

Living Income Webinar Series

Pricing mechanisms in the cocoa sector: options to reduce price volatility and promote farmer value capture.

6th December 2018

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Today's webinar facilitators



Rita Mendez
Assistant, Impacts
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Stephanie Daniels
Sr. Program Director,
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Sustainable Food Lab



Adam Romo
Coordinator, Impacts
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Agenda

1. **Introduction** to the Living Income CoP, and guest speakers.
2. **Aidenvironment:** Overview of the paper 'Pricing mechanisms in the cocoa sector'.
3. **Clarificatory questions**
4. **Oikocredit:** Discussant – example of Price Risk Management initiative.
5. **Open Q&A**

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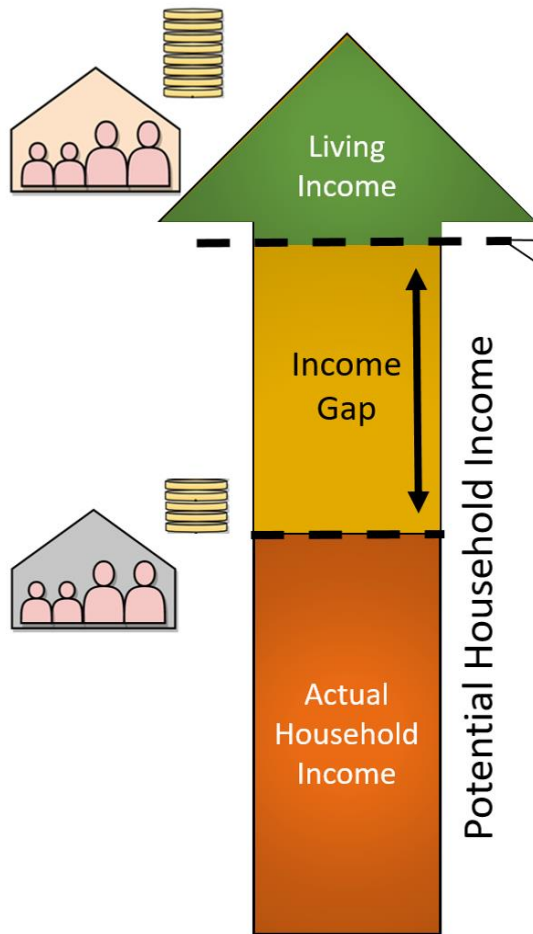


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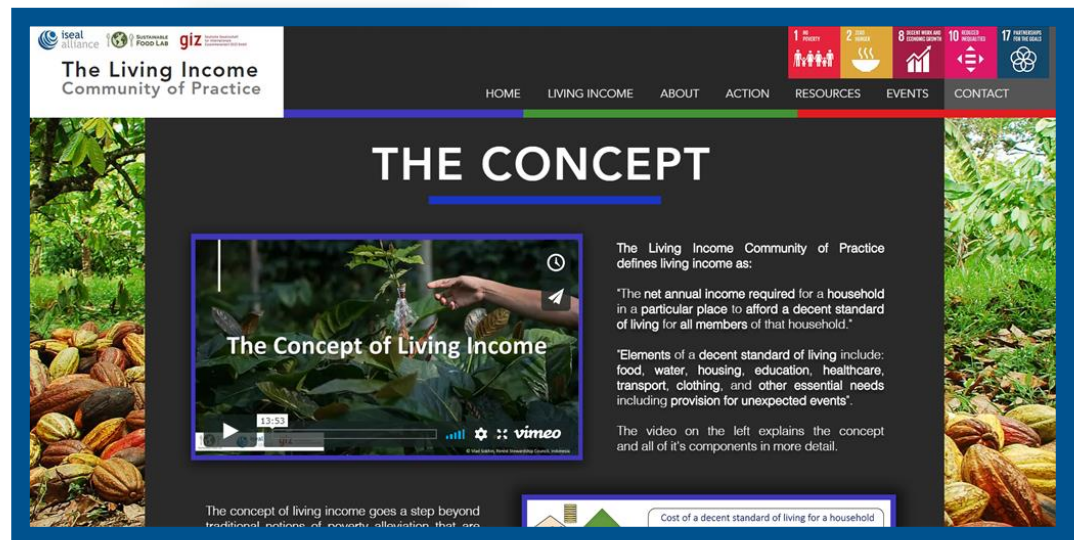
The Living Income Community of Practice

Foster collaboration and support organisations in their journey towards improving farmer incomes, and enabling farmers to achieve a decent standard of living.



