The Village Business

Village entrepreneurship in the Cacao Farmer Centre can be the means to improve productivity and sustainability for commodities.

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Rediscovering a valuable crop

Cacao (cocoa) is one of the three critical economic pillars in the northern districts of Papua Province in Indonesia. It has been a cash crop for several decades, providing income for over twenty thousand families. But the present day production is inefficient, fraught with technical problems such as disease and lack of institutional farmer support, and therefore realises only a fraction of its potential. This status is commonly recognised among the cacao industry actors and the government, which have responded with periodic and fragmented efforts to improve cacao varieties and farmer capacity during the past 25 years. There have been some successes, but not enough to offset the overall decline in production, which amounts to as much as 80% in many areas since 2008.

After substantial research into Papua's cacao industry, Seventythree developed a business model that adapted the more successful interventions by some global cacao businesses, but most notably by chocolate giant Mars. Dubbed the 'Cacao Development Centre' (CDC) by Mars, its vision is to move towards a stable, productive cocoa industry in Papua, based on local entrepreneurs and smallholders, supported by a value chain that utilises local facilities and labour as much as possible. Cacao producers supported by the CDC are able to manage their product in a manner that yields social, economic and environmental benefits. The CDC mission is to create a business system capable of providing equitable terms to cacao producer groups as well as technical expertise that improves production methods and access to differential markets.

Healthy cacao pods show the value of good agricultural practice, even without fertilisers of pesticides.

In the Mars model, the CDC supports a network of 'Cacao Village Clinics', which are financed and owned by the CDC and use their proximity to farmers to perform extension work and provide other services. However, we improved on this model by inviting cocoa farmers to set up their own 'Cocoa Farmer Centre' in their village, as an independent enterprise. This was in response to the strong message from farmers that they wanted local ownership of the local enterprise, to ensure that it would support the revival of the village economy.

The primary role of the Cocoa Farmer Centre (CFC) business model is to provide support services to local cocoa farmers on a commercial basis in the form of training, supplies, and market links (procurement of their raw cocoa beans) to downstream processor/exporters . This business model functions much like a cooperative in the range of services it provides, but under the various forms of ownership ranging from an individual entrepreneur-owner to joint venture ownership with other village institutions. In practice, we found that in some clans the preference was for a trusted individual to own and operate the CFC, but in other places the preference was for collective ownership. Our model was flexible enough to accommodate the form of ownership most suited to the local conditions, and most likely to win local support. The guiding principle, whoever owns the CFC, is that it must be run as a viable enterprise, not a project.

Farmers acquire good processing methods and skills when they learn from each other.

The local value proposition

The value proposition of the CFC model is three-fold:

1. The cocoa farmer, as a CFC customer, will receive marketing assistance, technical training and information on production, processing, and business practices. The farmer will receive a fair and transparent price for their cocoa beans and is provided the opportunity to purchase tools and inputs for improved cacao production.

2. The cocoa buyer as a CFC business associate receives product of a more predictable quantity, quality, and schedule.

3. The CFC business model fills the logistic and information gap between production and exporting, and is able to address in a more organised and effective way with the enormously detrimental production issues such as pests, disease, and quality control.

The most stable organisational model for the CFCs is a 'hub and spoke' model. We found that each CFC prefers to serve around 40-100 farmers, with direct backward linkages to local producers and a common forward linkage to a single entity (the Cacao Development Centre) which can provide consistent purchasing services, technical support, and input supply. This model would at least in the initial stages of development provide consistent market access and technical support services needed by the newly-started CFCs and enable them to become viable entities with growth potential.

The results of this intervention has been a threefold improvement in cocoa yields, from around 300kg per hectare, to over 1000kg. Notably, these improvements are achieved without the use of fertilisers or pesticides, but purely through the dissemination of good agricultural practices. Previous interventions have tended to be input-based, as it is easier to distribute inputs and minimal training on application, than it is to spend time improving a cocoa farmer's practice and change their habits. But behavioural change, accompanied by village demonstration plots run by the CFC, is a more sustainable and cost effective method in the long run.

Lessons learned

The insights gained from this intervention, that can be applied to other commodity value chains that seek to link small rural producers to processors (such as seafood), are as follows:

- Programs to improve technical skills and practices among producers require local legitimacy if they are too be adopted. Sporadic training workshops do not tend to bring about behavioural change.

- Distribution of equipment or inputs may satisfy local political objectives, but has not always been effective in increasing yields or improving market access.

- Linking producers (in this case smallholders) directly to buyers may not lead to equitable partnerships, partly owing to the power disparity between the actors. A strategic intermediary, such as the CFC and the supporting CDC, can go some way to improving negotiating power, channelling assistance and responding to market signals (e.g. price, quality, delivery).

- Cooperatives may in some places be the best option for aggregation and negotiation with buyers. But in other places the local conditions may inhibit the development of cooperatives, and an entrepreneur-led model is preferable, providing the owner is accepted by the local group of farmers they seek to serve.

The CFC can obtain the best seedlings and sell them to their local 'clients' for side-grafting.

Where programs are ostensibly designed to help rural producers, yet focus mainly on facilitating the buyer's access to the commodity, their effectiveness may be limited. Markets are not neutral technical entities into which a cacao smallholder or artisanal fisherman can be 'plugged in', as if it were like obtaining an electricity supply. On the contrary, markets are socially constructed and reflect the power structures, prejudices and inequality to be found in society at large. Therefore, the CFC method works by starting from the objective of building up local entrepreneurship, in order to incubate market actors within the local community instead of adjacent to it. The long term goal is not so much the smooth conveyance of commodities through the value chain, but is to build up the independence, integrity and skills of each node in the chain. This, in turn, is likely to be one element of a wider objective to diversify rural economies and improve resilience.

Further information

Mars, Inc:

http://www.mars.com/global/sustainability/raw-materials/cocoa

World Agroforestry Centre, 'Cocoa Futures':

http://www.worldagroforestry.org/downloads/Publications/PDFS/B17072.pdf