

Country strategies for the specialty cocoa market Successful policies and private sector initiatives in Peru, Ecuador,

Successful policies and private sector initiatives in Peru, Ecuador, Colombia and the Dominican Republic.

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COUNTRY STRATEGIES FOR THE SPECIALTY COCOA MARKET: SUCCESSFUL POLICIES AND PRIVATE SECTOR INITIATIVES IN PERU, ECUADOR, COLOMBIA AND THE DOMINICAN REPUBLIC

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Author Franz Ríos

Collaborators: Catalina Rehpani Ariel Ruiz Juan Lecaro

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Editing

Swisscontact Colombia Cecilia Rivera, Representative in Colombia Miguel Ángel Pérez, Project Coordinator

Editorial Direction Patricia Forero

Design and Diagrams Ricardo Gómez / bocetosonline.com

Photography Swisscontact Colombia, Red Cacaotera, and Legast – Artisan Chocolatier

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Swisscontact Swiss Foundation for Technical Cooperation Carrera 48 #93-51, Bogota, DC +571 4029084 www.swisscontact.org/colombia







Acronyms Used

ACOPAGRO	Cooperativa Agraria Cacaotera (Cocoa Farming Cooperative) San Martin, Peru		
ADOEXPO	Asociación Dominicana de Exportadores, Inc. (Dominican Association of Exporters, Inc.)		
AGROBANCO	Banco Agropecuario (Agricultural Bank - Peru)		
AGRORURAL	Programa de Desarrollo Productivo Agrario Rural (Rural Agricultural Development Program - Peru		
ANECACAO	Asociación Nacional de Exportadores de Cacao (National Association of Cocoa Exporters - Ecuador)		
APPCACAO	Asociación Peruana de Productores de Cacao (Peruvian Association of Cocoa Producers)		
APROCACI	Asociación de Productores de Cacao del Cibao, Inc (Cocoa Producers Association of Cibao, Inc. – Dominican Republic)		
APROCAFA	Asociación de productores de cacao fino y de aroma Ecuador (Association of Producers of Fine Flavor Cocoa – Ecuador)		
BAGRÍCOLA	Banco Agrícola de la República Dominicana (Agriculture Bank of the Dominican Republic)		
CAF	Banco de Desarrollo de América Latina (Development Bank of Latin America)		
CEDAF	Centro para el Desarrollo Agropecuario y Forestal (Center for Agricultural and Forestry Development – Dominican Republic)		
CEI-RD	Centro de Exportación e Inversión de la República Dominicana (Dominican Republic Export and Investment Center)		
CNC	Consejo Nacional Cacaotero (National Cocoa Council - Colombia)		
COEXCA:	Project - Promotion of the Production and Export of Fine Flavor Cocoa from Colombia		
CONACADO	Confederación Nacional de Cacaocultores Dominicanos, Inc. (National Confederation of Dominican Cocoa Producers		
CORPOICA	Corporación Colombiana de Investigación Agropecuaria (Colombian Corporation for Agricultural Research)		
DEVIDA	Comisión Nacional para el Desarrollo y Vida sin Drogas (National Commission for Development and Life without Drugs - Peru)		
DIGECOOM	Dirección General de Cooperación Multilateral (Directorate General for Multilateral Cooperation - Peru)		
DIRCETUR	Dirección Regional de Comercio Exterior de San Martín (San Martin Regional Directorate for Foreign Trade - Peru)		
EDF	European Development Fund		
EEEP	Ecuador Estratégico Empresa Pública (Strategic Ecuador Public Enterprise)		
FAG	Fondo Agropecuario de Garantías (Agriculture Guarantee Fund - Colombia)		
FEDECACAO	Federación Nacional de Cacaoteros (National Federation of Cocoa Producers - Colombia)		
FINAGRO	Fondo para el Financiamiento del Sector Agropecuario (Fund for Financing the Agricultural Sector - Colombia)		
FODEPRO	Fondo Departamental de Producción (Departmental Fund for Production – Bolivia)		
FINAGRO	Fondo para el Financiamiento del Sector Agropecuario (Colombia)		

FODEPRO	Fondo Departamental de Producción (Bolivia)		
GAD	Gobierno Autónomo Descentralizado (Autonomous Decentralized Government)		
GADPE	Gobierno Autónomo Descentralizado de la Provincia de Esmeraldas (Autonomous Decentralized Government of Esmeraldas Province – Ecuador)		
GAP	Good Agricultural Practices		
GDP	Gross Domestic Product		
ICA	Instituto Colombiano Agropecuario (Colombian Agricultural Institute)		
ICCO	International Cocoa Organization		
ICR	Incentivo a la Capitalización Rural (Incentive for Rural Capitalization – Colombia)		
IDLAF	Instituto Dominicano de Investigaciones Agropecuarias y Forestales (Dominican Institute for Agricultural and Forestry Research)		
INACAL	Instituto Nacional de la calidad (National Institute of Quality – Peru)		
INEN	Instituto Ecuatoriano de Normalización (Ecuadorean Institute of Standards)		
INLA	Instituto Nacional de Innovación Agraria (National Institute of Agricultural Innovation – Peru)		
ISA	Incentivo al Seguro Agropecuario (Incentive for Agriculture Insurance – Colombia)		
MA	Ministro de Agricultura (Minister of Agriculture)		
MADR	Ministerio de Agricultura y Desarrollo Rural (Ministry of Agriculture and Rural Development – Colombia)		
MAGAP	Ministerio de Agricultura, Ganadería, Acuacultura y Pesca (Ministry of Agriculture, Livestock, Aquaculture and Fisheries – Ecuador)		
MCPEC	Ministerio Coordinador de la Producción Empleo y Competitividad (Coordinating Ministry for Production, Employment and Competitiveness – Ecuador)		
MINAGRI	Ministerio de Agricultura y Riego (Ministry of Agriculture and Irrigation – Peru)		
MIPRO	Ministerio de Industrias y Productividad (Ministry of Industry and Productivity – Ecuador)		
MT	Metric ton		
PNIA	Programa Nacional de Innovación Agraria (National Program for Agricultural Innovation – Peru)		
PRA	Proyecto de Reducción y Alivio de la Pobreza (Poverty Reduction and Alleviation Project - USAID)		
PROCOLOMBLA	Exports, Tourism, Investment and Country Brand Promotion (Colombia)		
SECO	State Secretariat for Economic Affairs (Switzerland)		
SENASA	Servicio Nacional de Sanidad Agraria (National Agricultural Health Service – Peru)		
SETECI	Secretaría Técnica de Cooperación Internacional (Technical Secretariat for International Cooperation – Ecuador)		
UNCTAD	United Nations Conference on Trade and Development		
UNDP	United Nations Development Program		
USAID	United States Agency for International Development		

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Definition of Key Terms

Private Sector Initiatives: Initiatives of private sector actors, of a local nature, that drive economic growth and value chain integration through successful ventures at different points on the value chain (such as input suppliers, farmers, intermediaries and buyers).

Local Capacity: According to the UNDP definition, capacity building is "the process in which people, organizations and societies obtain, strengthen and maintain the necessary competencies to establish and achieve their own development objectives in the long term."

Production Chain: In Colombia, Law 811 of 2003 defines production chains as the set of technical and economic activities from the beginning of production and development of an agricultural product to its final sale.

Competitiveness: According to Michael Porter, competitiveness is determined by productivity which is defined as the value of the product generated by one unit of labor or capital. It is said that, productivity depends on quality (which in turn depends on price) and productive efficiency. However, competitiveness also involves aspects such as quality, innovation and product/service differentiation in relation to that offered by competitors.

Biotrade: This term refers to the set of activities of collection/production, processing, and commercialization of goods and services derived from native biodiversity (species and ecosystems) following environmental, social and economic sustainability criteria.

Good Agricultural Practices (GAP): GAP are "practices that address environmental, economic and social sustainability for on-farm processes, and result in safe and quality food and non-food agricultural products (FAO COAG paper, 2003).

Fine Flavor Cocoa: corresponds to a classification by the International Cocoa Organization (ICCO) that describes cocoa with a distinctive aroma and flavor. This type of cocoa represents approximately 8% of global production, and the current list of countries producing it can be found in Annex C of the International Cocoa Agreement, revised in 2016.

Specialty Cocoa: The designation for an important segment of the global cocoa market that is specialized in a series of consistent and verifiable attributes linked to the management, origin, and quality that different producing countries offer. This niche market has given rise to various categories of cocoa and a clear price differentiation. This study proposes to include other aspects as well and to expand this definition (see Conclusions).

1.1 Background

Colombia is a country with optimal agroecological conditions and excellent genetic material for the production of fine flavor cocoa. The global market for this kind of cocoa offers attractive prices and has been growing steadily. In the last few years, cocoa farmers in Colombia, who traditionally sold to the national market, have benefitted from various incentives and projects to produce quality cocoa and initiate their first experiences with exporting.

Among these projects is "Promotion of the Production and Export of Fine Flavor Cocoa from Colombia" – COEXCA which has contributed to the creation of sustainable networks for exports.

COEXCA is a project of the Swiss Program of Cooperation on Economic Development in Colombia (SECO) which Swisscontact is executing. It is one of three projects to build capacity for trade that Switzerland agreed to implement in Colombia as part of a 2011 free trade agreement between the countries. Since then, the project has sought to position Colombian specialty cocoa – developing the fine flavor category – as a product of recognized and trusted quality in the international market.

As a first step, the project identified the various aspects that differentiate this production chain from that of bulk, or conventional, cocoa – such as technical requirements, promotion strategies and quality regulations – and developed two strategies for intervention. The first is to support actions that allow national producers to adapt to new market demands/requirements. The second is to facilitate the development of opportunities for specialty cocoa at a global scale.

Both strategies are implemented following an essential principle of direct, sustained engagement with farmer organizations (associations or cooperatives). This has allowed the project to create change by and for the farmers.

At the same time, and in support of the sustainability of these strategies, COEXCA has joined with public sector initiatives that are looking to boost the fine flavor, and more specifically specialty cocoa, market. In agreement with the Ministry of Trade, Industry and Tourism (PROCOLOMBIA – Productive Transformation Program), the project has taken action to strengthen the competitiveness and positioning of the sector. Through its implementer, Swisscontact, the project has taken part and continues to take active part in the Cacao Alliance (Alianza Cacaotera), an initiative that brings together diverse public and private sector actors to discuss agendas related to productivity, marketing, and research for the sector.

Given this background, this study looks to facilitate a work plan that complements the advances and strategies of the COEXCA project. It presents a comparative analysis of Colombia and some neighboring countries – first, the operating environment, guidelines and public policies that are used to promote the specialty cocoa sector (including fine flavor cocoa); and second, private sector models that strengthen the role of private sector actors in the chain as catalysts for actions that benefit farmers.





1.2 Justification

It is estimated that the global production of fine flavor cocoa (according to the ICCO) is about 5-8% of the total volume of cocoa, and it is found in 23 producing countries – mainly in Central and South America. Currently, the supply of fine flavor cocoa from producing/ exporting countries is limited relative to the growing demand from consumers of specialty products, primarily for the consumption of dark chocolate..

Currently, specialty cocoa (including fine flavor cocoa) has a competitive advantage as manufacturers and consumers of dark chocolate seek cocoa with unique attributes and origins, and experts are predicting greater consumption of other products made with fine flavor cocoa. This is affirmed by the World Cocoa Foundation and International Cocoa Organization who estimate that the demand for cocoa will increase by approximately one million tons by 2020. In this context, there are good opportunities for major producing countries of fine flavor cocoa – such as Ecuador, Colombia, Peru and the Dominican Republic – to increase production and capture new market demand.

Therefore, in Colombia, it is imperative that farmer organizations increase production of specialty cocoa and, at the same time, work to improve the quality of their product. For this reason, it is of vital importance to analyze current practices for production, harvest, and post-harvest with an aim of identifying deficiencies and proposing concrete strategies to allow for the improvement of quality in a way that is in keeping with specialty market requirements.

It is for this reason that the present study looks to provide input for the specialty cocoa value chain in the region through a comparative analysis of the advances in production and marketing in Colombia, Ecuador, Peru and Dominican Republic. In this way, it looks to identify, analyze and document the aspects of policies, guidelines, and public programs that support these processes.

1.3 Objectives

With the aim of identifying and analyzing issues related to the policies, guidelines, programs and success stories that support production and marketing of fine flavor cocoa in Peru, Ecuador, Colombia and the Dominican Republic, the study focuses on the following two primary objectives:

- To characterize and understand the scope of policies, guidelines and public programs designed to promote the fine flavor cocoa value chain through comparison to other experiences.
- To identify and analyze cases and experiences that have sought to improve the marketing conditions and provision of farmer support services through the involvement of private companies (through the identification of case studies, and a comparative study of interventions that have supported farmer organizations).

1.4 Work Strategy

The study was conducted following the principles of objectivity and participation:

Objectivity: The report is based on the use of existing information (secondary sources) and the collection of current information directly from primary sources through the use of previously-designed surveys and instruments for data collection. This is complemented by field research and direct communication with those involved in the selected initiatives.

Participation: The study directly involved key actors to collect information and perspectives related to policies, guidelines and public programs designed to boost the fine flavor cocoa value chain, and to identify success stories related to improvements in integration and development of the value chain.



1.5 Methodology

Based on the research objectives, the following procedures and techniques were considered suitable for the collection and analysis of information. For each component of the analysis, the following procedures were applied:

1.5.1 Component on Description of Public Policies:

The research for this component was conducted using analytical research methods. Polices from each of the four selected countries were studied, and conclusions were reached around which had generated important impacts on the development of the sector.

The research included a **literature review** of material drawn from diverse sources. This was useful for the goals of the study, and considering the large number of sources available, it allowed for a narrower selection and editing of the list of primary and secondary sources to be used.

Afterwards, the research was complemented with information from direct sources through **targeted interviews and a previously-developed survey.**

1.5.2 Component on Analysis of Private-Sector/Farmer Initiatives

This component used an inductive research method. Specific cases were selected and studied, and based on that, conclusions were made to explain or connect success stories. The process consisted of two steps: First, successful initiatives were selected for detailed study. To do this, a preliminary list **(database)** was developed based on diverse secondary sources (such as reports, export registration lists, internet publications, etc.). The list was then distilled into a simple **ranking matrix** that incorporated the main criteria for analysis.

Second, the analysis was expanded through **targeted interviews** and selective meetings **(focus groups)** with the aim of capturing more detailed information that allowed for understanding of strategies implemented and approaches used.

1.5.3 Methodological Instruments

For the collection and organization of primary source information for both components, the following instruments were used:

Database: To compile preliminary information on success stories and to later permit the selection of those with greatest impact and sustainability through rapid evaluation using a rating matrix.

Selection Matrix: A tool that includes selection criteria, in this case – impact, competitiveness, market orientation, structure, availability of resources, leverage, and external viability – with the end of facilitating the consideration and selection of the best examples of support to farmers. The matrix was based on a preliminary list of examples.

Targeted Interviews: For both components (description of public policies and successful examples of support to producers), a standard tool

(questionnaire) was used to collect key information directly from individuals. The questionnaire was previously developed and agreed to with the Swisscontact team). The interviews were conducted with key sources from each company and 30 representatives from public institutions to understand the range of current policies for each country studied.

Focus Groups: Through a total of five focus groups with key actors in the selected initiatives, qualitative information was captured regarding priority components and success factors. Focus groups also discussed information required for the Swisscontact COEXCA project.

Surveys: These were conducted in person and virtually with key sources in each country. They used open-ended questions designed to capture respondents' perspectives on policies that support the cocoa value chain.

Workshops: A participatory workshop with key actors was held to present results and share conclusions and recommendations from the consultant team. Additionally, virtual technical meetings were held between members of the consultant team and Swisscontact personnel.

The following cross-cutting criteria were analyzed in the study: technical, economic and environmental viability; gender equity; ethno-cultural and generational valorization and vulnerability; market focus; information and communications flows; and active participation of actors, amongst others.



2. Cocoa in the World – General Context

Cocoa (Theobroma cacao, L.) is a fruit tree that originated in the humid tropical forest of South America. Its center of origin is located in the eastern equatorial region of the Amazon and the tributary rivers Napo, Putumayo and Caquetá (Cheesman, 1944; Motamayor et al., 2002; Bartley, 2005).



Its cultivation then expanded to other regions, notably in the 19th century, such that it is currently produced in 40 countries located in the tropical regions of Africa, Asia and the Americas. It is estimated that today it is cultivated by 5.5 million farmers, mainly smallholder farmers, the majority of whom have less than 5 hectares of land. For different reasons, they are in a socio-economically vulnerable situation: limited access to technology; and, lack of support services like technical assistance or financing to improve their crops. They confront, among other issues, general crop losses from pests and diseases. Despite these difficulties, technical and responsible cocoa production is of low environmental impact and has been a powerful tool to generate employment and regular incomes for farmers in rural areas.

In addition to agricultural production, the cocoa value chain also includes national and international sale of cocoa beans, industrial production of semifinished products, the production of finished products, and the distribution and marketing of finished and semi-finished products. Globally, the main demand for cocoa comes from the confectionery, baking and beverage industries with 10% of consumption, and the chocolate industry with the remaining 90%.

In this way, the cocoa value chain is comprised of products such as cocoa beans (considered a primary product or commodity); industrial or semifinished products, such as cocoa liquor, cocoa press cake, cocoa butter, and cocoa powder; and, final or finished products of which chocolate (in its many forms) is the main product.

The cocoa value chain is characterized by the concentration of actors both vertically (between actors that fill different functions) as well as horizontally (among actors at the same point on the chain) because of mergers and acquisitions among cocoa and chocolate companies. For example, two processors (Barry Callebaut and Cargill, after its acquisition of ADM) produce about 70-80% of the global supply of couverture, and eight traders and processors control approximately three quarters of the global cocoa bean trade. At the same time, 40% of the global chocolate market is concentrated in six major companies that produce the product. This market asymmetry is in favor of the buyers and traders and minimizes the role of the farmers at the base of the value chain.

On the other hand, the role of governments and their policies for the sector, directly influence the environment and development of the producing countries. The role of government in the producing countries is fundamental to improve the situation of the farmers. For that reason, it is essential that they are transparent with tax revenue received from cocoa and invest a significant part of this revenue in technical, social and rural infrastructure. This includes roads, electricity, education, water and sanitation, and attention to health and other indispensable public goods on which cocoa farmers can rely. They also need to regulate companies in the country and facilitate support for development and civil society.

2.1 General Description of Cocoa in the World

The classification of the different varieties of cacao is a concept that has evolved based on scientific advances and access to more precise technology. Currently, through various scientific studies, at least 10 "clusters" or genetic¹ groups of cacao have been identified. However, all of these groups have traditionally been classified into three principle varieties as described below:

Forastero: Cacao that originally came from the upper Amazon. The immature pods are green in color and become yellow when ripe. The beans are purple. At present, this is the most widely planted variety in the world, and those of the Amelonado pod type are the most abundant. With adequate management and the absence of fungal diseases, its production potential is higher than varieties of the criollo type. This variety is grown extensively in West Africa, Brazil, Costa Rica and Mexico. At its best, it produces beans with an intense cocoa flavor which forms the base for the chocolate industry. Particularly in Ecuador, this group is known as "Arriba" cacao and its beans have a floral aroma and fruity flavor that has allowed it to be classified as fine flavor.



Criollo: This variety of cacao, originally from South America, has extended to Central America. It is characterized by its bumpy pods with an elongated shape which have green and reddish colors when immature and yellow or orange when major. The beans can be white and of a large size. The chocolate made from this cacao is known for its nutty and caramel flavors. Criollo cacao dominated global production areas until the mid-18th century. Currently, it is produced mainly in Central and South America and there are few areas that are cultivated with this variety of cacao without the influence of the other cacao groups.

Trinitario: This variety is the result of a cross between the Criollo and Forastero types. It has a diversity of pod colors and shapes including greens and reds before ripening, and oranges and yellows when ripe. The color of the beans is purple and, generally speaking, it considered a fine flavor cacao and has good organoleptic traits. The commercial cultivation of this cacao initiated in Trinidad and extended to Venezuela. It was later introduced to Ecuador, Cameroon, Samoa, Sri Lanka, Java and Papua New Guinea. The cacao known as CCN-51 in Ecuador is classified in this group.

On the other hand, according to the International Cocoa Organization (ICCO), the global cocoa market recognizes two main categories: fine flavor cocoa and bulk cocoa. Based on this general classification, fine flavor cocoa comes from trees that are Criollo or Trinitario varieties, while the majority of bulk cocoa comes from trees of the Forastero variety. However, it is important to note that there are clear exceptions to this definition. For example, cacao Nacional in Ecuador, which is mainly a Forastero type, is considered by this organization to be fine flavor cocoa. On the other hand, the cocoa from Cameroon, produced with Trinitario, is classified as bulk cocoa. Graphic 1: Varieties of cacao in the world and in proportion to fine flavor cocoa



The classification of fine flavor cocoa proposed by the ICCO, as a single category different from bulk cocoa, does not take into account the great diversity of attributes found in the producing countries. In the last decade, an important segment of the market has specialized in harnessing and rewarding this diversity.

In practical terms, fine flavor cocoa is widely known by the processing market and comprises a small quantity of production – equivalent to 5-8% of global cocoa supply.

¹Genetic groups identified: Amelonado, Contamaca, Criollo, Curaray, Guiana, Iquitos, Marañon, Nacional, Nanay, and Purús, Author: Juan C. Motamayor et al. Geographic and Genetic Population Differentiation of the Amazonian Chocolate Tree. 2013. Fine flavor cocoa has various physical and organoleptic attributes that together contribute to diverse aromas and flavors. It is possible to detect the presence of fruity notes (citrus, red fruit, ripe fruit), flowers, herbs, and nutty and caramel notes together with a chocolate flavor that is very pleasant and well-balanced.

At present, with the evolution and diversification of the cocoa market, the classification proposed by the ICCO has become too general and does not take into account the great diversity of attributes that the producing countries possess. Since the last decade, an important specialized segment of the market has emerged focused on harnessing this diversity. This has given rise to various categories of cacao that have a clear differentiation of attributes and prices, and in the present study these are referred to as specialty cocoas.

2.2 Global Production and Consumption of Cocoa

Production: Cacao, originally from the northwestern Amazon region, is currently grown in the tropical belt around the world – mainly in the Americas, Africa and Asia. The eight main producing countries are Côte d'Ivoire, Ghana, Indonesia, Ecuador, Nigeria, Brazil, Cameroon and Malaysia, and they represent 90% of global production.

As of the end of 2015, the three main producing countries represent, collectively, approximately 71% of global cocoa production, composed of Côte d'Ivoire (42.4%), Ghana (21.2%) and Indonesia (7.6%). The other 21% is produced by the following

four producers – Ecuador, Cameroon, Brazil and Nigeria with production estimated at 5.9%, 5.4%, 5.4% and 4.6%, respectively. Currently, Indonesia and Brazil, despite being important producers, are also importers of beans from West Africa due to increasing internal demand.

According to International Cocoa Organization (ICCO) data, in 2015, Africa cultivated approximately 73% of the total global cocoa production and accounted for 85% of the total global cocoa exports.

Until the third quarter of 2016, the producing countries of Africa could not meet the growing global demand due to various factors. Among the most important are: 1) the government monopolies in Ghana and Côte d'Ivoire that set fixed prices for local farmers with discounts of up to 70% of the global market reference price; 2) the limited labor productivity due to an aging workforce (50 years on average with a life expectancy of 54 years); 3) the absence of transfer to the next generation as a consequence of migration of the rural population of urban areas; 4) the change in land use for other, more profitable activities such as rubber, oil palm and mining; and 5) the presence of damaging climatic phenomena such as the Harmattan winds that directly impact production².

The current oversupply of cocoa coming from Africa, estimated at 15% of global production, is an exceptional situation caused by a number of factors, including: 1) excellent climatic conditions in Africa with abundant rains and little influence of the Harmattan winds; 2) the increase in margin paid to producers by 10% and 12% in Côte d'Ivoire and Ghana, respectively; 3) public investments at the

² Harmattan: West African trade wind that is cold, dry and dusty. It blows from the south of the Sahara to the Gulf of Guinea between the end of November and the middle of March, affecting the cocoa plantations in the region.



Graphic 2: World Production and Consumption of Cocoa by Region, 2015

Source: Cocoa Barometer, 2015.

farm level to improve their production performance. With this situation, and considering that grindings have only increased by 3%, the current oversupply of cocoa will generate a dramatic fall in prices which will be maintained until the cocoa supply/stocks normalize.

In addition, reports made by the EU on cocoa and other commodities point to other, unresolved, social problems in the main cocoa producing countries in Africa, for example, child labor, abandonment of cocoa farms due to political instability, market variations, and the conditions of extreme poverty for almost 11 million cocoa farmers globally.

Consumption: Factors such as changes in consumer tastes and preferences, as well as increased personal income in various economies that are experiencing growth (such as China and India), have driven a significant increase in global consumption of chocolate. According to the ICCO (2015), the region with the highest cocoa consumption is the European Union with 36% of the global total, followed by North America with 23%, and then Asia and Oceana with 17%. The consumption in producing countries, for its part, centers in Latin America with 9% and Africa with 4%. In terms of the growth in cocoa consumption, during 2015, the region that had the most growth was Asia with 51%, followed by Africa with 31% (ILAC, 2016).

The previous graphic represents the main cocoa consumers based on estimated domestic consumption of cocoa. This is calculated by adding the grindings and net imports of cocoa/chocolate products, and taking the bean equivalent.

One observes that the main consuming countries are those with developed economies in the Northern Hemisphere, while those with less consumption are the producing countries.

Chocolate consumption is concentrated mainly in the regions of North America and Europe, and especially in countries with high levels of economic and social development where consumers follow the main market trends.

Thus, the growth in consumption of gourmet, healthy and single origin chocolate in these countries, has also supported the emergence of small factories that produce special products for local distribution and export to niche markets. The consumption in these countries has also opened the door for the development of the industry for semi-finished and finished products. A few multi-national companies currently dominate the production of chocolate.

For chocolate products (the final use for most cocoa) the consumption is very high in the European Union, specifically in Belgium, United Kingdom, Germany and Austria where all reported, in 2015, consumption per capita of 8 kg or more. The consumption of chocolate confectionery has generally increased in the last decade in the region, which indicates that there has been an increased demand for cocoa beans and cocoa products.

Furthermore, the growth in consumption of chocolate made with specialty cocoa has notably increased on a global scale in the last few years. Today, on a regional scale as well as international, different brands of chocolate are being developed for this market segment. This increase in consumption of specialty products has led experts to predict a positive outlook for the specialty chocolate market.

2.3 Behavior of Cocoa Prices

Cocoa bean prices are quoted daily on the stock exchanges of London and New York as a primary product or commodity.

Despite being a commodity, the company Euromonitor considers cocoa to be an essential, non-substitutable element. It reached a turnover of US\$110 billion globally in 2015, and has a growing demand projected for the coming years. Its production presents great opportunities for the producing countries in the Americas.

While manufacturers can adjust the quantity of cocoa powder or cocoa butter in their formulations, there is no substitute for cocoa beans, and for that reason its price has a high volatility depending on cycles of production, supply and demand.

On the other hand, economic analysis and current estimates of global cocoa harvests indicate that the cocoa prices during the 2016-2017 period will fall following a projected surplus supply. According to Rabobank International, despite the fact that 2015-2016 has a deficit of 147,000 tons, the projection for 2016-2017 indicates that there will be a surplus of at least 114,000 tons.

In this scenario, the projections of prices for cocoa futures indicate that throughout 2017, the cocoa

price will trend low. However, specialists from Rabobank and Confectionery News (Nieburg, 2016) indicate that the trend is rather for price stabilization given two main factors: the developed chocolate markets are showing lower growth and stagnation in large-volume sales, but an increase in consumption of high-value products such as premium chocolate and dark chocolate that have a higher cocoa content. The price of cocoa beans is influenced by several factors: the ratio between existing stock and grindings; expected production and demand; global food prices; and the consolidation or fragmentation of the cocoa trade and the industry.

Graphic 3: Price Trends for Cocoa Beans, 2015-2016



Grocer Magazine, edition January 17, 2017.

The magazine The Grocer confirms that the global cocoa bean price in 2017 decreased by 19.5% in comparison to 2016 and that there will be a surplus in production in 2016/2017.

These forecasts should be taken into account by farmers and exporters in the region who should implement strategies to mitigate the effects of these variations such as: increasing the production per hectare, developing specialty markets, and adding value to the product. During 2015 and mid-2016, the price of cocoa beans, despite the constant fluctuations typical for a commodity, achieved an average price of US\$3,000/ton. Later, prices maintained a downward trend which has continued until today. This makes it imperative to implement strategies to mitigate its effects.

As it is possible to see from the graphic, for 2015 and the first semester of 2016, the cocoa price achieved an average value of more than US\$3,000 per ton despite constant fluctuations in price as with any commodity. Also, one can appreciate that since the third trimester of 2016, the cocoa price has demonstrated a downward trend which continues to the present.

In this panorama, the ICCO signals that during the period 2015-2016, the producer prices experienced significant fluctuations in the majority of producing countries. The fluctuations in the producer price would also be due to other factors such as: the international value of the local currency; conditions specific to the local market; transportation; and other transaction costs.



2.4 Margins for Value Chain Actors

The profit margins for different intermediaries in the cocoa trade depend on many factors; and therefore, it is extremely difficult to determine typical margins⁴. Among other factors are: the type of product; the quality; the current and anticipated harvest; the availability or number of sources of supply for basic products; the level of demand, and price trends.

Additionally, as has been reported by the Spanish organization IDEAS⁵ and data from the European Fair Trade Association (EFTA), income is distributed very unequally across the cocoa production and cocoa-based products marketing chain ⁶– the large trading companies and industry receive 70% of the final price of the product, and the producers receive only 5% of the final price. This share is oftentimes insufficient to cover the labor costs of production.