Cost of a decent standard of living for a household

Cost of decent food + Cost of decent housing + Cost of other essential needs + Provisions for unforeseen events



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Learn more: www.living-income.com

The Living Income Community of Practice

Fostering collaboration and support organisations in their journey towards improving farmer incomes, enabling farmers to achieve a decent standard of living.

Facilitate learning and exchange around measurement

Understand the gap between actual and living income

Identify and discuss strategies to close the income gap

Learning across sectors
and helping organisations realise SDG commitments

Open community of practice

Sharing information about the efforts of different actors in this space

Learn more: www.living-income.com
Contact: adam@isealalliance.org

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Today's guest speakers



Jan Willem Molenaar
Senior Consultant
Aidenvironment



Hugo Villela Rodriguez
Regional Agribusiness
Specialist
Oikocredit



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Pricing mechanisms in the cocoa sector: an exploratory research

Webinar for the Living income community of practice
December 6, 2018

Jan Willem Molenaar, Aidenvironment

Rationale

- Price volatility undermines agriculture and value chains
- A productive discussion on price management requires an honest assessment of existing mechanisms

Price management instruments & cocoa cases

Main functions:

- price stabilization
- farmer value capture
- market efficiency

Sector led

- Conseil Café Cacao (CCC) in Cote d'Ivoire
- Ghana Cocoa Board (Cocobod) in Ghana

Supply chain led

- Pre-competitive (Fairtrade)
- Company models (Ritter, Tony's, Theo's, Taza)

Producer led

- Physical strategies
- Hedging

Sector led-models

- Forward sales through exporter auction in Côte d'Ivoire and by Cocobod in Ghana
- Seasonal fixed prices between farm-gate and export
- Stabilization fund
- Robust cocoa quality control

Price differential of CIF price in Côte d'Ivoire (2016)	% in export price
Farmer-gate price	60%
Sourcing & transport to port	6%
Bean bags	1%
Cleaning & drying	1%
Storage & finance	1%
Export expenses	2%
Exporter margin	1%
Freight & insurance	4%
Taxes	22%

Sector models have a positive effect at scale but need to be complemented by supply management

- ✓ Leads to seasonal price stability
- ✓ Enables strategic investments
- Introduce supply management (e.g. land zoning, diversification, buffer stocks, income support instead of price support) and embed it into national agricultural policy
- Improve transparency, accountability and coordination (e.g. multi-stakeholder, supra-national, macro-economic modelling)

Supply led-models

- Fixed prices, minimum prices
- Fixed premiums, flexible premiums
- Fair trading relationships (e.g. transparency, risk sharing, long-term)

Supply chain models to manage price risk work best in isolated supply chains

- ✓ Leads to price stability
 - ✓ Increases farmer value capture
-
- Promote minimum prices, flexible premiums and cost-plus pricing in mainstream markets (e.g. in combination with contract farming)
 - Avoid premium escalation in the supply chain
 - Offer favorable trading terms to producers
 - Use pre-competitive initiatives to inform price and premium setting (e.g. Sustainable Cost of Production, Living Income Reference Price)

Producer-led strategies

- Physical strategies: procurement, sales, price-fixing, financing
- Hedging strategies: future contracts and options

Producer-led strategies can be effective but beyond the reach of most cocoa producer organizations

- ✓ Effective way to manage price risk and protect margins
 - ✓ Involves costs and management capacities that may be beyond the reach of most cocoa producer organizations
-
- Integrate physical strategies in standard capacity building programs for producer organizations
 - Trading houses and cocoa processors could introduce hedging strategies into their financial service package towards their suppliers

Thank you

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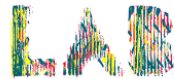
Don Seville

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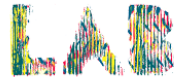
aidenvironment



