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Franziska Ollendorf, Goodlet Ansah

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Local Cocoa Marketing under Pressure: Sustainability certification and new forms of competition in Ghana's cocoa industry

Franziska Ollendorf♣ and Goodlet Owusu Ansah♠

Abstract

In the context of persisting sustainability challenges in the Global Cocoa-Chocolate Chain (GCCC), sustainability certification gained momentum as a major industry response. While much research has been undertaking regarding effects of certification schemes on farming practices and farmers' livelihoods, there is little understanding of how these private sector responses transform the local economy. Taking the case of sustainability certification in the cocoa industry of Ghana, this study provides an empirical insight in effects of the rapid proliferation of sustainability certification on the local marketing environment and new forms of competition among local market players. Applying a lens of Global Value Chain theory, the study offers a discussion on upgrading opportunities for local companies and their responses to certification-linked pressures. In the Ghanaian cocoa sector, t sustainability certification became a key tool of competition for farmers among local buying companies. Yet, due to the lack of pre-financing capacities for the costly implementation of certification schemes, and the lack of off-taking arrangements, local Licensed Buying Companies (LBCs) are structurally disadvantaged with the implementation of certification schemes compared to their transnational counterparts and therefore face a strong tendency of losing market shares. The paper contributes to the study of sustainability in the GCCC in two ways: 1) It provides insights on the functioning of the so far understudied local marketing segment and changing dynamics of competition and governance, and 2) it enlarges the sustainability debate by including structural transformations of the industry linked to the implementation of certification.

♣Leibniz Centre for Agricultural Landscape Research (ZALF), Sustainable Land Use in Developing Countries (SusLAND) Eberswalder Str. 84, 15374 Munsterberg Germany; Franziska.Ollendorf@zalf.de

♠Department of Marketing and Corporate Development, KNUST Business School, Kwame Nkrumah University of Science and Technology Kumasi, Ghana; goodlet.ansah@gmail.com

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1. Introduction

Over the 2010-decade, sustainability certification has risen to a major industry tool to push for an improved sustainability in cocoa production (Oya et al. 2017; Ruf et al. 2019; Voora et al. 2019). While many studies assess the immediate impacts of these mainly private sector-led interventions on cocoa farmers, unexpected side-effects of sustainability certification at the local market of cocoa purchases in Ghana have been broadly under-explored so far. Yet, in the context of backward integration of lead firms from the processing segment in the Global Cocoa-Chocolate Chain (GCCC) linked to the implementation of certification schemes, a new situation in the local marketing segment has evolved: Recently, local Licensed Buying Companies (LBCs) are confronted with new forms of competition, a trend observed in other sectors targeted by sustainability certification, too (Lernoud et al. 2019; Ponte 2019; Neilson and Pritchard 2007). Local marketing in Ghana's cocoa sector comprises all activities which are undertaken by LBCs and their Purchasing Clerks (PCs) from the collection of the dried and fermented cocoa beans from cocoa farmers, to storing and transporting them to local warehouses and finally to handing them over to the public cocoa authority. Given the importance of local LBCs for the local cocoa economy in Ghana, our research seeks to shed light on these recent dynamics and captures experiences and strategies of affected local LBCs to keep their position in the market. Therewith, our study broadens the sustainability debate by shifting focus from the farmers' level to structural transformations of the industry linked to the implementation of certification. The main objective of this contribution is twofold: it seeks to improve the understanding of recent governance dynamics at the local level of the GCCC, a segment that has been broadly neglected in cocoa value chain studies (Ruf et al. forthcoming). Further, it depicts the responses of local market actors to new pressures linked to the implementation of sustainability certification who seek to keep their position in a changing marketing environment. Up until now, research analyzing sustainability certification effects tend to neglect effects beyond the immediate farm level and little understanding exists on broader local sector dynamics stemming from the rapid proliferation of sustainability certification schemes. Applying a global value chain perspective, the paper seeks to shed light on how sustainability certification affects local cocoa buying companies in Ghana and how these respond to the new marketing environment. Using the concept of economic upgrading, the paper discusses how local cocoa buying companies seek to keep their position in the sector by developing new marketing and organizational strategies. The paper therefore does not only contribute to the broader literature body on sustainability certification by extending the scope of attention to the local marketing segment, but, by taking the case of the GCCC, also fits into current debates on global value chain dynamics linked to sustainability certification.

The GCCC is a particularly fruitful case for the study of sustainability certification and its effects at the local marketing segment of a global value chain. Over the past two decades, the sustainability of cocoa production has publicly received broad attention. Especially the extreme poverty of many cocoa producers in the main producing countries, and linked issues of child labor and deforestation, have spurred new pressures on cocoa processing and chocolate manufacturing companies to act against these grievances. Sustainability certification became the major industry response to these sustainability challenges. The driving rational behind is that with the proper application of the sustainability standards, farmers would be able to boost the quality and quantity of their production and thereby achieve higher returns. Thereby, the payment of a sustainability premium serves as a critical incentive to align production with the respective sustainability standard requirements (Löhr et al. 2021).

In Ghana, cocoa sustainability certification schemes are mostly implemented by lead firms from the GCCC, mainly the processing segment. Most of the existing studies on cocoa sustainability certification analyze the effects of these private sector-led interventions at the immediate target groups, the cocoa farmers (Waarts et al. 2015; Gockowski et al. 2013; Ingram et al. 2018; Iddrisu et al. 2020; Deppeler et al. 2014). When assessing certification effects on farmers, studies focus on the economic benefits for targeted farmers, for instance by conducting cost-benefit analyses (Victor 2010, Folefack et al. 2021, Olumide Oseni et al. 2013). Other aspects gaining broader attention are certification impacts on cocoa farmers' productivity (Brako 2020, Gockowski 2013, Waarts et al. 2015) or welfare situation (Iddrisu et al. 2020), measured for instance in terms of effects on farmers' capitals (Fenger et al. 2017), livelihoods (Owusi Amakra 2019) or food security situation (Brako 2021). Further, an aspect often focused on are the factors influencing the degree of acceptance of standards and other success factors for adaptation (Aidoo and Fromm 2015; Lemeilleur et al. 2015; Kleemann et al. 2014; Barham and Weber 2012). Some studies also address the impact of the spread of certification projects on the availability of cocoa beans or the climate change adaptability among cocoa farmers (Gockowski et al. 2013; Addae-Boadu et al. 2017; Fenger et al. 2017). However, only very few studies have a focus on the local cocoa sector as a whole and the impacts on stakeholder positions, most notably Ruf and colleagues (Ruf et al. 2019, Ruf et al. 2021) discussed certification impacts on cocoa farmer cooperatives in Côte d'Ivoire.

