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PUBLIC-PRIVATE PARTNERSHIPS IN GLOBAL VALUE CHAINS: CAN THEY ACTUALLY BENEFIT THE POOR?

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LEO REPORT #8



FEBRUARY 2015

This publication was produced for review by the United States Agency for International Development. It was prepared by Ajmal Abdulsamad, Shawn Stokes and Gary Gereffi of Duke University's Center on Globalization, Governance and Competitiveness for ACDI/VOCA with funding from USAID/E3's Leveraging Economic Opportunity (LEO) project.

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

The research for this report relied primarily on secondary sources, including partner progress reports, post-project evaluation reports, and related reports and studies from other development agencies. It draws extensively on the available global value chain literature to analyze and discuss partnership outcomes. Other data sources included a number of phone interviews with international development experts as key informants for each case. Errors of fact or interpretation remain the exclusive responsibility of the authors. The opinions expressed in this report are not endorsed by the sponsor or the interviewees.

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The Duke University Center on Globalization, Governance & Competitiveness (Duke CGGC) is affiliated with the Social Science Research Institute at Duke University. Duke CGGC is a center of excellence in the United States that uses a global value chains methodology to study the effects of globalization in terms of economic, social, and environmental upgrading, international competitiveness and innovation in the knowledge economy. Duke CGGC works with a network of researchers and scholars around the world in order to link the global with the local and to understand the effects of globalization on countries, companies and the full range of development stakeholders.

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ACRONYMS

ADAR	Agribusiness Development Assistance to Rwanda project
AMARTA	Agribusiness Market and Support Activity
CoE	Cup of Excellence
CPB	Cocoa pod borer
CWS	Coffee washing station
EurepGAP	Euro-Retailer Product Working Group Good Agricultural Practices
FOB	Free on board
FPEAK	Fresh Produce Exporters' Association of Kenya
FWC	Fully washed coffee
GDP	Gross domestic product
GVC	Global value chains
KBDS	Kenya Business Development Services project
KHDP	Kenya Horticulture Development Program
PEARL	Partnership to Enhance Agriculture in Rwanda through Linkages
PPP	Public-private partnership
RWASHOSCCO	Rwandan Small Holder Specialty Coffee Company
SCAA	Specialty Coffee Association of America
SPREAD	Sustaining Partnerships to enhance Rural Enterprise and Agribusiness Development
SUCCESS Alliance	Sustainable Enterprise Solutions for Smallholders Alliance
USAID	United States Agency for International Development
VSD	Vascular streak dieback
WCF	World Cocoa Foundation

PART I

A. INTRODUCTION

Over the last two decades, the contextual changes characterized by economic globalization not only influenced patterns of production, competition, and trade; they also provided opportunities for public-private partnerships (PPPs) to achieve development objectives. Today, global value chains (GVCs) account for an estimated 80 percent of world trade (UNCTAD, 2013). Integration in GVCs offers significant potential for economic growth in developing countries. The share of value-added trade in gross domestic product (GDP) for developing countries is on average 30 percent compared to 18 percent in developed countries (UNCTAD, 2013). The past 15 years also witnessed a proliferation of development PPPs between the private sector and the international development community. This transformation has been driven by three major trends (Bella et al., 2013; Jochnick, 2012; Strickland, 2014). First, in a global economy, private capital and trade flows have dwarfed official donor assistance. Second, the impact of these increased trade flows have heightened concerns over how to ensure the positive developmental trajectories of nation-states while mitigating any negative social and environmental harm to their citizens. Third, traditional approaches to development have come under question, prompting high profile economists like William Easterly to raise concerns over what the “\$2 trillion in foreign aid” has accomplished (Easterly, 2006).

Responding to these trends, and a desire to manage brand risk or take advantage of new business opportunities, corporations have committed to initiatives to ensure sustainable development within their corresponding GVCs. In this context, bilateral donors have increasingly engaged the private sector to take on a variety of pro-poor development roles, such as: providing an innovative source of finance; acting as a co-funding or implementing partner; providing a source of income generation and job creation; and acting as part of a key constituency to engage in the creation of national development strategies that support an enabling environment for the private sector. This diversity of donor approaches is driven in part by different understandings of the relationship between growth and poverty.

While private sector development is not new to the development community, the focus on development PPPs has important implications for development policy and practice. Little is known about the impact these partnerships have on smallholders in developing countries (Brain et al., 2014; Heinrich, 2013). Most studies on the impact of PPPs rely on information about the delivery of outputs, rather than an understanding of the industry context in which the PPPs take place (Abadia et al., 2013; Brain et al., 2014; Sida, 2013). None of the available studies has systematically examined development PPPs against the interconnected context of local, regional and global industries, or market systems.

Thus this report does not evaluate partnerships according to the traditional format and criteria (efficiency, effectiveness, impact, relevance and sustainability). Rather, drawing on the available GVC literature, as well as information and reports related to our three cases in the export-oriented agricultural sectors, this research examines the main concerns over the potential of PPPs to truly bring about inclusive development:

- The alignment of business and pro-poor development interests;
- The actors and institutions that determine how the system works; and
- The outcomes that can be achieved.

B. METHODOLOGY

1. RESEARCH METHODOLOGY: IDENTIFYING & SELECTING PARTNERSHIP CASES

Our identification and selection of cases was conducted in three phases. In the first phase, we assessed various donor programs aimed at promoting engagement with the private sector. Documents were sourced from the Donor Committee for Enterprise Development, the Practitioner Hub for Inclusive Businesses, as well as various donor websites and reports. The purpose of this phase was to better understand the extent and scope of donor programs implementing development PPPs. There are numerous programs, each with a very large number of partnerships. In fact, since 2001, the United States Agency for International Development (USAID) alone, under its Global Development Alliance program, has formed more than 1,500 development PPPs with over 3,500 distinct partner organizations (USAID, 2014).

Due to the number and diversity of development PPPs, in the second phase, we focused our efforts on identifying development PPP cases by specific sectors. In consultation with our client, we agreed on three sectors: coffee, cocoa, and horticulture. Our case selection was then driven by two important considerations: 1) the selected sectors represent a large area of investment by USAID and also other bilateral donors; and 2) there is adequate GVC literature available on the sectors to support our case analysis.

In this phase, we identified 135 development PPPs. The cases were analyzed and categorized according to the nature of intervention and partnership mechanisms, as well as project duration and target areas (Appendix 1). The intent of this exercise was not to identify and rank the best cases. Rather this phase generated a structured and categorized list of 135 development PPPs with partnership-specific case materials. Of the 135 cases identified, eight were eliminated, due to inadequate case descriptions.

