climate change. Another key question is whether coffee production will become an attractive business model for farmers in the future. Currently, farmers in general have reached an advanced age and will need someone to continue with their cultivations. A study in Kenya found that the average age of farmers is 64 years. In Uganda, it was much less, with 47 years on average (CIDIN 2014: 12).

4.4.2. Initiative for coffee & climate

The Initiative for coffee & climate[3] (c&c initiative) is a pre-competitive initiative of leading companies in the coffee value chain, including roasters and traders. The starting point for this initiative was a growing awareness among the members of International Coffee Partners[4] that climate change will be a threat to coffee production, hampering supply of the commodity as well as negatively affecting the livelihoods of coffee farmers. Founding members are International Coffee Partners and the German Agency for International Cooperation (GIZ), who asked the HR Neumann Foundation to develop a concept how to address the problem of climate change in the coffee sector.

The goal of the c&c initiative is to improve the income situation of coffee farmer families, to strengthen the resilience of their livelihoods, and to promote coffee as an important player in shaping sustainable landscapes, contributing to tackling climate change and helping to restore degraded land. The initiative aspires to become a blueprint for other land-based commodities, and to demonstrate how the private sector can help to counteract climate risks.

The initiative started in 2010 and aims to address the issue of climate change and its effects on coffee production and the situation of coffee farmers. In the first phase, four regions (Minas Gerais/Brazil, Dak Lak/Vietnam, Trifinio/Central America and Mbeya/Tanzania) have

[3] Founding members of the initiative are: Gustav Paulig Ltd (Finland), Joh. Johannson Kaffe AS (Norway), Löfbergs Lila AB (Sweden), Neumann Gruppe GmbH (Germany), Tchibo GmbH (Germany), Fondazione Giuseppe e Pericle Lavazza Onlus (Italy) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). Partners joined afterwards are: Franck d.d. (Croatia), Ecom Coffee (Switzerland), the Swedish International Development Agency (Sida), Tim Hortons (Canada), Starbucks and the Sustainable Coffee Program (SCP). http://www.coffeeandclimate.org/

[4] Franck d.d. of Croatia (member since 2014), Gustav Paulig Ltd. of Finland, Joh. Johannson Kaffe AS of Norway (member since 2012), Löfbergs Lila AB of Sweden, Luigi Lavazza S.p.A. of Italy, Neumann Gruppe GmbH of Germany and Tchibo GmbH of Germany. ICP was established in 2001 and is supporting projects trying to make smallholder coffee farmers competitive on the basis of sustainable practices in order to improve their livelihood.

been selected for pilot projects to assess current and likely future impacts of climate change on coffee yields and key coffee quality, reaching out to some 4,000 farmers. The c&c initiative expects a scaling up in the second phase to 70,000 farmers.
The objectives of the pilots are to:

- Assess current and likely future climate impacts on coffee yields and qualities,
- Explore opportunities and strategies for more sustainable coffee production systems, and
- Develop effective responses to the climatic impacts and resulting challenges for coffee production.

The c&c initiative focuses on developing and offering methodologies enabling farmers to respond to changing climate conditions. The initiative collects and disseminates best practices for adaptation in the project regions. Farmers are supported to find a strategy that fits best to improve their livelihoods.

Financial supporters and Governing Board

The fund is based on a Public Private match-funding approach. The budget for the first phase was around 1.7 Mio. €.
The c&c initiative is a private-public partnership, managed and administered by the Neumann Foundation, which is based in Hamburg, Germany. Implementing agencies are the Neumann Foundation and Conservation International (during phase 1 GIZ was also an implementing partner).
The decision-making body is the steering committee. Members are the Swedish International Development Cooperation Agency (SIDA) and GIZ as public partners, the Sustainable Coffee Program, the founding companies, as well as new members such as Starbucks. The steering committee meets twice a year, part of their responsibility is to approve the budget. In the mid-term, the initiative shall be opened up to other stakeholders, e.g. to the knowledge and development community and to producers and their representatives.
Currently, the c&c initiative is exploring different legal structures, such as founding a new association, or merging with an existing institution for securing partnership, cooperation and knowledge management in the long-term. The role of the H.R. Neumann Foundation would then change into purely an implementer of the c&c approach in the field.

Disbursement of the Money

The steering committee decides on the distribution of funds. In the first phase, the focus was mainly on research, the development of the methodology and a tool kit, and the establishment of the knowledge hub. For the second phase, they will do the scaling-up via existing national and regional initiatives.

4.4.3. Sustainable Coffee Program

The Sustainable Coffee Program (SCP) is a global, pre-competitive, public-private initiative, which involves industry and trade partners, governments, NGOs and standard-setting organizations in the coffee sector. Their aim is "*to help bring about global sustainable coffee production and sourcing practices to scale, by aligning stakeholder investments in producer support programs, which aim to improve farmer livelihoods, enable coffee producers to become more resilient in an ever-changing market and increase sustainable yields to meet growing demand*" (SCP 2014: 1).

Disbursement of the Money

The SCP has developed country specific National Sustainability Curricula in Vietnam, Uganda, Brazil, and Tanzania. These were finalized by the end of 2014 and are now adopted by local extension workers. The different National Sustainability Curricula try to identify key issues that hamper development of sustainable coffee production at national level in different coffee producing countries.

Size of the fund

According to the Sustainable Trade Initiative IDH (IDH undated) the contributions to the fund in 2014 were:

- 10,072,441 € from the private sector
- 3,871,173 € IDH (public funding)
- 128,573 € others.

SCP funds are public-private, private investments are matched with grants from the public sector (mainly from Denmark (DANIDA), Switzerland (SECO), and the Netherlands). The greater the public good, the higher the co-funding provided by IDH – up to 70%. If the project supported is closely linked to the supply chain of the company, the co-funding will be reduced (around 30%).

Governing Board

Members of the Steering Committee are:

European Coffee Federation (ECF), IDH, HIVOS, Nestlé, Tchibo, Jacobs Douwe Egberts.

SCP is managed by Stichting IDH Sustainable Trade Initiative, a foundation with registered offices in Utrecht, Netherlands.

IDH and the steering committee decide which countries the SCP operates in. National program coordinators in the target countries oversee the national program activities.

An expert committee reviews SCP's policy.

Way forward

SCP and 4C developed their Vision 2020, which will provide a joint platform trying to mainstream sustainable coffee production. In early 2016, both organisations merged into the Global Coffee Platform, separate from the 4C baseline standard as a reference for verification and the platform. A memorandum of understanding has been signed with the International Coffee Organisation (ICO) to join Vision 2020.

5. Fund Raising in the Cocoa Sector

Experiences with funds in agricultural sectors other than cocoa – namely CmiA, RSPO, Initiative Tierwohl and in the coffee sector – show that there are different ways in which money could be raised for a fund. CmiA and RSPO charge fees in excess of certification costs and thus create a fund. The fund is administered within the management system of certification. However, both CmiA and RSPO generate only small revenues for their respective funds. Within CmiA, the biggest challenge is the small share of certified cotton on the world market. Thus, revenues from charges for this fund have so far been low. Within RSPO, the charges are not high enough to sufficiently finance larger projects. Initiative Tierwohl, however, takes a broad approach to fundraising and has so far generated considerable financial means. Charges are levied at retail chain level for every kg of sold pork or poultry meat (whether or not the producer of this meat adheres to the standards of Initiative Tierwohl). Initiative Tierwohl has not coupled certification and disbursement of funds for farmers (as have done CmiA and RSPO). Thus, its acceptance among farmers is comparably high. However, support to all farmers interested in joining Initiative Tierwohl could so far not be realized due to limited funds. In order to make the system more efficient, other stakeholders from the meat value chain must be included.

