



swisscontact



Cocoa

Value Chain Development



About Swisscontact

Swisscontact—the development organization of the Swiss private sector—provides support to entrepreneurs in developing and transition economies. By helping develop vocational training programs, assisting small- and medium-sized enterprises (SMEs), and undertaking projects to improve the environment, Swisscontact empowers people to improve their living conditions and gradually free themselves from poverty.

Swisscontact supports economic development in 23 countries in Asia, Africa, Eastern Europe, and Latin America. The overriding goal is to help individuals create opportunities for themselves and to maximize local economic potential—enabling poor individuals and communities to take control of their own lives and destinies. Swisscontact is convinced that private sector involvement in development initiatives is crucial to successfully combat poverty. Empowering skilled employees and small-business owners is critical for the sustainable economic development of a country.

By providing advisory and consulting services and developing vocational training programs in close collaboration with competent local partners, Swisscontact helps individuals around the world improve their professional skills and become more successful employees, gives them access to input and output markets, and helps create the basic conditions for sustainable economic growth. Swisscontact motivates people and helps them learn skills that can change their lives for the better.



Introduction

Gregorius Bhoka, a 45-year-old farmer, lives with his family in Wolosoko, a village located on the Island of Flores, Indonesia. He and his wife, also 45, have four children, aged 17, 14 and nine-year-old twins. Some years ago, Mr. Bhoka took over the small three-hectare family farm from his father, where he now cultivates about 2,000 cacao trees and produces approximately three tons of dried cocoa beans per year. Although his cocoa garden is mixed with other trees such as coconut, candlenut, clove and fruits, cocoa accounts for more than 50 percent of his income. However, over the last years, his income from cocoa has decreased- not because of lower prices, but owing

to an increased number of black pods which reduced his saleable harvest. Most of his neighbors faced the same problem. When Mr. Bhoka mentioned this to his buyer, the merchant gave him the name of some chemical products he could apply to his trees.

This sounded promising; however given his low income he could not afford to buy the chemicals. Furthermore, he didn't know whether the chemicals would help because one of his neighbors had used this without success. Mr. Bhoka's situation has become critical and he is now considering taking a loan to pay school fees for his four children.



Cocoa – An Important Cash Crop for Millions of Small Farmers

Cocoa has become an important export commodity for many developing economies—with a global market value of about US\$2.5 billion (International Cocoa Organization, 2008). Africa is by far the largest supplier of the world's cocoa, followed by Asia and Oceania and the Americas. In Indonesia alone, the world's third largest producer country, the livelihood of an estimated 500,000 farmers depends on cocoa.

In line with its core commitment to develop value chains in areas most likely to reduce poverty, Swisscontact identifies sectors with the greatest potential for sustainable economic growth. The cocoa sector

is a prime candidate for generating systematic pro-poor economic transformation.

Since the early '80s, Swisscontact has implemented programs to promote and assist small- and medium-sized enterprises, including farmers in selected value chains—among others cocoa. By 2010, Swisscontact had directly reached around 20,000 cocoa farmers; however, the number of beneficiaries reached through systemic change within the value chain could be more than 100,000, and will increase over time.

Pro-Poor Growth

Reducing risks for farmers:

Supporting a single value chain, especially when the commodity is traded on the world market, involves risks for small and medium producers. From the outset, therefore, Swisscontact adopts a more holistic view of the living and nutrition conditions, in addition to the existing market conditions. If Producers are provided not only with incentives to improve their performance in the cocoa value chain but also to diversify production. A successful value chain intervention in a commodity such as cocoa balances concerns for farmers' nutrition with assessment of the financial risks involved with a product that has only one or two annual harvests. Producers often have to sell their harvest prematurely at discounted prices because they run out of money before the main harvest season starts. By growing a variety of vegetables and breeding livestock, the farmers can enrich their diet and also earn extra income at local or regional markets. In this way, they can break the vicious circle and overcome poverty.



**Environmental and social impact:**

Large value chains, such as cocoa, contain not only economic potentials, but also environmental and social risks (e.g. diminished biodiversity or child labor). To reduce the environmental risk of monoculture, for example, Swisscontact promotes an agri-forest approach where cocoa is planted in combination with other trees and/or promotes the use of organic fertilizers. Swisscontact also promotes and supports certification of cocoa production in collaboration with certifying institutions.