The third phase involved further research to collect case materials related to specific partnership cases. Findings from the previous two phases guided the process to collect detailed project documents, project progress reports, evaluation reports and other case related materials. This required reviewing online databases such as USAID's Development Experience Clearinghouse, donor program websites, and various reports related to specific partnership cases. In doing so, we used the following criteria to base our selection of cases for further analysis:

- Involvement of both large and small firms/producers across the three sectors
- Availability of related project documents, reviews and evaluation reports
- Availability of extensive value chain studies on the sector to support systemic analysis and lessons learned
- Availability of any related partnerships to provide pre- and post-partnership contextual information

The extent to which findings from this research present a comprehensive picture of the development PPPs is limited. In this regard, donor programs have not yet adapted the traditional monitoring and evaluation framework that focuses on a project-level theory of change, to a framework that captures the outcomes of development PPPs. To compensate for this limitation, a key consideration for our sector and case selection was the potential to leverage the existing sectoral knowledge from the GVC literature to analyze the available case materials.

2. DEVELOPMENT PARTNERSHIPS: AN OVERVIEW

Beginning with the German Federal Ministry for Economic Cooperation and Development (BMZ) in 1999 and USAID in 2001, a growing number of donors have launched development PPPs with the private sector (UNGC, 2011). The explicit focus, scope and scale of activities supported, and the type of actors chosen as private sector partners differ between donors (Strickland, 2014).

At a broader level, donor engagements can be classified into the following four categories (DCED, 2012):

1. **Business Matchmaking:** direct facilitation or grant support mechanisms to help business linkages between developed and developing country firms
2. **Incentivizing Investment:** Financial support to remove risk for developed country firms to invest in developing countries
3. **Technical or Business Advisory Services:** Direct or grant-supported technical and business advisory services to developing country firms
4. **Leveraging Private Sector Finance:** Co-financing bi-lateral or multi-lateral development projects through the direct financial contribution of the private sector

These different intervention models are further sub-classified in terms of whether their grant mechanisms are structured or non-structured as well as centralized or de-centralized (Bella et al., 2013). Funding mechanisms have implications not only for the ability to identify and select partner firms, but also for the development PPPs transaction costs, depending on whether a 'hands-off' or a 'more engaged' management is adopted (Brain et al., 2014). Donor programs and strategies engage private partners under various mechanisms at the micro- and macro-levels. This underlines the need for better coordination in targeting sectors and geographies, with a systemic understanding of how interventions at one part of a system can affect outcomes in the other part(s).

Table 1: Summary Characteristics of 135 Public-Private Partnerships

Donor/Program	Total number of cases	Inputs/Services			Market Linkages			Other
		Input supply	Non-financial services	Financial services	Strengthen vertical market linkages	Alternative linkages/ niche markets	Horizontal linkages	
Australian Agency for International Development	21	4	11	2	7	1	0	1
German Federal Ministry for Economic Cooperation and Development	16	3	7	0	2	3	4	4
Netherlands Ministry of Foreign Affairs	14	2	6	2	3	8	0	0
Sweden International Development Agency	11	1	4	0	3	6	2	0
U.K. Department for International Development	7	1	2	2	5	1	0	0
United States Agency for International Development	66	10	35	6	26	10	12	2
Total	135	21	65	12	46	29	18	7

Table 1 presents an overview of the 135 development PPPs we identified. Readers interested in details may consult Appendix 1. The summary table categorizes the identified partnerships according to the nature of the intervention. For example, for the Enterprise Challenge Fund Program financed by the Australian Agency for International Development, we identified a total of 21 partnership cases which are categorized as follows: input supply/markets (4), non-financial services (11), financial services (2), strengthening vertical market linkages (7), alternative linkages/niche markets (1) and other (1). These figures add up to 26 because some of the 21 partnership cases involved intervention in more than one of the category areas. Table 1 indicates that nearly 48 percent (65 cases) of all identified cases delivered non-financial services, and more than 55 percent (75 cases) of all cases targeted either the strengthening of existing market linkages or development of alternative niche markets. Non-financial services delivered by the partnerships focused on business training, extension and technical services to smallholder farmers.

3. DATA LIMITATIONS

The research relied primarily on secondary sources, including partner progress reports, post-project evaluation reports, and related reports and studies from other development agencies. It draws extensively on the available GVC literature to analyze and discuss partnership outcomes. Other data sources included a number of phone interviews with international development experts as key informants for each case.

It is important to highlight the following limitations of these data sources:

- Progress reports did not track indicators at the level of individual partnerships; and
- Limited data are available on the level of outcomes.

C. PARTNERSHIP CASE STUDIES USED FOR ANALYSIS

The three USAID partnerships used for case studies in this report are outlined in table 2. For details of the case studies, see Part II of this report.

Table 2: Three Partnership Case Studies

Partnership	AMARTA	KHDP	SPREAD
Country	Indonesia	Kenya	Rwanda
Sector	Cocoa	Horticulture	Coffee
Duration	5 years	5 years	5 years
Funding	\$2.5 million	\$10 million	\$5 million
Beneficiaries	22,500 farmers	58,000 farmers	20,000 farmers
Objective	Link smallholders ¹ with cocoa traders who will pay a premium for improved quality of beans	Help sector meet pending private sector quality standards to prevent smallholder exclusion from high-value horticulture export market	Promote adoption of coffee washing stations to improve quality of coffee and meet standards of high-value specialty coffee market
Partner(s)	Cocoa traders/processors	Horticulture exporters and farmer cooperatives	Coffee cooperatives and specialty coffee roasters

¹ Available program reports lack detailed information about the differences in asset ownership and livelihood strategies of the targeted smallholders. Our case studies, thus, treat smallholders as a homogenous group and as the poor supposed to benefit from these partnerships.

1. AMARTA: KEY FEATURES OF THE PARTNERSHIP

The partnership by Agribusiness Market and Support Activity (AMARTA) was implemented in the context of a global industry in which the income of Indonesian smallholder cocoa farmers was undermined by two major trends. First, because of the poorly organized local value chain, cocoa farmers in Indonesia were plagued with persistent and long-term issues of poor quality and low productivity. Second, global cocoa prices had experienced significant decline, due in part to the increased market concentration of downstream segments of the chain.

AMARTA partnered with Olam International (a multinational cocoa trader/processor) and Blommer Chocolate Company (a US-based cocoa processor). The partnership intended to extend vertical coordination to the farmgate, where farmers would receive market signals via higher prices for the quality buyers desired. The business model was expected to culminate in a sustainable commercial system driving higher value for both farmers and cocoa processors.