Producers face a very concentrated market with few buyers/traders that sell cocoa beans to a manufacturing industry that is equally concentrated.

As such, the trading companies that buy cocoa beans and the processing companies that transform them into a diversity of products (mainly chocolate) are the most profitable part of this sector.

4 CBI. Guide to commercial practices. 5 IDEAS. NGO. Europea responsable del Observatorio de Trasnacionales de cacao

6 EFTA Website: "The chocolate manufacturers are the strongest link in the cocoa sector. Thanks to their wide range of products, and considering that cocoa is an ingredient in their formulations, the least vulnerable to fluctuations in price (the use of substitute products would further consolidate their position). Furthermore, the large chocolate manufacturers also spend money on publicity to familiarize consumers with their brands that dominate the distribution chains. No supermarket could allow itself the luxury of not selling Nestlé, Milka or Ferrero products. The manufacturers take advantage of their strong position and increase their margin."



Graphic 4: Approximate distribution of income in the cocoa value chain

Source: Created by the author using data from IDEAS. Boletín 19.

Among different actors in the cocoa value chain, the traders that buy cocoa beans and the processing industry that transform it (mainly into chocolate), receive the highest incomes. The following graphic represents the approximate distribution of income across different actors in the value chain according to information obtained from the Spanish organization IDEAS in Bulletin 19: Cross-border Cocoa Monitor.

3. Segments of the Cocoa Export Market and Related Trends



Graphic 5: Distribution of different market segments in the world.

provenance and quality of these types of cocoa.

The market for specialty cocoa has been strengthened by the current trend for consumption of dark/ gourmet chocolate which is directed at products made using specialty cocoa. This from cocoa comes almost all of the areas where specialty cocoa is produced and has come to represent up to 25% of the export supply of the producing

In addition to fine flavor cocoa, the term "specialty cocoa" has been introduced to refer to the market for cocoa that possesses consistent and verifiable traits that differentiate it from bulk cocoa, and that are not necessarily limited to organoleptic properties typical of fine flavor cocoa. Specialty cocoa, in addition to having distinct flavors, can also be characterized by attributes such as physical quality, post-harvest handling techniques, traceability, origin, and certifications obtained by producers.

Within the specialty cocoa segment, there is also a high-end segment known as "premium cocoa" which refers to lots of cocoa that have particular attributes (generally linked to origin, flavor and quality) for which there is limited supply and high demand from fine/specialty chocolate manufacturers that have developed exclusive products linked to the countries in the Americas.

The value of specialty cocoa in the market is in the difference in price paid by the industry, and consequently by the consumers. For example, while one ton of conventional cocoa has an average value of US\$3,100-US\$3,200 per ton, certified specialty fine flavor cocoa from Latin America can range from US\$3,500 to US\$4,000 per ton.

Source: CAF, Iniciativa Latinoamericana del Cacao 2016; with information from The World Cocoa Economy: Current Status, Challenges and Prospects, 2014; New trends in the international cocoa market: Opportunities for Peru as a producer of fine flavor cocoa, ICCO, 2016, and price information provided by interview subjects.

While one ton of bulk cocoa has an average value of between US\$3,100 and US\$3,200 per ton, certified specialty fine flavor cocoa from Latin America ranges between US\$3,500 and US\$4,000 per ton.

Within specialty cocoa, the market has recognized a category for cocoa that has particular organoleptic attributes – fine flavor cocoa – which is produced in the following territories:

countries supplying it (in 2016 it increased from 14 to 23 countries). The list of countries and their inclusion in the group of countries producing fine flavor cocoa is determined by the ICCO through various International Agreements in different years – 1972, 1975, 1980, 1986, 1993, 2001, and 2016.

The proportion of fine flavor cocoa in global 1972, 1975, 1980, 1986, 1993, 2001, and 2016. production has changed radically in the last decade, The list is revised periodically and approved by the

Table 1. Table of Countries	Producing Fine Flavor	Cocoa According to the ICCO
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NO.	COUNTRY PRODUCING FINE Flavor Cocoa	FINE FLAVOR AS A PERCENTAGE of total cocoa exports	TOTAL EXPORTS 2015/MT	FINE FLAVOR Exports 2015/MT
1	Belize	50%	95	47
2	Bolivia	100%	198	198
3	Colombia	95%	13,744	13,056
4	Costa Rica	100%	256	256
5	Dominica	100%	55	55
6	Dominican Republic	40%	79,597	31,838
7	Ecuador	75%	236,072	177,054
8	Granada	100%	994	994
9	Guatemala	50%	66	33
10	Honduras	50%	747	373
11	Indonesia	1%	39,000	396
12	Jamaica	95%	234	222
13	Madagascar	100%	9,642	9,642
14	Mexico	100%	134	134
15	Nicaragua	100%	3,894	3894
16	Panamá	50%	507	254
17	Papua New Guinea	90%	42,593	38,334
18	Peru	75%	59,132	44,349
19	Saint Lucia	100%	20	20
20	São Tome and Príncipe	35%	2,866	1,003
21	Trinidad and Tobago	100%	244	244
22	Venezuela	100%	9,187	9187
23	Vietnam	40%	2.,466	986

Sources: Participation in Fine Flavor Cocoa, official table of the ICCO approved by the International Cocoa Council in May 2016; Estimated volumes of cocoa bean exports (fine flavor cocoa): Trade Map ITC, 2016.

demonstrating an increase in volume as well as organization's International Cocoa Council.

According to the ICCO, 5 to 8% of the global cocoa supply is considered to be fine flavor; and today, in this category, Ecuador produces around 54% while Peru, Colombia and the Dominican Republic together supply 15%. The competitive advantages of these countries are very relevant to the specialty cocoa category.

Ecuador, Peru, Colombia and the Dominican Republic produce fine flavor cocoa with attributes linked to quality and origin. Amongst others, the following can be highlighted: diverse production areas; the production system used; traditional management practiced by particular ethnic groups; and certifications obtained by producer associations. These characteristics, collectively, create great potential to access high-value specialty markets.

It is important to emphasize that cacao cultivated in different regions and altitudes (such as the coast, central plains, foothills, the Amazon), produces a variety of particular physical and organoleptic attributes that are linked to origin. To give an example, cacao produced under agroforestry systems has different attributes than cocoa produced on commercial plantations in full sun.

3.1 Categorization of Specialty Cocoa

In this context, the specialty cocoa market is linked to processors and consumers that demand products with consistent, verifiable and differentiated qualities; and, for those products they will pay higher prices, which translate into better incomes and wellbeing for farmers. The specialty markets have been divided into three categories: premium single-origin, fine flavor, and sustainable cocoa. The specialty market is linked to processors and consumers that demand products with consistent, verifiable and differentiated attributes; and, for those products they will pay higher prices, which translate into better incomes and wellbeing for farmers.

Premium Single-Origin Cocoa

Premium single-origin cocoa refers to a harvest that originates from a region, hacienda (plantation), or farm that possesses special characteristics due to the fact that it was grown in a specific place and was managed, harvested and processed (postharvest) in accordance with standards known to its buyers. Premium single-origin cocoa maintains varietal purity and is not mixed with other types of cocoa as traceability is fundamental to assuring its provenance. Within this category, we can find:

Cacao with Designation of Origin: Comes from a geographic region that produces a particular quality of cocoa that is recognized by the market or the industry based on its organoleptic characteristics. Example: cocoa from Vinces in Los Rios province in Ecuador.

Cocoa with Geographic Origin: Refers to the production of cocoa in a geographic region in which producers have joined together and organized themselves for the collection and marketing of quality cocoa displaying characteristics specific to their location. Example: cocoa from Tumaco produced by the Corpoteva Association.

Estate Cocoa: Produced on a plantation or small farm, comes from a single crop, has uniform and centralized processing (post-harvest), and therefore offers a uniform product, outstanding in quality and consistent over time. Example: cocoa produced at Hacienda La Chola (Ecuador).

Exotic Cocoa: Cultivated in particular areas, under exceptional conditions, possessing sensory and organoleptic characteristics that allow for final products of exceptional quality. Example: wild cacao from Bolivia.

Fine Flavor Cocoa

To differentiate fine flavor cocoa, a combination of criteria and techniques are used; amongst others, we can note: 1) the genetic origin of the material being grown; 2) the morphological characteristics of the plant; 3) flavor characteristics; 4) chemical characteristics; 5) bean color; 6) the level of fermentation; 7) drying. Furthermore, the absence of bean defects is considered - defects such as: 8) acetic acid; 9) the presence of off-flavors; 10) the percentage of internal mold; 11) insect infestation; and 12) the percentage of impurities.

Nevertheless, the measurement of these criteria is subjective, and there is not an objective way to establish if the cocoa in question has the characteristics of fine flavor cocoa. Many of the criteria are the result of harvest and post-harvest management. Within this category, we find:

National Complexes: Are the result of a mixing of varieties that happened in the mid-18th century as a mechanism for transferring traits for resistance to diseases to other varieties. The crosses of the then-national cocoa with Forasteros, Trinitarios, Criollos and genotypes from the upper and lower Amazon and Orinoco, gave rise to the current Nacional Cocoa Complex that conserves the floral flavor from the original plantations.

Regional Selections: This category includes cocoa plantations cultivated with outstanding material that has been selected in a particular region for traits related to production, resistance to diseases and organoleptic properties. At present, there are many examples of these collections such as the collection of Sacha Elite trees in Ecuador and FEDECACAO's collection of regional trees.

Varietal Cocoa: Is the result of processes of selection and controlled breeding with the end of obtaining superior plants that possess particular organoleptic characteristics, as well as good productivity and resistance to pests and diseases. This work has been carried out by researchers from public and well as private institutes. Currently, varieties of particular interest are the clones: ICS and EET.

Sustainably Produced Cocoa

This category includes cocoa that is noted for generating clear social, environmental and productivity benefits. Therefore, this cocoa is grown by farmers that follow a particular form of production in areas of special interest. This category includes:

Certified Cocoa: The certified cocoa segment has experienced significant growth in the last few years. This process has mainly occurred through four initiatives for marketing of certified cocoa: organic, fair trade, Rainforest Alliance, and Utz. It should be noted that these certifications do not distinguish between quality of cocoa and it is possible to certify fine flavor cocoa as well as conventional. It should be noted that the better part of production of organic cocoa is in South America (approximately 70%). Currently, the Dominican Republic is the main provider of organic cocoa. This country exported 15,000 metric tons (MT) of organic cocoa in 2014 – equivalent to 20% of total cocoa exported (69,000 MT in 2014).

Cocoa with Social Relevance: Is cultivated as an alternative crop in areas where generating income and employment is fundamental for the development of sensitive populations or vulnerable groups. Example: cocoa for peace in Colombia and cocoa in the frontier zones of Ecuador.

Cocoa with Cultural Relevance: This category includes cocoa that is grown by clearly defined ethnic groups that conduct their activities on common lands. Generally, the management methods used on these plantations are linked to ancestral or traditional management techniques. For this reason, the cocoa produced by these groups has particular attributes that differentiate it from other types of cocoa.

Cocoa with Environmental Relevance:

This category encompasses cocoa plantations that are planted in a biodiverse system through which they generate environmental benefits that form the basis for differentiation. These plantations are found near water resources, protected areas, protected forests, and nature reserves. By being cultivated in association with other fruit and hardwood trees that serve that function of providing permanent shade, they form important buffer or vegetative barrier zones that contribute to the protection of fragile ecosystems. Furthermore, the management system for these plantations is considered to be of low environmental impact.



Other initiatives that support sustainable production

A new trend that has developed in recent years is the implementation of support programs at different levels of the value chain, as a part of the corporate responsibility actions/campaigns of the large processing companies that are looking to improve their image. These generally place emphasis on the producer level. Among other initiatives, the following are of note:

Mondelēz Cocoa Life Program: counted as the biggest cocoa sustainability initiative by a company to date, the program will invest an estimated US\$400 million in the next ten years with the aim of improving the livelihoods and living conditions for more than 200,000 cocoa farmers and their agricultural communities.

Another initiative of the main multi-national companies in the chocolate industry, relates to international trade. At this level, the companies have set a goal for purchasing certified raw material. Amongst others, there is a notable commitment from Mars, Hershey and Ferrero to use 100% certified cocoa by 2020.

Mars, for example, was the first global chocolate company to commit itself (in 2009) to certify all of its cocoa supply chain by 2020. This commitment at a global scale generated total premiums (paid by Mars) of more than US\$2 million in 2016 for Fair Trade cocoa cooperatives in West Africa.

Hershey, on the other hand, is currently implementing a program called 21st Century Cocoa Plan. This brings together various sustainability initiatives that the company has been implementing for some time, with the aim of generating change in the regions where cocoa that the company buys is grown and where it is indispensable for their business. The changes include not only the sustainability of production, but also in quality of life for those that are working in the sector. The company has later announced its intention to obtain 100% of its cocoa from certified suppliers by 2020 – a commitment that continues to be a central part of the new Plan. The certification will come from three well-known organizations – Utz, Fairtrade USA, and Rainforest Alliance – which take into account labor, environmental and sustainable practices.

It is important to note that the additional costs, direct or indirect, that are involved in these certifications are shared with the producers and their organizations. Among the direct costs involved in certification, for example, are those associated with complying with standards and the fee that the organization or exporter has to pay to the certifying body. Among the indirect costs are: i) the opportunity costs associated with loss of yield after stopping use of synthetic inputs, and the disease and fertility problems before conversion to a completely organic system; ii) additional labor costs; iii) additional administrative costs.



Table 2: Factors that Differentiate Specialty Cocoa

DESCRIPTION		
The interaction of physical factors (soil, water, temperature) with the climate and geographic location to influencing the expression of characteristics of a particular variety of cocoa.		
Determining the rarity of material that also has other unique characteristics both physical or organoleptic; referring to very specialized crops in areas of limited production		
The genetic group to which the cacao belongs determines a great deal of the physical and organoleptic characteristics that will development with appropriate management.		
A parameter that is the result of the interaction of the genetics of a particular variety which is only expressed with appropriate post-harvest management		
The management of a plantation consists of the activities of harvest and post-harvest which are factors that determine the expression of organoleptic properties in cocoa		
Its management is defined by its positive influence on the social, environmental or productivity spheres – generating important social benefits or environmental services.		

Source: Task Force for Classification of Specialty Cocoa, Swisscontact. 2017.

3.2 Market Trends for Specialty Cocoa

As was mentioned in the section "Global Production and Consumption of Cocoa," global consumption of chocolate (the production with the highest demand for cocoa), is concentrated mainly in the regions of North America and Europe where consumers follow market trends. The trends point to the increased consumption of gourmet, healthy and single origin chocolates. As such, on a global scale, the increase in consumption of artisanal chocolates has increased notably in recent years. Today, on a regional as well as international scale, different artisanal chocolate brands are developing in the marketplace as a result of increased appreciation for their quality and diversity of flavors and attributes. Furthermore, in the main consuming countries, small chocolate factories have emerged to produce specialty products for local distribution and export to niche markets.

Thus, while at a global scale, the demand for conventional cocoa has grown at an average rate of 3% per year, specialty cocoa has the highest level of growth across cocoa market segments – achieving up to 9% annual growth in the last decade.

At a global scale, the demand for conventional cocoa has increased at an average rate of 3% per year, while specialty cocoa, in the last decade, achieved up to 9% annual growth.

Consumers of fine chocolates prefer products with their own distinctive flavors, designations of origin, high cocoa content, and certifications. Consequently, the specialty chocolate industry is innovating with new flavors, packaging, designs, and sizes to attract consumers who are valuing, more and more, the impact of food on health (ICCO, 2012).

Furthermore, there is cocoa found in strategic locations that is also preferred by consumers. This cocoa, for example, is grown near protected areas, buffer zones, and areas of particular social or environmental interest where it is supporting conservation, farmers' wellbeing, and economic development.

Following this market trend, fine flavor cocoa is mainly consumed in Western Europe (Belgium, France, Germany, Italy, Switzerland and the United Kingdom) and in Japan, while in the United States, this type of cocoa is used to a lesser extent. It should also be mentioned that some countries in Latin America, such as Colombia and Brazil, are already significant cocoa consumers and also have a great potential domestic market for fine flavor cocoa.

There is also an important, and growing, segment of chocolate manufacturers that use fine flavor cocoa beans in traditional recipes, especially for highly differentiated gourmet products. Similarly, the majority of the main chocolate manufacturers have specialty product lines that fall in this category and that have gained share in recent years. These developments have made it such that the demand for specialty cocoa is increasing substantially.

Furthermore, the new movement called "bean to bar" has gained strength and also adds to the specialty cocoa market. For these chocolate manufacturers that want to control the process from the bean, cocoa is selected by its variety from the farms where it is produced. They are looking for a unique sensory profile that is maintained through post-harvest techniques, and cocoa that is free from contaminants (Regout and Ogier, 2013).

The increasing demand for specialty cocoa for the creation of highly differentiated chocolates offers clear opportunities for countries such as Ecuador, Colombia and Peru to increase and diversify their cocoa exports to high value markets. To do this, it is necessary to standardize processes, incorporate traceability, guarantee the separation of varieties, and improve the quality, with a market focus.

So that countries such as Ecuador, Colombia and Peru can increase and diversify their cocoa exports to high value markets, it is necessary to standardize processes, incorporate traceability, guarantee separation of varieties, and improve quality, with a market focus.

Another advantage that specialty cocoa offers is that its prices are independent of the international market price determined by the exchanges in London and New York. In the majority of cases, the contracts are negotiated directly between the producer and the buyer, and depend above all else, on the bean quality, origin or uniqueness, and, in the specific case of chocolate, its reputation in the gourmet market. Other factors that influence the manner in which the price is determined are volume and frequency of sale, especially during periods of low production.

In the case of the origin of cocoa, for example, a cocoa that in addition to origin has good quality standards and is certified (based on market demand), can be sold with premiums of more than US\$1,000 per ton over the conventional cocoa price.

3.3 Differentiation ofPrices for SpecialtyCocoa

As mentioned previously, the international cocoa price is linked to the exchanges in New York and London, and is subject to constant variations depending on the supply and demand in the commodity market Graphic 6 illustrates the average price of exports from the four countries being analyzed in comparison to the average price from the ICCO (in black) during the same years. One can observe that countries such as the Dominican Republic and Peru have maintained export prices over the ICCO price due mainly to a ongoing policy of linking production and quality, and specifically the production of specialty cocoa.

The Dominican Republic and Peru have maintained exports above the ICCO price thanks to an ongoing policy of production linked to quality, in particular, to specialty cocoa.

The Dominican Republic and Peru have marketed both categories of cocoa at a price about the ICCO price, while Colombia and Ecuador have obtained prices below the ICCO for their bulk cocoa.

The ICCO indicative price will be the average of the daily cocoa bean futures prices during the three closest active months on the stock exchange in London (NYSE Liffe) and the stock exchange in New York (ICE Futures US) at the London closing time.



Graphic 6: Comparison of average price of cocoa

Source: Author's creation with information from: TradeMap and ICCO.

Graphic 7: Comparison of Cocoa Supply (MT, 2012/2016)



Source: Author's creation with information from: TradeMap, ANECACAO, Ministry of Agriculture of the Dominican Republic, Ministry of Agriculture of Peru, CONACADO, PROCOLOMBIA.

The behavior of cocoa prices is also notable; in recent years, it has achieved values of more than US\$3,000 per metric ton due mainly to the significant global deficit of cocoa in the periods of 2012-2013 and 2015-2016.

Another advantage that specialty cocoa offers is that its prices are independent of the prices on the exchanges of London and New York.

It is important to clarify that the analysis of these trends, based on average annual prices, does not allow us to see the specific behavior of different market segments. However, if we compare exports of specialty cocoa with exports of bulk cocoa, it can be demonstrated that there is a significant supply of specialty cocoa. Collectively, Ecuador, Colombia, Dominican Republic, and Peru export 32% of their total supply as specialty cocoa, as can be appreciated in Graphic 7.

In analyzing the total supply in the period 2012-2016, one can see that the proportion of the supply that is specialty cocoa varies considerably across the four countries, according to the production development strategies, varieties cultivated and local norms.

Ecuador, Colombia, the Dominican Republic and Peru export, collectively, 32% of their total supply as specialty cocoa.

In the case of Ecuador, for example, despite being the main producer of fine flavor cocoa in the world, a large proportion of its supply is marketed with prices below the average ICCO price because a good of part of it is considered to be of basic quality according to standard INEN 176⁸.

This is not the case with countries like Peru and the Dominican Republic that have adopted national strategies focused on quality and product differentiation, and maintain a significant offering of specialty cocoa in relation to their total supply.

8 Fourth revision in force during the development of this study.



Source: Author's creation with information from: TradeMap, ANECACAO, Ministry of Agriculture of the Dominican Republic, Ministry of Agriculture of Peru, CONACADO, PROCOLOMBIA.

Also, one can see that Colombia, as well as being an significant consumer of cocoa that it produces for the local market, also exports cocoa beans with a significant percentage of specialty cocoa. Colombia is marketing this at price differentials of more than US\$1,000 per metric ton over bulk cocoa.

Furthermore, for all of the countries in the study, according to the analysis of average cocoa prices for specialty cocoa and bulk cocoa, one can see that specialty cocoa is always marketed with significant differentials over the average ICCO price. In this case, the ICCO price for the period 2012-2016 was US\$2,781.

If we analyze the price

differential between specialty cocoa and bulk cocoa by country, one can observe that in cases like the Dominican Republic and Peru, both categories have been marketed at a price over that of the ICCO, while in Colombia and Ecuador, the price of bulk cocoa is lower than the ICCO price.

Furthermore, although with smaller volumes, the gap between the average price for the two categories of cocoa is more pronounced in Colombia followed by Peru and Ecuador.

Finally, Ecuador leads in terms of total value of exports both for specialty cocoa and bulk cocoa, but

with a marked difference in the ratio between the two categories in favor of bulk cocoa. For the other countries in the study, the ratios are more equal which serves as evidence of the importance of the specialty cocoa segment in the regional market.

CUMULATIVE TOTAL EXPORT VALUE FOR COCOA - SPECIALTY VS. CONVENTIONAL (2012-2016), US\$ 1'922,852,676 729.796.034 434.235.477 367.979.335 494.889,905 302.115.108 96,040,921 32,749,729 **Specialty** Bulk Bulk Bulk **Specialty** Specialty Specialty Bulk **ECUADOR COLOMBIA** DOMINICAN REP. PERU



Graphic 9: Total Export Value by Type of Cocoa



Graphic 10. Price Differentiation by Quality Level in Ecuador

Source: Author's creation with information from: TradeMap and Asociacion Nacional de Exportadores de Cacao (ANECACAO).

Structure of the Specialty Cocoa Market in Ecuador

Because it is an important producer of fine flavor cocoa, Ecuador's cocoa receives a price that is higher than the ICCO Price.

Because it is a significant, traditional producer of fine flavor cocoa, Ecuador is an important supplier and receives prices that are above the ICCO price; the differentiation of cocoa by quality is based on Standard INEN 176 which specifies five categories for Nacional cocoa and one for the CCN-51 variety.

Until a few years ago, those price differentials were between US\$180 and US\$200 for ASSS over the stock market price, and US\$80 to US\$120 for ASS, while for ASE there was a US\$20-US\$30 discount. However, in the last few years, the prices have fallen to such an extent that ASS cocoa now costs less than the ICCO standard.

For its part, the variety CCN-51 does not have the attributes of Ecuadorean cocoa that the ICCO classifies as fine flavor, but it does demonstrate high productivity in the field and can be sold as fine flavor or specialty cocoa when it has been properly fermented. At present, the supply of CCN-51 has increased such that it comprises 33% of the total supply.

Additionally, through direct interviews with local trade groups⁹, it was found that fine flavor cocoa with organic or Fair Trade certification receives additional premiums of up to US\$1,000 per metric ton. It is estimated that almost 5,000 metric tons are marketed under these figures. Also, lots from specific origins with superior flavor and aroma profiles can be sold for between US\$5,000 and US\$10,000 per metric ton.

9 Groups of exporters of certified, specialty cocoa: UOPROCAE, APOVINCES, UNOCACE, Fortaleza del Valle, FONSOEAM.


Graphic 11: Price Differentiation by Quality Level in Peru

Source: Author's creation with information from: TradeMap, Ministry of Agriculture of Peru, producer associations.

Structure of the Specialty Cocoa Market in Peru

Peruvian cocoa, with the best prices in the region, sells above the average ICCO price, including its bulk cocoa.

As a result of a coordinated effort between the national government, support organizations, companies, and producer cooperatives, the Peruvian cocoa value chain has successfully positioned its cocoa exports as having recognized quality and origin, thus obtaining the best prices in the region.

In this manner, the specialty cocoa from Peru with organic, Fair Trade or similar certifications receives a premium per ton of more than US\$300. Also within this category, fine flavor cocoa (which could be Criollo, native or Trinitario) obtains additional premiums from US\$400 to US\$500 per ton. They have worked to commercially develop, differentiate and characterize the flavor/aroma profiles of this fine flavor cocoa, and it constitutes another category of classification that is sometimes called "Cacao de Sabor" (Flavor Cocoa).

With a coordinated effort between the national government, support organizations, companies, and producer cooperatives, the cocoa sector in Peru has achieved a high level of recognition for its quality and origin, earning the best prices in the region.

It is important to note that Peruvian cocoa, with the best prices in the market for all of the region, sells at prices above the average ICCO price, including for bulk cocoa.

Among the most recognized cocoa types are those of special origin, of native varieties that are endemic to specific sites, such as "Blanco" or "Porcelana de Piura" (or "de Salitral") and "Chuncho de Cuzco" (or "de Echarate"), as well as Criollo from the Pangoa mountain. They have achieved prices between US\$4,000 and US\$7,000 per ton.



Graphic 12: Price Differentiation by Quality Level in Colombia

Source: Author's creation with information from: TradeMap, Ministry of Agriculture, PROCOLOMBIA.

Structure of the Specialty Cocoa Market in Colombia

It is estimated that 95% of the cocoa from Colombia can be considered fine flavor. However, more than 75% of its exports are marketed as conventional cocoa.

In 2010, the ICCO classified Colombian cocoa as fine flavor due its origin from Criollo and Trinitario type material. It is estimated that 95% of Colombian cocoa, with good cultivation and post-harvest treatment could be fine flavor cocoa. At present, Colombia grows Criollo, Trinitario, Amazonian and hybrid varieties of cocoa, and they have selected promising local materials.

More than 75% of the cocoa that Colombia exports is marketed as conventional cocoa with FOB per metric ton prices below the stock market average. However, Colombian fine flavor cocoa of recognized quality has achieved average FOB per metric ton prices (in 2015 and 2016) of US\$450 over the stock market price for conventional cocoa.

The certified fine flavor cocoa segment, still small in this country, has obtained (between the years of 2015 and 2016) an average premium of around US\$300 per metric ton over similar cocoa that is not certified.

On the other hand, with support from the COEXCA program, commercial development of premium and single-origin cocoa based on local varieties and flavor profiles is beginning. Despite the fact that it has not yet engaged in establishing designation of origin (with legal recognition), it has sparked interest from important chocolate companies in having cocoa from defined origins as part of their commercial strategies.



Graphic 13: Price Differentiation by Quality Level in the Dominican Republic

Source: Author's creation with information from: TradeMap, ANECACAO, Ministry of Agriculture of the Dominican Republic, Ministry of Agriculture of Peru, CONACADO, PROCOLOMBIA.

Structure of the Specialty Cocoa Market in the Dominican Republic

The two qualities, basic and traditional, of cocoa from the Dominican Republic are quoted above the stock market price.

The two basic and traditional qualities of cocoa in the Dominican Republic are Sanchez and Hispaniola.

The majority of Sanchez cocoa is produced with basic cultivation and post-harvest practices with postharvest treatment limited to drying. The Hispaniola cocoa, for its part, comes from farms with better management and application of improved techniques and good agricultural practices. Furthermore, during post-harvest, it is well-fermented and dried to obtain good flavor development. The Hispaniola cocoa is often processed at postharvest centers that have been established in free trade zones, and therefore is sometimes called free trade zone cocoa, and in contrast to Sanchez, it is also known as national cocoa. Following the regulation from the New York Stock Exchange (Rule 25) Sanchez type cocoa is quoted at US\$80/ MT over the stock market price, while the pricing of Hispaniola depends on the exporter's negotiation skills. With both Hispaniola and Sanchez, organic certification receives a premium over the stock market price.

In 2013, the indication or designation of origin "Dominican Cocoa" received international recognition, and some exporters have begun marketed organic Hispaniola under this brand mark.



3.4 Advantages and Disadvantages of Specialty Cocoa

Advantages

Specialty cocoa is a premium product and, therefore, resilient to price fluctuations in the market for conventional cocoa, which is sold like a commodity.

Producers entering into the specialty cocoa market receive a transfer of additional value with respect to producers of bulk cocoa. This is reflected in prices and collective benefits from fair trade or similar support, and in more direct participation in the market.

■ The specialty cocoa market, in general, shortens the value chain, such that it brings producer organizations and the market closer together. An important consequence is that it achieves a more efficient and equitable distribution of profits and prices across different actors in accordance with buyer requirements and/or fair trade criteria.

In general, specialty cocoa has higher requirements for quality and restrictions on use of agrochemicals than for bulk cocoa. This is in order to offer a better sensory experience for the final consumer; better ensure the health and wellbeing of the consumer, the health of the producer, and protection of the environment; and, training in better practices for agricultural production.

The specialty cocoa market has diversified in the recent years and continues to do so, favoring the appearance of new market differentiations to meet specific demands. Specialty cocoa serves as a reference for price regulation in local markets. As such, it has a positive influence in favor of the producers who can receive a better price for all of their cocoa production – not only specialty cocoa – and thus serves as new motivation for the majority of farmers to improve their production.

