



Guidelines for Cocoa Business Development In the Region

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IN COOPERATION:

FORD FOUNDATION

and

Regional Autonomy Watch

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Chapter I. Introduction

1.1 Preface

In terms of production volume, Indonesia is the 3rd producer of cocoa in the world, after Ghana and Ivory Coast. As a strategic international trade commodity, Indonesian cocoa unfortunately has still not been able to attract investors to make cocoa as one of their investment goals. This condition is assessed as a result of the lengthy value chains to be followed in cocoa business coupled with lack of knowledge and awareness of cocoa farmers and lack of government programs in cocoa development.

Study results of cocoa business value chain carried out by KPPOD demonstrate that the commitment and support of the local government in the development of the cocoa sector is still minimal. This condition is apparent from the absence of an integrated cocoa development program both in terms of policy (regulation), fiscal (budget) as well as mentoring program in each value chain of the cocoa business sector. The lack of development efforts in each cocoa business value chain is indicated by the lack of understanding of farmers in terms of cultivation, lack of farmers' bargaining power in marketing cocoa, and weak local government support both in terms of direct coaching and institutional support.

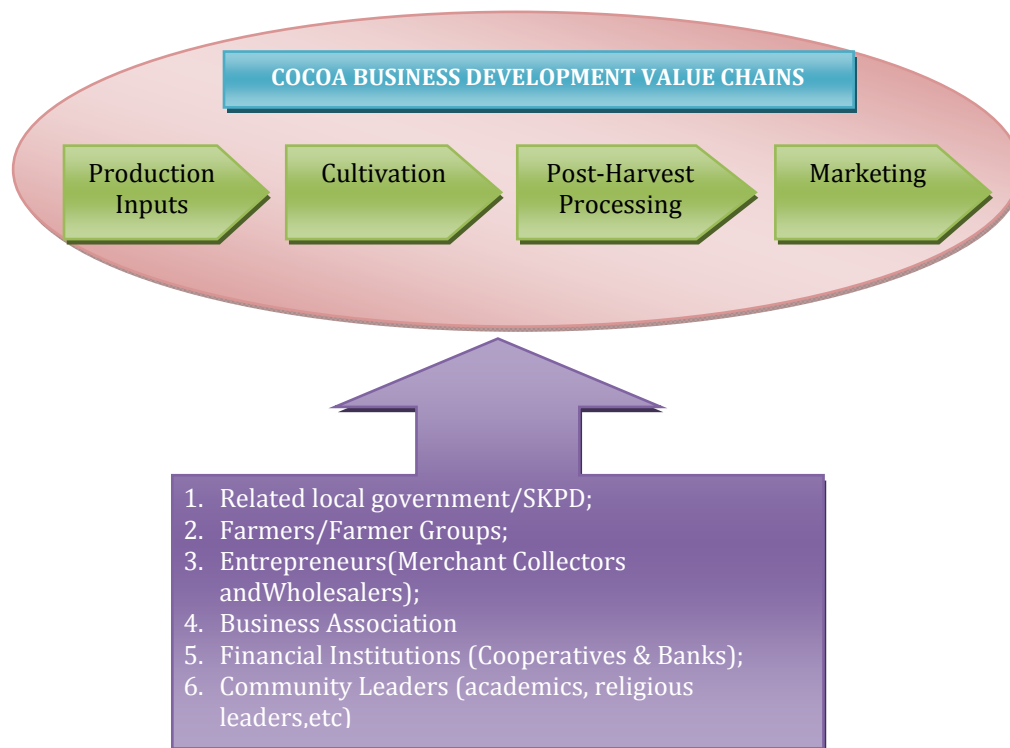
In this context, as one of a series of previous studies carried out on cocoa business value chain, KPPOD intends to contribute to cocoa business development in the form of **preparing a guide on cocoa sector business development in terms of optimizing the role and functions of various stakeholders associated with each cocoa business value chain**. The involvement of various stakeholders from both government and non-government elements are interrelated to each other, so that in enhancement and development efforts of each value chain should always be synergized with other value chains. This guide is expected to provide information and guidance to various parties including government agencies in cocoa sector business development programs.

In this guide we will present a discussion based on the value chains associated with cocoa business sector, namely production inputs value chain, cultivation value chain, post-harvest processing value chain, and marketing value chain.

What is the Value Chain Development of Cocoa Business?

Value chain development of cocoa production business is a systematic effort to seek the creation of a business environment conducive to the development of cocoa commodity business. In the creation of a business climate that is conducive, one way to do this is to optimize the involvement of stakeholders from each of the production value chain: from cultivation (on farm) to marketing of products (off farm). A review of a series of value chains started from inputs value chain as means of production, cocoa cultivation, post-harvest processing to marketing of cocoa production.

Figure 1.
Cocoa Business Development Value Chains



What are the Objectives of the Preparation of this Guide Book?

This guide book aims to provide an overview of the role of each stakeholder in each value chain and role optimization in an effort to develop cocoa business in the future. In addition, this guide book can also be used as guidelines for local governments and other stakeholders to create cocoa coaching programs and business development in the regions.

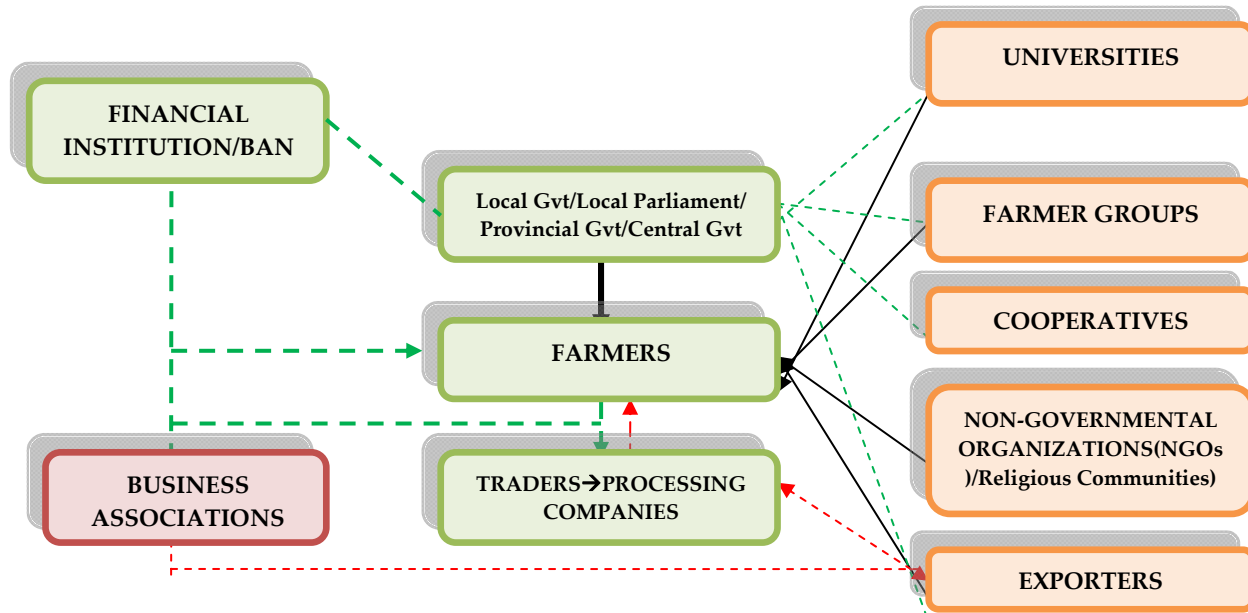
What is the Scope of the Guide Book?

The scope of this guide book is focused on optimizing the role and active involvement of stakeholders in each cocoa business value chain. This guide/manual is more focused on the contributing behavior and what actions can affect the creation of an environment conducive to the business development of the cocoa sector. Action behavior in each cocoa production value chain started from production of inputs, cultivation, post-harvest processing to marketing. Each stakeholder involvement can be seen both from the policy-making process and the technical implementation on the ground so that it can have an impact on improving a business climate conducive to the cocoa sector

Who are the Stakeholders in Each Value Chain of Cocoa Production Business?

The preparation of this guide/manual on cocoa business development is a form of KPPOD's contribution to the development of the cocoa sector in Indonesia. The business development of the cocoa sector involves several relevant stakeholders such as the Bappeda, Department of Plantation, food security and training Agency, local NGOs, financial institutions, farmers as key actors, Processing Unit (UPH), village/sub-regency merchant collectors and wholesalers.

Here are the stakeholders associated with the business development value chain of cocoa production.



Information:

- : Supporting activity
- - - : Coaching relationship
- - - : Cooperation relationship

Who are the Beneficiaries of the Preparation of this Guide Book?

This guide is intended to provide guidelines for all stakeholders involved in the cocoa business sector in order to play the role in increasing value chain. Through the preparation of this guide book, each of the relevant stakeholders in each cocoa production value chain will be able to understand the needs and actions that should be implemented and optimized in an effort to develop the cocoa business sector

How about the Systematics of the Preparation of this Guide Book?

This guide book is arranged systematically based on each stage in the production value chain of cocoa sector business development. Discussion stages start from production value chain, cultivation value chain, post-harvest processing value chain, to marketing value chain. With the mechanism of material presentation based on the value chain stages this guide book is expected to provide a more comprehensive picture of the role and involvement of each stakeholder in cocoa business development in each value chain.

