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Stakeholder perspectives on cocoa's living income and sustainability trade-offs in Ghana

Marshall Alhassan Adams^{1,2,3}, Sophia Carodenuto², Siapha Kamara⁴, Emmanuel Ayifah⁴, Sandra Saakwah⁴

1. University of Victoria, Center for Global Studies, Victoria, Canada
2. University of Victoria, Department of Geography, Victoria, Canada
3. Council for Scientific and Industrial Research (CSIR) Forest Research Institute of Ghana, Ghana
4. SEND GHANA

*Correspondence: emmanuel@sendwestafrica.org

Key Messages

- The governments of Ghana and Cote Ivoire introduced Living Income Differential (LID) in 2019 without a clear policy document, resulting in different and potentially conflicting views on how long-term poverty reduction should be achieved.
- The impact of LID on sustainability objectives such as agroforestry-based cocoa production remains unclear; and the interaction between LID and sustainability is one of the most contested issues.
- There is broad consensus across a range of stakeholder groups that the producer price of cocoa is too low and unstable, but the long-term viability of the LID approach remains unclear.
- The civil society cocoa platform calls for coordinated implementation efforts focused on well-designed LID mechanism and targeted policy advocacy actions to transition smallholder farmers to cocoa agroforestry.

1. Framing and context

The cocoa sector is a critical driver of Ghana's economy in terms of foreign exchange earnings, livelihoods, and employment. It accounts for 9 percent of Ghana's Gross Domestic Product (GDP) and employs a quarter of the population while providing livelihoods for the majority of the people in rural areas. With roughly 25% of global cocoa exports, the demand for Ghana's high-quality cocoa beans has resulted in an international reputation that commands a 3-5 percent market premium.¹ However, low producer prices (i.e. the price received by cocoa farmers)

¹ World Bank. (2017). Ghana: Agriculture Sector Policy Note. Transforming Agriculture for Economic Growth, Job Creation and Food Security. Agriculture Global Practice AFR01 AFRICA.

and price instability have been a long-term issue that undermine sustainability investments in the sector.

Justified by the call for “the price of cocoa to be considered as the determining factor of sustainability,”² **the governments of Ghana and Cote Ivoire joined forces in an OPEC-like manner to introduce the Living Income Differential (LID) in 2019.** This mechanism provides a fixed seasonal farmgate price to cocoa farmers along with improved stability and protection from market forces. As a pricing mechanism, LID requires any buyer on the international cocoa market to pay an additional US\$400 per ton on the export price of cocoa from the 2020/21 crop onwards. The governments of Ghana and Côte d’Ivoire expressed their concerns about the risks of increasing poverty among cocoa farmers².

The effectiveness of LID will depend on price transparency and the interplay of the LID with other cocoa sector ambitions (increasing export volumes and the demand for supply chain traceability) in particular. Further, policy plaudits argue that limited information disclosure about the LID is resulting into different and potentially conflicting views on how long-term sustainability should be achieved³. Despite sustainability being a key LID discussion point, there has been limited efforts to identify and uncover potential sustainability tradeoffs.⁴ This is important because of the kind of policy alignment between different actors that might achieve long-term sustainability objective in the cocoa sector, such as zero and mandatory due diligence requirements by consumer countries.

A more systematic treatment of stakeholder views and experiences of LID implementation would be useful in cocoa living income and sustainability. This policy brief summarizes the key findings of a partnership engaged research between the University of Victoria and the non-governmental organization (NGO) Social Enterprise Development Foundation (SEND⁵) in Ghana, to understand current stakeholders’ perspectives on the LID mechanism within the context of broader governance and sustainable livelihood factors in Ghana’s cocoa sector.

2. Characterization of stakeholders’ perspectives on the LID mechanism

We applied Q methodology^{6,7} to understand stakeholders’ perspectives on the LID mechanism within the context of broader cocoa sector governance in Ghana. The overall insight based on the data suggests stakeholders have a positive view of the LID, where most

² <https://cocobod.gh/news/press-release-cote-divoire-ghana-initiative>

³ Stanbury, P., & Webb, T. (2021). *Cocoa and smallholders: The Living Income Differential is a failure, so where next?* Sustainable Smart Business.

