



DISCO
DUTCH INITIATIVE ON
SUSTAINABLE COCOA

2024

Procurement Practices Principles A DISCO Position Paper



Dutch Initiative on Sustainable Cocoa

Position Paper

2/14/2024

Preamble

The Dutch Initiative on Sustainable Cocoa ([DISCO](#)) is a public-private partnership active in the Dutch cocoa and chocolate sector working to sustainably improve the livelihoods of current and future cocoa farming families. Enabling cocoa farming households to earn a Living Income is a main goal of the DISCO signatories.

During the Annual General Meeting (AGM) of 2022 the DISCO partners decided that 'procurement practices' need to be given more attention. This paper is prepared by a working group comprising different DISCO partners with the objective to (a) create clarity on the importance of cocoa procurement practices in the context of the living income goal of the DISCO partnership; and (b) to recommend the main principles for DISCO partners to adopt in order to realise the conditions under which cocoa producers in West Africa are enabled to earn a living income.

This paper relates to procurement practices that are within the sphere of influence of DISCO signatories. It is therefore acknowledged that some other important (enabling) factors around procurement practices might be missing that should also be addressed to reach the desired outcomes.

The DISCO Steering Committee will present this paper to the broader partnership of signatories so that the principles will be added to the [DISCO Roadmap on Living Income](#). The DISCO signatories will then make procurement practices part of their individual living income strategies.

Position paper

Procurement Practices Principles

This position paper is prepared to introduce the main principles to be adopted by the partners of the Dutch Initiative on Sustainable Cocoa (DISCO) as part of their living income strategies. The three DISCO procurement principles are formulated as follows:

- 1. Farmers are adequately remunerated so that sustainable cocoa farming can be profitable and enables them to earn a living income*
- 2. Farmers and farmer groups are reliably and promptly paid for the cocoa beans supplied*
- 3. Farmers and farmer groups have assurances from their off-takers in the form of longer term agreements for the supply of sustainable cocoa in the years to come*

Introduction and background

For years the industry partners have been driving sustainability mainly through service delivery to cocoa smallholders and cooperatives. By adopting Good Agricultural Practices (GAP), farmers could increase yields and profits. This would help end poverty and enable smallholder farmers to send their children to school rather than work in the fields and would also minimize further deforestation. Production levels of the existing fields would provide enough income to sustain the families' needs, so expanding cocoa production to new plots would no longer be necessary. Unfortunately, the reality is that this paradigm has not worked and will not work if the market environment and cocoa trade practices in West Africa do not change.

Smallholder farmers experience numerous challenges and uncertainties when selling their cocoa beans. The main bottlenecks are summarized below:

- a) Firstly, the cocoa procurement system doesn't always guarantee cash payments upon delivery of cocoa, which provides

large uncertainties for farmers that already have limited or no financial buffers.

- b) Also, smallholder farmers and their cooperatives / intermediate buyers that are responsible for the local aggregation of market supplies have no negotiation power. Farm gate prices and margins for intermediate buyers are set seasonally by the governments of Côte d'Ivoire and Ghana, following their forward sales contracts and predictions of the world market prices. Cocoa farmers are price-takers and cocoa prices tend to fluctuate a lot between seasons.
- c) Furthermore, existing offtake contracts between traders / exporters and cooperatives in Côte d'Ivoire are restricted to seasonal certified cocoa supplies only and do not include conventional cocoa. Where and when farmers can sell their conventional cocoa is every season a question mark.

Since cocoa is a perennial crop, adoption of the recommended GAP requires investments that deliver results over a longer period. Under the current market conditions and uncertainties, there are no clear incentives for smallholder

cocoa farmers to invest in sustainable cocoa production. Achieving the common objective of a cocoa sector that is economically viable, environmentally friendly and socially acceptable remains unlikely unless supply chain partners, in alignment with West African government's policies- and practices, help to create the market conditions with fewer uncertainties and better remuneration.