Glossary of Terms and Abbreviations

Bappeda	: Local Planning and Development Agency
BKP2	: Food Security and training agency
Distanbun	: Agricultural and Plantation Agency
Disperindag	: Industrial and Trade Agency
Gernas of Cocoa	: National Movement of Productivity and Quality Improvement of Cocoa
LSM	: Non Governmental Agency
Poktan/Gapoktan	: Farmers Groups
SKPD	: Sectoral Agency
Saprodi	: Infrastructure and Equipment related cultivation process
UPH	: Processing Unit

Chapter II. Guide Book on Cocoa Production Value Chain Development

I. Value Chain of Input Production

Input production value chain covers all the required carrying capacity required by farmers to carry out cocoa cultivation activities. These needs may include equipment, facilities and infrastructure as well as physical infrastructure and capital needs to get facilities and infrastructure. Included in this production value chain are traders of input facilities and infrastructure (inputs), the providers, the local government in relation to the provision of physical assistance in the form of training, production facilities and infrastructure for farmers, financial institutions in connection with efforts to provide easy and cheap credit support scheme for farmers, and the Processing Unit (UPH) as modern farmer groups that assist farmers in getting access to production facilities and infrastructure.

In order to meet the availability of production facilities and infrastructure to support cocoa cultivation activities, there needs to be support and involvement of various relevant stakeholders from both government and the private sector as providers and distributors of production facilities and infrastructure. Good interaction between various stakeholders will be able to encourage cocoa farmers to increase cultivation activities in order to produce good quality and quantity.

Things to be considered in the process of procuring production inputs:

1. Availability of sufficient supply of seeds and production facilities (equipment and fertilizers) from the region itself;
2. The existence of a clear and unequivocal policy of the local government in channeling assistance programs, both in the form of mentoring and physical assistance of production facilities and infrastructure;
3. The effort of making organic fertilizers and subsidized fertilizers for farmers, and
4. Minimizing business monopoly by shops selling production facilities

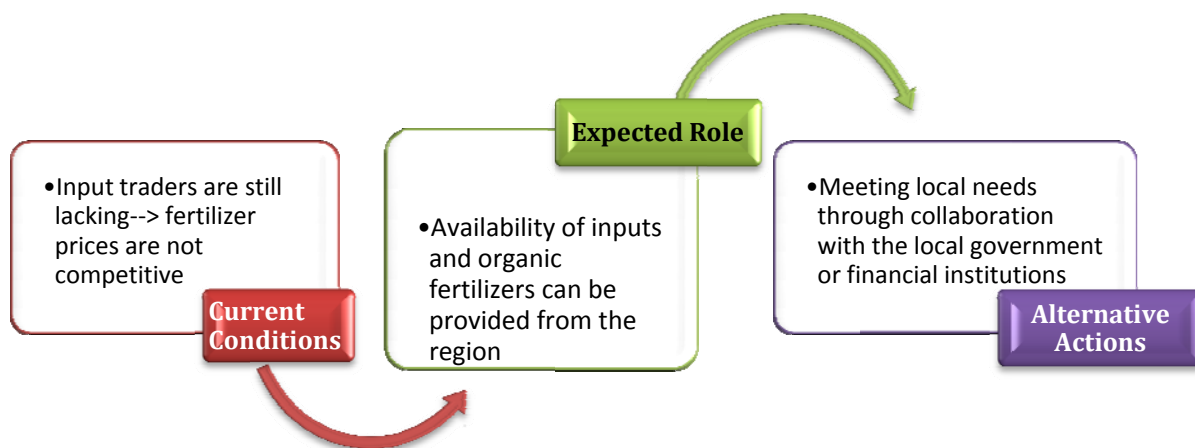
Here are the stakeholders involved and have an important role in the value chain of production facilities.

Input Traders

Input traders are business actors in the local region that providesupporting production facilities and infrastructure in cocoa cultivation activities. The facilities and infrastructure may take the form of fertilizers, pesticides and crop farming tools such as scissors and other equipment. In order to support the increase in cocoa production, a sufficient number of input traders (more than one trader) in the

region can ensure the availability of inputs required by farmers. Aside from availability, the presence of a certain number of traders will be able to guarantee the availability of inputs and can minimize monopoly so that the price obtained by farmers is more competitive. In addition, entrepreneurs can become partners of the local government in helping to distribute assistance programs and maintaining the availability of inputs in the region. Cooperation with financial institutions is also important to be done in order to get easy access to capital for business sustainability.

The following roles are performed by input traders in support of cocoa sector business development.

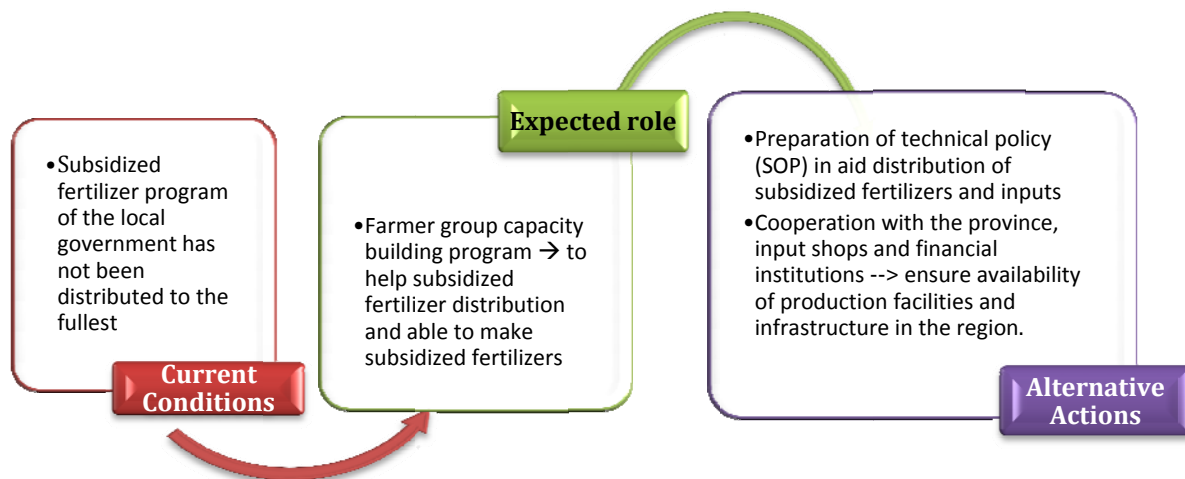


Local Government (Department of Agriculture and Plantation-Distanbun)

The local government through the agency concerned, namely the Department of Agriculture and Plantation (Distanbun) plays an important role in the development of programs and policies and in determining appropriate budget allocations to support the development of the cocoa sector. Programs and policies are implemented not only as physical support but also include capacity building efforts through coaching and training farmers.

The role of the local government through Distanbun can be optimized by designing an integrated cocoa development program, particularly in relation to the guidelines on the distribution of input assistance, so that the assistance provided both derived from the Local Government and the Provincial Government and the Central Government can be channeled to the appropriate targets. In addition, the local government may establish cooperation with financial institutions to provide easy access for farmers to obtain capital, and in collaboration with input shops ensure the availability of inputs in the region. Another important effort optimized by the local government is to provide assistance and training to farmers to fulfill their own needs for inputs among others through the production of organic fertilizers and strengthening the capacity of farmers in caring for their farms, so that plant pests can be avoided.

Here is the important role of the local government in support of the cocoa development program.

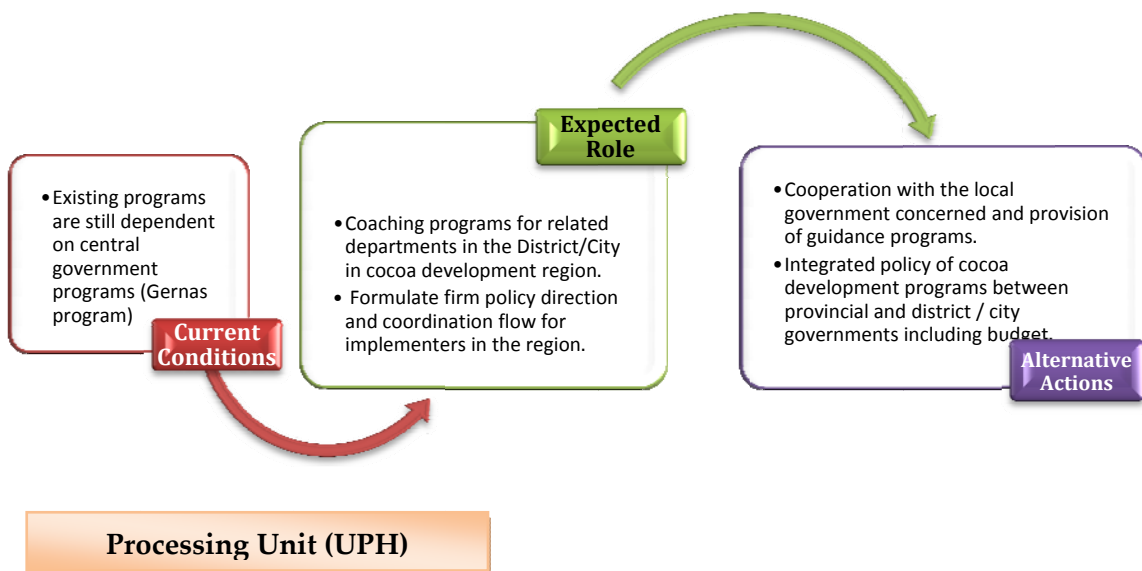


Provincial Government (Provincial Department of Agriculture and Plantation, Distanbun)

The province as a representative of the central government plays an important role in ensuring the implementation of central government programs in the region. In this case, Provincial Distanbun helps to implement and coordinate Central Government programs implemented both at Provincial and Regency/City levels. In addition, the Province through the Department concerned (Plantation) plays a role in formulating its own policies, as well as determining cocoa sector development budget allocations at the Provincial level.

