



cutting through complexity

IDH - THE SUSTAINABLE TRADE INITIATIVE,
SOLIDARIDAD AND UTZ CERTIFIED

Moving the bars

Sustainability brought to the
forefront in the cocoa chain

KPMG Evaluation of the 2008-2012
Cocoa Improvement Program

KPMG Advisory N.V.



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Preface

The cocoa sector has been the subject of a great deal of attention in recent decades, with the welfare and livelihoods of producers at the bottom of the cocoa value chain the subject of debate in political institutions across Europe, the Americas, Asia and Africa.

Behind the scenes, a number of organizations were working on improving the situation for these producers but despite public attention, the barriers that lock cocoa producers in a poverty trap remained in place. This report, "Moving the Bars," reflects on how one program aimed to move the bars apart. The Cocoa Improvement Program (CIP) operated for four years from 2008-2012, with the aim of improving the sustainability of the global cocoa industry.

Over the last five years, the cocoa industry has been completely transformed by a wave of corporate commitments to sustainability and supply chain investment. CIP was part of that bigger picture.

The objective of this study is to evaluate whether the program's objectives have been met, to create insight in the lessons learned from the program and to formulate recommendations for succeeding programs and for similar programs in other production chains.

Given the limited data available on the impact of cocoa sustainability programs worldwide, the added value of this study lays in the combination of data and perspectives from CIP progress reports, a survey and interviews amongst supply chain actors, data provided by companies that source a great share of cocoa, additional (scientific) reports and thorough team analyses by KPMG.

We would like to thank those who contributed to this report.

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IDH - The Sustainable Trade Initiative

IDH accelerates and up-scales sustainable trade by building impact oriented coalitions of front running multinationals, civil society organizations, governments and other stakeholders. Through convening public and private interests, strengths and knowledge, IDH programs help create shared value for all partners. This will help make sustainability the new norm and will deliver impact on the Millennium Development Goals 1 (poverty reduction), 7 (safeguarding the environment) and 8 (fair and transparent trade).

Solidaridad

Solidaridad is an international organization dedicated to responsible food production to feed the growing world population and to provide the world with an alternative to fossil fuels. That is why Solidaridad is investing in enterprising farmers in developing countries and putting emphasis on the improvement of their land use, so that production can increase while at the same time harm to people and the environment is decreased. In this we work together with a multitude of private partners and governments.

Solidaridad focuses on the production chains that matter worldwide and where changes have great impact: coffee, tea, cacao, fruit, textiles, cotton, soy, palm oil, sugar cane, gold and cattle breeding. We help companies to implement Corporate Social Responsibility and find sustainable suppliers. Our worldwide network of expertise centres closely collaborate with local partners in production and the marketplace. To meet the growing global demand for cocoa and the need to produce sustainably, Solidaridad has been working towards mainstreaming sustainable cocoa since 2007.

We believe in a market transformation approach – simultaneously influencing farmers, markets and consumers – where one cannot make progress without the other.

UTZ Certified

UTZ Certified is a program and label for sustainable farming of coffee, cocoa and tea. Sustainable farming contributes to safeguarding the earth's natural resources, now and in the future. The mission of UTZ Certified is to create a world where sustainable farming is the norm; where farmers implement good agricultural practices and manage their farms profitably with respect for people and planet, industry invests in and rewards sustainable production and consumers can enjoy and trust the products they buy. UTZ Certified works with a strict Code of Conduct for growing coffee, cocoa and tea, verified by independent third parties. Coffee beans, cocoa beans and tea leaves travel a long way from farmer to consumer. We follow the process from the farmer that produces the raw materials up to the shop floor. This enables users to verify the sustainable origin of their products throughout the long and often complicated global supply chains. This assures both companies and consumers that their certified coffee, cocoa or tea really does relate to sustainable practices.



Executive Summary

Establishing sustainability in the cocoa industry

IDH, Solidaridad and UTZ Certified have been working since 2008 with the cocoa and chocolate industry to scale up the production of sustainable cocoa through the Cocoa Improvement Program (CIP), which brings together key players throughout the value chain, including farmers, traders, processors, chocolate brands, supermarkets, NGOs and governments.

Their joint efforts have brought sustainability more to the forefront in the cocoa supply chain by making farmers more professional and creating the right conditions to certify and sell sustainable cocoa. From 2008 to 2012, 151,000 farmers were certified for sustainable cocoa farming with care for people and the environment, contributing to better living conditions for them and their families. Some 414,000 tons of sustainable cocoa was produced during the program, which ran from 2008 to 2012 and UTZ-certified cocoa is now sold in 86 countries around the world.

This report evaluates the effectiveness of the CIP through the analyses of a combination of data and perspectives from CIP progress reports, a survey and interviews amongst supply chain actors, data provided by companies that source a great share of cocoa, and additional (scientific) reports. The focus is on Ivory Coast and Ghana.

The production and export of cocoa are driving forces for the economies of Ivory Coast and Ghana, both countries together produce over half of the world's cocoa. If problems such as declining productivity, poor working conditions and environmental degradation are not addressed, the cultivation of cocoa, the livelihoods of cocoa farmers, the forests and the economies of these countries are at

great risk. Against this background a group of key stakeholders came together in 2007 to tackle these sustainability challenges, to find a business solution to the complex problems the cocoa sector is facing and to create a more sustainable cocoa industry. In 2008 the Cocoa Improvement Program (CIP) – convened by IDH – The Sustainable Trade Initiative (hereafter: IDH), managed by Solidaridad

and implemented by Solidaridad and UTZ Certified – began.

Innovative front-runners fighting acute sustainability challenges

Over the last five years, the cocoa industry has been completely transformed by a wave of corporate commitments to sustainability and supply chain investment. CIP was part of that bigger picture. Given the limited availability of quantitative impact data on CIP and other cocoa sustainability initiatives to date, this study encompasses mainly qualitative analyses and quotes from organizations that were involved in the implementation of the program to highlight the progress on the pre-defined most significant changes.

By the time the program ended in mid-2012 the key successes – as identified by this study – include:

CIP triggered private sector investments

The supply chain has been transformed at unprecedented speed and scale because of the purchasing power of the companies involved (together accounting for over 40 percent of world trade in cocoa according to the partners in CIP), the financial and human commitment of all parties concerned and the pooling of knowledge and influence in CIP. Cumulative funding of CIP amounted to over € 12 million by 2012.

The proportion of the program funded by the private sector has increased from 20 percent at the start of CIP in 2008 to 58 percent at the end of the program. In the last year private investments exceeded investments from the public sector. Increasing private funding is important to ensure CIP's impact is long-lasting (the so-called 'multiplier effect').

The UTZ Certified Code of Conduct and chain of custody to boost sustainable cocoa production

A new code of conduct and a chain of custody were created to set a standard for sustainable cocoa production at farm level, fulfilling the need for a more flexible, focused and pragmatic standard enabling

the uptake of larger volumes. These requirements were not fulfilled by existing schemes and creation of the code is one of the key successes of the program. The number of producer groups participating in the Cocoa Improvement Program increased to 58 in 2011.

Improving the enabling environment

A series of other activities were also carried out by Solidaridad and her partners to make sustainable cocoa more mainstream. For instance, the amount of time it takes to gain certification has been cut by training certification bodies, audit producers and supply chain actors on their application of the UTZ Certified Code of Conduct. In 2011, the code and corresponding

manuals were available in eight languages to encourage sustainable production and the uptake of UTZ-certified. The number of certification bodies increased from a handful in 2010 to 43 in 2011 and 54 in 2012 and products with the UTZ Certified label are now sold in 86 countries. A survey carried out in 2012 found the overwhelming majority of respondents agreed or strongly agreed that sustainability in cocoa production has effectively become a license to operate.

Professionalization of producers

KPMG's survey and in-depth interviews show that CIP has helped to make producers more professional. Research from LEI Wageningen UR (2012) shows that being a male, being a lead farmer, knowledge score, length of participation in a CIP project and participation in training are associated with the implementation of sustainable farming practices. The longer the producers were involved in CIP projects the better they applied sustainable farming practices.

Value creation

The number of certified producers was 151,000 by the end of 2012 and the volume produced was estimated to be 414,000 tons. If it is assumed that the average premium reported by supply chain actors is representative for all UTZ-certified cocoa and if this is applied to the average price reported to be paid by those traders, then in Ivory Coast a total of \$ 19 million in premium was paid from 2009-2012¹.





Follow-up

To build on the success of CIP, IDH, Solidaridad and UTZ Certified further strengthened and expanded their programs. A special initiative was developed by IDH: the Cocoa Productivity and Quality Program (CPQP). CPQP incorporates new targets to ensure it meets its aims of widespread improved productivity, quality and farmer professionalization. Thanks to CIP and others, the business case for certification has been proven so there is no further need for public co-funding according to IDH. Therefore CPQP, which has been started by IDH in 2012, only invests in “beyond certification” initiatives with match funding. The focus is on productivity, access to finance and embedding sustainability initiatives in existing government structures.

Challenges ahead

Although the number of producers and total UTZ-certified volume by 2012 exceeded the original objectives of CIP by approximately 150 percent and 220 percent respectively, challenges remain for CPQP, UTZ Certified and other rapidly developing multi-stakeholder sustainability initiatives in the sector. In addition to far better monitoring of the intended farmer benefits and other key targets, ongoing and future cocoa sustainability initiatives should especially focus on:

- Understand leakage:** obtain better insight into the differences between certified volume produced and volume confirmed by buyers ('leakage') and establish the root causes.
- Develop pathways to increase uptake:** further market development, strategies to reduce the current disadvantages of multi-certification (producers belonging to more than one certification scheme), and continued training to improve cocoa quality may help to avoid and mitigate the risks of lost income for producers due to missed premium or the cost of multi-certification.
- Protect certification assets:** increase the robustness of systems and controls to more firmly mitigate risks of fraud that could undermine the reliability and impact of the program.
- Focus on 'additionality':** stress the business case for commercial companies under specific conditions, create the right conditions to make remote farmers more 'certifiable' over time by investing in group forming, training young (potential) farmers and improve rural infrastructure (e.g. access to finance, roads, training centers).
- Support income diversification:** to protect farmers against extreme price fluctuations, developments like growing multiple crops or – in certain cases – building processing facilities can create more stable incomes.

In order to make the next “leap-frog” to create value for farmers, meet companies' sustainability targets and secure long-term supplies of sustainable cocoa for all players in the value chain, it is essential to build on the successes of CIP. To improve uptake, new and existing programs need to continue market development activities and to make a long-lasting impact on producer livelihood and look beyond certification. Ultimately, the diversity of efforts should be aligned in a roadmap of industries and governments.



1 Introduction

1.1 The cocoa industry under pressure

Cocoa, the primary ingredient in chocolate and related food products is an important globally-traded agricultural commodity worth nearly US\$ 10 billion. By the mid 2000s, the supply chain was starting to feel the effects of years of economic stress in the world's two largest cocoa producers, Ghana and Ivory Coast, which account for over 56 percent² of world production. Ivory Coast cocoa production came to a halt during a coup in 1999, which was followed by a decade of instability and internal warfare. Both Ghana and Ivory Coast faced chronic under-investment and poor farm management which eroded profits in an industry that has heavily invested in long term production in Africa. A period of price instability led to an 86 percent price rise in real terms between 2000 and 2009 with cocoa tonnage costs spiking at US\$ 3,500 in 2009. While prices have since declined, averaging around US\$ 2,400³ per ton in 2012, the industry has seen its share of uncertainty.

1.2 Searching for a solution: the certification debate

During the last decade, processors of cocoa and manufacturers of cocoa products became seriously concerned about falling quality and yields in the world's two biggest cocoa producing economies, Ghana and Ivory Coast.

At the same time, there was growing concern about child labor in the cocoa supply chain following a wave of press

and TV coverage beginning in the late 1990s. It was estimated that in 2002 up to 284,000 children were working under hazardous conditions in cocoa production in West Africa⁴. In 2001, the industry signed the Harkin-Engel protocol, which outlined a timeline to develop a voluntary certification standard banning child labor, slavery and trafficking.

Despite an industry-wide pledge to implement a certification standard, in 2008, according to the Food and Agriculture Organization (FAO)⁵, less than 1 percent of cocoa produced worldwide was certified sustainable product. Non-governmental organizations (NGO) tried to convince the industry that "ethical" consumers should not be treated as a niche market segment. Although some companies were sympathetic to this argument, there were bottlenecks that prevented an increase in certification.

However, recent successes in the coffee industry showed that private enterprise and NGOs were able to collaborate constructively. By building on NGO networks, cocoa processors could invest in security of supply and get to grips with working conditions in cocoa production. As the industry realized that the interests of NGOs and private enterprises could be aligned, a public-private coalition was formed.

1.3 Start of the Cocoa Improvement Program (CIP)

In the Spring of 2007, several cocoa stakeholders and NGOs including



Solidaridad and UTZ Certified joined forces with cocoa traders and food producers to discuss a business solution to a complex problem.

Since 2000, much work had been done to combat child labor and now the industry was working to tackle other sustainability challenges. The industry was suffering from poor yields and declining quality as planted stock aged and agricultural inputs such as fertilizer and disease control agents become unavailable. While certification was seen to be part of the solution it was quickly agreed that a broader approach was needed.

And so the Cocoa Improvement Program (CIP) began. In 2008, IDH joined the program, which brought together NGOs, governments and companies to jointly improve the sustainability of the cocoa industry worldwide.

CIP was created to improve the cocoa supply chain in the following areas:

- Contributing to the **professionalization of producers** by improving knowledge and skills on good agricultural practices.
- **Improving the international enabling environment** consisting of appetite to invest in the cocoa sector by the private sector, combining the resources of commercial companies and public actors. The focus is on building the ‘market infrastructure’ to create the foundations for committed service providers and certifying bodies to serve the sector with the professional services it needs.
- Contributing to **establishing sustainability in the cocoa sector** and accelerating the mainstreaming of sustainable cocoa.
- Contributing to increased **value creation by producers** by improving cocoa quality and lifting yields, which contribute to improved livelihoods of producers.

CIP was funded by, and aligned the interests of, multiple stakeholders and ran from 2008-mid 2012.

1.4 About this report

This chapter outlines the scope of this evaluation study and provides an overview of the definitions and the methodology used to evaluate the effectiveness of CIP.

Scope

The initial focus of CIP in 2008-2009 was on Ghana and Ivory Coast. In the course of 2010-2011 the scope of the program was expanded to Nigeria, Cameroon, Indonesia, Brazil and Ecuador. In 2012 activities in Brazil and Ecuador ceased to be covered by CIP. The fieldwork (interviews and survey) to conduct the evaluation study focused on Ghana and Ivory Coast.

Definitions

Since there are many different organizations involved in the program, additional explanation of these organizations and related terminology could be helpful.

The organizations IDH – The Sustainable Trade Initiative (further: IDH), Solidaridad and UTZ Certified are considered as “*CIP partners*”.

When findings or recommendations apply to one of these organizations specifically, we use the name of this organization in the report (i.e. IDH, Solidaridad or UTZ Certified). When applicable and possible, a distinction is made between activities of CIP and the activities of the individual partners. When the report refers to companies and organizations associated to CIP, we refer to “*external partners*”.

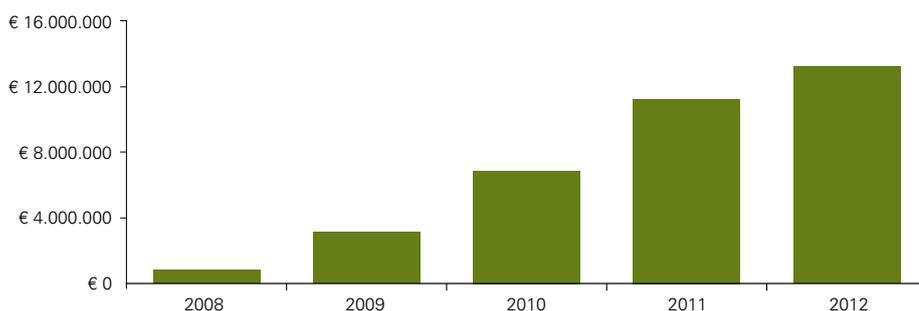
A group of ‘*innovative front runners*’ refers to the public-private partnership that supported CIP’s creation – e.g. the steering organizations IDH, Solidaridad and UTZ Certified and commercial companies, governments, producers and farmers.

‘*Mainstreaming*’ is defined as allowing certified cocoa to grow from a niche product to a regular product measured by the market share of sustainable cocoa. The tipping point of reaching mainstreaming is estimated by the CIP partners at a market share of approximately 25 percent.

‘*Market transformation*’ encompasses the changes in the entire supply chain from farmer to supply chain actors to consumers.

