Small-scale producers in the development of cocoa value-chain partnerships

IFAD and the cocoa value chain

During the period 2002-2012, in an effort to increase the number of partnerships involving the private sector to benefit smallholder farmers, IFAD financed 16 projects with components on cocoa value-chain development in 12 countries: the Dominican Republic, Ecuador, Honduras, Indonesia, Liberia, Madagascar, Nicaragua, Papua New Guinea, Sao Tome and Principe, Sierra Leone, Solomon Islands and Viet Nam. The total investment associated with these projects (which did not exclusively support cocoa value-chain development but included support to other value chains, as well as to infrastructure development) amounted to US$579 million, part of which was financed by national governments and other financial partners. IFAD contributed US$349 million to the overall investment.

With IFAD support, small-scale producers were able to overcome the constraints related to a lack of access to inputs, equipment and rural finance. In addition, training strengthened the skills of smallholder farmers to allow them to better engage with other chain stakeholders and be more market-compliant, as well as to improve their farming practices, such as the pruning of cocoa trees and the controlling of shade, and their post-harvest activities, such as the storing of crops and accessing of markets.

Building country-level partnerships

In Central Sulawesi, Indonesia, the Mars Sustainable Cocoa Initiative, in partnership with the Indonesian Government and IFAD, is investing in research, education and cocoa certification. In what Mars considers a model case, some farmers have raised their annual profit from US$700 to US$3,500 and have increased production from 0.6 tons/hectare to 1.8 tons/hectare. The Mars Company has established two buying points in South Sulawesi to facilitate more direct access to markets. IFAD is supporting cocoa value-chain development in Indonesia with an investment of around US$10 million.

In Sierra Leone, from the 2009/10 to the 2011/12 cropping seasons, the IFAD-supported Rehabilitation and Community-based Poverty Reduction Project rehabilitated 7,300 hectares of cocoa tree cultivation and provided 573,200 high-quality cocoa seedlings to smallholder farmers. During the first three years of implementation, the three cooperatives supported by the projects developed two partnerships with two companies for the buying of their produce. Bio United is currently buying cocoa directly from producers and sells it on the international market: in 2011/12, 1,900 tons of cocoa were sold to Barry Callebaut, one of the major buyers worldwide. Through a contract with Tachibana, the company that signed the second partnership with the cocoa cooperatives, farm gate prices for cooperative members increased 163 per cent due to improved quality and larger quantity of the cooperatives’ produce. In addition, SAMCERT, a partnership between IFAD, the Sustainable Commodity Initiative (SCI) and the Institute for Ethical and Environmental Certification (ICEA), is assisting Bio United and the farmers’ cooperatives in obtaining sustainable organic and Fairtrade certification for their cocoa.
**What are the roles of the various players in a public-private partnership (PPP)?**

IFAD is dedicated to helping create the conditions for smallholder farms to thrive as small enterprises and for rural people to improve their livelihoods. By providing funds to local governments, it supports activities aimed at reducing barriers (such as lack of infrastructure, equipment, community services and marketing facilities) and building trust. In addition, it acts as a broker between local government, the private sector and smallholders to build long-term profitable partnerships for the development of the cocoa value chain. The role of the private sector is fundamental and involves ensuring technical assistance and support for cocoa production and processing; supporting specific research on market needs; helping to access inputs and materials; ensuring quality control and traceability; and providing market access and funds. Thus, private-sector investment can contribute to pro-poor development by reducing poverty and strengthening food and nutrition security.

**What is IFAD looking for in a partner?**

IFAD is looking for partners in the cocoa sector that have demonstrated adherence to IFAD’s principles and that preferably operate under sustainable certification programmes such as Fairtrade, Organic, UTZ Certified and Rainforest Alliance. Companies certified under these programmes are in compliance with IFAD’s core values and principles, and thus justify IFAD’s willingness to partner with private actors. Partnerships with such companies are advantageous for smallholder farmers as these companies satisfy the increasing global demand for sustainable agricultural products. This demand provides new opportunities for smallholders, who by positioning themselves in the ‘specialty products’ segment of the market, can capture higher prices for their products. Private-sector activities directly involve IFAD’s target group, smallholder farmers, in order to provide them with strong business opportunities. Partner companies commit themselves to observing ethical principles:

- At the economic level, by ensuring farmers fair prices for their products
- At the social level, by guaranteeing rights and social justice to farmers
- At the environmental level, by promoting biodiversity, protection of ecosystems and sustainable use of natural resources.
### IFAD’s experience in Sao Tome and Principe, “The Chocolate Islands”

During the period 2003-2012, IFAD, the Government of Sao Tome and Principe, local cooperatives of cocoa and coffee producers, and the private sector developed key partnerships for sustainable cocoa and coffee value-chain development. These efforts produced partnerships with four companies: KAOKA (France), which imports organic cocoa; Cafédirect (UK), which imports Fairtrade certified cocoa; Hom&Ter/Agrisud International (France), which imports organic pepper; and Malongo (France), which imports organic coffee. In addition, 5,500 smallholders were involved in the partnerships that resulted in the export of 700 metric tons (MT), 9 MT of dried coffee beans and 4 MT of pepper in 2011.

