



# Community Food Enterprise

*Local Success in a Global Marketplace*

*A project of the Wallace Center at Winrock International and  
the Business Alliance for Local Living Economies*



Community Food Enterprise: Local Success in a Global Marketplace

**A project of:**

Wallace Center at Winrock International  
Business Alliance for Local Living Economies

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# Community Food Enterprise:

## *Local Success in a Global Marketplace*

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## Kuapo Kokoo

"The vision of our cooperative is to become a leading, caring, efficient farmer-based organization and the most globally recognized cooperative in cocoa production and marketing." That's how Paul "PCK" Buah, president of the Kuapa Kokoo Farmers Union, describes his community food enterprise's mission in a 2007 annual report. As Ghana's largest farmer cooperative, representing 45,000 cocoa growers, Kuapa Kokoo aims to be a "formidable Farmer-Based Organization" that can "mobilize and motivate its stakeholders to produce and market quality cocoa and cocoa products, improve members' livelihood, and satisfy consumers."

Kuapa Kokoo also owns 45% of its own chocolate company in the United Kingdom and a 33% of its sister company in the United States. "Our business is one hundred percent controlled locally," says PCK. "Our farmers control what they produce and sell. This mode of operating allows us to control our own product and how it is marketed in order to optimize our profits and dividends, and through that, sustain our existence and survival."

Kuapa Kokoo is one of the world's first fair trade-certified, farmer-owned organizations, and is the first to be the majority shareholder in its own chocolate company. The fair trade movement aims to minimize the role of the middleman and return the savings to farmers, which is in line with Kuapa Kokoo's commitment to raising the standard of living of thousands of Ghanaian cocoa farmers.

### Business Model

Kuapa Kokoo's farmers come from 1,300 village-based "societies" in five out of Ghana's six major cocoa producing regions. The typical farm is 1-20 acres and is mostly worked by hand. The typical grower is about 40 years old. Under the company's guidelines, members own 100% of Kuapa Kokoo and most of its sub-companies.

Kuapa Kokoo has five distinct operations, four based in Ghana. The Farmers Union (KKU or KKFU) represents all of Kuapa Kokoo's cocoa production farmers, creates opportunities for women farmers, and promotes sustainable agricultural practices. Kuapa Kokoo Limited (KKL) is the commercial trading wing of the Farmers Union. Kuapa Kokoo Farmers Trust (KKFT) is a trust fund which receives and distributes fair trade premiums and other funds for farmers and their communities. Kuapa Kokoo Credit Union (KKCU) enables members to access credit and to establish savings accounts.

The fifth business arm, Divine Chocolate, is also owned by Kuapa Kokoo members, though only partially. It's a chocolate marketing and distribution company that buys cocoa from Kuapa Kokoo farmers, processes it into premium chocolate,



All photos by Divine Chocolate LTD

### At a Glance

<b>Where</b> Throughout Ghana (main office in Kumasi)	<b>Year Founded</b> 1993
<b>What</b> Cocoa-producing cooperative; international chocolate marketing and distribution company	<b>Number of Employees</b> 300 staff, 45,000 members
<b>Founders</b> Nana Frimpong Abebrese II	<b>Total Revenues</b> US \$77,711,409.47 / 699,472,632,510 Ghanian cedis (GHC)
<b>Website</b> <a href="http://kuapakokoogh.com">http://kuapakokoogh.com</a>	



and markets it as fair trade products in United Kingdom and the United States. By establishing and owning a 45% share in Divine Chocolate UK and 33% of Divine Chocolate USA, and putting resources into promoting the brand, Kuapa Kokoo has essentially guaranteed an international market for its cocoa and a reliable value for its product.

PCK notes that the company's primary revenue sources come from modest membership dues and direct cocoa sales. Kuapa Kokoo is now the world's largest supplier of fair trade-certified chocolate and receives revenue from fair trade premiums, some of which are facilitated through sales made under the Divine Chocolate label. In 2007 alone, Kuapa Kokoo provided £47,379 (US \$92,981) in distributable profits from Divine Chocolate to its members.

Even though all of Kuapa Kokoo's cocoa is produced under fair trade conditions, the amount sold as fair trade cocoa really depends on market demand, which is very unstable. Ultimately Kuapa Kokoo's profit margins and member dividend returns are based on prices set by CocoBod, the country's only state sanctioned cocoa purchaser and international distributor.