‘*Enabling environment*’ is defined as the ‘market infrastructure’ consisting of professional services, standards and policies suitable for the cocoa chain applying to all actors, institutions and regulations influencing the catalyst process towards mainstreaming sustainable cocoa.

Figure 1
Cumulative funding of CIP⁶



Methodology

To date, evaluations of the overall performance of CIP have remained largely anecdotal and informal. KPMG's evaluation of CIP in this report seeks to provide a more coherent analysis of the performance of CIP. Given the limited availability of quantitative impact data on CIP and other cocoa sustainability initiatives to date, however, this study encompasses mainly qualitative analyses and quotes from organizations that were involved in the implementation of the program to highlight the progress on the pre-defined most significant changes. Phrases quoted from interviews are in *italics*. Due to the same limitations, we focus on the pre-defined targets of the program, rather than the relative importance of this program compared to -or completely isolated from- other sustainable cocoa initiatives.

The program focused on a number of activities (as listed on page 21). Using these key objectives as a framework to measure CIP's success, KPMG interviewed the key stakeholders across the cocoa industry, from farmers to producers, government and the main Europe-based traders. In addition, KPMG surveyed key stakeholders and analyzed industry data to understand how CIP contributed to the significant changes to the cocoa supply chain. Also, project documentation, such as annual reports and a study by LEI were reviewed. The interviews and data in this report are based upon results up to mid 2012, except for the data on the number of farmers and tons sustainable cocoa since these are based on results up to end 2012.

Appendix 1 outlines the methodology in more detail

Guidance to read this report

The next chapter provides more information about the sustainability challenges of the cocoa sector, how CIP as a multi-stakeholder initiative came into being and the 'theory of change' of the program.

In chapter 3, each 'significant change' is evaluated. In the fourth chapter, the challenges ahead, based on the lessons learnt from CIP, are discussed as well as the recommendations for the follow-up program 'Cocoa Productivity and Quality Program' (CPQP).

Phrases quoted from interviews are in grey.

Box 1

Ivory Coast

In **Ivory Coast**, the world's largest producer, cocoa is produced almost exclusively by smallholders: the industry has around 800,000 individual farmers working plots of an average of one hectare. Average yield in the country is estimated to be just 40 percent of potential yield, partly because there is no structured buying and marketing system. While training, auditing and certification is typically implemented through cocoa marketing co-operatives, in Ivory Coast only 15 percent of cocoa is bought and marketed by co-operatives, the remainder being handled by independent traders. Unsustainable farming practices, lack of shade plants, inappropriate use of fertilizers and deforestation present acute environmental challenges.

Box 2

Ghana

In **Ghana**, the world's second largest producer, cocoa is produced on plots that average 2-3 hectares. In contrast to the situation in Ivory Coast, cocoa buying and marketing is controlled by the state marketing board (COCOBOD), which also monitors initiatives to improve production standards. Local buying is carried out by a network of Licensed Buying Companies (LBCs) controlled by COCOBOD, which also ensures traceability of cocoa within Ghana. Despite low yields, average quality levels are higher than in Ivory Coast. However, Solidaridad reports that poor farming practices include poor soil management and a failure to renew ageing cocoa trees (the productivity of cocoa trees begins to decline after around 20 years); uncontrolled pests and diseases cause losses of more than 30 percent of the potential crop.



2 Innovative frontrunners fighting acute sustainability challenges

The worldwide cocoa industry faces acute sustainability challenges in terms of production, environment and social structure. Production is affected by poor quality, low yields and susceptibility to plant disease. Environmental challenges include deforestation, improper chemical usage, loss of soil fertility, pollution of water sources with toxic agrochemicals and biodiversity loss. Social challenges include the worst forms of child labor, unsafe working conditions and lack of access to education and proper agricultural training.

2.1 Public and private partners join forces in CIP

It is against this background that the urgency of a public-private partnership was recognized and the coalition of organizations that support CIP came into being. The program is a multi-stakeholder initiative coordinated by several steering organizations: IDH – The Sustainable Trade Initiative that brings together companies, governments and NGOs to encourage a transition to sustainable trading worldwide, Solidaridad, a global network organization targeting social and environmental improvements in emerging economies and UTZ Certified, a program and label for sustainable farming in the coffee, tea and cocoa industries. After the start of CIP in 2008, IDH convened the multi-stakeholder partnership; Solidaridad managed and implemented the program in close collaboration with UTZ Certified. In addition to the NGOs, producers, government and farmers took part in the program; according to Hans Perk of Solidaridad:

“CIP came about because the NGOs knew there was an issue beyond building consumer brands. We knew this was a business supply chain issue and so did the organizations involved in the cocoa trade.”

2.2 An increasing corporate commitment to sustainability

Companies involved in the cocoa industry believe that one of the strengths of CIP is the fact that initiatives originated with companies, with a strong focus on using sustainability to reduce cost and risk. Harold Poelma of Cargill summarizes the background to the creation of CIP:

“Starting in the early 2000s, the media started focusing on child labor issues; aimed at chocolate manufacturers. This led to several agreements, among others the Harkin-Engel Protocol [a 2001 agreement between chocolate manufacturers and cocoa producers to eliminate child slavery and trafficking

in the cocoa industry]. Cargill was then approached by several customers to try and set up a more concrete initiative. This initiative had to be pre-competitive; and it had to become mainstream. It had to focus on improving the farmer situation at a local level, making them more productive and increasing quality. Clients already had good experiences setting up coffee certification with UTZ Certified; soon after that Solidaridad came on board as well; together with two big chocolate manufacturers and a big cocoa trader. This formed the group of innovative frontrunners”

The public commitment of several large global companies in the cocoa value chain to move rapidly to sustainable business was a catalyst for the creation of CIP. Manufacturers such as Mars, Cadbury, Hershey, Ferrero and Mondelēz as well as retailers such as Ahold, Migros and Sainsbury have all formally committed to source cocoa from certified producers. Demand for certified sustainable cocoa has been increasing considerably in recent years and the International Cocoa Organization estimates that demand for sustainable cocoa will rise to about 1.5 million tons in 2020⁷, implying that a considerable growth in supply of sustainable cocoa is required to meet future demand.

The overwhelming majority of respondents strongly agree or agree that sustainability in cocoa production has effectively become a license to operate, KPMG’s survey found.

Box 3 Sustainable cocoa commitments

Fast Moving Consumer Goods

- Mars: 100 percent sustainable cocoa by 2020
- Hershey: 100 percent sustainable cocoa by 2020
- Nestlé: sustainable cocoa in various brands and markets
- Ferrero: 100 percent sustainable cocoa by 2020
- Mondelēz/Kraft: sustainable cocoa in brands Cote d’Or and Maribu by 2012
- Mondelēz/Cadbury: 100 percent sustainable sourcing

Retail

- Ahold: 100 percent sustainable private label cocoa products by 2015
- Migros: 100 percent sustainable private label
- Sainsbury’s: 100 percent Fairtrade chocolate, with 2020 sales of £1 billion
- Lidl: sustainable cocoa used partially in two private brands

Sources: Company websites

2.3 CIP theory of change to drive professional cocoa farming

CIP’s theory of change builds on the premise that increasing demand for sustainable cocoa raises investments which ultimately leads to a more sustainable cocoa industry. Rather than advancing certification only, the program aimed to address the value chain at various levels, from producers and supply chain actors to consumers.

The original objective of CIP was formulated as follows:

“to address bottlenecks in cocoa production that prevent cocoa producers from implementing sustainable production practices and improving their welfare.”⁹

Figure 2
CIP Theory of change⁸



Figure 2 summarizes the theory of change and the causal loop at its core. This report evaluates the success of CIP’s interventions affecting the various mechanisms behind this causal loop. One of the first initiatives of CIP was to develop a code of conduct and a chain of custody governed by UTZ Certified, setting in motion supply of – and demand for – sustainable cocoa. From the beginning, the focus has been on improving professionalization of producers by increasing demand and making an impact on the welfare of producers. Closing the circle by increasing demand for sustainable cocoa and the supply of better quality cocoa produced by certified farmers is the incentive for private partners to invest in the professionalization of more producers.

Box 4**UTZ Certified Code of Conduct and chain of custody**

The UTZ Certified Code of Conduct is a set of criteria for economic, social and environmental responsible production that aims to professionalize agricultural practices and operational management. The chain of custody is a set of rules and a system to trace certified cocoa in the supply chain. UTZ Certified has two different codes of conduct for cocoa: one for large estates (plantations), and one for groups of smallholders, who make up 99 percent of those certified. The code of conduct is based on a system of continuous improvements whereby the number of requirements increases from year one until year four.

UTZ Certified products have been produced according to the criteria of the UTZ Certified Code of Conduct. The code of conduct includes compliance points on:

- Child labor
- Traceability
- Record keeping, group management, and self-inspection
- Soil management, farm maintenance, fertilizer use and irrigation
- Integrated pest management and crop protection
- Harvesting, workers' rights, health and safety
- Natural resources and biodiversity
- Training of producers
- Awareness raising of producers and their families

Companies handling products that are UTZ-certified must be certified as well, through UTZ Certified's 'chain of custody' code. Certification is carried out by auditors working for a 'Certification Body', which is a commercial company approved by UTZ Certified.

Activities of CIP

In 2008, CIP started by establishing field support projects. These projects aimed to train trainers and auditors, develop training material and to form national representation groups. A co-operative leadership program aimed at women was also developed. At the same time, the UTZ Certified Code of Conduct was adapted for the cocoa industry and an IT system was developed to allow a system of traceability to be introduced. First UTZ certificates were issued in 2009 in Ivory Coast (3 groups) and Ghana (1 group). By the end of 2009 ten companies had joined the program.

In 2010, the program was slightly delayed because of unrest in Ivory Coast. Nonetheless, producer support projects were implemented with six company partners and the first UTZ Certified-labeled products were sold

to consumers in Europe and the United States.

In 2011 the UTZ Certified traceability system was launched and instruction videos and manuals were translated into eight languages. Despite political instability in Ivory Coast, the number of producer groups participating in the CIP program increased to 58 in 2011. Gender learning groups were organized to train women in cocoa production and to improve their knowledge on social issues. In Ghana, three new farmers' associations were formed. A two-day National Cocoa Stakeholders' Conference highlighted the role and the cost of certification. In Ivory Coast, Ghana, Nigeria and Ecuador training sessions were organized for auditors, trainers and agronomists. In Nigeria 10 farmer groups approached Solidaridad seeking support for improved production practices.

In Indonesia, over 3,000 smallholders were trained and in Cameroon one estate was assisted to become UTZ-certified.

A common training curriculum¹⁰ was developed for UTZ Certified, Fair Trade and Rainforest Alliance in the framework of the Certification Capacity Enhancement (CCE) project. The training materials were intended to train trainers and included a common guide on setting up an Internal Control System. Also, some tools to train farmers were developed.

On the demand side, various chocolate end-manufacturers and retailers launched UTZ-Certified-labeled products and consumer awareness was increased by media stories in the Netherlands, Germany and other countries.

In 2010 UTZ Certified and Solidaridad commissioned a longitudinal statistical survey to evaluate the impact of their activities in Ghana and Ivory Coast to LEI Wageningen UR. Previously, COSA, the Committee on Sustainability Assessment, had also conducted a baseline survey.

A total of 82 trainers were trained on the Common Certification Curriculum. Five CIP projects were successfully audited against the UTZ Certified Code of Conduct. In Cameroon a field project trained 300 producers and in Ghana, CIP and the national industry board COCOBOD organized a conference. In Indonesia, a National Reference Group set up by Solidaridad supported the development of a national cocoa standard.

Figure 3 provides an overview of the activities, indicators, targets and main achievements of CIP which will be discussed in more detail in the rest of the report.

2.4 Other programs initiated in the same period

At the same time as CIP was implemented between 2008 and 2012, several other certification and crop improvement initiatives were also active in West African cocoa-producing countries. A strong market transformation towards more awareness for sustainability in the cocoa industry took place. CIP was part of this development and focused on the entire value chain. To leverage on CIP investments, IDH – The Sustainable Trade Initiative started



implementing a follow-up program by mid 2012, called the Cocoa Productivity & Quality Program (CPQP), a pre-competitive program focusing on beyond certification.

2.4.1 Existing multi-stakeholder initiatives

Fairtrade preceded the development of the UTZ Certified Code of Conduct for cocoa. Fairtrade focuses primarily on better trading conditions and the empowerment of producers. The organization operates extension offices in cocoa producing countries.

In 2010, Fairtrade had a market share of 39 percent of all certified cocoa. Organic cocoa, which is produced avoiding the use of chemical inputs, also preceded UTZ Certified and

its market share in 2010 was 15 percent. Rainforest Alliance has developed its own certification standard for sustainable cocoa, which focuses on biodiversity conservation and sustainable livelihoods of farmers (market share 20 percent)¹¹. In addition, other programs operating in West Africa include:

- ICCO Productivity and Quality Improvement Program; run from 2004 to 2010 to improve cocoa producer livelihoods.
- World Cocoa Foundation promoting a sustainable cocoa economy through economic and social development of cocoa-growing communities as well as promoting environmental stewardship.

Figure 3
Indicators, targets and results of CIP¹²

Objective	Activities	Indicator	Baseline 2008	Target 2012	Realized 2012	Achieved
Professionalization of producers	<ul style="list-style-type: none"> Strengthening producer organizations and coops to manage Internal Control Systems Supporting producers to adopt best management practices Training trainers, auditors, local buying organisations, technical assistants, producers and women in the cocoa industry Developing and distributing communication materials, organise workshops, presentations and leadership programmes 	Number of certified producers	0	60,000	151,000	√
		Volume of certified cocoa available	0	125,000	414,000	√
		Maintain average 25% yield increase (of producer in program)	Cdl: 450 kg/ha Gh: 200 kg /ha Non certified farmer	25% yield increase	-	?
Improving the enabling environment	<ul style="list-style-type: none"> Making the UTZ code of conduct suitable for the cocoa chain National interpretation workshops organised. Knowledge on sustainable, efficient and effective supply chain approaches developed and shared Engage company partners in dialogue to invest in sustainable cocoa production 	UTZ code of conduct in place	NO	YES	YES	√
		Number of learning working groups and international forums organized	0	4	6	√
		Company contributions to CIP	21% of total budget	50% of total budget	~50% of total budget	√
Mainstreaming of certified cocoa	<ul style="list-style-type: none"> "Sales" activities and outreach to buyers on participation in the program and volume commitments Assist participating companies at corporate and country level to implement and communicate UTZ UTZ code translated into 8 languages 	Number of countries where consumers can buy UTZ-certified cocoa	0	15	86	√
		Purchases of certified cocoa (as certified cocoa)	0	50% of certified volume	46% of certified volume	X
Value creation	<ul style="list-style-type: none"> Training trainers in the implementation of sustainable cocoa standards, ICS and chain of custody Producers trained via producer development projects in Ghana, Ivory Coast, Indonesia and Ecuador 	Measured result in production	NA	Data collection in 2012	-	?
		Quality of UTZ Certified Beans	3,5% humidity discount	0,1% humidity discount	-	?

√: Target achieved. ?: Insufficient information. X: Not achieved.

Source: CIP Monitoring protocol 2007-12. Evaluation is based on CIP monitoring protocol mid-2012. For the two indicators 'number of certified producers' and 'volume of certified cocoa available' the data cover the full year 2012 and have been provided directly by UTZ Certified. In March 2013, yield data from the Cocoa Improvement Program will be available.

During CIP, several other initiatives took place, with many major chocolate manufacturers, such as Mars making sustainable cocoa commitments. As part of these commitments, Nestlé launched the 'Cocoa Plan', while Mondelez runs the Cadbury Cocoa Partnership investing £ 45 million into cocoa farms. Mars announced it had invested \$ 30 million in its sustainability programs in 2011 alone¹³.

2.4.2 Cocoa Productivity & Quality Program (CPQP)

The Cocoa Productivity and Quality Program Facility (CPQP) is a four-year pre-competitive program which started in July 2012 and will build on the achievements of CIP. Stakeholder consultations with local governments, industry, NGOs with cocoa expertise, and intergovernmental institutions were an important part of the design process of CPQP. CPQP aims to expand farmer support initiatives to improve production among more producers. The CPQP will provide match-funded capital to advance the cocoa market in these areas:

- Quality
- Productivity
- Professionalization of farmers and their organizations
- Total quality standard systems
- Financing
- Co-ordination and alignment

The first CPQP has a total budget of € 17 million, of which € 6.2 million was contributed by IDH and € 2.6 million by other donors. The estimated private sector contribution was € 8.2 million. IDH contributed € 2.5 million to the second CPQP, which has a total budget of € 9 million. Of this, 500,000 is contributed by the Ghana Embassy Program. The private sector contributes the remainder¹⁴. The program aims to contribute to five major developments, which are needed to improve productivity, quality, and farmer professionalization on a large scale.