In the coffee sector, most funds are financed by companies' CSR efforts. In most cases, funds work as a private public partnership and receive public grants as well. The Sustainable Coffee Program is such an approach.

Experiences from other sectors show that, in order to raise sufficient financial means for a fund, a large market share of the respective product needs to be integrated into the system. This is only possible if a considerable number of stakeholders are convinced that they can profit off the fund. In the cocoa sector, resistance from actors in the industry is to be expected: many companies are already engaged in numerous projects and will likely be opposed to raise even more money for another cocoa project. Nevertheless, a lot of companies are aware that the efforts are not sufficient to finance a sustainable value chain.

5.1. Possible Approaches for a Cocoa Sustainability Fund

There is a growing awareness within the cocoa and chocolate industry, and also among other stakeholders, that pre-competitive approaches need to be coordinated better. Actors within the cocoa value chain are willing to discuss the implementation of a new standard (CEN/ISO), to work together to find solutions to existing problems in organizations such as the World Cocoa Foundation (WCF), CocoaAction and the International Cocoa Initiative (ICI),

as well as to debate new approaches on how to achieve sustainability within the structures of the International Cocoa Organization (ICCO). What is more, the question of the future sustainability of the cocoa sector is discussed on numerous conferences and also at the World Cocoa Conferences.

All stakeholders agree that a better coordination, cooperation and an exchange of the experiences made in the existing projects is necessary. All stakeholders agree that, even if there are many approaches, much more investment is needed to achieve a sustainable cocoa sector. They also agree that, at the moment, there is no mechanism to collect the necessary funds.

This is the background for the current discussions about a possible Cocoa Sustainability Fund. Although there might be an agreement between the different stakeholders that a fund is necessary, there is no consensus on how the money should be collected, the governance structure, or how it should be allocated. Different approaches concerning the collection of capital are possible, some are based on voluntary principles, and others include compulsory provisions:

5.1.1. Where to charge in the value chain?

The described schemes collect money for their respective funds in different parts of the value chain. CmiA, RSPO and the systems in the coffee sector put a levy on the raw materials while the Tierwohl Initiative collects fees at the last step of the value chain in the supermarket.

The charging of an extra fee on the raw material price bears the risk that due to the power relations within the value chain, in the end the farmers pay the price: if they have no powerful position in the market, their buyers will try to reduce prices so that part of, or even the total fee will be deducted from the former farm gate price.

In the cocoa sector, with its mostly unorganised farmers and eight traders who control more than three quarters of a worldwide cocoa trade (Fountain/Hütz-Adams 2015: 7), a fee on the raw cocoa beans could lead to lower cocoa prices at farm gate level. On the other hand, the concentrated market could be a base for an agreement to avoid such a development as only a small number of key companies has to agree on purchasing policies that put no additional pressure on the farmers.

Research by the ICCO has indicated that economic welfare at the macro level is best served if the levy is imposed at the consumer end of the cocoa value chain. In other words it should be at the point that is farthest away from the smallholder farmer. This is to ensure that the burden of the levy will not fall on the cocoa farmer who is considered as the weakest link in the entire cocoa value chain.

The system of the Tierwohl Initiative would reduce the risk to put pressure on farmers as the fee is collected a few steps down the value chain in the supermarkets. But to set up such a system could be a very complicated process in the cocoa and chocolate sector. On a worldwide level a lot of retail companies sell products made from cocoa. Some of these products are produced by multinational brands; others are private brands of retailers. An additional problem is the limited market share of the big retailers. Chocolate and other products made from cocoa are not only sold in supermarkets but also in many small shops and kiosks, canteens, pubs, bakeries and restaurants.

To overcome these problems, some of the big companies could agree to kick-start the establishment of a fund. For example in 2013, with the market power of the three biggest cocoa trading and processing companies which traded more than 50% of the world's cocoa production, the contribution could be meaningful enough to encourage other companies, retailers, traders, exporters and processors to generate the momentum towards the setting up such a fund dedicated to improve sustainability in the cocoa sector. As soon as it gathers wider acceptance, governments of both consuming and exporting countries could be sufficiently attracted to support the fund as well.

5.1.2. Voluntary or mandatory system?

There are different systems which could guarantee broad support for a Cocoa Sustainability Fund.

Voluntary System

A voluntary system for fund raising would integrate all those participants of the commercial cocoa market who are willing to pay. The risk with this approach is that many actors may not want to be engaged in contributing to the fund. However, a voluntary approach could lead to a broad acceptance of the fund within the cocoa sector (see Initiative Tierwohl). Only a few large enterprises dominate the cocoa trade and grinding. Eight traders control three quarters of the cocoa market and six chocolate producers more than 40% of their respective market (Fountain/Hütz-Adams 2015: 7). If only they could be convinced to join the fund, the bulk of globally traded cocoa could be charged for the fund. A specific logo could recognize that they contribute to the Cocoa Sustainability Fund.

Compulsory/mandatory System

A compulsory system would charge all participants of the cocoa sector with a fee for the fund which would have to be raised at a certain step of the value chain. Such an initiative could be based on legislation or on an agreement supported by all participants of the value chain. The

principle should be based on small contributions on the huge volume of trade, allowing that not a single stakeholder at any point in the cocoa value chain would feel the burden of making such an effort, and that the benefits would more than outweigh the cost of such a fund in the long term, when the projects bring about the positive outcome.

Multi-stakeholder Approach

A multi-stakeholder approach could include cocoa trading and processing companies as well as retailers, governments, development cooperation and NGOs. Such an approach has the added advantage that the capital to invest in the cocoa sector does not have to come from the industry exclusively.

Fund raising can target different levels of the value chain. Coupling the fund with certification initiatives is one possibility (like CmiA and RSPO). Another option could be that the fund is administered and managed either by the private sector or by institutions controlled by the government.

5.2. Fund Raising by Standard Setting Organisations or CEN/ISO

In order to set up a Cocoa Sustainability Fund, already existing management structures of standard setting organisations or those that are currently being created (namely CEN/ISO) could be used as a base to build on.

Existing standard setting organisations such as UTZ, Rainforest Alliance/SAN or Fairtrade charge a fee for cocoa produced by certified farmers. Additionally, governments of producing and consuming countries, companies, standard setting organizations and NGOs are currently working on setting up a meta standard within a CEN/ISO guided process. This multi-stakeholder process was initiated in order to ensure a broad acceptance of this standard. If a Cocoa Sustainability Fund is set up, it could be integrated in the already existing structures of standard setting organisations or CEN/ISO. The standard setting organisations would need to change their existing fee system while CEN/ISO would have to set up a new one.

Several models could be envisaged for the raising of the Cocoa Sustainability Fund. The standard setting organisations and CEN/ISO could charge an extra fee to support farmers to meet standards (if they have not yet been able to).

