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# **Cocoa production in the Dominican Republic: sustainability, challenges and opportunities**

## **Executive Summary**

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## Executive Summary<sup>2</sup>

The study was commissioned by the UK chocolate company, Green and Black's, through the Cocoa Partnership programme, in order to gain a better understanding of the cocoa sector in the Dominican Republic (DR). Beyond its immediate relevance to Green and Black's, this study is a significant step in reducing some of the knowledge gaps in the global map of cocoa production. While considerable attention has been paid to cocoa in West Africa, the fact that it is grown in a variety of regions, including South-East Asia, South America and the Caribbean, is often overlooked.

Even in the DR, the cocoa sector has received less attention than other agricultural exports. However, this sector has undergone considerable changes in the last 20 years, most notably in the area of quality. It is continuing to evolve and secure its position in the global cocoa market and is clearly deserving of greater attention.

Most of the literature on Dominican cocoa relates to specific aspects of production and commercialization. The present study offers a broader perspective, by including a detailed discussion of technical production issues (such as shade management and pruning) and social issues relating to different types of labour, community needs, youth, producer and worker incomes.

It has sought the views of individuals at all levels of the value chain in a holistic way. This means that the views of actors who are often 'invisible', such as women and children, whose contribution is not necessarily recognized or remunerated, are also included. Data was collected using both qualitative and quantitative methods. However, it is necessary to emphasize that this report only constitutes a snapshot of the DR cocoa industry. It is not statistically representative of the entire population of cocoa producers and only captures the cocoa industry as it stood in 2009, when the research was carried out.

As previously outlined, this industry has been through considerable changes and has greatly consolidated its global standing in recent years. Although it remains dominated by a small number of export companies, it is a rapidly evolving sector. These companies operate in a climate of tight competition, which does not favour transparency. This also reduces opportunities for adopting a coordinated approach on some of the main issues affecting producers.

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<sup>2</sup> The research on which the summary is based was carried out as an independent study and reflects an academic, rather than a commercial, perspective. The information and views expressed in this summary and in the report of findings are the views of the authors alone; they should not be attributed to Green and Black's. The design and the execution of the research and the interpretation of findings were undertaken independently by the research team.

## Exports

The DR is in the fortunate position of not being affected by some of the cocoa tree problems which affect production in other countries. It is able to grow most of the cocoa without recourse to chemical inputs. However, the reputation of Dominican cocoa in the early 1980s was poor, because of poor post-harvest handling (mainly lack of/inadequate drying and fermentation). At that time, the possibility of Dominican cocoa being used to produce high quality chocolate might have seemed remote.

Since then, investments have been made in drying and fermentation facilities. They were initially led by CONACADO (the National Confederation of Dominican Cocoa Producers) under the auspices of international development organizations, and subsequently supported by other organizations, including ICAM/Green and Black's. This has resulted in the DR being able to produce and export significant tonnages of cocoa, commanding top world market prices (while also maintaining a high volume of exports of the traditional unfermented Sanchez cocoa). Together, these generated revenues of US\$160 million in 2009.

The DR has also secured its place within specific segments of the global cocoa market by being one of the leading exporters of organic and of Fairtrade cocoa. While these only account for modest tonnages on a global level, they considerably increase the visibility of the DR in particular markets. In the UK and other countries, an increasing number of chocolate bars are explicitly marketed as using beans sourced from the DR. As such, the DR would seem ideally placed to further consolidate its standing in the global chocolate market, which is seeing an increased demand for ethically produced, high-quality cocoa.

## Social dimension

From a social perspective, the cocoa sector presents a variety of challenges. Firstly, the development of the DR cocoa industry is not reflected in a parallel growth in its producer population. The 1993-1994 census reported that there were 36,000 cocoa farmers in the DR and official sources from 2006 still cite this figure. Most key informants in the study estimated the current cocoa population of the DR to be between 36,000 and 40,000 producers.

The typical profile of a cocoa farmer is a male in his late fifties who owns a small plot of land and has a very basic standard of living in a rural area. His household income is derived partly from cocoa and other agricultural outputs, often combined with other activities, and partly from the income of his spouse. In many cases, his productivity is approximately half of its potential (assuming farm maintenance, replanting etc., are carried out as necessary).

Smallholders are more likely than owners of medium/large plots of land to rely on family labour, labour exchanges with other producers and some short-term hired labour. This reliance has well-established antecedents and, given the age of the majority of producers, most of the family labour is provided by spouses and adult children. The involvement of minors varies, depending on the region, and mainly involves light activities.

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The hired workforce includes Haitians and Dominicans, who are in most cases employed as daily labourers. Some differences were uncovered in the way they were treated, but these were not necessarily negative. For example, Haitian workers were more likely than Dominicans to be given food in addition to the wages for their labour. The research uncovered no evidence of forced/bonded labour in the DR cocoa industry and no serious breaches in basic health and safety requirements, although there was scope for some improvements. Unfortunately, the ongoing difficult situation in Haiti is likely to result in many more Haitians migrating to the DR in search of work, and raises the possibility of exploitation occurring.

In some areas, producers reported a shortage of available labour. Problematically, worker incomes (for Dominicans and Haitians alike) were found to be low and workers have no long-term job security. Many workers interviewed were living below the World Bank-defined moderate poverty line.

### **Farmer perceptions**

The considerable achievements of the last 20 years in the cocoa sector have not significantly enhanced the attractiveness of the industry in the eyes of farmers, or necessarily affected their attitudes towards production. Although high prices since 2009 have stimulated interest in cocoa cultivation among some farmers, the overall perceptions of the cocoa industry indicate a decline rather than an increase in interest, especially on the part of younger generations. While this was more manifest in some areas than others, unless present overall trends are reversed, this raises questions as to the future sustainability of cocoa.