Integration

First is improving the integration and co-ordination of existing initiatives. For example, the drive for farm productivity should be linked to the growing movement in standards systems. At the broadest level, CPQP sees the need for country-specific alliances of government, industry, NGOs with cocoa expertise, multilateral institutions and donors.

Efficiency improvements

Secondly, efficiency must be markedly improved. Many current efforts to make the cocoa sector more sustainable are too expensive to scale. By aligning training and standards across an entire country, considerable cost cuts are possible while keeping program quality high.

Embedding

Sustainability initiatives must be

embedded within existing government structures and semi-governmental institutions at country level to be viable. All international actors must work closely with producing country governments to build the local capacity required to transform the sector.

Inputs

While the need varies from country to country, and within countries, in general there is a tremendous need for additional inputs. Field tests suggest typical farm yields can be at least tripled (i.e. to over 1,500kg/ha) by combining best management practices, pest control, improved plant stock and appropriate fertilizer application. New varieties alone can double production for an average farmer. To achieve this at scale will require considerable pre-competitive collaboration between industry actors and careful co-ordination with local governments.

Financial institutions

The final requirement is a greater role for financial institutions, particularly in providing funds for inputs. While new, and in some cases, forward-thinking programs are running, they only touch the surface of deep and widespread financial needs. New risk-sharing mechanisms and finance delivery models must be set up to allow banking to reach every farmer who needs it.

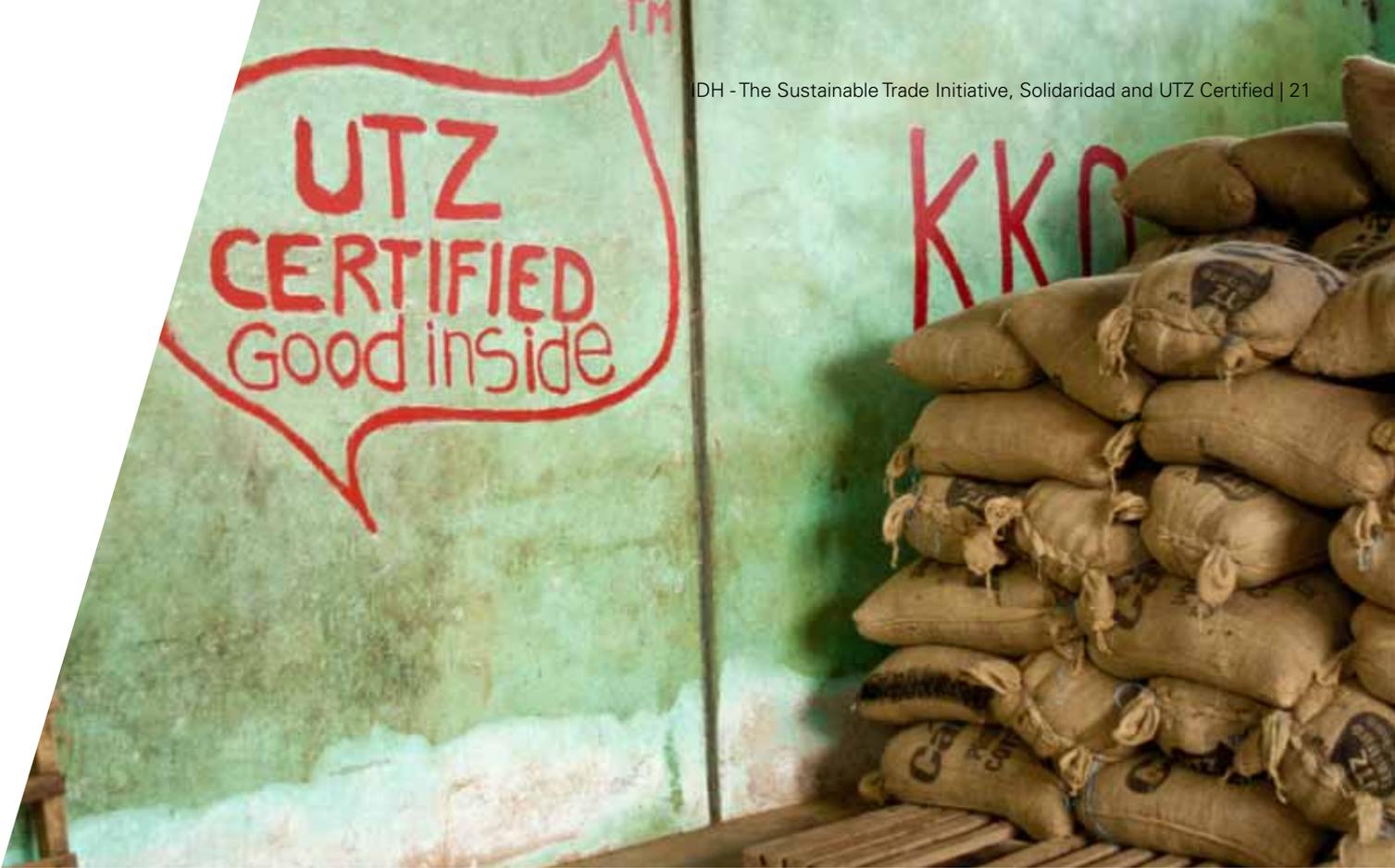


Figure 4
Timeline¹⁵

External factors/side effects



Output





3 Significant changes in the value chain

This chapter describes four changes in the value chain identified by the partners in CIP based on a survey, interviews, data received from supply chain actors and additional literature. We will also show which pre-defined targets were met and which not. Companies interviewed for this report argue that CIP is a flexible and modular program and is an important contribution to cocoa industry improvement in West Africa.

When asked about CIP’s certification initiatives, most respondents agreed that UTZ is a tool that can improve the market. Only a few claimed CIP had not improved the cocoa industry.

Interviewed companies said they wanted to continue to help shape and implement sustainability initiatives like CIP, which is a positive forum for corporate engagement on sustainability.

A large confectionary manufacturer comments:

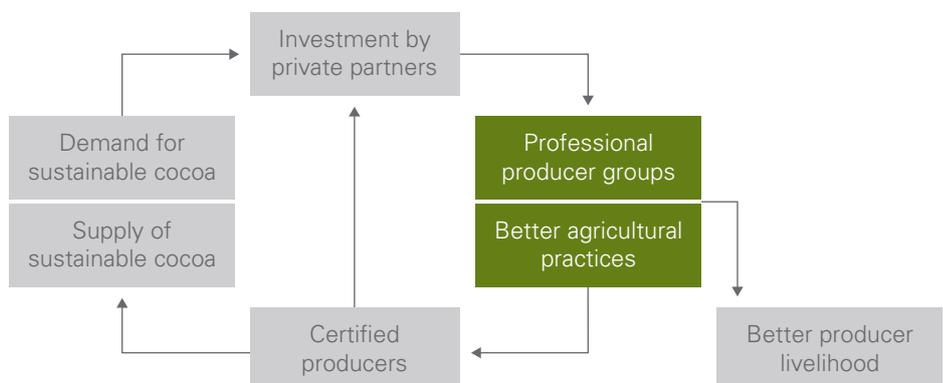
“What we appreciate is that there is now a positive dialogue between industry and NGOs. This used to be very confrontational, but now it is more positive, with everyone working towards the same goals.”

Box 5
CIP in action

How does CIP translate into a program of action on the ground? One cocoa farmers’ association in Ghana describes how it participated in the CIP program:

- We have been involved in developing training materials which have been used to train trainers.
- We provided financial and in-kind support to new and existing farmers. For example, we provided improved planting materials, shade trees and equipment.
- We were involved in CIP training activities. We provided cocoa extension officers and trained our associated farmers on the certification process and how to store UTZ certified cocoa.
- We also organised workshops and leadership programs.

3.1 Significant Change 1: Professionalization of Producers



KPMG’s survey and in-depth interviews show that CIP has improved the professionalization of the cocoa industry in Ghana and Ivory Coast. A farmer is seen as professional

when optimizing production and supporting future productivity of the farm. This section discusses how CIP has helped to improve the professionalization of producers.

3.1.1 CIP producers apply better production practices and are more reliable business partners

Production practices

What makes a farmer more professional and why is it important? A more professional farmer can safeguard himself against market price fluctuations and at the same time invest in building a better livelihood. Eric Smeets of Bio Partenaire, a subsidiary of chocolate manufacturer Barry Callebaut, summarizes the impact of training on professionalism as follows:

“Farmers involved in the certification program become more professional because they apply modern practices of planting. They limit the use of pesticide to treat their farms. Thanks to the training received, they understand that high yield may be achieved with limited use of pesticide. It is then possible to avoid destroying the forest. This training helps farmers to become more professional: they learn how to perform good planting, they learn how to use pesticide to treat their farms, they learn new methods for lopping cocoa plants. The implementation of advice provided through training sessions enables farmers to produce higher quality cocoa and improve their revenues.”

A characteristic of professionalism is the application of better production practices, which make a farm not only profitable in the short term but also in the long term by preserving soil quality.

Training

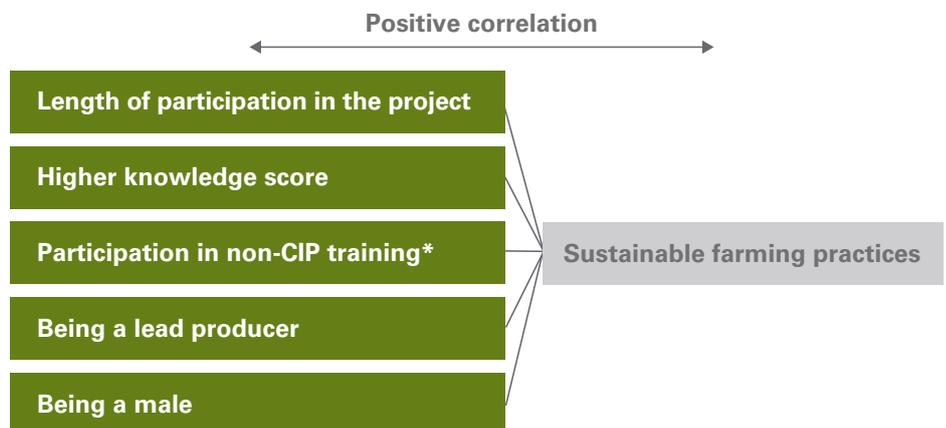
An important assumption behind the theory of change is that producers benefit from training. Training in good agricultural, social and environmental practices enables farmers and co-operatives to apply sustainability practices into their business models.

In our evaluation study we found that training has made farmers more professional and training was consistently cited as one of the most valued dimensions of CIP. Some key facts:

- Providing training to producers was a key element of CIP. During the program 86 trainers were taught to train farmer groups. The program also trained about 100 technical assistants in Ghana and Ivory Coast. Also, CIP trained 500 women to lift their income by selling higher quality products.

- A typical training program teaches producers to apply good weeding practices, keep an appropriate distance between trees, to trim branches on time, apply sufficient fertilizer and pesticide at the right time of the year and harvest cocoa pods when their taste and quality are at their best.
- As part of the CIP program, an impact study was conducted by LEI, a research institute connected to Wageningen University and Research Centre¹⁶. Although changes can only be seen with data collected over a few years of time, the baseline study concludes:
 - The longer the producers in Ghana took part in CIP projects the better they applied sustainable farming practices.
 - On average, trained cocoa producers in Ghana apply sustainable farming practices better than non-trained producers.

Figure 5
Findings of study by LEI (2012)¹⁷



* Farmers in CIP make better use of the available training facilities (even when they are provided by non-CIP bodies, including governments, marketing boards and other NGOs).

Better business partners

In interviews, organizations say that CIP's focus on creating producer cooperatives and training on good agricultural and management practices have led producers to become more professional and have instilled more business focus. In survey results the majority of respondents said that farmers who are UTZ-certified are more reliable business partners than non-certified farmers.

A Cargill representative explains:

"Farmers taking part in the certification program have been very professional since they now know (a) that they have to save part of their revenues in banks, (b) how to improve the quality of their products, (c) how to get a good profit from the sale of their products. For example, farmers asked for a receipt for each sale."

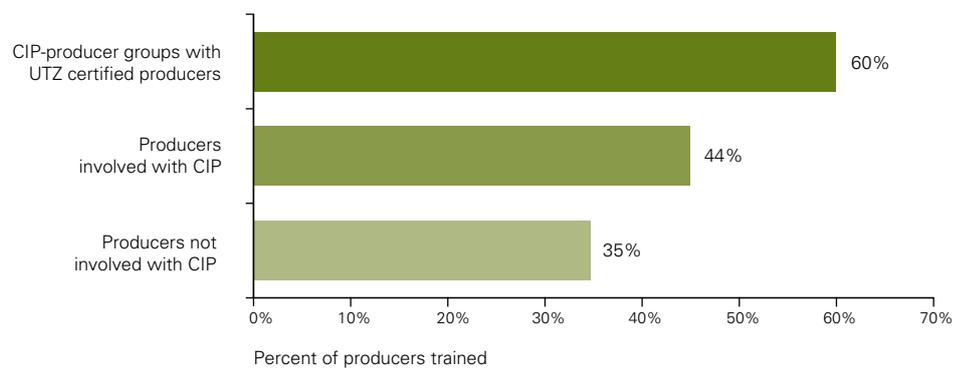
Next to more business-mindedness, trust is identified as a basis for mutual improvement. A cocoa marketing organization explains:

"Training on good agricultural, social and environmental practices enables farmers/co-operatives to produce cocoa of high quality. Buyers/exporters are also reassured about the production environment. This mutual trust between farmers/co-operatives and buyers/exporters contributed to improving the enabling environment."

The development of more trust between business partners was also necessary because it is the basis of

Figure 6

Percentage of producers in producer groups in Ghana who participated in training¹⁸



long-term relationships in business.

Strong mutual trust is seen by economic science as a basis for prosperity in society¹⁹.

A representative of a producer group in CIP acknowledges that:

"There is improved trust and joint motivation because farmers are more united as a group and share knowledge of good practice – for example, farmers were encouraged to realize that in Indonesia cocoa farmers could achieve a yield of more than 1,800 kg per hectare. Structured governance has improved thanks to well-documented internal controls – there are rules and practices that members are expected to abide by, and internal audits are carried out to ensure that these are being respected. The association also keeps a separate file on each farmer which helps in tracking activities and providing tailored assistance. Professional services have improved but are still inadequate. Overall stakeholders are more involved in the overall value chain, whereas before they just concentrated on their own area of business"

3.1.2 CIP producer groups receive more training

An ongoing study (LEI, 2012) suggests that amongst other things, there is a positive correlation between training and sustainable farming practices. Producer groups with UTZ-certified producers do more training. A survey by LEI (2012) shows Ghanaian producer groups with UTZ-certified producers followed training almost twice (60 percent) as much compared to those in producer groups not involved with CIP (35 percent).

Cedric van Custom of ECOM argues that training benefits suppliers:

"Our 12,600 farmers involved in the certification program became more professional. They are working with more professional co-operatives. These are professional because they implement good agricultural practices. Hence, they have high yield and quality products. They are able to increase their revenue. They have also best social practices because they received training on implementing a community and

co-operative spirit. So, they are really involved in their co-operative. They are taught social standards like the creation of good working conditions, the importance of sending their children to school and banning child labor.”

3.1.3 Evidence on CIP's contribution to producer professionalization

According to CIP's theory of change, associated producers are able to apply better agricultural practices because they received training. The number of producers who are UTZ-certified is seen as a proxy for the implementation of good agricultural practices.

With 151,000 certified farmers by end 2012²⁰, up from 24,000 in 2010, good agricultural practices seem to have gained widespread adoption.

In a survey and in interviews supply chain actors were nearly unanimous

in saying that producers were more professional. Most respondents cited numerous instances of greater professionalization; a minority said that they did not have sufficient data to comment; no respondents said that there had been no or negative impact on professionalization. Surveyed producer organizations in Ghana and Ivory Coast are unanimous that they have seen an improvement in the level of professionalism among individual farmers.

