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**A PRELIMINARY DIAGNOSIS OF CACAO
PRODUCTION AND MARKETING SYSTEMS IN ECUADOR**

FOR

**El Programa Nacional del Cacao
Ministry of Agriculture and Livestock
Government of Ecuador**

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I. Executive Summary

This document is the result of a preliminary investigation of the problems facing small and medium-sized cacao producers in Ecuador. It has been prepared by ACDI at the request of the Programa Nacional de Cacao (PNCC), an entity of the Ecuadorian Ministry of Agriculture and Livestock. It seeks to crystallize the issues hindering efficient cacao production and marketing among farmers as well as provide a set of recommendations for their remedy.

The target audience of the report is composed of two distinct groups: 1) Ecuadorian institutions which formulate and implement agricultural policy directed specifically at the cacao industry, and 2) donor agencies, particularly USAID. It has been written mindful of the coordinated, private sector oriented agricultural development strategy created by the government of Ecuador and supported by USAID. This strategy is designed to increase production and facilitate marketing of a number of key crops including coffee, cacao and bananas for export and yucca, rice, potatoes, milk and other products for domestic consumption. Generation of technology through research and transference of technology via extension and training are important components of the strategy.

There exist a number of problems which inhibit efficient production and marketing among small and medium-sized cacao farmers. Probably the major one is that most cacao farmers sell their produce individually to local traders, who in turn sell directly to exporters in Guayaquil. This often results in farmers receiving inferior prices for their produce as traders' profits come from buying at the lowest possible price. In addition, farmers have little protection from unscrupulous trader practices. Other problems facing cacao farmers are tree disease and aging plantations which limit production, lack of access to technology and credit, high cost of inputs and lack of supporting institutional resources to provide sufficient extension services.

The chief recommendation of this report is the formation and promotion of a cacao producer association as a representative private sector institution. This association would explore mechanisms for improving technology, training, research, quality control, credit and extension services available to cacao farmers. It would also interface with government by serving as a producer voice on related policy issues. Additionally, the association would encourage the entrepreneurial qualities of Ecuadorian producers, helping them form companies (corporations, cooperatives etc.) or financial intermediaries to mobilize and channel financial resources to producers, sell farm supplies and collect, process and market cocoa beans for both domestic and export consumption.

II. Purpose of the Study

Cacao is one of Ecuador's major crops and after oil, shrimp and bananas, an important foreign exchange earner. Approximately 300,000 hectares of land are devoted to cacao production and about 70% of this is cultivated by small (less than 10 hectares) and medium-sized (between 10 and 50 hectares) market oriented farmers. The average cacao farmer works a five-acre piece of land. An estimated 50,000 farm families draw their livelihood directly from cacao, and another half million Ecuadorians are indirectly dependent by providing services which support cacao production and marketing. Thus more than 7% of Ecuador's population of 10 million are directly or indirectly involved in the cacao industry. This is a significant portion of the population and the impact of cacao on the economic health of the nation should not be underestimated. The impact is even more significant when one considers that cacao is grown primarily in the coastal regions, where the percentage of people involved in it is much greater.

Despite its importance as a foreign exchange earner cacao production has been far below capacity in recent years, with serious effects on national revenues and farmer standard of living. There are a number of reasons for this: aging plantations, poor farming techniques, disease, deficiencies in the number of trees planted per hectare of land, virtually non-existent extension services and high cost of inputs chief among them. Compounding these problems is the lack of viable organizations at the local level which represent and provide services directly to farmers. Although larger cacao farmers (those with 50 hectares or more) have the resources to overcome many of these problems, the great majority of small and medium-sized market-oriented farmers are often left to fend for themselves before both the dangers of the elements effecting production and the rather inhospitable atmosphere of the marketplace. Although many farmers belong to cooperatives, few of these offer any real services related to cacao. Most cacao farmers belong to no organization at all, as agricultural cooperatives have an image of excessive government interference, party-oriented politics, corruption and are associated with land reform collectives. Moreover, few have any idea of the benefits of organizing.

Thus the purpose of this study is, in cursory fashion, to diagnose the problems and needs of cacao farmers and the organizations that serve them. It also seeks to determine to what extent there exists resistance to organizing into associations and what might be the sources of that resistance.

It is hoped that this preliminary initiative will serve as a springboard for future USAID consideration in supporting the development and strengthening of private-sector associations which are farmer owned and directed, designed to facilitate more efficient cacao production and marketing as well as improved product quality.