Specialty cocoa in the four countries being studied has been successfully positioned in the market and constitutes a significant segment that comprises one third (or 32%) of their total combined cocoa exports.

The specialty cocoa market promotes sustainability in producing countries at various levels: cleaner and better controlled production in the field; better practices for post-harvest, storage/warehousing and processing; and better care in export operations.

In the presence of growing global demand for cocoa in general, specialty cocoa has higher growth for both niche consumer products (in which it is not mixed with other cocoa) and for industrial use where it is mixed with other cocoa to improve the organoleptic quality of chocolate.

With greater control and restrictions in the production of specialty cocoa, it is ensured that it is not produced with exploitation of workers or child labor.

It promotes the organization of smallholder farmers into associations or cooperatives which offer additional advantages through collective action. Only when organized can producers access specialty cocoa markets.

It develops new models for partnerships between specialized traders and producers looking for greater transparency and to take advantage of opportunities together.

The distinctive features of production, quality, actors and roles in the specialty cocoa market

result in a unique relationship in the value chain. This allows for specialized strategies for producer organizations, national networks, traders, and regional/national governments, with high levels of participation.

Disadvantages

The production of specialty cocoa imposes additional costs for producers. While the cocoa can be of a more premium character, the costs will be higher. Farmers can find the initial costs to plant the cocoa and the maintenance costs to be barriers.

Independent producers do not have access, or have limited access, to specialty cocoa markets. In order to access them, they need to organize.

Specialty cocoa markets have strong restrictions and requirements through standards that can restrict production or productivity – especially if producers do not have access to field support for technical assistance and organization strengthening.

While there are better prices for specialty cocoa, the demand for it is also more limited.

■ If the supply of particular quality of cocoa increases at a higher rate than the demand for it, its price can decrease or it can become necessary to sell part of the production as if it was of inferior quality.

Smallholder farmers' organizations tend to not be efficient in the business arena; they generally have high management costs.



3.5 Distinctive Features of the Specialty Cocoa Market

Currently, buyers of semi-finished products are looking for various attributes that determine price, and in some cases, the preference to buy from a particular supplier. The main attributes that stand out are:



Quality: This is mainly determined by physical and organoleptic properties of the semi-finished product; however, the particular way of determining quality depends directly on the specific requirements of the client. Markets focused on gourmet products always link quality attributes with origin, traceability, and replicability of the product, while clients from mass consumer markets look for a standard product in large volumes, that are food safe, and fit their blends/formulations.

Replicability: This parameter applies to all industries that produce semi-finished or final products. In the particular case of clients that manufacture products for mass consumption, replicability is especially important to ensure that raw materials are consistent with the blends they use to make their products. Furthermore, it is important to note that this market segment does not require exceptional flavor or aroma characteristics, as the cocoa is later mixed with other ingredients and natural or artificial flavorings that do not necessarily come from the cocoa.

In the case of specialty products, replicability is a very important parameter as it relates to the ability to supply consistent volumes of product with characteristics linked to the origin and variety of cocoa. Furthermore, companies that can guarantee this parameter have better uptake in the specialty cocoa market segment. It should also be noted that, in these markets, replicability is associated with other attributes and the product price typically is better.

Volume: The quantity is directly related to the type of market. Specialty markets are composed of clients that demand small volumes of raw material, while conventional markets have a few large clients that

demand large volumes of semi-finished products. Ecuador, for example, has specialized in the sale of cocoa as dried beans; thus, the supply of semifinished products is directed to a diverse group of clients, most of which are in the Latin American markets.

Consistency: This parameter is related specifically with the raw material purchasing requirements that clients have in order to meet market demand for their product. Therefore, consistency is related to the quality attributes and volume that the client requires over time. One key factor is the way in which some industries have configured their product formulations with raw material from various sources, due to the fact that the cocoa harvest is linked to different seasonal factors in each region.

Certifications: Certifications for cocoa products and sub-products are related to the target market. It should be noted that some are required for specialty product markets where clients require different types of certifications.

Traceability: Traceability is an attribute that is related to logistics in the value chain. In concrete terms, it is the capacity to demonstrate the origin of a product including the area of production and producer(s). The concept of traceability is becoming more important in the cocoa and semi-finished product markets. Particularly, this is because this parameter marks a relatively new trend in which the origin of the primary material and the manufacturing process can distinguish a product as having special attributes (such as origin and social/environmental qualities).

4. General Context of Cocoa in the Region Studied



Graphic 14: The Evolution of Indicators in the Last 10 Years, by Country

Sources: 2006: Ecuador, Agricultural Census 2000 to 2010, Ministry of Agriculture database ESPAC, ANECACAO; Colombia: database of FE-DECACAO, Ministry of Foreign Trade, AGRONET; Perú: El Instituto Nacional de Estadística e Informática (INEI), PROMPERU, MINAGRI; Dominican Republic: Centro de Exportación e Inversión CEI-RD, Ministry of Agriculture; Annual reports of ICCO 2016 - 2016; Estmated volumes of export of cocoa beans: Trade Map ITC, 2016; study surveys, 2016.

In the last decade in the Americas, cocoa has been positioned as an alternative crop with high impact and potential to generate incomes and employment for rural populations.

In the region, countries such as Ecuador, producer of an annual total of about 280,000 MT, Peru with 90,000 MT, and the Dominican Republic with 85,000 MT (2016), have increased their production and furthermore, consistently increased their export supply. Over the last few years, this is such that this group of countries achieved (in 2015) exports of a total of 374,801 metric tons. On the other hand, Colombia, despite being a country with high domestic consumption and an importer of beans and semi-finished products, also reported exports for an annual total of 13,744 MT in the same year (TradeMap, 2016)

In the last decade, the four countries being studied increased the area of production - most notably in Peru and Ecuador. Both countries, furthermore, tripled their production. The Dominican Republic also increased its productivity, while Colombia and Peru started exporting.

NOTE: This information comes from agricultural censuses and databases that contain estimated or projected information. Additionally, the calculation of productivity is general for each country and does not distinguish between commercial plantations with high productivity, crops in a state of development or crops in low density systems. For these reasons, data presented is approximate.



Graphic 15: Cocoa Bean Exports – Period of 2011-2015

Source: Trade Map ITC, 2016.

With regards to export supply, one of the most important production problems for countries like Ecuador and Colombia today, is the presence of a fungal disease called frosty pod (or monilia) that damages the pods on the most susceptible trees. Another current problem for the region (Colombia, Ecuador and Peru), is the presence of heavy metals and pesticides for which there are significant restrictions in the global market. Therefore, it is imperative, for all of the region, to research and develop strategies that safeguard production and enable these international market standards to be met.

Table 2: General Description of the Countries in the Study

COUNTRY	GENERAL DESCRIPTION	INDICATORS 2015
ECUADOR	490,000 ha under cultivation; with approximately 100,000 producers. There has been a sustained increase in production. In the last decade, it registered at around 10% annually. At present, the main exporter of cocoa in the Americas with a volume of 236,072 MT of cocoa beans generated US\$705 million; 20,012 MT of semi-finished products and 1,271 MT of finished products; collectively this represented revenue of more than US\$800 million. The main international markets are the US, the Netherlands (entry to the EU), Mexico, Germany and Indonesia, amongst others	PRODUCE 280,000 TM EXPORT 236,072 MT Cocoa 20,012 MT Semi-Finished 1,271 MT Finished IMPORT 82 MT Semi-Finished 6,214 MT Finished
PERU	Cultivates 144,236 ha of cocoa, with 45,000 producers. It is the second largest exporter in South America. Its exporters exceeded US\$192 million in 2015. That year, it exported 59,132 MT of cocoa beans, around 12,124 MT of semi-finished products, and 3,057 MT of finished products that generated around US\$81 million. The main export markets are: The Netherlands, France, Italy, Belgium, Germany and the United States	PRODUCE81,000 MTEXPORT59,132 MT Cocoa12,124 MT Semi-Finished3,057 MT FinishedIMPORT271 MT Cocoa4,205 MT Semi-Finished6,189 MT Finished
COLOMBIA	Produces cocoa in 153,000 ha with an estimated 35,000 farmers. It is number ten in global production. In 2015, it exported 13,744 MT for a value of US\$41 million. However, cocoa is in deficit supply and to meet internal demand, they import cocoa from neighboring countries. It is important to note that due to local consumption, exports from Colombia represent only 25.5% of the total production, and the main markets are: Spain, Mexico, the Netherlands and Belgium.	PRODUCE 54,000 MT EXPORT 13,744 MT Cocoa 5,186 MT Semi-Finished 12,251 MT Finished IMPORT 5,891 MT Cocoa 2,587 MT Semi-Finished 8,292 MT Finished
DOMINICAN REPUBLIC	Counts 152,261 ha of land cultivated and 36,000 producers. According to the statistics of the Ministry of Agriculture of the Dominican Republic, in 2015, the country exported 79,000 metric tons of cocoa which generated US\$250.7 million in foreign currency. The exports of semi-finished and finished products reached 3,000 MT. the main markets are: the United States, the Netherlands, Belgium. The Dominican Republic is the main exporter of organic cocoa in the world.	PRODUCE 82,000 MT EXPORT 2015 79,597 MT Cocoa 1,538 MT Semi-Finished. 1,341 MT Finished IMPORT 32 MT Cocoa 452 MT Semi-Finished
Source: CAF, Iniciativa Latinoamericana del Cacao 2016; Trade Map ITC, 2016.		

5. Description of Public Policies



Source: Consultant team.

5.1 5.1 Description of Public Policies in Ecuador

In Ecuador, public policy has prioritized the development of macro-projects designed exclusively for the revival of the production of Nacional cacao (fine flavor). The public-sector interventions have generated a great impact of great visibility for smallholder farmers, but their results are not very sustainable over time due to the high cost of labor for activities such as pruning. In this context, it must be that a great percentage of the growth in the country's supply is due to the increased production of the CCN-51 variety and the investments made through international cooperation over the last two decades.

Description of the Cocoa Value Chain in Ecuador

The cocoa and chocolate value chain in Ecuador is composed of more than 100,000 producers, 635 small buyers/collectors and 337 medium and large buyers/collectors that channel production to a group of 40 active exporters (56 registered) and 26 processing companies. These in turn sell to the main cocoa bean buyers and processors of semi-finished and finished products in the global market. It is important to note that approximately 95% of the cocoa bean harvest passes through the network of buyers/intermediaries.

Cocoa in Ecuador is considered to be a product with territorial identity such that before the petroleum boom, it was the main earner of foreign exchange for many centuries. Cocoa gave rise to early capital investments and the development of important sectors such as banking, industry and trade (Rios, 2013).

Currently, Ecuador is the fourth largest producer of cocoa in the world. With an annual harvest that reached 260,000 metric tons for export in 2015, it is one of the main agricultural activities that brings together more than 100,000 smallholder farmers in rural areas on the coast and the Amazon region. Also in 2015, exports of semi-finished cocoa products generated around US\$800 million. It is estimated that Ecuador cultivates around 490,000 hectares of cocoa the main part of which is maintained under agroforestry systems that provide shade cover and generate important environmental services.

Ecuador by tradition is an important producer of Nacional cocoa and recently of Trinitario. At present, this country has diversified its supply of cocoa and increased the production of the CCN-51 variety up to 70,000 MT. However, it is also internationally recognized for being the country that supplies 54% of the global production of fine flavor cocoa, contributing 160,000 MT (estimated by the ICCO in 2015). The cocoa coming from different production zones is noted for have a great variety of flavor characteristics depending on region (Rios, 2013).

On average, the production of dried cocoa beans, at a national scale, is 530 kg per hectare, per year. This is a low yield when compared to other producing countries. Some of the main factors contributing to these yields are the absence of agronomic management practices and the presence of pests and diseases.

Cocoa exports in 2015 consisted of the following: 236,000 metric tons exported as cocoa beans (equivalent to 87% of the export volume), 23,000 metric tons (of cocoa bean equivalents) as semi-finished products (equivalent to 12%), and 1,100 metric tons as final products (representing 0.8%).

In summary, 99% of total cocoa exports are in the form of beans or semi-finished products, while final products (chocolate, bars, tablets, couverture, bonbons) reached 1,100 metric tons and represented 0.8% of exports.

The chocolate producers have started to produce products that are gourmet, certified, from diverse origins, and with different combinations and percentages of cocoa. It is evident that currently the industry is in a process of upstream (production of beans) and downstream (specialty products) integration. Information from some of the key actors and studies consulted, points to an industry trend towards specialty and quality products. In response to this trend, cocoa bean exporters are looking to reduce the levels of intermediaries and to increase their value add through exports of higher quality beans. They do this, for example, by buying wet beans and incorporating quality analysis laboratories into their business processes.

Currently the national industry is finding it difficult to secure consistent volumes, mainly because of the relatively high prices that producers are receiving from the international market. This situation is due to the growing demand from countries such as China, India, and Russia, and on the other hand, the adverse climatic conditions in Côte d'Ivoire and elimination of fertilizer subsidies in Ghana.

Description of policies and actors impacting the sector

Ecuador has identified 14 strategic production chains as a part of the National Strategy to Change the Production Matrix which is led by the country's vice president through an interagency committee ¹⁰ and a technical secretariat. The selection of value chains was made by considering the potential for import substitution, export promotion, employment generation and coordination with economic actors. In this context, the fine flavor cocoa sector was selected as a strategic sector and as such is a high priority for investment/development from the public sector.

As such, the public policies have focused on support and development of this segment of the sector, especially with significant investments to renew the production of fine flavor cocoa.

Ecuador, with 160,000 tons/year of fine flavor cocoa (54% of the world supply) and some 70,000 additional tons of CCN-51, has public policies that prioritize the development of Nacional cocoa (fine flavor) exclusively. Public interventions have impacted smallholder farmers, but with limited sustained results.

Currently, it is the government's policy to support, exclusively, the development of the Nacional (fine flavor) cocoa sector as international markets recognize it with high distinction. For this reason, through the Ministry of Agriculture, Livestock, Aquaculture, and Fisheries (MAGAP), Ministry of Production (MIPRO), and PROECUADOR, the government promotes projects and initiatives at different levels of the value chain, aligning them with the policies of the Change the Production Matrix strategy and the plan to develop the sector.

10 The Interagency Committee to Change the Production Matrix: Vice President of the Republic; National Secretary of Planning & Development; Minister Coordinator of Production, Employment & Competitiveness; Minister Coordinator of Political Economy; Minister Coordinator of Strategic Sectors; Minister Coordinator of Knowledge & Human Resources; National Secretary of Higher Education, Science, Technology & Innovation.



Graphic 17: Distribution of Actors in Ecuador

MACRO

POLICIES & STANDARDS

VICE PRESIDENCY: Office delegated by executive decree to determine strategies with the framework of "Change the Production Matrix."

MAGAP: Ministry regulating policies for cocoa production.

AGROCALIDAD: Ensures compliance with phytosanitary and quality standards throughout the chain.

MCPEC: Coordination of policies for production sectors.

INEN: Definition of standards for classification of cocoa for marketing (INEN 175, 176, 177)

MIES & MIPRO: Regulate the legal status for producer associations.

INTERMEDIATE

INIAP: Promotes the development of technology to increase the productive and economic efficiency of crops.

ANECACAO: Provides information and technical assistance services.

APROCAFA: Trade association of producers of CCN-51 cocoa, supports the planting and application of technology packages for this type of cocoa.

PROECUADOR: Promotes exports and investments in the country.

BANECUADOR: Public bank that supports various sectors with financial services.

AUTONOMOUS GOVERNMENTS: provide technical assistance services inputs, equipment; provincial governments (7), municipal governments (42)

MICRO ACTORS & SPECIALIZED

SERVICES

BUSINESSES:

ACTORS IN ECUADOR

- Exporters
- Collectors/warehouses
- Processors

SOCIAL ENTERPRISES: 20 active in marketing UNOCACE, Fortaleza, UOPROCAE, UROCAL, AAPROCASH, KALLARI

PRODUCER ASSOCIATIONS: • 275 primary level organizations • 50 functioning

Source: Consultant team

All of the support policies for the cocoa sector in Ecuador have a clear orientation towards the development of Nacional (fine flavor) cocoa. In this context, public institutions have focused their project financing on the reviving of production of Nacional cocoa by funding technical assistance, renovation/ rehabilitation of plantations, new plantings and supply of agricultural inputs.

It is important to note that the proportion of Nacional production is higher (70%) than CCN-51 (30%). Considering the significant growth of the supply of CCN-51 in the last decade, on June 22, 2005, CCN-51 was declared to be a high-productivity asset by

through a ministerial accord. With this declaration, there was an expectation of significant investment from the Ministry of Agriculture. However, as of today, support for this segment of the sector has been practically zero, despite the fact that its production has increased substantially over the last 12 years: from 2,295 MT in 2004 to over 70,000 MT in 2015.

Under this scheme, the Ministry of Agriculture, MAGAP, as the lead agency for production policies, has centered financing on projects for the development of fine flavor production, and since 2013 has supported activities such as the pruning of old cocoa farms, renovation and fertilizer application. These initiatives have been implemented under the brand "Project for the Revival of Fine Flavor Cocoa" ("Proyecto de Reactivación del Cacao Nacional Fino y de Aroma") which started activities in July 2012 and has a project life of 10 years.

Among its goals, MAGAP has proposed to increase the exportable supply of Nacional cocoa to 300,000 metric tons annually, and in the medium term, to work to improve post-harvest infrastructure. For this last proposal, it proposes to give accreditation to 50 collection centers that could be administered by producer organizations.

In the area of food safety and phytosanitary control, MAGAP relies on an agency called AGROCALIDAD that regulates, and works on control and issuance of export certificates in accordance with Standard INEN 176 (developed by the Ecuadorean Institute of Standards – INEN).

On the other hand, the Ministry of Economic and Social Inclusion (MIES), in charge of regulation of cooperatives and producer associations, has created an integrated database to support institutions of the Popular Economy and Solidarity.

Finally, the Ministry of Production (MIPRO) promotes actions for the development of initiatives focused on value addition and industrialization. However, its interventions are still in early stages. At the intermediate level, there are institutions that support the development of the sector through research, specialized training, financing and export promotion. In this arena, of particular note is the National Institute of Agricultural Research (INIAP) which has played an important role in the development of cocoa varieties for different production zones, and has conducted research in diverse areas such as post-harvest, genetics, phytosanitary management and organoleptic analysis.

Equally, the Association of Producers of Fine Flavor Cocoa (APROCAFA), a trade association that brings together the main producers of CCN-51, supports use of technology in cocoa production through technical assistance and training, amongst other activities.

The National Association of Cocoa Exporters and Industries of Ecuador (ANECACAO) is a non-profit association that supports the development of the producers and exporters in the country's cocoa sector. It is an association of exporters, but also supports the value chain with technical assistance, technology transfer, clonal gardens supply the for of certified planning regional material. workshops, pruning projects, harvest forecasts, training of trainers, field schools for farming and postharvest. and rehabilitation of farms.

The Association of Producers of Fine Flavor Cocoa (APROCAFA): A private organization of cocoa producers, created in 1996, through ministerial accord. Its main objective is to promote the cultivation of high quality cocoa through improvements in productivity, research and technology transfer, taking environmental conservation into account. Its primary role is to promote production of Ecuadorean varieties of cocoa such as Nacional and CCN-51, amongst others, with the end of becoming an international reference for these cocoa varieties.

PRO ECUADOR: The Institute for the Export and Investment Promotion of the Ministry of International Trade. It is the institution that is in charge of executing the policies and standards for promoting exports and investment in the country, with the aim of promoting the supply of traditional and non-traditional products. At present, it supports the cocoa sector, looking to open new international markets for cocoa and products made with cocoa.

BanEcuador: A public bank created in 2015 that replaced the National Bank for Development (Banco Nacional de Fomento). This new structure is aligned with the objectives of the national government of Ecuador with an inclusive focus – credit adapted to the conditions of agricultural sectors, and schedules oriented to the activities of producers, merchants and people in rural areas.

Finally, there are also local government actors. They include prefectures and local governments that organize, develop and execute projects directly with farmers and private actors such as processors and buyers of cocoa (companies that move cocoa from the field to national clients who then process or export).

At the same time, there are the provincial prefectures that have responsibility for land-use planning. They are autonomous public institutions that have the capability of promoting agricultural activities. Those of note that currently supporting the fine flavor cocoa sector are as follows:

Manabí: This local government's main strategy includes the revival of cocoa production. In 2013, it set a goal of conducting pruning and planting 1,000 new hectares to benefit around 3,000 smallholder cocoa farmers who also will receive technical assistance at their farms.

Since the earthquake on April 16, 2016, in addition to revival of cocoa, the government entity has proposed to work on recuperation of production in the cantons of Portoviejo, Rocafuerte, and Sucre. For this work, it has signed agreements with public and private institutions including MAGAP and UNDP.

Esmeraldas: EL GADPE (prefecture of the province of Esmeraldas), with the participation of public and private sectors and smallholder farmers' associations, formed a Cocoa Roundtable (Mesa de Cacao) for this jurisdiction, and together they have designed the Provincial Strategy for the Fine Flavor Cocoa Value Chain. Furthermore, with the objective of improving the productivity of fine flavor cocoa in all cantons of Esmeraldas province, the provincial government (through the Bureau of Management for Production Development – Fodepro), executes a program called Comprehensive Revival of Cocoa (Reactivación integral de cacao) through which they deliver support for one hectare per beneficiary.

This assistance consists of providing 821 plants for the establishment of new areas of production.

Sucumbios: In 2016, they planned various actions with the assistance of MAGAP, which include: the rehabilitation of 3,271.75 hectares of fine flavor cocoa; the renovation of 508 hectares, and the training of 3,729 fine flavor cocoa producers. Through CORPOSUCUMBIOS, there



is an approved budget of US\$37,620 for different agricultural sectors among which cocoa stands out for its potential to generate income and employment.

Pastaza: The autonomous direct government (GAD) of Pastaza, in its annual operating plan for 2016, considered an amount of US\$190,000 for the project "Strengthening the Cocoa Production Chain in Pastaza Province" (Fortalecimiento de la Cadena Productiva del Cacao en Provincia Pastaza). Through this project, there are activities such as development of a database, a market study, training for a technical team, acquisition of inputs, and training on agronomic management, use of organic fertilizer (such as compost or manure), and planting material. This year, furthermore, it initiated implementation of the Center for Chocolate Processing in El Triunfo to promote the development of value added products.

Santo Domingo: The autonomous direct government (GAD) of Santo Domingo de los Tsáchilas offers the project "Strengthening the Cocoa Agro-productive Chain" (Fortalecimiento de la Cadena Agro-productiva del Cacao). This has as its objectives: to improve productivity, quality standards and management of cocoa; to develop a central location for collection, fermentation, drying, warehousing and marketing of cocoa; to support community development through strengthening the provincial cocoa roundtable; and, to strengthen the marketing process through the creation of a regional identity/brand for commercial purposes (one that identifies cocoa from the province of Santo Domingo de los Tsáchilas).

Napo: The province signed an agreement with MAGAP for the supply of 400,000 plants for use in the three cantons in the southern part of the province – Tena, Archidona and Arosemena Tola. The agreement aims to benefit smallholder farmers to plant new farms with improved planting material, expand the area of cocoa production, and ensure that in the medium term there are better economic returns for farmers. Additionally, the public company Pública NAPO organizes a Cocoa and Chocolate Fair – "Antisuyu Chocolate Wasi" each year which is considered to be a major fair for cocoa and chocolate in Ecuador.

Guayas: The autonomous direct government (GAD) of Guaya, offers the Cocoa Route (Ruta del Cacao) which seeks mainly to promote community tourism in Guayas. Furthermore, the prefecture of Guayas maintains an agreement with MAGAP to be a part of the Project for the Revival of Coffee and Nacional Cocoa that was undertaken by MAGAP in 2016. Through this, they have supplied various phytosanitary kits to smallholder cocoa farmers to prevent frosty pod and witches' broom on their plantations.

At the micro scale, there are around 30 active farmer associations that work in a coordinated way and participate in production, collection and marketing of cocoa. They sell their product to large intermediaries, to the local industry, or directly to exporters. In each of these specific cases, associations have entered the international market: Fortaleza UOPROCAE, APROCANE, del Valle, APOVINCES, UNOCACE, CECAO, Sabor AAPROCASH, Kallari, Wiñak. Arriba. FONSOEM, COCPE, Eloy Alfaro.



Main Actions and Results of Public Policy

Estimated investments during the last 4 years (in US\$)

Between the years of 2013 and 2015, the main investments in the fine flavor sector were made through the project for reviving the cocoa sector financed by the Ministry of Agriculture and Livestock (MAGAP). In this context, the investments have been directed at technical assistance, farm rehabilitation, establishment of new plantings, and access to agricultural inputs. The investments in this project for this period have reached a total of US\$79 million.

Additionally, there has been an investment through the state-owned enterprise Ecuador Estratégico Empresa Pública (Ecuador Strategic Public Enterprise – EEEP) for the financing of the Cocoa and Chocolate Route (Ruta de Cacao y Chocolate) in the province of Napo at an estimated value of US\$8 million. This money is designated for three flagship projects in the canton of Tena: The City of Cacao (Pueblo de Cacao) in the community of Santa Rita; The Garden of Cacao (Jardín del Cacao) in the canton of Arosemena Tola; and the Cocoa Eco-Cultural Center in the center of the city of Tena.

Aspects of the value chain that are addressed with support mechanisms (new plantings, renovation, research, quality, marketing, etc.)

Through the Program for the Revival of Cocoa, financed with public funds, the following developments have been reported:

Technical Assistance: channeled through 128 technicians at a national scale to support a population of 50,600 farmers.

Rehabilitation of plantations: through the execution of a project called "Minga de Cacao" the program supported pruning for 150,000 ha of cocoa (through 2015).

Planting of New Areas: with the installation of nurseries at different strategic locations, they have produced 14 million certified clonal plants for the establishment of 17,500 hectares.

Input Supply: they have supplied phytosanitary kits that contain inputs and fungicide sufficient for 224,000 hectares.

Degree of implementation of actions undertaken

Technical assistance: considering that there is an estimated population of 100,000 smallholder cocoa producers at a national scale, the current number of technicians assigned by MAGAP is limited. As such, support activities are limited to monitoring of projects and coordinating with local governments.

Rehabilitation of plantations: estimating that the total land area planted with cocoa in Ecuador is around 490,000 hectares, the project area of Minga del Cacao has reached approximately 30% of the total production area. It is important to note that the results of this initiative are temporary and have limited medium and long-term viability given that there is an annual need for labor for pruning and such labor should be permanent.

On the other hand, despite the government efforts, currently the fine flavor producers are replacing this crop with others that are more profitable due to fine flavor's low productivity and high susceptibility to diseases. **New plantings:** the establishment of 17,500 hectares with certified material is a viable mechanism to introduce material with better performance potential and promote the replacement of plants with high susceptibility to pests and diseases. However, it is important to consider that it is possible that not all of the varieties planted will adapt to all of the production zones where they have been introduced.

Input Supply: Inputs and fertilizers that been supplied to fine flavor cocoa producers have allowed for the improvement of production conditions of the soils, especially on those plantations that were also pruned at the correct time.

However, it is important to pay particular attention to various complaints made by international clients for organic cocoa about the presence of pesticides or substances not permitted for organic cocoa in order to understand the possible sources of contamination and propose collection action with monitoring agencies.

Degree of effective coordination between actors working in support of the fine flavor cocoa sector.

Dealing with a perennial crop that is managed mainly by smallholder farmers (with farms of less than 5 hectares) and only 15% (of 100,000) organized and active in groups, the work of the public institutions demands aligned and coordinated strategies, which in practice is complex.

In addition to these circumstances, one must also consider that the degree of coordination for development of support activities between different public sector actors is complicated. It is more limited in cases in which the execution of projects is directly linked to the availability of budget resources, specific institutional agendas, market dynamics, seasonality, and production cycles. These situations lead to duplication of effort in some important production zones and lack of investment in marginal areas – this can especially be seen with activities involving fertilizer and subsidies for farm maintenance.

Relationship between public policy and international cooperation

In Ecuador, the Technical Secretariat for International Cooperation (SETECI), attached to the Ministry of Foreign Relations and Human Mobility, is the national agency in charge of regulating and evaluating the impact of foreign assistance. Its role is to align these resources with the National Plan for Good Living and contribute to the development of a sovereign foreign policy.

In this context, SETECI is the custodian of the legal, financial and technical documentation of all of the foreign non-governmental organizations that have signed operating agreements. The Secretariat also regulates the duration/validity of agreements, defines areas for intervention, issues customs and tax certifications, and regulates strategic aspects and requirements for the implementation of cooperation. The actions of the Secretariat also include the receipt of complaints for failure to comply or breach of contract.

In this context and given government priorities, international cooperation in support of the cocoa value chain has been reduced to a small group of institutions and cooperating countries in recent years. Of these, the most important is cooperation with Germany (through GIZ), cooperation with Spain (through CODESPA) and cooperation with Switzerland (led by Swisscontact).

Also present are other initiatives coming from countries such as Korea, Italy and Belgium in addition to some specific initiatives from the United Nations (UNDP). In general terms, the amounts and activities are very specific and targeted mainly to smallholder cocoa producers.

Main results of public policies

Taking into account that fine flavor cocoa is considered a priority sector by the central government, and that this has aligned public policies for support of the sector, the following results can be noted:

Within a framework of a sustained, annual increase in cocoa production of 10% (over the last decade), the actions and public policies of the government of Ecuador have focused on improving the production of fine flavor cocoa, which represents a highly competitive segment in the international market.