There are a number of GVC studies on the governance and structure of the GCCC. Important studies that describe the composition of the chain have been published by World Bank (2013) and UNCTAD (2016), while key works on the governance of the chain were realized among others by Cappelle (2008), Fold (2002), Fold and Neilson (2016). Among others, Oomes et al. 2016, Arojau Baujean (2016) or Fold and Ponte (2008) have studied market concentration in the chain and effects on price formation. In a study for FAO and BASIC, Alliot et al. (2016) assess forms of value distribution in the GCCC and how farmers' margins could be raised. Other GVC works look at the political economy of the chain and how it affects producing countries (Barrientos 2009, Teye 2021). From a similar angle, studies on upgrading opportunities mainly focus on the processing segment in cocoa producing countries (e.g. Grumilier et al. 2018, Kolavalli and Vigneri 2018), and only very few studies have investigated upgrading opportunities for cocoa farmers by improving their capability to capture higher margins (Laven 2010, Roldan et al. 2013, Traoré 2009). Except the study on local chain effects of organic cocoa production realized by Glin et al. (2015), no study on local chain governance or upgrading opportunities for local companies in the context of West African cocoa production could be identified. Hence, there is little knowledge available on the functioning of local purchasing of cocoa beans in Ghana and how it may be affected by recent sustainability initiatives.

Yet, given the relevance of local cocoa marketing activities such as purchasing, transport and storage for local employment, and the value thereby captured in the producing countries, there is a need for a better understanding of certification effects on this segment of the GCCC in order to assess the broader sustainability of certification as a governance tool. To meet these needs, the guiding research questions of the present study are as follows: (1) What new dynamics of local marketing evolve with the widespread of sustainability certification in Ghana's cocoa sector and why? (2) What are the new challenges for local LBCs stemming from these dynamics and which strategies do they employ in order to respond to the new situation? (3) How does the proliferation of sustainability certification impact local LBCs' positions and upgrading opportunities in the chain? For this, a qualitative study was conducted in 2022, where a total of 25 semi-structured interviews were carried out with representatives from six different LBCs and other sector representatives in two main cocoa producing regions in Ghana, Ashanti Region and Western North.

The paper starts by outlaying the theoretical background of the study which is the Global Value Chain analysis frame and particularly aspects of up- and downgrading opportunities. It then proceeds by providing some key information on the GCCC, the institutional environment of Ghana's cocoa sector as well as the relevance of sustainability certification for Ghanaian cocoa production. Subsequently, the research methods are described before turning to the findings of the study and their discussion.

2. Theoretical background: global value chain analysis and upgrading strategies in global value chains

The study is located in the context of global value chain analysis (GVCA) with particular emphasis on sustainability certification effects on upgrading opportunities for local Licensed Buying Companies (LBCs) in Ghana's cocoa sector. Having its early roots in World System Theory, GVCA became a widely applied framework to analyze the organization of vertical global production chains around a strategic process of value creation steered by lead firms in a given chain (Requier-Desjardins et al. 2014). In order to map, analyze, and describe global chains, the framework relies on four axes to assess the extent and scope of transactions and organizational patterns in chains: geographical scope, input-output structure, institutional context, and governance (Gereffi and Fernandez-Stark 2016). For the present study, the latter two are of particular interest.

The axis of institutional context refers to the institutional embeddedness of a global value chain and aims at the identification of the "local, national and international conditions and policies" (Gereffi and Fernandez-Stark 2016, p. 14) which shape the chain at its different segments. Our study pays a particular attention to the institutional environment of Ghana's cocoa sector. For the understanding of how sustainability certification shapes the local LBCs' marketing activities and opportunities, the study of their institutional environment as important, hence, this axis will be deployed in more detail in section 3.

Finally, the governance axis of value chain analysis aims to understand the mechanisms of coordination of chain activities by the lead firms and their strategies to control their suppliers in the chain (Gereffi and Fernandez-Stark 2016). The paper relies on this axis as a frame to discuss changes in lead firms' relations with local suppliers. The concept of upgrading is an important aspect of the governance discussion, and has been even described as the "twin pillar of governance" in GVCA (Gereffi 2019). Initially being limited to the idea of economic upgrading, understood as "the process by which economic actors – nations, firms and workers – move from low-value to relatively high-value activities in global production networks" (Gereffi 2005), upgrading is now also further explored in terms of social and environmental upgrading (Marchi et al. 2019), or even livelihood upgrading (Neilson 2019). For all of them, the key idea is to assess how power positions in a chain and related governance mechanisms affect the different actors' upgrading opportunities, especially in the Global South, and to understand the strategies they pursue to maintain or improve their positions in the chain. In the literature, four main types of economic upgrading are distinguished: product upgrading, process upgrading, functional upgrading, and intersectoral upgrading (Humphrey and Schmitz 2001). While product upgrading describes the move of a company's products into more sophisticated products thereby achieving higher returns, process upgrading refers to the way a company transforms its inputs into outputs and how to achieve a higher efficiency by reorganizing its production systems or introducing new technologies. Functional upgrading refers to the acquisition of new, superior functions in the chain, and intersectoral upgrading means that a company uses its new competences to move into new sectors (Gereffi 2019).

However, the question, which type of economic upgrading is most fitting for assessing the present study's observations in changing marketing patterns is not as easy to answer. While Ponte (2019) describes the facilitation of certification schemes as a form of process upgrading, the definition of functional upgrading as acquiring new functions to increase the skill content (Humphrey and Schmitz 2002) seems somehow more fitting. Though, for the purpose of our study, Blažek's introduction of three types of functional *downgrading* is of high interest: Passive downgrading, meaning the "involuntary shift of a company towards the production of simpler goods…" (p. 862), adaptive downgrading, referring to the situation where a "firm is unable to sustain competitive pressure and is forced to focus on lower/smaller market segments…" (ibid.), and strategic downgrading, referring to a "carefully planned move by a profitable firm to a specific market segment…" (ibid.).