A disadvantage of this system is that the fee is charged only for the certified cocoa. Companies who purchase this cocoa would be charged double: a fee for certified cocoa and a Cocoa Sustainability Fund fee.

Another possibility would be to charge all cocoa that is not certified. This would require a private sector initiative (see next chapter).

5.3. Fund Raising Supported by the Private Sector

Most of the companies from the cocoa sector have committed to – over time – only use sustainably produced cocoa. Specifically the largest companies, of which ten are members of CocoaAction, are committed to this objective. Already, numerous projects are implemented by the respective companies. However, there is a lack of cooperation and coordination between these projects. A sector-wide approach is needed (see chapter 3) which could be supported by a fund.

5.3.1. Voluntary Fee for Non-certified Cocoa

Companies could determine a fee levied on all cocoa that is non-certified (according to UTZ Certified, Rainforest Alliance/SAN, Fairtrade and/or CEN/ISO). This fee could be as high as the average premium of certified cocoa. Consequently, certified and non-certified cocoa would be traded for more or less the same price and a level playing field of sustainable and unsustainable cocoa could be created. The fee for non-certified cocoa could be used to support farmers to meet criteria of one of the standards. In the medium to long term, the financial means of the fund would decrease. The fund would eventually render itself unnecessary when all traded cocoa is certified.

The market power of large companies (especially in cocoa trade and processing) could be used to voluntarily introduce this fee. If these companies commit to only trading and processing cocoa for which the fee has been paid, pressure on other actors in the cocoa sector would be high to also join the fund.

In a second step, the companies which support the Cocoa Sustainability Fund could exclude all non-supporters from the market by not being willing to trade or process any cocoa for which no fee was paid. Additionally, the big brands and retailers could refuse to produce and sell final chocolate products which are made from cocoa for which no fee was paid. This would mean that, step-by-step, even companies opposing the idea of a Cocoa Sustainability Fund would need to join in order to have the option to sell raw or processed cocoa to those companies who support the Cocoa Sustainability Fund.

CocoaAction provides proof on how powerful this kind of voluntary commitment may be. Even though only ten companies are members[5], CocoaAction covers the bulk of globally

[5] Members of CocoaAction: Barry Callebaut, Blommer, Olam, Cargill, ECOM Agrotrade Limited, Ferrero, The Hershey Company, Mars Inc., Mondelēz International and Nestlé

traded cocoa. If the members of CocoaAction and a few other important companies advocated for a voluntary system, the share of cocoa included would be even higher.

Another approach could be to charge cocoa products at the end of the value chain. The big ten to twelve companies could initiate such a system by voluntarily contributing to the fund. An announcement could be placed onto a bar of chocolate indicating that for every bar of chocolate sold, a small sum will be used to fund sustainability initiatives as part of the company's corporate social responsibility. As this gathers momentum, other stakeholders such as traders, retailers, and exporters could be convinced to contribute as well, particularly when the benefits become evident.

5.3.2. Compulsory Fee for Non-certified Cocoa

A compulsory fee for non-certified cocoa (according to UTZ Certified, Rainforest Alliance/SAN, Fairtrade or CEN/ISO) could be made a pre-condition for cocoa trade. If the Federation of Cocoa Commerce (FCC) and other contract terms setting institutions made such a fee part of their contractual and operational framework, cocoa could only be traded after payment of this fee. An advantage would be that the higher price of certified cocoa would be countered: Non-certified cocoa would cost just as much. What is more, the double burden of companies that opt for certified cocoa would be eliminated.
A compulsory fee would be an incentive to certify the whole world production. A condition for the implementation of this fee is a broad acceptance of existing certification schemes within the cocoa and chocolate industry.

5.3.3. Compulsory Fee for all Cocoa Sold

The ongoing debate about the likely impact of a fee on existing activities of the standard setting organisations (UTZ Certified, Rainforest Alliance/SAN, Fairtrade or in the future CEN/ISO) leads to the question whether certified cocoa should be exempted from a levy. The issue of a level playing field and free competition was raised during the World Cocoa Conference. Stakeholders from companies and their umbrella organisations doubt that certification systems will necessarily lead to a sustainable cocoa market. Therefore, they recommended that if a compulsory levy was to be implemented, it should be charged on all cocoa sold. Such an approach could be set up as described in the previous chapter.

5.4. Institutionalised systems

A fee or levy could be determined between states. This has already been experienced through UNITAID based on an air ticket levy. At the national level Great Britain will introduce a tax on sugary drinks.

5.4.1. Air ticket levy and sugar tax

UNITAID was launched by the governments of Brazil, Chile, France, Norway and the United Kingdom in September 2006, in order to respond to the need for additional, innovative sources of funding for global health and development. Today, UNITAID's membership grew from five countries in 2006 to 29 countries and one foundation. The goal of UNITAID is to combat HIV/AIDS, malaria and tuberculosis. More than half of its budget comes from an air ticket levy.

So far, nine countries are implementing the air ticket levy: Cameroon, Chile, Congo, France, Madagascar, Mali, Mauritius, Niger and South Korea. Norway allocates part of its tax on CO_2 emissions. They all put a small addition to the cost of a ticket.

The air ticket levy can range from US$1 for economy-class tickets to approximately US$40 for business and first class travel. The levy is implemented through the adoption of a law or decree and simply added to an existing airport tax, with all or some of the funds going to UNITAID. The participating countries have agreed on authorizing the World Health Organization (WHO) as the managing body of UNITAID.

The executive board of UNITAID is the decision making body consisting of:

- One representative nominated from each of the founding countries;
- One representative of African countries designated by the African Union;
- One representative of Asian countries;
- Two representatives of relevant civil society networks (nongovernmental organizations and communities living with HIV/AIDS, malaria or tuberculosis);
- One representative of the constituency of foundations; and
- One representative of the World Health Organization.

The air ticket levy is an example of an innovative finance mechanism based on international cooperation. Currently a similar scheme is discussed by oil producing countries putting a small levy of 0.001% on produced oil.

Another example for an innovative approach is the UK government’s announcement to introduce a tax on sugary soft drinks, which will come into effect in two years’ time. The levy is expected to raise around £530 million in tax, which will be re-invested in funding for sports in British primary schools. The delay will allow soft drinks manufacturers time to prepare for

the new legislation by reformulating their products. Based on the government's revenue target for the levy, it accounts to a rate of £0.18 or £0.24 per litre unit charge according to sugar content and the tax is expected to be passed entirely onto the consumer.
A similar approach for the cocoa sector would be if like minded countries put a levy on a luxury product to support small scale farmers in the cocoa sector. Although, in order to make this feasible, a wider approach including different agricutural commodities would be necessary as it would be difficult to promote such an initiative only for one single product, cocoa.

5.4.2. Fee at the stock exchange

Presently, cocoa futures are traded at the Intercontinental Exchange, Inc. (ICE) and the Chicago Mercantile Exchange (CME). These two and other stock exchanges who enter the cocoa market could decide to introduce a fee on all transactions. The fee could be charged on physical and speculative transactions. Due to the high amount of traded cocoa even a very low fee per tonne would add up to a noteworthy amount of collected capital.
The compulsory levy could be collected by the cocoa trading stock exchanges. It would have low transaction costs as there are existing structures to charge a fee on traded cocoa. To introduce such a system the support of the ICE and CME is needed.
Stakeholders from industry advised to exercise caution in this proposition due to the concern that even a very small levy could lead to a reduction in liquidity in the stock exchange as it would increase the transaction costs which would act as a disincentive to participate in the market. As market liquidity is crucial to sustain market activity by these traders who want to hedge against changing prices, even a very small fee could affect the decision whether or not to trade in the market. Additionally, it would entail a change of trading rules which could face strong resistance from the general financial sector who had opposed such a scheme in the past.