Price Risk Management for Coffee Cooperatives in Latin America



Objective and Project Structure



Training Workshops

BASIC MODULE
(Market Fundamentals)
Board of Directors



INTERMEDIATE MODULE
(Physical Strategy)
Board of Directors & Management

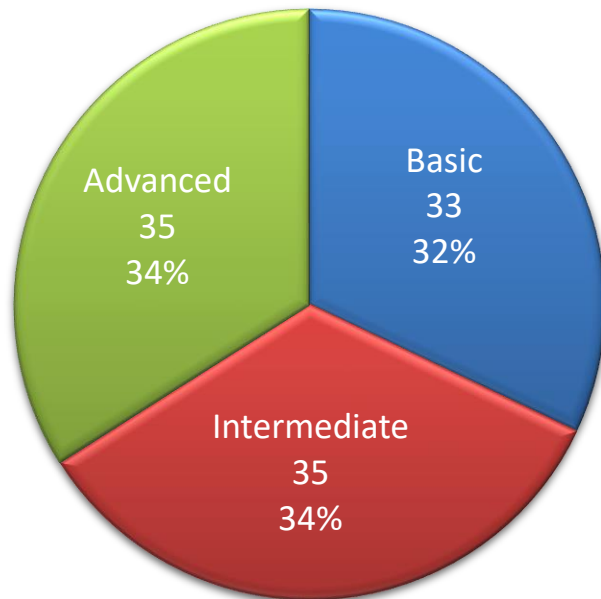


ADVANCED MODULE
(Financial Strategy)
Management

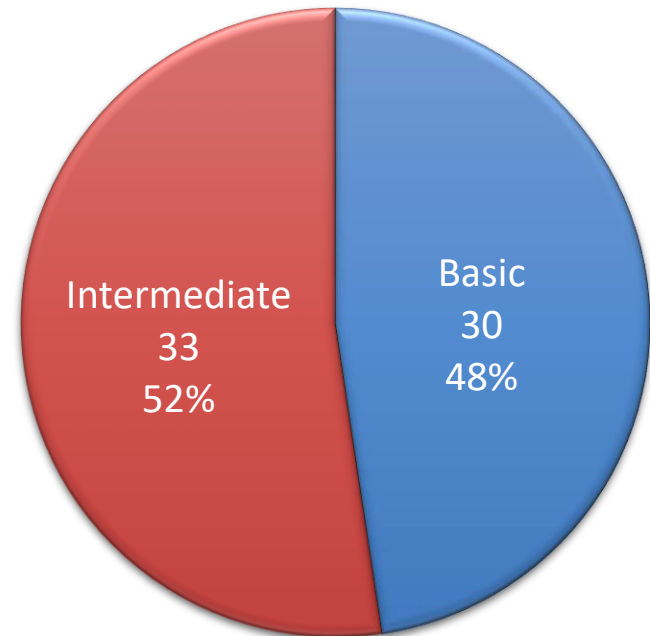


Training Participation

Central America - Trainings

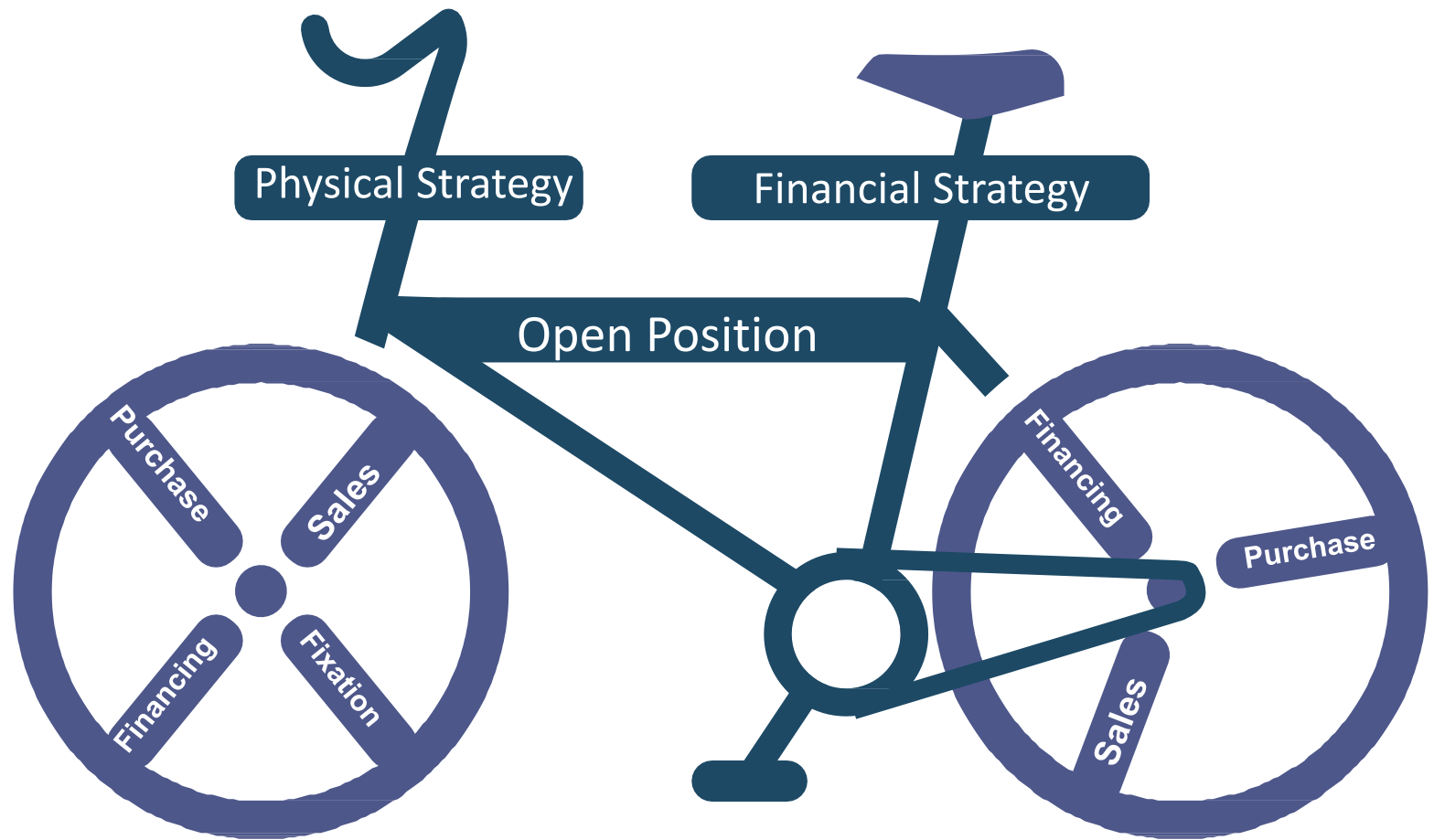


South America - Trainings



Management: 100 participants
Board of Directors: 66 participants

Coverage Strategies



Open Position Tool

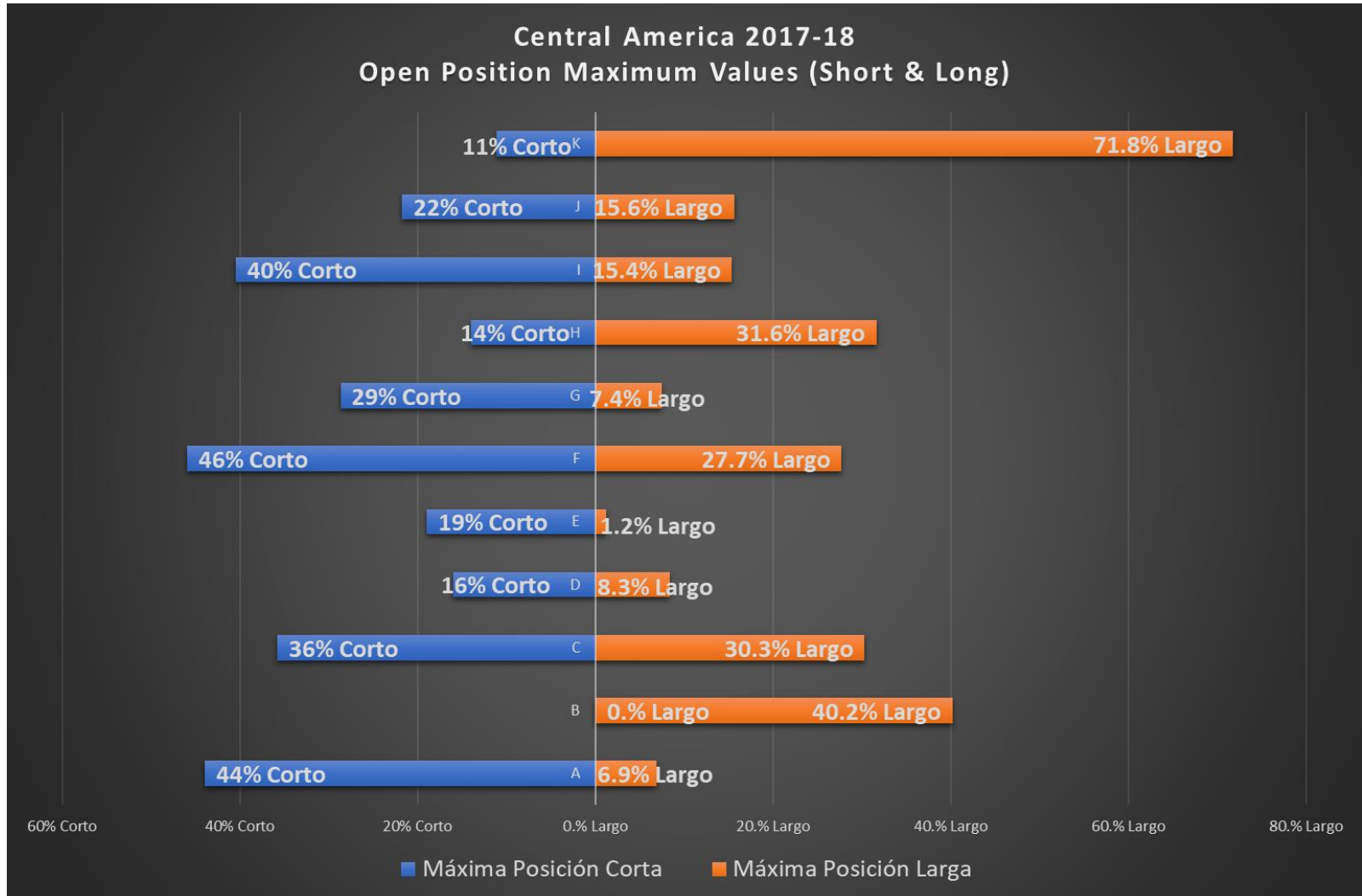
Posición Abierta Mensual	Posición Abierta Acumulada