In order to optimize the role of the Provincial government can be done through the preparation of a firm and clear policy for developing the cocoa sector. There needs to be a policy that binds specifically in terms of coordination between relevant Departments so that the implementation of cocoa sector development programs can be integrated and do not overlap each other. In addition, increased coordination between Provincial and Regency/City Departments of Agriculture and Plantation can also be optimized through coaching and training activities that are conducted regularly so as to increase the capacity of implementers in the regions. In carrying out development and training the Province must be able to motivate the Regency/City Government to formulate initiative programs according to the needs of its respective region to foster independence so that in the future the region is less dependent on the Central Government.

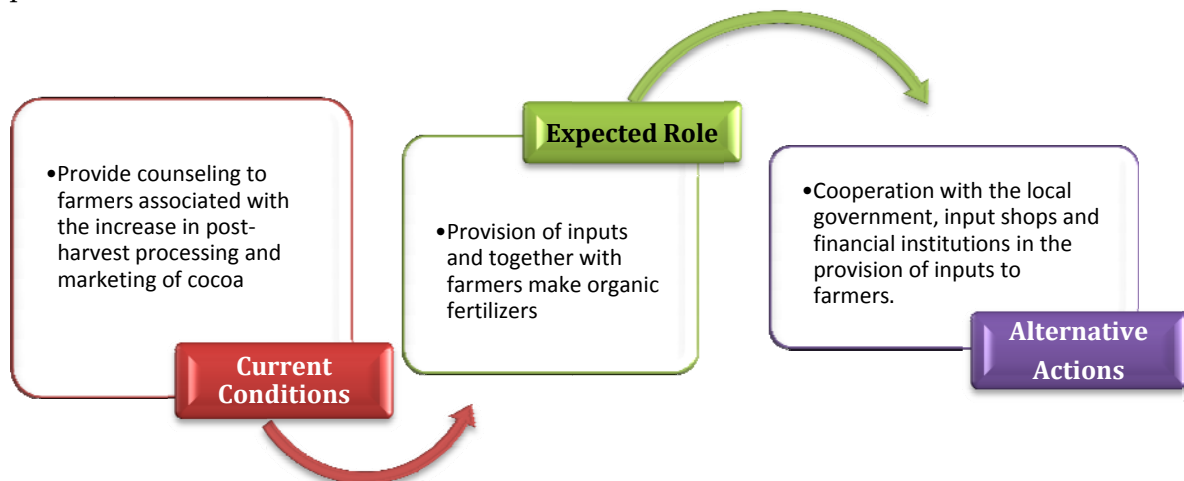
Optimization of provincial role in cocoa development can be seen in the following chart.



UPH is a processing unit that is formed through the Gernas program. The UPH is managed directly by farmers/farmer groups – combined farmer groups so that it can become a means of training and coaching to farmers in cocoa business development. Good management of the implementation of the UPH will be able to increase the capacity of farmers both in terms of cocoa cultivation, processing, and marketing of crops.

In terms of the provision of inputs, the UPH managed by farmer groups/combined farmer groups can be optimized as a local government partner in delivering input assistance to farmers so that distribution of inputs can be precisely targeted. In addition, the UPH that also acts as buyer of cocoa proceeds can give confidence to financial institutions and in cooperation with financial institutions provide capital assistance for farmers and the UPH. Input shops can also take advantage of the UPH as partners to promote and sell inputs to farmers in need.

The following is a chart on UPH's role and the optimization role that can be performed by the UPH in the production value chain.

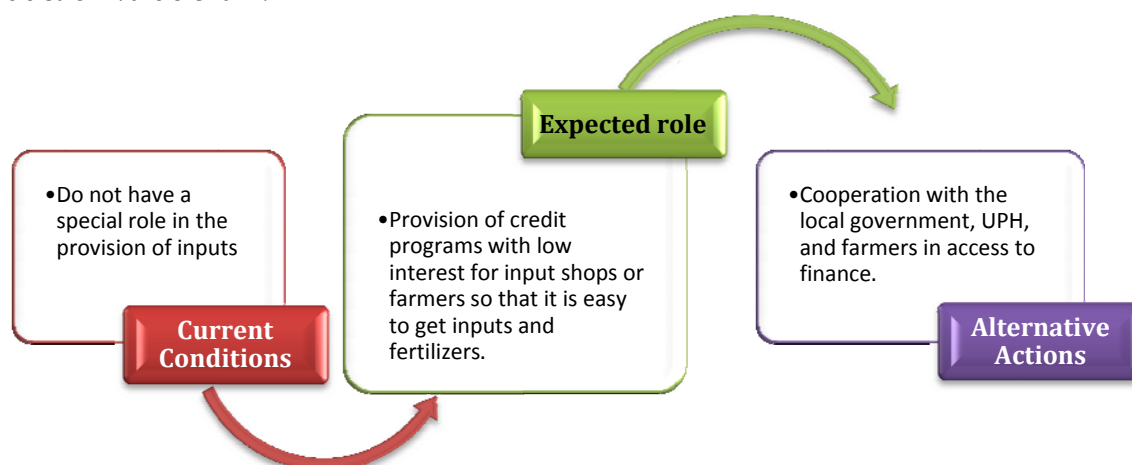


Financial Institutions (Cooperatives and Banks)

Financial institutions serve as distributors of financial assistance provided by the government, banks or other financial institutions. Lack of trust from financial institutions to farmers and lack of coordination and cooperation between financial institutions and the local government, has resulted in non-optimal distribution of assistance programs.

Optimizing the role of financial institutions in the provision of inputs can be done through collaborative efforts and program synergies with the local government so that assistance programs can be performed well. The local government in this case can serve as a guarantor (avalyst) for farmers so that financial institutions' confidence towards farmers increased. In addition to the local government as a guarantor, financial institutions can partner with the local government and the UPH in socializing assistance programs so that farmers know the whereabouts of assistance programs from either local government or financial institutions. The assistance program can be used by farmers to get required inputs.

The following is an illustration of the role of financial institutions in supporting the improvement of the production value chain.



II. Cocoa Cultivation Value Chain

In the cocoa cultivation value chain, farmers are the main actors who play an important role in farming activities. In Indonesia, generally farmers own land between 0.5-1 hectares per farmer. Cocoa cultivation is done through planting, farm care (pruning, sanitation, fertilization) to cocoa harvesting. Generally cocoa will be harvested after the age of 3 years. However, through the Gernas program which is a program of the central government, by use of somatic embryogenesis (SE) as superior seeds, cocoa trees can bear fruit after being planted for 18 months.

Cocoa requires special treatment in order to improve its productivity and quality. Good cropping pattern and regular maintenance is important to avoid pest attacks. Good cultivation practices (Good Agricultural Practices) can be done through:

1. Regular maintenance done through farm cleaning activity;
2. Pruning every day;
3. Perform regular fertilization generally 2x/year, and
4. Spraying pesticides on a regular basis (every 7-10 days).

In cocoa cultivation activities, in addition to farmers there are supporting actors in the form of farmer organizations that are well organized, namely farmer groups (Poktan) and combined farmer groups (Gapoktan). Farmer organizations become a medium for farmers to conduct joint farming, joint organizing of assistance program management by the local government, financial institutions, and NGOs. Through Poktan and Gapoktan, coaching and assistance efforts are carried out for farmers to improve their knowledge and skills in terms of cocoa crop cultivation (Good Agricultural Practices-GAP).

Several aspects to be considered in the development of cocoa cultivation value chain:

1. Good awareness of farmers to take care of their farms on a regular basis and apply good cropping pattern (GAP);
2. Strong farmer organizations in the form of Poktan/Gapoktan and UPH;
3. Integrated coaching and counseling both from the relevant Department or extension agency (BKP2);
4. Improving the capacity of farmers through the programs from the government, NGOs, and companies.

Here are the stakeholders involved which have an important role in the cocoa cultivation value chain.

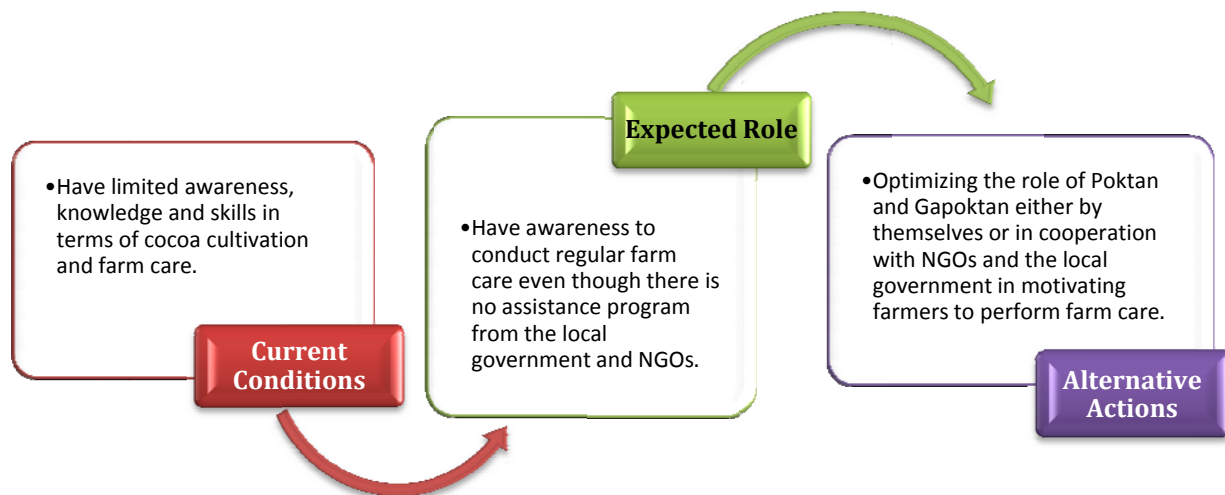
Farmers

Farmers are the main actors in the cocoa cultivation value chain. Farmers began to be active since planting activity to cocoa harvesting. In the regions, where institutionally farmers are already strong, farm management systems are performed together and in turn. Mutual assistance in farm care is usually done by farmer groups. However, in the regions where farmers are still traditional, farming activities are carried out by themselves in the traditional way that does not foster mutual cooperation and not encourage joint learning about the problems encountered in farming.

