



Increased incomes for Indonesian cocoa farmers in sustainable markets:

NGO-private sector cooperation on Sulawesi island

Full case study



Anton Muhajir

Introduction

VECO is a leading sustainable agricultural development organisation with long roots working in the field with farmers to improve livelihoods. Over the last five years we have come to recognise the importance of investing with farmers in ways that directly support their connection to markets. We have found that partnering with the private sector is an excellent way to optimize our impact and increase the likely sustainability of farmers' gains.

The private sector brings in commercial expertise on the quality and quantities that the market demands. Under optimal conditions, it can be an active co-investor in the supply chain together with farmers. Farmers adopt new practices more quickly and effectively and make greater investments in their farms when they are connected to buyers who give them the financial incentives and market relationships they need to succeed.

Current cocoa industry movements towards certification and traceability are opening new opportunities daily to expand the reach of local farmers through new partnerships.

Our experience working in Sulawesi with Armajaro, a leading global cocoa supplier, illustrates how we can collaborate with the private sector to generate new opportunities and resources for farmers.

Through this process VECO has adopted new

roles - shifting from sole implementer to facilitator - and enhanced its effectiveness as a development organisation, by bringing in complementary investments to reduce risk and increase impact.

Box 1: About Vredeseilanden/VECO

Vredeseilanden is a Belgium-based, international NGO with 40 years' experience in sustainable agricultural development, renowned for its expertise on sustainable farming practices and efforts to strengthen farmer organisations. We support our partner organisations through 8 Vredeseilanden Country Offices (VECOs). That is why, outside Belgium, the organisation is mainly known as VECO.

VECO's main focus today is on developing sustainable agricultural chains, from local to international levels. We conduct programs through seven regional offices, in partnership with organized farmer groups, NGOs, research institutes, government agencies and private sector actors (traders, processors, retailers) in 20 different countries.

We play a facilitating role among the relevant stakeholders to develop common strategies, based on close analysis and monitoring of markets and bottlenecks. The aim is to improve functioning and increase benefits to all parties within each chain - especially to improve the livelihoods of farmers - and beyond the chain, to influence a more enabling environment.

1. Background

The Indonesian cocoa sector

The Indonesian cocoa sector has experienced tremendous growth in the past 25 years.

Indonesia is now the third biggest cocoa producer (711,620 MT/year, data from 2009, Askindo) after Ivory Coast and Ghana, with about a 15% share of total world cocoa bean production. Cocoa is cultivated here on over 1.5 million hectares, generating over \$1.2 billion in exports annually. Cocoa production provides the main source of income for over 1,400,000 smallholder farmers and their families in Indonesia. Smallholders contribute 93% of national production; the remainder comes from state-owned plantations and private estates.

The majority (71%) of Indonesian cocoa production is concentrated on Sulawesi island. The remaining cocoa production areas are situated on North Sumatra, West Java and Papua, with some small-scale production areas in Bali, Flores, and other islands.¹

Despite the importance of cocoa cultivation in Indonesia's economy, productivity, bean quality and farm profitability have declined in recent decades due to aging tree stocks as well as unsustainable farming practices, such as inadequate use of fertilizers or premature pod harvesting, which lead to declining soil fertility, pest and disease pressures and poor product quality.

This declining trend has begun to reverse in the last few years with on-farm investments in tree rejuvenation, replanting and sustainable farming practices. Such investments were not made earlier due to smallholder farmers' limited access to finance and knowledge of sustainable farming practices, and poor transmission of quality price signals to farmers. The latter failure reflects the fragmentation in Indonesia's cocoa sector, in which over 90% of the production on smallholder farms sells into a very long, poorly regulated and highly competitive supply chain.



Figure 1: Map of Indonesia

Certified cocoa: an opportunity and a challenge

The demand for certified cocoa used to be limited to niche markets under minor confectionery brands. In the last few years, growing market interest has emerged in cocoa that can be traced to a specific origin and in certified production systems that follow certain social and environmental guidelines.

Early in 2010, Cadbury (which was taken over by Kraft in February the same year) announced that it would use only Fair Trade-certified cocoa beans in its best-selling chocolate brand in the UK, Dairy Milk.² In April, Mars Inc. followed suit, announcing that it would use only Rainforest Alliance-certified

cocoa in its popular Galaxy brand,³ and that by 2020, all Mars Inc. cocoa beans would be from sources certified as 'sustainable'.

If these voluntary targets are met, it is estimated that over 25% of Sulawesi's cocoa crop (approximately 100,000 MT) will need to be traceable and certified by 2020. This represents a new and growing market opportunity for farmers.

VECO, Mars, Armajaro, and other stakeholders in the cocoa chain share a common interest in assisting Indonesian farmers to reach this market. The challenge is that in order to offer high enough volumes and to make certification - and traceability - feasible, farmers will need to ally themselves in well organized farmer groups.