The sustainable inclusion of smallholders was undermined by the limited scale of the partnership intervention and the less than ideal partner selection. In terms of scale, of the 1.4 million Indonesian cocoa farmers, AMARTA worked with just 22,500. Partner selection by-passed local traders and did not engage downstream brand chocolate manufacturers, the firms with the highest commercial interests in quality and future supply, and thus the potential to leverage the most governance over the cocoa supply chain. Instead, AMARTA partnered with cocoa trader/processor firms, situating smallholders in a captive relationship with large companies that could choose to either exploit or support smallholders. Premium payments lacked transparent monitoring by third-party actors, so the prices received by farmers are uncertain at best. Even in certification schemes where third-party reporting increases transparency, farmers often do not receive the premiums that were expected. Thus, the income effect of higher yields reported in project evaluations, even for those 22,500 farmers, could have been easily diminished by the advantaged position of buyers or the inherent volatility of commodity prices in global markets.

2. KHDP: KEY FEATURES OF THE PARTNERSHIPS

The Kenya Horticulture Development Program (KHDP) started in 2003 and continued to 2009. KHDP was implemented alongside USAID's Kenya Business Development Services project (KBDS), and several other donor-funded programs. At the time, the horticulture export industry in Kenya was facing a trend of growing market concentration and increasingly sophisticated buyer requirements in the European markets.

EurepGAP, a certified common standard for farm management practices established by several European supermarkets, was expected to have a very significant impact. It was anticipated that non-compliance would jeopardize the country's market position, leading to a drop in exports, and a reduction in employment and smallholder income.

By building the capacity of smallholders, KHDP expected to prevent the exclusion of smallholder producers from the high-value European market. KHDP formed 86 partnerships across the sectors including businesses, non-governmental organizations and public agencies. Most partnerships in the private sector were with export firms, which were determined to be the gatekeepers through which smallholders must pass to have access to the high-value European fresh fruits and vegetables market.

While global market dynamics had tightened contractual relationships between Kenyan exporters and retailers, and have put additional cost and demands on smallholders, certain aspects of the partnership design, if done differently, would have allowed better leveraging of GVC governance to achieve the partnership

objective. First, KHDP presumed that EurepGAP-compliance would be required of all horticulture exports to Europe, rather than exclusively EurepGAP retailers. Since the project ended, a majority of smallholders have left the high-value horticulture value chain, citing reasons that include an inability to provide a consistent product that meets buyers' demands and an inability to afford high recurring costs of certification. Second, KHDP would have learned the true nature of certification requirements had they coordinated with the EU supermarkets requiring them. However, rather than partnering with supermarket retailers, the consumer-facing lead firms in these vertically-coordinated horticultural value chains, KHDP chose instead to partner with intermediary export firms. Not only did this decision perpetuate misunderstandings of the nature of certifications, but also strengthened the position of export firms vis-à-vis smallholders. As the partners in this case, Kenya's horticulture exporters effectively increased their investment, production, and exports to premium-paying supermarkets in Europe, particularly in the U.K. While upgrading to high-value export markets marginalized smallholders, the export industry's growth provided alternative farm and non-farm employment opportunities to the urban poor. The poverty-reduction outcome of these alternative income opportunities, however, depends on whether the poor have the right set of skills and appropriate bargaining power essential to protect worker rights.

3. SPREAD: KEY FEATURES OF THE PARTNERSHIP

The Sustaining Partnerships to enhance Rural Enterprise and Agribusiness Development project (SPREAD) in Rwanda started in 2006 and continued to 2011. Building on the accomplishments of its predecessor, the Partnership to Enhance Agriculture in Rwanda through Linkages (PEARL), SPREAD intended to strengthen the capacity of coffee farmer cooperatives to produce and export specialty coffee. Continuing the work established during PEARL, the goal of SPREAD was to reinforce the technical and financial capacity of coffee washing stations so smallholders would continue producing specialty coffee at economies of scale sufficient to attract specialty coffee roasters.

SPREAD partnered with the newly-formed collective of smallholder coffee cooperatives, called the Rwandan Small Holder Specialty Coffee Company (RWASHOSCCO), and a selection of specialty coffee roasters. The decision to directly partner with coffee washing stations at the cooperative level, rather than via an intermediary such as an exporter, was critical to building innovative capability of smallholders, even for those not producing for the specialty market. Smallholder cooperatives better equipped with productive infrastructure and having access to key supporting services, such as finance, training, and technologies, have illustrated the ability to adhere to buyer standards.

Partner selection in SPREAD navigated multiple challenges inherent to agricultural commodities, resulting in an optimal outcome that promoted economic growth in the sector and ensured smallholders captured a fair share of those gains. First, as mentioned earlier, by partnering with cooperatives, SPREAD built capacity that would improve the position of producers vis-à-vis large buyers, benefitting even those farmers who did not sell fully washed coffee. Second, and more important, SPREAD identified a market that would pay a premium for a higher quality product, that farmers could achieve with relatively simple upgrades and minimal costs, and that did not require they pursue a costly certification process. Finally, partnering with specialty coffee roasters who pay a premium based on their corporate mission to pay smallholders a living wage ensured the long-term sustainability of smallholder gains that would not be eroded by commodity price volatility or decline.

D. MAIN FINDINGS & KEY TAKEAWAYS

The following section presents a summary of key findings from the three partnership cases, organized around three main dimensions: Partnership Identification, Partnership Formation and Partnership Outcomes. For further details, please refer to the respective sections in the case studies in Part II of this report.

1. PARTNERSHIP IDENTIFICATION

KEY TAKEAWAYS

Before engaging the private actors to leverage value chain investment, the question should be, **‘leverage investment’ for what?**

- Adopt a **‘problem-driven’ approach** in identifying the need for partnerships
- Properly identify the **intervention space and partners** along the value chains at the local, regional, and global levels
- Assess the problem within the **embedded contexts of industry relationships** and the needs, interests, and capabilities of smallholder producers before deciding ‘who’ to partner with, and what such partnerships should contribute vis-à-vis other possible alternatives