Most of these provided specifications of possible dynamics in moving upwards or downwards in a given chain do not seem to be fitting to the context of the local marketing of agricultural commodities or any raw material, an often overlooked segment at the upstream-end of a global value chain, where the main tasks of companies may be limited to purchasing, sealing, transporting, and evacuating raw materials, as in the given case cocoa beans, to the ports for export shipment (see the following section for further description). Therefore, what comes more closely to the dynamics described here is what Ponte (2019, p. 18) has called the "sustainability-driven supplier squeeze", a concept based on the wider cost squeeze dynamics observed by Milberg and Winkler (2013), for instance. Ponte has described in detail how sustainability interventions improve the positions of lead firms in chains in a way that activities linked to these programs allow them to gather more information on their supplier base, improve their monitoring along the chain, reduce cost information, extract value and to push the extra costs of sustainability compliance to the upstream levels (Ponte 2019). These new sustainability costs may not only create new entry barriers for local firms but also create new pressures for producers and local companies.

Finally, for the discussion of our findings, we stick to the broader definition of economic upgrading, since the more refined ones seem not to adequately reflect the context of agricultural raw material production and local handling. Hence, in the present study, we look at upgrading and downgrading/squeezing out dynamics in more general terms and approach upgrading as a process leading to general improvement of local companies' position whereas with downgrading/squeezing out tendencies we seek to identify processes with negative effects of sustainability certification on local firms.

3. The Global Cocoa-Chocolate Chain and the cocoa industry in Ghana

3.1. The global cocoa chocolate chain

The GCCC is determined by sharp disparities of profits between up- and downstream segments and high levels of concentration within the latter (Araujo Bonjean and Brun 2016; Cappelle 2009). The largest shares of value added of a bar of chocolate go to the retail sector (44.2%), and the manufacturing (35.2%) and processing firms (7.6%), whereas only 4.2% go to public institutions in the producing countries. The local purchasing and transport segment generates 2.1% and only 6.6% go to about six million small-scale farmers in all producing countries (Fountain and Hütz-Adams 2015). The low share of profit for the farmers translates into a mean daily income of Ghanaian cocoa farmers of only 0.84 USD (Fountain and Hütz-Adams 2015). Thus, providing the key ingredient for the cocoa-chocolate industry (Fountain and Hütz-Adams 2020; Ruf 2021; Kroeger et al. 2017), cocoa producers are trapped in systemic poverty (Voora et al. 2019). This situation, however, has been broadly recognized as the roots of most sustainability challenges in the GCCC, such as the use of child labor and bad working conditions on cocoa farms, ongoing degradation of biodiversity, and deforestation.

Substantial evidences in scholarly literature have been put forward to assess the main segments of the GCCC. For instance, Gayi and Tsowou (2016) categorized activity flows in the supply chain to various segments in the GCCC. These main segments include the cocoa production phase, predominantly carried out by smallholder farmers in cocoa producing countries, marketing, processing, manufacturing, and retailing to consumers as finished products. For the purpose of our study on local effects of sustainability certification, we put a particular emphasis on the local marketing of cocoa, that is the activities conducted to evacuate the beans from the farm gate to the delivery to the exporters. The local marketing segments vary between the different producing countries. However, generally, local purchasing and transport activities are mostly either undertaken by local buyers/traders and/or cooperatives. Other segments within the producing countries comprise quality control checks of beans, their sales to both national and international markets, and local processing (Gayi and Tsowou 2016).

The global level in the GCCC primarily involves cocoa processing to semi-finished products, storage and transport, chocolate manufacturing, retailing and consumption (Cappelle 2009). This level includes shipments of cocoa beans to international markets for processing and subsequent manufacturing activities (Fold 2002). Bean shipments in recent times have been reducing after major international processing and manufacturing companies set up processing plants in main producing countries (Araujo Bonjean and Brun 2016). The markets for cocoa export, processing, and chocolate production in the value chain are increasingly highly concentrated, both at country and global levels (Callahan 2019). In 2019, only six cocoa processing companies (Barry Callebaut, Olam, Cargill, Ecom, Sucden, and Touton) handled the lion share of all cocoa traded and processed in the world (Fountain and Hütz-Adams 2020), and ten chocolate manufacturing companies accounted for about 43 per cent of global sales (Glavee-Geo et al. 2020). This growing trend has increased local interventions of foreign processing and manufacturing companies, often interpreted as an attempt to gain more control in their chain in response to the demand for traceable products and high-quality cocoa (UNCTAD secretariat 2016).

3.2. Ghana’s Cocoa Industry and Sustainability Certification

In a global chocolate industry with a total value of 208.15 billion USD in 2020 (STATISTA 2021), Ghana is the second largest supplier of the industry’s main raw material, cocoa beans. In the cocoa production season 2018/2019, Ghana and Côte d’Ivoire together accounted for around 60% of the world cocoa production (Fountain and Hütz-Adams 2018). According to Shahbandeh (2022), Ghana’s cocoa production increased from 800,000 tons in the 2019/2020 cocoa season to 850,000 tons for the 2020/2021 season. In Ghana, over 800,000 farmers gain their living directly from cocoa production, dominating the agricultural sector of the country with over 30% ($2 billion annually) contribution to the nation's export earnings (Africa Sustainability Matters, 2020). About 30% of the population depends on activities linked to the cocoa sector (Hütz-Adams 2009), for instance in storage centers or in grading, transportation and other local marketing activities (Knudsen 2007). Due to the unique governance of its cocoa sector, Ghana managed to keep its good reputation for steadily delivering high quality beans (Kolavalli and Vigneri 2018), under the stewardship of the Ghana Cocoa Board (COCOBOD), playing a key role in regulating and managing the cocoa sector. Through its Cocoa Marketing Company, COCOBOD sells cocoa beans on a forward contract sales basis to some local but mainly overseas buyers.