- The chairman of a cocoa co-operative in Ivory Coast says:

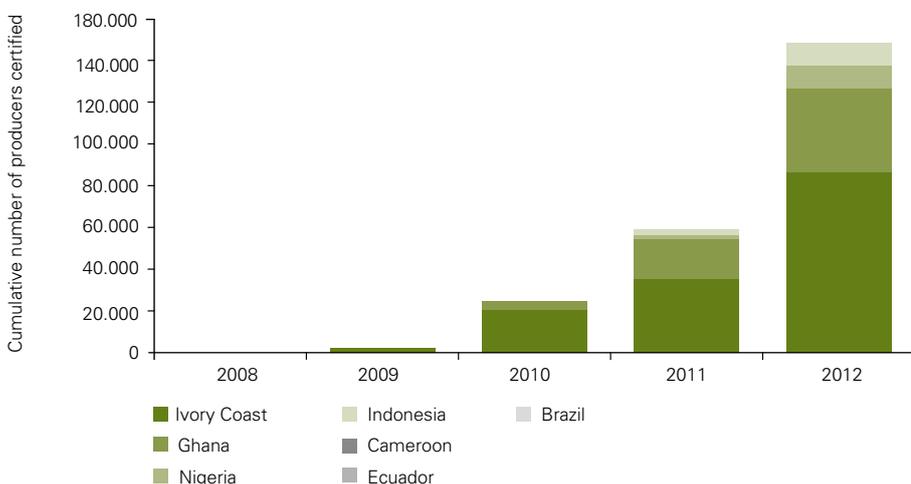
“Farmers taking part in the program have become more professional in terms of knowing that they have to bank some of their cocoa revenue; in how to track profitability, for example by keeping receipts; and in

understanding how to improve quality. They understand how good planting practice leads to higher yields – whereas in the past many farmers did not know how to run a cocoa farm.”

- The certification specialist at a farm co-operative comments:

“Instead of just focusing on the size of their farms, farmers now appreciate that there are other factors that can help them maximize revenues. For example, in the past it was difficult to convince farmers to cut down non-productive trees, but this has changed significantly. Farmers are also now abreast with record-keeping, through the provision of the farmer pass book, which is a record of activities like purchases and pesticide use. And for the co-operative CIP has helped the group to organize and put records in order before external auditing takes place.”

Figure 7:
Number of producers UTZ-Certified (attributed to CIP)²¹



Some respondents, however, pointed out that CIP focused on producers in relatively well-organized co-ops situated near towns and easily reached.

- A cocoa trader says:

“To make CIP a success, smaller co-ops and even the most vulnerable farmer groups need to be targeted in order to be able to change the whole sector as they make up the largest part of the cocoa production sector.”

3.1.4 Case study: producer group AHANSUCOFA

To provide better insight on how CIP worked in practice, this paragraph describes a case study of CIP's effect on producer group AHANSUCOFA (Ahafo Ano North and South UTZ Cocoa Farmers Association). Under CIP, Solidaridad organized cocoa farmers and established the new producer group AHANUSCOFA.

CIP decided to support the group directly in order to cut administrative costs and increase investment in direct farmer training. In the first wave, 300 producers were trained and certified within the Cocoa Improvement Program. The second wave during the 2010/2011 season included 1,040 farmers of which 1,010 were certified. Yield, however, dropped to an average below the first year due to bad weather and lack of skills in the farmer group. The project was not able to train all farmers as intensively as the first group and cocoa was partly sold through conventional channels. The third wave (2011/2012) included 3,125 producers, a part of which will be certified before the harvest season. Recently, Noble Resources started supporting the program in return for guaranteed supply.

As part of this evaluation study a certification specialist working for the producer group was interviewed. When asked whether producers did become more professional he answered:

"In my view, yes! Farmers have become more professional in recent years. For instance:

- They now appreciate other factors that can help them maximize their earnings from their farms rather than just focusing on, and taking pride in, the size of their farms.
- Previously, it was more difficult to convince them to cut down non-yielding trees but this has changed significantly in recent years.
- They now appreciate the need to buy fertilizers (three times as much) and understand the purpose of doing so."

In a group interview in Mantukwa, one of the villages where AHANSUCOFA-associated producers live, producers identified the following reasons for being involved with CIP:

- "As a result of CIP I received a higher income (increased yield) in the first year through training and provision of inputs. Of course, there is also a bonus (premium). The premium was 2.5 cedi per bag²²."
- "The group stays together and participates in the training. This is key for group stability. Without a gain, farmers will not show up for group meetings."
- "Children go to school now during the day (only the toddlers stay in the villages), all farmers confirm that their children go to school and they are happy that they have learned the benefits of that."

- "There is a borehole for clean water."

Producer group representative Derrek Osein says:

"Stakeholders are now more involved in the entire value chain, which is better than the previous situation where they just focused on their own area of business within the chain. For instance, LBCs (licensed buying companies) provide training and other assistance to farmers on best production practices etc. In this way there is a reduction in cost along the entire value chain. LBCs also assist in logistics for the groups in the program."

In summary, CIP's intervention speeded up the certification process and expanded the size of the producer group. At the end of the program, Noble Resources, in collaboration with the World Cocoa Foundation, signed an agreement to support AHANSUCOFA for another three years for further development of the group. This support enabled the group to start growing cassava and plantain as food crops and to implement activities related to gender equality.

Producers say they need more help as the program is not yet self-sufficient. For example, they need UTZ Certified-approved agrochemicals provided at the right time of the season. Also, there is a need to train producers on how to undertake irrigation schemes.

Figure 8
Case study Ahansucofa²³



3.1.5 Conclusion on professionalization of producers

How has CIP helped to professionalize producers by improving knowledge and skills in good agricultural practices? As shown in this chapter, anecdotal and baseline evidence suggests it has played a major role.

Is CIP exclusively responsible for training producers? The most reliable evidence for this is certification. UTZ Certified has a framework of increasing requirements for producers applying aspects of GAP (good agricultural practice) from 1st year until after certification (UTZ CoC p. 10 and 20). Between 24,000 and 59,000²⁴ producers have been trained to become or remain compliant with the UTZ Certified Code of Conduct. It thus seems likely that a considerable number of producers associated to CIP have received training or will in the near future.

The number of certified producers was 151,000 by end 2012 and production was estimated to be 414,000 tons, exceeding the targets set on these indicators. In some interviews, we only found anecdotal evidence regarding the targeted yield increase (see also paragraph 3.4). There is potential to improve the measurement of farmer professionalization in the future, which will be discussed in more detail in chapter 4.

Figure 9
Objectives related to professionalization of producers²⁵

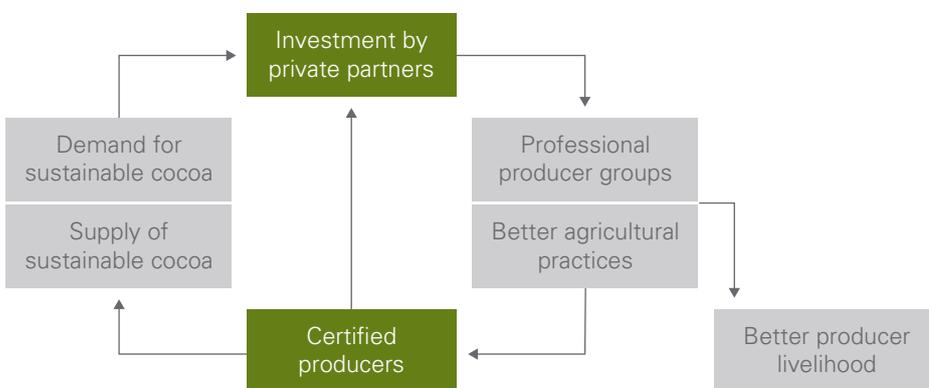
Indicator	Baseline 2008	Target 2012	Realized 2012	Achieved
Number of certified producers	0	60,000	151,000	√
Volume of certified cocoa available	0	125,000	414,000	√
Maintain average 25% yield increase (of producer in program)	Cdl: 450 kg/ha Gh: 200kg/ha Non certified farmer	25% yield increase	-	?

√: Target achieved

?: Insufficient information



3.2 Significant Change 2: Improving the Enabling Environment



CIP participants identify an improved enabling environment as one of the program's main successes. The development of the UTZ Certified Code of Conduct was seen as a necessary improvement in the cocoa industry.



3.2.1 A code of conduct to boost sustainable cocoa production

The UTZ Certified Code of Conduct was created as part of a wider program to drive professional farming. The need for a more pragmatic and focused standard was evident. Existing standards were seen to be inflexible and did not allow for fast upscaling. The Code of Conduct sets the standard for sustainable cocoa production at farm level and enables more sustainably-produced cocoa to enter the value chain. The UTZ Certified chain of custody sets requirements for physical and/or administrative traceability from the companies handling and processing the cocoa.

The rules governing certification are put down in the UTZ Certified Protocol. All these documents are public and freely available. Certification is carried out by auditors working for a 'Certification

Body', which is a commercial company approved by UTZ Certified.

CIP contributed to the further development of UTZ by various means. In 2007, UTZ Certified did not have the money to develop a code of conduct for cocoa. In the first year CIP provided € 200,000 for this purpose. Creating a governance structure and IT system created trust and enabled other parties to join UTZ Certified. Further investments by CIP enabled the establishment of an organization that was equipped to support a fast roll-out during the years thereafter.

In particular, CIP contributed to the following activities:

- Developing the UTZ Certified Code of Conduct for cocoa for small producers, estates and for the chain of custody.
- Supporting the development of an IT-based traceability system.
- Implementing the UTZ Certified Code of Conduct.
- Strengthening the ability of producer organizations and co-ops to manage Internal Control Systems by organizing and participating in workshops in Ghana, Ivory Coast, Cameroon and Nigeria.
- Supporting producers to adopt to UTZ Certified's prescribed best management practices.

On many of these aims, the program is considered a success by its member organizations. For example, one CIP target was to certify 20,000 producers according to the UTZ Certified Cocoa Code of Conduct by 2011. In fact, the program certified around 54,000 producers by 2011²⁶ (in 70 producer groups), and as a result of CIP an estimated volume of 148,000 tons of UTZ Certified cocoa was produced

between October 2010 and September 2011²⁷ by farmers involved in CIP.

CIP made a major contribution to the development of the UTZ Certified Code of Conduct for cocoa, spending over €1.3 million²⁸ on developing the code, an audit protocol, IT infrastructure, a governance structure, training and instruction videos.

Figure 10
Expenditure analysis CIP²⁹

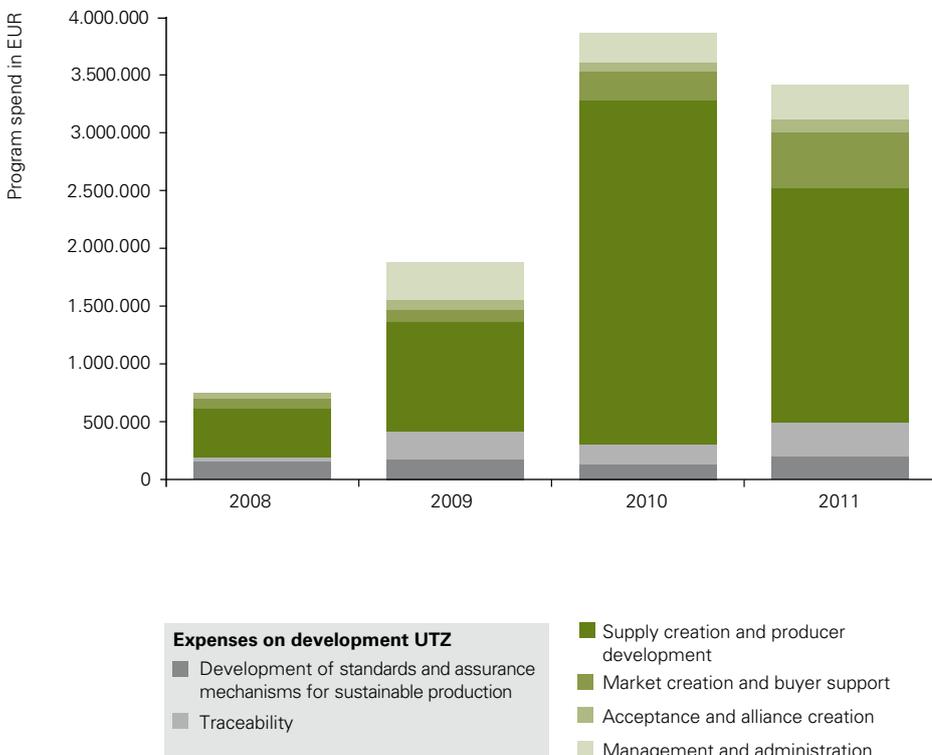
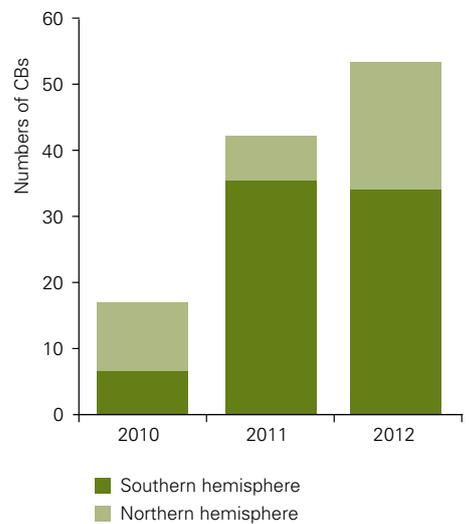


Figure 11
Number of certification bodies licensed to UTZ-Certify the cocoa chain³⁰



3.2.2 Increased number of certification bodies

One barrier to mainstreaming certified cocoa was the lack of independent certification bodies that could audit producers and their suppliers.

By developing an audit protocol, CIP encouraged commercial certification bodies to invest in obtaining an UTZ Certified certification license.

This move was supported by personal and webinar training on certification documents for auditors; extending coffee certification bodies to cocoa audit services; meeting and training new certification bodies (in Ivory Coast, Ghana and Indonesia).

3.2.3 Better partnerships and improved business conditions

Interviews indicated that CIP helped to build better partnerships. One interviewee representing a major manufacturer points out that CIP helps to create better partnerships between the industry players, because the UTZ Certified Code of Conduct considers the requirements of each of them.

CIP built on past co-operation, consisting of organizing training for national extension services, joint development of training materials, a benchmark of three certification initiatives and a national cocoa stakeholder meeting in Ghana with farmers and government. The importance of government involvement is recognized by other stakeholders. Some are even quite optimistic about the progress already made. Says Harold Poelma of Cargill:

“What we have clearly seen, is that since 18 months national governments are now fully engaged in the cocoa sustainability discussion. For example in Ghana, where COCOBOD has become actively involved and contributing to the formation of public private partnerships in the sector. These partnership are not only valuable as they can be a platform to obtain funding but more importantly a great way to share knowledge and expertise.”

Emmanuel Opoku of the Ghana Cocoa Board (COCOBOD) says that CIP has not altered the terms of access to market in Ghana, but adds:

“There is better access to capital since the certification providers also assist farmers in the form of loans to acquire the inputs required to produce cocoa.”

He says that structured governance has improved:

“This can be seen within the co-ops and farmer associations because governance is a pre-condition for their being enrolled on a certification project.”

He also adds that professional service provision has improved:

“Unlike previously, certification providers are now using more trained extension officers to provide services to the farmers.”

An Ivorian cocoa marketing group comments:

“CIP has created a buying environment that farmers can rely upon. CIP offers easy access to market, so that farmers in certification programs do not have any difficulty when it comes to distribution and sale of their cocoa. Buyers and exporters are reassured about the production environment, and this mutual trust has certainly contributed to the improvement of the enabling environment.”

The survey and interviews showed that CIP contributed least to providing access to capital for investment in sustainable cocoa. For example, a certification specialist of a cocoa farmers’ co-operative comments:

“Although there is better access to market, there is still a lot to be done in respect of access to capital.”

3.2.4 Appetite to invest by the private sector

Did the appetite to invest in sustainable cocoa by the private sector improve and did CIP contribute to this increase?

To answer these questions this report will discuss funding to CIP itself and the willingness of supply chain actors to invest in relation to CIP activities in the field.

In a study by LEI (2012) in Ghana, more surveyed producers indicated better access to finance compared to two years ago, compared to producers who indicated worse access to finance (57% vs. 30%). However, it is not clear whether this increased appetite is due to CIP, developments in cocoa prices, other sustainability programs or a general increase in concerns about long-term security of supply. Two interviewees indicated access to capital has improved, while one interviewee saw no relation between CIP and improved access to capital.