Through Divine Chocolate, Kuapa Kokoo supplies cocoa for chocolate in Starbucks (United Kingdom and Europe) and The Co-operative (United Kingdom). Kuapa Kokoo products are also available as ingredients in other well known international brands. The Body Shop, one of the original investors in Divine Chocolate, uses Kuapa Kokoo products in their cocoa-based body care products. Cadbury's, the world's biggest confectionery company, is starting to use Kuapa Kokoo cocoa in one of their lines of fair trade chocolate bars. The Fairtrade Labelling Organizations International (FLO) continues to have a strong, almost mentor-like relationship with Kuapa Kokoo, and is continually cultivating appropriate international partnerships.

Kuapa Kokoo's stated core values include "Transparency, Democracy, Equality and Equity, Commitment and Care for the Community." It tries to comport with these values by offering advanced training to its members, providing equal opportunity and empowerment to women, and tangibly reinvesting profits into the community.

Kuapa Kokoo's technical training educates members about how to employ more efficient and sustainable agricultural practices, and how to decipher and understand the global cocoa market. Over 10,000 Kuapa Kokoo members have taken advantage of these programs.

Kuapa Kokoo is committed to having members represented at every level throughout the organization. There is a

## Business Model Overview

### Sector

Production and wholesale (in Ghana); marketing and retail (in the United Kingdom and the United States)

### Ownership Type

Cooperatively owned: farmers union, credit union, trust fund; private licensed buying company (LBC); private multi-owner chocolate company

### Local Ownership

Regional (100%) for cooperative portions of the business

### Products

*Production and wholesale:* Unrefined cocoa powder;

*Marketing and retail:* A variety of finished cocoa and chocolate products

### Market

Export, largely to the United Kingdom, northern Europe, and the United States

### Customers

*Production and wholesale:* Kuapa Kokoo Limited;  
*Marketing and retail:* Wide range of retail locations throughout the United Kingdom and the United States

### Niche(s)

fair trade; farmer ownership of wholesale cocoa purchasing company and chocolate retail company

specific grievance procedure whenever something goes awry.

The cooperative is also committed to offering equal opportunities to its women members. Although membership is 70% men, Kuapa Kokoo by-laws require that women be equally represented at every level of the company, from the village-based society committees to the highest level boards. Out of 20 National Executive Council members, 12 are currently women. It is also developing new income-generating programs for women during the harvest off-season.

Access to fair trade premiums has enabled Kuapa Kokoo to provide income-generating opportunities to its members. For example, members can buy low-cost corn mills as well as palm kernel machines, which crack palm kernels mechanically instead of by hand. Good quality scales, which allow farmers to record and document their own harvests rather than relying on a broker, are also made available to each village society. Kuapa Kokoo has also deployed its fair trade premiums to build primary schools, safe drinking wells, and mobile medical clinics in rural Ghana.



As Kuapa Kokoo grows its staff, membership, and business, it also grows its benefits to its members. In a sense, the company has created a positively reinforcing series of efforts. The Credit Union, Farmers Union, Limited Board, Trust, and Divine Chocolate all work together to benefit members and grow the overall business. For instance, by offering a credit union, members can get the credit they need to expand their production, which in turn, benefits the entire cooperative. Kuapa Kokoo is also encouraging its farmers to adopt more sustainable agricultural products that are not as taxing to the land and the soil. These include planting trees, avoiding overly mechanized harvesting processes, and protecting surrounding forest lands. Production waste from the actual cocoa pod is reprocessed into soap or compost.

"We are a good corporate citizen," PCK says. "We have invested hugely in social development projects by building schools and installing internet facilities, as well as providing potable water in many communities where we have societies."

## History & Drivers

Ghana has been producing cocoa since the mid-19th century, and today is the world's second largest cocoa producing country. Until the 1990s, however, the cocoa purchasing system in Ghana was controlled by CocoaBod, a state sponsored organization which served as the country's sole purchaser of the commodity. In 1992, CocoaBod liberalized the country's markets and opened up cocoa sales to state licensed organizations. These organizations eventually sell back to CocoaBod, but help make the market somewhat more competitive.

In 1993, Nana Frimpong Abebrese II, an executive board member of CocoaBod charged with representing Ghana's cocoa farmers, was concerned that liberalization left the farmers in a very vulnerable position. He was convinced that a cooperative model, where farmers would also be owners and decision makers, could help. So began Kuapa Kokoo. Soon 22 village-based societies joined the cooperative.

Twin Trading, a British nonprofit interested in fostering community-based economic opportunities in developing countries, offered Nana technical support to help launch Kuapa Kokoo. Demand met supply, and by 1996 Kuapa Kokoo became one of the first commodity cocoa companies to receive fair trade certification. It then established a Trust to manage the fair trade premiums and payments.