Procurement practices are part of DISCO's Living Income Roadmap

Signatories of the Dutch Initiative on Sustainable Cocoa (DISCO) acknowledge that cocoa procurement and supply chain arrangements impact greatly on cocoa sustainability. From the three main sustainability impact areas they committed to address, improved procurement practices have a direct effect on living income¹.

The DISCO Living Income Roadmap² serves as a framework for implementation to signatories towards the DISCO objective on living income. It describes three key steps for implementation:

1. Measure and analyse the current living income gap
2. Develop Living Income strategies to close the living income gap
3. Monitor and report on progress towards closing the living income gap

Addressing procurement practices is part of the second step that complements strategies around service delivery (e.g. around agronomy, finance, marketing) and creating an enabling environment (e.g. creation of price stabilization mechanism). Those three key strategies are mutually reinforcing when properly aligned. Therefore, on 1 December 2022 the General

Assembly of the DISCO partnership agreed that as the market-based initiative of the largest cocoa importing country in the world it should focus more on procurement practices.

The DISCO Steering Committee decided to **develop this position paper. The paper is to describe the DISCO vision on sustainable procurement practices and provide practical principles for signatories to incorporate as part of their living income roadmap.**

The procurement practices influence the three main sustainability impact areas within DISCO, especially on living income. Traders / processors are the actors that operate at that level and buy the cocoa. Downstream supply chain partners such as chocolate manufacturers and retailers need to facilitate and ascertain that traders / processors supplying the processed cocoa products have developed and adopted an effective living income strategy that includes improved procurement practices. As such the adoption of sustainable procurement practices is a shared responsibility of all companies in the supply chain.

Definition of procurement practices

Procurement practices within DISCO are defined as "*the principles and frameworks based on which a business undertakes its sourcing decisions. A dedicated procurement team manages the relationship with suppliers, their contracts, and uses other mechanisms to secure supplies. This is governed by a mix of considerations for quality, costs, and risks.*"

Three elements are considered as key determinants to organize procurement practices:

essential needs, plus a little extra for emergencies and savings – once farm costs are covered.

¹ Refer to the [DISCO webpages](#) for details.

- **Supply Chain Management:** The main aspects of managing supply - suppliers and supplier relationships, products and their specifications, and traceability & transparency between partners.
- **Value Distribution:** How value generated along the supply chain is distributed through procurement (incl. prices, payment terms and conditions, etc.) and investments mechanisms among all supply chain actors, including smallholder suppliers.
- **Managing Risk:** How risks across all supply chain actors can be offset / reduced through contracts, payment terms and upstream investments or mitigated (e.g. through insurances).

Key principles for procurement practices

Based on the situation as described in the introduction of this position paper, the DISCO Steering Committee set forth three key principles for improved procurement practices and to enable cocoa farming families to earn a living income:

- **Procurement principle 1:** Farmers are adequately remunerated so that sustainable cocoa farming can be profitable and enables them to earn a living income
- **Procurement principle 2:** Farmers and farmer groups are reliably and promptly paid for the cocoa beans supplied
- **Procurement principle 3:** Farmers and farmer groups have assurances from their off-takers in the form of longer term agreements for the supply of sustainable cocoa in the years to come

Next to these principles, there are two preconditions that are fundamental for the implementation of the key procurement principles. These are:

- **Precondition 1:** Industry partners – cocoa traders / grinders, chocolate manufacturers and brand companies and retailers – acknowledge that their procurement practices are an integral component of their living income roadmap
- **Precondition 2:** Full transparency and traceability (up to farm level) for 100% of the cocoa supplies



Figure 1 Visualization of where procurement practices fit within the living income roadmap

All principles need to be covered in the living income strategies of the traders / processors buying cocoa in West Africa and their downstream supply chain partners. The adjusted procurement strategy complements the service delivery and enabling environment strategies. How each principle will be implemented can differ between companies and regions. Jointly the signatories of DISCO have set the objective to enable cocoa producers in West Africa to be able to earn a living income by 2030. The adoption and scaling of the different procurement principles in the living income roadmaps by the DISCO partners is expected to be a gradual process. However, effects in terms of reducing living income gaps are expected to be significant from year to year.