5.4.3. ICCO

In the cocoa sector, a levy or fee could be established within the ICCO. Since decades, the ICCO has been an important actor within the cocoa sector. Governments of cocoa producing and consuming countries alike place their trust in the ICCO. Therefore, the ICCO could play an important role in the establishment of a Cocoa Sustainability Fund. Currently, only member fees are levied. Beyond that, there is no existing management structure that could be used for a fund. Due to its close relation to governments, the ICCO has the opportunity to

collect additionally to member fees money in cocoa exporting and cocoa importing countries to establish a fund.

However, there are several challenges associated with an institutionalised approach. On the one hand, if the ICCO wanted to levy a new fee, member states would need to agree. On the other hand, not all cocoa producing and consuming countries are members of the ICCO.

Another challenge of this approach is the fact that ICCO member states would need to pass national laws that allow them to pay money into the fund. This is often a lengthy and complex process, as different ministries in the respective nations need to be convinced. This is especially true for producer countries in which a complex management system for the cocoa sector already exists. Consumer countries could face difficulties with the legal requirements necessary to pay money into a fund that is based abroad.

5.4.4. Export Tax

Governments of cocoa producing countries could decide to impose an export tax which is earmarked to fill the Cocoa Sustainability Fund. Due to the concentration of nearly 90% of the cocoa production in only 5 countries, the support of a small group of governments would have a major impact. However, the implementation of an export tax could face several challenges. It is not clear whether the World Trade Organization (WTO) would allow the introduction of such an export tax as cocoa producing countries have agreed to various obligations when they joined the WTO. They are bound to a certain range of tariffs. Another problem is that some of the countries nowadays do not have an export tax on cocoa at all, while others already raise taxes or control the market. This control is in some cases exerted by a parastatal institution that uses part of its surplus to implement infrastructure projects. In other countries, these kinds of projects are financed by taxes.

Main constraint is that it may lead to a reduction to the price paid to farmers to compensate for the tax, mainly if this is not applied across all producing countries.

The allocation of funds is another challenge. It is doubtful whether local cocoa farmers would accept a system in which funds are transferred to other cocoa producing countries that also need support. The introduction of an export tax would therefore be a complex challenge which could only be successfully mastered if the governments of all major cocoa exporting countries agree on imposing it.

5.4.5. Import Tax

The introduction of an import tax could face similar challenges: The WTO could object and the governments of importing countries have to agree on such a tax. If they agree, they have to impose the tax through a law. It could be a problem if consumers would not understand chocolate becoming more expensive due to a new tax, and if the money generated by this tax were transferred to other countries. Therefore, it is highly unlikely that many governments will support the idea of an import tax.

5.5. How much money can be collected?

The authors of the paper did not calculate exactly how much money could be collected by the different systems as a reliable estimate is not possible as long as there is no agreement on how to collect the money. Even if there is such an agreement the amount of money to be collected would depend to a large extent on the decisions of the stakeholders and the quantum agreed upon. The following are some estimates based on the respective assumptions:

- A levy on non-certified cocoa could be comparable to the premium paid presently for cocoa which is around US$100 per tonne. Currently, approximately 20% of world cocoa harvest is sold as certified. The levy would presently add up to approximately US$320 million and progressively decrease during the subsequent years. Falling or rising premiums could influence the amount of money collected by the fee.
- A levy of US$100 per tonne on all cocoa traded would add up to US$400 million. Of course the levy on cocoa could also be set at $50 or at $200 which both would have strong implications on the total amount of money collected.
- A levy of 1% on the value of all chocolate products sold worldwide would add up to approximately US$1.2 billion. Again, a lower levy set at 0.5% or at 1.5% respectively would have strong implications.

5.6. *Summary of Options*

Option	Mechanism of collection	Where in the value chain	Pro	Con
Extra fee charged on certified cocoa	Scheme linked to the collection of fees on certified cocoa charged by standards setting organisations.	Depends on decision of certification body	Use of already existing structures in the cocoa value chain; Can be started by a limited number of companies	Implementation depends on acceptance of standard setting organisations; System adds an extra burden on already certified cocoa; Risk that the fee puts pressure on farm gate price.
Voluntary fee charged on non-certified cocoa beans used	Large companies voluntarily introduce the fee which is equivalent to the premium of certified cocoa.	Depends on decision of involved companies	Certified and uncertified cocoa would be traded at the same price; Companies can create a level playing field for their suppliers; Can be started by a limited number of companies; As more cocoa are certified and less funding is required, the Fund would progressively get smaller.	Risk that the fee puts pressure on farm gate price.
Fee charged on transactions on the cocoa futures markets	Compulsory fee collected by cocoa futures platforms	Cocoa trade	Easy to set up and low collection and administrative cost	Strong resistance from cocoa industry and financial sector against such schemes. A levy that is too high may affect market liquidity.
Compulsory fee for non-certified cocoa	FCC and other contract terms setting institutions include fee in contractual and operational frameworks and supervises that traders transfer the due amount to the fund structure.	Cocoa trade	Certified and uncertified cocoa would be traded at the same price; Companies can create a level playing field for their suppliers; Can be started by a limited number of companies.	Risk that the fee puts pressure on farm gate price; Risk of non-acceptance by industry.
Compulsory fee for all	FCC and other contract	Cocoa trade	All cocoa is charged;	Risk that the fee puts pressure on

cocoa	terms setting institutions include fee in contractual and operational frameworks and supervises that traders transfer the due amount to the fund structure.		Can be started by a limited number of companies.	farm gate price; Risk of non-acceptance by industry.
Levy on every bar of chocolate sold	Voluntary contribution transferred to the fund structure	Retailer	Fee far from the cocoa farmer reduces risk of pressure on farm-gate price.	High acceptance by industry needed; Complicated and bureaucratic processes necessary.
Export tax imposed by cocoa producing countries	Governmental taxation system	Cocoa trade	Would cover the total cocoa market	Low feasibility: Needs an international agreement for introduction and use of the fund.
Import tax imposed by cocoa consuming countries	Governmental taxation system	Cocoa trade	Would cover the total cocoa market	Low feasibility: Needs an international agreement for introduction and use of the fund.
Institutional-controlled levy on finished cocoa products	Governmental taxation system	Retailer	Group of like-minded governments can start process; Fee far from the cocoa farmer reduces risk of pressure on farm-gate price.	Levy needs to be linked to a tax specifically targeting cocoa products.

6. Ways to Disburse Funds

Cocoa farmers who want to work profitably and sustainably, in line with good agricultural practices, need an environment that supports their efforts. The necessary support ranges from the availability of land combined with land titles, infrastructure such as roads and schools, inputs and the opportunities to save money, and to have access to credit. Additionally, farmers need extension services and transparent markets. A feasible way to distribute money is to invest in precompetitive ways to support farmers. Another way would be the direct support of farmers. The following chapter outlines various examples of how capital collected in a fund could be used in precompetitive ways.