Two years later, in 1998, with a £400,000 (US \$671,000) loan from The British Department for International Development, Twin Trading, and Kuapa Kokoo teamed up to put together a manufacturing company, The Day Chocolate Company, in the UK, the world's second-highest chocolate consuming country. Kuapa Kokoo cooperative members owned one-third of the company—a first in the world of cocoa processing—putting the farmers higher





up the value chain. The initial loan was repaid in full a few years later, and the farmer ownership share has since grown to 45% because The Body Shop donated its shares to Kuapa Kokoo. Other initial investing partners in Day Chocolate included Comic Relief London and Christian Aid.

For The Body Shop, a global company that tried to pioneer socially responsible behavior, investing in Day Chocolate was a social entrepreneurship opportunity and a way to demonstrate their support for more equitable trade with farmers.

The Day Chocolate Company was eventually renamed Divine Chocolate, and in 2007 it opened its second international operation in the United States. That was also the year that Kuapa Kokoo paid the first round of Divine Chocolate dividends to its members.

***By establishing and owning a 45% share in Divine Chocolate UK and 33% of Divine Chocolate USA, and putting resources into promoting the brand, Kuapa Kokoo has essentially guaranteed an international market for its cocoa and a reliable value for its product.***

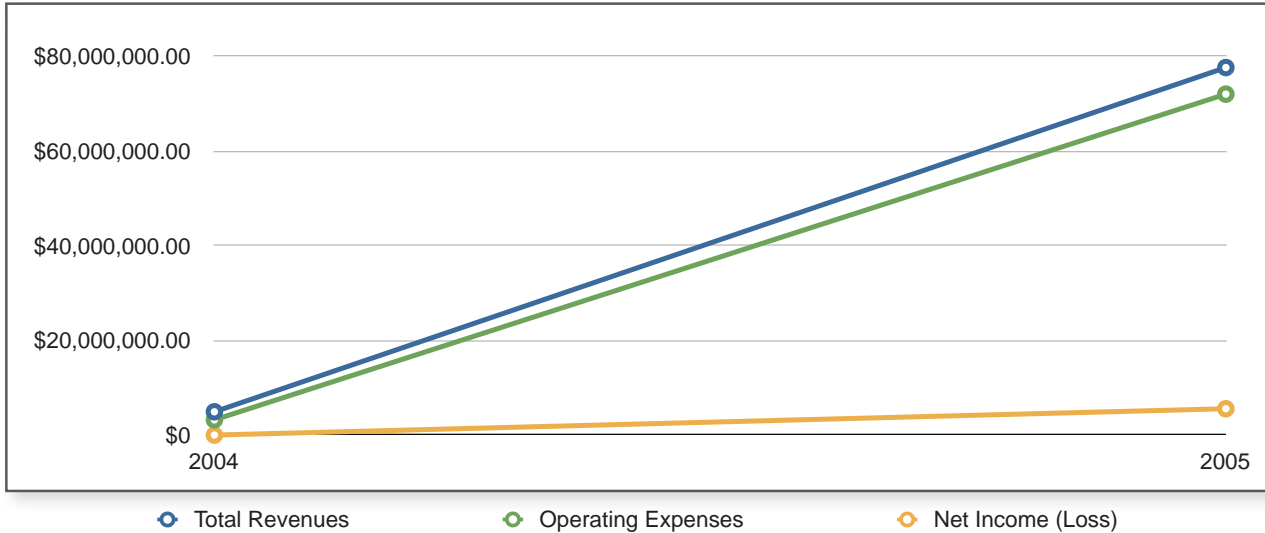
The success of Kuapa Kokoo in recent years, however, was temporarily stalled by the collapse of the Ghanaian local currency in 2006, which nearly quadrupled the company's operating debt load and affected its capital and financial overlay. The company recovered, but posted a weaker performance in 2007. Now that the currency appears to be stabilizing, the company's numbers are rebounding.