Following the liberalization of the internal market of cocoa in the 1990s, local Licensed Buying Companies have taken full responsibility over the purchase of cocoa beans through their district level managers and purchasing clerks in cocoa producing communities (Kolavalli and Vigneri 2018). From their respective operational districts, the LBCs have to transport the beans to either of COCOBOD’s three take-over centers themselves or through the use of haulers (Abbey et al, 2016). In 2019, the Produce Buying Company (PBC), Olam Ghana Limited, Agroecom Ghana Limited, Nyankopa Commodity Buyers Limited, Cocoa Merchant, Kuapa Kokoo, Cocoa Merchant Ghana Limited, and Federated Commodities Limited were the strongest LBCs in Ghana (Ghana Cocoa Marketing Board 2019), with Olam, Agroecom, and Nyankopa being subsidiaries of lead processing companies.

Over the past decade, Ghana’s cocoa industry has witnessed an increasing proliferation of various sustainability programs and partnerships, where international buyers took over a driving seat in the delivery of extension services at the local level (Ollendorf 2017). This is corroborated by studies conducted by DeFries et al. (2017) and Xie et al. (2015). For instance, according to DeFries et al. (2017), sustainability certification of cocoa production has increased significantly over the past decade, following a rising trend in consumption behaviors that adhered to social, environmental, and economic sustainability. As a result, Fairtrade and Rainforest Alliance (until 2019 UTZ, too) are the key organizations setting sustainability standards in cocoa production which, if satisfied at the farm level, attract a price premium in addition to the producer price (Bymolt et al, 2018).

However, while the real cocoa certification boom started in the 2010s, some organic cocoa certification or Fairtrade projects already existed before. Today, cocoa growers in Ghana pursue either one or a combination of the three main certification standards; organic, Fairtrade or Rainforest Alliance (Opoku, 2019). Additionally, most Rainforest Alliance projects (and prior the merger, the UTZ projects, too) are mainly implemented by lead firms from the processing segment of the GCCC and some chocolate manufacturers (Rainforest Alliance 2021). In the beginning lead firms from the processing segment often worked in partnerships with local LBCs (Ollendorf 2017), however, since the second half of the 2010 decade, most of the lead processing companies opted for the establishment of their own LBCs in Ghana through which they run the certification projects and with which they became key players in local marketing.

Cocoa certification projects in the Ghanaian cocoa sector are mostly organized in a strongly hierarchical way, where a company-led project administration oversees project officers at each administrative level and targeted cocoa farmers join the society of the respective LBC that runs the certification project. With their participation in the certification project, farmers sign a contract that obliges them to sell their beans exclusively to the project LBC and to attend a bi-weekly organized training on standard requirements (Ollendorf 2021).

4. Methodology

To the point of writing, to the best knowledge of the authors, there is no study with a distinct focus on the effect of sustainability certification on the local marketing sector in Ghana. Hence, the collection of primary data became key for this study. Given the nature of the research questions, the empirical part of the study applies a mechanism-oriented explanatory approach (Gläser and Laudel 2010). The main interest lies in the understanding of the process through which certification schemes shape the conditions in the local purchasing segment. Consequently, an understanding of the mechanisms by which certification transforms forms of competition among LBCs and the strategies with which local LBCs respond to the new challenges are of main interest of the data collection.

The empirical study consists of 26 semi-structured interviews with 23 key informants from local LBCs in Ghana and two representatives from the Ghana Cocoa Marketing Board (COCOBOD) as well as one from Rainforest Alliance. The purposeful sample followed two main objectives: one, to appreciate effects on different types of local LBCs, and two, to understand perceptions and strategies of LBC managers and employees at the different levels of the marketing sector (community, district, region). Hence, six local LBCs were selected based on their market share in Ghana's local cocoa purchases, last published by COCOBOD for the cocoa season 2018/2019 (Ghana Cocoa Marketing Board 2019). We selected three local LBCs with highest market shares among local LBCs and three with lower purchases. In order to assure anonymity of respondents and the confidentiality of companies' business information, the names have been withheld to satisfy ethical standards.

The procedure consisted of two sequences and was as follows: The first interview wave was realized in the Ashanti region and the second in Western North. The Western North region has been at the pioneering front of sustainability certification projects in the 2010 decade before it swapped over to all other cocoa producing regions. The Ashanti region is equally strongly targeted by certification projects since several years now. Both regions are therefore fruitful areas to study dynamics surrounding the implementation of certification schemes, since these interventions are in place for several years now and have already led to profound changes. In a first step, the selected six local LBCs were contacted and informed about the intent of the study. The initial interview with each respective LBC was done with an interview partner of a higher position in Ashanti region (owner, operational manager, regional manager) – depending on the availability and readiness of participation. At the end of these interviews, the respondents were asked to further direct the interviewing team to district managers of the respective company's certified and non-certified districts in Ashanti region and to regional managers in the Western North region. Likewise, in some cases, interviewed district managers in Ashanti have been asked to further direct to local purchasing clerks. In the second interview wave in Western North, the procedure was the same. After interviewing representatives from the higher-level positions, district managers and purchasing clerks, where applicable in certified and non-certified operational districts of each respective LBC, were conducted. Finally, interviews were conducted with one owner, two operational managers, three regional managers, nine district managers, five purchasing clerks, and two sustainability managers and technicians from a total of six different local LBCs.

The interviews were conducted either via phone interviews or in-person, and ranged between 30 and 60 minutes. The interview questions corresponded to the three research questions. Hence, the first focus was on the new dynamics in the local market which are linked to the introduction of certification schemes, the second on the new challenges arising for the local LBCs with these dynamics, what strategies are mainly employed to respond to the new situation and lastly how affected LBC representatives appraise their current and possible future position in the sector as well as the general changes in the governance of the sector. Interviews were audio recorded and transcribed into text files for qualitative analysis supported by the software package MAXQDA. The detailed questionnaire is attached to the appendix.

5. Findings: changing dynamics in local marketing and LBCs' responses to new pressures

The findings from our interviews with representatives from different types of local LBCs are unambiguous: All respondents describe a profound change in the local marketing environment since the introduction of certification and highlight the strong relation between premium payments to mainly, but not exclusively, certified farmers and the volumes purchased by a company. At the point of writing, only a few local LBCs also engage in certification whereas certification projects are currently predominantly run by the subsidiary LBCs of transnational companies.