⁴ Sustainability trade-offs in this context thus concern the meeting of one capital asset (i.e. economic or financial, social, natural, human and physical) at the expense of another to realize livelihoods in cocoa growing areas.

⁵ sendwestafrica.org.

⁶ We developed series of (potentially contentious) statements from literature and 8 in-depth interviews with global experts that 32 participants in Ghana were asked to rank based on their agreement or disagreement from +3 to -3. They were then asked to give reasons for their choices of answers and explain anything they thought was missing from the concurrence of statements.

⁷ For detail on Q methodology see McKeown, B., & Thomas, D. B. (2013). *Q methodology* (Second edition). SAGE.

respondents think that the mechanism has been successful in raising farmer income. In the following, we summarize three consistent perspectives that were identified in the research.

Perspective 1: Shared interest in raising income and tackling cocoa poverty.

The respondents associated with this perspective prioritizes the role of living income to reduce poverty amongst smallholder cocoa farmers. Consistent with the LID mechanism, this perspective prioritizes the role of living income to reduce poverty amongst smallholder cocoa farmers. They explain poverty to be the root cause of cocoa-driven deforestation in Ghana. Although these LID benefits are clear, Perspective 1 respondents disagree that the LID lacks a clear path for implementation and accountability. At the same time, perspective 1 respondents strongly disagree that LID reduces government revenues from cocoa in Ghana. The strongest loading on this perspective was provided by the private sector, followed by international organizations, media, smallholder farmers, and government. Table 1 shows the statements with the highest positive and negative scores for this perspective and a relevant quote from the interviews.

Table 1 Q statements with the highest score for Perspective 1 and associated interview quotes

Relevant Q statements	Ranking	Description	Stakeholder with strongest loading
LID increases living income for cocoa farmers.	3	Agree	Private sector (i.e. LBC), IOs, media, farmers, and government representatives.
LID supports efforts to relieve cocoa farmers' family poverty.	3	Agree	
LID lacks a clear path for implementation and accountability.	-3	Disagree	
LID reduces government revenues from cocoa in Ghana	-3	Disagree	
Relevant quotation			
“...while I believe that the LID increases farmgate price, and therefore farmer incomes, it is by far not sufficient to reach a living income. So, it is important that the LID is not seen as the end or solution when it comes to farmer incomes in the cocoa sector, but it is just part of it” (International organization representative).			

Perspective 2: LID will not result in major sustainability trade-offs, such as increase in deforestation in protected forests.

Overall, respondents belonging to this perspective strongly disagree with any statements that refer to the potential adverse consequences for the LID in terms of sustainability. For example, respondents strongly disagree that the LID results in deforestation leakages in unregulated geographies and incentivizes farmers to clear more forests or encroach protected areas. Similar to perspective 1, respondents associated with this viewpoint perceive the LID mechanism as an important prerequisite for producing cocoa deemed sustainable. The biggest challenge is that LID uptake is limited by information given about how the LID will work. The respondents revealed that, interactions on LID among all categories of stakeholders in the cocoa sector are hampered by limited information that result in different and potentially conflicting views on how long-term poverty reduction should be achieved. Perspective 2 is shared among eleven individuals from farmers, international organization, civil society, government and researchers. Table 2 shows the statements with the highest positive and negative scores for this perspective and a relevant quote from the interviews.

Table 2 Q statements with the highest score for perspective 2 and associated interview quotes

Relevant Q statements	Ranking	Description	Stakeholder with strongest loading
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There is inadequate information given about how the LID will work.	3	Agree	Farmers, International Organization, civil society, government, and researchers.
The governments of Ghana and Cote d'Ivoire worked together to raise the farmgate price for cocoa farmers.	3	Agree	
LID results in deforestation leakages in unregulated geographies.	-3	Disagree	
LID incentivizes farmers to clear more forests or encroach protected areas.	-3	Disagree	
Relevant quotation			
(..) LID is addressing price imbalance, price unfairness. So, it has no link direct link to sustainability (Government official).			