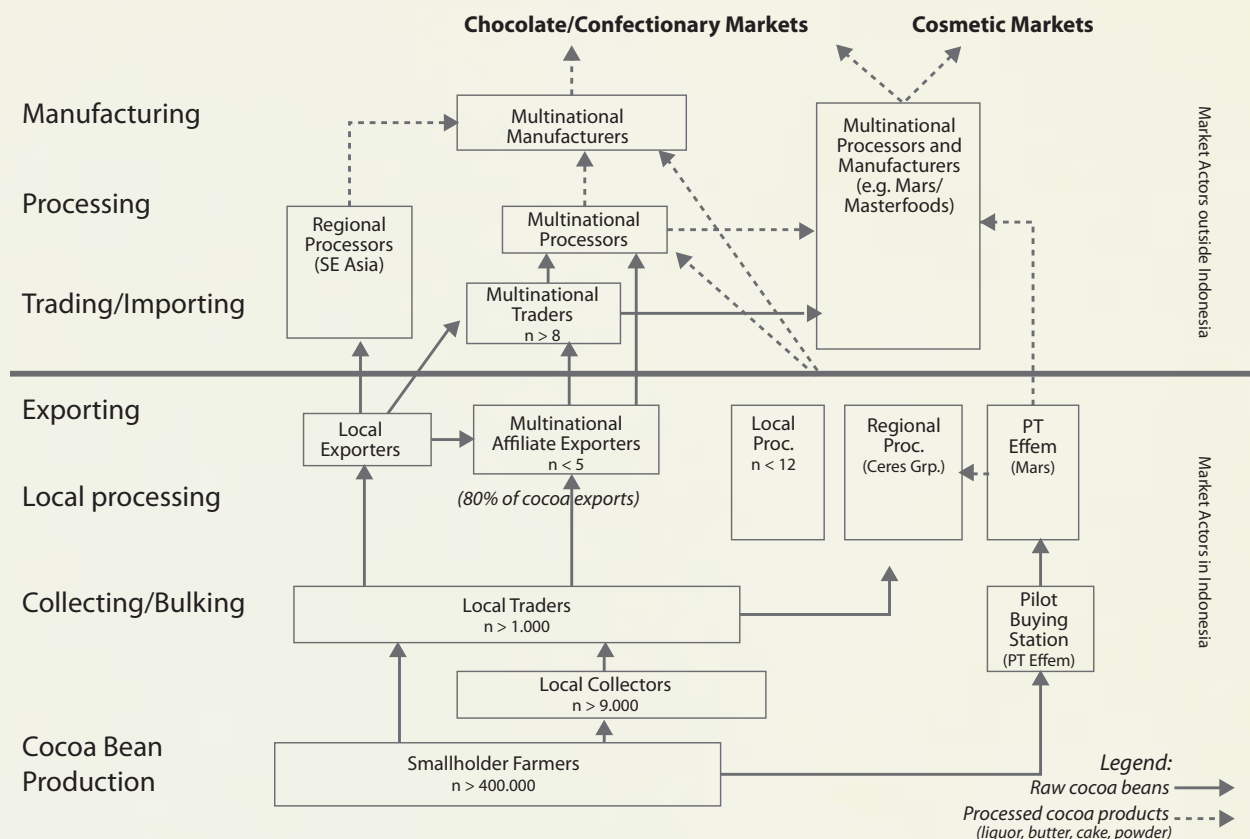


Figure 2: cocoa supply chain diagram for Indonesia

2. The cocoa chain in Polman District

The program area supported by VECO Indonesia is situated in Polman (Polewale Mandar) district in West Sulawesi province. The main commodity produced in this area is cocoa, with a total production of 79,029 MT on a total cocoa farm area of 119,884 ha.

As in other parts of Sulawesi, the main problems in cocoa production in Polman are low quality and low yields because of pests (cocoa pod borer), diseases and low use of fertilizers. Average yields are only 0.5 tons of cocoa per ha. per year, whereas 2 tons should be achievable under optimal conditions.

Traditionally, cocoa farmers break the pods of their cacao plants and sun dry the beans up to 7% moisture. There is no on-farm fermentation of the beans as is common in Ghana and Ivory Coast. They then sell the beans to local traders, individually or collectively. Local traders in turn sell to bigger traders in Makassar or another port city from

which the cocoa can be shipped.

Today, the big cocoa traders in Makassar are Armajaro, Cargill, ADM and Olam. In this program, we only work with Armajaro. These traders sell to processors and confectioners such as Petra Foods, PT Mars, Nestle, Blommer and Hershey. The varieties of cacao traditionally grown under local conditions of soil, climate and pests deliver a product quality and flavour profile that is preferred more by the American market than the European market.

Other major chain actors are the Regional Office of Estate Crops (DISBUN) and the Cocoa Sustainability Partnership (CSP).

Smallholder cultivation is central to a successful Indonesian cocoa sector. Companies cannot convert to purchasing from large scale plantations: experiences in Malaysia have shown that it is extremely difficult to run a profitable, large-scale cocoa plantation. Such plantations are even more vulnerable to diseases and offer less possibilities to install bio-diverse settings with shade trees and other plants favourable for cocoa production. As noted by VECO Indonesia's cocoa expert Alfons Urlings, 'Cacao tree

cultivation calls for tender love and care.'

For companies like Armajaro and Mars, the work being done by NGOs to build the capacities of local farmer groups is a crucial missing link. These companies have neither the time to conduct such development work on the ground, nor the development concepts to fit their cocoa-trading activities into a broader framework to promote more sustainable livelihoods and farming systems. The work of NGOs with farmer groups facilitates improvements in quality, traceability and labelling, as well as collective selling, which is necessary because the volumes of individual farmers are far too low.



Anton Muhajir

3. Veco Cocoa Chain Development Program

VECO's goal is to promote the development of sustainable agricultural market chains, preferably at local and regional level, in which organized family farmers, male and female, are successfully influencing trade relationships (price, resources, power ...) and improving their net incomes.

Specific program objectives and targets

- Better farming practices, which lead to greater productivity and quality improvement and hence, increased income from higher yields: the target for this program is a 68% increase in the net income of family farmers in the cocoa chain supported by the program between 2010 and 2013.

Box 2. Profile of the program in Polman District

Partner organisation(s):

AMANA (local farmer organisation)
Wasiat (local NGO)

No. of beneficiaries, 2010:

1500 farmers
(mostly men, all members of AMANA)

Target no. of beneficiaries, 2013:

1800 farmers (1260 men/540 women)

Total farmland of AMANA members:

27,500 ha.

Average farm size:

1.12 ha. per farmer family

Average cocoa production, 2010:

327 kg. per ha.

Target average cocoa production,

2013: 412 kg. per ha.

Farm gate price, 2010:

IDR 20,000 (USD 2.33) per kg. dry cocoa

Target farm gate price, 2013:

IDR 26,620 per kg. dry cocoa

Average annual farmer income, 2010:

USD 850

Target average annual income, 2013:

USD 1430

Funding from VECO starting in 2010:

Euro ±70.000

Funding for 2011-2013:

Euro 275,000

Funding sources:

VECO, Belgian Directorate General for Development (DGD), Cordaid

- An increase in the degree of influence of organized family farmers (male and female) in trade relations in the chain between 2010 and 2013.

4. Key Partners in the Polman Program

History of AMANAH and Wasiat and their links to VECO

Since the early years of the New Order regime in Indonesia, every village in Sulawesi has had a government-established farmer group. Yet such farmer groups only meet on special occasions, namely, when there is free distribution of fertilizers, or a visit of government officials. They are not effective organisations with regular activities or strong leadership.

Historically, farmers were like 'part of the land' that supplied the private-sector collectors and traders, and a top-down government was responsible for their welfare. Farmers showed a 'handout mentality' and waited to be helped rather than driving their own development. Local collectors had a captive supply base in an area occupied by dependent farmers.

