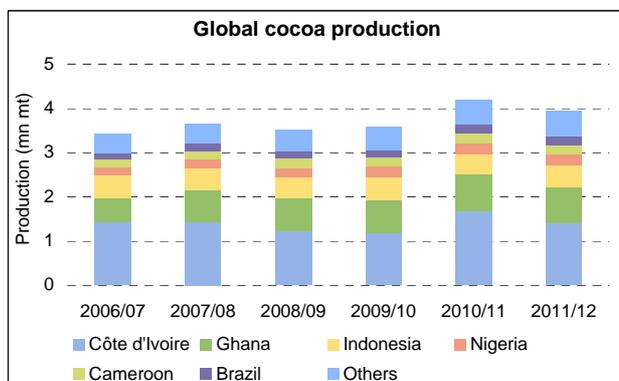




Defying expectations and following four years of deficits, the global cocoa market showed a large surplus in 2010/11 largely because of record crops in West and Central Africa. Cocoa prices ended 2011 more than 30% lower compared to the start of the year. It remains to be seen whether such a rise in production is repeatable and sustainable. Sustainable agricultural systems not only meet consumer demands. They also address the social, economic and environmental challenges facing producers. Since 2000, the World Cocoa Foundation (WCF) has been partnering with chocolate companies, processors and development groups on a range of programs that promote a sustainable cocoa sector by providing cocoa farmers with needed tools for producing more and better cocoa.

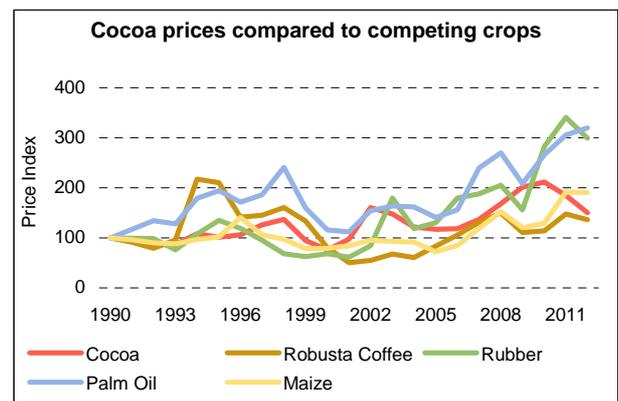
Cocoa supply

Production of cocoa significantly impacts the economies of some of the world's least developed countries, providing livelihood to 40-50 million people in Africa, Latin America, and Southeast Asia. In addition to widespread rural employment, cocoa also contributes significantly to government revenues and foreign exchange earnings.



Cocoa production exceeded all expectations when it reached a record 4.2 million tonnes in 2010/11. Sustained higher prices had encouraged input use and weather conditions were very favorable across

West Africa. Global output is dominated by Côte d'Ivoire, which accounts for between 30% and 40% of total output, while Ghana and Indonesia combined account for a further 35%. Production in **Côte d'Ivoire**, where ageing trees are increasingly vulnerable to disease and adverse weather, had earlier appeared to be on a long-term downward trend. Regardless of the production surge in 2010/11, these negative factors still pose significant challenges, while higher prices for alternative crops, particularly rubber, are providing competition for land. In **Ghana**, sustained investment has led to higher production. **Indonesia** has the potential to increase production because of land availability, but persistent problems with disease have led to farmers also favoring other crops.

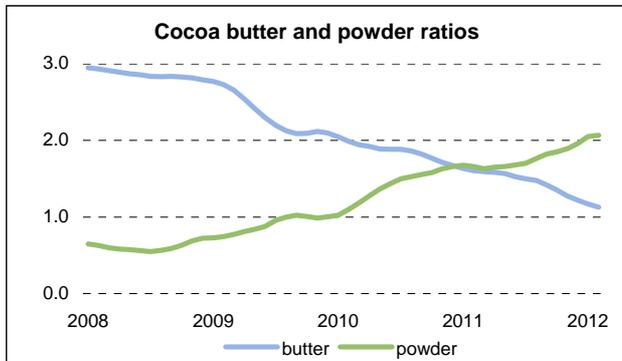


Among other leading producers, **Cameroon** and **Nigeria** have expanded output, while **Ecuador** has increased production with its high-yielding CCN-51 variety. With rising labor costs and competition from alternative crops, **Brazilian** production growth has been limited.

