



Report on

# Sustainable Cocoa Supply Chain Roundtables

DRAFT

Institute for Corporate Responsibility  
George Washington University  
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Dear Colleagues,

On behalf of Kurt Hoyer, co-chair of the Sustainable Cocoa Supply Chain Roundtables and myself, I want to thank all of you for your participation in this initiative. Your contributions and willingness to participate were key to achieving our goal for this project: identifying projects—by themselves or bundled with others--that promote the sustainability of global cocoa supply chains and are potential candidates for funding from impact investors.

The Roundtables are the beginning of a longer process that involves clarifying: i) specific outcomes each project would produce to advance sustainable cocoa supply chains (i.e. social ROI); and, ii) the business case that assures investors that they will be rewarded as anticipated (i.e. financial ROI). But this effort is a critical first step.

We welcome all of those participating in the first two Roundtables to continue to be engaged as we take the next steps. And we encourage others to become involved and participate in the future work of this initiative.

John Forrer  
Director, Institute for Corporate Responsibility  
George Washington University

### **Acknowledgements**

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## Overview

The George Washington University Institute for Corporate Responsibility and the U.S. Department of State cooperated in an initiative to promote the sustainability of global cocoa supply chains. The goal was to identify programs and projects that are currently in place, or new ideas building on experience in the field, that could be candidates for funding by impact investors. The approach taken was to engage a broad coalition of organizations and individuals with expertise and experience working to advance sustainable cocoa supply chains. The initiative convened two Roundtables and conducted extensive interviews during the Winter and Spring of 2020. An emphasis was put on engaging diverse participants to ensure a '360 degree' perspective that would promote a robust and comprehensive discussion on successful efforts and promising innovations that could be scaled through impact investing.

## Background

Consumer demand for sustainable products continues to grow. However, for all the general interest in sustainability, and business efforts to respond to consumers' interests, there remains a great deal of uncertainty among consumers as to what it actually means when a firm says its products are 'sustainable' and buys its products through sustainable supply chains. This is particularly the case for cocoa supply chains and the chocolate it is used to make.

There are three principal concerns about the potential negative impacts regarding sustainability that global cocoa supply chains could produce. First is the low-income of most cocoa farmers and the low-wages paid to the cocoa workers. Undifferentiated commodities like cocoa bring low-prices, leaving many cocoa farmers in perpetual poverty. Second are efforts to expand cocoa production through the cutting down of forest and/or the use of pesticides and herbicides, both of which harm the local environment. Third is global cocoa price volatility, which means poor growth and development prospects for cocoa farming communities.

An additional specific concern around cocoa supply chains has been the use of forced labor and child labor on cocoa farms. Many advocacy groups have reported extensive use of forced labor (slavery) in the production of cocoa, particularly in Western Africa nations. And the use of child and forced labor remains a serious problem according to the Child Labor Cocoa Coordinating Group (CLCCG), led by the U.S. Department of Labor. The low-price commanded by cocoa in global markets put pressure on farmers to reduce their farming costs as low as possible. The use of slavery in cocoa farming clearly does not qualify as a "sustainability practice," but the practice can be difficult to detect and deter. Chocolate lovers may well be eating chocolate made by slaves without them, or the business who sold it to them, knowing it.

In response to these concerns, all the major corporations selling cocoa and chocolate products (e.g. Mars Wrigley Confectionery (U.S.A.), Ferrero Group (Luxembourg / Italy), Mondelēz International (USA), Meiji Co Ltd (Japan), Nestlé SA (Switzerland), Hershey Co. (U.S.A.)) have pledged that their cocoa supply chains to be sustainable by 2020. But under the circumstances, how effective can these efforts be in ensuring the sustainability of cocoa supply chains?

The global supply chains that moves cocoa beans, cocoa and chocolate around the world is analogous to a major watershed region with several major rivers fed by thousands of smaller rivers, and rivulets, each adding to the larger global supply chain. The cocoa market in western Africa

(comprising around 60% of global cocoa production) is comprised of many small land-holding farmers. It is not difficult to lose track of the origins of the cocoa beans and their linkages to cocoa and chocolate as they move their way into and through complex global supply chains. Corruption and weak reporting make enforcement of certified sustainability standards very challenging—even with best efforts made. For example, farmers who grow cocoa beans certified as sustainable may also secretly accept the beans of non-certified neighborhood growers, but selling them as part of their own crop, allowing their neighbors to share in the premium cocoa price for certified beans. And many cocoa cooperatives have a reputation for corruption at the expense of the individual farmers in Western Africa.