Around 2000, the American non-profit development organisation Agricultural Cooperative Development International - Volunteers in Overseas Cooperative Assistance (ACDI-VOCA) started to support local farmers using Farmer Field School methodology (FFS). ACDI VOCA's aim was to work with the existing village farmer groups and convert them into effective business units. ACDI-VOCA gave weekly training to selected groups, which was combined with practical research by farmers on their plots, through which ACDI-VOCA and the farmer groups developed intensive relationships.

Beyond the farmer field school activities, they also experimented with collective input purchasing and produce selling. In this context, ACDI-VOCA facilitated the structuring of farmer groups, containing 25 farmers on average, which were brought together in larger cooperative units of

around 150 farmers (see diagram of farmer organisation structure in Figure 3).

When the ACDI-VOCA program concluded in 2006, some of its staff were trained and given resources - a car, a computer and a small office - to set up an autonomous local NGO called Wahana Sukses Pertanian Terpadang (Wasiat); 11 ACDI-VOCA farmer groups joined forces to create a new farmer organisation called AMANAH; and one staff member joined the VECO Indonesia team, which allowed VECO to begin engaging with the stakeholders in the Polman cocoa chain.

Partner activities and roles

VECO Indonesia

Around 2008, together with Wasiat and AMANAH, VECO began developing and implementing strategies to facilitate market linkages between smallholder cocoa farmer groups in Polman and companies like Armajaro and, Mars.

Then VECO designed and launched a more formal program in collaboration with Armajaro, to further strengthen sustainable cocoa chain development in Polman. VECO has been funding this program since early 2010.

We provide direct support to Wasiat and AMANAH in their efforts to improve cocoa quality and production, through:

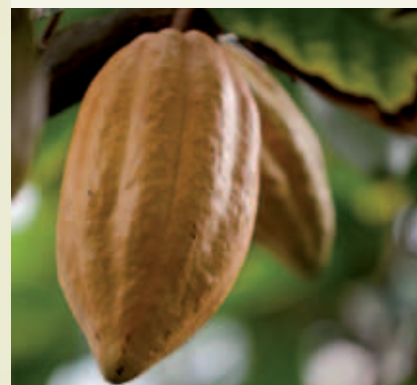
- Capacity building on sustainable farming practices (i.e. tree rejuvenation) and post-harvest handling;
- Facilitation, together with Armajaro, of Wasiat's work on cocoa farmer field schools;
- Monthly trainings on group management and marketing management, and training on gender;
- Liaising with Gernas, a national government program to revitalize Indonesian cocoa production, and the Cocoa Sustainability Partnership (see box 7).



Peni Agustiyanto,
Sulawesi Field
Coordinator, VECO
Indonesia

VECO is providing support to WASIAT and AMANAH to strengthen their capacity to develop good farmer organisations and good cultivation techniques. VECO has done this in the framework of organising Internal Control Systems for cocoa in Polman district. Based on its impacts, VECO has become known as a rather important actor in the cocoa chain in Polman, because VECO has managed to shorten the distance in the chain between the farmers and the market, which was once extremely long, so that now the farmers can directly access the market, particularly the international market through ARMAJARO. This is one of the most positive impacts achieved through the development of the program in Polman.

[Click here to view the video clip](#)



Wasiat

(Wahana Sukses Pertanian Terpandang =
Centre of Success for Excellent Agriculture)

Wasiat continued the work of ACIDI-VOCA, organizing trainings and farmer learning visits to improve production techniques and address farm management issues. Additionally, it worked with farmer groups in five sub-districts of Polman - now under the umbrella of AMANAH - on organisational strengthening to build their collective purchasing and selling capacities.

Akil, Director, WASIAT



WASIAT is the only local institution of its kind in West Sulawesi.

Since its establishment as a civil society organisation in 2005, WASIAT has addressed two main issues in facilitating cocoa farmers: to realise independent farmer organisations and to support the diversification of cocoa farmer enterprise in a sustainable manner. Through the multi-stakeholder activities we have carried out together with VECO Indonesia, ARMAJARO Indonesia and the AMANAH farmer organisation, our services to cocoa farmers have improved in quality and credibility and gained greater trust from the farmers. We are better able to coordinate communications among all the cocoa stakeholders in West Sulawesi. A specific success we've achieved is the legal standing of the cooperatives in five sub-districts in Polewali Mandar district along with one district-level farmer cooperative. We are especially proud of that, and we expect that the independence of the farmer organisations can be further optimised in the future. [Click here to view the video clip](#)



Today, Wasiat is a professional NGO service provider and a key actor in cocoa chain development which promotes innovative and ecologically sustainable farming practices. It serves as a cocoa agribusiness information centre and is a key initiator of meetings among actors in the cocoa trade in Sulawesi. It creates a space in which farmers

can meet, lobby and negotiate with private actors, and carries out advocacy to influence government policy to be more beneficial to cocoa farmers. In all of these capacities, Wasiat actively supports AMANAH's ongoing development as a business-oriented farmer organisation.

AMANA

AMANA was officially registered as a farmer-owned multi-business cooperative on 12 February 2007. Its membership has grown quickly - from 11 farmer groups of approximately 25 farmers each in 2006, to 84 farmer groups by mid-2011

Hassani, Chairperson, AMANA farmer organisation

The most fundamental change we are experiencing is that farmers who until now have only received small profits from selling their cocoa can now get better prices and earn better incomes through direct marketing to the exporter. There is more prosperity and welfare because of the cooperation

between VECO, WASIAT and ARMAJARO. This is shown by the increasing number of partners we have as a cocoa farmer organisation, and the increasing number of farmers who are interested in joining AMANA: initially, our total membership was only 29 people, whereas today the number of people registered as members of AMANA is 708, and the total number of people involved in the collective marketing process, especially in the certification program, has risen to 1600 farmers. [Click here to view the video clip](#)