Perspective 3: A successful cocoa living income draws upon good governance mechanisms

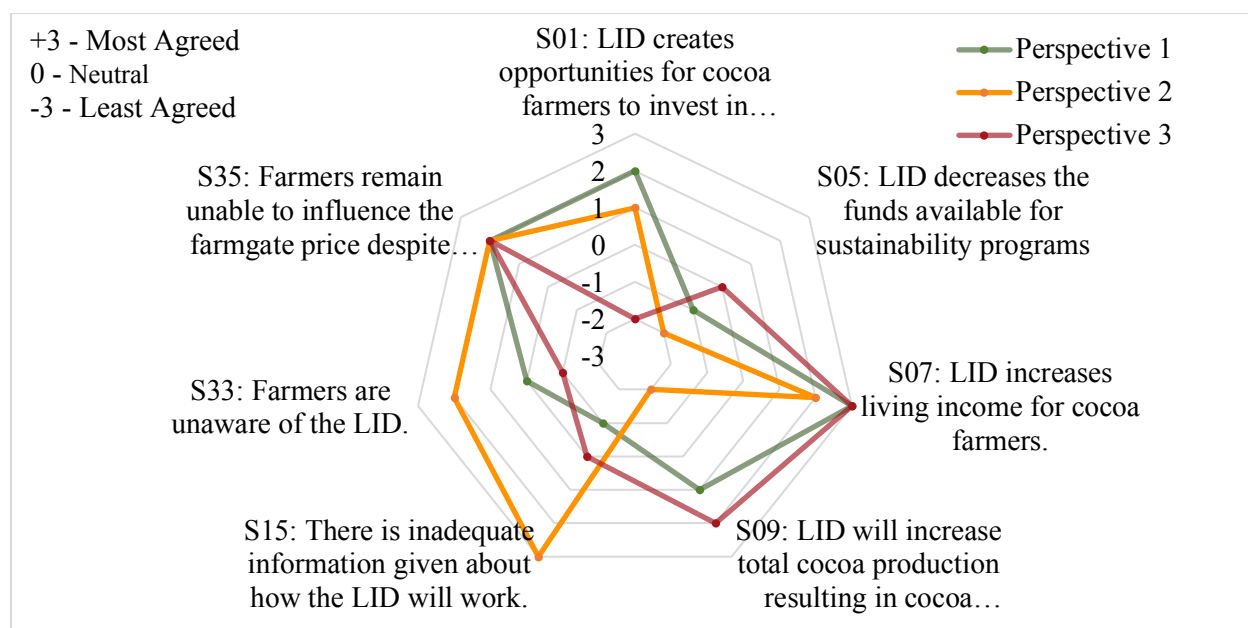
This perspective emphasizes that governance challenges inherent in the cocoa sector more broadly must be overcome to achieve the potential impacts of LID. Respondents explain the challenges inherent in the LID policymaking to include inadequate avenues/channels to actively participate in and influence the cocoa sector process. Furthermore, the respondents strongly disagree that the LID incentivize cocoa farmers to participate in decision making regarding cocoa production at the local level. This is supported by the perspective 2 opinion that farmers remain unable to influence the farmgate price despite LID. However, respondents associated with this viewpoint do not deem that LID reduces government revenues from cocoa in Ghana. The highest loading came from researchers, private sector, and international organization. Table 3 shows the statements with the highest positive and negative scores for this perspective and a relevant quote from the interviews.

Table 3 Q statements with the highest score for perspective 3 and associated interview quotes

Relevant Q statements	Ranking	Description	Stakeholder with strongest loading
LID increases living income for cocoa farmers.	3	Agree	Researchers, private sector, and International Organizations.
Challenges inherent in the LID policymaking itself include inadequate avenues/channels to actively participate in and influence cocoa sector process.	3	Agree	
LID reduces government revenues from cocoa in Ghana.	-3	Disagree	
LID incentivizes cocoa farmers to participate in decision-making regarding cocoa production at the local level.	-3	Disagree	
Relevant quotation			
(…) there seems to be no clear institutional architecture of how the LID will be implemented over time… I know there's is price setting committee that involve farmers, but I'm not sure how strong their role is in that" (International Organization rep).			