Explanation of preconditions and principles

Precondition 1: Industry partners acknowledge that procurement practices are an integral component of their living income roadmap

It is important that within the individual living income strategies of companies a strategy to improve procurement practices is integrated. After companies measured and analysed the living income gaps in their supply chains, they will implement living income strategies that address both service delivery and procurement practices. Assessing how the current procurement practices influence farmer incomes and farmer development perspectives is a starting point in making changes to procurement practices as part of a feasible living income strategy. The ultimate aim of such a comprehensive strategy being that cocoa households will receive an income on par or above the living income benchmark.

Some companies have adjusted their internal policies by committing to making sustainability part of their procurement practices. Sustainability indicators are included in the

performance assessment of procurement departments.

Precondition 2: Full transparency and traceability (up to farm level) for 100% of the cocoa supplies

To be able to implement procurement practices that have positive effects on the incomes and development perspectives of cocoa farmers, companies that source cocoa from farmers need to have visibility on the cooperatives their cocoa is coming from. Traceability systems along the supply chain for increased transparency in the supply chain therefore need to be established. With the upcoming European regulations such as the (European Deforestation Regulation (EUDR) and Corporate Sustainability Due Diligence Directive (CSDDD), this will also become mandatory. In addition, indirect sourcing practices through for example middlemen should be minimized or even phased out when traceability and adherence to due diligence requirements cannot be guaranteed.

Procurement principle 1: Farmers are adequately remunerated so that sustainable cocoa farming can be profitable and enable them to earn a living income

Farmers that produce cocoa should be remunerated in a way that enable them to cover the costs of production. Efforts to produce sustainably (e.g. environmental friendly and to prevent and remediate human rights' violations) are rewarded as such. Also, they should earn enough to be able to cover at least the basic and decent standards of living and thereby earn a living income. When defining the adequate remuneration, companies should assess the effect of (the combinations of) different financial rewarding systems. This has to include an analysis of the remuneration based on volumes and transactions, and, where needed, additional forms of financial rewards.

Procurement principle 2: Farmers and farmer groups are reliably and promptly paid for the cocoa beans supplied

Buying cocoa from farmers and aggregating the local supplies is a cash intensive business. Many of the cooperatives and intermediate cocoa buyers have seasonal cash flow problems. Cocoa farmers and farmer groups work with very low margins and have limited buffers. Therefore, it is important that they aren't the ones absorbing all the payment risks and can rely on prompt payments and steady cash flows to enable them to invest in their farm businesses and cover the costs of living.

Procurement principle 3: Farmers and farmer groups have assurances from their off-takers in the form of longer term agreements for the supply of sustainable cocoa in the years to come

By giving farmers and farmer groups a guarantee and security that they can sell certain volumes of cocoa beans and products, they have more economic assurances for the future. In combination with the other two principles, the economic assurance enables farmers to invest in their businesses with more confidence in the years to come. This may include having guarantees to receive support in years for example during a low harvest season.

Next steps to bring procurement principles into practice

With this position paper, the DISCO Steering Committee aims to build the foundation for companies and other signatories of DISCO to make procurement practices part of their individual living income agendas.

As many cocoa trade and processing companies as well as chocolate makers operate also in other European markets, there is a need for aligning this paper at a European level. Therefore, this paper will be put on the agenda for the upcoming meeting(s) between the chairs of the Steering Committees and/or Boards from the ISCOs. The aim is to come to

an agreement to address procurement practices in a similar way in all the ISCOs.

The members of the DISCO Steering Committee will inform their counterparts within their respective sub-sector on the content of the position paper. With the active support of the DISCO Steering Committee the secretariat will disseminate information to all signatories in the next steps. The described principles are to be integrated in roadmaps on living income by each signatory. The Steering Committee will formulate how this will be organized and monitored within DISCO.