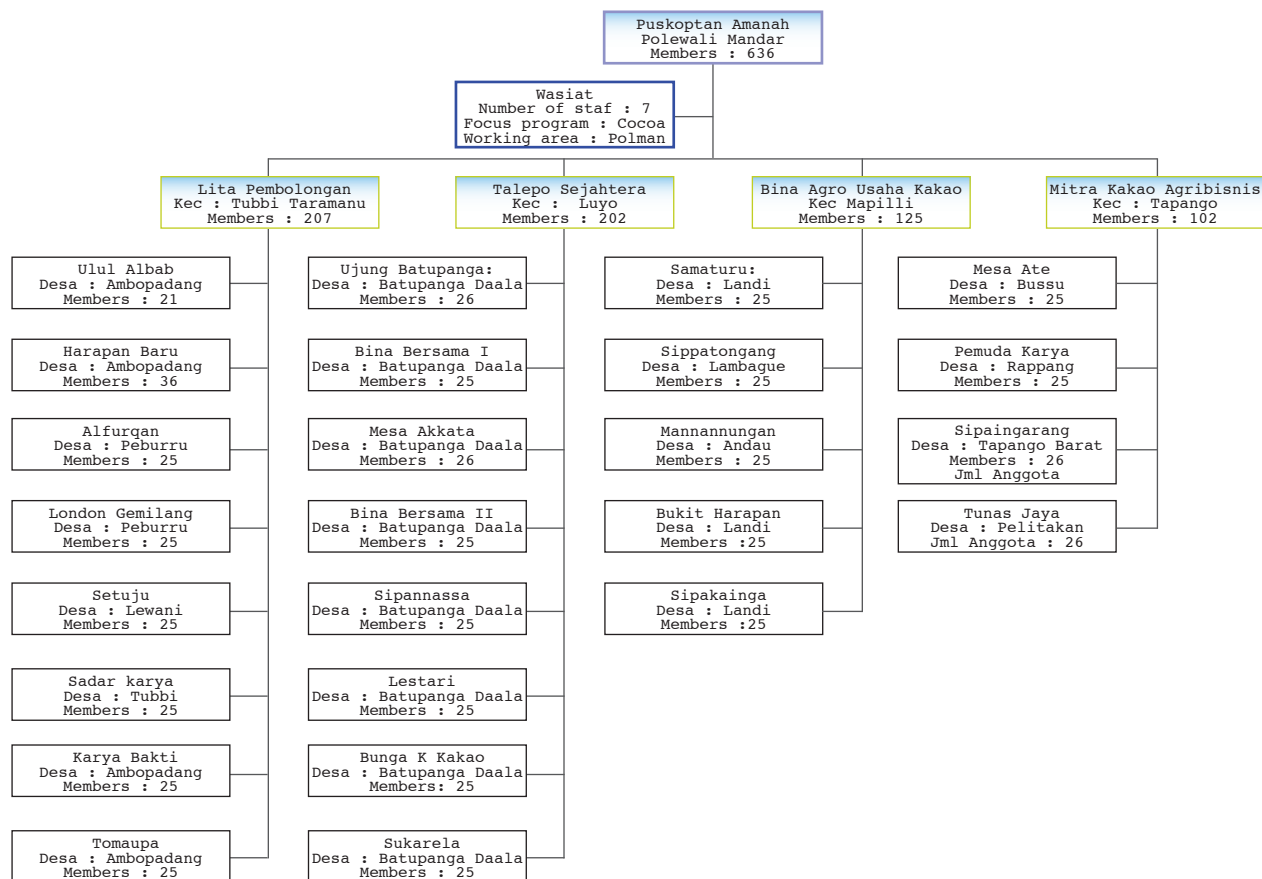
Because of its broad program area, AMANA developed cooperative clusters in each sub-district. In mid-2009, AMANA became a secondary cooperative - assisted in this task by Wasiat, and also by VECO in the

registration process.

The activities of the sub-district cooperatives are similar, covering production, post harvest management and collective marketing as well as housing. They have introduced a variety of innovations in these areas. For example, regarding post-harvest management: in the past, farmers simply spread their cocoa out on the roadside to dry, but now they use roofless racks, or in some cases, solar dryers with plastic roofs. Other more recent developments of the cooperatives are profiled below in section 6.

Today, AMANA is a professionally-run agri-business organisation which implements innovative and ecologically sustainable farming practices based on clear work programs and business plans. Because of the high quality of the membership services AMANA provides, it is trusted by both its own members as well as other actors in the Sulawesi cocoa chain.

Figure 3: Structure of the AMANA farmer organisation and link with Wasiat





Chris Claes

5. Cooperation With Armajaro

As a leading global supplier of cocoa to the chocolate industry, Armajaro has a strong interest in resolving the problems of the cocoa supply chain in Indonesia. Armajaro is committed to sustainability since this is a priority issue for its clients. It is also committed to the inclusion of organized smallholder farmers, since they by far supply the largest portion of cocoa production in Indonesia, and it must compete with local traders who can source from individual farmers.

Armajaro is establishing rural and hinterland warehouses in several locations in Indonesia as an initial step to get closer to its suppliers, in order to develop traceability, quality and certified cocoa bean procurement. Armajaro only handles certified product when it has a buyer for it, in which case a memorandum of understanding is drawn up with the confectionery.

Armajaro has one pilot in the region of Polman, West Sulawesi together with VECO and another on Sumatra with Swiss Contact. Armajaro wants to engage and establish long-term relations with as many farmer groups as possible. Since Armajaro cannot buy from individual farmers because of low volumes, several modes of cooperation and support have been developed to ensure farmers get

more profit through collective marketing and prices are more stable.

1. In 2006, Armajaro began giving financial incentives to AMANAH to promote collective selling by the farmer groups. AMANAH received a fee of IDR 50 per kg. sold to Armajaro. These funds allow AMANAH to reach out to other villages. From 2007 onwards, Armajaro raised the fee to IDR 100 per kg. if the quality is good and IDR 50 per kg. if the quality is below expectation. In three years time, AMANAH earned IDR 30 million (USD 3,500) and used this money to buy fertilizers and other inputs for its members.
2. In 2006, the farmer groups also received pre-financing from Armajaro amounting to 70% of the value of their projected sales. However, this was later stopped because the farmers also sell their cocoa to local traders when they receive better prices or have borrowed money from them (local traders can offer individual farmers credit in emergency situations and claim a long-term commitment in return). Although Armajaro no longer offers pre-financing to individual farmers, it does offer guarantees to enable farmer groups to access bank credit.
3. Until mid 2008, Armajaro collected the cocoa to transport it to Makassar - an eight-hour drive away. Farmers had

little market information and the quality control was done at the destination in Makassar. It regularly happened that the quality assessment in Makassar was below the farmers' own assessment - which bred discontent. In 2008 Armajaro agreed to put a warehouse in Polman district and to organize quality control there in the presence of the farmers. Transparency and trust increased between farmers and the company.