3. Similarities and differences in stakeholder viewpoints on LID mechanism

This research also identified patterns of similarity as well as differences in stakeholder viewpoints on LID (see Figure 1). Most areas where stakeholders hold similar views relate to how cocoa farmers are unaware of the LID. Therefore, they remain unable to influence the farmgate price despite the mechanism process. Furthermore, there was a noticeable agreement that LID increases living income for cocoa farmers. In identifying ways in which policy actions can be improved, the areas of consensus can be used as a starting point to engage stakeholders in addressing pressing implementation issues.



‘LID creates opportunities for cocoa farmers to invest in more sustainable farming practices’ is the most controversial issue where respondents have the most opposing views. Further contention was revealed in the following issues: LID decreases the funds available for sustainability programs, avenues/channels for cocoa farmers to actively participate in and influence LID process and whether the LID will increase total cocoa production, resulting in cocoa supply exceeding demand.

Thus, issues regarding sustainability and deforestation as well as governance are the most contentious. Stakeholder discontent and dissonance could put the implementation of the mechanism at risk. Also, stakeholders acting together in a concerted and innovative manner have been conveyed to identify policy advocacy actions.

4. Deliberative workshop on cocoa Living Income Differential

After decades of agriculture policy advocacy, SEND-Ghana has recently taken on the concerns of cocoa farmers, and in 2019 through the support of INKOTA Netzwerk and Rainforest Alliance co-founded the Ghana Civil Society Cocoa Platform (GCCP). Our research approach included a stakeholder engagement on cocoa Living Income Differential. The workshop objectives were to gather feedback on the preliminary findings of this research and to collectively identify policy implications as well as advocacy actions targeting at key cocoa sector stakeholders: Government, Industry, Civil Society and Farmers and Farmer Cooperatives (see Table 4).

Table 4 LID Policy Advocacy Actions Targeting Key Cocoa Stakeholders in Ghana.

Target group	Policy advocacy actions
1. Civil society-led	<ol style="list-style-type: none"> 1. LID policy document that duly spells out the principles and objectives underpinning the policy. Similar to FLEGT VPA, this should be underpinned by a multi-stakeholder process (Academia, civil society, farmers, etc) 2. Create a common understanding (including capacity building) among CSOs and farmer groups on the LID through the development of policy briefs, brochures, and other information materials to sensitize our constituents. 3. Undertake actions aimed at dissociating LID as a pricing mechanism from other sector programs such as sustainability and efforts towards child labour-free supply chain. 4. Launch a campaign targeted at chocolatiers and cocoa companies to pay/reinstitute country premiums. 5. Partner and work with Northern NGOs and pressure groups to demand for consumer-side measures that promote ethical sourcing and payment of fair prices for cocoa products. 6. Undertake research that bring out the linkages between LID and other sector policies. 7. Request EU explores profit sharing models so that industry is giving back their profits to farmers as the most important actors of the value chain. 8. Establish LID transparency dashboard and score companies who are not paying LID. 9. Support establishment of independent cooperatives and independent unions.
2. Industry-led	<ol style="list-style-type: none"> 1. Price of cocoa should correspond with cost of production and global commodity markets. 2. Pay LID at a minimum, ideally going further by paying the Fair Trade or VOICE Network estimates for living income benchmarks. 3. Create lasting partnerships (minimum 5 years, ideally longer) with producers. 4. Respect Ghana and Cote d'Ivoire as "cocoa OPEC". This may require a strong collaboration between the governments and their ability to bring in other producing countries from the region and Latin America, and collectively create their leverage and not leave it to the whims of markets. 5. Explore profit sharing models using best practices from other cocoa producing countries and international organizations (e.g. OECD).
3. Government-led	<ol style="list-style-type: none"> 6. Make budgetary allocation for capacity building and strengthening institutions for farmers and farmer groups. 1. Continuous sensitization of LID through smart messaging through COCOBOD. 2. Government and COCOBOD should intensify efforts to reduce child labor and deforestation issues. 3. Government should invest in further processing and boosting local consumption of cocoa and chocolate products. 4. Government should encourage formation of cooperatives (independent from COCOBOD) for those farmers who are not already coop members and support coops to implement best practices that are socially and environmentally friendly. 5. Be sure to differentiate between LID and political campaigns. 6. Streamline cooperative membership so that farmers are not members of more than one cooperative.
4. Farmer-led	<ol style="list-style-type: none"> 1. Education (peer to peer), radio and local information centers 2. Capitalization of cooperative 3. Cooperatives need to demonstrate transparency for the pricing (differentiate how much is LID and how much is farm gate the farmer receives). 4. Farmer groups should form network (advocacy group).