III. Methodology

In preparing this report, all the major cacao producing regions west of the cordillera were visited. Accompanied by Ing. Franklin Borbor Obregon and Lic. Jorge Franco Sotomayor of PNCC, informal interviews and discussions were conducted with a variety of individuals representing agricultural institutions and with independent farmers. The following is a list of institutions visited during the four-day data collection period. Only descriptive information relating specifically to each institution is presented in this section. Issues and problems emerging from the discussions are presented in Section IV.

A. Cooperative Villa Nueva (Naranjal, Guayas)

- visited with the president and several farmer members
- coop has 80 cacao farmer members
- members are also coffee farmers
- coop has a coffee and cacao dryer
- the dryer is the only service offered to cacao farmers
- charges for use of the dryer are S/300 per quintal per hour for members and S/450 per quintal per hour for non-members (200 Sucres = \$1 U.S.)

B. Cooperativa 10 de Enero (South of Naranjal, Guayas)

- visited with all 22 members
- all members are cacao growers
- of the 162 hectares under cultivation, 150 are devoted to cacao
- coop is actually a collective, with land communally owned
- offers no services other than use of a common tandal to dry produce

C. Cooperativa Democracia (Democracia, El Oro)

- met with the president and a number of members
- coop has 100 members
- all members are either land owners or in the process of becoming land owners
- coop represents 800 hectares of land (75% under cacao production, 25% bananas)
- coop offers no services to members other than a tendal to dry produce

D. Cooperativa Progreso (Progreso, El Oro)

- met with president
- coop has 44 members
- all are land owners
- each farmer owns on average 10 hectares of cacao
- only service offered by the association is a dryer
- charges for use of the dryer are S/450 per quintal per hour for members and S/550 per quintal per hour for non-members
- almost all dryer users are members

E. Cooperativa San Francisco de Jumón (Santa Rosa, El Oro)

- met with the president and a number of members
- coop has 24 members, all of whom are cacao producers
- all members own their land
- farm size of members ranges from 6 to 14 hectares
- only services offered to members are water distribution and a tendal

F. Cooperativa El Pital (Los Rios)

- met with the president and several members
- coop has 27 members
- members produce coffee, cacao and bananas
- no services are offered other than credit through the Banco Nacional de Fomento, and this only for coffee
- credit appears rarely used for production, though; it is usually used for family emergencies such as illness
- no payback figures were available but general opinion was that not many farmers are paying back the loans
- all members own their land
- the Banco has not repossessed any land

G. Comuna Libertad de Timbre (Esmeraldas)

- met with president and several members
- Comuna Libertad de Timbre is actually a collective in which land is communally owned
- has 110 members
- 600 hectares of cacao are under production
- bananas are also grown

The comuna is a traditional tribal-type community organization structure which was initiated during the colonial period by the Spanish as a means of "protecting" the indigenous people. Its land cannot be sold, mortgaged or owned by individuals. Members have user rights only.

H. Cooperativa 6 de Enero (Quininde, Esmeraldas)

- met with president, manager and several farmer members
- coop has 16 members who grow coffee, cacao, platano, rice and corn
- coop offers no services for cacao
- farmers own their land
- average size farm is around 20 hectares of which 10%-20% is devoted to cacao

Other Organizations visited were:

I. Proyecto Desarrollo Rural Integral (DRI, Esmeraldas)

- a project of the Ministry of Social Welfare
- offers technical assistance and information to 95 associations, cooperatives and pre-cooperatives
- less than 5% of the project involved with cacao
- project serves 110,000 hectares of land in Quininde, Malimpia and Nueva Jerusalem
- project is funded by the Ministry of Social Welfare with assistance from the World Bank
- project has 15 full-time technicians
- project does not appear to be very effective in disseminating technical information to farmers, particularly cacao farmers

J. PNCC Field Technicians

- met with six field technicians of the Programa Nacional de Cacao
- observed a training program in progress for cacao farmers demonstrating pruning techniques
- PNCC has only 25 technicians to cover almost 300,000 hectares of cacao nationwide; thus the impact PNCC can have on production is negligible as long as it attempts to cover all cacao growing areas

K. Instituto Nacional de Investigación Agropecuaria
(INIAP, in Pichilingue)

- met with the director and toured the facility with a technician
- INIAP has conducted agricultural research for 43 years, 40 in cacao
- research results are disseminated through seminars and publications
- INIAP is a state-run organization under the Ministry of Agriculture and Livestock
- institute has a 5 hectare cacao research farm
- provides an extension service staffed by own technicians but low funding level severely restricts ability to get information to farmers