Next to the overarching process of improving farmers' production capacities and livelihoods, certification projects come with a number of tangible benefits for farmers which make their participation in the projects highly attractive: most notably the premium payment (now called sustainability differential by Rainforest Alliance), some farming equipment such as personal protection equipment like overalls and boots, or access to spraying equipment, as well as some other incentives which might come in the form of soap, rice, sardines, and other food stuff. Hence, most of the interviewees describe the obvious farmers' interest in gaining access to these benefits. From the reports of interviewees, subsidiary LBCs of foreign companies do compete for farmers based on the amount of the premium, with the highest reported being paid at 35 GHS[1].

The introduction of the sustainability premium in Ghana hits a marketing environment where Ghana's Cocoa Marketing Board holds the authority to set an annual fixed producer price and where LBCs are originally not able to compete on a price basis. Therefore, the two main mechanisms of competition at the level of local marketing used to be the availability of cash to immediately pay for the beans upon farmers' delivery, and good relations with farmers. Ever since the introduction of a sustainability premium, most farmers are aware of the opportunity to catch a premium for their bags and therefore tend to abandon their traditional LBCs in order

[1] 35 GHS is equivalent to 4,5€ at 5th March 2022 (www.oanda.com/).

to participate in a certification project or at least to sell to an LBC being engaged in certification and thus wait to also benefit from a premium in future.

Thus, this trend of farmers opting to sell their beans to LBCs that offer premium and other incentives, has triggered an unprecedented form of competition in the local marketing in Ghana with local LBCs facing severe challenges to remain competitive. According to the interviewees, it is not only those farmers who are part of a certified group who look for the premium, but also conventionally producing farmers claim their interests in getting paid with a premium. There is a general understanding among cocoa farmers that all the cocoa is the same, hence an incomprehension towards the reason why some LBCs do pay higher prices than others. The following quotes underline these described insights:

> “If you don’t have a certification program, you are doomed, because every farmer wants to have a premium.” (Sustainability Manager, interviewed on 03/02/2022)
>
> “Competition has really been intense because of the bonuses/premium other LBCs have been giving to their PCs for their farmers and my LBC is not doing that, every year our quantities in terms of volumes have been coming down.” (Purchasing Clerk, interviewed on 24/01/2022)
>
> “For instance, I had a PC who gave me 900 bags in the last two seasons but last season gave me only 300 bags. So the question is where have the rest of the bags from the previous season gone? To Olam, Nyankopa, Eliho etc. because they are doing the certification. So for a conventional district not doing certification, no matter how much you push, the certification will always bring you down.” (District Manager, interviewed on 23/01/2022)

Accordingly, the most common challenge for the representatives of all levels (operational, regional, district managers and purchasing clerks) is the sharp decline in purchases and hence market shares due to the new competitive dynamic. However, it seems that the strongest effects can be found for those local LBCs which used to purchase high volumes and now do struggle to keep their levels. The following table 1 shows the reducing purchasing volumes of one of the studied bigger local LBCs since the wide-spread of certification in the mid of the 2010s.

Table 1: Changes in cocoa purchases by a bigger local LBC

Cocoa season	Total number of districts	Number of certified districts	Volumes total	Volumes certified beans	Volumes non-certified
2017/2018	85 districts	11	46222 mt	11678 mt	34544 mt
2018/2019	83 districts	16	39890 mt	16783 mt	23107 mt
2019/2020	70 districts	22	31006 mt	18522 mt	12484 mt
2020/2021	53 districts	26	29322 mt	16677 mt	12645 mt

Source: based on self-report of the studied LBC.

The table shows the reduction in total volumes over the past four years for one studied bigger local LBC. It also clearly shows that the increase in certified districts allowed the company to save some of its volumes, as up until the season 2019/2020, the distinctly smaller number of certified districts provided higher returns as compared to non-certified ones. It becomes clear, that the ability to conduct certification projects strongly acts on the performance of LBCs.

Furthermore, the three studied bigger local LBCs reported to face a dynamic of losing their staff for the foreign subsidiary LBCs. Interviewees from different operational levels of all these three LBCs complain about their staff unexpectedly quitting working with them, a dynamic mainly concerning strong purchasing clerks (PCs) but also district managers (DMs). As by report, many PCs and DMs are attracted by the higher commission or higher wages respectively, and for the PCs, the end of the struggle always being in need to explain to their farmers why they are not able to pay the premium. The following two quotes underpin this trend.

> "The certification has made it very difficult for us to compete with LBCs who are offering premium. We have lost a lot of PCs to other LBCs because of this. For instance, we have lost a very committed PC to Nyankopa because of certification and the premium they pay. I made a follow up to his house and he blatantly told me he will return to our LBC on condition that we offer a premium." (District Manager, interviewed on 08/02/2022)

> "A lot of my PC colleagues and farmers have stopped working with us because of the certification and the premium payment it comes with. I had a PC in the past, buying about 4000bags for me in the past. However, the rice, salt, soap, motor king, TV, fridges etc. as packages from some LBCs have enticed most loyal colleagues to join the certified LBCs." (District Manager, interviewed on 12/01/2022)

Especially older interviewees who have been working in the sector for years complained about this decline in loyalty – mainly between farmers and the PCs but also between the LBC staff. Indeed, farmers always used to sell their beans to more than one LBC, particularly when they are in urgent need for cash, the PCs who have cash available to pay for the beans instantly will be the PC to whom they would sell. But besides, farmers and PCs were somehow sharing a relationship which was built on mutual recognition and trust – a narrative often stated even if there are also many reports of PCs betraying farmers with adjusted scales etc. However, this commonly reported social bond was often described as declining;

> “The issue of loyalty to a particular company started dying down, now it is about who has money will get to buy the cocoa”. (District Manager, interviewed on 24/01/2022)

In addition, the behavior of PCs wanting to remain loyal with the LBCs, hence continuing to sell some of their purchases to the LBC but diverting a significant amount to a certified LBC offering a higher commission was reported several times.

Indeed, if the market offers bigger margins to farmers and PCs it is a positive trend. However, local LBCs have a very limited budget with which they have to operate. The interviewed operational managers describe the challenge to receive loans for cocoa purchasing from Ghanaian banks and how it became even more difficult over the past years. While it would be almost impossible to even get some loans, the extremely high interest rates in Ghana also hinder them from taking such loans. Hence, for the studied LBCs, COCOBOD’s seed fund is currently the only source of funding and the scope for margins is described as very low. The LBCs have to wait until the beginning of the season when COCOBOD delivers the funds, reported as an often-delaying procedure. In sharp contrast, foreign subsidiary LBCs have funds available all year long and thus are highly flexible with their operations.