5. Conclusion and recommendations

Stakeholder perspectives have received increasing attention in sustainability, natural resources management and governance arenas where power and politics have driven strategic policy actions. The research sheds light on three unexpected stakeholder perspectives: ‘Shared interest in raising income and tackling cocoa poverty; LID will not result in major sustainability trade-offs, such as increase in deforestation in protected forests; and a successful cocoa living income draws upon good governance mechanisms.’ Despite the results indicating different and potentially conflicting views on LID, there seems to be strong consensus that in the cocoa sector of Ghana the LID mechanism guarantees a living income that is critical in contributing to poverty reduction in the long-term.

These findings have demonstrated that LID has significant potential (for farmers and their welfare) that requires progressive improvement in multiple dimensions including sustainability and governance. At the landscape level, governance improvements are particularly important because the LID is siloed from on-going sustainability efforts in the cocoa sector, such as zero deforestation cocoa and farm-level polygon boundary mapping as part of the new European Union anti-deforestation regulation. In the expectation of avoiding counterproductive sustainability initiatives, raising minimum price up without any clear *quid pro quo* conservation priorities and sustainability commitments can further undermine the collective aspiration of public and private actors to eliminate cocoa-driven deforestation.

With an increased understanding of stakeholder perspectives, implementers can consider the areas of consensus as a starting point for moving implementation forward while the differences warrant further investigation. In terms of next steps, it is important that LID policy advocacy actions are well-designed and targeted at government, industry, civil society and farmers and farmer cooperatives. The most pressing policy advocacy actions for consideration include but not limited to:

1. Civil society-led: call for information disclosure on LID that duly spells out the principles and objectives underpinning the mechanism. Similar to European Union Forest Law Enforcement, Governance and Trade (FLEGT) Voluntary Partnership Agreements (VPA) in Ghana, this action should be underpinned by a multi-stakeholder process to allow political and policy dialogues with the government, farmers and farmer cooperatives as well as the cocoa industry Ghana.
2. Industry-led: strengthening partnership and building trust with smallholder cocoa farmers. In addition to sustainability programs, industry players should introduce complementary measures to mitigate cost of production, with limited persistence effects of global commodity market.
3. Government-led: Cote Ivoire-Ghana Secretariat should create awareness of the larger cocoa sector in which the LID challenges and solutions are embedded as well as maintain regular communication with all relevant stakeholders in the cocoa sector. One means of doing this by establishing a multi-stakeholder platform and including all relevant actors and agencies especially producers. This is necessary to ensure that stakeholders are regularly consulted and informed about LID and related commitments needed for the

achievement of desired outcomes. In addition, promote LID in combination with traceable supply chain to ensure that suppliers comply with environmental and social standards.

4. Farmer-led: Capacity building and awareness-raising among farmers and farmer cooperatives is critical for moving LID implementation forward. This can enable the involvement of farmers in cocoa sector processes if the existing capacities of farmers and farmer cooperatives are assessed before designing capacity building programs. Additionally, it is important to undertake frequent education of farmers via radio and local information centers in cocoa growing areas and promote transparency for the LID pricing mechanism (differentiate how much is LID and how much is farm gate the farmer receives).

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