6.1. Who pays for common goods?

There has always been and still is a huge variety in the ways how the cocoa sector is organised. In some countries farmers were supported by governments to introduce cocoa production. This goes back to the colonial era. Nowadays, the cocoa market in some countries works nearly without any state interventions while in other countries state agencies play an important role in the sector.

How important state influence can be, is clear in the situation in the main production areas in West Africa. After their independence, West African governments tried to regulate the cocoa market or to take over regulation measures introduced by colonial governments. They supported cocoa farmers through parastatal organisations or heavily regulated markets.

These systems were able to facilitate farming and played an important role on Africa's way to become the most important cocoa producing region. But these parastatals simultaneously led to bureaucratic and inefficient structures. Therefore, they came under pressure when West African cocoa producing countries ran into financial troubles. Not least due to the pressure of the International Monetary Fund (IMF) and the World Bank, many parastatals and market regulation system were dissolved. Radical reforms started in Nigeria in 1986, followed by Cameroon (1991) and Ivory Coast (1999) and ended with the liquidation of most state institutions which controlled the sector. Meanwhile Ghana reformed its marketing system in a step-by-step approach after 1991 without the disbandment of the central institution, the Cocobod.

As a consequence of the reforms, many farmers have run into serious problems. Most of the functions of state-run or regulated entities were not taken over by private companies. Crucial support for farmers through the provision of services like information on market prices, price stability over a harvesting season, and "*public goods beyond market information, including*

research, extension, infrastructure, and disease control" (Abbot 2013: 259) were no longer available any more.

These developments led, for example in Nigeria, to the decline in the availability of agricultural inputs, a lower quality of cocoa beans, a lack of market coordination and higher fluctuations of prices due to a decrease of forward selling (Cadoni 2013: 9).

"*Moreover, some private markets have not functioned well after reform, and require institutional innovations, notably the credit and input markets. In addition, if commodities are to be traded in private markets, new legal institutions are required that were considered unnecessary when the public sector physically conducted trade*" (Abbot 2013: 276).

Many of the services farmers need are not available anymore because they are not the core responsibility of companies who buy cocoa. At the same time, these companies recognize that a healthy and sustainable cocoa business needs funding for the public goods that farmers so badly need.

Other cocoa producing countries in Middle and South America and Asia never had parastatals that controlled the cocoa market like those in West Africa. A number of studies show that the farmers in these countries are confronted with similar problems to those in West Africa: a lack of support to set up a sustainable business.

The fund could fill such gaps in the market through the collection of sufficient capital to finance public goods, to support a conducive business environment, and to provide the necessary infrastructure farmers need.

6.2. Investments for a Sector Approach

Experiences with funds in crop sectors other than the cocoa sector show that there are different challenges in value chains and therefore diverse ways to spend the money collected through a fund. The existing systems address different target groups. While German meat producers receive direct payments from the fund of Initiative Tierwohl, the RSPO disburses money to farmer organizations to support certification processes. The fund within CmiA finances projects of cotton companies who do business with cotton farmers. Taking these on-the-ground examples into account, a variety of intervention paths is possible for a Cocoa Sustainability Fund.

In order to realize a buy-in of the different stakeholders into a Cocoa Sustainability Fund, a stepwise approach is necessary as follows:

i) Decide on a common definition of the existing problems in the cocoa sector and of the stakeholders to be involved. The definition of problems – and possible solutions to them – is the entry point for discussions on how to spend the money collected by a fund.

ii) Determine who are the beneficiaries of measures financed by a fund: it makes a great difference which of the problems will be tackled, such as low productivity, missing extension services, access to land, or the involvement of young people in the cocoa business. This debate could build on the on-going discussions about the cocoa sector within the ICCO, CocoaAction, WCF, WCC and CEN/ISO. Ideally, money collected in a fund is used to set up the necessary means to achieve innovative market changes. Existing projects that are already successful tools to improve the situation of cocoa farmers and achieve a sustainable cocoa business could be used as a role model for the road ahead. Many of these projects include an already existing infrastructure and governance structures which can be up-scaled into the sector approach open for all stakeholders. The financial means of the Cocoa Sustainability Fund could help the cocoa business to step up from a project approach to a sector approach.

iii) Set up mechanism to monitor the benefits of this approach. Key performance indicators (KPIs) should be defined which include benchmarks to measure impacts. Combined with baseline assessments, regular impact assessments could show whether the financed measures lead to the expected outcomes.

The concentration on scaling up already existing projects would reduce risks for the Cocoa Sustainability Fund.

iv) Use already existing infrastructure, which will lead to lower costs than the invention of new approaches.

6.2.1. Train the Trainers

All stakeholders in the cocoa sector agree that there is a lack of experienced trainers for cocoa farmers in many producing regions. Even in countries where the government regulates agriculture in general or the cocoa sector in particular the availability of trainers is often a problem. All cocoa producing countries already invest in the education of the trainers, but more efforts are necessary. Additionally, the trainers need permanent education to learn about the improvements in agricultural science. There are existing networks in many cocoa producing countries which are either owned or controlled by the state. Additionally, many countries have special regulations on how to train trainers.

Another approach to improve the training situation was tested by multi-stakeholder groups. The Certification Capacity Enhancement (CCE) was for example created for three West African countries (Ivory Coast, Ghana, and Nigeria), and proves that it is possible to invent training methods that are agreed on by governments, extension service providers and industry. In some countries public-private partnerships exist to modernize training facilities. The projects of Technoserve in Peru are another example for successful interventions

facilitated by the trainer models. Other examples are the centre to train trainers in Gagnoa/Ivory Coast or the projects of SwissContact in Indonesia. Existing projects like these have to be reviewed and copied to achieve networks of training facilities for trainers in all cocoa producing regions in a step by step approach:

- Producing countries should be supported in analysing the demand for trainers in cocoa producing regions. This analysis should lead to calculations on how many facilities are needed to train trainers.
- Based on this analysis it can be calculated how many training institutions are needed.
- The experiences with recently rebuilt or newly established schools can be used for a calculation of the potential cost of a network of training facilities.
- The Cocoa Sustainability Fund co-finances the establishment of these schools which afterwards are run by the responsible state agencies of the cocoa producing countries.
- The permanent financing of these schools will be secured by a fee for all the participants of the training, which is paid by cooperatives, state agencies or companies.

6.2.2. Train Farmers

Many of the cocoa farmers need more training on how to use better agricultural practices for their cocoa production, but also for their other crops. Most of the farmers cannot afford to pay for training courses. Governments of some cocoa producing countries have set up training facilities for cocoa farmers, or control existing institutions. In addition, there is a large variety of farmers' projects run by companies, NGOs and donor institutions, or as multi-stakeholder projects.

Therefore, nowadays there is a huge variety of ways to finance the participation in Farmer Field Schools or other training measures. This variety makes it very difficult to guarantee a good quality of the training. Additionally, training measures are often not available for farmers. In a first step to improve the situation, more trainers are needed (see previous chapter), and all providers of training should agree on a basic standard of best practices for trainings. In order to have a broad access to training, a Cocoa Sustainability Fund could support the implementation of structures, which facilitate the accessibility of training measures for all farmers:

- Producing countries should analyse how many training facilities for farmers already exist. Based on this data, analysis of the expected demand from those not yet

covered can be estimated. This serves as a baseline for the calculation of the necessary measures.