Before the project activities began in 2003, about 700 farmers were producing and locally trading only 50 MT tons of cocoa beans. Owing to the partnerships that were developed, nearly 2,200 farmers are now growing cocoa certified as organic or Fairtrade for the international chocolate industry, and due to the average increase in annual income, farmers who were living at 25 per cent below the poverty line are now living at 8 per cent above the poverty line. About 8,000 people have directly or indirectly benefited from the creation of new jobs. The experience of Sao Tome and Principe demonstrates the importance of building long-term partnerships with private companies that are willing to work within ethical frameworks and to provide know-how and share experiences with organized farmers.

### Private partners’ activities

#### KAOKA
- Ensuring the purchase of all of the certified organic cocoa that farmers can produce and providing access to EU market niches.
- Providing farmers with technical assistance on how to produce, process, dry and pack cocoa beans for the export market.
- Purchasing certified organic cocoa directly from farmers’ associations through their cooperative, the Export Co-op for Organic Cocoa (CECAB).
- Financing the organic cocoa certification process through the certification company ECOCERT.

#### Cafédirect
- Building direct and long-term relationships with the producers of Fairtrade-certified cocoa beans.
- Buying Fairtrade certified cocoa directly from farmers’ associations through their export cooperative (CECAQ-11).

### Farmers’ organizations’ activities

#### CECAQ-11 – The cooperative dedicated to the export of high-quality cocoa
- Drawing together 17 farmers’ organizations representing 830 smallholders, 290 of whom are women.
- Cultivating 840 hectares of cocoa trees.
- Producing and exporting high-quality certified cocoa: in 2011 nearly 90 tons were produced and exported, ten times more than in 2009.

#### CECAB – The organic cocoa exporter, representing 1,800 members and generating revenues of approximately US$1.40 million
- A leading exporter of dried cocoa beans in Sao Tome and Principe.
- Rehabilitated 690 hectares of cocoa tree cultivation.
- Grafted 40,000 cocoa trees.

### Government’s activities (with IFAD financing)
- Providing ad hoc technical assistance to organize farmers through local service providers.
- Providing infrastructure such as roads, warehouses and drinking water systems in each community, as well as facilities such as solar panel installation and cocoa nurseries to enable producers to collect, weigh, ferment and dry cocoa beans for export.
- Ensuring access to needed inputs (seedlings, fertilizers, tools for tree maintenance and equipment), to technical assistance to develop low-cost solar drying, and to credit, in order to maintain cocoa quality standards.
- Supporting CECAB in cocoa tree rehabilitation.

### IFAD’s activities
- Investing around US$13 million in the country, of which US$6 million is in cocoa value-chain development, and ensuring timely availability of financing.
- Providing supervision and implementation support for enhanced project performance.
- Supporting farmers’ cooperatives in partnership with KAOKA and Cafédirect.
- Supporting the cocoa certification process (in the case of Fairtrade certification).
- Ensuring that farmers’ organizations and cocoa purchasers act according to PPP principles.
- Acting as broker between the government, private partners and the farmers’ cooperatives.
About IFAD. The International Fund for Agricultural Development (IFAD) is an international financial institution and specialized United Nations agency dedicated to eradicating rural poverty. Based in Rome, with offices in developing countries around the world, IFAD focuses on country-specific solutions, which often involve increasing poor rural peoples’ access to financial services, markets, technology, land and other natural resources. IFAD works with governments to develop and finance programmes and projects that enable poor rural people to overcome poverty themselves.

How IFAD works. IFAD’s main funding instrument is the provision of loans and grants to governments, which finance agricultural and rural development projects designed to reduce poverty. Most of these initiatives are managed by semi-autonomous Project Coordination Units established by governments. IFAD also provides smaller grants directly to NGOs, research institutions and some private partners, to increase knowledge-sharing and technical support for smallholder farmers and rural poor people.

Supporting small-scale producers of certified sustainable products. The rapid growth in consumer demand for sustainable agricultural products represents an enormous opportunity for small-scale farmers and producers in developing countries. To help them seize this and other opportunities, IFAD funds a range of projects in rural areas. A growing number of projects support smallholder production of commodities that are certified under programmes such as Fairtrade, Organic, UTZ Certified and Rainforest Alliance.