Cocoa demand

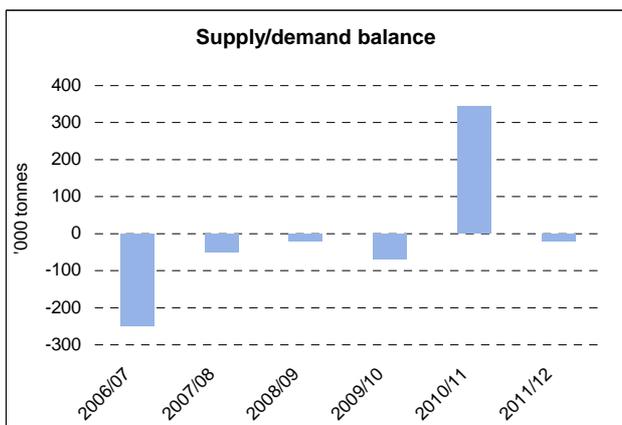
Cocoa demand is expected to reach almost 4.0 million tonnes in 2011/12. Demand growth remains modest in the developed markets which still account for more than 60% of demand. However, this proportion is falling, with rising incomes in emerging

markets driving stronger growth there. One important implication of the shift in demand to emerging markets is the relative growth of powder based products, including drinks, cakes and ice cream as well as compound chocolate products made with cocoa butter equivalents. This has led to powder ratios reaching record levels and butter ratios falling to record lows.

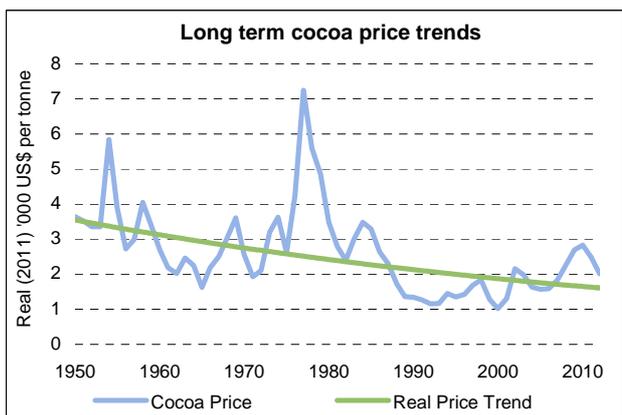


Prices

The supply-demand balance reveals a record surplus in 2010/11. The future challenge for producers is to ensure sufficient production to meet rising demand, given that there have been few new plantings in recent years and land availability is limited.



Considering a much longer time period, annual average prices have fallen in real terms by around 2% per annum. Prices are heading back to their long term average.



Price movements affect the entire supply chain, especially producers whose livelihood depends on cocoa income.

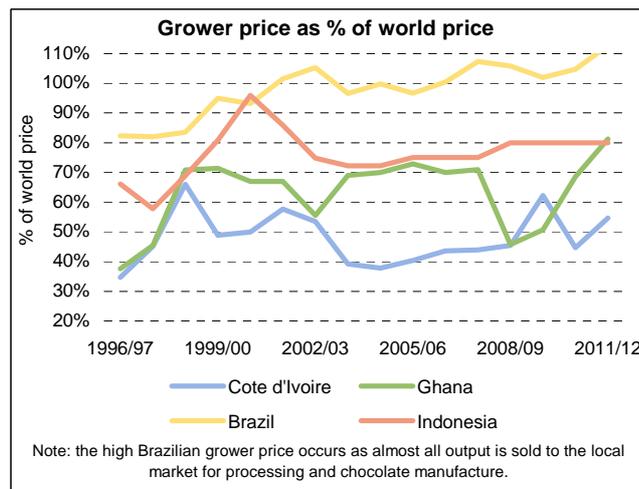
Key issues for cocoa farmers' livelihoods

A better assessment of the factors influencing production involves a more detailed understanding of those responsible at the origin.

Farmers face numerous challenges to competitive market participation and achieving a sustainable livelihood through cocoa.

Marketing inefficiencies

An estimate of the level of marketing inefficiency can be made by comparing the grower price in different countries to that of the export or traded price. In West Africa, the percentage of the market price that farmers receive is often low in comparison to other regions of the world, historically ranging from 40% to 65% of the traded price. This can be due to a number of factors including: a lack of understanding of quality requirements, little access to market information, individual rather than group selling, high taxation and transport costs. The lack of strong farmer organizations stems from a predominance of smallholder cocoa farms, which average two to five hectares in West Africa.