Combining resources of commercial companies and public actors

The total budget of the program amounted over € 12 million (US\$ 15.5 million). Han de Groot of UTZ Certified explains:

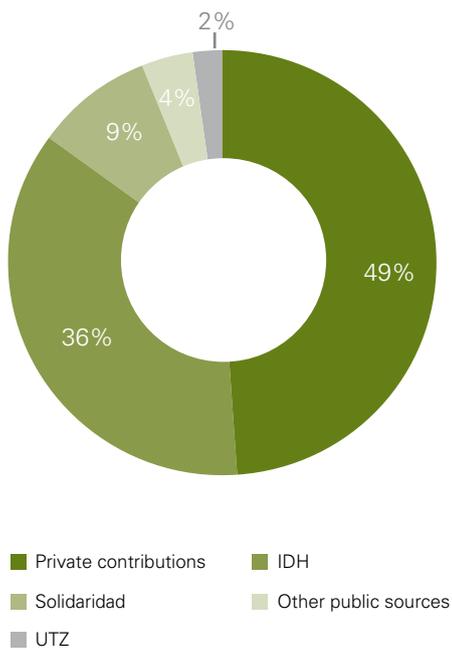
“In the beginning private funding was about US\$ 200,000, but when companies saw the trend and flow of business investment, this led to more. Of course keeping up with your competitors is not a compelling enough reason to take part. Companies had to believe in the need – and the business case – to contribute to change in the industry.”

Half of the budget was provided by the private sector.

Interviewees praised CIP’s focus on producer-level training, yield improvement, the creation of a strong certification standard and its accreditation and monitoring, and the provision of financial or in-kind support.



Figure 12
CIP funding source to 2012³¹



Financial support in particular was cited as crucial for industry participants higher up in the cocoa value chain to scale up and roll out improvement programs in countries of origin. Cedric van Cutsem of ECOM says that funding received through CIP and other donors enables increased numbers of farmers to be involved in the certification program. CIP also helped to facilitate

scheduled training sessions for farmers and to organize awareness campaigns on UTZ certification.

The increased appetite of private sector parties to invest in sustainability is reflected by increased numbers of UTZ Certified members. Buyers, traders and manufacturers who become members of UTZ Certified register their sourced volume in the UTZ Certified traceability system and contribute to the further development of the UTZ Certified system through payments of administration fees and various membership fees. This number increased from 7 in 2008 to 450 in 2012. Similarly, the total sum investment grew from € 200, 000 to nearly € 1,5 million in 2012; clearly indicating a willingness to invest in improving sustainability.³²

3.2.5 CIP triggered private sector investments

CIP envisions joint investments by the public and private sectors in sustainability. Attracting private funds was an important condition for CIP to assure a lasting impact. This section questions whether CIP has succeeded in persuading the private sector to finance further investments. The multiplier effect can be seen in four ways.

CIP funding

The proportion of funding to CIP by the private sector has increased from 20 percent at the start to a cumulative 49 percent at the end of the program and private sector funding exceeded public funding in the final year. This indicates that CIP has succeeded in attracting interest from the private sector and that companies perceive they can benefit from their participation.

Cocoa Productivity and Quality Program

The CPQP aims to match the funding of private investors in the development of producers. Starting in June 2012, the program has already resulted in a number of private investments. Private investors have been asked to provide estimates about their investments and the number of producer groups receiving credit. As of January 2013, eight projects had been approved. The first phase of the CPQP includes a total investment of € 17 million, while the second round amounts € 9 million.

Field projects under CIP – CPQP attract more investments

AHANSUCOFA, discussed in paragraph 3.1.4, is an example of the multiplier effect. The group received around US\$ 90,000 of CIP funds³³. At the end of its CIP involvement, the program reached

out to a commercial party to ensure future uptake of certified cocoa beans. As a result, Noble Resources started to support AHANSUCOFA. However, it is not known how big this multiplier effect is at CIP level.

Sustainability is rising up the agenda in the cocoa industry

Due to the increased awareness of sustainability issues in the cocoa industry – partly as a result of CIP’s activities – more organizations have become aware of the issues and the associated opportunities, which may have led to an increase in overall investment in the cocoa industry. However, it is difficult to estimate the size of investments and to attribute the effects to CIP.

3.2.6 Conclusion on improving the enabling environment

The evidence suggests that CIP was effective in the development of the UTZ Certified Code of Conduct. It also effectively raised private sector funds to support its own activities. CIP contributed to learning and to increasing awareness through a number of workshops and contributions to conferences. Hence, CIP’s primary targets set in 2008 have been met. In addition, leveraging the initial investments under CIP, private organizations have made investments in projects run by CIP.

Figure 13
Development of public-private funding of CIP³⁴

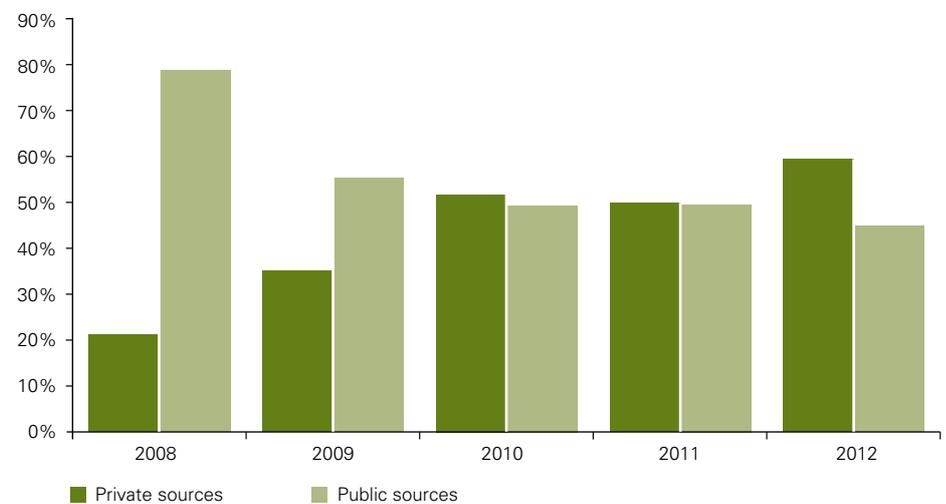


Figure 14
Objectives related to enabling environment³⁵

Indicator	Baseline 2008	Target 2012	Realized 2012	Achieved
UTZ code of conduct in place	NO	YES	YES	√
Number of learning working groups and international forums organized	0	4	6	√
Company contributions to CIP	21% of total budget	50% of total budget	~50% of total budget	√

√: Target achieved

Box 6

CIP investments in research on business cases

To encourage first buyers, farmers and others to invest in better agricultural practices and certification, IDH commissioned research on expected payback periods. Although a business case always depends on many assumptions, CIP-commissioned research suggests that the payback period for investments in certification is 3-4 years for those who invest in Ghana and Ivory Coast³⁶.

The business case for certified cocoa is largely reliant on the current premium for certified cocoa and the yield increase said to be linked with certification practices. Several studies suggest a yield increase associated with certification. Respondents in the business case study³⁶ suggested a 20% yield increase could be achieved by applying Good Agricultural practices.

The benefits of using fertilizer are clearly set out in a CIP-funded research document³⁷. Despite several government programs to promote the correct and/or efficient use of pesticides and fertilizer, the number of farmers that apply these inputs professionally is still relatively low in Ghana and Ivory Coast.³⁷

Model – Sample outcome (interventions: certification + GAP + crop financing + input financing)

	Unit	Year 0	Year 1	Year 2	Year 3	Year 4	Total	Total/ MTcert
Volume of certified cocoa traded								
Total production available for cert channel	MT / farmer	1.25	2.17	2.26	2.36	2.36	10.40	
Leakage (conventional sales + multi-certification)	MT / farmer		35%	30%	25%	25%		
Volume of certified traded	\$ / farmer	0.00	1.41	1.58	1.77	1.77	6.53	
Cost-benefit exporter								
Total costs	\$ / farmer	-145	-184	-132	-113	-102	-677	-104
Premium received	\$ / farmer	0	275	309	345	345	1274	195
Grant funding received	\$ / farmer	0	70	79	89	0	238	36
Premium passed on to coop/farmer	\$ / farmer	0	-165	-185	-207	-207	-765	-117
Net cost-benefit	\$ / farmer	-145	-4	71	113	36		
Cumulative cost-benefit	\$ / farmer	-145	-149	-78	35	71		

1 Yield goes up as a result of better practice and use of inputs.

2 Leakage is reduced as a result of more liberal crop financing.

3 Cost of \$104 per certified metric tonne over a period of 5 years.

4 Premium per tonne is assumed to be constant. After pay-back period, it may be possible to reduce premium or increase share to farmer/coop

5 Grant funding of \$50 per tonne for the first 3 years.

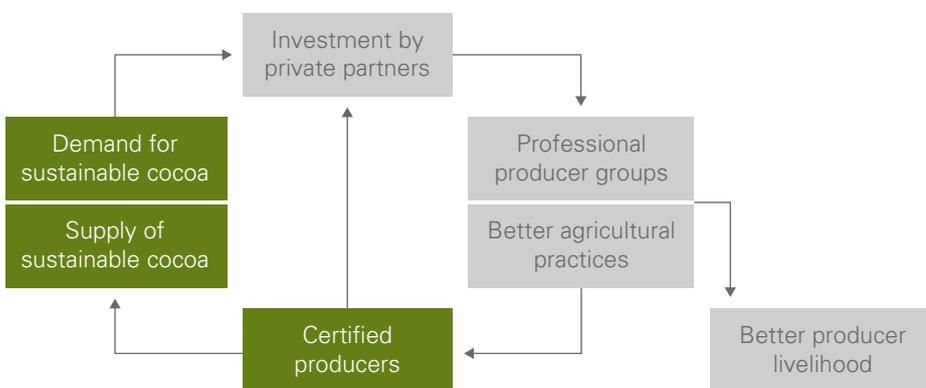
6 Share of premium passed on to coop/farmer assumed to be constant (60%). This could be varied over time to speed up recouping of investments.

7 In this case the financing party makes a profit after break-even. In reality the share of premium to the farmer/coop may increase or the premium may decrease.



8 Model calculates pay-back period as the timing of cumulative break-even. In this case, **payback period** is 3.7 years (cumulative cost-benefit positions are year-end positions).

3.3 Significant Change 3: Establishing sustainability in the cocoa industry



CIP contributed to the development of a code of conduct for cocoa. This section discusses how CIP has contributed to establishing sustainability in the cocoa sector and why it has been effective in accelerating the market transformation towards mainstreaming of certified cocoa.

3.3.1 Right message and right timing for mainstreaming sustainable cocoa

A key success factor of CIP was its timing. After the approval of the Harkin-Engel protocol in 2001, the industry needed a mechanism and a framework to bring its intentions to practice.

Although the July 1, 2005 Protocol deadline was not met, the industry committed itself to establishing a certification system covering at least 50 percent of the cocoa growing areas in Ivory Coast and Ghana by 2008³⁸. When CIP started, existing certification schemes were not sufficiently adapted to the requirements of major processors and manufacturers and a scheme providing logistical flexibility and a focused approach was needed. At the same time, customers in Northern hemisphere markets were becoming more aware of the issues through a wave of documentaries, publications and media attention³⁹. One of CIP's aims was to move sustainable cocoa from its niche market status into the mainstream. Mainstreaming is important for certification schemes because it creates economies of scale that reduce the costs of certifying more isolated producers. Internal Control Systems, input financing and auditing are expected to benefit from economies of scale. Mainstreaming also allows more producers to be reached, including those that are more isolated.

CIP, therefore, attempted to further increase awareness for sustainability and specifically for certification by attending conferences and organizing workshops in Nigeria, Cameroon, Ghana, Ivory Coast and Indonesia, while public awareness campaigns were held in Western Europe that led to a TV documentary on sustainability in the cocoa sector⁴⁰.



How do suppliers evaluate CIP's contribution to mainstreaming of sustainable cocoa?

KPMG's survey results and in-depth interviews show the extent to which CIP has been instrumental in embedding sustainability principles in business models in the cocoa supply chain. While it is impossible to ascribe all changes in this fast-changing industry to CIP, a number of positive changes can be attributed to its implementation.

3.3.2 Increased volumes

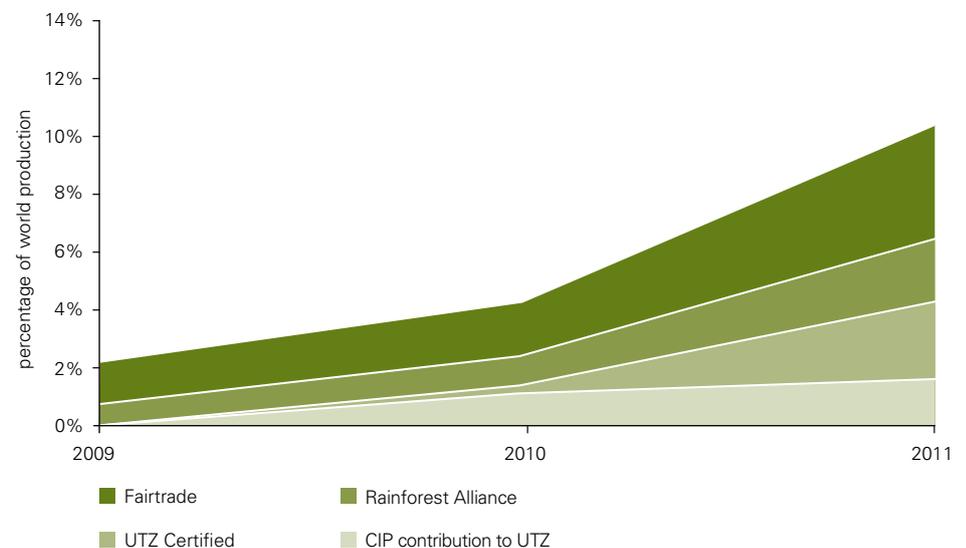
One obvious indicator for success of the program is the amount of certified cocoa produced, which has grown significantly. By end 2012, UTZ-certified production amounted to 10 percent of world production, compared to close to 0 percent in 2009⁴¹. UTZ-certified cocoa is now produced in most countries where CIP has been active. Moreover, products with the UTZ Certified label are now sold in 86 countries⁴² and UTZ Certified has an increasing number of members.

In order to benefit from certification, producers must be able to sell their beans at a premium. If there is no uptake of certified cocoa by buyers, the producer has to sell its beans to the conventional channel, forgoing any premium and resulting in lost income for producers.

From figure 15 it becomes clear that the volume of UTZ Certified-produced cocoa increased in recent years. However, this increase does not equal the increase in

Figure 15

Cocoa beans production potential according to individual schemes⁴³



volume of sustainable cocoa since 49 percent of producers certified under CIP are multi-certified. This means that the volumes produced could also be sold under certification schemes other than UTZ Certified (and not monitored by UTZ Certified). The actual uptake as UTZ-certified cocoa is only 46 percent of the UTZ certified-produced cocoa, while CIP aimed at an uptake of at least 50 percent⁴⁴. This difference could be caused by multi-certification of producers or by UTZ-certified cocoa being sold as 'non-certified' through the conventional channel for various reasons. The causes for low uptake as well as potential interventions are discussed in chapter 4.

Stakeholder perspective

Interviews with buying, processing and manufacturing companies show that

CIP has played a significant role in embedding sustainability through the supply chain, although views on the relevance of this differ:

- An executive at a large manufacturer of cocoa products said his company believed CIP should continue to focus on sustainability at the farm level and not at the larger value chain level. He comments:

"UTZ Certified has focused on the farm, and I support that. Environmental issues within the supply chain should be left to others. For us, roughly 85 percent of our environmental impact from the supply chain is at the farm level in the countries of origin".



- According to Harold Poelma of Cargill, the company has been able to use CIP to extend its sustainability drive beyond its own core activities, and to cocoa farmers themselves. He says:

“Cargill has been able to get more involved with farmers and farmer groups on the ground because of CIP match-funding capabilities”.

- Cedric van Cutsem of ECOM says the primary focus of sustainability within CIP is on farmers and farm co-operatives.

“Training sessions provided to farmers and co-operatives on good agricultural, social and environmental practices enable them to apply sustainability practices into their business models. Our strategy consists of following farmers every day and we now have agricultural engineers who are involved in the daily life of farmers”.