Making cocoa supply chains sustainable will not be achieved by industry alone. Numerous efforts are underway that are multisector collaborations with businesses involving a host of actors: national governments of both importing and exporting nations, international agencies, NGOs and community organizations, third-party certifiers, cooperatives, advocates and farmers. These efforts have improved the sustainability of cocoa supply chains, but more work is needed before firms that sell chocolate can say to their customers, “I guarantee you no child or forced labor was involved in the growing, harvesting and making of this chocolate.”

Corporations, government agencies, NGOs, certifiers and foundations have all made serious funding commitments to improving the sustainability of cocoa supply chains, especially in Western African countries, the region of greatest concern. One potential additional source of funding that has not been examined extensively is impact investors. Impact investors look for investment opportunities that provide significant social benefits while still providing an acceptable financial return-on-investment. If current programs can demonstrate they are producing tangible outcomes that improve the sustainability of cocoa supply chains, impact investors who want their investments to advance sustainable supply chains and/or eliminate child and forced labor could be interested in funding these efforts.

### **Sustainable Cocoa Supply Chain Roundtables**

Two Roundtables were convened for discussions on sustainable cocoa supply chains and to document experiences, observations, and suggestions for possible actions made by participants. The first Roundtable was convened January 30, 2020 at George Washington University. The agenda focused on discussions on what were central causes of a lack of sustainability in cocoa supply chains and which of these causes needed more attention and action. The second Roundtable was convened March 11, 2020 at the U.S. Department of State. The agenda was focused on identifying current projects in operation or innovative ideas about new projects that would increase cocoa supply chains sustainability. A list of attendees to one or both of the Roundtables is provided in Appendix A.

The discussions at both Roundtables were informative, candid and revealing. The issue of sustainable cocoa supply chains has been a topic of interest and active attention for decades. And numerous organizations from the government, business and not-for-profit sectors are actively working to address the problems. The discussion benefited from the wealth of experience and diversity of perspectives on the nature and extent of the problems found in cocoa supply chains and the effectiveness of different actions directed at solving them.

## Sustainable Cocoa Supply Chain Projects and Ideas: Potential Impact Investments

The information presented below on 10 proposed projects and ideas was taken from discussions at the Roundtables. They are meant only as a brief summary of the proposed idea, and not a comprehensive description of the ideas or their impact in sustainable cocoa supply chains.

Project #1	
Introduced by: FairTrade	Sustainability Project or Idea: Expand FT's Women's School of Leadership
Description:  FairTrade has already created several Women's Schools of Leadership around the world. As stated by FairTrade, the point of these schools is to bring equity to women farmers. A <a href="#">2017 study</a> found that 68% of the labor force is female but just 25% of cocoa farms are owned by women. Women lack access to capital and social status to parlay their influence into ownership roles. Supporting Women's School of Leadership would help alleviate the gender discrepancy in the cocoa industry. The same 2017 study found that women farmers are more attentive to sustainability issues than male farmers.	

Project #2	
Introduced by: Grameen Foundation (partners also include Mars and Rainforest Alliance)	Sustainability Project or Idea: Support FarmGrow in Ghana
Description:  FarmGrow collects data in support of securing cocoa farmers financing as well as their farming techniques and carbon credits. FarmGrow is currently working in Ghana, the Ivory Coast, and Indonesia to help improve farming practices and the technology used in these areas. Additionally, FarmGrow has been collaborating with Waterwatch Cooperative to create efficient ways that farmers can use their resources by applying the tech-based services that are provided by FarmGrow.  Increasing the investment of FarmGrow in Ghana will help cocoa farmers to produce more cocoa and also provide farmers with more advanced technology and knowledge. FarmGrow uses drone technology to identify dead trees, open spots, shade tree cover, and other sorts of vegetation as it flies over the cocoa farms. With the information that is provided by the drones, the enterprise creates designated coaches for each specific cocoa farm; the coaches work with these farmers to provide better and smarter farming decisions. In addition to providing the farmers with coaches, FarmGrow has set up a system that helps farmers to create a free business plan that helps them to see data as well as a personalized plan that would boost the farm's productivity and income. In supporting FarmGrow, farmers will be able to make better business decisions and employ better farming techniques that will create both monetary and personal rewards.	

