

BLCF Case 1: Improving the competitiveness of small-scale organic cocoa production in Dominican Republic

The Business Linkages Challenge Fund (BLCF) supports private sector partnerships that promote commercial benefits to participating business enterprises and help to reduce poverty in target developing countries. Companies can apply for grants between £50,000 and £1 million that increase access to markets, transfer technology, improve competitiveness, or address the policy and regulatory environment for business.

Project Start Date: November 2002
Project End Date: November 2004
Country: Dominican Republic
Project Description: Organic Chocolate Production
BLCF Grant: £189,000
Private Sector Contribution: £225,000

Background

The international cocoa market has always been influenced by significant price fluctuations that directly affect the price growers get in the Dominican Republic. In recent years, the world market price did not reach a “fair” level. A “fair” price, calculated by the Fair Labeling Organization, covers the production costs and provides the small growers a modest profit. In the Dominican Republic the cost of living for cocoa growers is relatively high compared with African growers. Therefore since its conception, the Dominican Republic’s Small Cocoa Growers Association, CONACADO, has strived to find market niches such as the organic cocoa market to guarantee a reasonable price level to its members, and consequently protect them against the direct impact of the international market price fluctuations. At the same time, large producers of high-quality cocoa, such as Barry Callebaut face the challenge of having a constant supply of quality cocoa beans. In 2002, CONACADO approached BLCF to investigate the feasibility of funding unique market niches that would promote the commercial interests of small growers.

Project Objectives

- Develop a sustainable market for CONACADO small growers
- Produce raw organic cocoa beans of superior quality for Barry Callebaut
- Increase competitiveness of CONACADO and Barry Callebaut in the organic cocoa sector
- Develop the necessary incentives to motivate growers to focus on the quality of cocoa
- Share the knowledge gathered through the project with all CONACADO organic cocoa growers to increase production

Approach

This project was driven by private sector demand. It showed a disequilibrium in the organic cocoa market, which could be resolved by:

- sourcing cocoa from another country with a consequent reduction in prices; or
- encouraging partners to work together through BLCF to respond better to organic cocoa production requirements.

The second option was chosen. A pilot program was launched in two out of the nine cocoa-producing regions of CONACADO. A comprehensive two-year plan was put in place to implement the project.

The Three Measures of Success

The BLCF has three overriding measures of success.

Business Linkages: at least one clear linkage must be established through the life of the project.

Market Development: the project must develop an existing market, or create new markets.

Pro-Poor Impact: the project must have a significant positive impact on lower income groups.

With these three criteria in mind, what did the CONACADO project achieve?

Business Linkages

Stronger relationships down the supply chain have been achieved. Barry Callebaut is now a long-term partner of CONACADO and is able to supply quality organic cocoa periodically. Furthermore, the milestone of producing 500 tons in the 'gourmet' chocolate market has been surpassed with CONACADO supplying 700 tons. This has allowed the organization to establish new linkages with other European cocoa buyers such as ICAM and CTM Altrmercato of Italy, and Twin Trading of the UK.

Market Development

This project has allowed CONACADO to improve the quality of cocoa produced. This in turn has developed:

- The market for new types of 'gourmet' cocoa—CONACADO is the sole supplier of quality cocoa beans to an Italian entrepreneur for their direct retail business.
- Better quality of cocoa wine and jam produced as a by-product by the small-grower women's group.
- A formal transport system for cocoa beans has been established, thus creating more employment for truck drivers.

Poverty Impact

The biggest impact of this project has been on poverty. Working with small growers and, in particular, choosing the poorest production regions (Yamasá and El Castillo) has improved rural livelihoods. The main achievements include:

- A differential of US\$405/ton (US\$145 over the milestone) is now paid to small growers.
- 1,225 farmers (well over the 350 milestone) are now producing superior organic cocoa.
- Women now contribute to the drying stage of the process and this generated a 25% increase in employment.
- Computer technology has been upgraded at CONACADO and remote communities have been linked to the internet.
- The broader community—beyond the cocoa growers—now has increased purchasing power.

Lessons Learned

Private sector funds can definitely be leveraged for pro-poor growth. BLCF contributed 45% of the funding with the rest coming from CONACADO and Barry Callebaut. Making them part risk-takers in the project with mutually beneficial commercial objectives allowed building in measurement criteria that would have otherwise been obliterated. Structuring the implementation was key. CONACADO's choice of regions was based on (1) having a strong leader and (2) the level of poverty. Yamasá was one of the regions chosen because it had a very strong leader who could implement change. Furthermore, the region was CONACADO's 'ugly duckling', (including low capital investment, low income levels, and poor cocoa quality). This was a great opportunity to turn things around and other regions have followed suit. A strong lead partner is pivotal to project success. CONACADO has put the resources and enthusiasm behind this project, making it a success.

Partners: Confederación Nacional de Cacaocultores Dominicanos (CONACADO); and Barry Callebaut Sourcing, AG.

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