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Profitability of Small-scale Cocoa Production in Ecuador

MICHAEL WORKU KETEMA¹, LINA TENNHARDT²

¹*Georg-August University of Göttingen, Dept. of Agricultural Economics, Extension and Rural Development, Germany*

²*Research Institute of Organic Agriculture (FiBL), Dept. of Socioeconomics, Switzerland*

Abstract

The cocoa industry in Ecuador is an essential source of livelihood, generating income for more than 100,000 families. Cocoa is Ecuador's fourth-largest export crop and the country is the world's leading exporter of premium cocoa, accounting for 54 % of the world market share. While cocoa in Ecuador is produced predominantly by small-scale farmers, they receive a small share of the final chocolate price. However, to reduce the risks associated with market fluctuations, to boost the economic condition of small-scale cocoa producers, and later to ensure the future supply of (fine or flavor) cocoa from Ecuador, understanding and improving smallholder cocoa profitability is essential. This research focusses on assessing the profitability of small-scale cocoa production and identifying influencing factors in Ecuador. The analysis was based on a data set with farm-level economic data from 172 cocoa producers in northwest Ecuador. Descriptive statistics, Net Present Value (NPV), Benefit-Cost Ratio (BCR), and Multiple Regression Analysis were the major analytical tools applied for this research. Results indicate that cocoa production in northwestern Ecuador is not profitable (average NPV of -248 USD per ha, mean BCR 0.73). The duration of membership within the corporate sustainability program, the share of cocoa revenue, the number of family laborers per hectare, the total cocoa area, the produced cocoa variety, and use of fertiliser were identified as factors significantly influencing the profitability of cocoa production in the study area. The results indicate that small-scale cocoa producers in northwestern Ecuador are in a penury situation, and chocolate companies and other stakeholders involved in the supply chain could consider improving their effort to lift cocoa farmers out of poverty.

Keywords: Benefit-Cost Ratio, cocoa, ecuador, Net Present Value, profitability, smallholder