<b>Project #3</b>	
Introduced by: Green America	Sustainability Project or Idea: Improve Cocoa Farm "Social Services"
<p>Description:</p> <p>In order to ensure that cocoa farmers have the tools to succeed, beyond their production necessities, they need a support system that takes care of their well-being. It is essential that cocoa farmers, the laborers in this industry, are taken care of, which can be done through social programs, such as education, child services, and more. For cocoa farmers, education for their children is essential, especially if we look to eliminate child labor from the cocoa industry. First, this will give children the skills they will need to not only be productive if they choose to continue their parents' profession but will also deter them from being put to work prematurely. With more children in school, fewer children will be engaged in child labor; the objective of this is to bring an end to child labor, so education will be a strong force to achieve that goal.</p> <p>To complement education as a social service, teams of social workers will need to be dispatched to make sure that each farm follows proper labor practices. Secondly, they will be able to make sure that cocoa farmers' children are being taken care of and will be able to give them adequate resources to succeed. It is essential to pair this with improved education so that every facet of a child's life is taken care of.</p>	

<b>Project #4</b>	
Introduced by: General discussion	Sustainability Project or Idea: Support Anti-Deforestation at Cocoa Farms
<p>Description:</p> <p>There are two problems that spawn anti-deforestation. The first occurs when farmers decide to expand their land to increase their farmable land. There are multiple ways investors can impact anti-deforestation practices. Agronomy practices that increase the soil's capabilities would allow farmers to increase the yield on their current land. Rather than expand to more land, farmers would be able to better maximize the land they currently have. Another solution would be vertical planting. While this practice tends to be more accessible to commercial farmers, growing plants vertically reduces demand for farmable land. Additionally, if plants are grown vertically next to homes, they will reduce the wall's heat absorption. This means that farmers and their subsequent residents could spend less on air conditioning, saving them money and making their communities greener.</p> <p>The second de-forestation problem comes from selling land for timber. The root of this issue revolves around money. The first, and more conservative approach, is setting a quota on the number of trees a farmer can cut down per year. If farmers complied with this quota, they would be rewarded financially. A second approach would be rewarding farmers for planting trees, rather than cutting them down. One way investors could attempt to recoup their money would be to plant trees that grow produce. It would take many harvest cycles to return the investment, but if farmers were economically incentivized to plant, they would be not financially pressured to sell land and timber like they are currently.</p>	

<b>Project #5</b>	
Introduced by: RiverSea	Sustainability Project or Idea: Reduce Cost of Importing Cocoa Beans for Craft Chocolate
<p>Description:</p> <p>Many craft chocolate firms have sustainability embedded in their business model and business practices. For craft chocolate firms, it is also essential to reduce costs where possible throughout their supply chain, especially transportation and import costs. The cost of importing contributes to upward price pressure for craft chocolate firms: shipping costs for smaller allotments are very expensive. Plus, different transportation modes have their own carbon footprints to contend with. will ultimately provide farmers more of an ability to maximize their profits.</p> <p>Examining innovative ways for craft chocolate firms to ship cocoa to the U.S. and E.U at a lower cost will expand the sustainability of cocoa supply chains by increasing the competitiveness of craft chocolate sellers compared to global chocolate corporations.</p>	