Farmers as main actors should be able to increase their knowledge and motivation in developing cocoa as the source of family income. Farmers have to motivate themselves to be actively involved in

training and coaching programs conducted either by the local government or other parties such as entrepreneurs and NGOs. Through increased knowledge and capacity, farmers can carry out cocoa cultivation properly so as to produce cocoa beans with better quantity and quality. In addition to increasing the individual capacity of farmers, optimization of their role can be done through farmer organization activities. Strong farmer organizations through farmer groups (poktan)/combined farmer groups (gapoktan) can facilitate and provide them with ease of access to making organic fertilizers, carry out good cocoa cultivation, for example through training of making organic fertilizers, joint planting, joint farm care, and other activities.

The following is an illustration of the role of farmers in supporting the improvement in cocoa cultivation value chain.

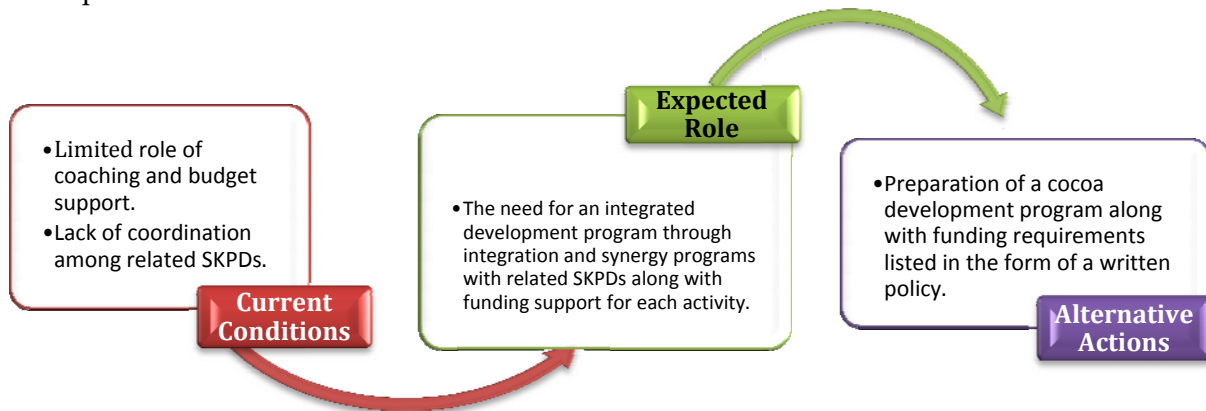


Local Government (Department of Agriculture and Plantation, Distanbun)

The role of the Department involved in the cocoa cultivation value chain is focused on coaching and training programs for farmers. The existence of a clear policy framework and an integrated coaching program accompanied by an adequate budget allocation can be a supporting factor to the program achievement of capacity building and coaching of farmers conducted by the local government.

Optimizing the role of the local government (Distanbun) can be pursued through development of a regulatory framework of cocoa cultivation development that is based on the needs of the local conditions. The regulation should at least contain duties and functions of the relevant department, cooperation framework to be developed both with other relevant departments and non-government parties. With a regulation that is binding the government will be able to strengthen its commitment to developing the cocoa sector. In addition to the presence of such regulation, efforts to optimize the role of the local government can be done through training and coaching programs conducted either alone or in collaboration with NGOs and cocoa companies. Good coordination among SKPDs as well as among non-local governments can optimize development efforts carried out so that programs can be implemented in an integrated and sustainable manner.

The following is an illustration of the role of the local government/department involved in supporting the improvement in cocoa cultivation value chain.

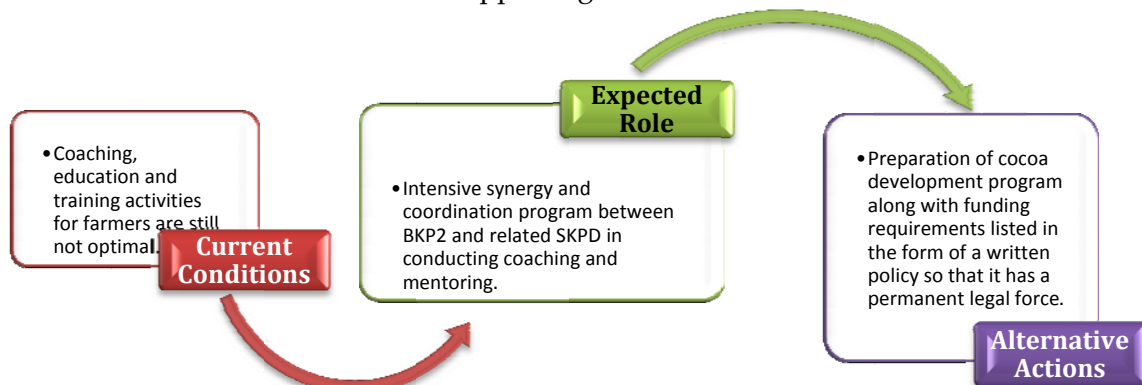


Agency for Food Security and Agricultural Extension (BKP2)

BKP2 plays an important role in providing counseling and assistance to farmers. This agency has an important role in providing guidance and training to farmers regarding crop cultivation procedures and good farm care. However, the limited number of extension workers (PPLs) and the PPL structure that is polyvalent with different backgrounds leads to lack of focus by the PPLs, because they are also assisting other food crop farmers so that implementation of mentoring is limited.

Optimizing the role of BKP2 is important in order to optimize coaching and assistance efforts to cocoa farmers. Increasing the role of BKP2 can be done through a regulation that contains clear tasks, functions and budget between BKP2 and Distanbun along with clear and firm coordination flow between the two agencies. Through the regulation, in future it will be able to minimize coordination problems from occurring between the two agencies so that coaching programs for farmers can be performed optimally.

Here is an illustration of BKP2 role in supporting cocoa cultivation value chain.

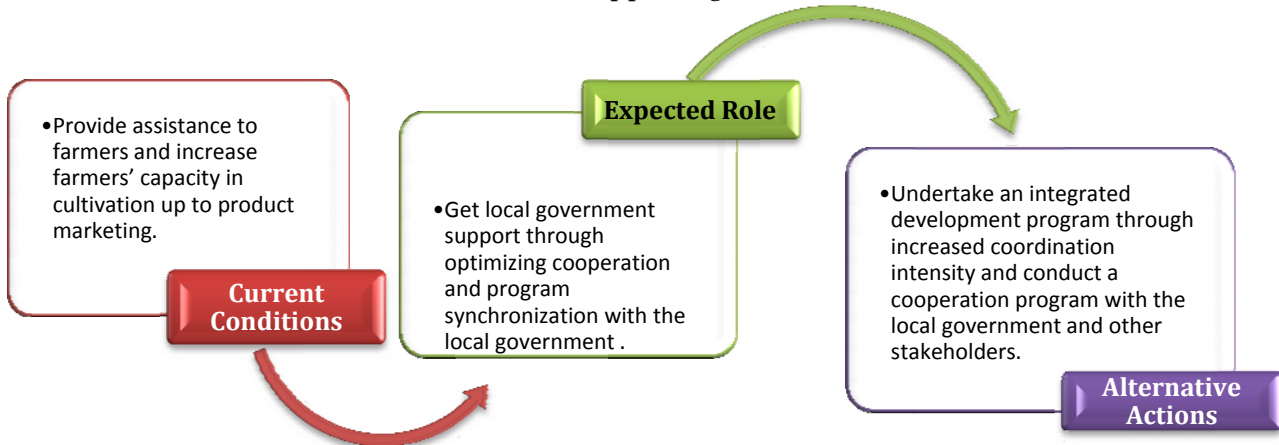


Non-Governmental Organizations (NGOs)

The existence of Non-Governmental Organizations (NGOs) can greatly assist the government in coaching of farmers. In some cases in the region, the role of NGOs is very prominent if compared to the relevant Department. NGOs as non-governmental organizations have wider latitude in carrying out activities so that the programs created are more innovative and can be directly implemented without colliding with the rules and procedures that exist in the government.

In this case, it is necessary to have program synergy and integration between the NGO and the local government so that programs to be implemented can run well and do not bump into each other. In addition, cooperation between NGOs and the local government can be beneficial to both parties, because NGOs are still in need of commitment and support of the local government in determining which regions will be used as program regions, while the local government in partnership with NGOs can help expand implementation outreach of planned programs.

Here is an illustration of the role of NGOs in supporting the cocoa cultivation value chain.



Community Leaders (Religious Figures)

Cocoa cultivation is usually carried out by traditional farmers so that in the event of farm care, it is not uncommon that local cultural values still influence them in terms of treating cocoa farms and cocoa trees. Mutual assistance cultural values or "*sakoseng*" in the Sikka community in NTT province is one example of the cultural values that can support farmers in conducting cocoa cultivation. But there are not only positive cultural values because negative cultural values are also inherent with cocoa farmers, one of which is the notion that cutting down cocoa trees is taboo. The negative cultural values inhibit farmers in the rejuvenation of their cocoa trees.

With still strong cultural values embedded in society, a specific approach is needed through local community leaders or respected religious figures to provide understanding and motivation to farmers

in terms of good farm care and cocoa cultivation. An example in this case has occurred in Sikka, where involving the church can motivate people and is considered able to provide understanding to farmers to take good care of their farms.