Since 2013, the government has channeled significant investments for the implementation of projects directed at the revival of the production of fine flavor cocoa. Under this modality, it is reported that 150,000 ha have been rehabilitated, 17,500 new areas of production have been planted, and they have invested in subsidies/grants for agricultural inputs for 224,000 ha and technical assistance coverage for 50,600 farmers.

They have supported the participation of Ecuadorean companies in fairs and international events which has allowed for the promotion of exports of final products based on fine flavor cocoa.

They have fomented the vertical integration of the value chain, permitting various international trading firms to have offices or facilities in the country. Among others are: Olam, Transmar, Armajaro, Mitsubishi, Ristok Cacao, Barry Callebaut and CasaLuker.

These firms generally buy through intermediaries who are efficient collectors with the aim of obtaining significant volumes of bulk cocoa.



Success Factors for the Development of the Sector

Strategic orientation: The Ecuadorean cocoa policy has been characterized by its prioritization of investments in the development and production of fine flavor cocoa. This strategic orientation, builds on an analysis of current international market trends and a diagnostic of production in the country in order to establish courses of action for the medium and long term. As such, the most important investments started in 2013 with a time horizon of 10 years.

Institutional framework: Currently, the sector is led by MAGAP, an institution that has channeled a significant amount of resources through its programs and projects. Additionally, the country has the Cocoa Crop Council (Consejo Cultivo del Cacao), created with the aim of having a structure for analysis, consensus and support for the sector. This, despite its limited activity, is an inter-institutional space that brings together public and private sector actors with the main objective of analyzing: strategies most important to the sector, results achieved by projects, and market trends. The Council has a working agenda and plays a role in studying the alternatives for promoting the systematic development of the value chain.

Human Resources: The development of technical and management capacity of producer organizations has been a result of continued effort over more than a decade. Recently, the government agencies have focused on the organization of producers through projects that incorporate technical assistance. Furthermore, there are targeted support activities for the development of association models that are framed within the Popular Economy and Solidarity Law.

Production Promotion: The main actions of this strategy have revolved around the increase in productivity through the establishment of new areas of production, renovation of old farms, and subsidy/

grants of agricultural inputs. Although various of these have activities have been developed with relative success, others have had a limited impact on production of fine flavor cocoa. For example, subsidies are temporary and, as such, do not respond to the long-term needs in that way those activities focused on building local capacity do.

Sustainability: The traditional cultivation of cocoa is under agroforestry systems in which the cocoa trees are associated with other trees that provide the shade necessary for optimum development and production. These cocoa plantations, as such, are agroecological systems that generate various environmental services. This is due to the conditions that favor a diversity of species of flora and fauna that are typical to production zone; function as a buffer zone in natural areas; facilitate connectivity among remnants of vegetation; provide carbon fixation; and function as a refuge for various species of migratory birds.

To decide on optimal new technologies for cocoa production, it is necessary to consider the specific conditions in each region including the agroecological details, the socio-economic conditions, and organizational aspects of the producers. In each case, it is recommended to consider the following strategic areas that can directly contribute to the sustainability of the sector: 1) incorporation of good agricultural practices, 2) planting local materials, 3) adoption of mitigation and adaptation measures for climate change, 4) protection of agroforestry systems of Nacional cocoa, and 5) strengthening of local capacity.

Price Setting: In Ecuador, the local prices are established on the stock exchange in New York. Based on this value, the intermediaries and exporters set daily prices adjusted to discount for the distances and costs of transportation from different production areas. The high volatility of cocoa prices affects mainly the producers that have low productivity and small land areas for cultivation. Some, with the aim of managing the risks related to variation in price, have organized themselves in groups and have specialized in the supply of certified cocoa. In order to ensure the traceability and the compliance with standards or programs required by diverse specialty markets, they have achieved access to price differentials over the conventional prices set on the exchanges.

It is important to note that there are also tax incentives to promote the production and marketing of fine flavor cocoa. However, in practical terms, the price of cocoa for this is linked to compliance with the quality parameters specified in standard INEN 176. This standard, as of the time of this study, is based on physical attributes that separate Nacional cocoa (termed Arriba) from the CCN-51 variety. The standard, for the two varieties, ensures an important price differential while meeting the standards of physical quality such as cleanliness, fermentation, moisture level and bean size.

Currently, this project is being analyzed to develop a fifth version of this standard which has only two categories: "Arriba" and "Ecuador", with two subdivisions following the physical parameters of the previous standard.

Market Access: Ecuador has a marked competitive advantage as the world's main producer of fine flavor cocoa as it accounts for an export supply equivalent to 160,000 tons of this variety (2015). Currently, it exports its product to the main industrial and consuming countries of the world. Considering that its supply of cocoa has increased in a sustained way, Ecuador is a country of particular interest for the large chocolate companies to ensure their supply of raw material, and they have opened buying stations in the country.

¹¹ Ecuadorean Institute of Standards INEN, Ecuadorean Technical Standard: NTE INEN 176:2006, Fourth Revision. This standard establishes the quality requirements that dried coccoa beans should meet and the criteria that should be applied for its classification. Ecuadorean coccoa is classified by quality, in accordance with that which was established in Table 1, in Arriba and CCN-51.



Graphic 18: Cocoa Value Chain in Peru



Source: Consultant team.

5.2 Description of Public Policies in Peru

Peru has an open public policy that does not discriminate between varieties; and, supports the development of local associations/organizations and diversified public and private investment. In particular, Peru has benefited from the intervention of international cooperation with projects at a national scale. It promotes all of its cocoa for export as fine flavor without discriminating between varieties.

A number of producer cooperatives began

prioritizing the production of fine flavor cocoa in 2000-2002. All of this is hand-in-hand with a pragmatic public policy that has taken advantage of the support of international cooperation.

Description of the Cocoa Value Chain in Peru

Currently, Peru is the second largest exporter in South America with an annual harvest that reached 81,000 metric tons in 2015. The cultivation of cocoa constitutes one of the main agricultural activities for more than 40,000 smallholder farmers in rural areas of the coastal and Amazon regions.

The export of cocoa and semi-finished products generated approximately US\$ 200 million in 2015.

It is estimated that Peru cultivates around 145,000 hectares of cocoa, the majority of which is managed under agroforestry systems. Additionally, in Peru there are groups that have opted for marketing certified cocoa such as organic, kosher, halal and gluten free.

Peru has traditionally been a producer of Criollo and native cocoa, but in recent years, the area cultivated with the Forastero variety CCN-51, introduced from Ecuador, has exceeded the area dedicated to Criollo and native cocoa. It is such that in 2011, CCN-51 was occupying 54% of the total area cultivated with cocoa (Garcia Carrion, 2014).

Between January and December 2015, Peru exported US\$192 million in cocoa beans. Holland is the main destination with US\$79 million (44% of the total), followed by Belgium with US\$29 million and Italy with US\$17 million. Notable operations are Sumaqao SAC with US\$30.6 million (17% of the total), followed by Amazonas Trading with US\$29.4 million, and Cafetalera Amazónica with US\$26.9 million (Agrodata Peru, 2016).

The export of semi-finished cocoa products in the same period was around US\$58.7 million of which nearly 73% was cocoa butter. The export of final products totaled US\$15.3 million. In terms of monetary value, the semi-finished and final products account for 22% and 5.7%, respectively, of the total exports from the sector (TradeMap, 2016).

At a national scale, the average production of dried cocoa beans is 680 kg per hectare per year, which is higher than the average of other producing countries. However, it should be noted that the average in Peru is due to the influence of CCN-51 which is a variety with high productivity and generally is managed under intensive productions systems.

In summary, as was seen in the case of Ecuador, in Peru nearly 99% of total exports corresponded to beans and semi-finished products while the final products (chocolates, bars, tablets, couverture, bonbons) represented 1% of exports.

In Peru, the cocoa and chocolate value chain has a base of around 45,000 farming families. Following the chain to the next link - collection, there are local collectors, some 25 cocoa cooperatives, and intermediaries of export companies. The next link is marketing, where one finds companies focused on bean exports and some traders or affiliates of international companies. In the area of processing, there are producers of intermediate derivative or semi-finished products, and those that produce final products; this includes cooperatives that process and local agroindustry that produces semi-finished products. Further along the chain, in the marketing of processed products, there are wholesalers/ distributors or retailers. The final link corresponds to the sale of product, which could be cocoa beans or a cocoa product, to two actors: the international industry which will process them for sale to the final consumer, and the national market consisting of local consumers. (Morales, Borda, Argandoña, Farach, Garcia Naranjo, and Lazo, 2015).

Description of the policies and actors impacting the sector

In Peru, the relevant institutions give an average level of importance to the fine flavor sector. As such, only some national public policies have supported the development of this sector specifically. One of these is the DEVIDA program that sees cultivation of fine flavor cocoa in the forest as an alternative to coca production due to the fact the price at which fine flavor is sold allows for greater incomes than common cocoa. The program has made it possible for certain regions to set standards and ordinances that support the expansion of fine flavor cocoa production. However, intensive plantings of CCN-51 with the appropriate technology package have minimized the expected impact of these initiatives. Graphic 18: Cocoa Value Chain in Peru

MACRO

POLICIES & STANDARDS

MINAGRI: regulatory entity for cocoa production policies

SIERRA EXPORTADORA: attached to MINAGRI, manager of National Cocoa Program

SENASA: Ensures production quality and phytosanitary management in the sector

MINISTRY OF PRODUCTION: regulates processing/manufacturing sector. Has a register of agricultural cooperatives.

INACAL: Technical standardization for cocoa beans and derivative products

DEVIDA: Promotes the integrated and sustainable development of coca-producing areas and replacement of the crop

INTERMEDIATE

SÉRVICE

AGRORURAL: Rural Agricultural Production Development Program

INIA: Promotes inclusive and sustainable agricultural innovation

AGROIDEAS: Compensation for Competitiveness

APPCACAO: Trade association for cocoa producers, 26 organizations, coordinates with public agencies, private sector and NGOs.

AGROBANCO: Government financial support for the agricultural sector

PERUVIAN CHAMBER OF COFFEE & COCOA: Promotion, dissemination, training, management of export projects

GOBIERNOS REGIONALES: Impulsan el desarrollo productivo y cooperativo del cacao.

ALIANZA CACAO-PERÚ: Desarrollo de CFA en iniciativas público-privadas.

MICRO

ACTORS & SPECIALIZED

ACTORS IN PERU

BUSINESSES:

- Processors
- Exporters of beans
- Intermediaries

PRODUCER COOPERATIVES:

• 26 organizations with APPCACAO

Source: Consultant team

Growing sector

Furthermore, the perception is that there is little difference between the public policies oriented towards cocoa in general and those oriented towards fine flavor cocoa. The differences that can be noted are those in certain departments or regions that are looking to offer a specialty product of high quality and economic value. They enact ordinances that limit or prohibit other cultivars (as recently done in Amazonas and Selva Central).

The differentiation is equally accepted by some producer cooperatives in order to promote the support of fine flavor cocoa and quality. It is said that the development of different manuals for the cultivation of CCN-51 cocoa and fine flavor cocoa would be a good first step towards the intention of establishing different public policies by variety.

Ministry of Agriculture and Irrigation (MINAGRI)

leads the development of policies and standards for the development of the cocoa value chain through some dependent and affiliated institutions, and in coordination with other state entities. Currently, it maintains a pragmatic approach with obstacles to development, although with little or no differentiation in policies and guidelines for common cocoa and fine flavor cocoa. At present, Peru markets its cocoa as fine flavor, giving priority to good production practices and the management of harvest and post-harvest, without making a distinction between varieties.

Currently, Peru markets its cocoa as fine flavor giving priority to good production practices, harvest and post-harvest management, without making a distinction between varieties.

Through their different departments, which include the agency Sierra y Selva Exportadora (Mountain and Forest Exporter), has supported the fine flavor cocoa sector and also that of CCN-51 with the mechanisms of: planting, quality, strengthening production capacity, strengthening finance, production and sales infrastructure, training, extension and technical assistance, marketing and export, local promotion, international promotion, and research, development and innovation.

Sierra y Selva Exportadora is a public agency attached to MINAGRI that supports the economic growth with social inclusion and production. Initially, its name was Sierra Exportadora (Mountain Exporter) with a focus on the Andean region, but as of the end of July 2016, it was officially changed to its current name due to the growing involvement and official support to the forest regions of the country over the last few years. This institution guides and promotes production for export through the improvement of quality, increase of volumes, innovation of processes, and development of value addition with a market vision.

The National Agricultural Health Service (SENASA), also attached to MINAGRI, has official authority in matters of agricultural health, quality of inputs, organic production, and food safety. In general, it implements standards for these aspects based on recommendations from international bodies, with the aim of facilitating export. For the production of cocoa, it offers inspection, verification and phytosanitary certification services. Furthermore, it registers and monitors pesticides and nurseries as well as the professionals in charge. One of its particular tasks is to control frosty pod. Another area of action is training on topics related to its mandate for professionals, technicians and producers.

The Ministry of Production (PRODUCE) formulates, approves, executes, supervises and evaluates compliance with policies, regulations and standards for industry and manufacturing. Its work is to coordinate and promote activities that generate value addition through supporting: appropriate environmental management; access to finance and technology; and, business development for micro, small, and medium businesses and cooperatives, with the aim of promoting competitiveness. Furthermore, it establishes objectives and policies for the cooperative sector and supervises their correct application. It is for this reason that it maintains a register and regulates the activities of different agricultural cooperatives, including those of cocoa producers. Since 2015, the Ministry of Production, especially through its Innovate Peru Program (Programa Innóvate Perú), has supported the cocoa value chain through mechanisms of: quality, strengthening the production capacity, training, and international promotion through technical missions.

Standardization, accreditation, and measurements are the responsibilities of the National Institute of Quality (INACAL) attached to the Ministry of Production. As such, it establishes, updates and promotes the compliance with different technical standards for cocoa and its derivative products. **DEVIDA is the National Commission for Development and Life without Drugs**, which designs and drives the national strategy for the fight against drugs; furthermore, it is the national counterpart for international cooperation funds for this fight. As such, it promotes integrated and sustainable development in the coca-growing regions of Peru in coordination with the appropriate sectors. In this way in particular, it supports and promotes the replacement of the coca crop with other crops that result in profits for the producers, as is the case with cocoa. From 2009-2010 it supported the cultivation of fine flavor cocoa and the development of its value chain as a means

of replacing coca. In this context, the Peru Cocoa Alliance (Alianza Cacao Perú), coordinated by DEVIDA and financed by USAID, is developing a policy for fine flavor cocoa in all the cocoa-growing regions of the country based on the material already existing on plantations. The results should be evaluated over a longer period. It is hoped that it will correct some of the initial problems observed by some actors: disorderly not following planting, designed systems clones. and tor planting CCN-51 is contiguous areas. The

mechanisms of assistance for DEVIDA are: planting, renovation, quality, strengthening of production capacity, strengthening of finance, production and sales infrastructure, training, extension and technical assistance, marketing and export, local promotion, international promotion, and assistance with management and innovation.

At the intermediate level, one finds institutions that promote the development of agricultural production with innovation and sustainability such as the development of producer associations, financing and promotion for export.

> AGRORURAL promotes rural development through financing of public investment projects in those rural zones with limited economic development. It is in these regions where most of the cocoa producers are found. One of the services that AGRORURAL provides for nursery operators is certificates of competency for knowledge and application of good agricultural practices in the management of cocoa seeds and seedlings. With these certificates. they look to quarantee the control and certification of the quality of beans, and to formalize h t е nursery activity with

inclusive labor practices. Since 2014, it is implementing projects for cultivation of fine flavor cocoa in the Forest Region (Amazon) with support for the following: planting, renovation, quality, strengthening of production capacity, extension and technical assistance, marketing, local promotion and international promotion.

At INIA (National Institute for Agricultural Innovation), they promote inclusive and sustainable agricultural innovation. Therefore, amongst other functions, they are responsible for production of seeds and seedlings of high genetic value, and establishing policy guidelines for the agricultural extension service. Through the National Program for Agricultural Innovation (PNIA) it looks to support this through the following mechanisms: extension/technical assistance, research, development and innovation and support for management and administration.

AGROIDEAS of MINAGRI: From 2011-2013, through its Compensation for Competitiveness Program, it has supported the cocoa sector through the following: strengthening of finance, production and selling infrastructure, training, and assistance with management and administration.

APPCACAO is a national trade association of cocoa producers organized into 26 cooperatives and associations. Its goal is to reduce the differences in profitability between producers through free information about international prices and fair application of methods for setting prices. Its basic objectives are threefold: to strengthen the collective representation of cocoa producers in Peru; to improve the production and organizational capacity of the base; and to promote the image and quality of Peruvian cocoa and chocolate. It has been working in favor of the cocoa sector since its founding in 2004 and currently (2016) is dedicated expressly to fine flavor cocoa through application of mechanisms for quality, strengthening of production capacity, training, extension and technical assistance.



Through Banco Agropecuario or AGROBANCO

the State provides financial support for sustainable, permanent development in the agricultural sector. Its credit operations prioritize: small and medium sized producers in agricultural associations, rural communities, native communities, communal enterprises and multi-community enterprises, with emphasis on groups of smallholder farmers in rural areas with extreme poverty. Starting in 2006-2008, it has supported the cocoa sector in general and therefore also the fine flavor cocoa sector, especially through the Agrobono for financing of agricultural activities by associations or individuals.

The Peruvian Chamber of Coffee and Cocoa is

the trade association that encompasses companies that export coffee, cocoa and derivative products. Among its members, it has the 16 companies with the highest volume of cocoa bean exports. Its main functions are to promote, publicize, train, develop, and execute projects for cocoa exports such as representing its members to government, international or commercial organizations, in accordance with the economic, commercial and social goals of its members.

As a part of the Ministry of Foreign Trade and Tourism, PROMPERU is a technical body specialized in the promotion of goods and services exported from Peru, including the promotion of the country's brand. It supports the export of cocoa and its derivatives, especially under the program for Promotion of Biotrade (Biocomercio) through the use of biodiversity meeting certain criteria of environmental, social and economic sustainability. PROMPERU, beginning in 2012-2013, is the entity that promotes Peruvian exports and tourism, and has supported the cocoa sector through: strengthening of finance, training, marketing and exporting, and local and international promotion.

Also, there are important regional government

actors, particularly the five departments (San Martin, Huanuco, Ucayali, Amazonas and Piura) that promote the development of cocoa production and cooperative development through means that include smallholder farmers in the value chain. These departments have utilized the funds from PROCOMPITE through the Law for Provisions to Support Productivity and Competitiveness which entitles regional and local governments to tender for co-financing of production-related proposals with a charge of 10% of their investment budgets.

At this scale, there are some non-public entities of note for their support of fine flavor cocoa, and for their linkages and channeling of the support of public, private and international organizations to benefit producers. They are:

Peru Cocoa Alliance (Alianza Cacao Perú) began in 2014 and is supported through coordination of DEVIDA and USAID. It supports public-private initiatives for the development of the cocoa sector in Peru with a tendency to favor fine flavor cocoa. Its mechanisms include: planting, quality, strengthening of production capacity, training, and extension/ technical assistance.

Two additional relevant actors are the private companies that serve as intermediaries, export and industrialize cocoa, and the producer cooperatives/ associations. The later constitute an expanding sector in two respects: the growth of direct exports with greater benefits for the association members, and price regulation in the local market. The number of organizations and the number of farmers belonging to an association have both increased.

According to primary source information from different actors, in the last 10 years there has been a gradual development of the structure of the cocoa value chain. They emphasize that this began to occur following the national diagnostic



done by MINAGRI with support from international cooperation (especially USAID) as a part of the fight to eradicate coca production and give rural people alternative and sustainable livelihoods.

The organization of producer cooperatives has produced results, such that in 2015, three cooperatives were among the 10 biggest cocoa exporters in the country. Furthermore, the growth in exports, at times with innovative business models and closer to the farmers, has allowed for both companies and farmers to see cocoa as an attractive source of income with a global demand horizon that is growing beyond available supply.

Among those that direct and represent businesses, associations and regional governments (not the central government) that support production, they speak of market opportunities and options for future development of organic cocoa, fine flavor cocoa, and unique cocoa from some minority areas – for example the native Porcelana de Piura and Chuncho de Cuzco varieties.

In the cocoa-producing regions in Peru, some departmental governments of note for their work in cocoa are:

San Martín: since the 1990s, this regional government has been directly supporting cocoa cultivation. Beginning in 2009, and especially 2016, it has directed its interventions to fine flavor. The most notable mechanism of support has been promotion in local and international markets through the San Martín Regional Directorate for Foreign Trade. Other mechanisms of note are: planting, quality, strengthening of production capacity, and production and selling infrastructure. Also, above all, there are mechanisms for training, extension/ technical assistance through the application of the law that established the Provisions to Support

Productivity and Competitiveness of PROCOMPITE (with use of up to 10% of budgeted resources for the expenditure on projects for financing initiatives of PROCOMPITE or with support for competitive productivity, through competitive processes). However, the region of San Martín is not known in general for the production of the fine flavor cocoa. More than 80% of the land cultivated with cocoa is CCN-51. But, with excellent post-harvest management, it is possible to obtain sensory profiles that are well accepted in the international market.

Huánuco: also has supported the development of cocoa production since the 1990s. In general, its work with the cocoa sector is in local promotion and application of the law of Support for Productivity and Competitiveness of PROCOMPITE. Other mechanisms used are: planting, quality, strengthening production capacity, infrastructure for production and sales, training, extension/technical assistance, and international promotion. In this region, approximately one third of the land cultivated is CCN-51 and two-thirds of common/national cocoa, which, at a certain grade, is fine flavor.

Ucayali: as with other previously-mentioned departments, initiated local support for the cocoa sector in the 1990s. Equally of note is its support for local promotion and application of the PROCOMPITE law. Other mechanisms used are: planting, quality, strengthening of production capacity, infrastructure for production and sales, training, extension/ technical assistance and international promotion. In this region, there is a major inclination towards CCN-51 which occupies 60% of the land cultivated with cocoa.

Amazonas: has supported local development of the general cocoa value chain since around 2005, with local promotion and the PROCOMPITE law. Other mechanisms used are: planting, work on quality, strengthening of production capacity,

infrastructure for production and sales, training, extension/technical assistance, and international promotion. In this region, three quarters of the land is planted with common cocoa and one fifth with CCN-51.

Piura: has supported the general cocoa value chain since around 2001. As in the previous cases, it focuses on local promotion and application of the PROCOMPITE law and as such the mechanisms are the same as for the others. Piura is noted as the region with the greatest percentage of land devoted to production of Peru's national cocoa (95%) with a little CCN-51 (1%) and other cultivars (4%). Among the few other cultivars, one of note is the local Porcelana variety which is a fine flavor cocoa with a thin shape and direct Criollo ancestry and as such is considered as a special and differentiated cocoa of quality and fine flavor in this department.

At the level of producers' organizations, some actors expressed that, generally speaking, the support and promotion of commercial production for smallholder producers is not always sufficient or well-managed. During the recent decade, this support has translated into the formation and strengthening of farmer cooperatives, among which 25 of note have integrated into APPCACAO. Three of them are among the 10 biggest exports of cocoa from Peru (ACOPAGRO, Asociación Cacao Alto Huallaga, and Cooperativa Agroindustrial Tocache Ltda.)

In terms of the export companies, they have formed a trade association that brings together the main companies exporting cocoa – the Peruvian Chamber of Coffee and Cocoa. It is in its first years of working on the development of the cocoa sector, has experience from the coffee sector, and is based on the experiences of companies such as: Sumaqao, Amazonas Trading, Cafetalera Amazónica, Machu Picchu Foods and Exportadora Romex – the five main exporters during 2015.

Main Action and Results of Public Policy

Estimated investments during the last 4 years (in US\$)

It is not possible to identify investments specifically for the fine flavor cocoa value chain in 2012 and 2013. AGRORURAL indicates that their 2013 budget allocated US\$488,169 and 2014 budget allocated US\$711,293. AGROIDEAS in general allocated US\$2,994,820 for the cocoa sector. Through PROCOMPITE, the cocoa value chain was supported with US\$6,193,872 between 2012 and 2013.

Actions by the public sector to support the fine flavor cocoa sector

The most notable actions with greatest impact in the development of the fine flavor cocoa sector are:

Restoration of local genetic material.

Expansion of areas with local genetic material. In Peru, cocoa is a crop that expanded greatly, doubling in area, during the 19 years between agricultural censuses (1993-2012). However, a large part of this growth in land area is due to the introduction of CCN-51.

The improvement of physical and sensory quality through the establishment of policies and protocols on quality.

The organization of fairs, a cocoa and chocolate salon, and Expoamazónicas with budget support from local governments.

National and international promotion of fine flavor cocoa.

Other notable actions are:

Training of expert cocoa tasters.

Development of tourist routes for cocoa, through regional government budgets. Participation in regional fairs.

Incorporation of Peru as a member of the ICCO as of January 2016. An achievement that has not been widely publicized or sufficiently utilized to promote production of fine flavor cocoa. National cocoa and chocolate contests.

Among the actions with lesser impact are:

International market development through the work of the Ministry of Foreign Affairs and the embassies.

Strengthening and establishment of new farmer cooperatives. Although the involvement of cooperatives in the cocoa sector is expanding, it includes less than 40% of the total number of cocoa farmers in the country.

Identification of fine flavor cocoa varieties that are productive and tolerant to pests and diseases. This requires more work and application in the field to further the development of the fine flavor cocoa sector.

Sustainability initiatives through training and certification of competency for producers at the local level, as implemented by AGRORURAL.

Coordination of MINAGRI/AGRORURAL with local authorities for engagement in development processes.

Establishment of standards and directives for marketing of fine flavor cocoa, giving attention to quality, to prevent any damage to the reputation of cocoa from Peru. This is at the public and private level.

Degree of Implementation of Planned Actions

In general, the actors consulted considered that the degree of implementation of planned actions is at a medium level. In other words, various actions proposed by the government entities have been implemented, but not to the extent and through the mechanisms that the other actors had hoped. However, global indicators of the Peruvian sector in the last decade reflect a significant increase in the area of planting, as well as national production and exports. This is evidence that the public policies are favorable for investment from the public and private sectors as well the development activities from cooperation organizations.

Degree of effective coordination between actors working in support of the fine flavor cocoa sector

In this aspect, there is a difference in opinion among actors interviewed. The majority opinion is that the degree of coordination of the sector is average, mainly because the actions are reaching a limited group of beneficiaries. On the other hand, in the majority of cases, they do not discriminate between assistance for fine flavor cocoa varieties or CCN-51, but in a few cases, projects work only with fine flavor cocoa varieties.

Additionally, many of the initiatives have prioritized working with cooperatives or organized groups, such that there is a population of farmers that have not received direct benefits from support programs.

A positive development is the work of public sector institutions to disseminate information internally and externally. This has promoted the growth of the sector and the development of markets.

Of note are the national and regional technical

roundtables which are small committees for the various aspects of the sector. However, reportedly there are few meetings of the Technical Roundtable on Cocoa such that actors are not familiar with the meeting guidelines and there is a low level of coordination among the actors participating in this initiative.

Relationship between public policy and international cooperation.

According to the actors interviewed, the relationship between public policies supporting the fine flavor cocoa sector and international cooperation is average. In Peru, the public entity responsible for technical international cooperation is APCI – the Peruvian Agency for International Cooperation. The APCI works in accordance with national policy for development in the coordination and supervision of international cooperation managed through the State and that comes from external public or private funds.

They have produced good results such as the notable growth in land area cultivated with cocoa, a long period (1990 to the present) of coordination between international cooperation and the national government, and the replacement of coca production with crops that provide sustainability for farmers. However, this growth is not reflected in equal proportion with respect to fine flavor cocoa. For some actors, the fear that it could undermine the image of Peru as a producer of fine flavor, and in real terms, irreversibly affect or make it difficult to restore, production of fine flavor in volume and quality sufficient for it to represent a significant part of the country's supply.

As such, although the non-profit support organization TechnoServe (through the program "Business Solution to Poverty"), strengthened the cocoa sector in the Department of San Martín with remarkable
results, it did not focus on fine flavor cocoa. It is similar to the case of the program PRA (Poverty Reduction and Alleviation Project) in Ayacucho. In these two cases the main financing was from USAID.

In any case, the coordination between international cooperation and the government, especially through DEVIDA with the Peru Cocoa Alliance (financed by USAID) and its business model, is developing the fine flavor sector in the forest region. With this and other support, in addition to the coordination between the government with international cooperation and private sector, the growth and take-off of the sector can be achieved. An example related to this objective is the application, in recent year, of the CANVAS business model of Sierra y Selva Exportadora.

Main results of public policies

The main results of the public policies for the fine flavor cocoa sector as noted by actors are:

International recognition of Peru as a fine flavor cocoa producing country, for example, through the re-joining of the ICCO. Also, recognition from importers in other countries.

Promotion at a regional and national scale through presence at fairs with a message based on fine flavor cocoa, and presentation of cocoa as a flagship product of the country. Note that in 2012, through MINAGRI, cocoa was declared as part of the natural heritage of the nation (Patrimonio Natural de la Nación).

Public sector promotion of the cultivation of fine flavor cocoa with cooperatives and smallholder farmer.

Training and technical assistance for the producer.

A path has been started for the State to take up cocoa issues until marketing of cocoa is based on specialty cocoa with good fermentation and drying, organic production and fair trade.

■ Increasing the area of cultivation. This proposes a future dilemma: Where will the new areas of expansion be to continue the growth in production of cocoa in general and fine flavor cocoa in particular? Will more land deforested or will the replacement of coca land continue?

Development of a strategic vision that looks for a preferred place for Peruvian cocoa in the global market.



Success Factors for the Development of the Sector

With the arrival of the 21st century, a boom in cocoa production began with the increase in the land area cultivated and better management/planning of the following three aspects: 1) cultivation with a focus on quality of the product to obtain a better price; 2) associations as a means of representing the producers and attaining product volumes attractive to international trade; and 3) business development in logistical and technical terms.