<b>Project #6</b>	
Introduced by: Farm Grow	Sustainability Project or Idea: Integrate and share data collection on farmers
<p>Description:</p> <p>Within the cocoa industry, actions are needed to ensure reliable data can be collected and shared among organizations involved in cocoa supply chain sustainability. Collecting data on cocoa farms and cocoa farming practices and operations is expensive and difficult to implement. But the value of reliable, timely and accurate data related to cocoa supply chains is essential for making decisions that will increase their sustainability. Plus, the data may be used to provide insights can be analyzed to provide effective feedback on how to increase sales using global and local trends. Increasing sales can mean finding cost-effective solutions in the production process.</p> <p>Many organizations are currently collecting data on cocoa farms and farming to support their own activities, each facing their own data collection challenges and frustrations. An effort to establish an integrated “block chain solution” would improve the quality and quantity of data available for all interested parties. And the cost of collecting, analyzing, and disseminating data utilizing a “block chain solution” will be much more cost-effective than current efforts.</p>	

<b>Project #7</b>	
Introduced by: FairTrade and Green America others	Sustainability Project or Idea: Greater transparency in cocoa supply chains
<p>Description:</p> <p>One approach to improving the sustainability of cocoa supply chains is establish a guaranteed price for coca farmers' beans. The guaranteed price for cocoa beans is to serve as a way of reducing the risk borne by coca farmers that they may not earn enough form the sale of their beans to provide a reasonable profit or sometimes, cover their cost of operations. Being able to rely on an established price allows farmers to make better business decisions.</p> <p>Two transparency issues have been identified related to guarantee prices for cocoa farmers. The first has to do with the calculation of the guaranteed price. Setting the price at a level the responds to farmers economic needs but also takes account of global cocoa markets is critical for success. Greater transparency in the methods used to calculate the price would provide greater public input into what constitutes a "fair price." A second transparency issue involves the reliability of reporting on the income that passes from local cooperatives to farmers. If farmers are not actually receiving the income they deserve, the sustainability of cocoa supply chains will suffer. It is difficult to determine how much of the funding that is intended to go to farmers is transferred to their control.</p>	

<b>Project #8</b>	
Introduced by: Green America	Sustainability Project or Idea: Bring EU Human Rights Protocol to the US
<p>Description:</p> <p>The cocoa industry has been plagued with the use of slave labor and child labor for many years. Green America has worked to create initiatives that will work to stop the abuse of the cocoa farm workers. We see a lack of human rights mainly in West Africa, where nearly 60% of cocoa farmers earn less than \$2 a day. There are millions of children that work on these cocoa farms instead of going to school or enjoying their childhood; the number of children working on these cocoa farms has not decreased over the years despite the work of the Fairtrade. Enforcing specific protocols on cocoa farms that stop the participation of unlawful employment of children must be put in place.</p>	

<b>Project #9</b>	
Introduced by: Unknown	Sustainability Project or Idea: Encourage Agronomy Practices
Description:  Agronomy is the science and technology of producing and using plants in agriculture for food, fuel, fiber, and land restoration. There are several applications that could enhance the sustainability of cocoa supply chains. First, by helping farmers identify the attributes of soil best for growing cacao, farmers could improve their yield per harvest, thus increasing their (and the investors) profits as well. Second, studying the soil of cocoa farms would also provide guidance to farmers on good options for diversify their plantings and growing other crops along with cacao. Third, there are opportunities for cocoa farmers to find markets for products made from what is now the 'green waste' left over from cocoa farming.	

<b>Project #10</b>	
Introduced by: Green America	Sustainability Project or Idea: Select Pilot Projects based on their Scalability
Description:  Green America has led many initiatives to help the cocoa industry. And they have been joined by many governments, industry and other NGOs in similar efforts. However, many initiatives aimed at improving the sustainability of cocoa supply chains have been designed, funded and implemented without a clear follow-on plan for taking the learnings and experiences of the pilot and putting them into sustained operations. When choosing future pilot projects to advance cocoa supply chain sustainability, priority should be given to their scalability.	

## George Washington University Institute for Corporate Responsibility Sustainable Cocoa Supply Chain Roundtable

Held on January 30, 2020

Located in 650 Duques, 2201 G St NW, Washington, DC 20052

### Attendees

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**Next Steps**

The projects identified here that promote the sustainability of cocoa supply chains and could be investment opportunities for impact investors are not intended to be comprehensive nor exclusive. Doubtless there are scores—potentially hundreds--of projects and ideas that would advance the sustainability of cocoa supply chains. The ones we have identified here help begin a dialogue with impact investors, but anticipate many for conversations in the future.

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