QQ Oro	QQ Oro
0 Largo	0 Largo
0 Largo	0 Largo
9,211 Corto	9,211 Corto
3,689 Corto	12,900 Corto
7,667 Largo	5,233 Corto
15 Largo	5,219 Corto
6,243 Largo	1,024 Largo
381 Largo	1,405 Largo
1,932 Largo	3,338 Largo
168 Corto	3,170 Largo
2,243 Corto	926 Largo
0 Largo	926 Largo
0 Largo	926 Largo
0 Largo	926 Largo
0 Largo	926 Largo
0 Largo	926 Largo
926 Largo	

Variación de Posición Abierta	
Mensual	Acumulada
0.0% Largo	0.0% Largo
0.0% Largo	0.0% Largo
20% Corto	20% Corto
8% Corto	29% Corto
17.0% Largo	12% Corto
0.0% Largo	12% Corto
13.9% Largo	2.3% Largo
0.8% Largo	3.1% Largo
4.3% Largo	7.4% Largo
0% Corto	7.0% Largo
5% Corto	2.1% Largo
0.0% Largo	2.1% Largo
0.0% Largo	2.1% Largo
0.0% Largo	2.1% Largo
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0.0% Largo	2.1% Largo
2.1% Largo	

Resultados Proyectados		
Detalle	Monto	USD/QQ
Ventas	\$ 7,427,715.79	\$ 168.50
Costo de Ventas	\$ 4,359,898.37	\$ 98.91
Utilidad Bruta	\$ 3,067,817.43	\$ 69.60
Costos Fijos	\$ 240,000.00	\$ 5.44
Costos Variables	\$ 881,618.29	\$ 20.00
Costos Financieros	\$ 300,000.00	\$ 6.81
Utilidad Operativa	\$ 1,646,199.14	\$ 37.34
Compensación Cerrada	\$ -	\$ -
Compensación Abierta	\$ -	\$ -
Margen Neto Proyectado	\$ 1,646,199.14	\$ 37.34

Punto de equilibrio & Exposición	
En Unidades (QQ)	5,609
En Monto (USD)	\$ 952,147
Margen de maniobra %	88%
Exposición máxima acumulada	36%
Exposición máxima mensual	17%