- The Cocoa Sustainability Fund finances the rollout of accessible training, which is organized by state agencies, cooperatives or professional extension services.
- In the long term, the financing of these trainings will be secured by a fee for all the participants of the training which is paid by cooperatives or farmers.

6.2.3. Support of Farmer Organizations

The International Finance Corporation (IFC) commissioned an analysis on the situation in the production areas of the few crops including cocoa, coffee and cotton. The results of this research show the high importance of farmer organizations for improving sustainability in the different sectors. Small-scale farmers are highly dependent on the capacity of their organizations. In regions where these do not exist, farmers face high hurdles if they want to improve their situation. According to the analysis, in 2012, cocoa farmers in Ivory Coast were in a poverty trap. Most of them were either not organized, or, if they did belong to farmer organizations, the organizations were not well run. These farmers did not have the necessary capital to invest in their farms, nor have access to extension services, or expected any support from most of the few existing organizations. In other commodities, such as in the tea sector of Kenya, well-managed farmer organizations succeeded in supporting farmers to work more efficiently and more sustainably. This led to increased incomes for farmers (IFC 2013: 8-10).

In the cocoa sector, many farmers are still not member of any organization. Even those who have access to organizations are often not satisfied with the services offered: the existing organizations often want to invest in facilities to support the farmers but have no access to the necessary funds.

The Cocoa Sustainability Fund could support the farmer organizations that come up with a plausible business plan demonstrating the ability to spend the money in a way that supports their members:

- Farmer organizations that want to invest into their infrastructure to support their members could get support from the fund.
- This financing can either be based on a one-time financial support, through a credit, or a mixed system of both.

Another problem for existing organizations is the management of their daily business. This is especially so, if the organizations grow to thousands of members and start to offer more and more services. In these cases, well-trained staff is needed. Some institutions and companies

already tackle this problem, such as for example Cargill in Ivory Coast, but there is no systematic approach. The Cocoa Sustainability Fund could finance training for people in leading positions of farmer organizations to tackle the challenges:

- Producing countries can be supported in analysing the demand for training facilities for the staff of farmer organizations. Based on this analysis, it can be determined if special training facilities for the staff members are needed.
- If necessary, the fund can support training courses for the staff in close cooperation with the governments and existing institutions, such as rural education systems and universities.

6.2.4. Networks to Support Farmers' Access to Inputs and Training

Many different stakeholders are involved in the training of trainers and farmers. Furthermore, there are many institutions that provide additional services for farmers such as good planting material and other inputs. Some of these are state-run; others are private enterprises, non-governmental organizations or form part of development aid. The access to services and inputs could be much easier for farmers if it would all come from one service provider. Only very few pilot projects support cocoa farms by setting up institutions that serve as central service points: to buy cocoa, sell inputs, and provide extension services. The Cocoa Rehabilitation and Intensification Programme (CORIB), organized in Ghana by Solidaridad and a group of stakeholders, is an example of a pilot project using such an approach. The project is still in an early stage. If implemented successfully, it could become a model which can be scaled-up.

The service points could be built on, or around, existing projects. The Cocoa Sustainability Fund could support these processes and coordinate existing efforts:

- In a first step, an analysis would be needed where existing projects could serve as a role model. Part of this should be a calculation of the costs to set up service points.
- The Cocoa Sustainability Fund could finance the establishment of central service points run by private enterprises, extension services or cooperatives.
- This financing can either be based on a one-time financial support or in the form of a credit facility or a mixed system of both.

6.2.5. Rollout of Community Approaches

Reports about child labour and bad living conditions in the cocoa producing areas have led to many activities in response. A huge variety of stakeholders try to improve the situation of the

families in the cocoa growing communities, and have started projects with different target groups. Some of the projects focus on the situation of children or women. Additionally, there are projects to improve living conditions through the implementation of educational programmes on nutrition, support for or improved access to schools, and improvement of the healthcare system.

More and more stakeholders are trying to integrate the different goals into holistic interventions. Companies have designed development plans in close cooperation with state agencies and non-governmental organizations, and have initiated programmes such as Cocoa Life, Cocoa Plan and Cocoa Horizon. CocoaAction also aims to include a holistic approach to develop communities into its projects.

A central agency for the execution of many of these programs is the International Cocoa Initiative (ICI). For more than a decade, the ICI has set up pilot projects and is now rolling out its approach, in cooperation with its corporate and civil society members and in close partnership with governments of cocoa producing countries, to improve the situation of the farmer families in the cocoa producing regions. Simultaneously, the ICI tries to define and promote good practices which can be scaled up in the cocoa supply chain.

But there are also other international organizations such as Care International, Oxfam, and many local organizations with vast experience derived from their project work in cocoa communities.

To improve livelihoods in cocoa communities, the Cocoa Sustainability Fund could invest in the expanded rollout of existing projects, either directly or by making catalytic investments that benefit all actors:

- As a first step, an analysis would be needed to define which interventions are necessary, how many people are needed to execute the planned projects and the type of training that the staff and voluntary supporters need. The Cocoa Sustainability Fund could, for instance, finance a network of training facilities, to train trainers for the onward promotion of good practices in sector-wide community development efforts.
- A second step could be to finance the rollout of the community projects in all cocoa producing regions.
- The efforts should build on and foster close cooperation with existing projects and organizations.

6.2.6. Adapt to Effects of Climate Change

Many cocoa farmers will have to cope with the effects of climate change, a problem which is little or hardly known or understood by farmers and extension workers. The fund may support

farmers to become more aware and to undertake the necessary measures to enable cocoa farms to be more resilient to climate change:

- Institutions which conduct research in this area and help to build the awareness and knowledge at the national and local levels in cocoa producing countries could be supported.
- Training curricula in agricultural practices to support farmers to respond adequately to climate change have to be developed and integrated into training systems and extension services.
- To proceed with cocoa production farmers need planting material that is more resilient against changing weather patterns. As these cocoa varieties are not yet available, major investments in research could play a crucial role in securing cocoa production.
- The collection and conservation of existing genetic materials of different cocoa varieties could be a cornerstone to improve further research on high-yielding, more disease and pest-resistant and climate-resilient cocoa varieties.

6.2.7. Security of land tenure

Many farmers do not invest due to a lack of formalized land rights for the cocoa farms where they work. As long as they do not have the security of tenancy of the land in the form of legal ownership in 5 or 10 years' time, they would be very reluctant to spend money or invest in order to improve the sustainability of the farm. Another problem is that they often have no access to credit systems as they do not possess a land title as bank collateral. The Cocoa Sustainability Fund could support governments and farmers to address this situation:

- Where necessary, and if the legal provisions could be instituted and implemented, the Cocoa Sustainability Fund could support farmers to get their land registered under the law. To a large extent, this would depend on laws governing land administration and management of individual producing countries. Hence the commitment of governments of these countries has to be secured first to ensure these laws are in place and are implemented accordingly.