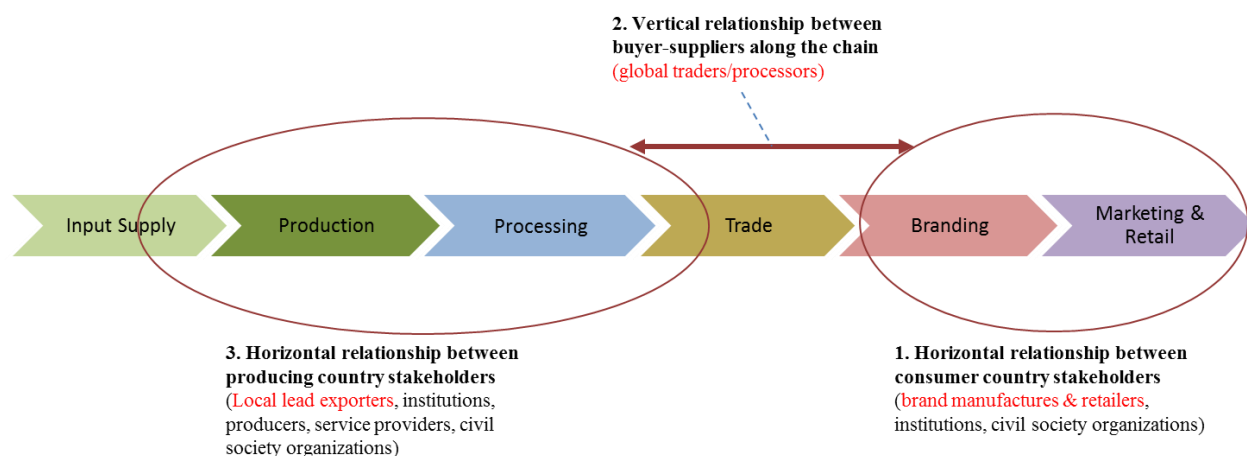
Adopt a ‘problem-driven’ approach to identify a need for partnerships. To most development practitioners, this will seem intuitive, if not painfully obvious. However, with the rising trend in PPPs in development, it seems there is a growing assumption that a PPP with a 50 percent contribution from a private sector partner will be the best and most efficient approach to any problem. Thus, leveraging private sector contributions may be taking precedence over traditional tried-and-true approaches to development. With PPPs, it is more important than ever to first properly assess the problem, and then later decide if a PPP is the best tool for the job.

Properly identify the intervention space and partners at the local, regional, and global levels. While all three partnerships addressed specific local development problems in their respective sectors, not all were equally effective in targeting interventions and selecting partners. The development of the Rwandan coffee sector was the most successful. The assessment of local production capabilities provided the basis for partnership development and targeting interventions to support upgrades into specialty markets. In Kenya, the partnership identified that non-compliance to EurepGAP would jeopardize Kenya’s market position, leading to a drop in exports and a reduction in employment and smallholder income. Partnerships, however, did not involve retailers as lead actors driving change in certified horticultural exports from Kenya. The associated shifts in GVC governance had remarkable implications for the distribution of costs and benefits of high-value horticultural exports, generally at the expense of smallholders. The case studies illustrate the significance of identifying the intervention space and private sector partners at the local, regional, and global levels.

Use the three relationship categories to determine whose commercial interests align for the identified development problem. The golden rule of success in partnerships is alignment of interests. The GVC literature highlights the importance of three interconnected relationships to evaluate commercial

interests and leverage points for change (see figure 1). These relationships are: 1) the downstream horizontal relationship between lead firms, institutions, and civil society organizations in the consumer markets; 2) the vertical relationship between downstream lead firms and their upstream suppliers; and 3) the horizontal relationship between upstream suppliers, usually a multinational firm or local lead firms, and producing-country institutions, service providers, and local civil society organizations. These actors collaborate, coordinate and compete in global value chains. Commercial interests underlie the way these relationships are developed, reshaped and sustained. As PPPs seek to reconcile development objectives and business interests, it is important they understand the leverage points embedded in these vertically and horizontally oriented relationships to identify partners for change.

Figure 1: Simplified Value Chain Diagram: Three Relationship Categories



Source: CGGC

Table 2: Partnership Identification: Comparing the Three Case Studies

Criteria	AMARTA	KHDP	SPREAD
Identify need before engaging partners			
Properly identify the intervention space and partners			
Understand three relationship types to determine alignment of commercial and development objectives			

Not at all

Poorly

Fairly

Well

Very well

2. PARTNERSHIP FORMATION

KEY TAKEAWAYS

While **the alignment of objectives** is one of the golden rules of partnerships, it is equally true—but much less discussed—that

- Firms positioned at **different segments of the value chain** have **varied commercial incentives** for partnerships
- Value chain partnerships are **not power-neutral** and it is important to understand the **governance system** in each segment
- **Industry level platforms** are essential to facilitate and sustain partnerships at scale










PPPs should be based on a differentiated understanding of firms, instead of treating them as “black boxes.” Firms in the value chain have distinct functions, power-positions, and commercial incentives to catalyze change in their supply chains. The three-categories of relationships (discussed under the partnership identification stage) can distinctively illustrate different actors’ motivations, providing better opportunities to leverage change. Lead firms, like specialty coffee roasters, supermarket retailers, or even brand chocolate manufacturers, might not always have a visible presence in producing countries, but because they are customer-facing, have a greater incentive to leverage change to improve quality and govern their supply chains. Conversely, firms such as traders or exporters do have a commercial presence in developing countries, but are largely ‘invisible’ to consumers, and thus lack the incentive to create change. With the exception of the coffee sector in Rwanda, the case studies revealed that partnerships did not engage the downstream brand firms in the respective sectors. AMARTA and KHDP only partnered with non-consumer-facing segments of the chain, such as traders, processors, and exporters. Had AMARTA partnered instead with brand manufacturers, such as Mars Inc., or KHDP partnered with high-profile retailers such as Sainsbury’s, the PPPs would have more successfully leveraged GVC governance towards the partnership objectives.


Form PPPs at an industry level rather than with individual firms. The increasingly concentrated global value chains are based on power asymmetries. Partnerships with individual firms reinforce the captive relationships in which smallholders are often situated. Under those circumstances, partnerships should be formed at an industry level and involve relevant institutions to mitigate the potential adverse effects of concentrated power in the chain. When partnering with one firm, the question can be raised of whether public resources should be used to support a single large company’s commercial actions, even if development goals are ‘embedded’. For instance, in the globally concentrated cocoa-chocolate industry, which faces scarcity of supply, investment in increasing productivity and enhancing quality of cocoa beans are the core business of the industry players (like Blommer Chocolate Co., Mondelez International, or Mars, Inc.). Over recent years, brand firms, like Mondelez International, have clearly signaled such incentives by investing significant resources to increase supply and quality of cocoa beans. The significance of these private sector investments is two-fold. First, it illustrates the extent to which these individual firms are fiercely competing for limited supply. When considering a partnership with just one firm, as opposed to the entire industry, development practitioners should consider the implications choosing one firm over another may have on smallholders. Under such competition, linking only one large firm with smallholders gives that firm an advantage over its competitors, and by confining smallholders to just one buyer, may increase the power asymmetries between

smallholders and the one buyer. Second, that these firms already invest millions of dollars to develop smallholder capacity to improve quality and supply begs the question of whether USAID or other development agencies should invest money where it will be invested by the private sector anyway.