Figure 16

Objectives related to establishing sustainability⁴⁵

Indicator	Baseline 2008	Target 2012	Realized 2012	Achieved
Number of countries where consumers can buy UTZ-certified cocoa	0	15	86	√
Purchases of certified cocoa (as certified cocoa)	0	50% of certified volume	46% of certified volume	X

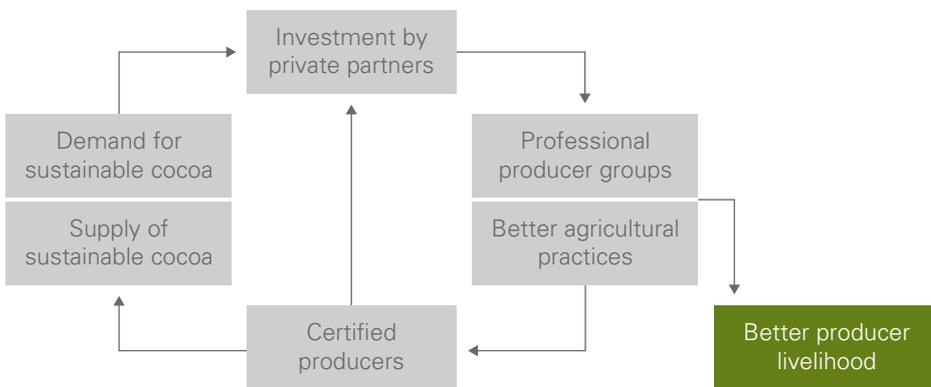
√: Target achieved X: Not achieved

3.3.3 Conclusion on establishing sustainability

According to interviewees and documentation, it seems that CIP has accelerated the mainstreaming of certified cocoa. UTZ-certified cocoa is now offered in various countries. However, the speed of the transformation has had some downsides.

Although the volume of certified cocoa sold exceeded projections, the uptake has been lower than targeted (46 percent).

3.4 Significant change 4: Value Creation



production practices as shown earlier in this report, there is insufficient evidence to say that cocoa farm yields have increased due to the activities of CIP. In general GAP is said to lead to 20% yield increase (KPMG, 2011). Some studies (COSA, 2012) show 70% higher yield of certified farmers compared to control groups in 2011, but due to poor baseline data, complexity of cocoa agronomy with regards to intervention options and lack of reliable land size data it has not been possible to scientifically underpin that claim in this study.

Did CIP create value for producers? The program builds on the idea of a multiplier effect; by building new interconnections between actors, CIP aimed to help build a virtuous circle that benefits all actors in the cocoa chain. This section discusses whether CIP created added value for producers and

supply chain actors. It will first discuss the available evidence on yields, premium and quality. It will then discuss whether CIP added value for producers, including a discussion on its costs.

3.4.2 Premium paid

In a survey of five external partners who handled 11 percent of global cocoa production in 2011/12 and who bought significant volumes of UTZ Certified beans in Ivory Coast and Ghana, respondents said they paid a premium of about 10 percent on average on UTZ certified cocoa between 2009 and 2012 in Ivory Coast.

3.4.1 Yield increases

Although CIP producers apply better

Figure 17
Average premium additional to conventional price for 2009-2012 in Ivory Coast⁴⁶

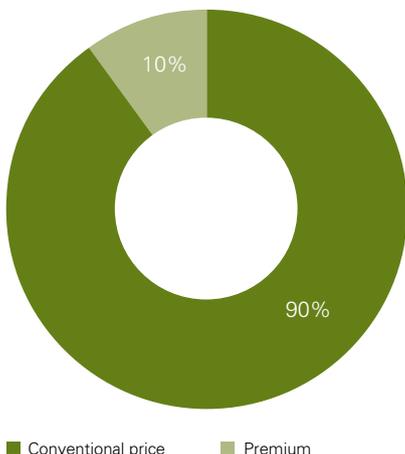
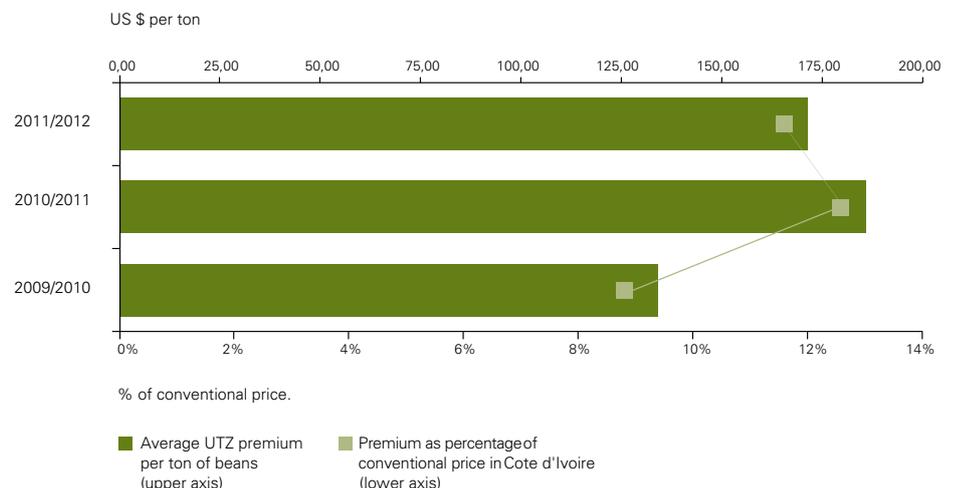


Figure 18
UTZ Premium on cocoa beans paid to producers/producer groups in Ivory Coast⁴⁷



The surveyed companies expected to buy 56,000 tons of UTZ certified cocoa in 2011/12 and reported similar volumes in the previous year.

The joint purchases of the surveyed companies represent 4 percent of Ivory Coast's annual production⁴⁸ and almost 100 percent of UTZ certified cocoa purchases in Ivory Coast. If it is assumed that the average premium reported by supply chain actors is representative for all UTZ certified cocoa and if this is applied to the average price reported to be paid by those traders, in Ivory Coast, a total of \$ 19 million in premium was paid from 2009-2012⁴⁹. However, we have no data points on Ghana or any of the other countries involved in CIP. Moreover, the data on premium paid in Ivory Coast cannot be verified based on the data available.

3.4.3 Improving quality of cocoa beans?

The quality of cocoa beans is indicated by humidity, slate, mould and free fatty acid (FFA). A low percentage of humidity, slate, mould and FFA indicate a higher quality. These characteristics signify ease of processing and the proportion of beans expected to be used for low-quality or non-food products. The UTZ Certified Code of Conduct includes criteria on consistent quality of cocoa beans.

For example, the Code requires that producers are trained on good agricultural practices (including integrated pest management and maintenance of long-term soil fertility), good harvest and post-harvest practices and product quality and food safety.

A KPMG survey indicates UTZ-certified cocoa has on average a higher quality than cocoa that is not UTZ-certified.

A cocoa processor points out:

“The farmers in our program have become more professional; mostly because of training on good agricultural practices and how that affects plantations. This mostly shows through in quality. For us this is the best indicator.”

It should, however, be noted that it cannot be concluded based on the data shown in figure 19 that UTZ-certified farmers on average produce higher quality cocoa beans than non-certified farmers. Some parcels of beans offered as UTZ-certified do not meet the minimum quality standards for which

the buyer is willing to pay a premium. These lower quality beans are reclassified as conventional beans, for which the seller does not receive a premium. It is not known what volume of UTZ-certified beans was reclassified as conventional beans during the surveyed period. However a relatively low uptake could indicate that a part of UTZ-produced cocoa did not meet quality standards and as a result has been reclassified.

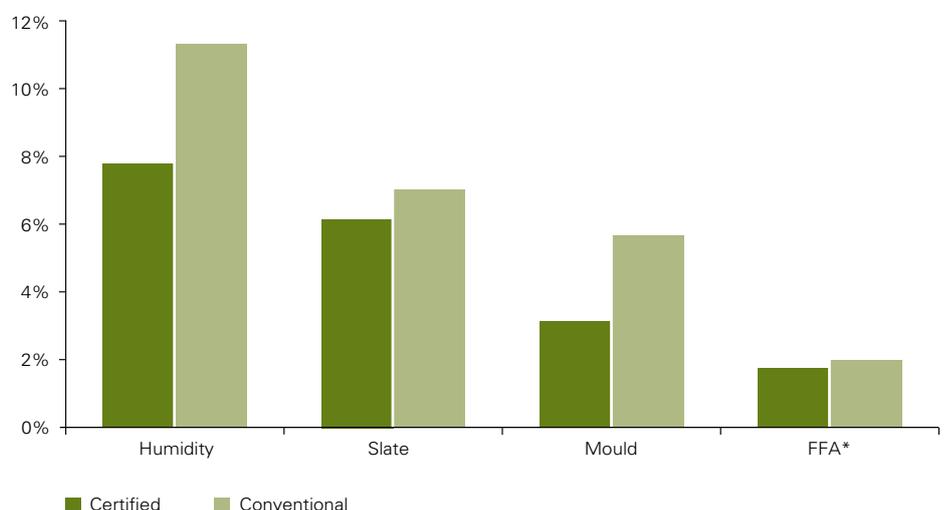
3.4.4 Value creation by producers

While the benefits of CIP participation for producers have been set out, they must be balanced against the (potential) costs.

Benefits of CIP participation (recap)

As discussed in paragraph 3.1, provided that certain conditions are met, CIP training contributes to improved

Figure 19
Average quality characteristics of cocoa beans in ivory coast 2009-2012⁵⁰



*free fatty acid

farming practices leading to higher yields. LEI (2012) shows that length of participation in a CIP project, knowledge score, being a lead farmer or a male and participation in other training, are associated with the implementation of more sustainable farming practices in Ghana.

Better farming practices and adequate use of inputs lead to higher yields and better quality beans⁵¹, providing a return on investment to producers (KPMG, 2011).

A KPMG study for ICCO (2012) suggests the benefits of certification outweigh the disadvantages and higher yields typically lead to a higher producer income for certified farmers. CIP's theory of change appears to be proven; more professional producers are able to be more productive.

Cost of CIP participation

The costs of participating in CIP can relate to staff, training and certification. The costs of certification mainly result from administration and auditing costs. Producers who make these investments risk not being able to receive a positive return on investment. A key indicator for the risk of producers not being able to sell their beans as UTZ-certified is the uptake. Based on assumptions used in earlier modeling exercises⁵², the achieved uptake of 46 percent in CIP is generally too low for producers to receive direct benefits from certification. Therefore, value creation comes merely by the net effect of yield increase (benefit yield increase – cost of inputs) resulting from better production practices.



At the moment, there is insufficient evidence to draw conclusions on CIP's effect on yields.

3.4.5 Conclusion on value creation by producers

It is hard to say to what extent CIP has contributed to value creation by producers. Some producers have seen measurable benefits, such as AHANSUCOFA. CIP has not yet been able to measure improvements in yields, although the results of a study

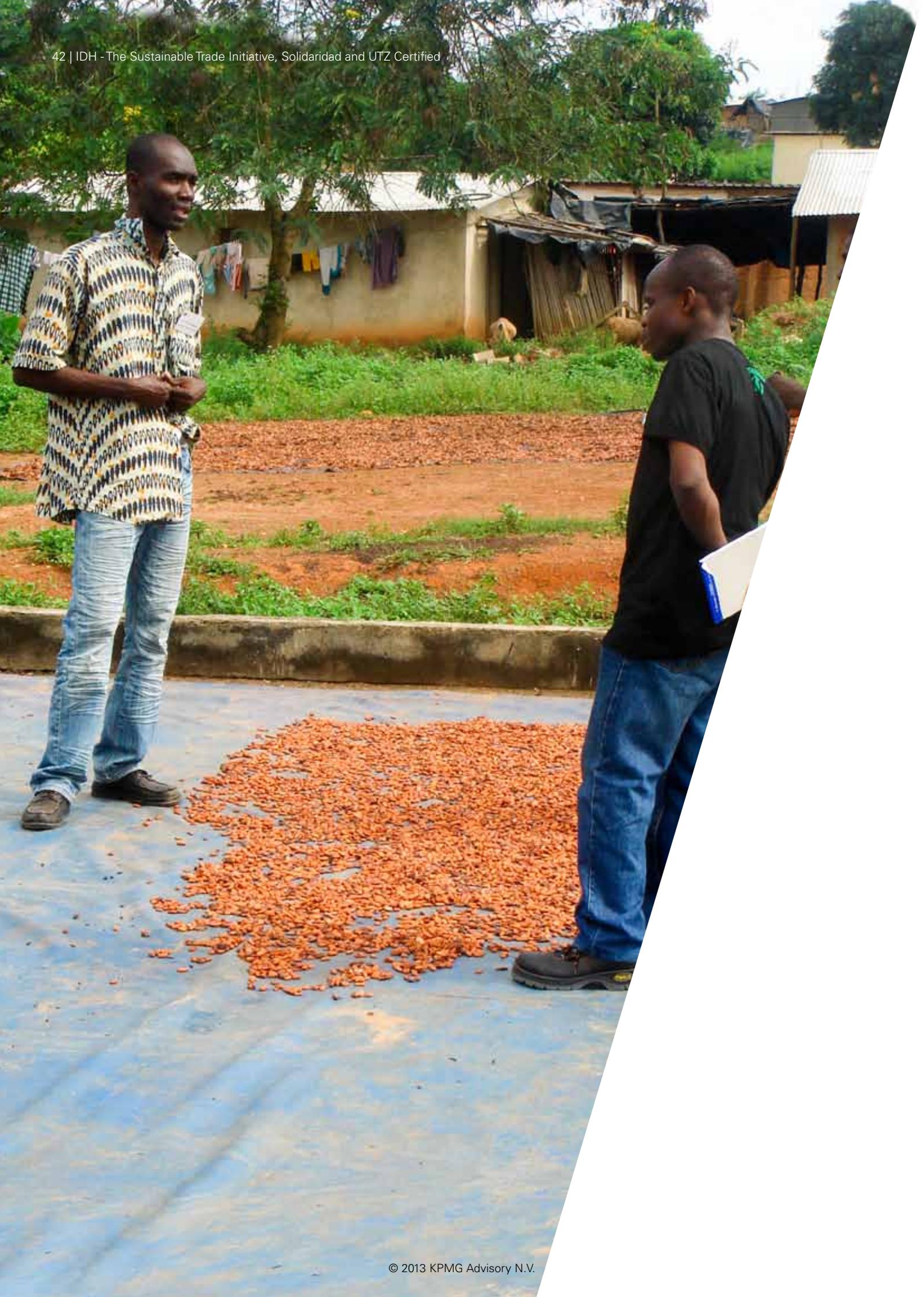
on yields are expected to become available in the near future.

Indicators for quality seem to suggest the quality of certified beans is higher on a supply chain level. Value for companies is created because they will be able to secure supply on the longer term. We see evidence that a positive, virtuous circle has been set in motion, as more producers are certified and demand for sustainable cocoa continues to increase.

Figure 20
Objectives related to value creation⁵³

Indicator	Baseline 2008	Target 2012	Realized 2012	Achieved
Measured result in production	NA	Data collection in 2012	-	?
Quality of UTZ Certified Beans	3,5% humidity discount	0,1% humidity discount	-	?

? : Insufficient information.



4 Challenges ahead

Over the last four years CIP has been successful on six out of ten of its objectives, with many more producers certified and a higher volume of certified cocoa than anticipated. Yield improvement, increased uptake of certified cocoa (measured) and improved quality of beans cannot be attributed to CIP yet. Hindsight suggests that some targets could have been achieved more efficiently, and some issues could have been addressed earlier. Future programs involving supply chain certification could benefit from the lessons learned during the execution of the first CIP, as discussed below.

4.1 Lessons from CIP for supply chain transition programs

To set a supply chain in motion towards more sustainability, a certification standard is very effective

Respondents in our survey indicated that sustainability has become a license to operate in the cocoa chain.

The availability of a certification standard flexible enough to meet the needs of supply chain actors has helped to stimulate the first steps towards mainstreaming sustainability. CIP has raised awareness and built support from corporate partners. It also supported producer groups through activities such as training technical assistants, auditors, buyers, producers and organizing a leadership program. These activities have been effective in building certification capacity.

Summary:

CIP has been effective in supporting UTZ Certified certification. By adapting the standard to the needs of the industry and presenting a transparent and well-tested code of conduct, CIP gained credibility amongst potential partners.

Partnerships and timing are of key importance to mainstreaming

Key to the success of CIP has been its timing and the strong partnerships that have been developed during the

program. The partners gained credibility by investing in certification, enabling mainstreaming in later phases. A series of other activities were also carried out to make sustainable cocoa more mainstream. The amount of time it takes to gain certification has been cut by training certification bodies to audit producers and supply chain actors on their application of the UTZ Certified Code of Conduct. In 2011, the code and corresponding manuals were available in eight languages, the number of certification bodies increased from a handful in 2010 to 43 in 2011 and 54 in 2012 and products with the UTZ Certified label are now sold in 86 countries. Next to partnerships and timing, the shift of focus in CIP from developing a code of conduct towards an implementation phase has been very effective.

Summary:

Key success factors of CIP in mainstreaming certification have been timing, partnerships and shifting to an outward focus at the time of implementation.

Figure 21
Characteristics of CIP



Producers can become more professional due to training

CIP focused on making producers more professional by improving their knowledge and skills in good agricultural practices. KPMG's survey and in-depth interviews show that CIP has helped to make producers more professional. Research by LEI (2012) shows that length of participation in a CIP project, knowledge score, being a lead farmer or a male and participation in other training, are associated with the implementation of more sustainable farm practices in Ghana.