In this context, the interviewees highlighted the double advantage where foreign LBCs would get their strength from: One, the constant availability of funds combined with, two, providing premium. Often, farmers want to sell their beans and get the money immediately; hence, they might sell it to any LBC with cash available in such moments and decide to not even wait for the certified LBC to obtain the premium. Thus, the ability to get funding for the cocoa purchases and payment after the premium payment is seen as the second most important factor for success, and in turn, as one competitive disadvantage to many local LBCs.

In order to overcome these financial obstacles, operational and sustainability managers from all studied LBCs stated to be currently looking for investors or partner companies. Mainly due to the strong marketing advantage that is attributed to running certification projects in Ghana, representatives from all but one of the six studied LBCs stated their willingness to either introduce certification to their business or to expand the already existing certification projects. However, running a certification project on their own is practically impossible for local LBCs. This is particularly due to two main reasons: One, given their extremely limited access to capital, local LBCs are not able to pre-finance sustainability certification projects. Second, even if they would manage to gather the needed investments, if no prior relations are in place, the risk of not finding an off-taker for the standard compliant produced beans and then having to sell them as conventional ones is considered as very high by respondents.

While some of the interviewed bigger local LBCs in the past were running certification projects in partnerships with transnational processors, all of these projects came to an end due to the establishment of the processors’ subsidiary LBCs and these taking over the projects. Currently, out of the six studied LBCs, two are running certification projects in cooperation with smaller international off-takers (e.g. Tony's Chocolonely). The operational and sustainability managers from the three studied bigger LBCs all similarly stated that they see certification as the only way forward for their company. They reported about the difficulties they are facing to get into contact with international off-takers to secure a contract for the delivery of certified beans and which would also invest in the certification project. In this regard, the descriptions of the interviewed operational and sustainability managers are very similar: They experience the demands from off-takers as very high and find it difficult to reach out to them. Given that the off-takers want to see preparations on the ground, all three bigger LBCs are currently investing and preparing for the case when they find a customer and organize farmers in groups or cooperatives in order to be ready to launch a project once an investor is found. One operational manager plans to employ a consultant who should conduct research to find off-takers.

But the preparation of farmers in groups also has another motive. As reported by a purchasing clerk, non-certified farmers traditionally selling to this PC are also given promises that the certification project will come soon, that they should get ready for it and so on, in order to prevent them from leaving for a certified LBC.

It becomes clear that the situation is challenging for local LBCs which are currently mostly unable to start certification or expand their existing projects to other districts in order to keep their positions. They have, hence, developed a number of strategies to cope with the constant pressure and keep their status. As it stands, smaller and bigger local LBCs are affected in different ways, and it is particularly the bigger ones which are faced by losing shares while the smaller ones not seeking for similar high volumes are currently still able to explore niches. Based on the interviews conducted, we identify six operational strategies currently applied by affected LBCs: An improved monitoring of the market situation and the derived relocation of operations as well as a more time-sensitive purchase, the improvement in availability of cash for PCs, the provision of incentives to farmers and the use of personal relationships.

Some district managers have described how they have adjusted their working activities and included extra visits to the villages in order to check up on their PCs and verify the number of bags at their storage. They report that due to these irregular visits the diversion of cocoa to other companies reduced slightly. Besides, operational and regional managers described the additional activities of market monitoring. While bigger LBCs used to have wide coverage and presence in many different districts, smaller ones focus on a few areas. Therefore, based on market assessment where certification projects are less widespread, they seek to relocate their operations to non-certified areas. Further, managers began to pay attention to the timing of premium payment or general payment to farmers1 and try to be most present when payments from certified LBCs are down. While the constant availability of cash is described as a main challenge for all studied LBCs, the improvement of cash availability and the aim to achieve a constant availability have become crucial for them, as expounded with the following two quotes:

> "Because we do not offer a premium, it is always positive to have money available to be able to buy from cash trapped farmers and left overs. Because of this, requests for funds from HQ to districts and from districts to PCs do not delay within our company anymore". (District Manager, interviewed on 12/02/2022)

> "Availability of funding has been very key. In cases where other LBCs run out of money, farmers turn to us to sell their cocoa to us". (District Manager, interviewed on 10/02/2022)

Combining these three strategies seems to currently work out well for small LBCs. However, the extent of optimism varies largely among their representatives at the higher levels. While one owner of a small LBCs stated optimistically that there will always be enough cocoa for all LBCs to buy, an operational manager from another small LBC sees the trend of disappearing local LBCs in future, a perspective shared by several representatives from higher levels of bigger local LBCs.

What applies for most of them is that they currently have to top up prices in order to keep farmers on board. The strategy of providing additional incentives to farmers recently became highly accentuated. Either the company provides additional funds and incorporates them into their business plans or PCs on their own use their commissions to top up the price – both strategies aiming at encouraging farmers to continue to sell to them. Further, as another coping strategy, PCs individually or LBCs in many cases also offer other incentives to farmers to stick to them, as described in the following quote.

> "I sponsor the purchase of fuel for spraying the farms of my loyal farmers. This is at a personal cost but if I don't do this, I will lose farmers to other LBCs offering premium and

> the certification program. I sometimes have to take loans to be able to do this". (Purchasing Clerk, interviewed on 08/02/2022)

Most drastically is the situation described by several interviewees, where all LBCs are now paying an additional amount which they also call a premium, even though they are not doing certification. Here again, some see it optimistically, and state that if it helps them to manage to buy higher volumes, it will still be possible to keep the business even with these additional costs, while others see the additional expenses eating too much into the company budget and reducing the margins to an unsustainable level. Hence, it is difficult to make a point on the sustainability of this strategy but it is a key approach currently practiced. Bigger LBCs practice premium payment without a certification project in a way that they have to top up more in areas where more certification projects are going on as compared to areas with lower incidences of certification. Thus, an important strategy for them is to decide on where to top up and by how much. This practice, however, bears the risk of provoking farmers' discontent in the areas which are marginalized from the higher prices, while a good relation with farmers is seen to be the major key to success.