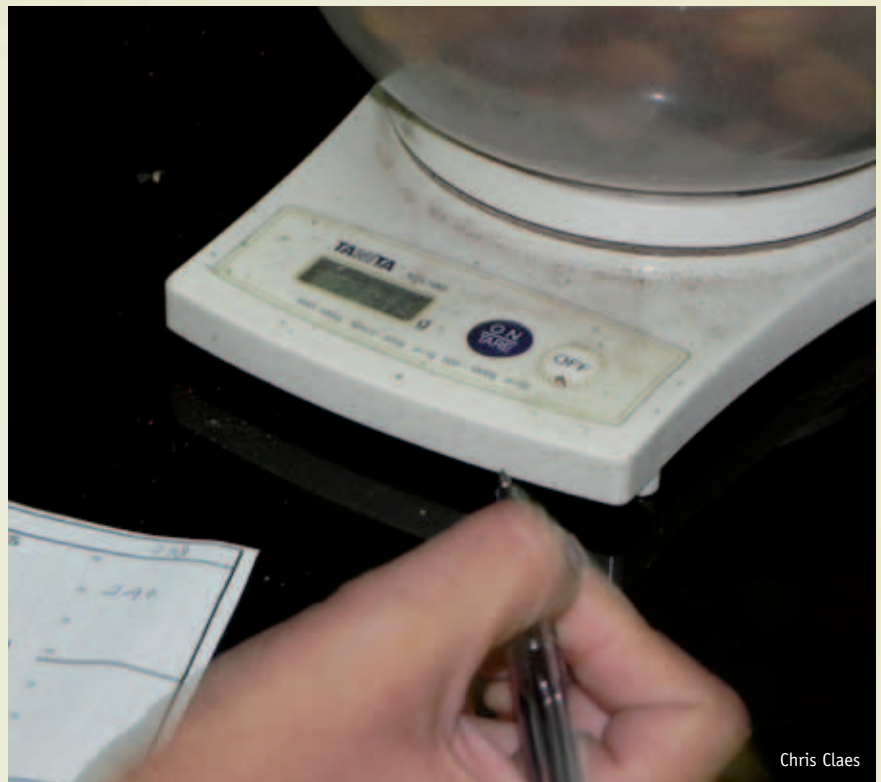
4. Starting in 2009, Armajaro began sending daily mobile phone text messages containing cocoa market price information to the farmer group leaders, and has continued to do this up to now.
5. In 2010 Armajaro began supporting the certification process to enable AMANAH farmer groups to meet UTZ Certified requirements for Nestlé. Armajaro's next priority will be to explore opportunities to access Fair Trade and Rainforest Alliance certified markets.

For the farmers in Polman district, Armajaro has proven to be an important lead buyer whose increased proximity has facilitated better prices, terms, and flows of market and quality information. Armajaro would like to see 50 -100% of its total volume procured through this mode of sourcing by 2020.

**David Ngu, General
Manager of Indonesia
Operations for Armajaro,**

is responsible for developing programs to improve the cocoa supply chain in cooperation with various other cocoa stakeholders in Indonesia. He plays a significant role in Armajaro's cooperation with farmers concerning transparency. He says:

The farmer groups exist because of the free fertilizer the government distributes through them, but these groups have to be organized on a higher level and build business capacities to be able to do collective marketing. Traditionally, farmers sell into a very long chain of village collectors, small-town collectors, big-city collectors, exporters, millers and international companies. Because of this long chain, the market is full of speculation and unfair competition. Conditions for farmers can be significantly improved if there is direct cooperation between farmer groups and exporters. For cocoa, the most important issue is to increase production and quality: it is important that farmers want to stay in cocoa production and that young people come in, because they have more capacities. A range of different actors from the value chain will need to actively support cocoa production in order to guarantee sufficient supply in the long run. Therefore, traceability is key, and NGOs are an important partner to realize this.



Chris Claes

6. Recent developments and achievements

Improved monitoring for improved performance

Cocoa production volumes and quality vary a lot among groups and among farmers within the same groups. AMANAH has worked on mapping farmers' production by collecting data from the different farmer groups since 2005. AMANAH's farmer groups also routinely record elementary data for themselves as well as traceability-related data for Armajaro.

Based on these data, the best-performing members today produce an average of 750 kg/ha per year, which exceeds the average of 500 kg/ha for Sulawesi, but falls far below the potential of 2000 kg/ha.

Using the data they collect, farmer groups discuss internally why production levels have decreased or increased and what they can learn from that. Most recently, they have been working with VECO and Wasiat to develop the internal control systems (ICS) needed to ensure that the cocoa they produce meets the standards of their largest buyer, PT Armajaro Indonesia.

In mid-2011, 67 AMANAH farmer groups qualified for UTZ certification of the unfermented cocoa beans they produce after a rigorous 10-month process. Armajaro will begin purchasing certified cocoa from AMANAH in the next harvest period of October to December 2011.

Box 3. Armajaro company profile

Armajaro, founded in 1998, is a global commodities and financial services group with three main business activities:

- Commodities: cocoa, coffee and sugar origination and distribution
- Asset management: commodity fund investment management
- Structured products: arranging and dealing in bespoke financial instruments

Over 1,000 people work for Armajaro and its various Armajaro Group and subsidiary companies around the world. Armajaro has operations in Europe, North America, South America, West Africa and Asia.

Armajaro is recognised as one of the world's leading suppliers of cocoa and coffee, with origination and exporting operations in all

the major cocoa growing countries as well as in the key coffee growing region of Asia. Armajaro has become the preferred partner to an established customer base that includes most of the major global chocolate manufacturers and many of the world's leading coffee manufacturers and roasters.

Armajaro's cocoa and coffee divisions are headquartered in London, with wholly-owned procurement operations in Ghana, Ivory Coast, Nigeria, Indonesia, Malaysia, Vietnam and Ecuador.

Armajaro is committed to improving the livelihoods of cocoa and coffee growers and their families. Through its presence in origin countries, Armajaro actively invests in and supports a wide range of agronomic and educational programs that assist growers to improve their profitability and working conditions.

The challenges facing cocoa and coffee communities are complex and often interconnected. As no single company or organisation can succeed alone in addressing these challenges, Armajaro works closely with government, NGO and industry partners to help deliver global and local programs aimed at improving the wellbeing of growers and their families.

Armajaro is a member of the World Cocoa Foundation (WCF) and the European Cocoa Association (ECA), and works with the Rainforest Alliance, UTZ Certified (UTZ) and the Common Code for the Coffee Community (4C).

The Armajaro Foundation, established in 2001, directly supports local community projects.





Anton Muhajir

Box 4. Polewali Mandar Cocoa Farmers Adopt Internal Control System

In response to demand for quality cocoa, farmers in Polewali Mandar, West Sulawesi have adopted internal control systems (ICS). The end goal is to have all farmers to develop a sustainable cocoa production system and produce good quality cocoa beans.