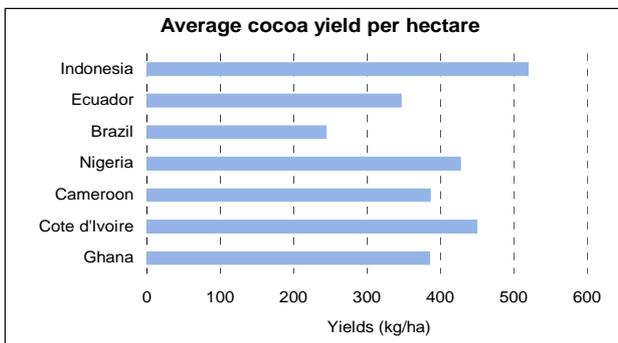
Participation in organized farmer groups ranges from an estimated 20% in Côte d'Ivoire to much lower levels in Nigeria and Ghana.

Low productivity

The returns to production (and hence farmer income) can be low due to low productivity. In many cases, farmers have limited knowledge of improved production techniques and farm management skills. Access to finance (through savings and credit) and availability of quality inputs and planting material can limit a farmer's ability to purchase inputs. A majority of farms in West Africa have an ageing tree population and yields per hectare (300-400 kg/hectare) are lower than what is possible on more productive farms (1,000 kg/hectare). Worldwide, only about 30% of cultivated cocoa is from a breeding or selection program.

Pests & disease

Pests and disease are a significant source of crop losses in all three cocoa-growing regions. Some estimates suggest that these losses could be as high as 30% to 40% of global production.



The main fungal diseases are black pod, witches' broom, frosty pod rot, and vascular streak dieback. Black pod alone led to an estimated loss of 450,000 tonnes of cocoa in 2011. In West Africa, cocoa swollen shoot virus is also common. Pests include mirids in West Africa and cocoa pod borer, which significantly affects as many as 40% of pods in Indonesia. Often ill equipped to combat disease, farmers do not focus on rehabilitation but look for new areas to cultivate.

Limited access to quality education & healthcare

Education and healthcare are vital to the renewal of rural capacity and improving living standards for farmers. With the farmer population aging and urbanization increasing, it is important to train younger people for relevant job opportunities, such as farm management. Education ensures productivity and inspires innovation in rural cocoa communities. However, a lack of quality and relevant education leads to low school enrollment, diminished completion rates, and low literacy.

Environmental concerns

The environmental impact of production varies considerably between countries, but issues range from the availability of land for new plantings (and avoiding deforestation) to differences in production systems. In addition, soil fertility levels are degraded and further declining in many countries. Improving productivity through grafting, composting and fertilizer use is crucial to rejuvenating cocoa lands. At its best, by maintaining a shade canopy of diverse forest species, farmers can manage a very biologically diverse cocoa based land use system.

WCF impact in cocoa sector

WCF, an international non-profit membership foundation of 90 companies whose members represent more than 80% of the global chocolate and cocoa industry, carries out programs to help independent family farmers in 15 cocoa producing countries. Examples of WCF programs are shown in the boxes below.

Through partnerships with multi-lateral donors, international NGOs, local institutions, and government partners, WCF programs work to

improve livelihoods by adhering to these three principles.

People: healthy and thriving cocoa-farming households and communities;

Planet: responsible, sound environmental stewardship; and

Profit: improved and more equitable economic returns to farmers.

More than 480,000 farmers have been directly involved in WCF programs since 2000, and many have increased their incomes by more than 50%. Increasing farmer income is an important driver of sustainability, providing the building blocks for meeting social and environmental needs.

Education

Living in rural, tropical, agricultural areas, cocoa-farming families and their communities face broader social, labor, health, and education issues which are often common to cocoa farmers and non-farmers alike. Building the capacity of individuals and communities to better understand and address these issues is essential to their long term viability.