Creating a pro-poor regulatory environment:

Unfortunately, markets are often distorted by ineffective regulations that adversely impact weaker market players. Swisscontact underlines the importance of the regulatory framework in order to create well-functioning markets, and works closely with regulatory authorities to create an improved pro-poor market environment. Swisscontact strengthens the voice of producers and small farmer groups through public-private dialogue and by supporting producer associations.



Improving Livelihoods of Cocoa Farmers

Swisscontact's long-term goal of interventions in the cocoa sector is motivated by a commitment to improve the livelihoods of cocoa farming families. Specifically, this involves helping cocoa farmers increase productivity and product quality, adding value at various points in the market chain, and generally enhancing the business environment—thus improving the competitiveness of farmers in the cocoa sector.

To achieve this goal, Swisscontact works with all stakeholders throughout the value chain—not just farmers—including input providers, research institutions, traders as well as buyers and exporters.

Swisscontact's experience shows that successful value chain interventions depend on three factors:

- Building capacity and competencies of value chain stakeholders and participants to become more effective market actors.
- Enhancing communication and interaction among market actors to improve overall market conditions and performance.
- Addressing environmental 'such as biodiversity' and social impacts along the value chain.

Investing in the Cocoa Value Chain

A value chain is a sequence of interconnected business activities that ultimately add value to products or services as they move through production, processing, marketing and sales—usually involving input from multiple businesses. During this process, inputs, raw material, services, intermediate and final products are owned by different actors or stakeholders. Each actor in the chain adds value to the product. Public and private services such as business development services, certification, labeling, packaging, transportation and financial services also play a crucial role in the value chain, as do laws, regulations and their enforcement.

However, many small-scale producers lack both the means and the skills to participate in existing value chains and, because of their relatively weak negotiating power, risk being exploited. Many also lack access to market information and, coupled with a tendency to avoid risk, often miss viable business opportunities. Furthermore, market regulators often favor certain interest groups and may not be well informed about market conditions. Combined, these factors can lead to market distortions that exclude small-scale producers and leave potential market opportunities unexplored.



The Challenge

To create sustainable services that benefit the farmers

The Value Chain



The Issues

The Solutions

INPUT SUPPLIERS

1

Access to inputs is often lacking and the necessary know-how about inputs is frequently limited. In order to apply good pre- and post-harvest practices, farmers need access to adequate inputs such as tools and fertilizers, as well as access to habitat-adjusted clones, based on the latest research.

Input supplies: Swisscontact works with local businesses to supply necessary inputs, such as seedlings, fertilizers and tools for tree maintenance, as well as to develop lowcost solar drying equipment. In addition to customizing solar dryers to meet local business needs, Swisscontact tests tools and equipment in collaboration with local farmers, works with financial institutions to design and deliver appropriate financing schemes for farmers, and supports both marketing of and training on how to use the dryers.

RESEARCH

1

Applied research—cocoa clinics and nurseries: Locally adjusted and optimized clones are an important input for improved productivity among small farmers. Private and public research institutions research and develop these clones. The project takes measures for the dissemination of applied research by facilitating and encouraging farmer groups to establish local cocoa clinics—where clones can be tested in the local environment and where farmers can learn how to establish and run commercial nurseries for the dissemination of the most promising clones.

FARMERS

2

Pre-harvest: Many farmers cannot exploit the potential of cocoa production because they lack basic knowledge about general farm practices. Diseases and low yields often prevent them from getting the most out of their cocoa gardens.

Pre-harvest – demonstration plots: Most farmers follow traditional ways of doing things, and changing their usual practices can be difficult. Swisscontact's approach is guided by years of experience that shows that farmers learn best from other farmers and that they are willing to change their practices if they can see positive change among their peers. Swisscontact encourages "lead" farmers to establish demonstration plots that become learning centers for other local farmers. Lead farmers are trained intensively on best farming practices (pruning, grafting, harvesting, fertilizing, sanitation, etc.) by experienced farmers and coached in establishing their own demonstration plots. Lead farmers commit themselves to maintain the demonstration plot and to offer training to interested farmers in their neighborhood.

FARMERS

3

FARMER GROUPS

3

Post-harvest: Good post-harvest practices are often neglected by farmers. For example, cocoa beans need to be stored indoors shortly after harvest. The quality of the fermenting and drying process impacts the price farmers can earn.

