# Ivoirian Citizenship Issues and the Price of M&M's® in a Global Economy

*Wanda L. Nesbitt*[*]
United States Ambassador to Côte d'Ivoire, 2007-2010

Côte d'Ivoire supplies 40 percent of the world's cocoa, and due to its unique climactic conditions, industry experts see no viable alternative to this critical source of raw material. The quality and quantity of the country's cocoa production have declined in recent years, raising concern among international cocoa and chocolate companies about the potential negative effect on the world cocoa market. Political uncertainties have compounded the problem. Reforms needed to reinvigorate the sector are unlikely to be taken until after elections, currently scheduled for October 31, 2010. Major improvements are not expected in the short term. The good news, however, is that production and quality could turn around rapidly if appropriate reforms are implemented after the election and a concerted effort is made by the new government to remove barriers to fresh investment.

The Role of Cocoa in the Ivoirian Political Setting

Cocoa revenue underpinned the Ivoirian "miracle" that made Abidjan the most impressive capital in West Africa for much of the 1970s and 1980s. Under the country's first President, Félix Houphouët-Boigny, cocoa revenue helped pay for major infra-structure projects and finance an education system that was the envy of the region. Cocoa production moved westward as the forest belt degraded, and it is now concentrated in the southwestern part of the country on approximately 700,000 family farms that average 10-17 acres (4-7 hectares) in size. The vast majority of cocoa farmers are either immigrants from neighboring countries (primarily Burkina Faso) or Ivoirians from the eastern part of the country who moved west along with optimal growing conditions. Both groups are perceived as "foreigners" by ethnic groups native to the region (autochtones), who feel that they have lost control over their land. The cocoa farmers were followed by family members, traders, etc., resulting in a situation where the autochtones


Source: *The World Factbook, 2010.*

[*] *Editor's Note: On July 21, 2010, President Obama nominated Wanda L. Nesbitt to be the next United States Ambassador to Namibia. As The REVIEW went to press, Ambassador Nesbitt's appointment was pending Senate confirmation.*

now number as little as 10-20 percent of the population in some cocoa growing zones. Thus while the economic benefits of the cocoa trade are fully appreciated, the social and political side effects have encouraged support for a restrictive approach to issues such as citizenship and land ownership. This has had an important effect on the overall political climate.

Ivoirian President Laurent Gbagbo comes from the cocoa growing region (Gagnoa) and is acutely aware of the impact that immigration has had on national politics. Hope that he would take steps to rectify biases against Ivoirians of the same ethnic descent as many immigrants faded quickly after his election in 2000 and has been cited as the impetus for a failed coup d'état in 2002 that left the northern half of the country in the hands of the Forces Nouvelles (FN) rebel group. The Ouagadougou Political Agreement, signed in March 2007, established a framework within which nationality issues could be addressed, the country reunified, and the FN disarmed. But the interim government established under this accord is little more than a collection of political party representatives that is incapable of resolving complex problems with widespread political ramifications, such as reform of the cocoa sector. The future of the sector is thus inextricably linked to the resolution of fundamental political disputes, especially the identity/nationality issue.

Problems within the Cocoa Sector

Although smuggling activity skews the data, industry experts seem united in the view that Ivoirian cocoa productivity is falling.[1] While a variety of factors (e.g., weather patterns in Vietnam and plant diseases in Latin America) affect the supply side, demand for cocoa follows world GDP growth remarkably closely.

Experts worry about both the quantity and quality of Ivoirian cocoa. Ivoirian cocoa farmers now produce, on average, about 300 kilograms per hectare, while farmers in other parts of the world produce well over 1,000 kilograms per hectare. Ivoirian cocoa production averaged 1.3 million tons per year for the first eight harvests of this decade but only 1.2 million tons per year for the two most recent harvests. The decline is attributable to several factors:

1. Many cocoa trees have passed their peak production, but farmers (most of whom do not own the land they work) are reluctant to replace a tree that is bringing in income, when they must wait at least two years for new trees to begin producing. Many trees are not properly pruned or spaced. Pesticides and fertilizers are not applied to maximum effect, which drives up input costs and hurts productivity.

[1] Traditionally, smuggling has occurred between Côte d'Ivoire and neighboring Ghana to help Ivoirian farmers take advantage of Ghanaian government price-support measures or, in years of high prices, to help Ghanaian producers take advantage of market-based prices in Côte d'Ivoire. However, since the division of Côte d'Ivoire took place, new smuggling routes have developed through Burkina Faso and Togo. Such a circuitous route is profitable because of high official and "unofficial" taxes in the areas controlled by the Ivoirian government vis-à-vis the "fees" charged by the Forces Nouvelles for passage through rebel-held territory.

2. Access to financing is a major handicap. Approximately 75 percent of Ivoirian cocoa farmers are not part of cooperatives, without which they have difficulty obtaining funds for fertilizer, pesticides, or new trees. Microfinance and standard bank loans have a minimal presence in Ivoirian agriculture.