Central America. Open Position Results. 2017-18



PRM Training



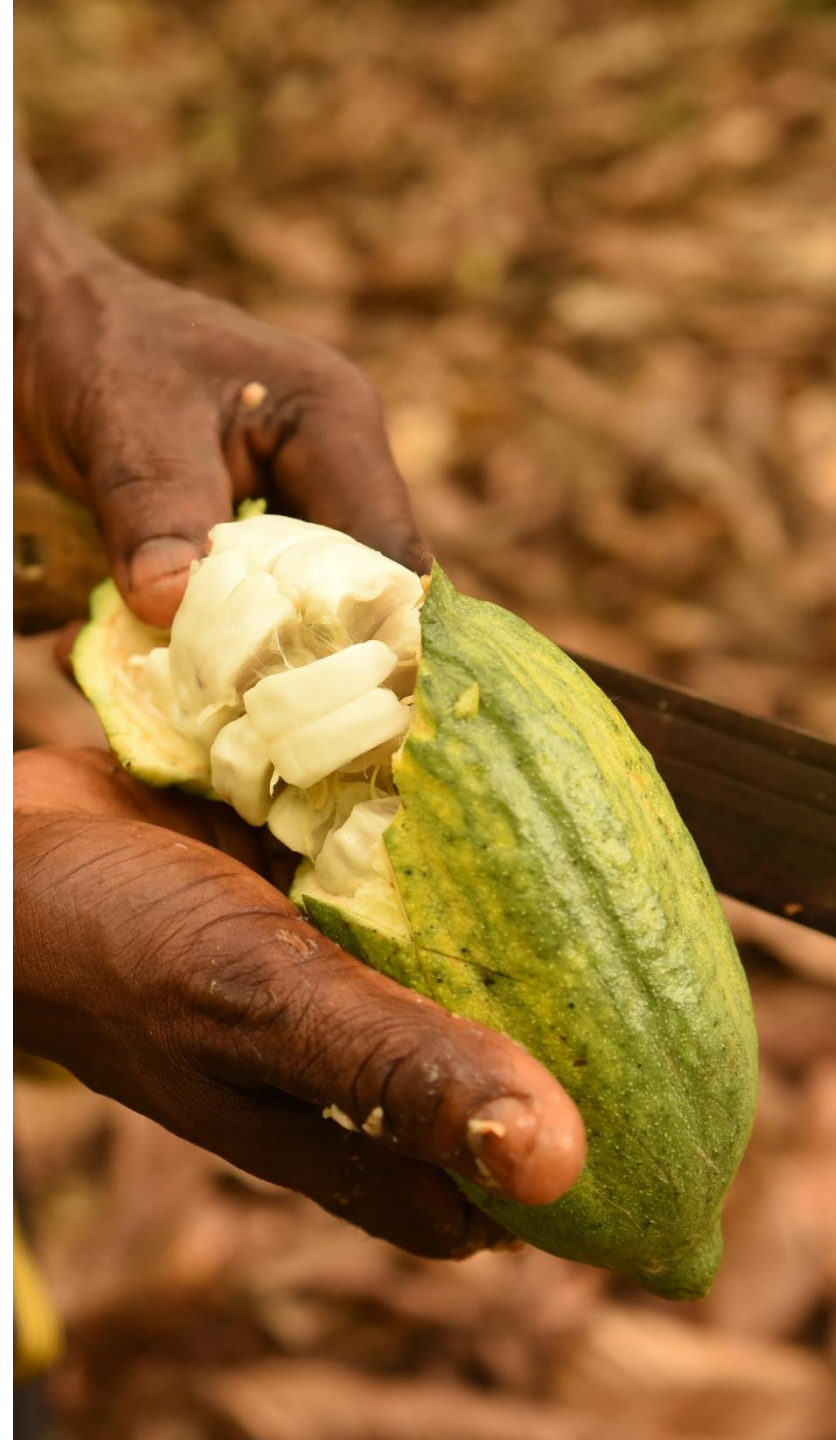
on a three-year capacity building project to help small-scale farmers cope with market volatility.

Questions?



Community of Practice Updates

- **Blog:** [Oxfam Novib Living Income Expert Meeting: Influencing Private Sector Actors - The Hague](#)
- **Blog:** [Contract Farming: Challenges and a new tool for success](#) (new tool 'Model Agreement for Responsible Contract Farming' developed by IISD and the FAO).
- **Report:** [Living Income Benchmark for Ghana and comparison study with actual incomes.](#)



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Thanks!



Stay informed!

Living income

www.living-income.com

Living wage

<http://www.isealalliance.org/our-work/improving-effectiveness/global-living-wage-coalition>

[SIGN UP FOR GLWC BENCHMARK RELEASES](#)

Questions? Email us at:

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And remember to add your upcoming, ongoing and finalised studies to the Sustainability Impacts Learning Platform

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