L. Dirección Provincial Agropecuaria de los Rios

- paid a courtesy call to the director and chief of programming, advising them of our mission
- provincial headquarters for the Ministry of Agriculture and Livestock

M. Independent Cacao Farmers

- discussions were held with 10 cacao farmers with land holdings of between 1.5 and 50 hectares
- some of these may actually be members of cooperatives, but all indicated that they produce and market their cacao independently

No attempt is made to label this study as scientific. Interviews were conducted very informally, often under trees, at soda stands or on the street. In several cases we went from plantation to plantation searching for cacao farmers. Discussions were free flowing with no preconceived structure. The data they generated are presented in qualitative fashion in the next section. Although the sample of respondents is too small from which to draw conclusions of any real validity, very clear patterns emerged which my compañeros agreed are an accurate portrayal of the current state of the Ecuadorian cacao industry.

IV. Results

The discussions and interviews revealed a wealth of information related to the problems of cacao farmers. To facilitate presentation, the findings are categorized into four general problem areas which are comprised of a number of related issues. Specific issues are discussed within each category.

A. Existing organizations serving cacao farmers are woefully inadequate

The overwhelming majority of cacao farmers have little access to even the most rudimentary services. They are forced to sell individually through local intermediaries who often pay farmers less than the market price for their produce. The traders often circumvent paying the official price (currently around S/16,000 per quintal) by advising farmers that the produce is of inferior quality and requiring, say, 115 pounds and calling it a quintal. The traders often work in collusion so there is little benefit for a farmer to take his produce elsewhere. The intermediaries control the wholesale market and sell to exporters at up to 25% more than the price they give to farmers, who end up financing the traders' costs by accepting low prices. Farmers thus assume the risks of the traders and are defenseless against this type of exploitation.

About the only service offered by many cooperatives to cacao farmers is a tendal, a flat area of either wood or concrete where the produce is put out to dry. A few cooperatives in particularly humid areas have dryers provided by PNCC, but many more are needed. There appear to be few storage facilities, few common collection points and little farmer capability to exert any control over the marketing and distribution function.

B. Farmer distrust of cooperatives

Agricultural cooperatives in Ecuador were reported to have a rather poor reputation. In the past cooperatives were highly politicized, occasionally government controlled and very often corrupt. They are generally associated with the land reform programs of the 1960 and 1970's. Given this image, it is little wonder that farmers are distrustful. Still, many belong to some kind of association or cooperative despite the inadequate services they provide, and farmer need for technical assistance and marketing services cries out for the kind of support associations and producer/user owned and directed firms can provide. Farmers, however, have little knowledge of the benefits to be accrued by associating. They are extremely wary about joining with other farmers to invest in their own business, nor do they have more than vague ideas on how one should be organized or administered.

C. Lack of access to technology

Cacao farmers have been ravaged by plant disease, inefficient use of land, aging plantations, poor cultivating techniques and bad weather. Many farmers reported losing up to 70% of their total production during recent harvests as a result of these interdependent factors. Two diseases in particular, escoba de bruja (witch's broom) and monilla, have been especially damaging. Both proliferate during periods of excessive rainfall and low temperatures, climatic conditions affecting much of Ecuador's cacao growing region this year. Insect damage is also rampant. In addition, 60% of all cacao trees are upwards of 40 years old, a good 10 years past prime production age. Still another limiting factor is that the number of cacao trees in production is very low. It is estimated that cacao plantations are being utilized only to about 60% of capacity. Thus more trees could be planted and production augmented by increasing the number of hectares devoted to cacao. When poor cultivating and harvesting techniques are also considered, the result has been devastating to the quantity and quality of production.

Extension services offered by PNCC, INIAP, DRI and other sources are so limited as to be virtually non-existent. PNCC has on the average one technician for every 11,500 hectares of cacao. While performing research that would be useful to farmers, austere budgetary constraints seriously inhibit INIAP's ability to get its research results out. DRI has only fifteen technicians to cover the 9,000 hectares of cacao in its limited area of influence. A complicating variable is that these extensionists, while probably quite sound technically, have received no training in techniques to effectively communicate their knowledge. The research capability of Ecuadorian universities is much in need of development. The mechanisms for generating technology and disseminating down to the farmer level are sorely lacking.

Even if research and extension services were better developed, it would be difficult for farmers to absorb it without viable, functioning farmer organizations through which to channel the information. Transference would at best be haphazard and at worst ineffective without organized promotion and follow-up efforts at the farmer level.

