



April 25, 2006

To: USAID, Bidders on AMARTA Project
From: World Cocoa Foundation

**Current Status of the Cocoa Sector in Indonesia and Potential Opportunities
for the USAID AMARTA Project**
A Briefing Document from the World Cocoa Foundation

The following is a view, provided by the World Cocoa Foundation (WCF), of the current status of development in the cocoa sector in Indonesia (in particular Sulawesi). It is provided to USAID and to potential participants in the planned AMARTA project with the intention of providing background on the current status of the cocoa sector with the expectation of encouraging continuity of new work with other past and existing activities. WCF has been consistently engaged in the region through its member companies since the inception of the Foundation and advocates for the continuing development of cocoa as a smallholder crop in Asia.

The briefing below is intended to provide background on cocoa from a broad perspective. The goals of the AMARTA project will dictate which areas of opportunity are best addressed within its boundaries.

World Cocoa Foundation

WCF is an organization, based in Virginia USA, with over 50 member companies and organizations from the worldwide cocoa and chocolate industries. WCF is charged with supporting the sustainable development of the world cocoa crop, emphasizing assistance to farmers in the form of technical and agronomic training. The organization calls upon the resources of its members and collaborates with others with an interest in poverty alleviation and environmental protection in the tropical regions.

A History of Cocoa Development in Indonesia

The importance to Indonesia of the cocoa crop has varied over time. The environment is well suited to production and Indonesia has been engaged with cocoa to varied extents for over a century. However over the 20 past years cocoa production has grown ten-fold such that the production total of around 460,000T makes Indonesia the third largest global producer with 14% of world production. This crop is valued on world markets at US\$ 700 million and represents significant export earnings for the country in both raw and part processed goods. In particular, the mostly rural island of Sulawesi and its smallholder farmers produce the major part of Indonesia's cocoa benefiting significantly from cocoa production.

Opportunities in the Sector

- Cocoa production in Indonesia is not without its challenges. Chief among these is the impact of the cocoa pod borer. This crop pest lays its eggs on the surface of immature cocoa pods and on hatching the larva tunnels into the pod, simultaneously feeding and destroying the mechanisms of bean development. The impact of this pest is estimated at reducing farmer income by around 40% both as a loss of production but also as a reduction in quality of the remaining crop. Annual losses due to cocoa pod borer in Sulawesi are over \$US 290 million in crop loss and \$US 60 million in quality discount. Cocoa quality levels in regions impacted severely by the pod borer are sufficiently low as to threaten the overall viability of exports to certain user regions.
- After allowing for the pod borer impact, inherent farm yields are on the high side, from a global perspective. This may be driven by the newness of many farms. However, ongoing productivity declines may set in with more farm maturity. Other reasons for farmers not reaching their full potential productivity include lack of agronomic training and inappropriate or insufficient usage of inputs. Ultimately distribution of improved germplasm will aid farmers with yield improvements and pest and disease management.
- In addition to improvements in cocoa crop productivity, farmers in Indonesia will benefit from introduction to, and facilitation of, crop diversification to smooth and enhance income streams.
- Much discussion is occurring in the sector around the pursuit of additional price premiums for fermentation of cocoa (as opposed to the current Sulawesi standard of unfermented cocoa). This opportunity while offering some benefit to small holders would provide returns less substantial than those achievable by overcoming the losses due to the destructive infestation with the cocoa pod borer.
- Indonesian farmers receive one of the world's better levels of return (as measured by farmgate prices in comparison to FOB price). This is reflective of, in global terms, a relatively efficient and competitive purchasing / export chain. However, opportunities do exist within the supply chain to improve. In particular, pricing signals that differentiate the supply stream by quality parameters could be instituted to reward farmers prepared to invest in improved production practices. Primarily these would be used to yield benefits for managing pod borer associated quality impacts but also, depending on market need, for rewarding farmers who can produce cocoa with post harvest treatments valued by customers. Measures to train farmers and farmer organizations in on-farm methods to improve quality will be needed. Effective quality certification systems will also be required to support any quality/price differentiation.

Developments to Date

The SUCCESS Alliance has been operating in different countries across South East Asia for over six years. Funded by grants from USAID and USDA, managed by ACDI-VOCA, and supported by industry partners, the program has been targeted initially towards pod borer remediation and farm efficiency in Indonesia but also, more recently, to development of new cropping in Vietnam and the Philippines. This program constitutes a core of cocoa development expertise in the region.

Potential Partners and Contacts

Collaborative developments and interaction with existing structures have proven to be most effective in this development arena. Potential partners and their contact details are described below:

World Cocoa Foundation as outlined above – Contact Bill Guyton +1 703 462 5583.

Mars Incorporated, one of the world's largest chocolate manufacturers is actively engaged in cocoa development in Asia and has a team of associates who are stationed in the region or visit regularly. Their expertise covers all aspects of the cocoa crop, processing and global marketing – Contact: Josef Toledano +1 202 492 2952.

ACDI-VOCA Development NGO engaged in cocoa developments globally - Contact Elizabeth Dalziel +1 202 879 0267.

World Bank is developing an agricultural support project entitled “Farmer Empowerment through Agriculture Technology and Information” (FEATI) for East Indonesia. This loan program is under review with the government of Indonesia but if entered into the project would feature a significant component of cocoa infrastructure and capacity building. - Contact: Rick Chisholm: rchisholm@worldbank.org, +1 202 458 8591 or Josef Toledano +1 202 492 2952.

International Finance Corporation is the commercial arm of World Bank. - Contact Bruce Wise: BWise@ifc.org

Indonesian Cocoa Commission (ICC) is a governmental strategic advisory committee on the development of cocoa. – Contact Vice Minister of Agriculture, Djoko Said Damardjati: dirjenp2hp@yahoo.co.id, assisted by Tri Widjayati, ICC Executive Secretary: triwdjoko@yahoo.com Cell + 62 8111 38 256.

Cocoa Sustainability Partnership (CSP) is a new alliance of all local institutions that work in the field; contributing funds, manpower and infrastructure for cocoa development programs in Indonesia. The alliance focuses on three areas of work: 1) Research and Development; 2) Transfer of Technology; and 3) Farmer Empowerment. – Contact Noel Janetski +62 8124 184 335.