

## Case study 2. Agricultural Productivity Context

### Promoting Agriculture, Governance, and the Environment (PAGE) project

*World Vision Sierra Leone*

Programme Overview	
<b>Where</b>	Sierra Leone
<b>When</b>	2008-2012
<b>Who</b>	Smallholder cocoa producers, most of whom are vulnerable, including war widows and youths
<b>Goal</b>	Address production-to-market transactions and develop competitive agricultural and rural enterprises using the market systems approach
<b>How</b>	Through savings groups, farmer field schools and producer organisations, entrepreneurial training, and improved access to markets

#### a. Background

This case study highlights the facilitation role of the development organisation to ensure that stakeholder workshops take place. In the project, a national level stakeholder summit took place to address the constraints and opportunities of the national cocoa value chain in Sierra Leone.

Sierra Leone is recovering from a civil conflict that crippled agricultural production and disrupted service provision countrywide. Recovery has been moderate, with an average growth rate of about 6 per cent per annum.<sup>1</sup> Agriculture accounts for 46 per cent of gross domestic product and more than 30 per cent of export earnings. It is also by far the largest employer, providing employment for more than 30 per cent of the national workforce.

Agriculture has traditionally been the principal source of income, employment, and foreign exchange for the economy. Pre-war Sierra Leone was an important cocoa exporter, with the crop contributing significantly to the economic landscape. Cocoa is produced by smallholder farmers in the Eastern province of Sierra Leone. About 75 per cent of the producers are smallholder farmers with average farm sizes between 2.7 and 3.3 hectares.<sup>2</sup> Although these farmers traditionally pursue mixed livelihood strategies, cocoa remains the major source of income for their households. According to the PAGE marketing study,<sup>3</sup> net returns to family labour were substantially greater than the going wage rates, ranging from 50-400 per cent higher than the hired labour (\$48-\$194) per hectare.

The most significant change in the cocoa sector after the war was the increase in the number of **female owners of cocoa farms resulting from the deaths of their spouses**. Decline in both

<sup>1</sup> Government of Sierra Leone 2010, National Sustainable Agriculture Development Programme (NSADP)

<sup>2</sup> USAID PAGE 2009, Baseline Survey of Tree Crops Production and Marketing in Kailahun, Kenema, Kono districts

<sup>3</sup> *ibid*

production and quality of cocoa beans began in the 1990s and deteriorated during the war years of 1990-2002, when cocoa farms were abandoned.

## **b. What did we set out to do?**

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PAGE is implemented by a Consortium of NGOs (ACDI/VOCA, ARD, and World Vision) led by ACDI/VOCA and funded by USAID. The PAGE project seeks to address production-to-market transactions and develop competitive agricultural and rural enterprises using the market system development approach. Activities include:

- ▶ Conduct a general baseline survey of tree crops to identify production, marketing, and institutional needs in the cocoa, coffee, and oil palm sectors and to establish baseline parameters for monitoring and evaluation of policy reforms and project implementation.
- ▶ Strengthen existing farmer groups: establish new groups, and scale up producer companies. This involves training farmers in organisational skills, basic management, gender mainstreaming, literacy and numeracy skills, and facilitating the formation and management of savings groups.
- ▶ Map the cocoa value chain to determine a clear picture of the current situation, showing ongoing activities in the sub-sector, the actors involved, and identifying the key businesses and other stakeholders driving (or with the potential to drive) development of these markets.
- ▶ Identify constraints and opportunities for improving the operation and growth of the cocoa market and the specific stakeholder organisations that can assist with the implementation of the interventions. This resulted in the establishment of more cocoa farmer field schools that were later transformed to producer companies. Private sector firms in cocoa were also provided with grants to support additional farmer/group training in cocoa quality control and the “Rain Forest Certification” programme, thereby providing a higher price to producers.