Here is an illustration related to the role of community leaders in supporting the cocoa cultivation value chain.



Companies/Buyers

Companies as buyers of cocoa proceeds from farmers have concerns about the availability of raw material supply of cocoa beans. To ensure the availability of cocoa raw material, several companies have been performing guidance and assistance to farmers. The activity is aimed to get cocoa quality and quantity in accordance with the needs of the companies.

In terms of coaching and training efforts, companies should carry out their activities in cooperation with the local government and local NGOs. In addition to increasing the commitment and support from the local government of programs run by the companies, these activities can also help them to reach the program target regions. Partnership with NGOs and the UPH is also another strategy that can be done by the companies to optimize coaching and training farmers.

The following is an illustration of the role of companies/buyers in supporting improvement in the cocoa cultivation value chain.



III. Post-Harvest Processing Value Chain

Processing of cocoa beans begins after cocoa fruits are plucked from the trees. Processing of cocoa beans can be done through two processing types, namely fermentation and drying. Fermented cocoa beans have higher prices and demand from the industry than dried cocoa beans, because of more reduced water content. However, farmers generally sell dried cocoa beans due to slight difference in price and the process itself does not require a lot of time and effort.

Fermentation process is done by using a tool in the shape of a box where cocoa beans are put into for 4-6 days. Fermented cocoa beans are then dried for +/- 5 days until the cocoa beans have a water content of 7-8. Fermentation process can produce cocoa beans with a fragrant aroma and quality to suit the needs of the industry.

Meanwhile, the drying process only requires a medium or pedestal. Drying process is generally faster than fermentation process, taking 2-3 days only.

In international trade, fermented cocoa beans are sold at a higher price than non-fermented cocoa beans. The cocoa processing industry also prefers fermented cocoa beans because of better quality and in accordance with the needs of the industry. In addition to low quantity and quality of Indonesian cocoa, Indonesia's low cocoa prices in international trade is also because cocoa beans sold by Indonesia are generally not fermented. Although through fermentation, the resulting quality of cocoa beans is far better and the price obtained is also higher, but farmers in Indonesia are still reluctant to conduct fermentation because of the insignificant price difference if compared to the effort expended by the farmers.



Picture. Sun drying process and fermentation process with fermentation box

Several aspects to be considered in the development of post-harvest processing value chain:

1. Assistance and training related to cocoa beans processing are done by the local government and other relevant stakeholders;
2. Optimization of UPH's role as a facilitator of farmers in the process of fermentation and drying of cocoa beans;
3. Cooperation among the UPH, local government and other stakeholders to provide an understanding to farmers of the importance of fermented cocoa beans that are much in demand by the industry;
4. Incentives to encourage and motivate farmers to conduct fermentation of cocoa beans.

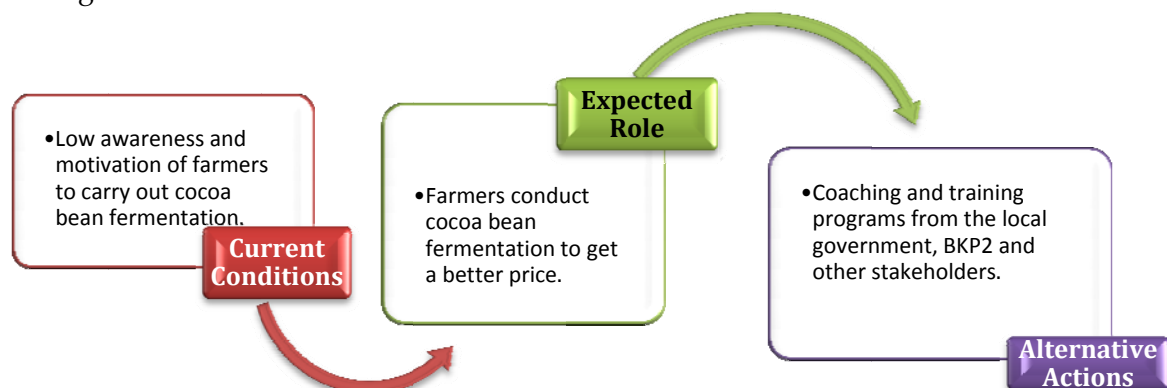
Here is described the role and involvement of multiple stakeholders that are involved in post-harvest processing value chain.

Farmers/Farmer Groups

In post-harvest activities, there are two cocoa bean processing types before delivery to the factory, which is the process of drying and fermentation. Farmers generally prefer drying direct under the sun compared with the fermentation process. With direct drying the process is faster (2-3 days), and proceeds can be directly sold to merchant collectors so that farmers earn money more quickly. While with fermentation, cocoa beans must be fermented in a given volume, it takes much longer time (4-5 days) while cocoa price difference between fermentation and regular drying is not too significant. Another consideration of farmers' reluctance to conduct fermentation is lack of facilities and infrastructure as well as lack of knowledge thus causing them to prefer the direct drying method which is much easier and does not require a difficult medium.

Basically farmers understand the importance of fermentation but several limitations in facilities and infrastructure, the desire to meet their needs quickly, and lack of motivation are the reasons for the reluctance of farmers to ferment cocoa beans. Therefore, in order to increase income of farmers from the cocoa sector, farmers must be able to motivate themselves to adapt to market demand. The needs of the industry prefer the aroma of fermented cocoa produced from the fermentation process, because of more fragrant and better quality cocoa beans. Therefore, capacity building of farmers is essential for both farmers and farmer organizations such as the UPH.

The following is an illustration of the role of farmers/farmer groups to support improved post-harvest processing value chain.

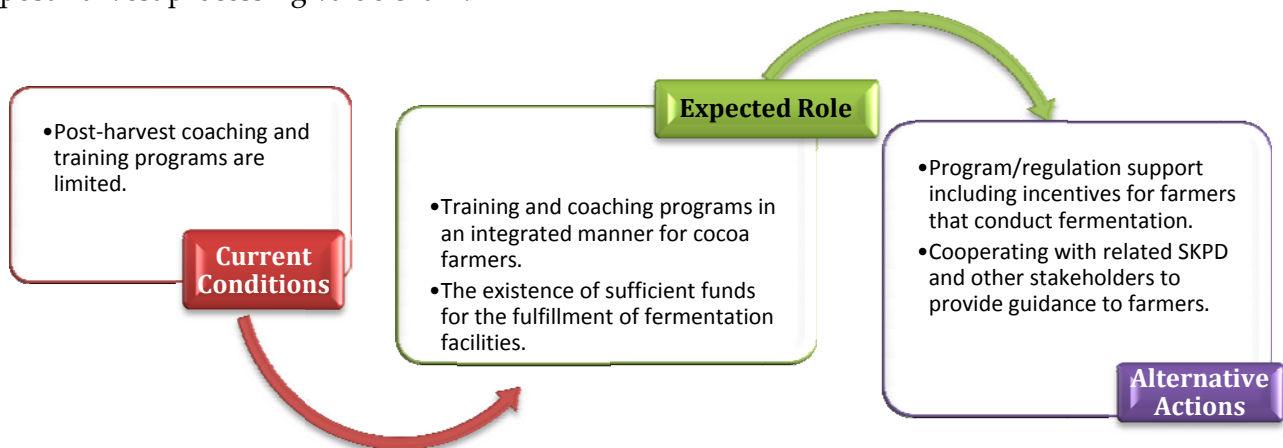


Local Government (Department of Agriculture and Plantation, Distanbun)

In the post-harvest processing value chain, the role of the local government is still involved with provision of guidance and training to cocoa farmers. The local government should be able to provide programs/policies that can motivate farmers to perform post-harvest activities in accordance with the demands and needs of the market so that cocoa farmers have a better bargaining position.

The local government can pursue farmer capacity building programs through integrated efforts of coaching and training given the importance of post-harvest processing through fermentation. To support these activities, the local government by way of a written regulation can support other programs such as coordinating relevant agencies to implement coaching programs, set up a system of incentives for farmers who want to carry out fermentation, set up partnerships with other parties such as financial institutions and companies/buyers to provide ease of access in terms of capital, and as stimulating companies with fermentation facility assistance and the appropriate price for fermented cocoa beans, and other settings that can motivate farmers to carry out fermentation.

The following is an illustration of local government role (SKPD) involved in supporting improved post-harvest processing value chain.



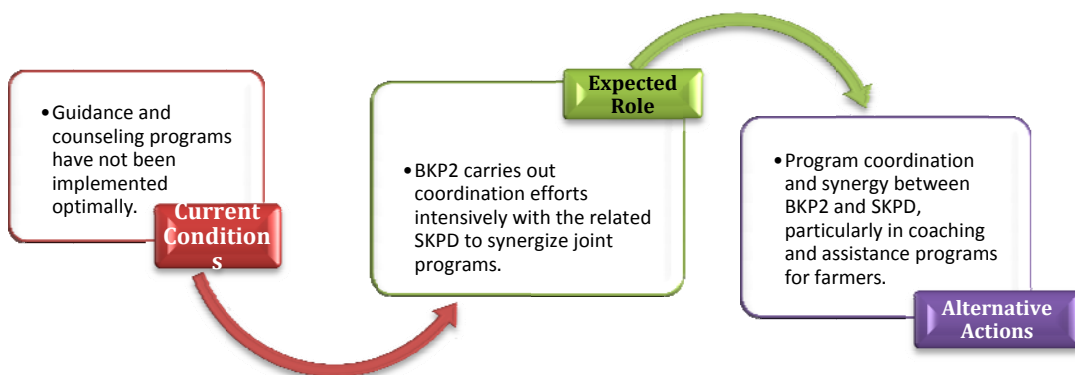
Agency for Food Security and Agricultural education (BKP2)

BKP2 as an education agency for farmers along with Distanbun should always cooperate and coordinate and in every activity provide training and guidance to farmers. As an agency of the local government that in its duties and functions most understand the needs of farmers, BKP2 should be able to become a motivator and companion for farmers in increasing their knowledge and awareness to perform post-harvest processing activities well.