Therefore, besides topping up and payment of an additional amount to farmers even without running a certification project, one of the key strategies described by interviewees is to do their best to keep good personal relationships – between farmers and PCs as well as between DMs and PCs. PCs have described how the long-lasting relationships between them and the farmers have helped them to build trusting relationships even in situations when a lot of distrust arises because of misunderstandings regarding premium payment. Also because of these ties, farmers would still continue to give them some bags of their cocoa and not sell entirely to the certified LBC. Between DMs and PCs too, it became more important to take care of honest and respectful relations – something that has been described as one of the only ways to prevent PCs from leaving for certified LBCs with higher commissions.

6. Discussion

The findings from our interviews provide an unambiguous picture: Local LBCs are strongly affected by the changes in the internal marketing environment stemming from the rapid proliferation of certification projects and the recent presence of capital-strong foreign LBCs. All of the studied LBCs report to be under previously non-existing pressures and the need to take several measures to cope with these.

The first research question asks about the new dynamics in the local cocoa marketing and the reasons for them. The results have shown clearly the various ways in which marketing conditions sharply transformed ever since the widespread of mainstream sustainability certification projects in Ghana's cocoa sector. The main new dynamics derive from the entry of foreign subsidiary LBCs and their ability to use the sustainability premium and other material incentives linked to certification as tools for competition for farmers. Cocoa farmers are generally eager to improve their livelihood situations and see the diverse benefits stemming from their participation in certified groups – almost exclusively bound to foreign owned subsidiary LBCs and their mother companies. In a context of constant deprivation from important livelihood assets, the premium and even smaller material benefits provided to cocoa farmers constitute an important competitive advantage for LBCs managing certification schemes. In the pre-certification context, due to the standardized producer price annually set by COCOBOD, local LBCs did not compete on a price level but social relations and loyalty were important factors for their success (Owusu Ansah et al. 2018).

The second research question concerns the new challenges of local LBCs and their responses to the new situation. Our findings show that the overarching challenge for local LBCs is the possible loss of market shares for both bigger and smaller LBCs. However, while bigger LBCs are not able to keep their levels of high market shares, smaller ones currently are still able to adapt to the new pressure when a smart set of coping strategies is applied. These new pressures come along with several sub-challenges, as for instance a situation where local LBCs constantly face farmers deciding to sell to LBCs offering highest premiums. This finding strikes a chord with the findings of Owusu Ansah et al (2017) and Varangis and Schreiber (2001), intimating that cash and other non-cash incentives are major determining factors in farmers' decision to sell to a particular LBC. However, not only farmers but also PCs and DMs often leave their LBCs to join the foreign subsidiary LBCs. Hampered by structural difficulties to access adequate funds and to find partners for the resource intense implementation of certification schemes, bigger local LBCs' hands are tied and there is not much that they can do to effectively address the situation. This finding is in tandem with Mohammed et al. (2011) who opined that delays in the release of funds from COCOBOD present a lot of challenges for the purchasing activities of LBCs in Ghana. Currently, the main strategies reported by both bigger and smaller local LBCs are to top up the producer price from the companies' budgets, to sometimes provide other incentives, to improve the constant availability of cash, and to improve other operational aspects such as enhanced monitoring of the market. In contrast to bigger local LBCs, smaller ones are currently still able to evade areas of high certification prevalence and to relocate their operations either geographically or timely. Yet, this strategy of smaller LBCs might get to its limits in the coming years. Given the goals of major chocolate manufacturers to increase their standard compliant purchases up to 100% and given the new regulatory demands, for instance, the European Union's deforestation free commodity chains act where companies importing cocoa to the EU will have to provide proof of the sustainability of their local purchases, the still remaining niches of non-certified areas most likely will close up over the coming years.

As has been shown, the forms of competition have altered profoundly since the spread of certification and the entry of capital-strong foreign subsidiary LBCs. Interviewees described how, next to the premium amount, also other material incentives are used by new market players to incentivize farmers to sell to them. In order to not to fall behind, local LBCs' are also topping up prices and services – but without having access to higher prices offered for sustainably produced beans in turn as in sharp contrast to their foreign counterparts. The gap between their positions in the market playing field becomes even more clear.

With regard to the third research question, significant changes in the upgrading opportunities for local companies could be observed. Our results give strong rise to the concern that the new forms of competition related to the spread of sustainability certification do not only prevent economic upgrading of local LBCs but rather even contribute to their downgrading and likely further squeezing out of the sector if no solutions will be found. While we can observe ambitions of local LBCs to upgrade their internal processes and operational functions, for instance by engaging in the organization of farmers or improving managerial competences and efficiency, local LBCs seem to be structurally trapped since they are unable to compete on a similar resource basis as foreign subsidiary LBCs. Up until now, the improvement of local LBCs' activities did not translate into an improved position or the ability to capture higher margins – a trap also mentioned by Gereffi (2019). In contrast, the extra costs arising with the attempts to face the new competitive situation risk to even reduce their margins while their market shares are still declining, a development recently described as the "sustainability-driven supplier squeeze" (Ponte 2019, p. 8). This indicates a process that might contain the risk of bringing new forms of unequal developments in Ghana's cocoa marketing, a situation that comes close to what Werner and Bair (2019) discussed with their "disarticulation perspective". Currently, local LBCs show shrinking positions to the benefit of foreign subsidiary ones, a process that, following the general idea of downgrading dynamics by Blažek (2016) could be described as the downgrading not only of the local companies, but finally, due to the reduced capacities to keep cocoa margins in-country, of the whole local cocoa economy. A similar dynamic has been observed by Neilson and Pritchard (2007). In their study on coffee certification in India, they discussed the lack of public capacity to regulate who finally bears the additional costs and risks associated with compliance with certification standards.

