

AID-FOR-TRADE CASE STORY

AUSTRALIA

THE COCOA SUPPLY CHAIN IN INDONESIA

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Author: Tanya Morjanoff, Australian Agency for International Development

Contact Details: 255 London Circuit, Canberra ACT 2601, Australia

+61 2 6206 4391

tanya.morjanoff@ausaid.gov.au

EXECUTIVE SUMMARY

Through the Smallholder Agri-business Development Initiative (SADI), AusAID facilitated links between buyers and smallholder cocoa farmers. This helped to address the fragmented supply-chain in cocoa that was resulting in poor signalling and a mismatch between producer and buyer expectations. This was achieved through working with a major cocoa buying company to establish buying centres, which provided transport and logistical assistance as well as crop storage and consolidation services to farmers. By linking farmers more directly with their buyers, farmers saw increases in productivity and obtained better information about what to produce. This contributed to the six per cent increase in cocoa production during SADI's operations in one of the two districts SADI focused on (South-East Sulawesi). Ultimately as a result of SADI, farmers were able to receive better prices for their produce.

ISSUES ADDRESSED

- High fragmentation of the supply-chain leading to poor signalling to producers and a mismatch between cocoa farmers and buyer expectations.
- Lack of access to crop storage facilities for cocoa farmers.
- Lack of price predictability.

OBJECTIVES PURSUED

- Improve smallholder farmer access to cocoa supply chains.

DESIGN AND IMPLEMENTATION

- Under the design, the IFC (which implemented the relevant SADI subprogram) identifies suitable lead firms that have the incentive to improve smallholder farmer access to cocoa supply chains.
- To implement the design, Armajaro, ECOM Cocoa and Mars were identified as the key lead firms that SADI would work with. With SADI support, cocoa farmers were organised into farmer groups and extension services were delivered to farmers with direct participation by lead firms. SADI worked

with these lead firms to establish buying centres that brought the farmers and farmer groups closer to buyers.

PROBLEMS ENCOUNTERED

- Access to finance continues to be a critical challenge not only for cocoa farmers but for most smallholder farmers in Indonesia. In the absence of affordable finance, farmers are generally dependent on trader/brokers for input finance at an exorbitant rate where farmers must also collateralise the upcoming season's harvest as a guarantee. SADI was unable to effectively apply the lead firm model to facilitate the required access to finance for smallholder farmers.
- The lead firm approach worked with large companies who operate downstream in the supply-chain. However, this approach excluded smaller players within the supply chain who SADI could have potentially worked with. As a result, where a large lead firm could not be identified, opportunities were missed to improve the supply chain.

FACTORS FOR SUCCESS/FAILURE

- Presence of lead firms who are willing to engage with smallholder farmers.
- A business enabling environment that is conducive to improvements in the supply chain.
- Smallholder farmers who are keen to increase their engagement with markets and try new production and marketing practices.

RESULTS ACHIEVED

Early outcomes from SADI's efforts include:

- Higher farm-gate prices: Several layers of informal traders previously linked farmers to processors and offered prices that reflected their high transactional costs. A streamlined supply chain allowed Armajero to pay farmers directly at prices twenty per cent higher than those previously on offer.
- A more marketable product: Consumers increasingly demand products that are produced sustainably and that are traceable to the producer. The closer links between producers and farmers fostered by SADI allowed improved market signalling – the production chain was more closely monitored and products certified by Armajero with feedback on product quality provided directly to farmers.
- Improved product quality: Disease loads on cocoa production have increased recently, threatening production. Extension services provided by Armajero and the nurseries established by Mars and SADI resulted in the production of cocoa that was more resistant to disease, less perishable and more marketable. The Cocoa Sustainability Partnership has also laid the groundwork for future links between farmers and research and development activities.
- Reduced waste: Previously, transport of goods to market through several traders — and storage at each point in the supply chain — led to high levels of product damage and waste. By providing transport of cocoa from farms directly to storage centres, SADI reduced wastage and improved the quality of the final product.
- More predictable incomes, prices and products: Farmers typically suffer uncertain incomes, with no predictability for the prices they receive for their cocoa. Processors similarly do not receive a predictable product. By providing extension services to farmers and immediate cash payment on delivery, Armajero received cocoa of marketable quality and paid farmers a less unpredictable income. More predictable incomes allow farmers to better plan production.
- Expanded market opportunities: Early adapters had the opportunity to establish cocoa nurseries producing grafted seedlings for sale to other farmers. Over 300 farmers established viable agribusinesses in three provinces selling these seedlings and further developing the supply chain

linkages between growing agribusinesses and medium-to-large scale buyers.

- Increased production: Six per cent increase in cocoa production during SADI's operations in one of the two districts SADI focused on (South-East Sulawesi). It should be noted that many other factors contributed to this result.

Indonesia has experienced strong growth in cocoa exports (8% average annual growth rate in the volume of cocoa bean exports during 2007–2009) and reduced shells and waste relative to exports of whole beans. While it is difficult to attribute these results to improved value chain linkages, it is probable that SADI contributed to this achievement.

LESSONS LEARNED

Specifically, the cocoa supply chain intervention within the IFC subprogram of SADI provided the following lessons.

- Private sector partners must have a discernable incentive to see improvements in productivity, quality and market access for smallholder farmers.
- The program/project must be flexible and its officers must be able to enter into partnerships with private sector players quickly.
- Interventions should build on each other and work towards a common objective.

More broadly, SADI provided the following lessons.

- Have a single management structure within the program
- Enable flexible delivery to achieve a clear purpose and goal
- Use reviews to make adjustments to ensure results
- Actively supervise implementation
- Focus to avoid fragmentation
- Support the partner government to lead where possible
- Use output-to-purpose monitoring to track performance
- Have sustainability and an exit strategy as prime concerns at entry

CONCLUSION (applicability to other programmes)

The experience of SADI in addressing the cocoa supply chain in Indonesia is relevant to other market development projects/programs. The situation of cocoa farmers in Indonesia is similar to that of poorer farmers in other parts of the world who find themselves lacking the required access to both input and output markets. Finding companies that operate in the supply chain who have an incentive to see improvements in productivity, quality and market access is possible in many contexts. Building partnerships with such companies can improve markets access for smallholder farmers and lead to great development impacts.