Cocoa's lack of appeal largely relates to the question of incomes. Because productivity rates are low, even when the prices at farm level are high, they are not enough to provide a living wage to farmers. The problem of low productivity is exacerbated by the volatility of world market prices and the fact that producers receive varying proportions of it.

Efforts which could boost production, such as replanting or pruning, are not carried out frequently enough. They are undermined by cost (seedlings of better quality plants with higher yields are typically twice the price of other seedlings, and pruners are the most expensive segment of the hired workforce) and inaccurate beliefs, thereby fuelling a vicious circle of underinvestment and low productivity. Low investments in farm maintenance are further perpetuated by the producers' decision to invest whatever capital they have in other ventures, because they know the cocoa farm will still produce a small quantity of cocoa, even if minimal inputs are provided. This inevitably results in low yields, and therefore perpetuates farmers receiving low incomes from cocoa.

### **Household challenges**

At the micro-level, there is also an important household dimension to the issue of incomes, which should not be overlooked. Globally, much has been written about macro-level issues (e.g. cocoa producers being vulnerable to surges and slumps in world market prices, etc.), but little attention has been paid to the difficulties of managing cocoa incomes at the household level.

Perhaps controversially, this study argues that the seasonality of cocoa production and income streams – at least as they currently stand in the DR – are increasingly at odds with the demands of the modern world, even in rural communities. More specifically, receiving seasonal payments based on fluctuating prices is not compatible with the requirement for rent, school fees, transport costs, health bills, communication costs, water and electricity bills, etc., to be paid regularly.

In practical terms, the research found that the fact that cocoa producers receive a seasonal and variable income from cocoa has the following key implications:

- It is not conducive to careful financial planning, which is necessary to secure a minimum standard of living based on a low income. The lack of funds at particular periods results in producers becoming indebted, which further undermines their ability to manage their incomes. In extreme cases, indebtedness can result in them losing their land.
- Cash payments directly to male heads of household raise the risk that the income will be diverted away from the household.
- Young people expect a certain standard of living, involving education, key services and other expenses, as outlined above. This requires a frequent and regular income, which a seasonal crop like cocoa cannot provide. Unless this issue is addressed, cocoa will not be attractive to younger generations.

### **Community challenges**

The study has highlighted several community development opportunities. Many communities in the heart of cocoa-producing areas have to rely on a poor road infrastructure, are very prone to flooding, and lack social facilities. They are also vulnerable to extreme environmental adversity, such as hurricanes, cyclones, earthquakes and landslides, all of which their housing is ill-equipped to withstand. The considerable damage caused by Hurricane George in 1998 to individuals, their property and cocoa farms amply illustrates the need for investment in order to reduce the vulnerability of local communities.

### **Fairtrade**

The study found that whilst the Fairtrade model offers numerous valuable benefits, it cannot address many of the difficulties outlined here. The Fairtrade minimum price for cocoa and the social premium were reviewed and increased in 2010. However, as the Fairtrade minimum price is below the current world market price for cocoa, it does not demarcate Fairtrade from other trade through higher prices. The premium for community development is of course significant, especially on large volumes of cocoa. However, the fact that the minimum price and premium were not reviewed for many years is problematic, as inflation had a negative impact on the real value of the premium and the number of community development projects it could fund. Fairtrade International has now put in place a system for more regular price reviews, based on a projected three-year cycle, but with the flexibility to delay or bring forward a review of any element of the pricing standard if it is necessary or appropriate to do so.

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Being Fairtrade involves much more than a certification process. From an organizational perspective, it can place local agents in the difficult position of having to simultaneously manage significant local challenges and global expectations. More positively, Fairtrade has enabled a confederation of local producer associations, CONACADO, to provide valuable support to cocoa farmers in the DR. Although certain aspects of the Fairtrade model would benefit from being reviewed globally, it offers considerable scope for promoting socio-economic development and supporting producer organizations.

## Conclusion

In order to support its expansion, the DR cocoa sector needs to address the disparity between its growing international market and its weakening local systems of production, which are characterized by low investments in farm maintenance, ageing trees and a failure to attract younger generations. As the cocoa produced in the DR can command high prices on the world market and has a promising future, it is important that changes are put in place in order to make sure that producers capture more benefits from this and earn a living wage from cocoa.

In order to ensure that the producer population does not further decline in number or in its productivity, and to ensure that cocoa farmers are receiving commensurate rewards, significant changes will have to be implemented by a wide range of stakeholders. This will require the Dominican government to mobilize resources and formulate policies to achieve positive and lasting changes. It also requires companies in the DR and abroad to provide consistent support to the industry.

Increasing productivity and promoting socio-economic development will not only require input from government, cocoa exporters, chocolate companies, but also from voluntary organizations, research institutions and, of course, the farmers themselves and their families. This represents a significant challenge, as decades of underinvestment and the attitudes this has fostered among growers will not easily be overturned. Furthermore, like producers in many other countries, Dominican cocoa farmers have particular mindsets, which are not typically amenable to top-down approaches, and which are unlikely to be altered in a short frame of time. Raising productivity is therefore a long-term and complex challenge.

High levels of competition and lack of trust between different stakeholders in the DR may mean that it proves impractical to try to adopt a coordinated approach on certain issues. On a more positive note, there is increased recognition in the DR of some of the problems outlined in this summary. One can be hopeful that this will facilitate innovation and policymaking in this area in future.