## **c. What actually happened?**

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Several consultancy reports and a study of the cocoa sector were completed and validated by the Ministry of Agriculture, Forestry, and Food Security (with the help of World Vision). Further discussions with other organisations led to an agreement that a more inclusive process would be of benefit to the development of the cocoa sector, and the Cocoa Working Group was born. This group, comprised of key NGOs and donor-supported projects, held several planning meetings, during which a schedule for the Cocoa Summit and the terms of reference for its facilitator were developed and agreed upon by key stakeholders.

### **i. Smallholder farmers and the summit**

An invitation to the Cocoa Summit was announced over community radio stations in the cocoa producing areas, asking each producer company to send two to four representatives. In addition to the government announcements, PAGE ran announcements on community radio stations for its farmers and facilitated the selection of beneficiary cocoa farmers. Groups were encouraged to send innovative farmers with some experience in the industry and understanding of the burning issues

facing farmers. Participants from these groups contributed significantly, providing unique insights into the conduct of business by the buying and commission agents. They provided an understanding of why smallholder farmers lacked the motivation to produce high quality cocoa beans. One farmer said, “When the buyers come to our village they don’t talk about grade 1 cocoa, they just weigh the cocoa bags and pay us. So some of us decided to increase the weight of the bags through other means so we can get extra money.”

The Cocoa Summit organisers ensured that smallholder farmers were equally represented in the different groups during the breakout sessions. In addition, representative farmers were briefed about the terms of reference of each group discussion before the various breakout sessions.

Unfortunately, the main emphasis on the needs of small producers was lost during the summit when the focus changed to the needs of the big players in the cocoa value chain. Although they wanted to let the government take the lead, the NGOs ensured that small producers were represented in the breakout sessions. The small producers brought out issues such as:

1. Commission agents were not delivering credit provided for farmers by local exporters to secure cocoa beans before the cocoa harvest season, but instead blamed farmers for side sales and defaulting on agreements.
2. Commission agents were undercutting the price to the farmers by as much as 60 per cent, taking advantage of farmers’ lack of access and knowledge of market information (information poverty).
3. Poor farmers felt exploited and would steam the cocoa beans rather than ferment them—since quality did not attract premium price, farmers did not see the need to adopt good fermentation and drying practices.
4. Small producers would soak the beans to increase the weight since commission agents emphasised weight rather than quality and farmers do not see any incentive to sell quality cocoa, which would be lower in weight.
5. Price is not known by the producers so commission agents offered any price to farmers.
6. Some of the producer companies formed by PAGE compete on price with established local buyers to maintain their membership base and bargaining power.

## **ii. What went well and why?**

The consultation process, though long and difficult, turned out to be very fruitful as it brought all the key players, including the private sector, to the table to discuss issues of common interest. This concerted effort by an organically-formed group brought harmony and coordination in a sub-sector that was disjointed and uncoordinated in its effort to address the needs of the extremely poor.

The two-day Cocoa Summit attracted participants from throughout the cocoa market system—smallholder cocoa cooperatives, producer companies, buying agents, exporters, extension workers, NGOs, financial institutions, researchers, support institutions, government officials, traditional leaders from cocoa producing chiefdoms, District Council officials, donors, and development partners. The agenda developed by the Cocoa Working Group was discussed with the facilitators

and was then circulated to the key stakeholders, including some of the producer groups, ahead of the summit.

Key issues during the plenary session were highlighted and noted by the facilitators who guided the deliberations and ensured issues discussed were pertinent to all in the sector. These key issues formed the themes for the breakout sessions over the two days of the Cocoa Summit. During the deliberations there was consensus among participants for a common vision. It was generally agreed that the realisation of this vision requires improvements in the quality and quantity of cocoa produced in Sierra Leone. Extremely poor households will benefit from higher levels of participation in producer organisations through increased bargaining power and training in skills such as literacy and numeracy, basic management, marketing, and group savings.