Summary:

Producers can become more professional due to a program focused on training.

Minimizing the cost of certification to producers

Certification may come at a cost to producers. A major challenge is to minimize its cost. The most effective ways to do this are improving uptake and reducing multi-certification.

At the time of this evaluation, the level of uptake (the ratio between UTZ-certified demand and UTZ-certified production) was only 46 percent while CIP aimed for uptake of at least 50 percent. A low uptake ratio may result from a number of causes. Figure 22 provides an overview of possible causes and pathways for improvement of the ratio between demand and certified production).

Although investments in producer training should continue, under

certain conditions the roll-out of the certification program could be slowed down and fewer producers should be certified. As indicated earlier, certification without proper uptake will result in lost income for producers. Hence, it is important to ensure a high uptake whenever possible. Producer groups need to include possible leakage in their investment decisions. In order to mitigate the risk of lost income for producers, it is important to have accurate figures and to understand the causes of the difference between volume produced and volume confirmed by buyers. In addition, further insight into the sourcing strategies of buyers is needed to gain better understanding of their decision-making models.

Summary:

Better insight into the difference between volume produced and volume confirmed by buyers is needed in order to understand why uptake levels are low and how the risks of lost income for producers can be mitigated. Before any activities are implemented to increase uptake ratio, program participants are advised to agree on a methodology to calculate this key performance indicator and how to work on root cause analyses.

Develop a protocol on multi-certification

If a producer needs to comply with two certification standards, his costs increase. This is the cost of multi-certification. Data shows that 49 percent of certified producer groups were multi-certified⁵⁴.

This means that producers that have been UTZ-certified were also certified against another certification standard such as Fairtrade, Rainforest Alliance or organic. Multi-certification has clear benefits in terms of flexibility for the farmer, but is also a major threat to the business case for certification.

CIP has already invested in harmonization between schemes through the Certification Capacity Enhancement program. Although there might be some uptake advantages from multi-certification, this mitigates risk only in specific circumstances.

If a producer group is already certified against a standard with more strict requirements, for example a standard specifying a minimum price, multi-certification will not offer many advantages⁵⁵. Programs aimed at certification in any form are advised to have a clearly formulated policy on multi-certification. Such a policy could be formulated as a decision protocol that describes when multi-certification is desirable.

Given the existence of multiple certification standards, co-auditing – where auditors are trained and licensed to evaluate compliance of producers against multiple standards at the same time – should be incentivized.

Summary:

Develop and maintain a policy on multi-certification in order to reduce costs and avoid unnecessary expenses.

**Figure 22**

Causes for low uptake and pathways for improvement

Possible causes of low uptake	Pathways for improvement
Market demand	
Demand for UTZ-certified cocoa may be too low compared to production.	Further developing the market for certified cocoa by partnering with more companies and creating more customer awareness.
Buyers may be reluctant to buy from producers that are multi-certified. From a buyers' perspective, loyalty and trust with suppliers can be perceived as an asset. A buyer who has invested to certify producers could perceive multi-certification as a risk.	Develop a policy on multi-certification and ensure that producer groups are enabled to take well-informed decisions about the costs and benefits of multi-certification.
It is possible that buyers only classify beans as UTZ-certified when they meet a certain quality standard. This allows them to sell their beans at a premium to their customers. As a result, lower quality beans will have to be sold via other channels.	Investing more in training and capacity enhancement by producers, enabling them to meet quality standards and yield targets.
Monitoring and reporting	
Delayed reporting by participating companies to UTZ Certified.	Incentivize timely reporting.
Over-estimation of production volumes by UTZ Certified. Due to a limited control over the reported volumes, estimates of production potential by UTZ Certified might be too high. Production volumes are based on estimated production potential of certified producers. It might be possible that the production volume is overestimated.	Improve estimates over time and build stronger reporting lines on key KPIs for the success of the program.
Systemic fluctuations	
Temporary variations in production due to weather-conditions and diseases.	More conservative production estimates.
Leakage to other channels such as other certification schemes or the conventional channel.	Reduce multi-certification and analyze economic, social and cultural drivers to sell to the conventional channel.

Integrity is a key requirement for certification

A concern that was raised by a number of stakeholders in KPMG’s survey was that the rapid expansion of the program could lead to reduced scrutiny and control. Some interviewees signaled that reinforced auditing is necessary to avoid certification of non-compliant farmer organizations, fraude and cases where child labour persists, as well as to make sure farmers are properly trained.

One international manufacturer said:

“It is only anecdotal evidence, but plenty of suppliers are coming to us and saying that there are farmers who are certified today who have never received any training.”

A corporate interviewee involved with multiple certification schemes warned:

“Certification given to fraudulent actors can jeopardize all the certification programs.”

A trader in Ivory Coast added:

“Certification bodies have to check product traceability. They have to make sure that farmers have really attended training sessions and that the farmers really exist. Sometimes, fictitious farmers are created.”

Summary:

It is important to develop more stringent controls and implement rigorous auditing processes to ensure the reliability of the certification program.

4.2 Recommendations to the Cocoa Productivity and Quality Program (CPQP)

In addition to gathering lessons from the Cocoa Improvement Program, we have been asked to formulate recommendations for its successor, CPQP. Already, lessons from CIP have been adopted in the new program. There may be a limit to the amount of sustainable production the market can support. With increasing amounts of cocoa acreage certified, it might become difficult to find conventional cocoa that can be certified without high cost in some countries (see figure 23). For additional producers, the benefits are lower while the costs to get certified are higher. Beyond a certain level of global coverage, neither producers nor private partners will benefit from certification⁵⁶. These insights have already been incorporated in CPQP by paying more attention to issues such as access to finance.

Effective monitoring and evaluation

Our evaluation of CIP data suggests that monitoring indicators have been well thought through. However, control structures on some key indicators have not been sufficiently robust and an internal reporting system was built

on trust rather than on independent review.

The need for more transparent monitoring and evaluation was clearly articulated in interviews; one manufacturer claimed that:

“Impact data will allow more than just a brand commitment, it will help to create a greater level of responsibility throughout the supply chain. The big gaps in the research for the business case are at the farm level, and on the return on investment for exporters and manufacturers.”

Although efforts were made to conduct baseline studies at the beginning and end of CIP, there was no full impact assessment. To measure the impact of CPQP accurately and manage the program effectively, we recommend a continuous monitoring system with, for example, quarterly updates. Considering its potential cost, continuous monitoring should be limited to a few robust indicators and it should avoid ‘story telling’ based on a wide range of indicators.

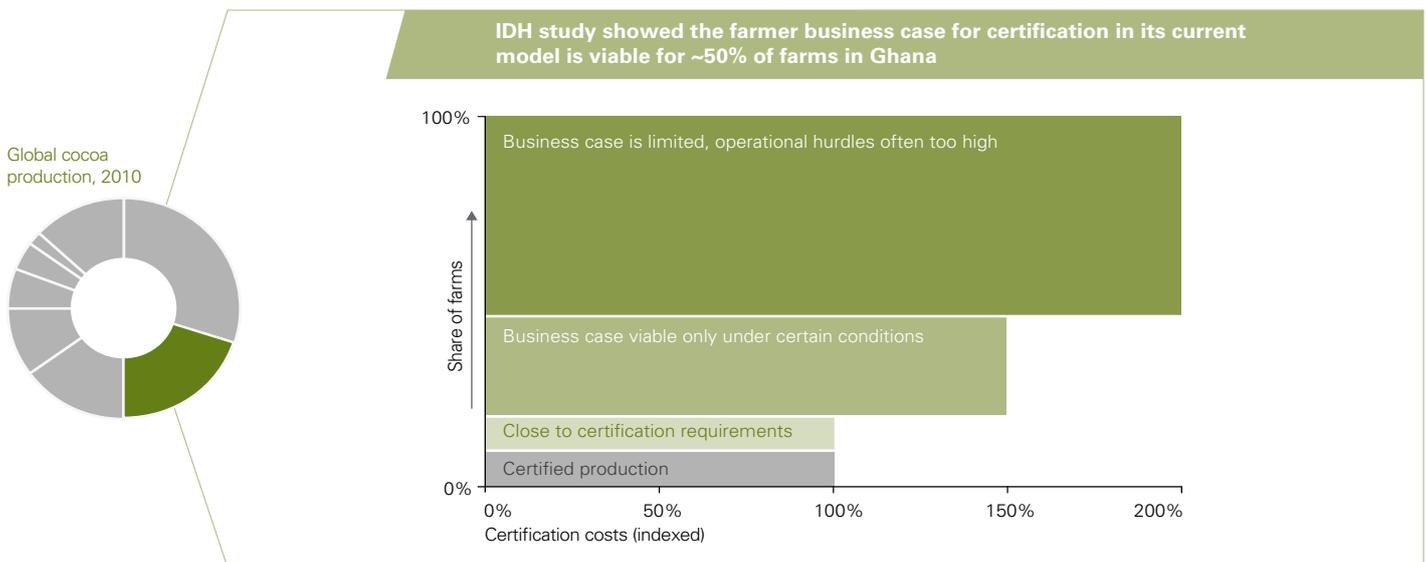
One option is to monitor more closely smaller groups of farmers over a couple of years as part of the CPQP project requirements.

Support income diversification of producers

One focus of both CIP and CPQP is on improving the livelihood and income security of producers. To secure a stable income for producers, a successful program

Figure 23

CIP expects that innovation and scaling will enable viable business cases for more⁵⁷



Source: adapted from KPMG (2011) Sustainable Cocoa Fund Study – Cost/benefit analysis of cocoa certification in West-Africa (presentation at the International Supply Management Congress, December 2011)

should ensure producers can deal with market price fluctuations by having a diversity of income sources. Income diversity can be sought horizontally or vertically.

Horizontal diversification can be achieved by planting different crops on the farm. Vertical diversification means that producers invest in processing facilities to move up higher in the value chain. Although producers may only be able to finance such investments far into the future, the program could work on developing low cost production facilities and there may be an opportunity for CPQP to collaborate with existing knowledge institutes⁵⁸.

Apply an ‘additionality’ requirement to all new activities

To really improve producer livelihood, CPQP should focus on the approximately 40-60 percent of producers with potentially no viable business case (see figure 23). By conducting projects that individual companies do not do, because of the lack of short-term benefits, impact of the program is maximized. For example, by certifying a remote and isolated producer group and investing in logistics, producers with relatively small chances of being supported by companies might develop into interesting and reliable business partners. By introducing the additionality requirement in all projects, the program may increase its impact on producer livelihoods. The additionality requirement

could be incorporated in the CPQP by requesting participating organizations to submit projects only in geographical areas not covered by existing programs. ‘Additionality’ requirements could, for example:

- Address producers that are not organized in groups.
- Enable vertical integration of producers in the supply chain, by giving them ownership of production facilities (for inputs or for cocoa processing). An enabling activity could be the development of a pilot plant.
- Invest in a common good, such as cultivating seedlings suitable for grafting (upgrading of old trees).



5 Conclusion

In conclusion, it is clear that CIP has made a contribution to making the cocoa chain more sustainable. Sustainable practices and products have been extended throughout the value chain, from sustainable farm management and production techniques, through traceable certified products in the international cocoa trade, and on to an incorporation of sustainability as the default standard in the consumer cocoa products industry. The report found a defining factor in the success of CIP was significant and long-term private sector participation in the program. CIP is likely to have contributed to the professionalization of producers and to creating a better enabling environment for investment. Other changes cannot be attributed to CIP yet.

This contribution towards a sustainable cocoa chain must be consolidated. Policymaking and implementation could embrace a wider range of direct stakeholder voices, including producers and producer country governments. Further data-based work on the impact of and business case for certification would be useful, including a review of the linkages between cocoa and other agricultural commodities in producer economies. Perhaps most importantly, further efforts are desirable to strengthen the reliability and credibility and thereby address concerns as raised in some of the sector interviews. These initiatives are likely to prove critical to succeeding programs like CPOP and for the global effort to make sustainability mainstream.



Figure 24
Summary of evaluation

Change identified	Result of evaluation
Contributing to the professionalization of producers by improving knowledge and skills on good agricultural practices	● ● ●
Improving the enabling environment consisting of more trust and appetite to invest in the cocoa sector by the private sector, combining resources of commercial companies and public actors	● ● ●
Contributing to establishing sustainability in the cocoa sector and accelerating the mainstreaming of sustainable cocoa	● ● ●
Contributing to increased value creation by producers by improving cocoa quality and lifting yields which contribute to improved livelihoods of producers	● ● ●

For the longer term, stakeholders agree that CIP and its succeeding programs should align with governments and local institutions on a roadmap to anchor sustainability into the economic structure of producing countries.

Appendix 1- KPMG methodology

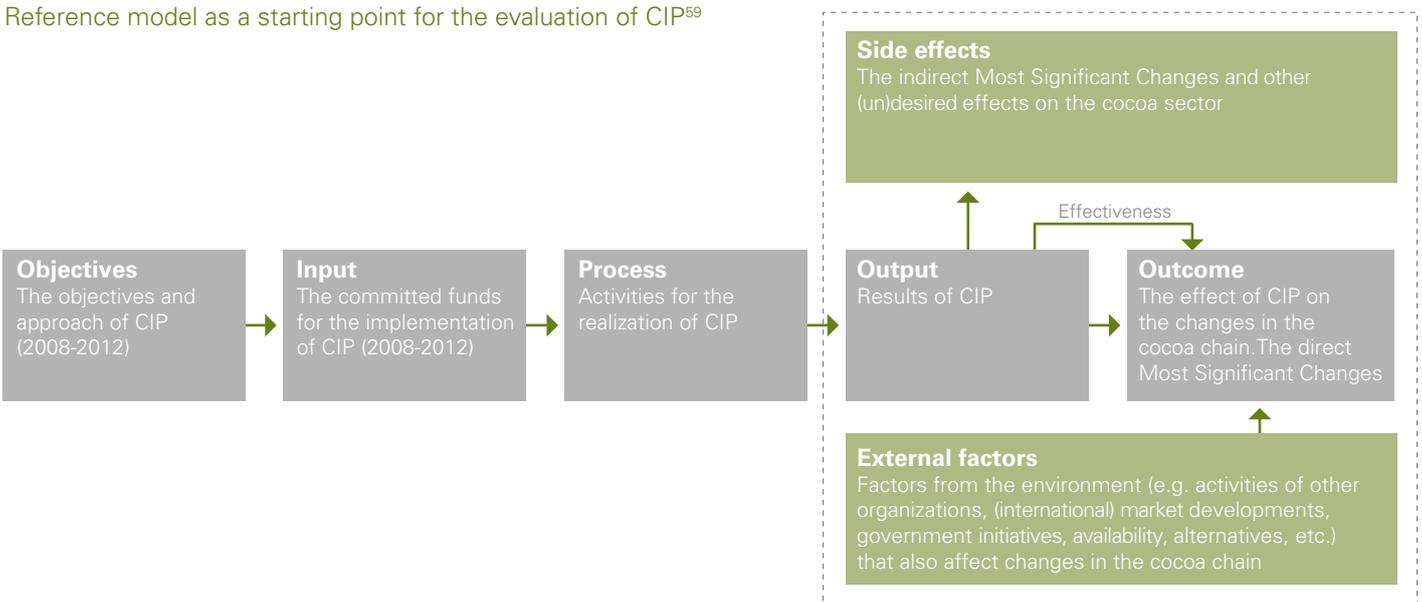
This appendix explains the methodology applied to evaluate the effectiveness of CIP.

Reference model as a basis for the evaluation

The figure below outlines the relation between the different components of the evaluation process and is used as a reference model for this project. A central element in this evaluation related to the 'effectiveness' of CIP: the attribution of CIP to the transformation of the cocoa sector as a whole including the (un)desired effects on the cocoa sector, successes and lessons learned. To get insight in the effectiveness of CIP we focused on the relation between the output (the concrete results of CIP) and outcomes (the four most significant changes).



Figure 25
Reference model as a starting point for the evaluation of CIP⁵⁹





A stepwise approach

The evaluation of the effectiveness of CIP consisted of the following steps:

The evaluation started by collecting and analyzing the available data on CIP: e.g. reports on household survey data, KPIs and the identification of the most significant changes. In addition, a workshop with Solidaridad, UTZ Certified and IDH – The Sustainable Trade Initiative was organized to gain deeper insight into CIP and the most significant changes. Based on 16 changes identified by the partners within CIP, four hypotheses were formulated as a basis for our research.