6.2.8. Support Access to Credit and Savings Institutions

In many cocoa producing regions, farmers do not have access to formal banking systems. This is not only problematic if they need access to credits, but also if they want to save

money. The Cocoa Sustainability Fund could support to roll out banking systems into the cocoa regions of the producing countries:

- If there are banking systems in the cocoa producing regions, these institutions could be supported to include more cocoa farmers into their business. This could be done by providing subsidies for farmers who want to open bank accounts, but also by credits or guarantees to the institutions to encourage them to expand their businesses at preferential rates. This would supplement the earlier recommendation to ensure that farms have legal land titles which would ease the farmers' burden to provide sufficient collateral for bank credit facilities.

6.2.9. Collection of data on cocoa resources

All parties in the cocoa sector agree that many interventions are not very successful due to the lack of information about the situation of farmers. Without accurate data, any planned intervention would not be targeting the real issues faced by the farmers as the assessment is not based on critical analyses of the actual situation. Such interventions would not result in the desired impact, thus rendering them ineffective and waste of scarce resources. The relevant data required does not only include farm size and productivity, but also livelihood of farmers, price levels in producing regions, as well as access to / costs of extension services, inputs and banking system. Another blind spot in many cocoa regions is the impact of on-going projects of governments, companies and non-governmental organizations. Therefore, the Cocoa Sustainability Fund could serve as a platform to collect and distribute the necessary information/data about the cocoa sector. The fund could serve as a central focal point to exchange information on experiences and lessons learned of sustainability projects run by the different stakeholders. It is therefore essential that the following actions be undertaken as a matter of urgency:

- In all cocoa producing regions, data is to be collected in a standardized and comparable system. This data could serve as a baseline to record the actual situation of farmers.
- The data collections should be repeated on a regular basis, e.g. every two years.
- The collected data is publicly available, and to be shared by all stakeholders of the cocoa sector including the farmers. For this to work, a central focal point/depository is necessary to ensure ownership, responsibility and regular updating.

6.3. Direct Support of Farmers

Small-scale farmers live in diversified environments. But there are some characteristics they often have in common. Based on the assumption that rational human beings usually try at least to maintain and, if possible, try to improve their welfare by expanding their activities, farmers can be divided into "*three broad types of livelihood strategy, with three types of asset or activity contribution to livelihood strategies:*

*1. '**Hanging In'** where assets are held and activities are engaged in to maintain livelihood levels, often in the face of adverse socio-economic circumstances.*

*2. '**Stepping Up'** where current activities are engaged in, with investments in assets to expand these activities, in order to increase production and income to improve livelihoods (an example might be accumulation of productive dairy livestock).*

*3. '**Stepping Out'** where existing activities are engaged in to accumulate assets which in time can then provide a base or 'launch pad' for moving into different activities that have initial investment requirements leading to higher and/or more stable returns – for example accumulation of livestock as savings which can then be sold to finance children's education (investing in the next generation), the purchase of vehicles or buildings (for transport or retail activities), migration, or social or political contacts and advancement*" (Dorward et al. 2009: 4-5).

In particular, people living under the poorest circumstances face huge difficulties to leave the "Hanging In" level. In the cocoa sector, many farmers who survive with a low productivity and in an environment with bad surrounding conditions need the tailored support to improve their situation. Many of them have no financial resources to invest. But even if they have limited resources, many of them are reluctant to invest in cocoa. The high volatility of cocoa prices and the long production periods of their tree crop make it very difficult for them to calculate if their investment will indeed pay off and improve the living conditions.

6.3.1. Subsidies for Investments

Farmers should combine rejuvenation of their plantations with investments in diversified sources of income. However, many farmers lack the necessary financial means to invest in their farms. The Cocoa Sustainability Fund could directly support farmers who want to improve the sustainability of their business through the following means:

- Farmers who invest in the rejuvenation and diversification of their farms could get a fixed sum per hectare for their investments.
- This money can be given as a grant or where applicable as a credit, which would have to be paid back, when the new trees come into production.

- To be able to access the support, farmers would have to prove that they have invested the money into their farms.

Farmers who visit Farmer Field Schools or other training facilities often face the problem that they know what to change in their daily business, but they do not have the necessary investment capital available. In many cocoa-producing areas, they have no access to credits. The difficult period between investments and higher income could be subsidized:

- Farmers investing in the rejuvenation of their plantations could get a fixed interest free credit sum per hectare replanted with young cocoa trees.
- Farmers wanting to invest in the use of more or better inputs could get access to a fixed credit per hectare.
- The credit would have to be paid back when the new trees come into production.
- To get access to the credit farmers would have to prove that they have invested in their farms.

6.3.2. Support to Meet the Requirements for Certification

Farmers who want to become certified often have to struggle to pay the related costs. Often, they need to change the system of managing the cocoa farms and invest more time and money compared to a conventional farm. Due to the necessary changes, they are likely to have a reduced income in the first years of certification (KPMG 2012: 57). In order to overcome this critical period, farmers could be supported directly through the following means:

- Farmers who want to become certified would get a fixed sum per hectare for the investments needed to become certified.
- To get access to the support farmers would have to prove that they have become certified and meet the criteria of the standard setting bodies.

6.3.3. Establishment / Support of Pension Funds

Farmers who live on very small holdings or on degraded soils often have no means to achieve a living income by continuing to work on their cocoa farm. Many of these farmers are too old to start a new business. Without a pensions fund or other savings they are not able to stop farming and keep on working in deep poverty. Simultaneously innovative (young) farmers are looking for land to increase the acreage of their farms. The Cocoa Sustainability Fund could support old farmers to step out of business and open thereby space for innovations:

- Farmers above a certain age who have to live on small plots of land could get access to pension funds which would be set up in a common approach of the Cocoa Sustainability Fund and the governments of the cocoa producing countries.

6.4. How much money is needed for the projects?

The authors could not calculate the amount of money needed for the different proposed measures to support a sustainable cocoa sector. In many areas that require interventions, no figures about the costs of currently ongoing projects are available. Additionally, some of the measures should be planned and financed together with local governments of different producing countries and regions.

Some rough and ball-park calculations indicate that there are many options to support farmers which still need major investments:

- Setting up a school to train trainers including demonstration plots, boarding houses and modern equipment will cost approximately US$2.5 million for each facility.
- According to industry sources, the training of the farmer in a Farmer Field School costs approximately US$100. To train 5 million farmers would therefore cost around US$500 million which could be split over the next 5 to10 years.
- A rollout of community projects could cost approximately US$100 per family per year.
- No data are available about the costs to set up a net of facilitation centres where farmers can buy inputs, sell cocoa and receive trainings.
- Financing research for improved planting materials which high-yielding and/or more disease and pest-resistant and/or climate-resilient cocoa varieties would be much cheaper. But when the research yields positive results, the cost of setting up nurseries and raising hundreds of millions of young trees could exceed training costs.

7. Governance structure

The fund's governance structure may vary according to several aspects: fund raising, objective, and target. There are different options, among others:

- a revolving fund, establishing a system for small credits
- a fund based on licence fees or other fees collected along the value chain and/or
- a (charity) foundation.

They are all subject to different legal requirements and depend on the jurisdiction of the country in which the fund or its headquarters are registered.

Already existing foundations in the cocoa sector, namely the World Cocoa Foundation and the International Cocoa Initiative, prove different governance structures for funds are possible. CmiA, the Climate & Coffee Initiative, the RSPO fund and the German Initiative Tierwohl show various governance systems. Their distinctions in governance have evolved over time and can only partly be applied to the cocoa sector.