Strategic orientation: Peru's cocoa policy also started to transform with the birth of the new century. This production growth was achieved beginning in 2012 and will begin to appear in the statistics, and ICCO data tables on Peruvian cocoa production.

If Ecuador is the world leader of the fine flavor cocoa segment, Peru has quickly established itself in second place. As such, Peru could focus its supply on the basis of differentiation though organic cocoa, specialty cocoa and overall fine flavor. This differentiated cocoa market is influenced by the changes in patterns of consumption or increased consumer demand, which in turn create a greater demand for specialty beans. The national strategy would be related to the growth of this type of market. It appears that the growth in world demand for Peruvian cocoa is due less to the problems that other countries can have and more to what Peru is showcasing to the world.

Since the push given through the fight against drug trafficking, Peru has taken advantage of the opportunity that its cocoa presents through international development actions executed through the State. These actions are perceived as sufficient or insufficient, well or poorly focused, or with great or limited impact, depending on the actor or group of actors interviewed.



But to continue with a growing supply in quantity and quality of one or more abundant natural resources, in a few years the country could contract the so-called "Dutch disease" that tends to reduce the level of total exports in the long run or vary its composition. The dependency on export of primary goods make a country more vulnerable as opposed to an economy based on manufacturing or services. Therefore, it is good at the beginning to bet on quality cocoa followed by prioritization of support and supply of fine flavor cocoa, but the most competitive choice would be to achieve value addition and to find a new type of buyer through differentiation. In this way, they would attain more favorable prices for the producer, with value-added cocoa and also manufacture final or intermediate products in accordance with the buyer requirements.

Institutional Framework: The continuity over time of national public entities stands out with regards to the support, regulation, and coordination of activities for the cocoa sector and fine flavor cocoa. Furthermore, it assigns new and necessary functions to existing government entities in order to support the development of the sector. It is as such that through MINAGRI, as has been described, the role of direct work in the field on cultivation and producer assistance is through AGRORURAL; INIA contributes the technological base and research, development and innovation; AGROIDEAS executes the Program of Compensation for Competitiveness in coordination with regional governments that also work with funds from PROCOMPITE; with the DEVIDA program and support from the APCI (belonging to the Ministry for Foreign Relations), they define, articulate, supervise, and execute international cooperation programs; with Sierra y Selva Exportadora they give focus and market access, safeguarding the country's image, developed further by PROMPERU and executed by the National Cocoa Program. A remaining task may be the targeting of financial services from AGROBANCO such that they fulfill the directives to

support smallholder farmers and especially those in the poorest areas.

Human Resources: International cooperation and recently, the new public emphasis through MINAGRI and regional governments, has fostered and continues to encourage the development of local capacity for cultivation, technical knowledge and management. With regards to associationbuilding, with technical assistance from international cooperation and public bodies, through APPCACAO they plan and formulate programs to coordinate with public policies. This is done in a participatory manner with member cooperatives. The proposals are developed so that such policies are adapted to the necessities and aspirations of smallholder producers – without losing the market perspective.

Production Development: The agricultural development of Peru, in general, has a national legal framework consisting of four main elements (Fuentes, Medina, Rojas & Silva, 2015):

Law for the Development of Production Chains and Clusters. Law for Productive Agricultural Conversion National Strategy for Rural Development Law that Establishes Provisions for Support for Productivity and Competitiveness

authorities The public and international cooperation agencies have engaged in major, combined actions to promote and develop the cocoa sector in general, and fine flavor specifically. This has been maintained since the 1990s when the initial focus on direct eradication of coca began; then, when this later changed into a policy to replace it with other crops; and now when policy has arrived at a focus on sustainability through the opening of markets and support for development of agriculture (education, community development, financing not only for crops but to improve the household).

Additionally, the recent initiative that the DEVIDA Program coordinates for the Government and Peru Cocoa Alliance, has represented a push for the fine flavor cocoa sector's development and growth. As quoted from the text of Volume 18, No. 37 of the magazine Semestre Económico (Barrientos Felipa, 2015):

"As a part of the effort to develop fine flavor cocoa, there is the Peru Cocoa Alliance, a private initiative that looks to develop this type of production as an alternative crop to coca in the Peruvian forest. Its goals are explained in an article published in Gestión-e (2013), and it brings technical assistance for 28,000 hectares over the next few years, including 15,000 producers. About its intentions, the executive director of Peru Cocoa Alliance, José Iturrios, says that what they are looking for in this project is "that Peru is on the map of fine flavor cocoa. This means, among other things, highlighting varieties that only exist here, and expanding their volume to bring them commercially to the US, Europe and other emerging markets such as China."

Sustainability: The growth in cocoa production in a few localities in Peru (the areas with a tropical climate from San Martín to Puno are ideal for cocoa cultivation) has led to cocoa becoming an important source of income for producers and thus improving the gross domestic product (GDP) of the region. This allows them to be directly or indirectly integrated into the international market. This situation of rapid growth assumes the question of economic sustainability at its core - especially considering that the majority of producers are smallholder.

But beyond the economic aspect, the chain is complex when it comes to sustainability, and its problems are largely concentrated in production. Among other problems, is the question mentioned previously, the availability of new areas for growth in production of cocoa – especially fine flavor. There

are overall concerns about growing deforestation in areas with natural forests to increase the production frontier as well as (with very little environmental care) the timber sector.

In the DEVIDA model, in alignment with the general focus of USAID, they look for a means of capping support to the focus regions for the Peru Cacao Alliance and attracting/integrating the private sector to achieve sustainability (economic, social and environmental) through corporate social responsibility practices. This model promotes private investment through different mechanisms such as public-private participation. It looks to transition the approach from an assistance-based role using cooperation funds to models with greater participation from private investment and less subsidization. Furthermore, it looks to the producer not only for his/her role as a beneficiary, but as a business manager. As such, it promotes private companies to make investments with an end to ensuring a supply source for cocoa and that actively integrates them as partners in the model.

Variation in Prices: Cocoa prices in Peru are calculated based on information from the stock exchange in New York and information on the exchange rate for local currency; this information is monitored and systemized by the National Institute of Statistics and Informatics (INEI) which also periodically calculates the price index. It is important to note that it estimates a sustained growth in prices. The future contracts for cocoa show that the prices and current trend will continue for at least the next six months (Trading Economics, 2016).

Because of this, producers and other actors in the Peruvian cocoa value chain (and especially in fine flavor), can be assured that the prices will at least maintain value, without significant drops, in the near future. **Market Access:** In Peru, those who direct or coordinate different links in the cocoa value chain/fine flavor cocoa value chain, are sure to be aware that one can maintain and increase market share through quality and appropriate promotion. For this reason, there is a clear job at the leadership level of the cooperatives, exporters and public sector, to maintain and protect the country's image, to open the market for specialty cocoa (above all for fine flavor), and to improve the quality from nurseries and farms to the export companies and manufacturers. Furthermore, they affirm that they are looking to publicize information, provide relevant training and influence members of their organizations (including cocoa producers) on these and other issues.

In recent years, the European markets have been the greatest source of demand for Peruvian cocoa. In the year 2015, Holland and Belgium received 62% of the cocoa exported from Peru, followed by Italy, Estonia, and the United States. As such, one can speak of a specialized demand and of markets with a good degree of loyalty. Of the nine main markets for Peruvian cocoa, six are European and the three others are North American countries. In general, through bilateral trade agreements, Peru has ensured that its cocoa is exported to these countries duty free, a way of increasing the attractiveness of the product from an economic point of view.







Source: Consultant Team

5.Description of Public Policies in Colombia

Colombia, with a strong local industry and significant domestic consumption of finished products, has an open and diverse policy, with a clear focus on increasing production and developing a local institutional framework. This aspect is reflected in the presence of a sizeable group of organizations that work in support of the sector at various levels. However, the actors interviewed for this study have stressed that under this model, there is a **duplication of functions across entities**, and in many cases a lack of coordination between actors. This makes the producer link the least beneficial in the chain – especially in reference to technology transfer and technical assistance.

Description of the Cocoa Value Chain in Colombia

The cocoa and chocolate sector in Colombia is composed of an estimated 35,000 producers who are distributed in seven production zones. There are approximately **250 producer organizations at the national scale and four active commercial networks.** Marketing is led by collectors and agents working on commission, the majority of whom are working for the two main local processing companies. FEDECACAO has also established buying stations in the main production zones. Currently, there are around 24 exporters that market cocoa beans and semi-finished and finished products. It is important to note that, according to the interview sources, the domestic marketing of cocoa in Colombia drives an average price, in the main cities where the national price is formed, of 80-90% of the New York reference price. The producer price is less, depending on the length of the chain of intermediaries.

Colombia commands an average domestic producer price of around 90% of New York Stock Exchange reference price, minus other costs according to the length of the chain of intermediaries.

Currently, Colombia accounts for an annual harvest that reached 54,000 metric tons in 2015 and it constitutes one of the main agricultural activities for more than 35,000 families in rural areas for whom it represents approximately 75% of net income. It is estimated that in Colombia, they cultivate approximately **153,000 hectares of cocoa.** The cocoa farmers in Colombia are in a smallholder economic system with farms of 3.3 hectares on average, in which cocoa is generally associated with other fruit crops and hardwood trees. More recently, private sector initiatives are emerging for larger-scale **plantings under intensive or agroforestry models.**

Colombia is an important producer of fine flavor cocoa and, in recent years, exports of this type of cocoa have shown positive growth especially in European markets such as Switzerland and Italy. The main production zones are found in the departments of Santander, Antioquia, Nariño and Arauca. Between 2011 and 2014, the area planted with cocoa increased by 10%. It is important to note that 75% of cocoa produced in Colombia is bought by the local industry, and that exports of cocoa beans represent 25% of the total produced in the country. These beans are marketed as specialty fine



flavor or specialty cocoa (they are starting to export certified cocoa).

75% of the cocoa beans produced in Colombia are purchased by the local industry, while the remaining 25% is exported.

In 2015, the country's cocoa bean exports generated revenues of US\$24.3 million while the export of semi-finished products reached 19,833 metric tons and generated around US\$121.5 million dollars.

For the same year, cocoa exports were reported to have the following composition: 13,744 metric tons exported as cocoa beans, equivalent to 25.4% of export volume, and 17,400 metric tons of finished and semi-finished cocoa products, equivalent to 74.5% of total exports.

The average production of dried beans at a national level is 427 kg per hectare per year, which is a low yield when compared to Peru with 681 kg per hectare. Among the main factors that lead to this productivity performance are: the presence of older trees with low productivity, the technology level, and the incidence of frosty pod that can reduce production by up to 80%.

On the other hand, since 2010, Colombian cocoa has been classified by the ICCO as fine flavor cocoa due to its origin, which is related to the Criollo and Trinitario materials. The ICCO has determined, furthermore, that 95% of Colombian cocoa falls in this category, despite the existence of cocoa in the country that falls into the Criollo, Trinitario, Amazonian, and hybrid types. This recognition

allows for the generation of value addition from the marketing and manufacturing of the bean (United Nations Conference on Trade and Development [UNCTAD], 2010).

It is important to highlight that in recent years, the volumes of cocoa beans for export have increased considerably arriving at 25% of national production. Its customer portfolio has been diverse and includes markets such as Spain, Mexico, Estonia, Belgium, and the Netherlands. However, one should also consider that the local market imported around 5,891 metric tons of beans in 2015 (of which 85% came from Ecuador) due to the great needs of the manufacturing industry.

In recent years, the export volumes of cocoa have increased considerably and with a diverse portfolio: Spain, Mexico, Estonia, Belgium, and the Netherlands, among others.

With a total of 59,891 metric tons of beans produced and imported, Colombia serves a domestic market that consumes around 80% of production. The cocoa processing industry in Colombia is of a traditional nature in that its production is targeted to national products. As such table chocolate represents 45% of production; couverture and confectionery 33%, and the remaining 22% corresponds to cocoa liquor and other forms.

At an industrial level, the market is led by Nacional de Chocolates and CasaLuker who account for 92%. The remaining percentage is distributed among a diverse group of companies that include approximately 20 medium-sized companies and 30 small companies.



Description of the policies and actors impacting the sector

The public policies in Colombia currently favor the development of the cocoa sector with a particular emphasis on the production link of the chain. In practice, due to the fact that cocoa is a growth category with high demand from the local market and for export, it has been positioned as a key alternative product for generation of employment and foreign exchange. In this sense, the relevant institutions have reaffirmed the high importance of the fine flavor cocoa sector.

Despite a favorable public policy for the sector, there are various challenges that should be addressed in the short term and that are associated with the current situation where local consumption is higher than growing exports. This relative deficit has made it such that all actors participating in this study considered it a national priority to work on programs and projects to increase production. The focus on quality is recent, and it had been neglected due to the fact that the national industry does not require great quality attributes for cocoa that is used mainly for sweets and chocolate tablets (for making hot chocolate drinks).

It is important to note that the last decade of interventions focused on increasing production, have not generated the expected impacts due to the fact that in practice, the incentives for the producers have been limited. This has generated a divide between producers and suppliers of services to the sector. In this respect, the actors interviewed express that in some cases there is duplication of activities and that in others technical assistance is insufficient to cover the production areas. Also, relevant is the work to position Colombian cocoa in the international market. This aspect requires the reinforcement and sustained effort over time. Graphic 21: Distribution of the Actors in Colombia

MACRO

POLICIES & STANDARDS

MADR: Ministry of Agriculture and Rural Development. Entity that regulates, coordinates and evaluates policies for the development of cocoa farmers.

National Cocoa Council: 5 priority clusters to advance support for improving competitiveness

Superindendence of Industry & Trade: Rights of consumers, industrial property, price control

By law, the functional structure of a value-chain organization is composed of: (1) a national council, (2) one or more regional committees, (3) national & regional technical secretaries, and (4) national and regional thematic roundtables or committees

ACTORS IN COLOMBIA

INTERMEDIATE

SERVICES

RED CACAOTERA: Platform for the promotion for export.

FEDECACAO: provides research, transfer and marketing services; Cocoa Fund.

CORPOICA: develops and executes research, technology, and transfer of processes to the agricultural sector

SIEMBRA: Supports the National Agenda for Research, Technological Development &

FINAGRO: agricultural fund that finances rural

PROCOLOMBIA: promote exports and

SENA & OTHER INSTITUTIONS OF EDUCATION: strengthen processes of professional development for work and higher technical education and technology.

REGIONAL COMMITTEES: implement public

REGIONAL GOVERNMENTS: work through

MICRO

ACTORS & SPECIALIZED SERVICES

- LOCAL NETWORKS: Nodes of Red Cacaotera
- Ecocacao
- Activa G10 Montebravo

BUSINESSES: Industry

- Exporters of beans
- Intermediaries

PRODUCER COOPERATIVES:

Source : Consultant Team

- Organizations: 250
 Growing sector

Colombia has successfully entered the export market for specialty cocoa; however, the production increases at a rate lower than the total demand, and for that reason, there are great opportunities for the development of the crop and the replacement of imports.

Distribution of the Actors in Colombia

In Colombia at a **macro scale**, the institutions that focus on the development of policies and standards that govern the whole cocoa value chain are led by the Ministry of Agriculture and Rural Development (MADR). Under this structure, it has been na-

med as a priority through the development strategy for agriculture. MADR is supported by the Vice Ministry of Rural Development and the Vice Ministry for Agricultural Affairs, and in operational terms, by an office in charge of the sector (Directorate of Agricultural and Forestry Sectors). Different from other countries in the region, however, this office has responsibility for a number of sectors of which cocoa is one. For this reason, the specific actions of MADR usually lag behind.

The activities and projects that MADR executes for the benefit of the cocoa sector are carried out in coordination with the National Federation of Cocoa Farmers, the entity that receives and executes the

resources of the National Cocoa Fund. These resources allow the support of projects for technological development, technical assistance, rehabilitation of old cocoa farms, selection of regional materials, technology transfer and research.

The National Cocoa Council (CNC) is a body that was recognized through Resolution 00329 in November 2009 as a consultative body of the national government. Since its creation, the Council has contributed to the development policy for the cocoa sector and the related agroindustry, and to strategies for the competitive development of the sector. Through the structure of the CNC, they created regional committees in the main production and industrial areas for cocoa. Today, the Council includes representatives from CasaLuker Compañía Nacional de Chocolates, Chocolate Gironés, Fedecacao and

ANDI, amongst others.

Furthermore, it has support from institutions in the public sector and research entities. The Council defined five priority clusters to advance support and improve competitiveness: Huila – Tolima, Santander - North Santander, Antioquia – Coffee Area, Meta – West and the Atlantic Coast.

The Superintendence of Industry and Trade has a role of great importance in the regulation of competition and intellectual property issues. The latter area includes the development of designations of origin. These designations have still not been developed for the cocoa sector and are an instrument with great potential for the differentiation of fine flavor cocoa according to the diversity of producing regions and their organoleptic profiles – especially if oriented with the preliminary regional collective



brands. This department helps the sector with the generation of information through sectorial economic studies.

In the country, regional committees implement a good part of the initiatives with public support, together with the local producers and private sector. However, despite some valuable advances, in general, the regional committees need to overcome difficulties related to the lack of financing for their operations and ensure the participation of regional governments.

At the intermediate scale, one finds institutions that support the development of the sector at the level of research, specialized training, financing and export promotion. In this arena, those that stand out are **the Red Cacaotera (Cocoa Network)**, FEDECACAO, CORPOICA, FINAGRO and PROCOLOMBIA which together have played an important role in the development of projects at a national scale.

A new actor in the national sector is the National Cocoa Association of Colombia, **the Red Cacaotera (Cocoa Network)** which consists of 60 organizations and around 25,000 producers from all over the country. Its main objective is to improve the general conditions of cocoa-farming families through strategic services offered by its member organizations; thus, giving a logic and sense of belonging to the regional association structures. Among other activities, Red Cacaotera has implemented the first platform for promotion and export of specialty cocoa, an initiative that, with new models for access to finance, is allowing producer organizations to directly access export markets.

The National Federation of Cocoa Farmers, FEDECACAO, was created in 1960 as a body that represents and works for the benefit of the interests of cocoa producers at a national scale. This organization is supported by a national cocoa fund, a special account created by law to raise and manage the

resources provided from a fee for cocoa development. The fund has the purpose of financing programs and projects at a national scale. At present, FEDECACAO works in favor of the production of fine flavor cocoa through mechanisms to incentivize guality; the strengthening of production capacity; and marketing and technical assistance. Additiona-Ily, it is important to mention that through Contract No. 055 of 2010, the Ministry of Agriculture and Rural Development proscribed that the administration of the Fund for the Stabilization of Cocoa Prices (FEPCACAO) will continue to be conducted by the National Federation of Cocoa Farmers (FEDE-CACAO) for five more years, until September 30, 2021. This institution makes a significant contribution to research and development of cocoa varieties.

The Colombian Corporation for Agricultural Research, CORPOICA, is a decentralized, non-profit, public entity with mixed participation, of a scientific and technical character that has the objective of developing and executing research and technological development activities for the agricultural sector. This institution is supported with 13 research centers at a national scale, and as a part of its management of the cocoa sector, it has developed varieties of high yield potential. At present, CORPOICA is supported by a macro-project called "Technological strategies to strengthen cocoa production in Colombia," targeted at support for the sector with strategies for technical management of production; propagation and management of clones; standardization to ensure quality; food safety and value addition in cocoa; and cocoa genotypes selected for traits, amongst others.

The Colombian Agricultural Institute, ICA, has a mission of protecting the health of people, animals and plants, and ensuring conditions for trade. It works in the development of the agricultural, fishing, and aquaculture sectors through the prevention,

12 According to Law 67 of 1983, the fee for cocoa development is three percent (3%) over the sales price for each kilogram of cocoa produced nationally. The settlement of the fee will be based on the price at which each transaction was made.

monitoring, and control of sanitary, biological and chemical risks for animal and plant species.

Since its creation, the Institute has carried out the above-mentioned research and technology transfer activities in association with individuals and legal entities.

The National System for Science and Agroindustrial Technology (SNCTA), and its platform SIEMBRA, is an institution that supports knowledge management through the design and measurement of indicators. Furthermore, it provides information that is pertinent, permanent, and opportune. In relation to cocoa, it has supported research projects such as the collection of rhizobacteria that promote vegetative growth from the soils of cocoa farms in the Municipality of Cúcuta. It has conducted studies on integrated management of cocoa to contribute to organic agriculture. And, it has completed the characterization of soils in cocoa-growing zones.

The Fund for the Financing of the Agricultural Sector (FINAGRO) is the entity that promotes funds, guarantees and incentives for rural entrepreneurs through banks and cooperatives. Currently, the institution has four lines of financing: 1) a special line of credit for short-rotation crops and livestock; 2) an Agricultural Guarantee Fund (FAG) that supports producers' obligations; 3) Incentive for Rural Capitalization (ICR) fund that helps to decrease the credit balance for some investments; 4) the Incentive for Agricultural Insurance (ISA) which is an incentive for farmers to acquire agricultural insurance.

Additionally, the MADR program Colombia Siembra (Colombia Plants) has proposed to promote the planting of one million hectares – including incentives, technical assistance and special lines of credit. The main strategy of the program is to direct financing of production projects through FINAGRO, Productive Alliances and the Incentive for Rural Capitalization.



In the arena of international trade, **PROCOLOMBIA** is the entity in charge of the promotion of exports of goods and services to foreign markets. Furthermore, it works on the expansion of Colombian companies and promotes the attraction of foreign investment. In addition to these focus areas, it is also responsible for the positioning of country's brand. Beginning in 2013, PROCOLOMBIA has supported the fine flavor cocoa sector through various strategic activities. In this way, it has facilitated the participation of exporters in different international forums; has financed the presence of European and American buyers; and since 2015, has ensured the participation of Colombia in the Salón de Chocolate in Paris.

The National Service for Learning (SENA), is the entity in charge of comprehensive professional development for workers in all sectors – including those for whom such training is optional. This development training is offered to increase national productivity, and promote the expansion, economic development and social harmony of the country, following the concept of redistributive social equity.

At the intermediate level, one finds public actors at the local scale, such as the regional committees, that directly execute projects with farmers and private sector actors, such as manufacturing companies and cocoa traders. According to legislation, the functional organizational structure of a sector is usually composed of: 1) a national council, 2) one or more regional committees, 3) technical secretariats at the national and regional level, 4) roundtables or thematic committees at the national and regional levels.

Additionally, there are the departmental governments of the cocoa-producing regions which are relevant for their support for the cocoa sector in general. In Colombia, cocoa is grown in four agroecological zones: i) the Santander Mountains: Santander and Norte de Santander; ii) the Dry Inter-

Andean Valleys: Department of Huila, the southern part of Tolima and northern part of Magdalena, iii) the Humid Tropical Forest: zones of Urabá, Tumaco, Catatumbo, Arauca, Meta and Magdalena Medio and iv) the Lower Marginal Coffee Zone: Gran Caldas, southeastern part of Antioquia and northern part of Tolima. As such, the governments of departments that are important for the sector are:

Santander: accounts for 31.25% of national production which has shaped the "Cocoa Production Chain". This consists of producers; unions and exporters of beans; institutions like ICA, CORPOI-CA, INCODER, Banco Agrario, FINAGRO, and Mercantile Exchange; and universities with study programs related to the sector. Furthermore, they maintain agreements for improving the cocoa sector with the Colombian Corporation for Agricultural Research (CORPOICA) and the National Federation of Cocoa Farmers (FEDECACAO).

Nariño: represents 8.25% of national production. Under this government there are projects to improve cocoa production through the Secretariat of Agriculture. Since November 2015, they have implemented a project "Study for the improvement of the productivity and sensory quality (aroma and flavor) of regional cocoa from the Department of Nariño" with funds from the Ctel del SGR in an amount of US\$5.721 million. The study is also supported by the Economic Cooperation of Switzerland through the COEXCA project executed by Swisscontact.

Antioquia: with 8.36% of national production, it maintains agreements with FEDECACAO, the Secretariat of Agriculture, and National University to advance research directed at improving the quality of cocoa that is produced in the department.

Norte de Santander: accounts for 8.28% of national production. The government designated COP\$15 billion for renovation of 2,000 hectares

and planting of 2,000 new hectares. It is also expected to make an investment in new irrigation systems and in technology to improve the production of kilos per hectare. This benefits around 3,500 families who have 11,000 hectares of cocoa in the region.

Huila: has 7.70% of national production. The government formed the Departmental Committee for the cocoa production chain which is in charge of strengthening the chain in Huila. During 2016, the Dutch organization Pum conducted a study as part of a diagnostic process to improve the growing conditions and marketing at the national and international levels.

Arauca: with 6.71% of national production, the government is focused on supporting cocoa producers in the development of a cocoa processing plant, technical assistance, and support for planting more hectares, amongst others. It works together with FEDECACAO and COOPCACAO.

Tolima: has 6.59% of national production. This government, through the Secretariat of Agricultural Development and Food Production, supports the cocoa sector; maintains a cooperation agreement for technical assistance; and strengthens the organizational system and capacity for international business, in support of rural development together with USAID.

At a national scale, other departments produce the remaining 21.17% of cocoa in Colombia.

Finally, at the micro level there are various organizations in the sector that currently work on marketing and export of cocoa, such as ACTIVA G10 that originated from the Alternative Development Program and is located in the Municipality of Tierralta, Sur de Córdoba and represents 10 primary level organizations whose members are dedicated

to the production of cocoa and other products such as plantain, rubber and honey.

The ECOCACAO Cooperative, brings together farm families and people with business experience, with the idea of strengthening the participation of cocoa farmers in the cocoa value chain and improving the living conditions through the execution of projects in different areas.

Montebravo involves 11 associations that work in the northern zone of the department of Chocó, near the gulf of Urabá. Three of the organizations – ASI-PAD, ASOPROANES, and APROCAMALOSAN have exported cocoa to France, benefiting 276 families.

Within the cocoa processing industry, the most important companies are Compañía Nacional de Chocolates and CasaLuker, who process around 90% of the country's cocoa. These companies use modern technology for the processing of cocoa and marketing throughout the nation and in other countries. Furthermore, they are supported with a diverse portfolio of products that include cocoa beans, semi-finished products (butter, liquor, press cake) and final products such as table chocolate, chocolate candy, bonbons, couverture, and chocolate drinks (some for export). Other manufacturing companies are Girones and Tolimax which offer table chocolate. Also, Italo and Colombina, specialize in the confectionery category. Finally, although still in early stages, there is a strong group of small chocolate companies that are starting to position themselves in the national market. Some of them are doing so with an orientation towards export. Cacao Hunters, Equiori, and Mountain Food, amongst others, have opted for the bean to bar model, in which they buy high quality cocoa beans for their dark chocolate bars, usually differentiated by region of origin.

Main actions and results of public policy

Estimated investments during the last 4 years (in US\$)

Through the National Cocoa Fund that is managed by FEDECACAO, an average of US\$3.5-4 million has been invested annually. The Fund raises its resources through a defined fee for cocoa development that is channeled into a special account. These resources have the purpose of financing programs and projects for the benefit of cocoa activities at a national scale. Through the Fund, it has developed different projects in three areas of action: research, technology transfer, and marketing.

Public sector actions to support the development of the fine flavor sector

The most notable actions for development of the fine flavor cocoa chain are:

- The development and selection of local varieties with productivity potential.
- The establishment of clonal gardens in different production zones to facilitate access to selected planting material.
- Improvement of physical and sensory quality through training on post-harvest.

Rehabilitation of older plantations with low productivity.

Development of local events to integrate actors into the sector. For example, national contests for cocoa and chocolate.

Creation of a platform for promotion and export of specialty cocoa.

Promotion of Colombia in specialty markets for fine flavor cocoa.

International positioning of cocoa recognized for its regional origin and quality.

Other notable actions but with lower impact:

Financial incentives and specialized lines of financing for cocoa producers, with little diffusion and access for farmers

Individual technical assistance, limited coverage for this service

Specialized research, the results should be disseminated to farmers

International and national promotion of fine flavor cocoa, there is a need to increase the supply of cocoa

Participation in regional and international fairs

Recognition from the ICCO as a fine flavor producing country, but Colombia is not a member of the ICCO

Dissemination of selected varieties, transfer of advances to the field is lacking

Support for collective marketing through FEDECACAO



Degree of implementation of activities

In the last decade, public policies have helped to channel significant investments to the cocoa sector – public, private and international cooperation resources. However, the degree of implementation of these initiatives, in some cases, has been limited or did not generate the expected impacts. This situation is reflected mainly in the small increase in production volumes.

Through the investment of public institutions, new areas of production have increased. However, there was little technical assistance coverage for the farmers, and as a consequence, the level of adoption of technologies was also low.

Despite this reality, there are success stories such as achievements in research. This has produced results such as the development of varieties with high productivity and tolerance to fungal diseases; the development of production models adapted to local conditions; and the improvement of techniques for efficient post-harvest management.

Other notable achievements at the level of trade promotion, are the opening of new markets for export of fine flavor cocoa to specialty markets, and the direct export by unions and associations such as the Red Cacaotera, FEDECACAO, COLCOCOA, Cacao Hunters and Mariana Export.

In general, the actors consulted considered that the degree of implementation of actions is average/low. It is said that public institutions have implemented various actions that have benefited the sector, but not to the desired extent or with the expected results.

Degree of effective coordination between actors that work in support of the fine flavor sector

In this aspect, there are polarized opinions between actors. While the main trade association believes that the degree of coordination is high, the other actors attest that the degree of effective coordination is low, such that many actions across different actors are executed independently and in many cases, result in the duplication of effort.

It is important to note the function that the National Cocoa Council has had as a space for public-private coordination and information flow to benefit the actors in the sector. However, it should be noted that since the middle of 2015 and during 2016, its management has dissipated due to the absence of a designated coordinator, the limited convening of sessions and little agreement between some of the members.