Establish industry-level platforms to facilitate and sustain PPPs. Organizational innovations in the cocoa sector in Rwanda, especially the establishment of Cup of Excellence, present an optimal model. These platforms provided the opportunity to pitch Rwanda's brand as a new origin in global specialty markets and also functioned as a trade fair for the local industry. Further, it strengthened mutual trust and commercial interests between local industry and global buyers. In general, such platforms can facilitate co-evolution of the role of public and private actors and mainstreaming of industry level quality standards.

Table 3: Partnership Formation: Comparing the Three Case Studies


Criteria	AMARTA	KHDP	SPREAD
Partner based on a differentiated understanding of firms			
Partner at an industry level (not with individual firms)			
Establish an industry level platform			




Not at all




Poorly



Fairly



Well



Very well

3. PARTNERSHIP OUTCOMES

KEY TAKEAWAYS

- PPPs **positively impact economic growth at the industry level** through increased investment, output, and export
- Economic gains at the industry level, however, **do not automatically lead** to smallholder or **producer household-level economic benefits**
- For development agencies to leverage poverty reduction outcomes of PPPs, they need to **build innovation response capacity** and **bargaining power** of smallholders vis-à-vis large buyers in concentrated markets

The funding and convening capacity of PPPs transformed the coffee sector in Rwanda, and supported the growth and diversification of exports in the horticulture sector in Kenya. Even if the industry level outcomes in Kenya cannot be attributed to individual programs, due to several parallel ongoing partnerships and the innovative efforts of export firms themselves, the aggregate outcome at the industry level was positive. The horticulture industry in Kenya upgraded into high-value EurepGAP-compliant and also pre-packaged products, and the export volume of Kenya's signature crop, French beans, doubled between 2003 and 2007. Similarly, Rwanda successfully penetrated the specialty coffee market. Processing infrastructure developed at cooperative level contributed in an exponential growth of higher-value-added (or fully washed) coffee exports, increasing from 32 tons in 2002 to 5,800 tons in 2010. In both cases, the industry's growth benefited from increased investment, production, and exports to high-value markets. In Kenya, while some smallholders were excluded from the high-value export market, larger farms and packinghouses created semi-skilled and skilled employment opportunities to urban poor, which some analysts argue provide a faster and more efficient path out of poverty than ensuring smallholder inclusion in the production segment of the chain (P. English et al., 2004). The poverty-reduction outcome of these alternative income opportunities, however, depend on whether the poor have the right set of skills for employment and appropriate bargaining power essential to protect worker rights.

In concentrated markets, economic gains at the industry level do not automatically translate into increased income for smallholder producers. The case studies challenge the implicit assumption that PPPs promoting growth at the industry level will necessarily produce positive economic outcomes for smallholders. Local lead firm partners, exporters or traders, were often concerned with meeting requirements of their downstream buyers at competitive costs. They accordingly adjusted their local supply chains which often included shifting standard compliance costs on their suppliers, including smallholders, and/or investing in backward integration. These adjustments imposed additional costs on smallholders and most often led to marginalization of smallholders. Even if PPPs subsidized initial investment costs, smallholders had to drop out because of the high recurring costs they were facing.










PPPs are far more likely to benefit smallholder producers if the innovation capacity for smallholders to respond to market changes is established and when smallholder bargaining power is strengthened vis-à-vis large buyers. To participate and compete in global value chains, smallholders must have access to productive resources as well as organizational capacity to respond to buyer demands for quality. Thus, as a rule, development practitioners should not consider a PPP linking smallholders to global markets unless these criteria have been met. The Rwandan coffee case provides an excellent example. Farmer cooperatives equipped with productive infrastructure and having access to key supporting services, such as, finance, training, and market linkages have illustrated the ability to meet market demand. Only once that capacity was established, could SPREAD then effectively engage specialty coffee buyers to form partnerships.

In today's concentrated markets, GVCs involve asymmetric power relationships. In this context, many PPPs support at least some form of smallholder upgrading to meet buyer demands, whether it be a third-party certification, such as EurepGAP or Fair Trade, or an industry quality standard, such as for specialty coffee. When development practitioners consider firms for a PPP to help smallholders upgrade, they need to understand: the existing power asymmetries and governance structure in the chain; where in the chain power and leverage is concentrated; and what short- and long-term impact firms with that power will have on smallholders. In the short-term, PPPs must weigh the cost of upgrades against the potential benefits of price premiums for smallholders. Case studies show that the compliance cost producers must incur limits certifications as instruments to improve the livelihood of small producers. The associated price premiums are not guaranteed and are often small compared to price fluctuations in the market. Particularly in agricultural

value chains, where smallholder bargaining power is diminished vis-à-vis large buyers, and the switching cost for buyers is so low, smallholders often find themselves in a race to the bottom, competing against each other to provide buyers the lowest price. The long-term risks involve buyer loyalty to smallholders. In dynamic global markets, buyers will often abandon smallholders from one locale in favor of smallholders in another who are willing to accept a lower price. Thus smallholders face a very real risk of investing in upgrades, only to have the buyer decide a year later to source from someone else. When considering firms for PPPs, development practitioners need to establish requirements for partner firms that mitigate these costs and risks for smallholders.

To prevent this, when designing PPPs, development practitioners can take at least two approaches. First, as demonstrated in the Rwandan coffee case, they can identify firms with a corporate mandate to pay farmers a premium price. If working in an industry where no such firms exist, they can require partners agree to pay a minimum price that ensures smallholders receive positive return on investment. Second, development practitioners can incorporate project components that increase the bargaining power of smallholders. Again, as seen in Rwanda, examples include activities that reduce information asymmetries, establish and organize smallholders into collective organizations, and build the capacity of existing collective organizations.

Table 4 Partnership Outcomes: Comparing the Three Case Studies

Criteria	AMARTA	KHDP	SPREAD
Promote investment, production, and export growth			
Increase smallholder production cost & risks			
Sustained increase in smallholder income			



Not at all



Poorly



Fairly



Well



Very well

PART II

CASE STUDY I. THE COCOA SECTOR IN INDONESIA: AGRIBUSINESS MARKET AND SUPPORT ACTIVITY PROGRAM

OVERVIEW

At the turn of the 21st century, Indonesian cocoa farmers were facing numerous challenges, including low market prices, high price volatility, and a diminished share of value added. Indonesian cocoa production had soared between 1980 and 2000, but despite strong, steady growth in global demand for cocoa, the market price had plummeted, falling from a 20-year (1960-1980) average price² of US\$3.59 to \$1.14 per kg (World Bank, 2014). The quality of Indonesia's cocoa was also in decline, the result of damage from cocoa pod borer (CPB) infestations and insufficient sorting of damaged beans.