Optimizing the role and involvement of BKP2 in post-harvest processing value chain can be pursued through increasing the quantity and capacity of coach workers (PPLs). With a sufficient quantity of

PPLs, BKP2 has wider assistance outreach, and capacity building of PPLs will be able to optimize guidance to farmers, and in addition to improving coordination and the clarity of tasks and functions of BKP2 with the related agency (Distanbun) will maximize cooperation programs between the two agencies, as well as minimize overlapping between their programs and budgets.

Here in an illustration of BKP2 role in supporting the improvement of post-harvest processing value chain.

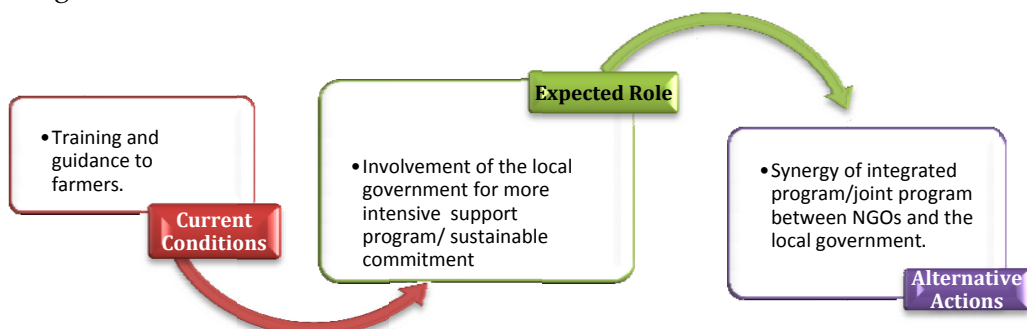


Non-Governmental Organizations (NGOs)

Several cases mentioned that NGOs as non-governmental organizations have been playing an important role in contributing to the development of cocoa in the regions. Through various programs on improving the quality of life of farmers, NGOs play an active role in organizing coaching and training to farmers to increase their income, and thus farmers become more prosperous.

In order to enhance the role and involvement of NGOs in improving program achievement, this can be done through a partnership with the local government by engaging the local government in NGO activities, and integrating NGO programs with local government policy programs, so that the two activities can go hand in hand, do not overlap each other and obtain full support from the local government. In addition, NGOs can partner with other NGOs that focus on similar issue or with companies/buyers that need good quality cocoa beans. With such cooperation, guidance programs can be carried out in an integrated manner and can support each other so that the goals can be achieved optimally and on target.

The following is an illustration of the role of NGOs in supporting the improvement of post-harvest processing value chain.

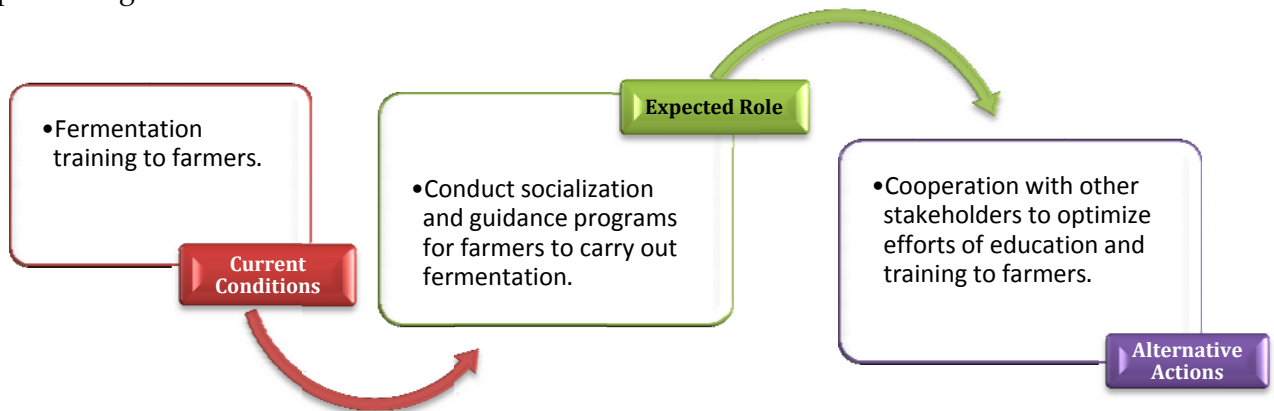


Processing Unit (UPH)

The existence of the UPH as a result of the Gernas program helps farmers through the provision of post-harvest processing equipment such as tools to carry out fermentation. Assistance in the form of fermentation equipment is utilized by farmers for processing cocoa bean fermentation. With the existence of the UPH, farmers can be helped and motivated to perform fermentation.

In addition to providing fermentation equipment, the UPH needs to optimize its role in fostering and training farmers. UPH needs to be more actively involved in conducting training to farmers regarding the fermentation process and the quality of cocoa beans desired by the market. UPH should be able to motivate and coordinate farmers to carry out joint fermentation so that the process is more effective. Through the joint fermentation process, farmers can simultaneously perform joint marketing and thus get a better bargain price for cocoa beans.

The following is an illustration of the role of the UPH in supporting the improvement of post-harvest processing value chain.



Companies/Buyers

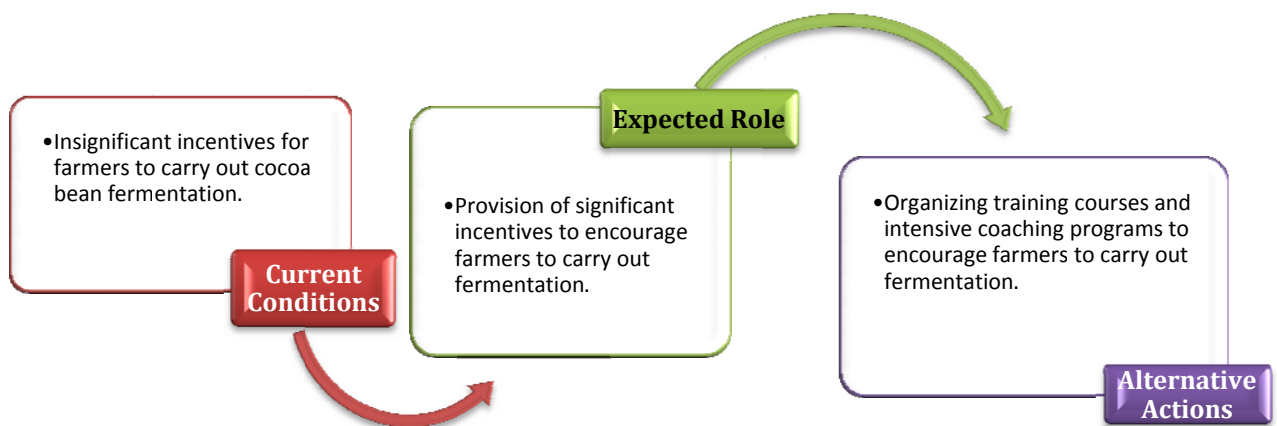
In post-harvest processing, several companies are already engaged in training delivery to farmers in terms of fermentation. Companies have an interest to get cocoa beans with good quality and in accordance with their standards.

To ensure the availability of required cocoa beans, companies can optimize cooperation with the local government, NGOs, as well as other companies to motivate farmers to carry out fermentation. Such cooperation should include what incentives can be provided to farmers, so that farmers are aware that fermentation is a must to be able to adjust to the needs of the market. The mechanism of incentives does not always have to be in fiscal or non-fiscal form.

IV. Marketing Value Chain

Cocoa is an international commodity so that price formation is set internationally in the New York and London commodity exchanges. Farmers can access information of cocoa prices via text message sent by wholesalers/traders or through farmer groups/combined farmer groups. Price fluctuations that occur are circumvented by making a deal between farmers and companies. The collaboration covers cocoa sale and purchase price deals with a specific volume within a certain period of time so that cocoa prices are more stable and do not change every day.

The following is an illustration of the role of companies/buyers in supporting the improvement of post-harvest processing value chain.



Marketing and distribution value chain of cocoa beans from farmers to the factory must still pass through a long chain. Generally there are three main marketing channels:

1. Farmers → village merchant collectors → sub-regency merchant collectors → wholesalers → factory
2. Farmers → sub-regency merchant collectors → pedagang pengumpul besar → pabrik
3. Farmers → UPH → sub-regency merchant collectors → factory Farmers → village merchant collectors → sub-regency merchant collectors → wholesalers → factory

From the above description of the trade chain, farmers' direct access to the factory is still non-existent. Factory generally requires a certain volume of cocoa beans to be obtained directly so that individual farmers could not directly deliver to the factory and have to sell to merchant collectors. Pressure to earn money quickly also encourages farmers to sell their cocoa direct to a merchant collector who each day goes past their home.

Several aspects to be considered in the development of the marketing value chain:

1. Improving the quality and quantity of cocoa beans in order to get a better price for farmers;
2. Optimization of UPH's role as a recipient of farmers' cocoa proceeds to break the merchant collector value chain;
3. Local government intervention to encourage farmers to undertake joint marketing;
4. Local government intervention through the implementation of the warehouse receipt system, and
5. Cooperation between the local government and other stakeholders (UPH, NGOs, etc.) with the companies as recipient of farmers' cocoa proceeds to shorten the marketing value chain.