Additionally, there are some relevant planned activities that have required a high degree of coordination between institutions. This is the case with the annual event called National Cacao de Oro Contest (Concurso Nacional Cacao de Oro) which selects the cocoa with the highest quality in Colombia with the aim of promoting the production of quality cocoa and knowledge of international requirements. As such, the contest has sought to increase the possibilities for export by producer organizations to specialty markets.

Current relationship between public policy and international cooperation

The Colombian Presidential Agency for International Cooperation (APC-Colombia) has the objective of developing, orienting, and technically coordinating international cooperation (public, private, technical, and financial) that the country receives and grants. It is responsible for administering and supporting the channeling and management of resources, programs and projects from international cooperation, according to foreign policy objectives and the National Development Plan.

According to the actors interviewed, the relationship between public policies in support of the fine flavor cocoa sector and international cooperation is strong. The policies in Colombia have favored working with various institutions of cooperation, among which the work of USAID and Swiss Cooperation (through Swisscontact) are of note. A big part of the resources has been invested in the substitution of illicit crops and currently, it is hoped that this will lead to economic development that prepares the rural population for the post-conflict stage.

Main results of public policies

The main results of the public policies for the fine flavor cocoa sector that were identified by the actors interviewed are:

Recognition of Colombia as a fine flavor cocoa producer.

Formation and strengthening of the Red Cacaotera as a center for association from the perspective of producer organizations in the country.

Growth in cocoa exports by FEDECACAO, the Red Cacaotera, producer organizations and a larger number of private companies. This dynamic has generated an increase in the internal demand, an improvement in the producer price, and recognition of quality criteria in price. According to data from FEDECACAO, the cocoa year 2014/2015 finished with 54,120 metric tons produced as opposed to 48,762 tons the previous cocoa year.

■ Through FINAGRO, there is a line of credit and financial incentives for farmers. The Incentive for Rural Capitalization (ICR) is a clear example of this policy and despite the fact that it should be more widely available, it is a direct channel that benefits producers.

Coordination of 26,000 producers through FEDECACAO as a union positioned with national coverage, 22 technical units and 10 strategically located farms.

■ They have improved the supply of planting material with high productivity and support this with a catalogue of available varieties. Currently, there are approximately 200 ICA-certified suppliers through which the access to planting material has been improved.

Support for technology transfer for rehabilitation and management of plantations.

■ They have consolidated various initiatives for collective marketing based on fine flavor cocoa in specialty markets. Currently there are four networks functioning: Red Cacaotera, Ecocacao, Activa G10 and Montebravo.

There has been an increase in new areas for production. In zones such as Santander and Tumaco, the production potential in these new areas of production is above the national average.

In terms of phytosanitary issues, the fungal disease frosty pod is starting to be better controlled by producers through good agricultural practices.





Success Factors for the Development of the Sector

Strategic Orientation:

In Colombia, the Ministry of Agriculture and Rural Development's public policy for productive chains is designed like the development strategy for agriculture. The regional committees plan and implement a good part of the initiatives receiving public support together with the local producers and private sector. However, despite some valuable advances, in general, the regional committees need to address difficulties related to the lack of financing for their operations and securing the participation of regional governments, private sector actors, and essential support services. Another core issue is the strengthening of organizations of smallholder producers and, above all, working with a longterm vision for the sector and region. Cocoa is one of the products in Colombia that benefits from comparative advantages derived from the natural conditions for its production. This is seen in agroecological characteristics, in terms of climate and humidity, and in the agroforestry system that is highly compatible with conservation of the environment. An significant percentage of the production of cocoa in Colombia is classified as fine flavor and is desirable for production of fine chocolates.

The limited increase in cocoa production and little achievement of Colombia's potential as a producer of fine flavor cocoa is due to low yields per hectare, deficient post-harvest management, and little technology transfer.

Factors that explain the limited increase in production are: the aging of farms, the lack of renovation of farms, the lack of improved genetics, the growing presence of diseases that attack plantations, the absence of development of human resources, and deterioration of quality of the final product. According to the cocoa census, the predominant technology used in the cultivation of cocoa is classified as low level.

Institutional Framework: Other actors that support the Ministry of Agriculture are institutions from the agricultural sector, unions and the government. In this group, those of note are: FEDECACAO, CORPOICA, the Ministry of Trade, ANDI and SENA, amongst others.

The sector in Colombia signed an Accord on the Competitiveness of Cocoa and its Agroindustry in October 2001, through which the National Cocoa Council was created and charged with the development of competitiveness. The unions that bring representation of the producers and processors are: the National Federation of Cocoa Farmers, FEDECACAO, and the Food Industry Chamber and ANDI. In recent years, the Cocoa Network has strengthened and presents a different form of representation: giving voice to producer organizations that have emerged from a local scale, and coordinate on a second level to improve their competitiveness.

Human resources: The Cocoa Census signals that there is a low level of adoption of technology, understanding of cultural practices, and implementation at the right time and frequency – this was found on 77% of the cocoa farms. These farmers only conduct basic labor such as collection, weed control, and pruning. On the other hand, 22.3% of cocoa farms have a medium level of technology. On these farms, they implement practices of harvesting, weed control, pruning, control of pests and diseases, and shade management. The work of applying fertilizer, irrigation, drainage and plantings is only conducted on 0.7% of the farms, which have a high level of technology usage. In terms of post-

harvest management, the tasks of fermentation and drying were conducted through a variety of techniques and processes which resulted in a final product with little standardization. For this reason, some producer associations have opted to buy wet beans with the objective of conducting post-harvest management in a central location which ensures uniformity and the desired quality through optimal, uniform processes.

Production Development: The Cocoa Development Fee was created under Law 31 in 1965, modified by Law 67 in 1983 and regulated by Decree 1000 of 1984. The law establishes a fee of 3% over the price of sale per kilogram of nationally-produced cocoa.

As such, it raises resources from anyone that processes or manufactures cocoa whether destined for the national market or export; use as seeds, raw material, or component of industrial products for human or animal consumption. The development fee is settled over the reference price that the Ministry of Agricultural and Rural Development indicates semiannually, or over the product sales when the Ministry so determines through a resolution. The Cocoa Development Fund, administered by FEDECACAO, looks to promote the development of activities to improve the productivity, generate exports, improve cocoa quality, and identify new niche markets.

Additionally, the National Cocoa Council, through Accord No. 003 of July 3, 2002, determined the genetic material that can be used as clones and that can be used as seeds for rootstock for grafted seedlings, for each agroecological zone. Currently, there are two classes of nurseries – institutional and private. The first generally comply with Accord 003 of the National Cocoa Council. The private nurseries present dependability problems in terms of the seeds that are used for rootstock, despite using budwood coming from cultivars developed with materials in accordance with ICA Resolution No. 00474 of March 2002.

Sustainability: Fine flavor cocoa is grown in an agroforestry system, such that traditionally it is cultivated together with other plant species, especially coffee, plantain, fruits and hardwood. The other cultivars produced provide shade for the cocoa, and at the same time, permit the farmer to have other alternative income sources.

The systems of this type are characterized by conservation of the soil and the environment, given that they are great sources of biomass and have the capacity to capture carbon dioxide. In this manner, cocoa not only provides environmental benefits, it is a traditional crop in the rural economy which demands a lot of labor, and for the reason, supports around 35,000 families.

On the other hand, this crop is generally located in areas of social conflict and the presence of illicit crops. As such, it is one of the preferred products for alternative development programs through "Plan Colombia." Thus, it has virtues as a productive agroforestry project and a licit source of employment and incomes.

Price Variation: Practically all of the production of cocoa is demanded by the local chocolate industry, which buys cocoa beans at prices lower than the international prices. In recent years, due to the fact that production has not increased as hoped and to correct for some initiatives to export fine flavor, the local industry has had to import cocoa beans from neighboring countries such as Ecuador and Peru. In the local market, in general, the cocoa price paid to the farmer is lower than the price on the exchange.

In the main cities where the national industry buys cocoa, the prices fluctuate between 90% and 80%

of the price on the New York market, adjusting weekly according to the volume of supply. For the producer, the price received will be less, as a function of the number of intermediaries in the chain.

The demand for cocoa beans comes from the local industry which uses this raw material for the production of table chocolate, chocolate drinks, and confectionery, amongst others. In the times when they produce an exportable surplus or international prices are attractive, they export to other countries. It should be noted that, despite the fact that international prices are higher than domestic prices, the country has not been able to increase its export offerings without endangering the supply for the local industry.

In support of the marketing of cocoa, the country is implementing Colombian Technical Standard 1252 which specifies what should be done with the beans when processing for human consumption. The standard looks to establish in turn, payment for beans based on quality and yield.

In the same way, the local market has established a premium of 3-5% of the normal price for loads of cocoa that exceed the requirements expressed in Standard 1252, especially in reference to cleanliness, drying, fermentation and bean size. It also has established penalties for beans that fall outside the standard. The marketing of cocoa is carried out through cooperatives and associations of producers. The prices paid by agents correspond to those determined by the large bean processing industry, who establish the price based on the domestic price and the international market. It is as such that the domestic price corresponds to approximately 90% of the price on the New York exhange.



Market Access: The marketing of cocoa takes place through producer associations, collectors, agents, and exporters. The first three work mainly in the supply of cocoa for the national market, while the latter works for the international market.

The exports from the companies Nacional de Chocolates and CasaLuker are made through existing bean surpluses from the local market and when the international price is attractive for them. However, it is important to note that when exports increase, they also increase imports. In 2015, for example, they exported around 13,000 MT, but at the same time imported around 6,000 MT; this points to the need to increase the supply of fine flavor cocoa.

According to CORPOICA, in Colombia 75% of cocoa production is directed to the industry for cocoa processing and manufacturing of chocolate and confectionery, and of this approximately 90% is absorbed by Compañía Nacional de Chocolates and CasaLuker. The remaining 25% is directed to small companies that produce table chocolate.

However, since 2014, producer associations have built experience (although still limited) with direct export, in some cases with support from Red Cacaotera and producer organizations such as APROCASUR, CORPOTEVA, Community Council of Bajo Mira, CORTIPAZ, CORTEPAZ, COOMPROCAR, INTEGRASINU, to destinations such as Switzerland, Holland and France, among others.

Fine flavor cocoa trades on secondary markets and obtains prices higher than ordinary cocoa as a premium is paid for bean quality. This premium is higher when the price of ordinary cocoa is low, and decreases when the international price increases.

Graphic 22: Cocoa Value Chain in the Dominican Republic

DOMINICAN REPUBLIC MARKETING MANUFACTURING MARKETING INPUT SUPPLIERS PRODUCTION SNALHOLDER COCO 95% **FOREIGN MARKET** Plants: CONACADO Nurseries. **EXPORTERS** AGROINDUSTRIAL Associations, DISTRIBUTORS 90% PRODUCER OF COCOA SUPERMERCADOS 26 % lad, Fao ASSOCIATIONS: BEANS TIENDAS ESPECIALIZADAS **OF MARKET** REDUCERS **4 LARGE** TRADERS CAFETERIAS Inputs: **RIZEK CKA** PROCESSORS Companies, **EXPORTERS OF** Projects, INTERMEDIARIES LIQUOR, 5 % AND BROKERS POWDER, LOCAL MARKET Suppliers COMERCIAL ROIG **BUTTER AND** PRESS CAKE Materials: SUPERMARKETS. PECIALTY SHOPS LOCAL Local SPECIALTY SHOPS, PLANTATIONS COMPANIES CAFETERIAS HNOS, CORTES Suppliers, Projects 5% **AVERAGE** Equipment: 79,597 MT CONSUMPTION 82.000 MT PRODUCTION Trading 40,000 PRODUCERS OF COCOA PER CAPITA 160.000 HA OF COCOA 500 GR/YEAR **EXPORTED** Proiects 400 KG/HA/YR

5.4 Description of the Public Policies in the Dominican Republic

The Dominican Republic has centered its policies on the production of cocoa for export. Its supply is currently classified into two categories, defined as fine flavor cocoa and conventional cocoa. Additionally, it benefits from the growth of the sector that promotes production and marketing of organic cocoa, and has become the main producing country for this type of cocoa in the world. Additionally, the sector and State policies have supported an enabling environment that has resulted in the development of strong, business-oriented associations. At present,

Source: Consultant Team

a large part of production is marketed through this system.

Also of note is that the Dominican Republic is a pioneer country in the coordination of the public and private sectors to develop designations of origin for specialty cocoa.

Description of the cocoa value chain in the Dominican Republic

The cocoa and chocolate sector in the Dominican Republic is composed of **40,000 producers** and it is estimated that it generates direct and indirect employment for 350,000 people. Currently, there is a register of 36,236 farms, and 95% of the production is for export. **The country is known**

for having 60% of the global market for organic cocoa; approximately 16.5% of the cultivated area has this certification.

In the Dominican Republic, cocoa is one of four traditional export crops, and its relevance to the economy is determined by its contribution to the generation of income and employment for the rural sector. That it is cultivated under agroforestry systems also has relevance as it contributes to the protection of the environment and its diversity.

The country produces around **400 kg/ha/year**, which is considered a low yield relative to its potential. The province with the most production is Duarte where the municipality of San Francisco de Macorís is located; it is known as the biggest cocoa producer in the country. This is followed by the provinces of El Seibo and Monte Plata. In the last decade, cocoa exports have doubled, and the country set a goal of exceeding 150,000 MT in the next few years. For the harvest in the 2014/2015 period, for example, the country exported US\$252.5 million, a reported 79,311 MT, which represented an increase of 19.4% over exports from the previous year. However, the panorama is different during the first trimester of 2016, for which the statistics from the Central Bank report a significant drop in production.

The production capacity for Dominican cocoa became evident when the Minister of Agriculture, Ángel Estévez, reported the exports of this product reached US\$261 million in 2015. The minister reported an increase in exports of 322% for the last decade and set an official goal of doubling this level during the next 10 years.

Dominican cocoa has a special niche in the international market for its diversity of flavors and aromas. The cocoa farms occupy 10-15% of the forest cover in the country, and there are two varieties: Sanchez Cocoa and Hispaniola Cocoa.



Currently, the cocoa market for the Dominican Republic is in expansion due mainly to the growth in demand for fine flavor and bulk cocoa in the global market.

Despite the current opportunities and market trends, it is important to note that under the current management system for cocoa, 85% of the producers are not operating under conditions that generate sufficient income to support their families or ensure an increase in production to meet global demand. This situation is mainly due to the fact the producers have little access to training and that the traditional genetic material is low in productivity and susceptible to pests and diseases.

The Dominican Republic is known for being the main exporting country of organic cocoa and the third largest producer in the continent. It supplies **15,000 metric tons of product** per year to markets such as Japan, the United States and Europe which use it as an essential base for chocolates, truffles and bonbons of high quality. The better part of organic cocoa is exported as beans. The quality of the product has been validated by being part of a selected group of 23 countries recognized as producers of fine flavor cocoa.

Description of policies and actors impacting the sector

The production and marketing of cocoa in the Dominican Republic has gained strong momentum since 2000, with significant contributions from the private sector and international cooperation. This has especially promoted the cocoa value chain for certified organic, which represents a significant proportion of cocoa for export.

In parallel, various agricultural exporters have developed a supply of cocoa with good standards

of fermentation and controlled processes that have earned differentiation for the Hispaniola cocoa type. This cocoa, in the international market, is synonymous with fine flavor cocoa. This type shares its origin with the traditional cocoa, which is unfermented, and known as Sanchez type cocoa, or common cocoa, and represents around 70% of the Dominican cocoa exported (Dominicana On Line, 2015).

One of the notable experiences of support for the general value chain has been the Alliance for Cocoa (Alianza por el Cacao) between the government and UNDP since the year 2007. The successes achieved by producers during this first years of the experience, motivated them such that the government prioritized the development of the cocoa sector from 2014 on. As such, through coordination between the Ministry of Agriculture and UNDP, they have continued supporting the sector through the formal incorporation of the National Cocoa Platform.

The Platform is subject to the National Cocoa Commission and has a visible policy role in the execution of the Action Plan for Sustainable Cocoa. The policy gives preferential focus to fine flavor cocoa, so that the Dominican Republic has become a notable supplier on a global scale (3% of global exports of fine flavor cocoa in 2012). As such, currently, the fine flavor cocoa value chain can be considered to be of high importance for public policy, and could be considered of very high importance if implementation of the Action Plan for Cocoa advances.

Therefore, the country's public policies prioritize development of the fine flavor cocoa value chain as well as for certified cocoa. These policies benefit the cocoa sector in general. However, they do not include a significant segment of producers that should be a part of these initiatives. Graphic 23: Distribution of actors in the Dominican Republic



production

practices

POLICIES & STANDARDS

MINISTRY OF AGRICULTURE: entity the

regulates/makes policies for cocoa

NATIONAL COCOA COMMISSION: Formulates cocoa policies and

IDIAF: responsible for execution of

policies for agricultural and forestry

CONFENAGRO: defines state policies

measurement, certification and training on complying with international best

CNZFE: outlines policies to guarantee the development of free trade zones

that stimulate agricultural activity

research and validation.

DIGENOR: Standardization,

supports the Cocoa Directorate at MA

ACTORS IN THE DOMINICAN REPUBLIC

INTERMEDIATE

-SERVICES

JAD: supports, promotes agricultural production

CEDAF: Promotes the sustainable development of the agricultural and forestry sectors

CONACADO: represents cocoa producers, comprised of 152 associations of smallholder producers

APROCACI: Association of Cocoa Producers of Cibao

BIOCAFCAO: promotes and foments investment, the development & identification of agricultural and industrial projects.

ADOEXPO: promotes services and management support for export business

REGIONAL GOVERNMENTS: Promote the development of cocoa production and cooperatives.



BUSINESSES: •Industry •Exporters of beans •Intermediaries

PRODUCER COOPERATIVES: •CONACADO with three specialized entities

Source: Consultant Team

ASSOCIATIONS: Large associations APROCACI, ADOEXPO

The Dominican Republic has centered its strategy on the differentiation of specialty cocoa, with a particular emphasis on the production of certified cocoa and origin cocoa, successfully accessing important niches in international markets.

The Ministry of Agriculture (MA) is the entity in charge of formulating and directing cocoa policy in the country, in accordance with the general plans for development. Within the Ministry of Agriculture, there is a Cocoa Department which is in charge of applying the policies in conjunction with the National Cocoa Commission of the Ministry of Agriculture.

General support for cocoa production is embedded in the multi-year programs for 2012-2016 and 2016-2020 in accordance with the Law 1-12, or the Development Strategy 2030, and Agricultural Operation Plan 2013. The Cocoa Department currently implements the following programs: (i) Plant Production: supplying hybrid seeds with promising characteristics to produce 3,130,000 plants; (ii) Training Program; (iii) Quality Improvement Program: support the construction of infrastructure for fermentation and drying of beans; (iv) Control of Vertebrates and Pests: permanent control of rodents and woodpeckers; (v) program to support producers in marketing cocoa (in collaboration with different agents that participate in the market); and (vi) targeted program to train producers' children and raise awareness of the importance of cocoa in the household economy. Furthermore, it supports a laboratory to determine the physical, chemical and organoleptic characteristics of cocoa.

The National Cocoa Commission is a mixed public-private entity presided over by the Minister of Agriculture. It is responsible for formulating cocoa policy for the Dominican Republic with the support of the Cocoa Department of the Ministry of Agriculture in the development and rehabilitation of cocoa farms; the improvement of product quality and production of planting material, amongst others. The Commission includes the Ministry of Agriculture, Ministry of Foreign Relations; Banco Agrícola, seven representatives of buying companies, seven representatives of producer associations, and the Cocoa Department of the Ministry of Agriculture.

The Dominican Institute of Agricultural and Forestry Research (IDIAF) is in charge of agricultural and forestry research in the Dominican Republic. It contributes to the cocoa subsector through its Mata Larga cocoa research station in San Francisco de Macorís. Its main objective is to direct and execute scientific and technological research policy for the country's agriculture sector, through the organization and operation of a national research system that promotes the development of the sector through the generation, adaptation, and technology transfer.

At present, the Dominican Institute for Quality (INDOCAL) is the national authority responsible for standardization and legal, industrial, and scientific measurements in the Dominican Republic. It is a fundamental, structural component of the Dominican Council for Quality (CODOCA) attached to the Ministry of Industry and Trade (MIC). It has the functions of organizing the development, adoption, harmonization, approval, formalization, publication, and dissemination of technical standards, with a view to facilitate trade and industrial development, and also to serve as a base for technical regulations.



The National Council of Export Processing Zones is an important actor in the cocoa sector as 54% of the country's cocoa exports are conducted through this special regimen. A free trade zone is a geographic area of the country that has custom controls and special tax arrangements as established by law. The zone allows the presence of companies that direct their production or services to foreign markets, and grants incentives necessary to promote their development. The main functions of the National Council of Export Processing Zones are: i) regulate the implementation of Law 8-90 on Export Processing Zones; ii) promote, evaluate and approve the establishment of new companies as well as development of the existing companies.

The Directorate General for Multilateral Cooperation (DIGECOOM) is a Dominican government entity that is in charge of the preparation, presentation, evaluation, coordination and continuation of programs and projects of technical and financial cooperation offered by multilateral bodies, with a special attention to funds disbursed by the European Union. Support for the cocoa sector comes from the European Development Fund (EDF), and other sources of multilateral cooperation, beyond EDF, include UNDP.

At the intermediate level, there are institutions that support the development of the sector at the level of research, specialized training, financing, and export promotion.

The Dominican Agribusiness Board (JAD) consists of producers (of crops, livestock, forest products, and aquaculture), agroindustry and exporters, and has the objective of supplying inputs and support services for agricultural production. The Board organizes 61 sectoral committees where they establish and develop specialized mechanisms. The committees have a clear understanding of the situation, limitations, and potential of each sector;

cocoa is one of the sectors covered.

Additionally, there is the Center for Agricultural and Forestry Development (CEDAF). It is a private, non-profit organization that promotes the sustainable development of the agricultural and forestry sectors through the training, information, institutional innovation, and analysis of policies and strategies for the sector. Its goal is to stimulate a competitive agricultural sector that contributes to reducing the level of poverty and protect the environment.

At the intermediate scale, there are producers that are represented by CONACADO which works to support the sector at the producer level through its holding company, leadership in production, processing and marketing of cocoa. CONACADO is supported by 152 associations of smallholder producers, and consists of three specialized entities: CONACADO Agroindustrial, COOPNACADO, and CONACADO NGO.

In the export arena, the Dominican Association of Exporters (ADOEXPO) is a private entity that works for the export sector and is in charge of promoting and facilitating the work of exporters of cocoa beans and semi-finished products.

For its part, BIOCAFCAO is an institution in the agroindustry sector with an emphasis on coffee, cocoa and their derivatives. Through organic production, processing and marketing, it has a philosophy of "win/win." It is dedicated to the promotion and development of investment opportunities, and to the development and identification of agricultural, industrial, agroindustry and tourism-related projects.

Finally, at the micro-scale, there are public actors at the local level, such as local governments, that directly organize, develop and execute cocoa projects with farmers and the private sector (such as processors and traders) that move the product from the field to internal clients that later process or export the cocoa.

Similarly, APROCACI, the Association of Cocoa Producers of Cibao, Inc. was founded in 1997, with headquarters in Salcedo Province and presence in Duarte Province; its main objective is introducing Dominican cocoa in international markets. To do this, it offers services of technical assistance, training, nurseries, fermentation boxes, solar dryers and drying ovens.

Description of the policies in the Dominican Republic

Estimated investments during the last four years (in US\$)

According to Transparencia Informativa (Transparencia Informativa, 2016): "The director of the Cocoa Department at the Ministry of Agriculture, José González, reported that in the last four years the government, through Banco Agrícola, has financed this agricultural subsector with more than RD\$1 billion." [RD\$1 billion is equivalent to US\$21.7 million at current exchange rates].

Similarly, for the development of cocoa cultivation in accordance with the Action Plan for Sustainable Cocoa and the Agricultural Operations Plan, the investment would be more than RD\$1 billion during the next four years. This is affirmed by the same José González who further proposed the creation of an escrow account for this work (Guisarre, 2015).

On the other hand, in the medium term and in accordance with the budget for the Action Plan for Sustainable Cocoa, the total for the next ten years of implementation (from 2015-2025) is RD\$8.036 billion, equivalent to US\$175 million at the current exchange rate. This is evidence of the importance that the central government is granting to this sector.

Public-sector actions for the development of the fine flavor cocoa sector

The main planned actions are part of the Action Plan for Sustainable Cocoa through four thematic area:

Theme 1. Technology transfer to cocoa producers.

1.1 Coverage of technical support services with financing according to plan

1.2 Inputs and production materials distributed in sufficient quantity for beneficiaries of the program

Theme 2. Social conditions of the farmer and his/her family with the community

2.1 Jointly conducted activities ensuring the improvement of conditions of basic and supplementary services in cocoa communities.
2.2 A program to strengthen the business and organizational capacity of groups/associations.
2.3 Program to strengthen the business, technical and vocational capacity of youth and women.

Theme 3. Systematic capacity for response

3.1 Training programs for (1) technology transfer, capacity building; (ii) business and organizational capacity; (iii) business, technical and vocational capacity; (iv) financing and financial tools

3.2 Capacity strengthened for research and innovation, validation/evaluation, and technology transfer in the cocoa subsector

3.3 System established for continued monitoring, evaluation and monitoring of impact.

3.4 Special fund established for strengthening and modernizing cocoa.

Theme 4. Favorable public policy environment for Dominican cocoa production.

4.1 Execute a combination of laws and public policies to promote Dominican cocoa production.
4.2 Execute a combination of incentives and taxation to promote Dominican cocoa production
4.3 Recognized role of cocoa in environmental sustainability

Degree of implementation of actions

The different actors agree that the implementation of the proposed actions has generated great expectations. The Action Plan for Sustainable Cocoa is in its initial phase, and so far, it has been working according to plan. It should be noted that there is confidence in its implementation and financing, because of the trust that the actors have in UNDP. The main source of funding is UNDP. The implementation is in coordination with the Ministry of Agriculture with UNDP's direction.

Degree of effective coordination between actors working in support of the fine flavor cocoa value chain.

Since 2014, there has been a positive trend toward greater coordination between actors that support the cocoa value chain in general, with emphasis on the growth in production and development of the fine flavor cocoa chain. This positive influence was manifested through the creation of the National Platform for the Sustainable Production of Cocoa.

The Platform operates through members from different links in the production chain (producers, traders, exporters), the government and its institutions that have responsibility for cocoa, research centers, civil society, international clients, a cooperation entities. The platform operates in the public-private arena with the mandate to develop and lead policies and actions that are designed to develop the subsector.

The National Cocoa Platform seeks to achieve, through agreement and participation of all relevant actors, the consensus of the actors on the problems and corresponding solutions. The members of this Platform share a goal; have different, agreedupon roles; and work towards common results in a specific time period that was previously agreed to by all. This effort will result in a permanent mechanism for dialogue with favorable results for all involved in the cocoa sector, including most importantly the smallholder farmers. It is hoped that the process will continue, strengthen and transcend the ten years of the Action Plan for Sustainable Cocoa.

Existing relationship between public policy and international cooperation

As explained previously, it is easy to conclude that there is a close relationship between public policy and international cooperation – especially with UNDP which is the executor of the Action Plan for Sustainable Cocoa.

As such, in recent years, good coordination between the public sector and international cooperation has been observed, and therefore the interventions have been aligned with public policies for the cocoa sector. Another example is the project called "Promoting agroecology and participatory processes for rural development" executed by the Center for Rural Studies and International Agriculture (CERAI), an alliance with local partner FUNDELOSA, in the province of Puerto Plata. In the period between 2014 and 2016, it reached 50 cocoa-growing families as direct beneficiaries and 1,457 families in the municipality of Altamira as indirect beneficiaries.

Main results of public policies

The main results of the public policies for the cocoa sector in general, and fine flavor cocoa sector in particular, towards which they are committed to working and expect to achieve are:

There are examples of cocoa farmers in the Dominican Republic that are appropriately managed and profitable. There are a number of farmers that have access to technical assistance services and to agricultural financing.

Improve the quality of life for the cocoagrowing communities. The members of cocoagrowing communities have better access to basic and supplementary services, the producer organizations provide better services to their members and communities, and youth and women in the communities have more access to dignified work.

■ There is the comprehensive capacity necessary to support the transformation of the cocoa sector in the Dominican Republic. The systems for developing and training trainers are strengthened; the lending system grants financing for long-term investments to make improvements in farms and scientific research; technical innovation and transfer/adoption of technology in cocoa is strengthened.

An environment and public policy that are conducive to supporting the transformation of the cocoa sector in the Dominican Republic. The legislation and standards point to the strengthening of the cocoa sector; they have established incentive schemes and tax instruments that promote investment in the cocoa sector of the Dominican Republic; and the reform of the cocoa sector is in synergy with public planning.

Finally, it is notable that, thanks to public investment, currently there is an effective system to measure the impacts of change in the cocoa sector in the Dominican Republic.



Success factors for the development of the sector

Strategic orientation: The production structure of agricultural sector has experienced substantial changes with great relevance for non-traditional products.

Currently, the Dominican Republic has a clear orientation towards the production of fine flavor cocoa, and in particular, the production of this product with organic certification. The support of public entities has focused on the production of local varieties.

It is notable that in the last two decades, the local policies favored international cooperation which invested significant resources in the production of organic cocoa.

The strategic themes that guide public policy are focused on: i) institutionalization and/ or consolidation of the reform process and modernization of the agricultural sector; ii) productivity and competitiveness of the agricultural sector and promotion of agricultural exports; iii) strengthening of production for local consumption and mechanisms for domestic marketing; and iv) development of rural infrastructure and services, catalysts for the reduction of poverty.