Post-harvest – new approaches for post-harvest handling: Traditionally, cocoa beans are dried around the house in the sun. However, this traditional drying practice results in contamination with dirt and the target low-moisture content can hardly be reached, especially in areas with high rainfall—ultimately resulting in lower prices for farmers. Swisscontact invests in appropriate drying solutions and, depending on the demand of the buyers, trains farmers on the proper fermentation of cocoa beans.

FARMER GROUPS

4

Self-organization among small farmers remains weak. Individual farmers often have a vulnerable position in the value chain and, consequently, face a higher risk of exploitation compared to farmers organized in groups or cooperatives.

Strengthening farmer groups: Working in groups strengthens the negotiating power of farmers, creates possibilities for joint processing and other self-help activities, such as improving access to finance. Swisscontact supports farmers in establishing groups to jointly manage their businesses, acquire financial literacy, and facilitate learning and the exchange of knowledge and experience among different farmer groups.

The Issues

The Solutions

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COLLECTORS & TRADERS

Important information on quality standards and fairtrade practices does not reach small farmers. Collectors and traders play an important role in value chain as direct market contacts for farmers. However, traders often exploit small farmers through unfair practices.

Improving transparency in cocoa trade: In collaboration with buyers and traders, Swisscontact supports establishing standardized buying stations with transparent procedures. Farmers depend on traders to sell their cocoa beans. Swisscontact ensures transparent quality standards and price differentiation based on quality by working with traders to improve information flow on prices and quality standards and establishing quality circles among buyers/exporters, traders and farmers.

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BUYERS & EXPORTERS

Information on standards and research results often do not reach small farmers. Cocoa trade is dominated by large buyers who are directly involved in defining quality standards and research. Small farmers typically do not communicate with corporate buyers, and therefore lack a voice in setting standards as well as access to crucial research data.

Linking buyers/exporters with farmers and other stakeholders: Buyers are highly interested in a competitive value chain and invest in research to improve the quantity and quality of production and create greater economic efficiencies. Swisscontact links local and international buyer/exporter initiatives with the needs of the farmers, traders and other stakeholders. Swisscontact also works closely with the World Cocoa Foundation in order to link local value chain stakeholders with international experts.

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CONSUMERS

Consumers in developed countries often have specific preferences, such as fair trade or organic certified products. They are also becoming increasingly aware of labor conditions in producing countries.

Linking farmers to market preferences: In collaboration with international certifying bodies (Rainforest Alliance, Fair Trade, UTZ), Swisscontact supports farmer groups in establishing internal control systems—a key requirement for certification—as well as, through local service providers, establishing administrative systems for monitoring and managing the Internal Control System and training inspectors in charge of monitoring standards compliance.

8

REGULATORY FRAMEWORK

Regulatory issues often hamper trade. Inappropriate national quality standards can influence market sectors, and inadequate public services can detain optimal performance of stakeholders in target value chains.

Facilitating advocacy to improve the regulatory environment: Improving collaboration between the various stakeholders (private sector and public sector) is an important step towards improving the competitiveness of the value chain. Swisscontact facilitates regular private-public dialogue forums where various stakeholders meet to discuss topics of mutual interest and concern. In order to support local and/or national governments to create a favorable policy environment, Swisscontact facilitates capacity building within governments for to formulate appropriate sector policies. Government capacity building strengthens workers' ability to deliver high-class training and support for cocoa farmers—a key to effective outreach and sustainable improvements in the productivity and livelihoods of cocoa farmers.

Swisscontacts Projects in Cocoa Value Chain

LOCATION		TYPE OF THE INTERVENTIONS APPLIED						OUTREACH		IMPACT
COUNTRY	PROJECT	Input Supply	Pre-Harvest	Post-Harvest	Farmer Group Support	Value addition	Business Environment	DIRECT OUTREACH (FARMERS)	INDIRECT OUTREACH (PERSONS)	
Indonesia	PEKA							12,500	38,000	Productivity Increase +50% Local cocoa strategies Cocoa Forum
Indonesia	NISA							1,500	2,500	Productivity Increase +120% Improved nutrition through home garden utilization
Indonesia	LED NTT							1,500	4,500	Productivity Increase +150% Cocoa Forum
Honduras	Pymerural PRONAGRO							700	2800	Productivity increase +15% Competitive development of cocoa value chain
Honduras	Pymerural La Mosquitia							320	1280	Sales price increase + 50% Improved cocoa quality through collective post harvest infrastructure
Peru	Norte Emprendedor							350	1,500	Productivity increase +30% Improved quality organic and fair trade certification. To link with special market (White cocoa)