As of the end of April 2011, the main focus of the farmers was on reducing the use of chemicals, such as pesticides and insecticides, on their cacao plants. In addition to meeting purchaser (PT Armajaro) standards, this reduction in chemical use also cuts farmers' production costs.

The farmers admit that before implementing ICS, they overused pesticides. 'Whenever there were pests, we immediately sprayed the whole plant - leaves, fruit and stems', says Iqbal, a farmer in Arabua village in the Tutar sub-district of Polewali Mandar. According to Iqbal, they overused pesticides and insecticides because they did not know how to use them properly: 'We thought the more pesticide you used, the better the yield. But

that's not true!' The chemicals killed all the pests, such as cocoa stem borers, but they also killed off natural enemies of pests, such as weaver ants. Iqbal explains: 'These pests are also needed to help cross-fertilise the cocoa. For this reason, the farmers are cutting back on the use of chemicals on their plants.'

While reducing their the use of chemicals on their crops, cocoa farmers in Polman district have also been learning more appropriate management of chemicals. Lewardi, a farmer in Batu Panga Daala village in Luyo sub-district says: 'We used to store pesticides with other stuff in the house. Sometimes even with the food. We weren't aware of the risk.' Now, Lewardi stores all his pesticides, herbicides and gardening equipment in a special box, about 15 metres away from the house. On the box, Lewardi has put a list of chemicals that must not be used while the cacao is growing. About 5 metres away, Lewardi has made a disposal unit for pesticide waste. 'We are more careful when using pesticides because we know about how they affect

our health and our cacao', he adds.

Contributing to these changes in the farmers' behaviour is the support they receive from Wasiat, VECO Indonesia's local NGO partner in Polewali Mandar. Together with AMANAH, Wasiat is persuading farmers to switch to a sustainable farming system. 'We encourage farmers to use natural pesticides and not to overuse them', says Muhammad Aqil, Director of Wasiat. 'The ultimate goal is to get the quality of the Polman farmers' cocoa up to the buyer's standard. They will get a better price for their cocoa, too.'

Greater access to capital

Rauf, Cooperative Manager, AMANAH farmer organisation



Since our core business is cocoa marketing, of course, there are many things we have to think about

to support the business, for example, procuring production inputs and procuring the means or facilities to support the farmer organisations or members of the cooperative, so as to improve the quality of the cocoa beans. The volume of cocoa beans we market has increased: starting from 46 tons in 2006 it went up another 86 tons and eventually, reached 320 tons in 2010-2011. We'll keep mobilising the farmers to do collective marketing. When we first began operating, very few members were involved and our turnover was very small - around 35 million rupiah, this increased, starting in 2007, when it went up to around 500 million, and as of 2010 we reached 1.2 billion. These very significant increases were due to the support of several parties, such as the exporter ARMAJARO as well as government actors and also, support from the members themselves, in the form of deposits, both basic contributions and obligatory deposits from participating members. This is evidence that the motivation of the members to develop the organisation is highly participatory and bottom up.

[Click here to view the video clip](#)



One of AMANAH's greatest achievements to date has been to secure capital assistance from the Indonesian government. Initially, AMANAH was unable to compete with middlemen because it lacked capital. Today AMANAH manages funds of around IDR 1.2 billion (USD 140,000) from its members and IDR 9.4 billion (USD 1.09 million) - of which IDR 700 million comes from the National Ministry of Housing, and IDR 500 million from the provincial and district governments. One billion of the total of IDR 1.2 billion is being used as a fund for members to repair or improve their houses. The remaining IDR 200 million is used as a credit fund from which members can borrow without collateral and at fair interest rates.

Membership fees remain important to ensure

the cooperatives a proper income. Member farmers are obliged to contribute a certain amount, which varies from one cooperative to another. For example, members of the Mitra Agribisnis Kakao cooperative, which encompasses 14 farmer groups in Tapango sub-district, pay a membership fee of IDR 100,000 (USD 11.60).

Besides their work in the cocoa chain, the cooperatives are also active in other businesses, such as rice supply. Because the farmers do not grow rice themselves, they depend on supplies of rice from outside. In the past, they relied on middlemen for rice. Now, the AMANAH cooperatives sell around 2 tons of rice monthly. Non-member farmers can also purchase the rice at a slightly higher price.

Box 5. New houses built using housing loans from AMANAH

Lewardi is the chairperson of the Ujung Batu Panga farmer group in Batu Panga Daala village and he is very proud to show each and every one of the houses that have been built using AMANAH housing loans.

‘It’s easier for us to build houses now that we’re no longer in debt to middlemen. In the past farmers relied on supplies from middlemen. They used their cocoa harvest as collateral. The middlemen also used to

squeeze the farmers with housing loans. Up to now 25 members of our farmer group have received housing loans from AMANAH’s central farmer cooperative.’

The housing loan scheme is not supported directly by VECO Indonesia. However, we view it as an impact of the programs carried out by the farmers through their groups and cooperatives.

Rising sales and better incomes

AMANAH farmer groups’ sales to Armajaro have increased from 33 tons in 2006 to 46 tons in 2007, 88 tons in 2008 and 230 tons in 2010. Expectations for coming years are 500 tons for 2011, 750 tons for 2012 and 1,000 tons for 2013.

The farmers get 75 to 80% of the Freight On Board (FOB) price in New York, which is a very high percentage (i.e. compared to 65 to 70% in Ghana). This means that only 10% to 15% of the FOB price is for the trader and for transport to New York or Amsterdam. The other 10% is export tax to the Indonesian government, which is directly deducted from the farm gate price.

The farmers’ percentage works out to USD 1,000 to 2,500 per ha, which is a good income for an average Indonesian farmer. Thus, for organized cocoa farmers who

improve their quality and productivity, the collective selling of cacao is a viable income source. Some of these farmers can now afford

to buy a motorcycle or a refrigerator or even a car.

Wasiat Director Muhammad Akil says that since working with Amajaro, farmers no longer have any problem selling their produce: ‘They just collect the cocoa at the cooperative and then take it to the buyer. Wasiat also assists farmer groups in price bargaining with Armajaro.’

‘Once there is cooperation for collective marketing, farmers have much better understanding of markets’, says Peni Agustianto, VECO Indonesia’s field coordinator in Sulawesi.