WCF supports programs that work towards healthy and thriving cocoa farming households and communities by:

- Educating adult farmers, youth and children about child labor issues.
- Incorporating information about farm safety into training on production practices.
- Assisting in strengthening farmer organizations.
- Improving the quality and relevance of education for young and young adults.
- Entrepreneur and leadership training.
- Dissemination information about HIV/AIDS, malaria and other health issues in farmer and youth training activities.
- Working with communities to shape the implementation of their education activities.

WCF Program: WCF ECHOES Alliance (Empowering Cocoa Households with Opportunities and Education Solutions) - Ghana, Côte d'Ivoire

A public - private partnership supported with funding from USAID and WCF member companies

Goal: Fill the education gap with improved primary and secondary education and advanced agricultural and life skills training for more than 25,000 youth and young adults.

Objectives: Enhance education by incorporating agriculture, leadership and business skills. WCF ECHOES empowers students and teachers in the local school system and young adults in the farming community.

Key Activities: Gender-integrated education through functional literacy, livelihoods and life skills training, social messaging, teacher training, and curriculum development.

Research

Cocoa can help establish and sustain diverse plant, animal and insect ecologies across production areas. Research to address critical cocoa issues fuels innovations and contributes to cocoa sustainability. Findings are a useful and unique source of interest for cocoa scientists, the wider business community, policy makers, NGOs, and other international organizations.

WCF supports research through:

- Increasing capacity of research institutions in cocoa producing regions
- Pest control and disease prevention research initiatives
- Research on improved input planting materials
- Projects to conserve unique varieties of cocoa
- Fellowships and exchange programs in cocoa research

WCF Program: Latin America

WCF supports a number of initiatives in Latin America, including research on frosty pod resistance cocoa genotypes through CATIE in Costa Rica, evaluation of cocoa germplasm for resistance to witches' broom disease with the University of West Indies, and strengthening farmers in post-harvest handling and marketing in Colombia and Jamaica.

WCF Program: African Cocoa Initiative - Cameroon, Côte d'Ivoire, Ghana, Nigeria

A public-private partnership supported with funding from USAID, WCF member companies, and IDH.

Goal: Institutionalize effective public and private sector models to support sustainable growth and improve food security on diversified cocoa farms in West Africa. Double cocoa productivity for 100,000 farm households and raise incomes by 150%-200%.

Objectives: Strengthen national public-private partnerships in agriculture and cocoa; develop better planting materials; foster market-driven farming input supply services.

Key Activities: Research in fertilizer composition and development, capacity-building of local public-private

WCF Program: Southeast Asia

WCF programmes in Southeast Asia include capacity building in Vietnam, breeding and demonstration, production and post harvest training for cocoa and diversified crops in the Philippines, and supporting scientific exchanges in Philippines and Indonesia.

Productivity

Cocoa can be an economic engine in rural areas, generating improved incomes and opportunities.

WCF programs support improved and more equitable returns for farmers by:

- Training farmers in improved production.
- Improving farmer access to high yielding, disease resistant varieties, through research and breeding programmes.
- Researching and developing better means of pest and disease control.
- Promoting diversification of income.
- Improving farmers' business skills.
- Educating farmer organisations about quality control and testing.
- Improving access to market.

WCF Program: WCF Cocoa Livelihoods Program - Cameroon, Côte d'Ivoire, Ghana, Liberia, Nigeria

Funded by the Bill and Melinda Gates Foundation and WCF member companies

Goal: Double the income of more than 200,000 cocoa producing households.

Objectives: Improve market efficiency and build capacity of farmers and farmer organisations; Improve production and quality of cocoa at the farm level; Improve farmers' competitiveness on diversified farms.

Key Activities: Professionalising farmer organisations (recording keeping, operating and cash budgets, leveraging resources), increasing access to inputs and improved planting material, providing financing mechanisms for improved access to credit, farmer business skills training, and business service centres.

Cocoa sustainability

While WCF¹ is one of several organizations addressing the issue of cocoa sustainability, its focus on people, planet, and profit addresses the core issues affecting the sector. Education that is relevant to agriculture communities results in tangible skills, improved learning by children and incentives for parents to keep their children in school. Learning to use land better and incorporate environmentally responsible practices protects the ecosystem and is economically beneficial by reducing input costs. Improving productivity and diversifying income leads to higher disposable income and purchasing power, especially for food and items of primary necessity, and is therefore a major contributor to food security and rural transformation.

¹ More information on WCF can be found at their website at their website at www.worldcocoa.org.