The Agribusiness Market and Support Activity (AMARTA) in Indonesia started in 2006 and continued until 2011. Project leaders determined the problem of poor quality could be resolved if farmers received a price premium for sorted, quality beans. To convey quality-based price premiums, AMARTA partnered with cocoa traders Blommer and Olam International to establish buying stations near cocoa producers, directly linking individual smallholders with multinational buyers.

The following case study illustrates how AMARTA identified the need for a public-private partnership, how the partnership was formed, what activities the partnership implemented, and what effect the partnership had on smallholders.

PARTNERSHIP IDENTIFICATION: HOW WAS THE NEED FOR A PARTNERSHIP IDENTIFIED?

By aiming to transform local cocoa sourcing into an integrated and traceable supply chain, the partnership expected to influence farming practices and facilitate higher price payments to smallholder producers.³

At the time of the partnership interventions, the local Indonesian cocoa value chain lacked mechanisms for quality control at the farmgate and immediate post-harvest activities. No vertical coordination existed between farmers and end buyers, a gap created by the poorly organized local market. Before making it to processors, cocoa beans in Indonesia were exchanged between several small intermediaries—local collectors, local traders, and exporters. Very few of the smallholder producers were organized into any sort of collective arrangement, such as a cooperative. Instead, most smallholders sold directly to local collectors—entrepreneurs on motorbikes who bought directly from producers and then resold to local traders (Wegner, 2012). Other smallholders chose to sell to local traders—entrepreneurs who mostly sold to multinational traders, though some also sold to local processors. The traders/processors then sold cocoa ingredients to global brand firms in the chocolate manufacturing industry.

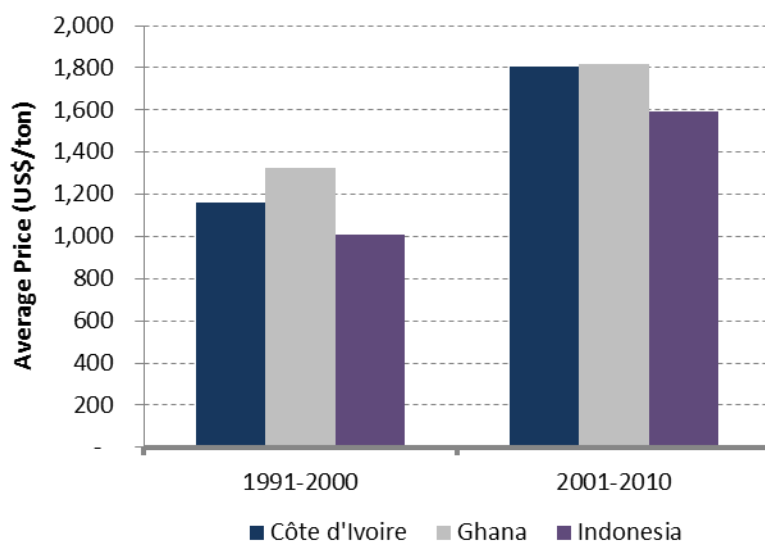
² Real 2010 US dollars

³ Available program reports lack detailed information about the differences in asset ownership and livelihood strategies of the targeted smallholders. Our case studies, thus, treat smallholders as a homogenous group and as the poor supposed to benefit from these partnerships.

Without an established payment mechanism at the farmgate where compensation was based on quality, an essential link in the market-based quality control system was missing. Local collectors commonly paid the same price for good and poor quality beans, mixed the beans from several producers, and sold beans of variable quality to the next buyer. The large number of local collectors and traders competed fiercely to secure supply, rarely established long-term relationships with producers, and had little incentive to upgrade trade practices. As a result, farmers did not receive market signals for the quality end buyers desired, and thus, they had little incentive to invest in upgrading and adopt improved production and post-harvest practices.

While cocoa production in Indonesia has experienced rapid growth over the past few decades, growing more than ten-fold since the 1980s (FAOSTAT, 2014), the poor quality of the product has negatively impacted the industry's export revenue. Because of its low quality cocoa beans, Indonesia has consistently received lower Free on Board (FOB) prices compared to the other two major producing countries in West Africa (see figure 2). Smallholders faced numerous challenges, including little understanding of quality requirements, little access to market information, high transport costs, and individual rather than group selling. Other contributing factors included aging trees, poor planting materials, poor extension services, and an increase in pests and disease, such as trunk canker, vascular streak dieback (VSD), and CPB—a pest that tunnels into the cocoa pod and impedes pod development (DAI, 2012). Program documents from USAID partners reported that productivity was in “dramatic decline” and that quality suffered even more (ACDI/VOCA, 2005; WCF, 2006).

Figure 2: Indonesia's Average Annual Export Prices Relative to Ghana and Cote d'Ivoire



Source: FAOSTAT, 2014

To address these production level issues, USAID initiated a series of partnerships, lasting nearly ten years, and aiming to develop the Indonesian cocoa sector. In 2000, the Sustainable Cocoa Extension Services for Smallholders (SUCCESS) program, funded by the U.S. Department of Agriculture was the first in a series of development programs designed to help Indonesian smallholders improve quality and productivity (ACDI/VOCA, 2015). The SUCCESS program was implemented over 2000-2003 and extended into a second phase, finance by USAID. The second phase was implemented during 2003-2006 and titled Sustainable Enterprise Solutions for Smallholders (SUCCESS) Alliance. The second phase of SUCCESS

involved partnership between USAID, the World Cocoa Foundation (WCF), and Mars Inc. Subsequently, USAID launched AMARTA, which was implemented during 2006-2011 and was tasked with developing eight agricultural value chains, including cocoa (DAI, 2012). Building on lessons learned in SUCCESS programs, AMARTA continued training and technical assistance aimed at improving cocoa farmers' productivity and product quality. AMARTA believed that while building farmer capacity was necessary, it was not sufficient to incentivize investment at the farm level. Therefore, to complement training with commercial incentives, AMARTA incorporated an additional component to create direct commercial linkages between cocoa producers and downstream multinational firms involved in global cocoa trade and processing.

PARTNERSHIP FORMATION: WHICH SEGMENT OF THE VALUE CHAIN DID AMARTA PARTNER WITH?