Subsequently, a framework of specific and measurable criteria was developed against which the most significant changes were assessed. This resulted in questions for the survey and interviews and in a format for data collection. These questions were tailored to different actors in the value chain. The questions for the survey were developed to identify the perceived influence of CIP compensated for the impact of external factors and side-effects (see Appendix 2 for an overview of interviewees and respondents).

KPMG undertook interviews in Ghana and Ivory Coast amongst farm co-operatives, state buying and marketing organizations, and international trading,

processing and manufacturing companies, as well as conducting an additional quantitative survey of 20 organizations and analyzing data from traders. Based on analysis of the results, we drew conclusions and formulated lessons learned and recommendations for the follow-up of the program. KPMG did not perform (financial or non-financial) audits on the data received from CIP and traders. The sources are explicitly mentioned for each figure in this report.

Figure 26:
Steps in the evaluation process⁶⁰

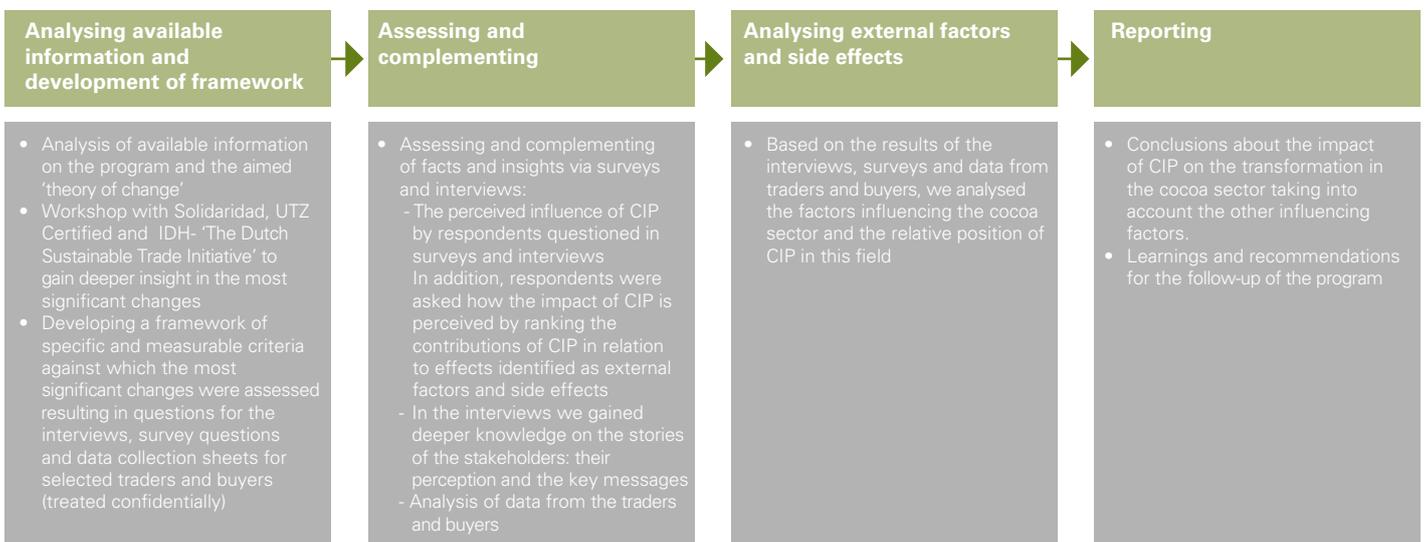
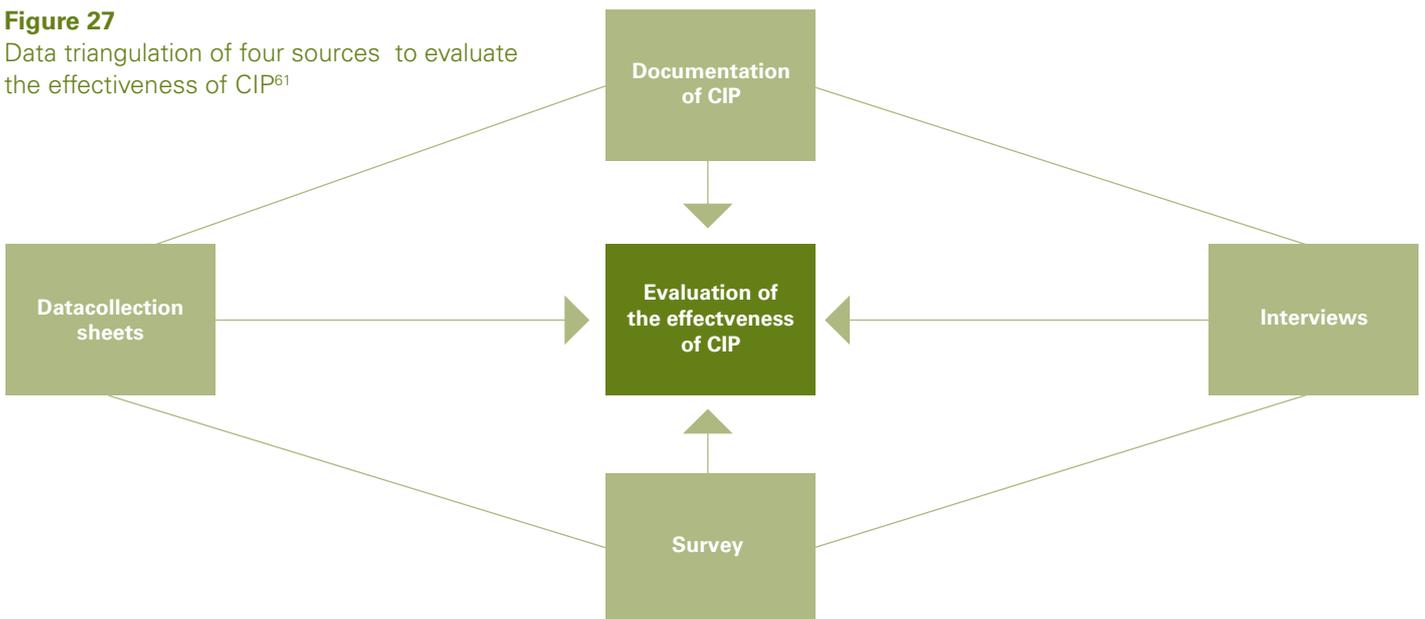


Figure 27
Data triangulation of four sources to evaluate the effectiveness of CIP⁶¹



Appendix 2- List of respondents

Interviewees

Producer groups:	2
First buyer organizations:	3
Traders:	2
Manufacturers and processors:	3
Government bodies:	2

Number of surveyed organizations: 20

Producer groups, first buyer organizations and traders:	10
Manufacturers and processors:	2
Retailers:	2
Non governmental organizations:	5
Government bodies:	1

Number of organizations responding to data collection: 5

Appendix 3- References

Documents provided by the partners in CIP

- Annex 1 Cocoa Improvement Program Annual Plan 2011 Country Information, March 2011
- Cocoa Improvement Program – Annual Plan 2012, 3 October 2011
- Cocoa Improvement Program – Annual Report 2010, 23 April 2012
- Cocoa Improvement Program – Annual Report 2010, 26 April 2011
- Cocoa Improvement Program – Draft theory of change, 30 July 2012
- Cocoa Improvement Program – Mid Term 2012, 6 September 2012
- Cocoa Improvement Program – Narrative Report 2008-2009, 28 July 2010
- COSA (2012), “Côte d’Ivoire Cocoa: COSA Survey of Rainforest Alliance Certified Farms – 2009-2011.” Committee on Sustainability Assessment.
- IDH Cocoa Improvement Program (CIP) Cocoa Partnership Proposal, 20 April 2008
- LEI Wageningen UR (2012) “Baseline study of six UTZ-Solidaridad cocoa projects in Ghana” by Waarts, Y., L. Ge, G. Ton & J. van der Meehn.
- Potts, J., Giovannucci, D., Bennett, M., Daitchman, J, Wunderlich, C., Rusillo, A. (2011) “Cocoa Farm Sustainability in Cote d’Ivoire: A 2009 COSA Baseline Survey for UTZ Certified.” Committee on Sustainability Assessment.
- Presentation Field Implementation Group 25 June 2012
- Scaling up the IDH Cocoa program Proposal of Solidaridad to Dutch Sustainable Trade Initiative, May 2010
- UTZ CERTIFIED Annual Report 2008-2011
- UTZ CERTIFIED Good Inside Chain of Custody For Cocoa, Version 2.0, June 2010
- UTZ CERTIFIED Good Inside code of conduct for Cocoa - For Individual Certification, Version 1.0 – December 2009

Other sources cited

- FAO (2009), "The market for organic and fair-trade cocoa". Published on the website of FAO (15-10-2012), [link](#)
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- KPMG (2011) Sustainable Cocoa Fund Study: Cost Benefit analysis of cocoa certification in West Africa
- KPMG (2012) "Study on the costs, advantages and disadvantages of cocoa certification".
- Mulato, S., Sugaryanto E., Firmanto, H. (2012) "Cocoa & Coffee based Technology Park for Rural Development". Jember: Indonesian Coffee and Cocoa Research Institute.
- Ruf, F. and Bini, S. (2012). Cocoa and fertilizer in West-Africa, CIRAD/UMR Innovation/IDH.
- Tropical Commodity Coalition (TCC, 2010), "Cocoa Barometer 2010". As published on the website of TCC (15-10-2012), [link](#)

Data sources used

- Budget overview for CIP provided by Solidaridad/IDH
- ICCO data on world production (2012)
- Data provided by traders (confidential)
- Data provided by UTZ Certified (Good Inside Portal, Management Reports, internal and external documentation)
- Data provided by West Africa Fair Fruit
- KPMG interviews
- KPMG questionnaire to cocoa supply chain actors

Footnotes

- 1 This figure cannot be verified based on the available data.
- 2 Based on 3-year average production 2009-2012 according to ICCO.
- 3 Against average ICCO price January-September 2012.
- 4 International Institute for Tropical Agriculture (IITA, 2002), Summary of Findings from the Child Labor Surveys in the Cocoa Sector of West Africa: Cameroon, Ivory Coast, Ghana, and Nigeria. As published on the website of US Government Department of Labor (15-10-2012).
- 5 'Organic' cocoa not considered. Source: FAO (2009), "The market for organic and fair-trade cocoa". Published on the website of FAO (15-10-2012).
- 6 Source: Budget overview provided by CIP
- 7 ICCO (2012) "Study on the costs, advantages and disadvantages of cocoa certification".
- 8 Source: Based on KPMG analysis of CIP Theory of Change
- 9 CIP, "Cocoa Partnership proposal"; 20 April 2008.
- 10 The common training curriculum was developed in the framework of the Certification Capacity Enhancement project (CCE), which is a joint project by Rainforest Alliance, UTZ Certified and Fairtrade International (FLO), Soidaridad and German International Development Co-operation (GIZ).
- 11 Based on KPMG (2012) "Study on the costs, advantages and disadvantages of cocoa certification".
- 12 Source: CIP Monitoring protocol 2007-12. Evaluation is based on CIP monitoring protocol mid-2012. For the two indicators 'number of certified producers' and 'volume of certified cocoa available' the data cover the full year 2012 and have been provided directly by UTZ Certified. In March 2013, yield data from the Cocoa Improvement Program will be available.
- 13 Source: company websites
- 14 Source: personal communication IDH
- 15 Source: KPMG analysis.
- 16 At the time of writing a second baseline study is being conducted for Ivory Coast.
- 17 Source: LEI (2012)
- 18 Source: LEI (2012)
- 19 Fukuyama, F. (1995), "Trust: The Social Virtues and The Creation of Prosperity". New York: Free Press.
- 20 Data provided by UTZ Certified based on the preliminary data from the UTZ Annual Report covering valid certificates per 1 October 2012 and submitted before end of February 2013. For the data presented UTZ cannot ascertain all producers are identifiable.
- 21 As a result of CIP discontinuing operations in Ecuador, producers certified in Ecuador were no longer attributed to CIP. This does not mean that Ecuadorian producers were no longer certified.
- 22 One bag weighs 64 kg, hence the premium received by producers is ~ \$ 20 per ton (currency rate 10-2-2013).
- 23 Source: Data provided by Solidaridad/West Africa Fair Fruit
- 24 Based on the number of certified producers in 2010-2011. Producers will have received full training in the second year after certification. For the indicators, 'number of certified producers' and 'volume of certified cocoa available', data cover the full year 2012 and have been provided directly by UTZ.
- 25 Based on CIP Monitoring Protocol 2008-2012
- 26 Source: data provided by UTZ Certified, cut-off date for applications 23 February 2012. Data based on Management Report figures from July 2012 covering valid certificates and those in the process of re-certification. For the data presented UTZ cannot ascertain all producers are identifiable.
- 27 Source: data provided by UTZ Certified based on Management Report figures from July 2012 covering valid certificates and those in the process of re-certification. For the data presented UTZ cannot ascertain all producers are identifiable.
- 28 Based on budget overview in CIP Monitoring Protocol mid-2012
- 29 Source: CIP Monitoring Protocol mid 2012
- 30 Source: KPMG analysis on data provided by UTZ CERTIFIED.
- 31 Source: Budget overview provided by CIP
- 32 Source: Correspondence with CIP
- 33 Estimate provided by West Africa Fair Fruit/Solidaridad
- 34 Budget overview provided by CIP
- 35 Based on CIP Monitoring Protocol 2008-2012
- 36 KPMG (2011) Sustainable Cocoa Fund Study: Cost Benefit analysis of cocoa certification in West Africa.
- 37 Ruf, F. and Bini, S. (2012) Cocoa and fertilizer in West-Africa, CIRAD/UMR Innovation/IDH.
- 38 Source: Tulane University.

- 39 For example: Fortune magazine, "Chocolate's bittersweet economy," 15-2-2008
- 40 "For the love of chocolate," National Geographic, 2-12-2012.
- 41 This volume is not adjusted for multi-certification.
- 42 The number of countries where external partners sell UTZ-labeled products has been provided by UTZ Certified.
- 43 Source: Data provided by UTZ based on management reports, annual reports and Good Inside Portal. Figures related to other schemes were based on a study by KPMG (2012) Due to multi-certification, the volumes indicated per certification schemes could have overlap.
- 44 Uptake ratio was calculated as: volume of UTZ Certified cocoa confirmed (this is the volume of cocoa for which a fee is paid to UTZ) for the months 6-2011 to 5-2012, divided by the total volume of UTZ Certified cocoa produced. To calculate the total amount of UTZ Certified volume produced, all certificates valid for 1 year issued or renewed in the period 01-10-2011 to 30-06-2012 have been included. Data have been provided by UTZ Certified. When based on a monthly average for the period 01-06-2011 to 30-09-2012, respecting the CIP scope, uptake ratio is calculated to be 39%*.
- $$\text{Uptake ratio} = \frac{\text{Volume of UTZ certified cocoa confirmed}}{\text{Volume of UTZ certified cocoa production potential}} = \frac{80.697 \text{ tons}}{175.650 \text{ tons}} = 46\%$$
- * In its monitoring protocol, CIP did not define a calculation methodology to calculate uptake.
- 45 Based on CIP Monitoring Protocol 2008-2012
- 46 Source: Data provided by external corporate partners to CIP who operate as supply chain actors (confidential).
- 47 Source: Data provided by external corporate partners to CIP who operate as supply chain actors (confidential).
- 48 Based on ICCO forecast
- 49 This figure, however, cannot be verified based on the available data
- 50 Source: Data provided by external corporate partners to CIP who operate as supply chain actors (confidential).
- 51 See for example COSA (2012), Ruf et al. (2012), KPMG (2011)
- 52 See KPMG (2012) "Study on the costs, advantages and disadvantages of cocoa certification"
- 53 Based on CIP Monitoring Protocol 2008-2012. Results of a study on yields are expected to become available in the near future.
- 54 Source: presentation Field Implementation Group 25 June 2012
- 55 A possible exception of this example would be that uptake of other schemes is lower than uptake of UTZ-certified cocoa.
- 56 The cost of meeting the certification requirements can be unaffordably high for certain producer groups. It is unlikely these groups will be selected by any program. The marginal benefit of adding an additional producer to the certified population will be zero at a certain point of global coverage, which means there is no business case any longer for further expansion. The causal loop that is the basis of CIP's theory of change will halt when there is no business case for certification.
- 57 Mulato, S. et al. (2012) "Cocoa & Coffee Based Technology Park for Rural Development". Indonesian Coffee and Cocoa Research Institute.
- 58 Source: adapted from KPMG (2011) Sustainable Cocoa Fund Study – Cost/benefit analysis of cocoa certification in West Africa (presentation at the International Supply Management Congress, December 2011)
- 59 Source: KPMG
- 60 Source: KPMG
- 61 Source: KPMG

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