Institutional Framework: In the public sector, agriculture is led by the Ministry of Agriculture (MA) which is the governing institution for the sector. It is composed of four principle vice ministries as follows: Administration and Finance; Planning for the Agricultural Sector; Production and Marketing; and Extension and Agricultural Training.

The remit of the Ministry of Agriculture is covered through eight Regional Agricultural Directorates that

cover all the of country. In addition to this internal organizational structure, there are decentralized institutions that are attached to the Ministry such as Banco Agrícola, the Dominican Agricultural Institute (IAD), the National Institute for Stabilization of Prices (INESPRE), the Dominican Institute of Agricultural and Forestry Research (IDIAF), the Institute of Cooperative Development and Credit (IDECOOP) and Dominican Cocoa Council.

Additionally, the Dominican Republic, through the National Cocoa Commission and the Ministry of Agriculture, managed the development of the Third World Cocoa Conference which took place in Bávaro, La Altagracia Province.

Human resources: Through the Action Plan for Sustainable Cocoa, the development of human resources for each of the four themes has been strengthened. Mainly, it has looked to development of business skills and organizational management skills for producer associations.

However, the universities and agricultural institutes, that are in charge of professional development, have limitations in accessing agricultural machinery and laboratory equipment, or make due with obsolete resources, and also have limited financial resources for exchanges.

The implementation of the Service for Adoption and Transfer of Technology has not achieved the desired impact, in the context of a traditional culture that is very rooted in the majority of farmers in the country. This situation puts the agricultural sector in the Dominican Republic in a position of competitive disadvantage.

Production Development: The development of production is supported by an appropriate Policy for Development of Production Infrastructure. This policy is designed to create strategic alliances between rural actors to bring targeted services such as regulation of water for irrigation, rural roads, housing, roadworks, energy, health, education, sanitation, recreation, sports, and development of infrastructure for cold chains at a national scale (airports, ports, collection centers). This will establish a network of wholesale markets.

On the other hand, the Policy for the Development of Productive Resources aligns with new opportunities and challenges that confront the agricultural sector, those that merit higher levels of education and quality human resources. As such, the policy puts emphasis on education of agriculture professionals so that they have the capacity to address new challenges related to competitiveness (productivity, quality and food safety, post-harvest management, and markets based on quality).

The current strategies for production development prioritize the following work areas:

- To strengthen programs for production support services (input supply, planting material, mechanization, and technical assistance).
- To strengthen extension services for livestock and rehabilitate cocoa farms.
- To proceed with the distribution of modules for livestock production, and identification and rehabilitation of projects for abandoned agricultural production.
 - To modernize the irrigation systems.

To encourage the production of plants to produce biomass.

To work towards modernization and the establishment of agreements for joint ventures

with domestic or foreign companies to promote the development of agricultural and agroindustrial projects for domestic consumption and export.

Sustainability: They have promoted ecological sustainability programs where the zoning of farms has been made to conform to the characteristics of agricultural production resources, environmental conditions, and risk. Similarly, they have worked to promote sustainable practices for conservation of soils such as the use of organic agricultural practices on certified farms.

Additionally, there is the initiative: "Promote the Environmental Management of Land to Mitigate the Effects of Climate Change and Confront Other Environmental Challenges." This promotes programs for reforestation; encourages conservation agriculture (permanent protection of the soil, no-till, direct planting, rotation of crops); and supports the practice of clean agriculture.

To strengthen clean agriculture, it is necessary to work on the appropriate application of means of biosecurity and adoption of traceability standards; to support the development of productive species that allow for adaptation to climate change and respect biodiversity; to implement a program of monitoring of hygiene and control of residues on food in the primary phase of production; and to implement inspection systems based on risk.

Variation in Prices: According to the registers in the stock exchanges of New York and London, cocoa has a tendency towards sustained growth in prices, with periodic variations subject to harvest times, supply from the main producing countries, and consumption trends. In light of this situation, the Dominican Republic has structured a marketing policy on two levels: The Domestic Marketing Policy is directed at the National Institute for Stabilization of Prices (INESPRE) and has the following lines of work: increasing coverage of the institute's marketing activity through the Agricultural Marketing System (SICOAGRO); achieving a higher level of efficiency in INESPRE's activities through an analysis of the current organizational structure; and modernizing operating systems.

In another context, the Domestic Marketing Policy seeks the improvement of business capacity for the producers through the formation of groups/ associations and self-directed cooperatives, and the support of marketing for domestic consumption.

The Foreign Trade Policy supports the strengthening of relationships between associations and exporters. Furthermore, it promotes opportunities for collaboration in competitiveness programs, including the Third Platform for Agricultural Exports and Sustainable Tourism.

This policy is conditioned on the commitments made in different trade agreements at the multilateral or bilateral level, and establishes parameters in accordance with those established in general policies on foreign trade. The later was designed to make exports more dynamic and diverse; to create standards as such; and to identify niche markets in countries with which trade agreements are in place.

Market Access: The actions are designed to strengthen the export platform; develop the production of crops with export potential; promote crops for foreign, ethnic markets; build the capacity and train export companies; and identify market opportunities.

The access to markets depends on the identification of opportunities for the same through activities such as: locating markets; programing for the promotion of exports, such as the establishment of export credit insurance. A fundamental aspect, is to design flexible mechanisms for tax compensation that favor people and companies that are exporting.

Additionally, it is important to: simplify and automate the standards and procedures for exporting and reduce the administrative costs for exporting; stimulate market intelligence and validation of international and ethnic markets (ADOEXPO, CEI-RD, IICA, CNC/MIA, Oficinas Hunts Point); and seek investment (private, national and foreign) in agricultural exports.

Finally, it is pertinent to incorporate the agrarian reform settlements into the process of exporting agricultural products; to support the development of production and profitability of the 30 product categories selected for export (in the Export Platform); and to support agribusiness incubators for the export business.



6. Private sector models for initiatives that strengthen farmers
This chapter analyzes the initiatives from the private sector that have supported the economic development and integration of the value chain though successful ventures that have benefited producers.

First, a preliminary list was developed of private sector initiatives, of a local nature and the model of business development for each.

Description of models identified



This corresponds to a strategy of vertical integration of suppliers where a chocolate company opts to open a local company. This model, with the goal of buying directly from producer associations, is selected according to its business capacity and organizational structure.



This private sector model is led by a local company, well-established in the business, that already has a portfolio of local and international clients. To ensure the supply of raw material, it develops business relationships with producer associations. As a part of this model, the company also takes advantage of attributes such as origin, organoleptic profile, and product traceability.

MODEL 3 Local company; producers

This consists of a strategic alliance in which the company organizes and certifies one or more groups of producers in areas of particular interest, with the goal of ensuring the supply of quality raw material. Under this model, the company relies on corporate responsibility programs and contributes financial resources and technical assistance to achieve the objectives of quality and volume.



This is a model of some producer associations that have differentiated between their role as a union/ professional association and their role as a business. Through the association dynamic, they have developed business structures that belong to the producers, but have a clear business focus. In general, they involve a large number of producers, and market less than 40% of the total production of their members.

Successful Initiatives in the Countries Studied **ECUADOR**

INTIORGANICS: A young, private organization; innovative and in expansion. One of its programs, Pro Equitable, promotes ethical sourcing of raw material in accordance with sustainable, climate-smart production and with use of clean energy. Among their strategic members are Asociación Wiñak from the Ecuadorean Amazon and APOVINCES with fine flavor cocoa (Arriba). They market fine flavor cocoa and derivative products, including raw versions, to companies in Europe and North America.

UNOCACE: A collective marketing company of producers of fine flavor cocoa (Arriba) on the Ecuadorean coast. They export to the United States and Europe with mechanisms of FLO fair trade. They bring together 1,730 producers with 10,400 hectares of cocoa and sell 1,500 metric tons of cocoa annually.

ECOKAKAO. Export company of conventional cocoa, fine flavor cocoa and semi-finished products. It exported 7,000 metric tons in 2015, coming from 2,500 associated producers. It benefits those 2,500 families and an additional 2,500 through its programs Aurora QTS and Sassandra ECU, which resulted in linkages to Blommer Chocolates and other foreign corporations.

FORTALEZA DEL VALLE: Is a corporation of four cocoa farmers' associations from the province of Manabí. They market fine flavor cocoa with certifications from the US National Organic Program (NOP) and the EU under the FLO FairTrade scheme. It includes 600 producers with 1,700 hectares of cocoa in agroforestry systems, whose production averages 450 kg of dried beans per year.

MCCH COMERCIALIZADORA: Part of the conglomerate of organizations of the Maguita Cushunchic Foundation; non-profit, linked to 155 producer associations in the country. It markets around 7,500 metric tons of cocoa per year - both CCN-51 and Nacional, through the FLO FairTrade mark, with certifications from Rainforest Alliance and Ecocert.

PERU

SUMAQAO: Export company for cocoa, chocolate, and derivatives, linked with the Swiss company Minka SCS AG, that integrates actors in the chain under principles of cooperation, fair trade and sustainability. In 2015, it was the biggest exporter of cocoa from Peru, with 17% of the total.

AMAZONAS TRADING: Private company, exporter of cocoa from more than 2,800 producers, especially in the Peruvian Amazon. Works with certifications from UTZ, FairTrade, Rainforest Alliance, organic and 4C. in 2015, it accounted for more than 16% of total cocoa exports from the country

MACHU PICCHU FOODS : Cocoa export company, as well as making and marketing private label chocolate. It relates to producers through its program Development and Sustainability. In 2015, it marketed 12.4% of the total exported from Peru.

ACOPAGRO: Is a cocoa farmers' cooperative in the region of San Martín in the Central Huallaga Valley. It exports cocoa of special quality from more than 2,000 associated farm families. It works with various certifications. Due to its growth in 2015, it was the sixth largest export of cocoa in Peru with 7.7% of the total.

CACAO ALTO HUALLAGA : Is a cocoa farmers' cooperative in the region of San Martín in the Central Huallaga Valley. It exports cocoa of special quality from more than 2,000 associated farm families. It works with various certifications. Due to its growth in 2015, it was the sixth largest export of cocoa in Peru with 7.7% of the total.

COLOMBIA

COLCOCOA: Company that buys/markets cocoa, linked with more than 4,000 producers. Its vision is prosperity and sustainability for everyone in the cocoa value chain. With its development model and program "Echa Pa'Lante," it covers all aspects of the chain.

CACAO HUNTERS : Business that manufactures and markets premium chocolate, that works closely with the producers through training, technical assistance and purchasing.

MARIANA COCOA EXPORT: Company that exports cocoa and makes artisanal chocolate. In addition to Colombia, it has a corporate presence in Venezuela and Ecuador. For its artisanal chocolate, it works with specialty cocoa of Colombian and Ecuadorean origin. It supports farmers with an emphasis on post-harvest processing.

CASA LUKER : Colombian company with half century tradition of manufacturing semi-finished cocoa products and chocolates. In addition to its work through the Luker Foundation, it links with producers through a model called the Luker Way.

COMPAÑÍA NACIONAL DE CHOCOLATES: Producer of premium chocolate from the region of Santander where there are around 12,000 cocoa-farming families. Promotes an environmentally-friendly production system, that is respectful of communities and profitable for the producer.

DOMINICAN REPUBLIC

RIZEK CACAO: Company that manages the whole cocoa value chain itself and relates directly with cocoa farmers. It developed fine flavor clones (Hispaniola variety) with the name "Rizek." In recent years, it has become the second largest exporter of Dominican cocoa with around 16% of the total.

CONACADO : Is the National Confederation of Dominican Cocoa Farmers which collects, processes (post-harvest), markets and exports cocoa from its members through its division CONACADO Agroindustrial. It is the main exporter of Dominican cocoa with around 50% of the total.

APROCACI: Association of Cocoa Producers of Cibao, with presence in the provinces of Salcedo and Duarte. Markets and exports its members' cocoa, and is one of the ten largest exporters in the country.

ROIG AGRO-CACAO: Born from the experience of a cocoa family, it is the third largest exporter of cocoa in the Dominican Republic. Furthermore, it is one of the main exporters of certified organic cocoa in the world. To its production on 3,000 hectares of its own farms, it adds cocoa that it acquires from independent producers to whom it provides technical assistance.

CORTÉS HERMANOS: Main cocoa processor in the country, with chocolates that are widely distributed on the local market and some export. To process more than 6,000 metric tons annually, it maintains sustainable, commercial relationships with producers whom it supports through the Boyá Project of the Cortés Foundation.

Matrix of criteria for selection of Five Selected Business Initiatives successful initiatives

A ranking matrix was used to choose successful cases from the private sector from the preliminary list. The matrix considered selected impact criteria in two areas:

1. Inclusion of producers and areas of cultivation 2. Market and sales

The specific criteria were classified based on a 100-point scoring scale. The study chose the five most successful business initiatives according to the scoring criteria.

SELECTION CRITERIA

1. Inclusion of producers and areas of cultivation

Number of producers of fine flavor cocoa associated

Level of current involvement with the producers

Total area of cultivation with fine flavor cocoa from participating producers (hectares)

Volume purchased from smallholder producers out of total purchases of fine flavor cocoa

Potential to increase the number of producers of fine flavor cocoa participating in the next three years

2. Market and sales

Position in country reports from the last three years as an exporter of cocoa in general (for at least two of the last three years)

The better part (>50%) of cocoa marketed in the previous year was sold to:

Concentration of 80% of main sales in clients:

NAME	COUNTRY	MODEL	SCORE
SUMAQAO	Perú	MODEL 1	95
ECOKAKAO	Ecuador	MOD	EL 2 92
UNOCACE	Ecuador	MODEL 4 87	
RIZEK	Dom. Rep.	MODEL 3	95
COLCOCOA	Colombia	MODEL 3	95

Source: Consultant Database, 2016

Case 1. SUMAQAO (PERU)

Model 1

Foreign company – Local company - Associations

Sumagao was founded on March 3, 2010. In Quechua, "Sumak" means "most beautiful" and the syllable "Qao" is the term for "cocoa." Main activity: export of fermented and dried cocoa

Commercial information

Volume Traded 9,860 MT in 2015

Potential Volume 12.800 MT

Processing capacity

18 offices or agencies in Peru to directly buy cocoa from producers, association or cooperatives

Type of cocoa Certified conventional; cocoa from specialty varieties according to market requirements (including fine flavor). Two grades: Inti Sumag and Qun Sumag.

Certifications

FLO Fairtrade; EEC 834 / 2007; USDA - NOP (National Organic Program); UTZ Certified; Biosuisse

Linked producers

At least 4,000, in particular in the regions of: VRAEM, Ayacucho, Cuzco, Junín, Ucayali y San Martín.

Description of the Model

Currently, Sumagao works in partnership with the Swiss company Minka SCS AG, with the goal of providing and developing better operational services for the export of cocoa from Peru. On prior occasions, it has also exported cocoa to other firms such as Pronatec AG and Fortunare Inc.

Its main category for marketing is certified conventional cocoa, but it also offers specialty cocoa following market requirements. This includes fine flavor cocoa, Porcelana cocoa from Piura, Chuncho from Cuzco and other varieties. The company ensures product traceability with the supply of origin and certified cocoa.

The company markets certified conventional cocoa, but also offers specialty cocoa following market requirements and ensuring traceability.

With this end, Sumaqao has established their own buying stations, with offices or agencies in the producing regions of Peru where they collect cocoa from private producers and associations/cooperatives. For better integration with the producers and their organizations, Sumaqao prefers to choose people who are directors or leaders of such organizations to serve as administrators for the offices/agencies.

In this way, Sumaqao claims to work in all cocoa zones of Peru, through the development of alliances in the long term, and with a base in the principles of cooperation and fair trade.

Its agreements with the producers:

Guarantee to buy the entire production

Pay premium of 10-25% for producers of organic and sustainable cocoa

Financing and organization of organic and sustainable certification

Advance payment for the harvest

No tolerance for child labor or forced labor

Promotion of gender equity

Organize organic workshops and agriculture support for producers

Offer advice on business, administration, accounting and finance

Promote production and organizational development of cooperatives

The direct support from Sumaqao, through its partnership relationships with producer organizations and groups, takes the form of integrated services that are paid for through the commercial operations as an integral part of the business relationship.

These are Business Development Services. In other words, they offer these services because they are necessary to ensure the efficiency of production and marketing, and are incorporated into the cost structure of the operation. Finally, the producer organization/group pays for these services through the final settlement of the sales transaction. However, among the producer groups that are linked to Sumagao, there is the general opinion that under Sumagao's coordination, they achieve desirable levels of efficiency, effectiveness, quality and compliance as a result of these services compared to what they could achieve through other means. Furthermore, they consider the services to be an integral part of their business relationship. The main integrated services are accounting advice, technical assistance, certifications, and registration of traceability.

Some newly-established producer organizations initiated their activities in partnership with Sumaqao and grew with the help of this main commercial partner having received technical and business assistance – especially business development services – which involved advantages and disadvantages, as previously indicated.

As such, under the approach that a company's economic growth should occur in parallel with the socio-economic development of those with whom they collaborate or are involved with, Sumaqao and Minka SCS AG, created in 2011, the Minka Tarpuy Development Association. Minka Tarpuy is the social arm of the partnership between the two companies that looks to improve the quality of life of producers that are organized in associations and cooperatives, through the development of technical, organizational and business capacities. Its motto is "Working as a team, protecting the environment and biodiversity based on principles of honesty and collaboration, we can change lives."

Sumaqao's current activity model is a consequence of the development of the company, based on its need to adapt to the conditions at the site of origin in the cocoa-growing zones of Peru, the business environment in the country, and the market. They have also been influenced by the competitive pressures, government incentives and other environmental forces. With this they have adapted as, indicated by Marco Antonio Caballero (2016) with respect to the field of agricultural marketing, the competition is not between products, but between business models.

Sumaqao's strategies are:

Conduct different promotional campaigns for high quality, Peruvian organic cocoa at a national and international scale, in various important fairs.

Look for partnerships with other companies to enter into new markets, taking advantage of different existing agreements, and in this way, expand the product into international markets.

Strengthen on-location workshops about prevention, identification and control of the main pests and diseases that impact the crop and the farmer.

Reinforce post-harvest management with an integrated program of technical assistance and training with experts in organic certification.

Strengthen the control and certification system for the quality of organic beans purchased from producers for export.

The following is a visual representation of the current business model of Sumaqao:

Graphic 24: Business model of Sumaqao



Advantages of the Strategy being Implemented

Sumaqao brings integrated **business development services** to its commercial allies – producer associations, cooperatives and groups.

In other words, the relationship of Sumaqao with its suppliers is mixed: buying cocoa and providing support through business development services. In this way, it brings producer organizations a **market orientation** for cocoa with certifications, and sets these organizations on a path to development that can mark their future commercial performance and improvement the quality of life of their members. As such:

The business model breaks the commercial paradox that, according to Benoit Daviron and Stefano Ponte (2013), is present in many developing countries that despite that fact that they are producing and exporting tropical products for a long time, they continue to remain poor. Sumaqao conducts **studies, profiles and market research** that can be used by producer organizations with good organizational development. This is for its own market rollout and as a management tool to capitalize on contacts and opportunities that can generate new business.

Introduction and improvement of infrastructure for production, support for production, and postharvest processes for the producer organizations as an element of the support strategy of Sumaqao, in addition to technical assistance. Within the assistance, support for improvement of irrigation and fertilizer use (especially organic) is also of note.

Access and introduction of **means to comply with and verify compliance with production and quality standards:** degrees of fermentation and moisture content, maximum residue limits, organoleptic properties for specific market preferences in terms of flavor and aroma, as well as certain origins and particular varieties. This includes various possible certifications.

Also access and introduction to means for applying and taking advantage of **new production and postharvest technologies, in order to achieve higher standards** of production at the producer and organization levels.

Incentives to replace the cultivation of coca, that allows for the change in focus of the producers, generates the formation of associations, and achieves a different and better quality of life. As expressed by Alma García de Ruiz from the Campo Verde de Pucallpa Cocoa Farmers Association that sells through Sumaqao: "I changed coca for cocoa, and now I can live peacefully. Already we can walk with heads held high." (Peru 21.pe, 2013)

Limitations of the model

While Sumaqao provides business development

services to producer organizations with which it has commercial relationships, in reality it does not support true commercial development as Sumaqao, in this case, is the only commercial option or marketing channel. This has a logic: a commercial enterprise would not offer its suppliers, which it has developed, other options for buyers of the same product. That would be helping the competition.

According to a report from Minka AG, it would be the main equity partner of Sumaqao (Brenda Palomino, 2016). Given the strong commercial linkages and institutional arrangements between Sumaqao and Minka AG, both Sumaqao and the producers involved would depend a great deal on the performance and commercial/business evolution of Minka AG. It would be in the hands of the leadership of cocoa producer organizations to develop and establish other marketing channels as alternatives to ensure the future, weighing the risks of distancing themselves from Sumaqao/Minka which these companies could perceive as a lack of loyalty in the relationship.

The access that the producer organizations have to Sumaqao's and Minka's studies and market research is conditioned on selling to the company. However, the studies can be one of the business development services paid for, completely or partly, by the organizations.

Sumaqao supports and leads the commercial development of its value chain, and there is little transfer of capacity to local organizations. But, some organizations with a good degree of consolidation (Acopagro Cooperatives and Oro Verde, for example) can create a process for self-study and developing their own structures for marketing, thus leading to partial or total liberation from the Sumagao chain.

With this, one can conclude that cocoa producers' organizations need to develop stronger business skills through entities other than their buyer or business partner in the foreign market. Training and empowerment are

necessary to form management teams, technical teams and leadership to make decisions and facilitate the flow of information in all levels of the organization.

y facilitación del flujo de información en todos los niveles organizativos.

Case 2. ECOKAKAO (Ecuador)

Modelo 2

Local company - Associations Description

Founded in 1996. Works with cocoa producer associations in the north and central coast and northern Amazonian region of Ecuador. The main products for export are conventional cocoa, specialty cocoa, and semi-finished products

Commercial information Volume Traded 7,000 MT in 2015

Potential Volume 9,000 -10,000 MT per year

Processing capacity

For cocoa liquor: 500 MT per year

Type of cocoa

Fine flavor cocoa (Nacional/Arriba), Criollo and Amazonian

Certifications

FLO Fairtrade

Linked Producers

Around 2,500 producers in the coastal region (Esmeraldas, Manabí and Los Ríos) and northern Amazonía (Sucumbíos and Orellana).

Description of Model

Ecokakao has been in business for 20 years. It is notable for its work in collaboration with producers' associations from whom they buy cocoa and export it to different buyers.

Their offering to the market consists of three main

categories: conventional cocoa, specialty cocoa, and semi-finished products. The conventional cocoa offered is of two types: Nacional/Arriba cocoa (which is an Ecuadorean fine flavor cocoa originating from the upper basin of the Guayas River), and CCN-51 cocoa.

Among the specialty cocoas there are: Río de Oro cocoa from Los Ríos province; Amazonian cocoa; and Amorfino cocoa from the Montubio areas on the coast. The semifinished products are liquors made with specialty cocoa, and chocolate couverture made with 100% Arriba.

One of the main buyers is Blommer Chocolate Company. As a result of the commercial relationship, Ecokakao is implementing two of Blommer's initiatives to support and link with producers: the Aurora QTS Project and Sassandra Ecuador Program. As the leadership of Ecokakao indicates, the issues that these programs are addressing exceed the current capacity of the company, and they have sought coordination with public entities to support groups of cocoa farmers. This is how they formed a pair of public-private partnerships between Ecokakao and the governments of certain provinces (Sucumbíos and Esmeraldas), and they are working on developing others in a similar way.

The Aurora QTS Project is based on the concepts of quality, traceability and sustainability to obtain cocoa with special flavor and aroma profiles. This cocoa is then sold to niche markets in Europe, Asia and United States.

The Aurora QTS Project is rooted in the concepts of quality, traceability, and sustainability to obtain cocoa with special profiles of aroma and flavor.

The relationship is mutually beneficial for the producer associations that work through the Aurora Project, they bring the following services related to **quality:**

Graphic 25: Business Model of ECOKAKAO



Technical assistance and training in productivity

Advice and support for the improvement of quality and post-harvest.

Creation of administrative, financial, and business capacity in the organizations.

Fair trade practices for the improvement of quality of life of the communities.

For traceability, it works on the structuring of a system that guarantees information on cocoa traceability at each one of the processes from production, post-harvest management, and distribution of cocoa. It does this in such a way that the system allows for the registration of the route of the cocoa until its arrival at the final client.

It begins with registration of the cocoa's geographic origin at the level of the farm and includes the parcel of land.

In relation to sustainability, the project provides for integrated crop management with environmentallyfriendly agricultural practices that allow producers to obtain certified organic production within the framework of fair trade and social responsibility. The production in the field should be conducted through practices that do not affect the health of farm families, and the cocoa sold should be food safe for the final consumer.

The expected results of the Aurora Project are:

1,200 MT/year of specialty cocoa exported

More than 3,000 families and 900 producers benefitted

- 100 jobs created
- Crops with international quality certifications

SASSANDRA Ecuador, is a cocoa sustainability program in partnership with Blommer Chocolate Company that has the main objective of increasing the productivity of smallholder cocoa farmers and improving their quality of life through tools such as **technical training, implementation of farmer field schools and provision of agricultural inputs.**

Through the partnerships with provincial governments, they go to the targeted farmer groups (with the public agencies) to bring them technical assistance, inputs, certified planting material, support to improve production, and linkages to Ecokakao's buying chain, as a means of ensuring the sale of their product with incomes based on a fair price.

According to reports from Ecokakao, during 2015 they had 5,000 families benefiting from sustainability programs and 2,500 producers associated with Ecokakao of which 680 were enrolled in their farmer field schools.

Advantages of the strategy being implemented

In general, the strategy of Ecokakao is from the perspective of "grow/grow" meaning mutual development of the company and linked producer associations, through a relationship based on the concept of win/win, but that also further integrates the themes of sustainability and social responsibility.

They leverage public sector support to generate synergies by forming public-private partnerships with provincial governments. In this way, they can reach groups of producers that are smaller, more dispersed and further away. For this, they have utilized the capacity of local government and, as a benefit, include these groups in the Ecokakao value chain which offers fair recognition in prices for cocoa and production improvements for cocoa farmers.

Through the locally-adapted application of projects and programs developed and tested in other countries, they can achieve results in less time. Such results are seen in aspects that support direct buying throughout the chain (quality, productivity, traceability and sustainability) and production improvements in incomes and livelihoods for the producers.

Through training, technical assistance and implementation of farmer field schools, it improves producer compliance with criteria for quality and production processes (in the field and post-harvest) set by the market and companies in the value chain.

The implementation of the Aurora QTS Project is a good start in the application of business development

services for the benefit of producer associations. Among the drivers that make markets work for producers, there is also tendency to channel efforts to achieve quality standards (Alexandra Miehlbradt & Mary McVay, 2005). The Ecokakao model involves working to comply with traceability, control quality, and establish a social certification, which in this case would be fair trade.

Limitations of the Model

According to Mielhbradt & McVay, one of the key challenges with these models is ensuring that the producers comply with their contracts. Any offer from third parties for payment of a price or extra recognitions for the product can have the effect of breaking the linkage. Such loyalty from producers would be achieved by ensuring that they are receiving a sufficient incentive to maintain their contracts, and that they perceive that incentive (price, premium, fair trade margin, support) as equitable.

As indicated in the previous point, they should support the development and deepening of a business mindset in the producer organizations. With this they can achieve a business relationship between buying company and producers that is not seen by the producers as being a "benefit" for the company, or a charitable donation from the company (David Ferrand, Alan Gibson & Hugh Scott, 2004).

Some of limitations analyzed in the case of Sumaqao are equally valid in this case: lack of true business development from Ecokakao for the cocoa producer associations; difficulty for producers to directly use and apply the market studies conducted by the company on the development of niches for its products; low transfer of business management and administration capacity to the leadership of the associations.

Case 3. UNOCACE (Ecuador)

Model 4

Company of producers Description

Created in 1999. Encompasses 12 producer associations (that produce fine flavor cocoa) in the central and southern coastal region of Ecuador. Exports fine flavor cocoa (Nacional), especially Arriba, with Fairtrade certification and different organic certifications, depending on destination. Its main buyers are chocolate companies.

Commercial information Volume Traded

1.500 MT in 2015

Potential Volume

2,500 MT per year

Processing capacity

In the association system: 2,000 MT per year

Type of cocoa

Fine flavor cocoa (Nacional), especially Arriba

Certifications

FLO Fairtrade, Equitable de ECOCERT, USDA Organic, Organic EU, Biosuisse, Canada Organic Regime

Linked Producers

927 producers in its association system and around 1,100 independent producers (or in groups not linked to UNOCACE) in the central and southern coastal region (Los Ríos, Bolívar, Cañar, Guayas and El Oro).

Description of the Model

The collective aspirations of some groups of cocoa producers in the coastal region of Ecuador, and support from the European Union through agreement with the Ministry of Agriculture (MAGAP), resulted in the creation of UNOCACE in 1999. The EU project that allowed for the creation of UNOCACE was called "Reviving the Production and Improving the Quality of Cocoa in Ecuador" and ran from 1995 to 2000 (María Cartagena, 2011). Since 2000, UNOCACE has developed and consolidated based on the strength of its members and leadership, and technical support from MAGAP. At present, members of UNOCACE include: 12 cocoa farmers' organizations in the province of Los Ríos, Bolívar, Cañar, Guayas and El Oro, with a total of 927 member producers. Also, there are business partnerships with six other associations and numerous independent producers, a total of some 1,100 families.

Its supplies fine flavor cocoa, especially the Arriba type, with Fairtrade or Equitable certification and different organic certifications (depending on the destination). Its main buyers are chocolate companies in Europe, North America and Asia.