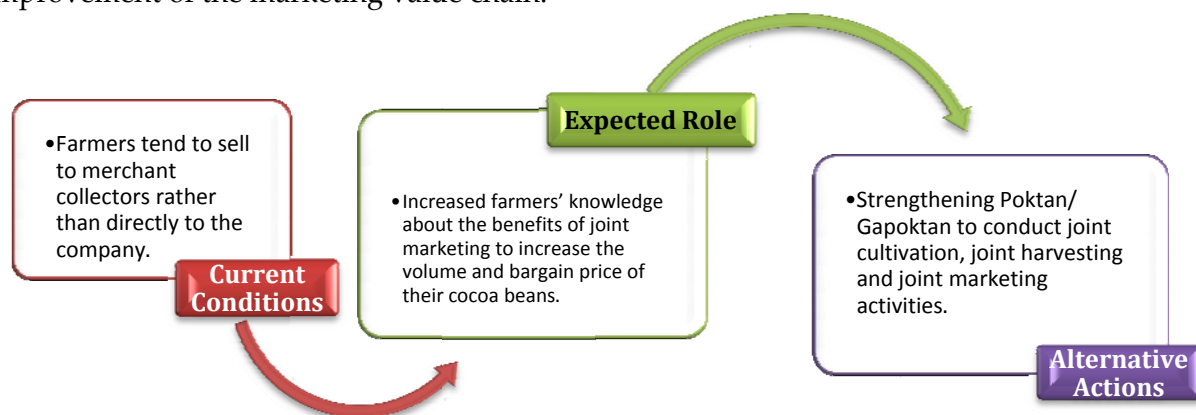
Here is an illustration of the role of stakeholders involved in the marketing value chain.

Farmers (Farmer Groups-Poktan/Combined Farmer Groups-Gapoktan)

Cocoa farmers usually market their cocoa proceeds immediately after harvest. The pressure to fulfill daily needs is one reason why farmers directly sell their cocoa beans to merchant collectors. With such a mechanism, the price is determined by the merchant collector and the farmer does not have the power to influence the price. Farmers usually sell their cocoa beans in small volumes with cocoa bean quality not in accordance with market demand (not fermented) so that they could not get a good selling price.

In order to increase the price of cocoa beans, needs the effort from the farmers' itself to conduct mutual assistance (*Gotong royong*) in farming activities. Mutual assistance activities can be conducted through simultaneous cultivation practices, joint cultivation, joint farm care, and joint harvest. Through joint harvesting activity, farmers can conduct joint marketing to increase the volume of cocoa beans sold. Volumes increase and farmers also get a higher price.

The following is an illustration of the role of farmers (Poktan/Gapoktan) in supporting the improvement of the marketing value chain.

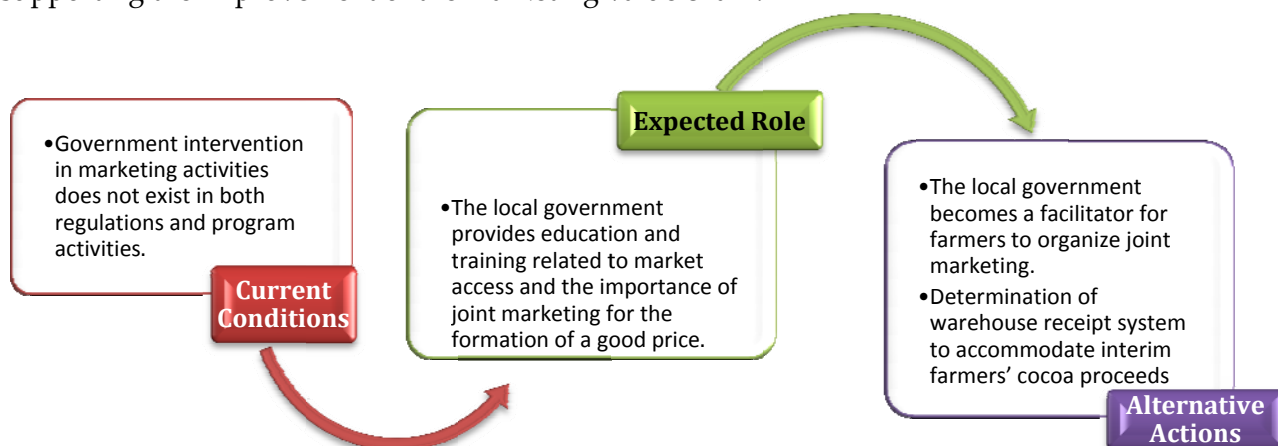


Local Government (Distanbun & Disperindag)

All this time cocoa bean price formation is adapted to the market mechanism. The government does not intervene in any activity of agricultural product marketing and price formation. The government in this case does not dare to create any program of activity or written policy that is able to motivate farmers to pursue activities that can increase the price of their cocoa beans.

In this case active efforts are required from the local government to provide a program on training/coaching activities to improve the knowledge and capacity of farmers in carrying out cultivation activities through mutual assistance, and joint harvesting in order to get optimal proceeds. In addition to the program on training/coaching activities, the government can also pursue a policy framework for the implementation of the warehouse receipt system to accommodate interim cocoa proceeds from farmers. With the warehouse receipt system, a farmer can store cocoa proceeds in the warehouse owned by the government, then the farmer will receive a receipt that can be used as collateral to obtain a loan from the bank.

The following is an illustration of the role of local government (Distanbun & Disperindag) in supporting the improvement of the marketing value chain.

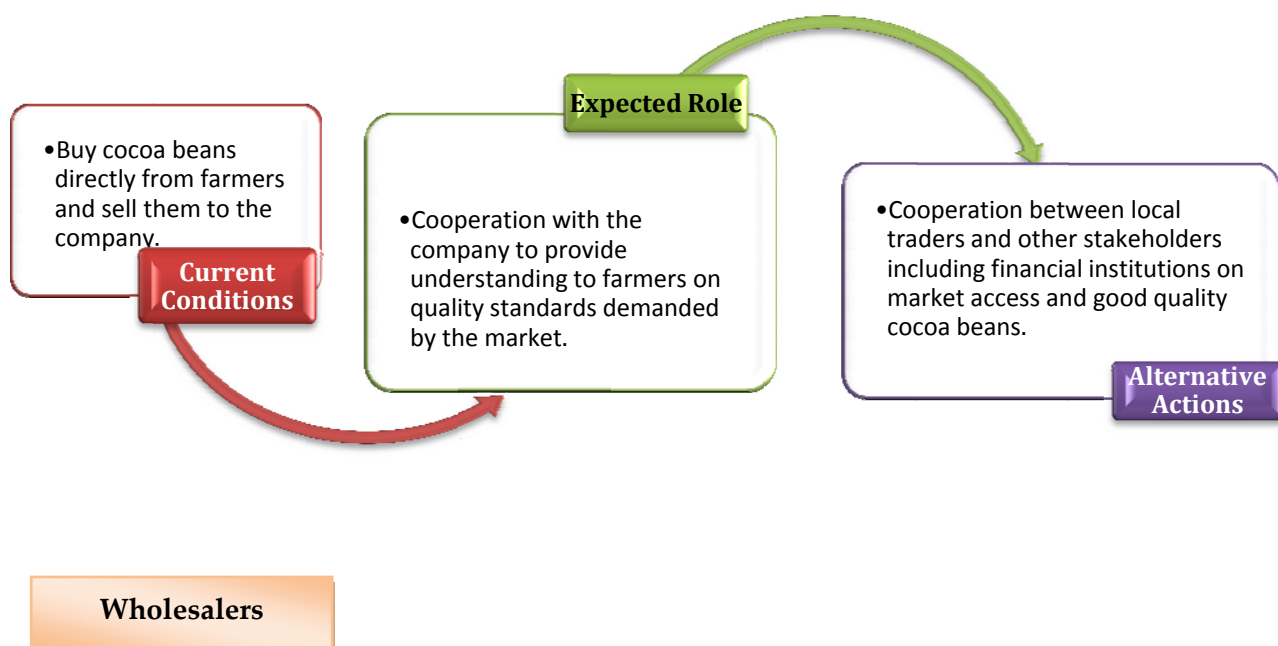


Local Traders/Merchant Collectors

In the current trading mechanism, merchant collectors tend to benefit more than farmers. Merchant collectors can depress the price of cocoa beans obtained from farmers. By reason of low quality of cocoa beans (lots of junk and not fermented), merchant collectors give a low price to farmers. As middlemen, merchant collectors receive all cocoa beans sold by farmers with a variety of quality. Merchant collectors who have good knowledge will process again all cocoa beans obtained from farmers before selling them to the company, but for those who do not have the knowledge will sell directly to the processing company/factory.

The involvement of merchant collectors in transfer of knowledge of cocoa bean quality demanded by the market becomes very important to be pursued. This can be done through cooperation with the cocoa bean processing company and other stakeholders (for example NGOs) through training on market access and quality of cocoa beans to suit market needs. Improved knowledge of farmers will facilitate merchant collectors in obtaining cocoa beans in accordance with the wishes of the company. With good quality cocoa beans, the price obtained by merchant collectors and farmers will be higher.