Indeed, with the support they have received from VECO and Wasiat over the years, AMANAH leaders have gained competence in the field of cocoa marketing. They have established sales partnerships not only with Armajaro, but also with several other private sector actors, including Bumi Surya, Tunas Jaya, Darma Niaga, UD Nisma, Cahaya Surya and UD Fahri. They are also competent in technical training, and are teaching what they know to a growing number of farmer groups in other areas.

Lisman, cocoa farmer and chairperson of the Ulul Albab farmer group, Ambo Padang village, Polewali Mandar district



Before working together with VECO and WASIAT, we didn’t know about quality, but after they assisted us,

we knew the SNI (Indonesian National Standards), for example, that the moisture content should be 7%, impurities 2.5%, and local micro-organisms or ambient bacteria 4%. Formerly, when we sold to Bumi Surya they always cut 0.5% but since we have partnered with Armajaro it’s only 0.2%. So those are the benefits we’re feeling because of the assistance we’ve received through the VECO program in collaboration with WASIAT. On my farm we used to produce 300 kilograms from 215 trees, but due to the guidance we received from the program, we can now produce 400 kilograms from the 215 trees. So we very much hope that VECO will keep collaborating with WASIAT, to continue the program to provide guidance to our group so that the farmers will feel they can make a living and be independent in the future.

[Click here to view the video clip](#)



7. How farmer groups assess their relations with Armajaro



Dewi, cocoa farmer, Treasurer of Tani Sinar Harapan farmer group, Jambu Malea village, Polewali Mandar district.

I feel the first benefit of the cooperation of VECO, WASIAT, AMANAH Cooperative and ARMAJARO is the development of farmers' capacities ranging from cultivation and group management to business planning and cocoa bean marketing. I think the second benefit is the transparency of the cocoa bean prices, which lets us make decisions on the collective marketing of the cocoa beans to improve farmer incomes. And the third is that our knowledge and experience have grown with the holding of activities like trainings and study tours. Before I came in to get training from WASIAT and the AMANAH Cooperative, my income was minimal, but after I received guidance from VECO as well as WASIAT, the AMANAH Cooperative and ARMAJARO, alhamdulillah (thank God), every tree can now yield two kilograms a year.

[Click here to view the video clip](#)



Chris Claes

VECO interviewed AMANAH farmer group leaders to learn their views of their relationship with Armajaro after five years of cooperation with the company:

How do farmer group leaders view their relationship with Armajaro?

We have a lot of trust in the Armajaro Indonesia boss; he is really interested in the situation of smallholder cocoa farmers. We get meaningful support for capacity building. We really appreciate that quality assessment is now done in the villages in the presence of the farmers.

The partnership between farmers and business has changed the position of the farmers. In the past, they just accepted whatever price the middlemen offered; but now they negotiate prices with businesses. Farmers receive information about world prices. And they receive premium prices if the quality of the cocoa exceeds minimal quality requirements. However, they are still subject to significant price fluctuations, related to international market price fluctuations.

Would farmer groups face any risks if Armajaro ended this relationship?

For farmers it is complicated and confusing to be confronted with more than one label for certifying environmental sustainability. Many confectioneries are setting ambitious labelling targets.

Within 10 to 15 years, these standards will

Not really, because there are several other traders. We are already in contact with them: Mars, GFI and the local traders. We want to collaborate with each of them, but only on a win-win basis. Sometimes local traders give a better price. Then we also have to sit together with Armajaro and have a look at the situation.

Do farmer leaders feel the livelihoods of their members have improved?

Yes their situation has significantly improved after seven years of working in organized farmer groups and after five years working with Armajaro, and receiving a better price compared to the years before and compared to other farmers who are not participating in the farmer groups and continue to sell to local traders individually. Farmers belonging to these groups have often been able to buy a motorcycle or a fridge with their profits.

Has the situation of women improved?

A woman responds: Women are happy when their men get a better price and when there is a better income for the family. Before, a household could buy 1 kg. of rice per day on average. This has increased to 1.5 to 2 kg.

Box 6. Labels: blessing or curse for cocoa farmers in Indonesia?

be mainstreamed and become a condition for farmers, meaning that farmers will have to bear additional costs and will no longer get premium prices. Of course, they will maintain their market access, and their capacity to negotiate good prices will hopefully have improved by then.

per day. The situation of other farmers has not improved, sometimes it has got worse.

There has been no change in the division of labour in the family: typically it is the man who takes care of the harvest, though the woman sometimes helps out. Women split open the cocoa pods by hand: the seeds are scooped out and the outer shell discarded. It is the grandmothers and other women who dry the beans.

Are women represented in the farmer groups?

Only heads of families are registered to the farmer groups; they are all men.

Participants in trainings on capacity building for entrepreneurship up to now have been men only. Since VECO has been involved, there has been more gender sensitivity in the farmer groups, so things might change.

Have there been improvements in the situation of children?

Yes, our children now attend junior secondary school and even senior secondary school instead of only primary school. Children can focus on their school activities.

8. Future prospects and challenges

Cocoa prices rose to a 32-year high in New York⁵ in early 2011. High cocoa prices are beneficial for traders like Armajaro because they receive a fixed margin for the trading. High prices also keep farmers motivated and trading volumes higher.

Prices are expected to remain high in years to come since demand outstrips worldwide cocoa supply. The confectionery industry needs all the cocoa produced, including the produce of smallholder farmers.

Of course, prices do fluctuate a lot at the stock market in New York because of trading activities as well as unstable situations in producing countries such as Ivory Coast. This is a constant challenge for the farmer groups. The fact that fluctuations are transmitted in real time to the Sulawesi market greatly assists them in negotiating prices with buyers and in making decisions about whether or not to accept the price offered.

On Sulawesi, at least half a dozen international traders vie to buy beans from the smallholder cocoa farmers. However, the farmer groups are largely price takers and cannot significantly influence the prices

these traders offer. To date, AMANAH is the only strong farmer organisation working on cocoa in Sulawesi, and there is no strong national federation actively working to protect cocoa farmer interests. Therefore, farmer organisations need to get stronger and better organized at both national and local levels, in order to improve their bargaining capacity within the industry. This is a key priority of the VECO Indonesia program in coming years.