The challenge of an envisaged Cocoa Sustainability Fund will be to satisfy the diverse interests of stakeholders:

- Those of companies and/or governments who are expected to raise financial means for the fund;
- Those of governments of cocoa producing countries in which projects will be financed by the fund and whose cocoa policies will likely be affected;
- Those of organisations and companies responsible for the implementation of the projects; and
- Those of cocoa producers and producer organisations who will benefit from the fund.

Furthermore, civil society organisations might serve as resource persons and/or watchdogs of the process.

While the fund's governance structure has to be inclusive in order to satisfy the interests of all stakeholders, it needs to be lean and effective, too.

In order to satisfy the different interests, the governance structure needs to fulfil the following requirements:

1. It must guarantee the transparent and impact-oriented use of the fund capital.
2. It needs to address the interests of the financial contributors (whether company or public entity) of the fund in an effective and efficient way.

3. It must constantly reflect on the best way to improve the income situation of small-scale cocoa producers.
4. It must ensure that beneficiaries are not only heard but that they are well-represented.
5. Entities financially supporting the fund need to be represented in the decision-making bodies.

In order to fulfil these tasks, the governance system must comprise several bodies. It needs a strong body for management and administration as well as for a steering committee that involves different interest groups. The legal structure for management and administration could be that of an association or foundation founded specifically for this task. Otherwise, this body might work under the umbrella of an existing organisation (as the coffee & climate Initiative and CmiA do).

Management body

The governance structure needs to be built on an operational unit that executes the administration of the funds according to international rules and the national laws (depending on where the headquarters of the fund are located). The management body is responsible for the fund's compliance with financial and accounting standards.

Steering Committee

The steering committee should be based on a multi-stakeholder approach. It could be the body responsible for defining the policy and strategy of the fund and for the criteria for its disbursement. Supporting companies, public entities, the target group of small-scale cocoa producers and civil society should be represented. This board should have an internal governance structure that guarantees a strong voice for all interest groups.

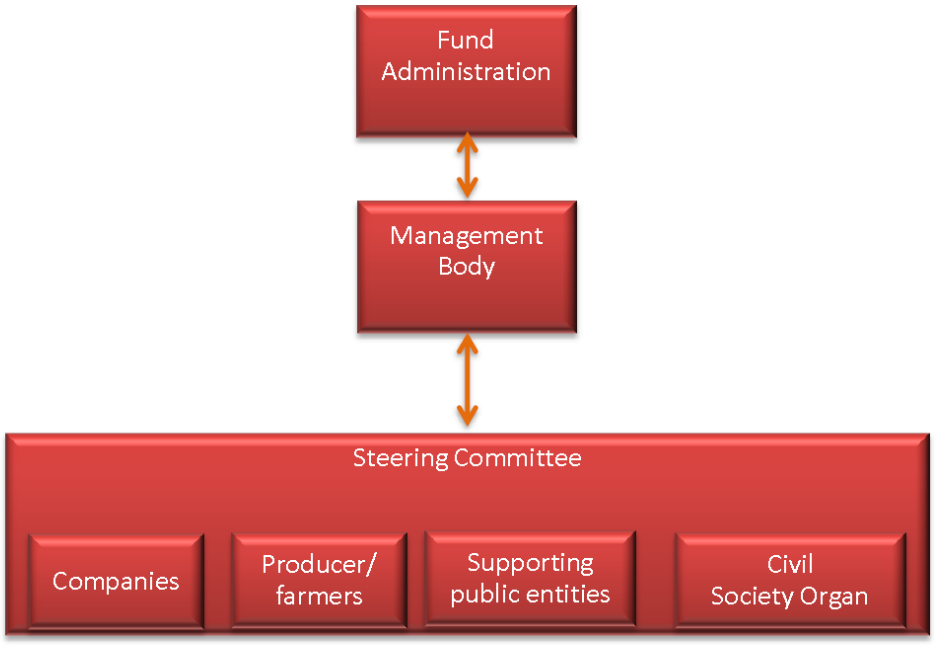

Fig. 3: Possible structure of a fund (authors' own design).

Advisory Board

Furthermore, an advisory board could be established. The advisory board offers the opportunity to involve stakeholders who are not directly linked to the management but might provide knowledge on, and experience with, development cooperation. The advisory board could include representatives from science, agricultural schools, and others.

Especially if the fund is linked to the implementation of standards, a broader multi-stakeholder board might be useful. This would include a multi-stakeholder board guaranteeing that the supporting companies, public entities, the target group of small-scale cocoa producers, and civil society are equally represented. The board should have an internal governance structure that guarantees that all interest groups have a strong voice. It could for example have a double mechanism to balance power:

- Every major interest group (governments of producing and governments of consuming countries, companies, farmer organisations, civil society) has a fixed number of seats on the board.

The voting structure within the board could also help to balance interests. Instead of majority decisions the system of checks and balances could be implemented:

- In a voting on disputed subjects, a check and balance procedure could be implemented. For example, the regulation could fix a minimum requirement of two thirds of the votes and combine this with the rule that from every stakeholder group at least one person has to agree with the majority vote.

8. The Road Ahead

8.1. Comments from Stakeholders

The summary of the study was presented to different stakeholders during a workshop and a panel at the World Cocoa Conference in Punta Cana, Dominican Republic in May 2016. Additionally, the paper was presented at the ICCO Consultative Board meeting on 26 May 2016. Further comments were received by personal communication of the authors with different stakeholders.

Some specific points of the stakeholders were included in the paper. Additionally, there were some more general remarks:

- According to stakeholders from the industry, it is not yet clear if a levy is a good instrument to support sustainability in the sector. But if it will to be introduced, it has to be a compulsory system to create a level playing field for all stakeholders in the cocoa value chain.
- Many stakeholders from the industry are not convinced that the existing certification system is the solution that will lead to a sustainable cocoa sector. Therefore, a levy should be applied on all cocoa sold, not only on non-certified cocoa.
- A potential new system should not overlap with existing efforts.
- The administration of the fund has to be simple to implement and its costs should be as low as possible.
- The board needs to set up very transparent decision-making processes on how to spend funds.

8.2. Next steps

The authors recommended to set up a roadmap on how to proceed with milestones to chart the process which will eventually lead to agreement in principle (in particular by the potential funders), the setting up of a Cocoa Sustainability Fund, if so decided. The authors proposed the following steps:

- Implementation of working groups based on answers to three key questions:
    - How much money is needed and how can the cocoa sector raise capital?
    - How should this money be spent?
    - How should the fund be governed?

- After one year the Consultative Board will receive the recommendations of the working groups and decide whether the process is feasible, leading to consensus by key stakeholders to continue with the establishment of the fund.
- If there is agreement in principle to proceed, the recommendations will be discussed with all stakeholders and lawyers to set up a structure for a Cocoa Sustainability Fund.
- This structure will be presented at the WCC 2018 to be agreed, adopted and signed by all stakeholders who are prepared to support the Cocoa Sustainability Fund.

A group of stakeholders discussed the content of the summary in a workshop at the World Cocoa Conference in Punta Cana. It was further debated at the Consultative Board where it was decided that a working group would be set up to review the study and to provide recommendations on the way forward in the next meeting of the Consultative Board in September 2016.

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