3. Poverty and lack of knowledge contribute to less than optimal treatment of harvested cocoa beans. Facing short-term cash crunches, many farmers sell their beans at a discount before the beans have been properly fermented and dried. Many other farmers are simply unaware of how the treatment process affects the final quality of the beans.

These practical problems could be overcome by increased government support to the National Agricultural Development Support Agency (ANADER), the government extension service which retains a cadre of qualified professionals. Reforms that ensure farmers actually benefit from funds nominally intended to support them would help also. Cocoa produced in neighboring Ghana, for example, currently receives a premium of approximately $200 per metric ton above the price of Ivoirian cocoa. Ivoirian producers would undoubtedly alter how they process beans were the right incentives in place.

## The Outlook for Sectoral Reforms

World Bank-recommended reforms implemented by the Ivoirian government in 2000 have not produced the desired result. A series of cocoa agencies were created to replace government-run structures but these agencies became little more than cash cows for corrupt officials. The problem reached intolerable political heights in June 2008, prompting President Gbagbo to jail 23 cocoa agency officials on embezzlement and corruption charges. In a sign of how politically charged cocoa sector issues can be, these officials are still awaiting trial due, many believe, to the potential ramifications of their testimony.

A caretaker structure is currently in place while a broader cocoa reform package is being developed. A Reform Committee tasked with drafting a new structure was given these guiding principles: (1) increase the percentage of the sales price farmers receive, (2) reduce the role of middlemen, and (3) stabilize the sector and bring greater predictability for both farmers and buyers. Some fear that the reforms under discussion will be a throwback to the "Golden Age of Houphouët" when the state essentially controlled the sector; others are more confident that the World Bank's strong role in the process will produce a reform package acceptable to all parties, particularly the private sector.

The private sector is not waiting, however, for a government reform program to move forward. Mars, Incorporated, the maker of M&M's®, recently signed a Memorandum of Understanding (MOU) with the Ivoirian Ministry of Agriculture to work in partnership with cocoa sector institutions on the development of improved plant materials and other programs aimed at getting better plants to the 700,000 farms and raising cocoa output, and income, per acre. The effort will include farmer training activities as well as community-based interventions as the activity progresses. Other international firms such as ADM, Cargill, and Nestlé, in addition to the World Cocoa Foundation, the International Cocoa Initiative, and USAID have programs to teach better techniques for growing cocoa and processing cocoa beans and to develop improved varieties of cocoa. Farmers trained through the Sustainable Tree Crop Program—funded by USAID, the World Cocoa Foundation, and the global cocoa industry—have realized yields 15 percent to 40 percent greater than non-trained farmers while using 10 percent to 20 percent less pesticides. Similarly, farmers who participated in a program sponsored by Cargill reported output of 600-1,000 tons per hectare, up from pre-assistance production of 300-450 tons per hectare. Cargill reports that total revenue for participating farmers increased by at least 30 percent as a result of higher yields, better quality, and certification premiums.

The Gates Foundation has also created a partnership with major players in the industry to improve the livelihoods of cocoa farmers in Côte d'Ivoire and four other African countries.

## The Political Outlook

Ivoirian political analysts agree that President Gbagbo must win the west in order to win the election and that any cocoa sector reform plan risks alienating a significant percentage of his electoral constituency. This argues in favor of postponing action on the precise nature of the reform until after the elections and is the most likely scenario. However, this approach will have ramifications for Côte d'Ivoire's debt relief aspirations.

One of the "triggers" for Côte d'Ivoire to reach the Heavily Indebted Poor Countries (HIPC) completion point is "adoption by the government of a new institutional and regulatory framework for the cocoa/coffee sector and satisfactory implementation of the functions under government responsibility for at least six months immediately preceding the completion point, based on its new strategy for development of the sector." The reform is to include a reduction in the overall indirect taxation of the sector to no more than 22 percent of the CIF price.[2] There is no fixed deadline for reaching the "completion point," but Gbagbo will have to weigh the price of delaying reform against the price of delaying debt relief. Other than the obligatory decrease in the tax rate, the content of the cocoa reform package has been left to the Government of Côte d'Ivoire's discretion. Given the importance of HIPC debt relief, and the likelihood that reforms will not be instituted before the elections, the hope is that the Ivoirian government will not adopt a reform that would alienate key partners just as the country is ready to launch a new chapter in its history.

So what does the future hold for the Ivoirian cocoa sector? If no significant changes take place, the decline in productivity will likely continue, even as millions of chocolate-consumers in emerging markets push demand for cocoa to new heights. Nongovernmental

[2] In order to ensure that the tax, as a percentage of the CIF [cost, insurance and freight] price, remains in that range or lower, the government must convert the per-kilo taxes to ad valorem taxes. Because the current tax structure includes ad valorem as well as per-kilo taxes, the percentage paid in taxes decreases as cocoa prices rise. Thanks to record-high cocoa prices on world markets this year, the per-kilo taxes brought the overall tax burden as a percentage to less than 22 percent.

organizations, donor governments, and industry can help address the issues, but without the resources and regulatory power that only a central government can provide, effecting change on 700,000 isolated farms will be extremely difficult. If elections are held as presently scheduled, it will be a positive sign for both the country and the cocoa sector.