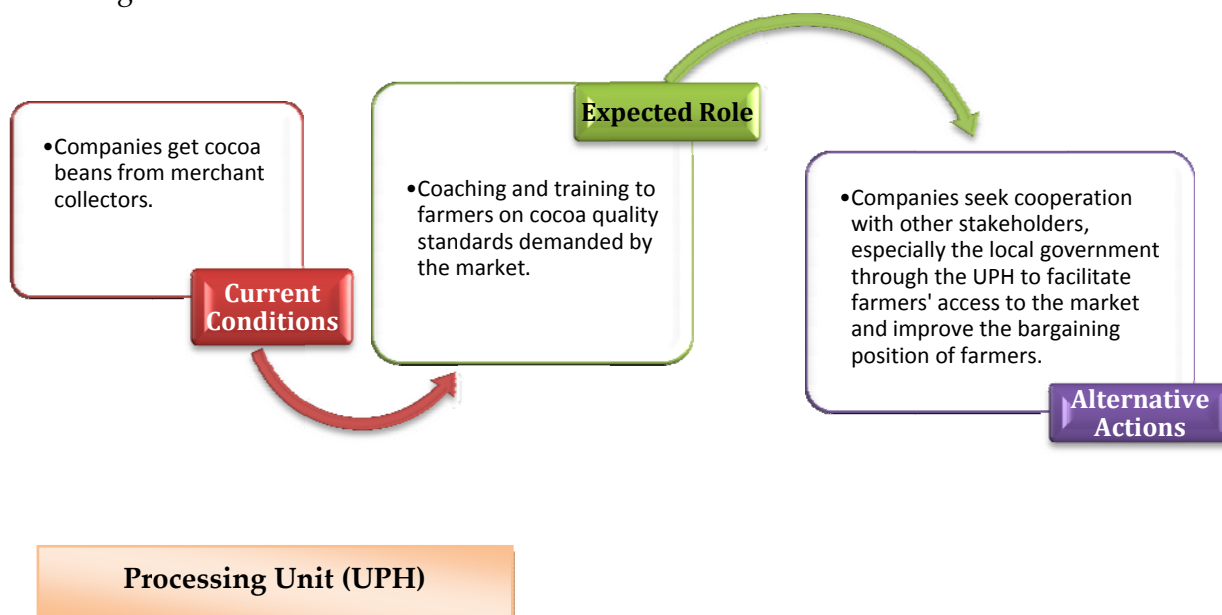
The following is an illustration of the role of local traders/merchant collectors in supporting the improvement of the marketing value chain.



Companies are concerned to get cocoa beans from farmers in accordance with the provisions of both volume and quality in accordance with needs of the industry. Generally, companies obtain cocoa beans from merchant collectors and the UPH, so that the chain to go through is lengthy and inefficient. Only a few companies take cocoa beans direct from farmers. Besides very small volumes, the diverse standard of cocoa beans from farmers and their widely dispersed locations would lead to inefficiency if companies have to approach cocoa farmers directly.

Efforts to shorten the value chain can be done by optimizing the function of the UPH as recipient of cocoa proceeds as well as by connecting farmers with wholesalers so that farmers do not have to sell to merchant collectors but can directly go to the UPH and then to wholesalers. The price obtained by farmers will be higher, and the marketing value chain will become shorter and more efficient for both companies and farmers. To ensure the quality of cocoa obtained, the companies through the UPH can also seek guidance and training to farmers regarding cocoa quality demanded by the market.

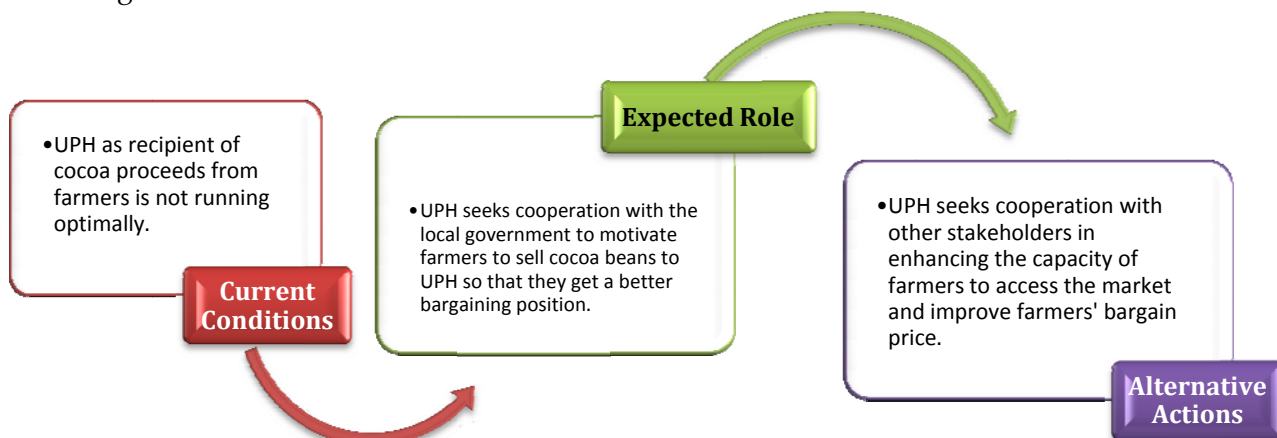
The following is an illustration of the role of wholesalers in supporting the improvement of the marketing value chain.



In the marketing value chain, the UPH in addition to providing tools for cocoa bean fermentation also has an important role in accommodating cocoa proceeds from farmers. Farmers will be able to sell their cocoa beans to the UPH at a higher price than the price offered by merchant collectors. By selling their crops to the UPH, farmers do not have to pass through merchant collectors, so that the marketing chain becomes shorter, and the price received by farmers is higher.

Optimizing the role of the UPH can be done through cooperation with the local government to provide better understanding to farmers about the benefits and advantages gained if farmers sell their cocoa beans through the UPH. The UPH through Poktan/Gapoktan can cooperate with other stakeholders for example NGOs to provide knowledge to farmers intensively about market access and cocoa bean quality required by cocoa bean processing companies.

The following is an illustration of the role of the UPH in supporting the improvement of the marketing value chain.

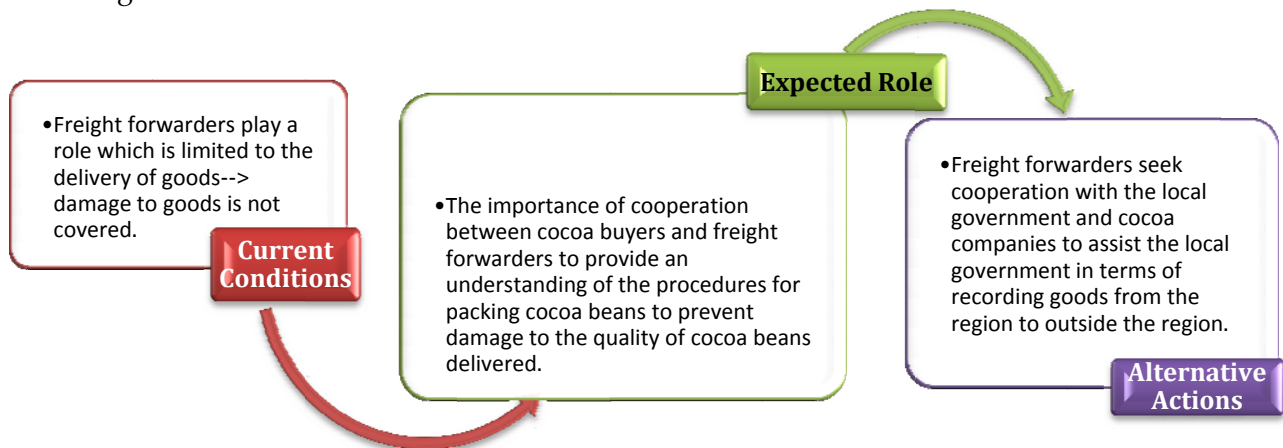


Shipping Company

Cocoa plantation centers are generally located in the regions, while industrial companies are located in major cities such as Tangerang, Surabaya, Makassar and Jakarta, so that there is a need for shipping company to deliver cocoa beans. As a special commodity, cocoa requires special treatment since cultivation process until delivery to buyers who are outside the cocoa centers. To ensure that the quality of cocoa beans remains good during the delivery process, the shipping company commissioned should be equipped with knowledge regarding how to safeguard the quality of cocoa beans in order to remain good during the delivery process, including the packing of cocoa beans.

Optimizing the role of shipping company involved in the marketing value chain can be done through collaborative efforts between the shipping company and the local government in providing data related to regional business production sales delivered from cocoa center regions to outside those regions. Through such cooperation, the local government will benefit in the form of data update of cocoa production delivered to outside the region. Meanwhile, shipping company are guaranteed in doing business through permits that have been issued by the local government.

The following is an illustration of the role of freight forwarders in supporting the improvement of the marketing value chain.



Closing

In an effort to enhance the cocoa value chain business requires the active involvement of all stakeholders who affect each of the business value chain of cocoa. Local Government (LG) related to a major role in developing the sector in the regions, in this case the cocoa sector. The role and responsibilities of local government can be performed through the development of the cocoa sector development roadmap in a planned and integrated with the allocation of sufficient funds. To guarantee that the program will good implement, cocoa development roadmap should be written as a local regulation.

As one of important points of the cocoa sector development roadmap, the local government may establish a stakeholder forum of cocoa. The existence of this cocoa stakeholder forum can be a platform for all relevant stakeholders from both local government and non-government elements (such as farmers/poktan, NGOs, community leaders, companies, and financial institutions) to discuss the problems as well as find solutions to encountered the problems faced in the development cocoa business. Through this forum, can be pursued at the same time increasing the capacity of cocoa farmer's as well as the farmer's assistants in terms of cultivation, post-harvest processing, as well as market access. The existence of financial institutions, opening farmers gain access to capital and the presence of industrial companies can open up opportunities to be larger farmers market.

The existence of this cocoa stakeholders forum can helps the local governments in coordinating cocoa development program, established good coordination between relevant agencies and non-government elements that are expected to be integrated development program, do not overlap each other, and can create a sustainable cocoa development program.



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