AMARTA partnered with Olam International (a multinational cocoa trader/processor) and Blommer Chocolate Company (a US-based cocoa processor). Building on the previous work under SUCCESS Alliance, the partnership intended to establish a vertically-coordinated model so that price incentives based on quality would encourage smallholder farmers to produce export-quality cocoa. The partnership was expected to culminate in a sustainable commercial system driving higher value for both farmers and cocoa processors.

In February 2007, AMARTA signed a Memorandum of Understanding with Blommer Chocolate Company and Olam International to create the Amarta Sulawesi Kakao Alliance, with a combined investment of US\$2.5 million in infrastructure and training (Blommer, 2011). Later, local traders, UD Tunas Jaya and Big Tree Farms (two Indonesian firms with cocoa buying stations located throughout prominent cocoa growing regions), and Armajaro that was acquired by ECOM trading in 2014 (EC, 2014), an international cocoa trader, were also added to the partnership (Almeida, 2013).

The partnership intended to promote quality-based pricing and competition in Indonesia's cocoa value chain. The AMARTA program focused on training smallholder cocoa farmers to meet export quality, characterized by adequate bean size, desired level of moisture content, and without admixtures—stones, branches, etc. Partner firms agreed to establish upcountry buying stations in proximity of AMARTA's target areas in Sulawesi District and committed to pay premium prices for high-quality cocoa beans. The partnership model intended to bypass traditional buyers, i.e., local collectors and traders, and to create direct trade linkages between smallholders and the larger companies.

In this regard, the partnership implemented activities that aimed to increase the quantity and quality of cocoa, and to send a market signal to smallholders, making them aware of a price premium for producing a higher-quality product (DAI, 2012).

- **Quantity:** Disease, poor maintenance, and aging trees had led to a decline in productivity. To address this, the partnership trained smallholders on farming techniques to increase productivity.
 - How to build and manage tree nurseries
 - How to graft new trees for planting to replace old trees
 - How to produce high-quality seeds to grow into saplings to be planted to replace old trees
 - How to prune existing trees so they produce more and stay healthy
- **Quality:** As stated above, quality of cocoa in Indonesia did not meet export standards. To improve quality, the partnership provided training on:
 - How to sort through beans to ensure only high quality beans, with no debris, are sold

- How to build solar dryers and how to use them to dry beans to the desired humidity, avoiding growth of mold during transport and storage
- **Market incentives:** The private sector partners set up buying stations in close proximity to AMARTA pilot areas.

AMARTA established pilot field training schools in 12 districts and delivered technical training to farmers through demonstration plots (DAI, 2012). The program built 614 solar dryers at buying stations in Southeast Sulawesi, using the construction as a means to train smallholders how to build them and convey the importance and benefits of using solar dryers to improve quality (DAI, 2012).

Figure 3: Cocoa–Chocolate Value Chain: Key Segments and AMARTA’s Partnerships



Source: CGGC

How AMARTA selected its private sector partners is not clear. While AMARTA aimed to align commercial interests for quality-based pricing, it is not clear why it did not partner with brand manufacturers, such as Mars Inc., which was a key partner in the SUCCESS Alliance. Brand manufacturers have significantly reduced their footprint in producing countries by outsourcing cocoa sourcing and processing, but they still maintain significant influence over cocoa processors when it comes to quality-based markets. As the “gatekeepers” to consumer markets, brand manufacturers determine quality attributes of cocoa ingredients, stipulate volume and delivery schedules, and have exhibited significant governing power over the higher value-added functions in the cocoa-chocolate global value chain. They own globally recognized brands with well-established consumer recognition. For instance, Mars Inc., the world’s second largest brand manufacturer, markets its products in 80 countries under 29 brand names, including five of the billion-dollar global brands, namely, M&M’s (US\$3billion), Snickers (US\$2.8 billion), Galaxy/Dove (US\$2.4 billion), Mars (US\$1.7 billion), and Twix (US\$1.2 billion) (Euromonitor, 2014; OneSource, 2014). Additionally, it accounts for 28 percent and 39 percent of shares, respectively, in US and Chinese chocolate confectionery markets, the main export destinations for Indonesian cocoa beans (Euromonitor, 2014).

BOX 1. KEY SEGMENTS OF THE COCOA-CHOCOLATE VALUE CHAIN

In a 'bi-polar' governance structure, the cocoa-chocolate value chain is governed by two categories of lead firms (Fold, 2002): brand manufacturers and cocoa processors. Key segments of the value chain are cocoa production, trade & processing, and brand manufacturing.

Cocoa production involves growing and harvesting of cocoa pods, and the extraction, fermentation and drying of cocoa beans. Lacking economies of scale, production occurs on or near the farm and globally employs around **five million small farmers**, producing cocoa on plots of land averaging 1-3 hectares (ICCO, 2012). With the exception of Ghana, where the Cocoa Board still regulates the domestic market, **cocoa trade** within the producing countries involves two intermediary stages before export. The first stage is local collection—in or close to the production areas—and is carried out by local buying agents who then often resell to large traders or subsidiaries of multinational corporations. In the second stage, cocoa beans are aggregated and delivered to warehouses close to ports, where cocoa beans are sorted, cleaned, and dried before being shipped to the processing facilities, located mainly near consumer markets.

Global trade and processing have become vertically integrated, since brand manufacturers began outsourcing cocoa processing during the 1990s (UNCTAD, 2008). Lead firms in this segment have back-integrated upstream within cocoa producing countries, as well as downstream into industrial chocolate production. Processing activities include grinding, roasting, and producing semi-finished cocoa products, such as cocoa liquor, powder, and butter. Cocoa trade and processing operate at significant economies of scale, with three lead firms in 2011 accounting for 42 percent of the market (Statista, 2014).

Brand manufacturing concentrates primarily on activities related to product development, branding, and marketing. These firms own well-established global chocolate brands, several of which generate billions of dollars in sales each year. This segment is also highly consolidated, with five firms in 2013 accounting for 56 percent of the market value. At the **retail distribution** end of the chain, modern grocery retailers account for approximately 60 percent of retail sales of chocolate confectionery in the global markets (Euromonitor, 2014).

The reputational risk to brands is the driver of private governance and certification systems in the cocoa-chocolate GVC. Promotion of quality-based pricing for cocoa beans depends on demand by brand manufacturers, not traders. For example, in response to accusations that the industry was sourcing from West African cocoa plantations involving exploited child labor, brand manufacturers committed significant resources to protect their brands by better monitoring their supply chains (Schrempf-Stirling & Palazzo, 2013). Many of the leading brands have made additional commitments to sustainable sourcing and certification, often targeting a specific percentage by 2020. For instance, Mars Inc. and Hershey's Co., accounting for respectively 28 percent and 35 percent of retail sales of chocolate in the US, have committed to 100 percent sustainable sourcing by 2020 (Euromonitor, 2014). Similarly, brand manufacturers have launched remarkable large-scale sustainability programs (Box 2).