The Cocoa Summit was successful because all stakeholders were linked to a shared set of concerns and a vision for the future. There was agreement on an action plan to ensure the realisation of the common vision:

1. Improving quality, quantity, and competition
2. Establishing traceability and sustainability
3. Forming and strengthening producer associations
4. Accessing financial services
5. Forming a cocoa producers and traders association

There was concern about follow-up after the summit, so participants agreed that the Cocoa Working Group, which includes small producers' representatives, should continue to work with the Ministry of Agriculture, Forestry, and Food Security and the Ministry of Trade and Industry. One of the immediate activities was to provide a summary of the Cocoa Summit to the ministers and to ensure that the Action Plan agreed upon at the summit is executed in a timely manner.

## **d. Issues and recommendations, as discussed at the summit**

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### **i. Issue: quality, quantity, and competition**

Sierra Leone's biggest competitive gap is the inconsistency of cocoa bean quality. The local cocoa market is driven by volume-based transactions in the absence of price incentives for quality. This situation prevailed over the last two decades, resulting in lower quality cocoa beans. The summit participants agreed that the lower export price resulted in poor quality. As Mr. Sarh Sorie, the Chairperson for the Bassankoen Producer Company explains, "Before the formation of our groups and eventually producer company, the price we could get for cocoa was so low it was not worth harvesting or fermenting the cocoa properly. During the hunger season traders were offering us a bag of rice (50 kg) valued between Le140,000–180,000 in exchange for a bag of our cocoa (70 kg) valued at Le250,000–350,000. Many of us abandoned our trees. Some farmers resorted to selling poor quality since the price we were paid was not based on good quality cocoa beans. It was a very difficult time for us as life was very insecure."

→ **Recommendation:** The summit acknowledged the need for improvements in the quality and quantity of cocoa produced in Sierra Leone. It emphasised the need for this to happen in a competitive environment that provides the right mix of support and incentives to diverse players.

The various public and private sector initiatives that have been launched to train and improve the traditional practices of smallholder producers should be intensified and sustained. Regular cocoa price announcements are made on community radio stations. Group based training will empower small producers to bargain collectively for better prices for premium products.

## **ii. Issue: traceability and sustainability**

Consumers of cocoa end products (especially chocolate) are taking an increasing interest in the conditions under which the foods they consume are produced. Companies are therefore searching for ways to credibly show their commitment to environmental sustainability. This interest is driving the exporters and importers of Sierra Leone cocoa beans to demand evidence of traceable, sustainable produce. Certified producers and traders must demonstrate traceability through detailed documents that show where a product was produced and where it was sold.

→ **Recommendation:** As cocoa traceability becomes ever more important to the production of quality food, Sierra Leone must continue to train producer companies<sup>4</sup> and producer groups<sup>5</sup> to participate in management and production strategies at the community level. Each producer group should organise its members around the common objective of producing quality, traceable cocoa under sustainable conditions.

In order to distribute payment to each farmer equitably, producer groups working with private sector firms and investors should maintain a traceability database. The database should track the level of training received by each farmer and the sales transaction (number of bags of cocoa beans each member contributes to the group's sale). Private firms and investors should partner or enter into joint venture agreements with producer groups to select cocoa processing and bagging centres to avoid "mixing," and thereby enhance quality control, traceability, and job creation, especially for young people.

## **iii. Issue: producer groups**

Under all foreseeable scenarios, the number of producer groups needs to increase if farmers are to play a strategic role in the production process and gain a fairer share of the revenue. These groups, formal or informal, help extremely poor producers take advantage of donor and government programmes and technical assistance.

→ **Recommendation:** Traceability and sustainability systems are difficult to realise without well-organised producer groups. In this regard, a number of activities to facilitate traceability can take place within producer groups. These might include clustering of farmers into similar socioeconomic strata, pre-diagnostic audits to establish precisely what needs to be done to achieve certification, and pre-certification capacity building.

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<sup>4</sup> These are farmer organisations that have registered legally and hold a business license.