D. No access to credit

A well functioning extension program providing needed technology to farmers would be useless without the availability of credit to acquire the resources for application of the technology. The Banco del Fomento provides some credit services to larger cacao farmers but virtually none to small and medium-sized farmers. What little is provided is often used for non-productive purposes such as family emergencies. The result is a high delinquency rate among smaller farmers and a reluctance

on the part of the Banco del Fomento to provide credit to this group. Without financial resources farmers make do without essential inputs such as fertilizers, insecticides and fungicides. The large majority have also put off replacing aging trees. Again, quality and quantity of production have suffered immeasurably.

V. Conclusions and Recommendations

Cacao farmers are seriously in need of services to facilitate production and marketing of their crops. There is no system in place through which to channel technical assistance or credit to the farmer level. Most individually sell their cacao directly to middlemen and thus are exposed to manipulation and often forced to accept artificially low prices. The net result of these factors has been a decline in the quality and quantity of Ecuadorian cacao, with negative effects on farmer quality of life as well as national export revenues.

Additionally, cacao farmers have no representative voice. Other than the PNCC, which is a government program operating with very limited resources, there exists no organized effort at the national level to promote their interests. The major recommendation of this report, based on the information collected, is the organization of independent cacao producers into a national farmer association. The idea would be to promote this association as a workable private-sector institution which would represent the interests of farmers and through which services could be channeled. It would be farmer owned and directed.

There are a number of advantages to this approach. It could facilitate access to needed technology by serving as an intermediary through which research and extension services could be funneled to farmers. It could be used as a distribution point, through either existing mechanisms such as cooperatives or the establishment of local chapters, for published research, disease prevention guidelines, training programs and other services offered by any organization (such as PNCC, FEDIA, INIAP, DRI and universities). Such services could be financed through user fees paid by the association should the particular organization require such fees.

Additionally, such an association could establish a system of grades and standards for the industry. This would help to ensure that the high standards of quality required to compete in the export market are maintained and monitored. Ecuador's reputation as an exporter of high quality cacao has suffered in recent years due in large part to quality control deficiencies.

An association could also represent farmers before major financial institutions (such as the Banco de Fomento), soliciting commitments for credit financing of cacao projects. If accomplished in a coordinated manner on a national level, as an association would be able to do, credit resources could be funneled down to farmers through branch offices of these institutions. Such a coordinated approach might help break down some of the resistance banks and other financial institutions have toward offering credit to cacao farmers. The association could set up and enforce strict guidelines for granting and monitoring loans to farmers, and help to ensure that credit funds are used for productive agricultural purposes. This should facilitate willingness on the part of the institutions, particularly the Banco de Fomento, to provide credit as well as offer a system to enhance loan quality. A combination of farmer peer pressure and enforcement of specific association guidelines would comprise such a system.

A cacao association can also represent farmers before government bodies. An important function of such an association would be to serve as an advocate for legislation favorable to cacao production and marketing. It would help to overcome governmental and legislative impediments to growth of the industry and generate momentum for its expansion. Additionally, it could help to promote Ecuadorian cacao through a coordinated national, and possibly international, advertising campaign. It could offer regional and international conferences for debate and discussion of themes critical to the industry.

An association also could encourage existing cooperatives, as well as other private enterprises, to provide more services directly to cacao farmer. As the need arises, the association could serve as a catalyst for the organization and operation of profit-making businesses providing needed services to cacao producers, processing facilities, etc. This would effectively separate the business aspects from the non-profit/lobbying/representation nature of the association concept.

Presently, many cacao farmers who happen to be members of cooperatives also grow coffee. Unfortunately, the services offered by the cooperatives are often limited exclusively to coffee. The cooperatives possibly can serve as credit intermediaries with loans made possible through association efforts at the national level. They can also operate supply stores containing inputs essential to cacao cultivation. A cooperative store could carry inputs prescribed by research and extension services, and credit and savings mobilizations could provide the means to finance such purchases. The association concept can offer a coordinated approach to making optimal use of research, technical assistance, training, credit and supply services.

ACDI would be happy to consider preparation of an OPG proposal to provide management assistance for the creation, development and strengthening of a pilot cacao association. The project could be easily integrated into USAID's agricultural research, extension and education project which is designed to generate technology and transfer it to the farmer level. The formation of a cacao association would facilitate such technology transfer and contribute significantly to the enhancement of cacao production and marketing.