## **Key Challenges & Lessons**

Kuapa Kokoo wants to be the world's premiere cocoa cooperative. It sees evidence of progress in the number of national and international visitors who come to learn about how the business runs. But despite its successes, the company continues to struggle with a number of serious challenges:

- ***Competition for Suppliers***—Within Ghana, competition for farmer sales is increasingly tough, bidding down the price fetched by cocoa growers. While the government's CocoBod is the only authorized purchaser of bulk cocoa, there are now more than 20 Licensed Buying Companies (LBCs) that purchase from farmers and sell to CocoBod. What's more, the largest private LBC in Ghana has a 30% market share and is owned 100% by CocoBod itself.
- ***Cash Benefits***—Over the past several years, demand has grown among Kuapa Kokoo's member farms for cash payouts from fair trade premiums rather than social investments in infrastructure and community. When Kuapa Kokoo can't provide any significant cash benefits, or when it has delays in delivering dividends, it further undercuts its competitiveness and helps drive members to sell to other LBCs.
- ***Managing Debt***—Although Kuapa Kokoo has paid off its original loan from Twin Trading, it still occasionally takes out smaller loans from local banks for various projects. Sometimes the loan terms are not favorable, such as a current loan at 27-28% interest for buying cocoa from farmers. What's more, the Kuapa Kokoo Credit Union is facing a credit crunch as farmer demand for loans has dropped in response to the going interest rates. Like many small businesses in developing countries with
- unstable currencies, Kuapa Kokoo has to balance the need for capital with the accompanying shifting debt burden and their ability to loan to farmer members. Finally, no matter how successful Kuapa Kokoo may be, it remains vulnerable to Ghana's weak currency.
- ***Expanding Fair Trade***—Although Kuapa Kokoo was one of the world's first fair trade-certified cocoa companies, it only sells about 18% of its output at fair trade prices. Growing this market share will allow more Kuapa Kokoo farmers to reap more benefits from fair trade premiums. But the fair trade system is imperfect. The premium has remained constant at \$150 per ton for a number of years, even as costs have increased. Further, the cost of fair trade labeling is high at €15,000 (US \$22,000) per year, and Kuapa Kokoo will need to implement expensive traceability standards to meet new EU regulations.
- ***Organic Market***—Kuapa Kokoo would like to expand into organic production given the increasing international demand for organic cocoa and chocolate. But CocoBod has yet to acknowledge organic certification or a willingness to purchase organic cocoa at a premium price. Until CocoBod allows for organic premiums in the Ghanaian marketplace, Kuapa Kokoo won't effectively

## Financial Performance



*Due to a leadership transition in 2006 and 2007, and the Ghanaian currency crash in 2006, complete financial reports from FY2006 and 2007 were not available. Given the financial information that was available, it is difficult to obtain a solid understanding of Kuapa Kokoo's financial situation. Complete, audited financial statements were available for two years; however, in one of those years, data was reported for an 18 month period instead of for 12 months. The primary revenue engine for the cooperative is Kuapa Kokoo Limited. In the two years for which data was available, they showed a tremendous increase in sales. Without subsequent data, it is impossible to know if this level of revenue generation can continue. Problems with the financial analysis of this operation included: inconsistent reporting periods, missing data, and a currency change in 2007. The most that can be said is that the enterprise appears to be generating revenue and posting positive net income from that revenue.*

be able to capitalize on this growing international demand.

- **Domestic Processing**—Currently all of the processing of Divine Chocolate's cocoa happens in Europe, but the company's leaders are interested in the potential for primary cocoa processing domestically. This would require new capital to invest in needed plant, technology, skills, and infrastructure, and is not yet a realistic aspiration given the current structure of the global cocoa industry.
- **Integrating New Leadership**—Much of the leadership of Kuapa Kokoo recently changed, and the new managing director has been in his position only about a year. The new slate of leaders is taking stock of past challenges and future opportunities.

In much of the world, cocoa production means nearly slave labor and absolute poverty. Kuapa Kokoo has demonstrated that it is possible to produce this commodity

both competitively and responsibly. In the Ghanaian language of Twi, Kuapa Kokoo means "Good Cocoa Farmers Company," and the company motto of "Pa Pa Paa" means "the best of the best." Despite some serious challenges, Kuapa Kokoo is living up to both admirably.





## Social & Environmental Performance

### B Corporation Report Card Score: *Pass\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Yes
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Part-time/flex work schedules</li> <li>• Paid/unpaid medical sabbatical with job security</li> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• retirement plan for full-time employees at least partially paid for by company</li> <li>• Health insurance</li> <li>• Dental insurance</li> <li>• Domestic partner benefits</li> <li>• Short-term disability</li> <li>• Paid sick leave</li> <li>• Paid vacation</li> <li>• Paid maternity leave</li> <li>• Paid paternity leave</li> <li>• Health and wellness programs</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	Fair trade certification through Fairtrade Labelling Organizations International (FLO)
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	No
Membership in association(s) that foster environmental stewardship?	Fair trade certification through Fairtrade Labelling Organizations International (FLO)
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by a local institution</li> <li>• Supplies/services: 60+% of expenditures (other than labor)</li> </ul>