If this process of downgrading of the local economy in Ghana's cocoa sector is to be halted or reversed, new regulatory measures or tailored programs seem to be urgently needed. In this process, COCOBOD should take back its driving seat in the sector and expand its coordinative position in the context of sustainability interventions – an undertaking having its limits in the currently prevailing voluntary approach of lead firms reporting their sustainability projects to the marketing board. In the interviews, several respondents suggested a key role of COCOBOD, especially when it comes to coordinating contacts between foreign buyers interested in buying standard compliant beans and local LBCs looking for investors and project partners. Further, expectations are also placed towards the public sector in supporting local LBCs in securing affordable grants that would allow them to improve their performances. Finally, none of the interviewed stakeholders foresees a future without certification in the sector. Hence, the major hope being articulated is a creation of an equal level in the playing field for all LBCs and the standardization of the premium amount.

In sum, it can be stated that it is generally a positive trend that many cocoa farmers receive at least slightly higher prices, also if they do not participate in certification projects yet, and that other benefits are offered to them, too. It also seems to be a positive development that local LBCs have improved their operational capacities and achieved the availability of cash throughout the season instead of letting farmers often wait to receive their payments. However, the structural disadvantage of local LBCs in both receiving loans with affordable interest rates and in securing contracts with off-takers to reduce their risks of investing into certification and to share investments is alarming. As it stands, if the current trend continues the same direction, all interviewed LBC representatives see the danger of being expelled from the market in the near future.

7. Conclusion

This study aimed at examining unexpected side-effects of sustainability certification in the Ghanaian cocoa market. Specifically, the study draws on perceptions and experiences of representatives of local Licensed Buying Companies in order to appraise new dynamics occasioned by the spread of sustainability certification. This contribution emphasizes the challenges for local LBCs stemming from the changing dynamics, strategies employed to cope with the new pressures, and the role of foreign subsidiary LBCs in the competitive environment.

The expert interviews reveal consensus among respondents about profound changes in the local marketing environment since the spread of sustainability certification. This strong dynamic change manifests in a direct link between premium payments to cocoa farmers and cocoa volumes purchased by LBCs. In 2022, sustainability certification in the local marketing segment is primarily driven by subsidiary LBCs of lead firms in the GCCC, with only very few local LBCs engaged in certification programs. This is attributed to the recent entry of transnational cocoa processing and manufacturing companies to the local marketing segment in Ghana's cocoa sector.

Attached to the certification projects are benefits farmers receive as a result of their participation. Particularly the payment of a sustainability premium constitutes their overarching motivation for participating in certification projects. This has become a key factor for farmers' decision to sell to an LBC which runs a certification project or otherwise. This aspect of tangible benefits to farmers has revolutionized the competitive environment for the operations of local LBCs, with local ones losing their market share holdings over more than the past five years. This dynamic has grown to extents where local LBCs aside from losing their loyal customers are struggling to keep their district managers and purchasing clerks who are also being swayed by higher wages and commissions by foreign subsidiary LBCs.

Local LBCs have resorted to relocating their operations to districts with less concentration of certification projects, planned routine checks and monitoring of activities in districts, constant availability of cash for purchases, provision of incentives to farmers, reliance on established personal relationships and time-sensitive purchases as coping measures to remain active in the local marketing sector. Although still yielding positive dividends for local LBCs, these coping measures heighten their financial burdens, and as a result, rendered unsustainable to guarantee the survival of local LBCs in the local market.

Without a clear way to involve local LBCs in the certification business, this form of local companies may face a possible collapse in the local market following the continuously growing importance of sustainability certification. If a sound future of the traditionally locally-driven purchasing, transporting, and marketing of cocoa beans is part of sustainability considerations in the GCCC, the current trend and new pressures for local LBCs have to be taken into account. For instance, regulatory measures or tailored programs may need to be developed in order to support local LBCs' ambitions to remain competitive in the new environment of a global sustainability market, as for instance the support of partnerships between local LBCs and international buyers, the support of LBCs' improved access to finance, or the standardization and regulation of sustainability programs, particularly the premium payment. Thereby, the ongoing developments of EU regulatory tools to assure responsible purchasing practices of transnational corporations may provide a fruitful ground. While companies importing cocoa to the EU are prospectively obliged to collect sustainability data and to provide it to the EU, producing countries may make use of these new information flows and also request the provision of detailed information on private sustainability interventions. This improved information base may support the implementation and efficiency of regulatory measures at the local level and the enforcement of a clear frame for private sector-led sustainability interventions. Consequently, the study recommends an extensive inquiry into measures that could sustain the survival of struggling locally-owned LBCs, adversely impacted by the side dynamics resulting from the introduction of certification programs and the growing entry of transnational LBCs in the local marketing segment of Ghana.

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Appendix: Interview Guide

1. Introduction

- Purpose of the study: an independent academic work with no commercial interest, the aim is to reveal the side-effects of sustainability certification and to understand if there are some possible negative effects in the Ghanaian cocoa marketing, the results will be published in a working paper, all information provided will be anonymized and only the interpretation of the information will be published, hence no tracking to interview partners will be possible
- Duration of the interview approx. 1 hour
- Structure of the interview: a few general questions followed by three blocks of questions, these three blocks are questions on 1) changing dynamics in the local marketing segment, 2) how these changes affect the LBC and 3) on a long-term perspective of the local marketing segment

2. General issues

- How long have you been working with this LBC, where did you work before, and what are your main tasks and responsibilities in your current position?
- How would you describe the position of this LBC in the Ghanaian cocoa marketing sector?

3. Questions concerning RQ 1

- What major changes in local marketing have occurred over the past 10 (or less when only working since a shorter time) years?
- Do you think these are positive or more problematic dynamics?
- What is your perspective on sustainability certification?
- What do you think, how did the implementation of cocoa sustainability certification projects affect the marketing system of cocoa in Ghana?
- Why did certification affect the local marketing / what are the main mechanisms and drivers of change?

4. Questions concerning RQ 2

- What are the main challenges for your LBC and since when?
- How did the introduction of sustainability certification affect your LBC?
- How did this impact the working practices of your LBC? (reduction of employees, new activities with farmers…)
- What strategies did you /your LBC employ to handle the new situation / cope with the challenges?

5. Questions concerning RQ 3

- Did certification affect the competition between the LBCs?
- How does the entry of international LBCs change the competition between LBCs?
- Do you think the new situation will transform the local marketing segment and if so, how?
- Do you think cocoa certification is a blessing or a curse for the cocoa sector in Ghana?
- What do you think is needed to improve the sustainability of the cocoa sector?