Impact

Interventions are focused on increasing the competitiveness of cocoa farmers, thus boosting their incomes. Programs can positively impact target markets in various ways, for example, by increasing productivity, improving quality, by adding value along the chain, or through certification. Depending on prior productivity levels, interventions can increase production by as much as 50 to 200 percent. This productive increase results in additional income for farmers. Improved quality that matches existing market standards might not directly result in higher prices, but ensures long-term access to markets.

Beneficiaries

The main target groups are rural small-scale farmers in major cocoa-producing countries, such as Indonesia, Ghana, Ivory Coast, Peru, Honduras, and Nicaragua. These smallholders often live below the national poverty line. Interventions are designed to reduce economic vulnerability among these men and women by supporting sustainable income generation from cocoa. Feasibility studies undertaken at the beginning of a new Swiss-contact project identify suitable target groups in geographical areas where interventions are likely to have the greatest beneficial impact for poor rural farmers. In addition to the farmers, who are direct beneficiaries, input suppliers, public and private service providers, as well as other actors within the value chain benefit directly or indirectly from improved competitiveness within the value chain.

Snapshots

Mr. Alfons Dai Ao (43), head of Zozozea Village, Indonesia:

“After the introduction of joint marketing for the wet cocoa beans, involving approximately 400 farmers, we gained an increase in prices compared to prices offered by local traders. As a result, other local cocoa farmers now work harder in their gardens and implement practical technologies and practices including pruning, fertilizer, regular harvesting and sanitation. These changes have resulted in improved management of the cocoa farm and increased production.”



Mr. Polikarpus Dari (45), cocoa farmer from Zozozea Village, Indonesia:

“After I followed Swisscontact’s empowerment program, I was actively involved with an intervention aimed at strengthening institutional and group capacities. The program helped to improve productivity and market access in a cocoa-product partnership and has resulted in many remarkable changes for me. In the past, we used traditional planting and cultivation methods (“just follow the trend”), and we did not understand how to integrate pest management and plant rehabilitation. We are self-employed and the quality and productivity of my cocoa crop have improved since 2009. Better access to markets and better cocoa prices have added value for me and my family.”



Swisscontact Project Design

Key questions for the design of a new value chain project:

- What are the main elements of the existing value chain?
- What are the key performance indicators of the value chain (e.g., productivity, quality, social issues, environmental issues)?
- Who are the key stakeholders and what are their distinctive roles in the system?
- How do the poor participate and perform in the value chain?
- What constraints, if eliminated or minimized, would most improve participation of the poor in the value chain?
- What interventions have the greatest potential for making the present system work better for the poor?

Steps to answer the key questions:

■ **Understanding the local situation:**

Swisscontact develops tailor-made solutions based on local circumstances and needs. An initial feasibility study and detailed sector analysis provide the necessary information to identify key constraints and the potential for interventions.

■ **Designing interventions:**

Depending on the identified constraints and opportunities, Swisscontact designs a set of interventions. These can include various combinations of instruments tailored to local needs.

■ **Defining “result chains”:**

For each intervention, detailed result chains are drafted to explain and clarify expectations for specific changes achievable by the interventions. Interventions and result chains are discussed extensively with the stakeholders to ensure shared perspectives on likely outcomes.

■ **Establishing comprehensive impact monitoring systems:**

A comparison of baseline studies with detailed result chains analyses at any point in the process reveals any discrepancies between expected and effective results. If deviations are evident, causes are identified and analyzed to indicate potential adjustments to the interventions.

■ **Outreach:**

Swisscontact tests interventions in pilot projects with a limited number of beneficiaries. Given the large numbers of cocoa farmers in its partner countries, Swisscontact prioritizes systemic interventions that have the potential to create sustainable change in the value chain. Swisscontact does not intervene directly within the value chain, but works through existing actors, such as input suppliers, public or private extension services, traders and buyers.





WE CREATE OPPORTUNITIES.

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