The more than 2,000 active cocoa farmers linked to the organization have 10,394 hectares of plantations of which 9,087 are certified organic, and the others are in the process of transitioning to this certification. 94% of these farmers have less than 10 hectares of land.

To its member associations (and by extension their producer members), UNOCACE gives services of technical assistance, support for association building, production inputs, certified plants, production improvements, and access to the premium or margin for both fair trade and organic certifications. For the independent producers and associations that are supplier or business partners, UNOCACE gives technical advice, support for association building, and as appropriate, premiums for fair trade or organic certification.

The organic premium is redistributed to the cocoa farmers in the price that is paid for their product. As a general rule, the premium or margin for fair trade (which could be Fairtrade or Equitable), is not distributed to the members; rather it is put in a development fund directed to projects for technical assistance and other activities that benefit the members. The fair trade certifications have represented a great opportunity to open new markets and obtain benefits for the farmers. Practically, since its foundation until the beginning of 2013, UNOCACE had a business relationship with only one foreign buying company, and as such, depended economically and financially on that company.

However, starting in 2013, through a participatory process, it decided to diversify its portfolio of buyers to obtain better prices that permitted it to pay for an increase in technical training and production services. This expansion of services was necessary in order to renovate the plantations and improve the genetics of **2.Sustainability:** : through development, building its own capacity and professionalization; integration of management systems; investment in key aspects (such as renovation, improved planting material, better buying capital; and association with good governance).

3.Growth: through the strengthening and international development of designation of origin for the product; industrialization to obtain better value add; diversification in offerings as well as markets; and investment and development of the final product.

the planting material being used on the majority of the farms of its members.

Beginning with this diversification of buyers, Oikocredit (2014) reached an agreement with UNOCACE and offered two financial products: a long-term loan of US\$145,000 and a line of credit of US\$500,000, renewable annually. These funds have been used by UNOCACE to finance itself during the harvest season to buy products, conduct post-harvest processing and diversify buyers. Based on a good relationship and compliance with payments and objectives, Oikocredit supports UNOCACE with additional funds



to create capacity to support the strengthening of the organization in aspects such as internal control, external audit and governance.

The strategy of UNOCACE is centered on five key points:

1.Profitability: achieved based on work to increase and improve quality and productivity.

4. Policy: to implement mass certification to lower costs and arrive at a greater number of farmers; development of designation of origin with an end of generating and taking advantage of new niche markets; plan for improvement of quality; strengthening of collection capacity; and improvement of productivity.

5.Target markets: chocolate companies with social responsibility interested in acquiring cocoa of excellent quality; relationships under long-term agreements that allow for better sustainability, that support the

development and social investment and that provide prefinancing for the purchase of cocoa.

Advantages of the strategy being implemented

■ The collective marketing of cocoa as a single entity served, since the beginning of UNOCACE, as a regulator of prices in the region for the benefit of smallholder farmers. It reduces their dependence on intermediary buyers and representatives of export companies that can impose their own conditions on payment by installments, methods of weighing, and estimation of quality, on which basis they establish the price.

By bringing together producer organizations into a single entity that represents them in business, they could develop a supply based on a product with a high market value – fine flavor cocoa, Arriba. In a similar manner, they could unify the production on farms, achieve desirable levels of quality, and develop certifications that increase the market value of the cocoa and allow for direct transfer of benefits to the farmers through a differentiated price, such as the application of the fair trade premium for socio-economic benefits.

Once the organizational development was consolidated, it was possible to think about various improvements throughout the spectrum of association activity: market diversification, renovation and crop improvement, financing for development and capacity improvement, and perspectives on generating value addition.

Entering into the fair trade arena has "helped the producers to believe in the future" (Miles Litvinoff & John Madeley, 2007): the social premium included in the price for fair trade certified cocoa can be small, but it makes a greater difference when the smallholder farmers make these funds work for the collective benefit. They support **production by smallholder farmers**, which is considered to be more labor intensive and therefore creates jobs in rural areas, it is more flexible and capable of reducing environmental impacts of production, and furthermore promotes better food security.

By integrating the phases of production in the field, collecting, post-harvest treatment, and collective marketing, it **lowers the transaction costs per unit sold**.

Limitations of the Model

■ In various cases of collective marketing, there is insufficient cash flow at the time of delivering the crop, which runs counter to the urgent need for capital that the producers often have. This can motivate them, or require them, to sell their product to intermediaries, even with unfavorable conditions. As such, at times, producers deliver a portion of their harvest to the association to receive the benefits, and another portion to the intermediaries to obtain immediate cash flow.

■ The degree to which farmers are dependent on cocoa can make it such that they reduce their cultivation of other crops, returning themselves to a situation in which they are more vulnerable to negative changes in the global market as well as in the face of climatic factors, pests and diseases that could attack their farms.

Although UNOCACE has consolidated and developed during its 17 years of existence, by having an association structure there is some risk when there are changes in leadership of the member associations, and therefore the organization. There could be different ideas of the vision and objectives, which can decrease the pace of work, lead to damage to the associative, production and business systems and other similar risks.

Case 4. RIZEK CACAO (Dominican Republic)

Model 3

Local company - Associations Description

Founded in 1905 as a family business of producers, processors and exporters; process and export organic cocoa (USDA NOP and EU) that also have the following certifications: UTZ, Rainforest Alliance, and US Fairtrade standards

Commercial information

Volume Traded

12,000 MT

Potential Volume

14,000 MT per year

Processing capacity

For semi-finished products between 500 and 1,000 $\ensuremath{\mathsf{MT}}\xspace$ year

Type of Cocoa

Hispaniola, various categories

Certifications

IMO (NOP, CEE, JAS), Bio Suisse, UTZ, Rainforest Alliance, USA Fairtrade Standards

Linked Producers

Around 8,000 affiliated producers

Description of Model

Grupo Rizek started in 1905 as an initiative of Nazario Rizek, who later became the largest producer of cocoa in the Dominican Republic. In 1997, it started the process of organic certification and in 2000 it created a support program called FUPAROCA to involve 2,500 producers that were affected by Hurricane Georges.

In 2005, it formed Rizek Cacao SAS as a subsidiary of Nazario Rizek SAS with the function of serving as the export division; Nazario Rizek SAS continues as an owner of farms and producer of cocoa. In 2007, Rizek

SAS and FUPAROCA, Inc. become the main producers and exporters of organic and Rainforest Alliance certified cocoa.

The producers that work with Grupo Rizek, currently have organic certification from IMO for various markets – NOP, CEE, JAS and standards of Bio Suisse as well as Rainforest Alliance certification for cocoa beans. The above-mentioned certifications now are joined by UTZ and Fairtrade certifications.

Their supply of cocoa includes five main categories: Hispaniola Select, Organic Hispaniola Select, Hispaniola according to client specifications, semi-finished cocoa products, and a wide variety of gourmet chocolates under the brand KAHKOW.

Group Rizek includes 35 of its own plantations located in the northern part of Duarte province. **Furthermore, it has developed designations of origin together with producer groups in each zone:**

Los Bejucos, 63 farmers, 683 hectares planted, 445 MT per year

El Ramonal, 69 farmers, 554 hectares planted, 310 MT per year

Grupo Rizek focuses its management on innovation and high-tech post-harvest processing of cocoa for which it has the Center for Comprehensive Processing of Cocoa (CETICO) which has uniquely-configured infrastructure for producing better, and unique cocoa. Furthermore, it has developed two designations of origin with groups of producers. The Cocoa Path (El Sendero de Cacao) is the ecotourism project created by Grupo Rizek to promote the culture and knowledge of cocoa. This takes place at Hacienda La Esmeralda located in San Francisco de Macorís, Duarte province, where visitors can appreciate the process of transformation from the cocoa pod to chocolate. Additionally, through this initiative, they work on reforestation of areas; participants plant a cocoa tree as a part of their visit.

Fuparoca, Inc. founded in 2001, is directly supported

by Rizek Cacao. Fuparoca is a non-profit foundation that brings together producers that supply cocoa to the company. Fuparoca has accomplished **rehabilitation and certification of more than 22,000 hectares of cocoa plantations producing approximately 11,500 tons.** This was accomplished through training farmers on how to achieve optimal levels of production and comply with the certification standards for Rainforest Alliance, UTZ and organic.

Rizek Cacao, in response to changes in the market, has established **Cocoa Collection Centers** in different regions in order to have a direct interface with producers and to guarantee the purchase of cocoa with quality parameters.

KAHKOW is a brand under which Grupo Rizek markets its line of organic and gourmet chocolates. The group has been able to develop an exclusive postharvest system that allows for specific notes and flavors from the cocoa beans to be highlighted, attaining as such a bespoke cocoa for the requirements of the global high-end chocolate industry.

Advantages of Strategies Implemented

The production of cocoa on its own 35 farms ensures the supply of **high-quality raw material** for different markets.

In general, Grupo Rizek's strategy is to leverage the plantations it maintains to ensure precise control of quality from the farm to the final product.

Graphic 27: Model of Rizek Cacao Activities



The FUPAROCA Foundation, which has the goal of giving technical and social assistance for its producers, has allowed the development of a direct strategy for recuperation, rehabilitation, and organic management of plantations.

The current structure has facilitated the transfer of management systems to producers so that their farms comply with the certification standards, differentiating their product from the traditional market.

Through the Center for Integrated Processing of Cocoa, they have successfully developed innovative processes to improve the quality of cocoa that it supplies to the market.

Grupo Rizek's strategy has allowed for the adoption and development of fermentation techniques based on an innovative approach that has prioritized the use of large-scale systems.

■ It relies on a line of diversified products that rapidly adapt to the needs of the consumer, such as designations of origin and the sale of cocoa according to the client's specifications.

Limitations of the Model

The operation of the non-profit FUPAROCA Foundation is conditional on the commercial performance of the company.

The producers are highly dependent and vulnerable to Grupo Rizek's performance in the global market for fine flavor cocoa, which is becoming more competitive with the entry of new actors.

The exports depend on the volume of cocoa production from both Rizek's farms and those of the associated producers. However, the producers maintain small farms with few options for expansion, and a low yield in comparison to other plantations.

The Grupo Rizek model is developing in a geographic area that is susceptible to unpredictable, climatic phenomena that can pose a risk to cocoa production, as has occurred in the past.

Currently, the operation has a high dependency on cocoa production cycles; which is why it can be subject to the supply shortages at certain times of the year.

Case 5. COLCOCOA (Colombia

Model 3

Local company - Producers Description

COLCOCOA was created in 2013, its center of operations is located in the city of Manizales.

Commercial Information

Volume Traded 2,400 MT in 2015 Potential Volume 3,500 MT

Processing Capacity

It uses the infrastructure that is made available by the associations and 8 collection points to buy directly from registered producers.

Type of Cocoa

Conventional and certified; quality cocoa following market requirements (including fine flavor cocoa)

Certifications

UTZ Certified (in process)

Linked Producers

Currently 6,000 producers in 8 zones: Antioquia, Huila, Cesar, Tolima, Caldas, Bolívar, Norte de Santander, Magdalena and Risaralda

Description of Model

COLCOCOA is a local company that markets high-quality cocoa that comes from groups of entrepreneurial producers; it started its operation in 2013 by founders who have experience in coffee buying/ marketing. Since its founding, its business model has been linkages with the producers and key actors in the sector to promote prosperity and sustainability. **Currently, the main product category for commercial activity is certified cocoa, but they also offer fine flavor cocoa.** The company ensures traceability of its product, and the fulfilment of four quality criteria: 1) fermentation above 70%, 2) 7% moisture content for the lot, 3) average bean size of 1.2 grams, and 4) cocoa free of impurities.

Currently, the company works in 60 collection points that have basic quality control equipment (hydrometers and guillotines). The collected product is transported to 8 warehouses where it is stored and prepared for export. With this logistics system, the company exercises strict quality control and analysis of samples to ensure compliance with key parameters for their target market.

COLCOCOA has developed a corporate responsibility program called "Echar Pa'Lante" that involves around 6,000 producers in 11 departments. The initiative aims to positively influence the economic, production, environmental, and social contexts as well as quality, to improve the wellbeing of the producers.

The Echar Pa'Lante program works with a model of segmenting the producers in three categories:

1. Echar Pa'Lante, includes a group of producers that begin a business relationship with the company and are in an early stage of applying good agricultural practices and quality requirements.

2.Echar Pa'Lante Plus, is directed to a select group of 340 producers that are noteworthy for their production and business activity (currently, these producers are mainly in Antioquia, Tolima and Huila).

3.Cacaotesos, these producers are a model for the community to follow. They are producers at the vanguard, leaders, and innovators that standout in the community and are chosen to development key activities such as disseminating best practices and training other farmers in their respective zones.

Loyalty Strategy:

As a part of this segmentation concept, the producers receive identification which specifies the group that they belong to and includes a brief description of the commitments made. When the producers comply by delivering a product that meets the company's conditions, they receive points that are registered in a database. The accumulated points can be redeemed for inputs and tools that will help the producers to implement key actions to improve their crop.

Additionally, for members of this commercial initiative they developed the **National Gathering of Cocoa Farmers** as a space to motivate producers, compare experiences, and share opinions related to the crop. The most recent event was in 2016 and had the participation of 1,200 producers.

Its main commitments to the producers are the following:

- Pay producers over the average local market price.
- Financing operating capital for the groups.
- Equipping and improving commercial infrastructure.

Incentives for producers through the Echar Pa'Lante program.

Organize membership events.

Bring business, administrative, accounting and financial advice.

Promote the production and organizational development of the members.

The company's development model states that it takes more than capability and investment to achieve sustainability for the producers. In this sense, COLCOCOA works with a holistic approach that recognizes the entrepreneurial spirit and motivation of the family as key elements to achieve a positive change.

Through the activities of technical assistance, they hope to increase the average production of the farms from 300 to 800 kg per hectare, as such COLCOCOA's strategies are:

Promote good agricultural practices for the cultivation of cocoa

Improve the capabilities of the producers

Improve the infrastructure for business/marketing

Equipping for quality control

Implementation of an internal standard for quality

Loyalty program for farmers

Transfer technology through farmer leaders

Advantages of the Strategy being Implemented

Stimulates product standardization through fulfillment of basic quality criteria including fermentation, moisture content, size and cleanliness.

Stimulates the creation of horizontal linkages between producers, encouraging their organization for production, collection and guaranteed sale of their product under better conditions.

Creates a strong vertical linkage between organized groups with the buying company, through a mutually beneficial relationship: the company provides specialized services and the producers ensure the supply of product and its quality.

Graphic 28: Business Model of COLCOCOA



Allows for the identification of a level of commitment and development of the producers, and stimulates continual improvement through incentives to improve production and required quality. It has a loyalty strategy for internal clients.

Allows the identification of noteworthy and innovative producers (called "cacaotesos") to channel technical assistance and disseminate best practices to improve farm productivity and cocoa quality.

Promotes the efficient use of economic and management resources such that it brings down the costs of access to certification, and centralizes operations required to comply with export procedures in an efficient manner.

Limitations of the model

The initial step of classifying suppliers is intensive and requires commitment on the part of the company's leadership. The changes in group organizational structure can destabilize or slow down the commercial objectives.

Involves financing operating capital for associated groups for timely collection of cocoa, and requires significant quantities of economic resources for its creation.

It is linked to infrastructure and operating capacity of the producer groups which can vary between groups and areas. It requires a standardization process for postharvest management methods.

Develops a high dependency on production cycles of fine flavor cocoa, and as such, can be subject to supply shortages during certain periods of the year.

Other innovative initiatives



Red Cacaotera, National Cocoa Association of Colombia

The National Cocoa Association of Colombia (Red Cacaotera) was created as a network of organizations. It is an innovative scheme of non-hierarchical, self-organization for organizations, that seeks to share a global vision and integrate the sector, as a tool to generate opportunities for strengthening organizations and building competitiveness for organizations and farming families in the country.

The Red Cacaotera brings together 54 cocoa producer organizations throughout the country, linked in 6 nodes that represent 25,000 producers in different regions of the country.

The objectives of Red Cacaotera are:

To seek interaction between associations and to be a space for coordination, consultation and representation of the interests of member associations to bodies, individual people and legal entities at the local, regional, national and international level, in all that is related to cocoa sector.

Its actions:

Promoting national and international marketing through its associated organizations with the goal of increasing the competitiveness of Colombian production.

Managing and channeling financial and technical resources from regional, national and international cooperation, that benefit the cocoa associations.

Promoting the affiliation of new cocoa producer associations on a national scale.

The Red Cacaotera brings together and offers services to its member organizations with the aim of strengthening their activities and promoting the union of cocoa farmers in Colombia. Among their innovative services is to act as an export platform for specialty cocoa from Colombia, to facilitate financial access and execute local development projects that improve living conditions for producers.

The Red Cacaotera has allowed the creation of spaces that promote the exchange of knowledge and the development of new opportunities through the organizational, social enterprise, technological and production framework, for the marketing of cocoa beans and consolidation of member associations.

Through its innovative work scheme (an association/ network of organizations), the Red Cacaotera has efficiently channeled resources to its base, has executed various projects with a focus on production for specialty markets, and has successfully coordinated the base of the cocoa sector, to initiate its first exports of specialty cocoa to various foreign markets.



Cacaolands Consortium, Ecuador

Cacaolands is a business consortium led by INTIORGANICS SA and VALENCORP, that markets certified organic, fine flavor cocoa (Arriba) and that, through its technical team of professionals, looks to promote activities of production, processing and supply of fine flavor cocoa from different origins, directly with producers and associations, at a national scale. Its cocoa is produced by small and medium producers under the principles of sustainable, organic, climate-smart agriculture and its processes allow for the expression of the genetic potential and specific characteristics of fine flavor cocoa.

The objectives of the consortium are:

To conserve fine flavor cocoa farms and improve the quality of life of those associated with them.

To develop the integral quality of fine flavor cocoa, oriented to the requirements of the market.

To develop the culture of sustainable fine flavor cocoa production under the organic, climate-smart agroforestry production model.

To train producers and to promote the production of quality, with geographic designations, identity, uniqueness and varietal purity.

For this, **CACAOLANDS** has formed production consortiums, located in different geographic zones that operate with a local, field technician, qualified internal inspectors, and someone responsible for certification to bring training and technical assistance to the associated producers.

Additionally, in each work zone, the consortium establishes strategic alliances with carefully-selected collection centers/warehouses where the cocoa is managed under strict quality standards, that allow a product that complies with three basic standards to be obtained – fermentation: >80%, humidity: <7%, impurities <2%.

Through this work model, the members of the consortium receive competitive prices that exceed the average local price by up to 20%, in addition to technical assistance to implement good agriculture practices, support to join certifications required by the market, and access to guality inputs.

7. Conclusions

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7.1 Conclusions from the Policy Analysis Component

General Conclusions

The international market for fine flavor cocoa, compared to that for conventional, is considered to be separate, smaller and more highly specialized, and has its own dynamic of supply and demand. The specialty markets for fine flavor cocoa constitute a segment of particular interest to countries with competitive advantages, such as Ecuador, Peru, Colombia and the Dominican Republic, to access differentiated markets.

Peru, Dominican Republic, and Ecuador have increased their supply of cocoa, in a sustained manner over the last ten years, arriving at a record level of around 400,000 metric tons exported in 2015. With this growing supply, and considering the continual growth in consumption of cocoa globally, it opens a range of possibilities for the producers of cocoa and semi-finished products. Therefore, it is of great importance for each government to align public policies in a way that stimulates the development and competitiveness of the actors in the chain.

Ecuador is a country that has diversified its supply of cocoa and consequently its portfolio of clients who recognize the quality and the attributes of all of the varieties offered (Nacional and CCN-51). There are no restrictions for Ecuadorean cocoa in the domestic or international market; rather it has segmented and has generated significant foreign exchange earnings for the country.

A key aspect for the lead institutions on cocoa policy is to differentiate between the objectives of the State and the private sector objectives for the cocoa sector, to establish strategic actions that can promote the competitive development of the sector through a systematic approach.

In this sense, the main objective of a cocoa policy should not be limited to increasing the levels of production or exports, as the purpose of the government institutions is to improve the quality of life, increase incomes, and stimulate adoption of mechanisms based on fair business relationships, and also contribute to the stability of rural areas.

Considering that cocoa beans are a raw material or commodity, it has basic processing methods, and its marketing is linked to variations in market price, it is important that policies to support producers stimulate the adoption of strategies to differentiate the product in the market. Some examples of initiatives that have contributed to this aspect are: designations of origin, position of the country brand, adoption of quality standards, financing for the adoption of cutting-edge technology, research and technology transfer, the development of human resources, and the strengthening of local organizations.

To take advantage of current market opportunities, it is necessary to maintain a permanent flow of information about trends, evolution of markets, and strategies adopted by competitors. This information is extremely useful for all actors in the sector and helps to plan opportune policies for the sector with a market focus.

On the other hand, policies for the sector that are aligned with the market contribute to the strengthening of actions that stimulate the competitiveness of the sector. A clear example, is the level of public-private coordination in Ecuador, where for more than a decade, it enabled the diversification of the exportable supply and the sustained increase in exports. For the development of policies for the sector, and particularly to execute the activities proposed in the agendas of public institutions, the following recommendations should be taken into account: **Strategic Planning** – The definition of objectives should be clear and should enable quantification for later evaluation of the results obtained. As plans and national programs develop, they should evaluate the results, and if necessary, make adjustments that ensure achievement of goals.

■ Public-Private Collaboration – To create a space to promote public-private collaboration with actors that have the capacity to influence the value chain. The development of this activity implies the identification of courses of action and development of working proposals that generate benefits for all actors involved.

■ Lessons Learned – The process of learning from experiences should not be limited to those generated internally. This learning should be expanded by including external experiences, both positive and negative. The external experiences should be carefully examined to evaluate the similarities and possibilities to translate, adopt or leverage the knowledge generated. There is no one solution or standard for all cases, such that one should analyze in detail the contexts of application.

■ Innovation – The policies for the sector should stimulate the innovation and capacity to transform the management processes to improve the value chain and produce differentiated products for the quality market. The creation of new products and services is based in innovation and creativity. As such, they should promote space to support these innovative initiatives, efforts and projects that optimize or improve the value chain.

■ **Financial Management** – The implementation will be based on efficient management of financial resources, as far as it is necessary to analyze potential sources of financing – both public and private. On the other hand, investments should have appropriate cost controls, results and savings depending on the time horizon over which they are granted. ■ Competencies and Responsibilities – One should assign specific functions and responsibilities with the aim of guaranteeing progress in the implementation of the strategy and resolution of problems that can arise during the execution. The distinct responsibilities will include being in charge of evaluating results obtained and contrasting these with the pre-established goals. In practical terms, all of the objectives should have a person in charge to ensure their accomplishment.

Specific Conclusions

In Ecuador, the public policy has prioritized the development of macro-projects that are focused on the revitalization of the production of fine flavor cocoa, exclusively. The public interventions have generated a great impact at the level of smallholder farmers, but the resulting dynamic is unlikely to be sustainable over time due to the high costs that require government funding and the lack of an ongoing labor system for activities such as pruning. It is important to note that a great percentage of the growth in current supply is due to the growth in production of the CCN-51 cocoa variety and the investments made through international cooperation in the last two decades.

Peru possesses an open and pragmatic public policy that does not discriminate between varieties, and supports the development of local associations, and diversified, public and private investment. In particular, it has known how to leverage the interventions of international cooperation with national projects, as well as to promote all cocoa for export as fine flavor, regardless of variety. The work of various producer cooperatives prioritizing production of fine flavor cocoa, started in 2000-2002.

Colombia with a strong local industry and significant domestic consumption of cocoa products, relies on a supporting policy that is open and diverse, and with a clear focus on the development of a local institutional framework. This aspect is reflected in the presence of an ample group of organizations that work in support of the sector at various scales. However, under this model, the actors interviewed for this study have noted, there is a duplication of functions, and in many cases, a lack of coordination between entities. This has resulted in the producer level of chain being the least favored, and this can especially be seen with regards to technology transfer and technical assistance.

The Dominican Republic has centered its policies on the production of cocoa for export with a supply classified into two categories: fine flavor (Hispaniola) and conventional (Sanchez). The sector also promotes the production and marketing of organic cocoa, such that the country is now the world's main producer of this type of cocoa. On the other hand, the sector and State policies have supported the organization level, including development of strong associations with a business orientation which currently market a large part of the country's production. The Dominican Republic also stands out as a pioneer country in the coordination of the public and private sectors for the development of designations of origin for specialty cocoa.



7.2 Conclusions from the component on case studies of private sector/producer initiatives

The rural associative enterprises have four challenges: securing effective linkages to the market, attaining a system of good governance with strong social capital, having efficient business management with development of strategic alliances, and creating social and environmental value.

Considering that the first step to begin collective business activities is the marketing of cocoa beans, one should pay particular attention to this link of the chain in order to: ensure production volume, benefit from appropriate infrastructure at the level of collection centers/warehouses, improve product quality, and implement internal control systems required for obtaining certification.

For both local markets and export markets, associations fill an important role with regards to standardization of processes, implementation of certification systems, improvement of services, and collection of larger volumes – all key factors for the development of successful enterprises.

The successful institutional or business models identified in this study, rely on people who are leaders in their respective fields. This leadership is reflected in the promotion of the initiative through the business management, the constant coordination with the suppliers, the taking of decisions, and the resolution of problems.

The initiatives analyzed have put forward management mechanisms to facilitate collaboration between the different actors involved. The representatives of each organization work together, making commitments and providing feedback on their experiences. The development of quality is only possible with linkages between producers and a private company, through business models in which the promote differentiated products for each type of market segment.

In all regions studied, the three main causes for low production or low productivity of cocoa are: the presence of pests, diseases (frosty pod and witches' broom), and the climatic conditions that affect the crop (high rainfalls and humidity). Furthermore, half of those surveyed cited the lack of credit for production, presence of old trees, and lack of technical assistance.

All the cases selected had adopted different management models, but have the following elements in common:

■ **Planning:** they rely on current information that allows them to plan results in the short, medium and long terms. In this manner, they have defined internal competencies, and use strategic and operating plans as instruments to determine goals and performance indicators for the fulfillment of business objectives.

Innovation: The models studied have incorporated this variable mainly at the level of the product and their processes, through the incorporation of internal control systems, certifications, post-harvest processing centers, and development of capacity.

Synergies: This variable is addressed through the utilization of local capacity and available infrastructure. The synergies between actors involved has been achieved through agreements, meetings and corporate responsibility projects.

Interdependence: In this sense, the success of the enterprise is based on the interdependence of the actors participating where they look for business relationships and synergies following the concept of "win/win."



8. List of People Interviewed PFRU

INSTITUTION

AGRORURAL Ministry of Agriculture & Irrigation

APPCACAO Peruvian Association of Cocoa Producers

Peruvian Chamber of Coffee and Cocoa

Cooperativa Agraria Cacaotera ACOPAGRO Ltda.

ARPROCAT Asociación Regional de Productores de Cacao de Tumbes

Rizek Cacao

CONACADO

Ministry of Agriculture

PERSON INTERVIEWED

Alicia Margarita Mellisho Salas Ricardo Romero Trujillo

Luis Mendoza Aquilar

David González Cucho

Segundo Gonzalo Ríos Núñez

Francisco Rivas Chamba

DOMINICAN REPUBLIC

Jose Luis A Abel Fernández Bernardo Pequero

FCUADOR

Jorge Gaibor

MAGAP Ministry of Agriculture, Livestock, Aquaculture and Fisheries

MIPRO Ministry of Industries and Productivity

Ministry of Culture and Heritage

ECOKAKAO

UNOCACE

INTIORGANICS

Fortaleza del Valle

COFINA

Ecuatoriana de Chocolates

GI7

GOBIERNO AUTÓNOMO DESCENTRALIZADO PROVINCIAL DE PASTAZA

INIAP

Gabriel Astudillo

María del Carmen Guerra Iván Ontaneda Freddy Cabello Fidel López Berto Zambrano Julio Zambrano Agustín Madera Pedro Ramírez Antonio Kubes Patricio Santi

Juan Carlos Jiménez

TITLE

Specialist in Management of Programs and Projects Sub Director of Production Capacity

Manager

Technical Advisor

General Manager

Representative to APPCACAO

Quality Manager Business Manager Cocoa Technician

Coordinator of coordination of the coffee and cocoa value chains

Specialist in Planning

Specialist in Projects

Manager

Manager

Manager

Manager Manager

Production Manager

Representative

Provincial Prefect Director of Sustainable Development

Representative

COLOMBIA

INSTITUTION

COLCOCOA S.A.

CASA LUKER

Cacao Hunters

Compañía Nacional de Chocolates

Ministry of Agriculture and Rural Development

SECO Swiss Program for Cooperation on Economic Development in Colombia

PROCOLOMBIA

FEDECACAO National Federation of Cocoa Farmers

CORPOICA Colombian Corporation for Agricultural Research

US Embassy – Cocoa for Peace

National Cocoa Council

Asociación Nacional Cacaotera de Colombia. Red Cacaotera

FINAGRO

PERSON INTERVIEWED

Mauricio Buitriago

Juan Carlos Arroyabe

Carlos Ignacio Velasco

Juan Fernando Valenzuela

Cesar Riqui Oliveros

Catalina Pulido

Juan Elias Raad Iván Delgado

Oscar Dario Ramirez

Juan Lucas Restrepo

Michael Conion Juan Gallegos

Bernardo Sáenz

Helga Quijano

Nelson Percy Helio Duarte Toloza

TITLE

Representative

Social Responsibility

Representative

Representative

Director of Agricultural Chains

Representative

Trade Advisor Advisor

Technical Manager

Representative

Representative

Representative

Representative

Representative Director for Trade Unions/ Associations reas.

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CACAO DE ORO

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