<sup>5</sup> Farmer-Based Organisations are recognised by the Ministry of Agriculture, Forestry, and Food Security, Ministry of Social Welfare, and the District Councils through a registration process but do not hold a business license.

#### iv. Issue: access to financial services

The lack of access to credit from financial institutions to purchase planting materials is a frustrating situation for smallholder producers. Salone Microfinance Trust (SMT) provides only 15 per cent of its portfolio to agriculture, and the microfinance industry as a whole provides only 5 per cent to the rural farm sector.<sup>6</sup>

Current pre-financing options lock small producers into a tangle of debt and dependency on commission agents who manipulate prices. As a result, farmers lack the incentive to make additional investments of time and effort to properly process cocoa beans.

→ **Recommendation:** The Cocoa Summit concluded that more effort is needed at multiple levels to connect financial institutions with cocoa producers and traders to develop the sector. Producer companies and producer groups that have contractual agreements with exporters and/or importers should be able to secure funding from financial institutions even if this requires government credit guarantees to underpin these relationships. Some exporters and projects are considering piloting a warehouse receipt programme for cocoa.<sup>7</sup>

#### v. Issue: cocoa producers and traders association

Participants at the Cocoa Summit discussed the fragmentation of the sector and the absence of an industry association to advance the collective interests of those whose livelihoods depend on the cocoa industry, as well as to efficiently channel information to all stakeholders, especially smallholder producers. Such an association could play a key role in formulating and enforcing codes of practice and standards, lobbying for necessary changes, facilitating learning and sharing across the sector, and representing the small producers and the cocoa industry externally.

→ **Recommendation:** The government should support the establishment of the Cocoa Association with a public-private partnership providing the technical know-how to ensure that proper governance structures are in place. It is important that this body is driven by the private sector to ensure fair representation along the value chain.

### e. Unexpected results

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The high turn-out at the summit exceeded expectations, and the participation and openness of the local exporters to hear critical comments about their trading activities in the sector was unexpected. Their contribution to the deliberations was helpful in understanding the existing pre-financing system and provided farmers a better understanding of how to navigate the system to their advantage. For example, they should directly contract with local buyers to ensure price is paid for quality and they should ensure that pre-financing conditions are clear to all parties and payments are direct.

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<sup>6</sup> Personal communication with Mr. David Shodeke, Executive Director, Salone Microfinance Trust December 2011

<sup>7</sup> Zambian Agricultural Commodity Agency Ltd. (2002), Facilitating Smallholder Access to Warehouse Receipt Systems in Zambia: Review of Options. Prepared by the Natural Resources Institute, UK. Also in 2009, USAID initiated grain warehouse receipt system in Ghana; the Ghana Cocoa Board is also piloting the warehouse receipt system for cocoa farmers.

Knowledge and information sharing: small farmers now have access to agricultural information and technologies, which in turn enhances their production. The benefit of fermenting and drying centres in improving grades and enforcing standards was shared by private sector participants, encouraging producer organisations to set up these units. Further, the summit also discussed the use of mobile phones to access local and international market information as well as dissemination of improved practices and timing of activities throughout the farming calendar for cocoa.

## **f. Conclusion**

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A partnership between the private and public sectors needs to spearhead the formation of producer groups and producer companies that include extremely poor households to increase their bargaining power and market penetration and provide quality and timely information on prices. Democratically-run producer companies and producer groups provide better access to risk management for the producers as well as better prices, access to labour, and inputs. The continued success of the cocoa industry and the effective implementation of the action plans depend on the timely provision of and access to financial services.

Knowledge sharing should go beyond the formal public sector extension system and utilise the various agents and intermediaries who interact with small farmers and other stakeholders in the innovation system so that the knowledge and information required by farmers to innovate can be provided and linkages developed. In this respect, the organisational innovation presented by farmer field schools and producer organisations in integrating the provision of several services to farmers, including advisory services, is very important.