Hassani, Chairperson, AMANAH farmer organisation



In the future, in terms of the multi-stakeholder cooperation of VECO, WASIAT and ARMAJARO and

AMANAH, we hope that we can improve the bargaining positions of the farmers, so they can raise their standards of living. [Click here to view the video clip](#)





Anton Muhajir

Rauf, Cooperative Manager, AMANAH farmer organisation

Our expectation is that from day to day, year to year, we will keep improving, to develop our partnerships with exporter partners for example, by establishing standard operating procedures (SOPs). We expect that in the future there will be increasing support from our partners to support capitalisation at the grassroots level, that is, for our members, so that they won't be bound or bothered by middlemen anymore, and will gain more confidence in the organisation we have been building up until now.

[Click here to view the video clip](#)

Akil, Director, WASIAT



What we really want is that, in the farmer organisations that have already been developed, demonstration plots can

be created to serve as learning centres for the member farmers themselves. The demonstration plots to be developed should focus on the integration of environmentally-friendly cocoa cultivation with animal husbandry, and on cocoa quality and post-harvest handling in general. And demonstration sites on

collective marketing, to serve as places where the farmers within the geographical scope of the sub-district level farmer organisations can learn.

Finally, our ultimate and most important hope regarding the farmer organisations is to find ways to form farmer-owned enterprises or BUMPs (Badan Usaha Milik Petani). I think this is our greatest hope for the future, as access to develop the farmer organisations or to members of the farmer organisation will become easier once the BUMPs have been established.

[Click here to view the video clip](#)

**Peni Agustiyanto,
Sulawesi Field
Coordinator, VECO
Indonesia**



My future hopes are for this multi-stakeholder development process to be adopted in

other parts of the island of Sulawesi, because there are many things from the process that we should be able to replicate, and the process brings such positive impacts and significant changes for the development of farmer organisations and of farmers themselves. Additionally, I also hope that this process can be replicated in areas where VECO works in other regions throughout Indonesia. Thus, efforts to enable farmers to directly enter the market, especially international markets, and to get a decent price, can be immediately realised, and that is VECO's true dream.

[Click here to view the video clip](#)

**David Ngu, President
Director, ARMAJARO
Indonesia**



Our expectation, in order for the program to run even better in the future, is that we will

continue to work together with VECO and WASIAT to ensure capacity building at the group level that can further support good cooperation, and also, to ensure that production, which is now 0.5 tons per hectare, can increase to 1 ton per hectare. The results we have achieved so far have been good, production has increased significantly up to now, so it can be expected that farmer prosperity will continue to improve, and cocoa in Polman will become more sustainable, so the farmers can continue to grow cocoa from now on..

[Click here to view the video clip](#)



Anton Muhajir



Chris Claes

Box 7. Roles of the Cocoa Sustainability Partnership and the Gernas program of the Indonesian government

The Cocoa Sustainability Partnership (CSP) was founded in January 2006 in Makassar by a group of key government, NGO, academic and private-sector actors in the Indonesian cocoa sector. The vision of CSP is to serve as a coordination forum for the development of a sustainable, profitable and competitive Indonesian cocoa industry, for the mutual benefit of all stakeholders.

The CSP forum recognises that it would be difficult for farmers to change all of their cocoa farming practices to produce 'sustainable cocoa' overnight, so it is important to have a shared vision of what is achievable and then set targets, by year and by area, and establish programs to support change in the agreed direction.

CSP members aim to support sustainability and profitability for all segments of the cocoa industry by identifying, prioritizing, developing, funding and coordinating an integrated portfolio of programs to satisfy short and long term needs - particularly in the areas of cocoa farming technology research and transfer, empowerment of farmers and their institutions, and development of transparent, fair trading and

certification procedures and policies.

CSP membership is open to any organisations that have relevant field programs which they are directly managing, or are keen to provide funding, infrastructure or human resources to address issues that affect long-term cocoa sustainability. VECO is a founding member of CSP, active on its management committee and farmer empowerment sub-committee. Armajaro too joined in 2009 and is active on the technology transfer sub-committee.

The CSP platform assists VECO to monitor development and assess necessary efforts to be made in different areas. It also provides good connections with government agencies and opportunities to link and give input to the government cocoa revitalization program - Gernas.

Gernas

The Gernas (national movement to accelerate the revitalization of cocoa) program was initiated by the Indonesian Department of Agriculture in 2009 as a three-year program to renew, rehabilitate, intensify and expand cocoa farming

in Eastern Indonesia, especially Sulawesi. This program is making a substantial investment of national, provincial and local government funds to this end, and involves a huge amount of hard work by many Sulawesi cocoa farmers, concerned research and donor organisations, and cocoa industry stakeholders.

The program aims to replace up to 70,000 ha. of cocoa farmland, rehabilitate another 140,000 ha., intensify some 300,000 ha. and increase the total area of land under productive cocoa cultivation in Sulawesi to around 900,000 ha. (The total cocoa production area in Indonesia is 1.5 million ha.)

In 2011, Polman district was allocated around IDR 50.12 billion (USD 5.83 million) from the national budget to support Gernas activities there, including cacao rejuvenation in a 3,000 ha. area. The program has also supported the rehabilitation of 5,200 ha. and intensification of 2,600 ha. of cocoa farmland in Polman, so the amount of land positively affected by the program in the district to date is 10,800 ha. The Gernas program has been extended to continue until 2014.⁶

Box 8. CSP's definition of 'sustainable cocoa' and possible indicators for 'Sulawesi sustainable cocoa':

The Cocoa Sustainability Partnership (CSP) defines 'sustainable cocoa' as:

'Cocoa that is produced and delivered to the end user in a way that is economically viable, environmentally responsible and considering the best interests and social welfare of all stakeholders in the supply chain'

Indicators for 'Sulawesi Sustainable Cocoa' could include cocoa that is produced on a farm that:

- has permanent shade of at least 40% (reduction of light), with at least two levels;
- employs a multi-crop or diverse farm business model;
- uses Department of Estate Crops (Disbun) approved cacao planting/grafting materials with at least five different genotypes to maximize productivity and manage pest and disease risks;
- employs 'CSP Best Practice' farming practices, including:
 - Pruning, frequent and complete harvesting, fertilization and sanitation methods
 - Integrated pest management techniques based on ecological principles prioritizing the use of physical, mechanical, cultural and biological control methods, including biological control, bio-pesticide, pod sleeving, etc., and minimum use of agrochemicals;
- Sustainable soil and tree management procedures, including the use of compost, farm waste recycling, and routine tree revitalization using lateral or chupon grafting and in-filling;
- manages water resources, by considering water re-circulation and reuse, extracting water only from sustainable sources and not discharging untreated wastewater into natural water bodies; and
- complies with Indonesian labour, child protection and anti-discrimination laws.





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