BOX 2. A SUSTAINABILITY PROGRAM BY A LEADING BRAND MANUFACTURER: COCOA LIFE AND MONDELEZ INTERNATIONAL

Cocoa Life Program, a US\$400 million program, is a ten-year commitment by Mondelez International, the world's largest brand manufacturer, and finances sustainability partnerships in six major cocoa producing countries, including Indonesia (Mondelez International, 2013). The program was extended to Indonesia in 2013 under an agreement with the Indonesian Coffee and Cocoa Research Institute and suppliers Armajaro and Olam International to promote sustainable cocoa farming in Indonesia. The program will support 50,000 farmers in Indonesia, while it aims to directly target 200,000 farmers and indirectly a million residents of cocoa growing communities worldwide (Mondelez International, 2013). The program aims to promote productivity through better cocoa farming practices and better access to cocoa planting materials. Its progress will be verified by third-party monitors (Mondelez International, 2014).

In general, since cocoa traders/processors lack consumer-facing cocoa products, when it comes to quality, they are largely standard adopters. However, they have significant influence in managing the upstream segments of the chain and are key partners in implementing sustainability programs. Since the mid-1990s, their innovations in logistics and transportation to leverage economies of scale have brought about significant efficiencies in supply chain operations. These innovations undermined incentives for proper fermentation and quality control at the farmgate level. Beginning in 1995, large vertically integrated cocoa trade and processing firms started experimenting with containerized-bulk transport, such as unbagged cocoa in containers (Dand, 1999). This new method resulted in major efficiency gains, lowering shipment costs by nearly 40 percent (Dand, 1999; Tollens & Gilbert, 2003). Later, in 1997, the transport cost was reduced to one-third when mega-bulk shipment (bulk cocoa being loaded directly into the holds of specialized double-hulled carriers) was introduced (Tollens & Gilbert, 2003). In effect, the scale of bulk transportation—minimum 3,000-10,000 ton efficient scale—required blending varying-quality beans. Not willing to sacrifice the cost advantage in transportation, large processors have developed internal mechanisms to meet quality requirements of their downstream buyers, the brand manufacturers. As a consequence, critical quality-control points have gradually shifted from the farmgate to the processing stage, reducing value-addition opportunities at the farm level in producing countries (Tollens & Gilbert, 2003).

PARTNERSHIP OUTCOMES: WHAT WERE THE OUTCOMES FOR SMALLHOLDERS?

Sustainable inclusion of smallholders was undermined by the limited scale of the project and lack of mechanisms to ensure premium payments. In terms of scale, of the 1.4 million Indonesian cocoa farmers, AMARTA worked with just 22,500. The associated price premiums were not guaranteed and often small compared to price fluctuations in the market.

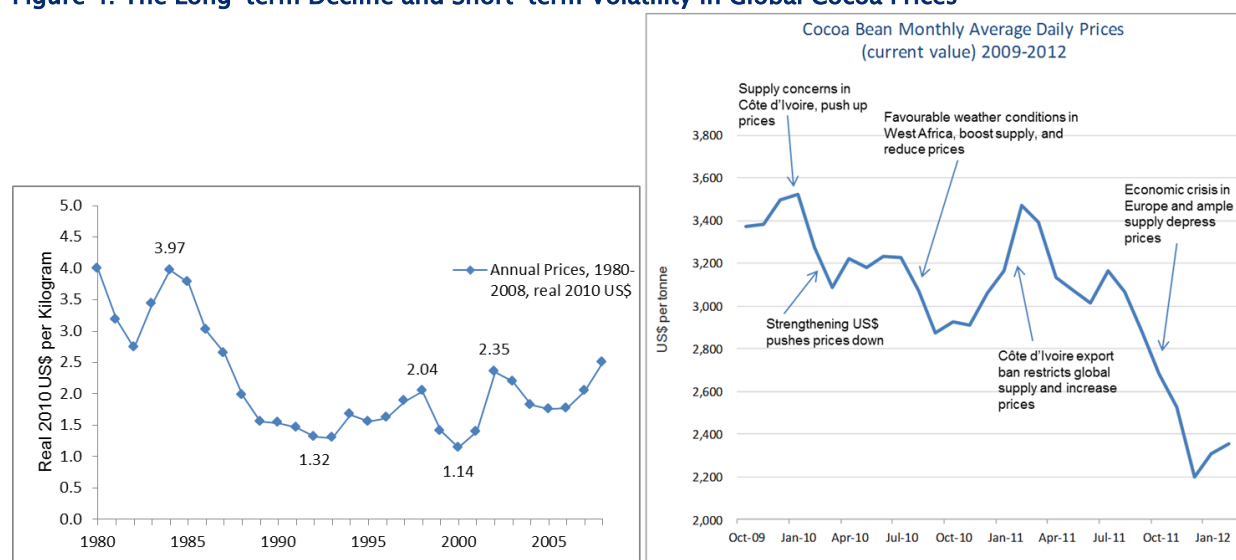
Before discussing why increased productivity at the farm level does not necessarily translate into better livelihood outcomes to farmers, it is important to recognize the achievements by the partnership. AMARTA reported that the project worked with 22,500 cocoa farmers who experienced on average a 27 percent yield increase, and production grew from 550 to 700 kilograms/hectare over the project period (DAI, 2012). Similarly, cocoa purchased through partner buying stations totaled approximately 62,000 tons, at a value of US\$138 million (DAI, 2012). Price premiums conveyed through the buying stations ranged from \$0.15/kg to

\$0.47/kg—the distribution of this range is unknown across the nearly 22,500 farmers—and provided smallholders in the program an annual premium of \$105-\$328 (DAI, 2012).⁴

Under the dynamic conditions in global cocoa markets, the development outcomes of partnership interventions are uncertain and face constraints to scale. First, the net income effect arising from better yields can quickly erode due to volatility or a decline in global market prices. Second, quality-based price premiums are not guaranteed and are tied to brands and the ability to compete for value in consumer markets. Much will depend on the dynamic interactions between consumer demand, capability to monitor enforcement of brand commitments, and the associated costs and benefits to smallholder cocoa producers. Third, the concentration of markets and fragmented smallholder production structures mirror an asymmetric retention of the value along the cocoa-chocolate value chain.

The livelihood effects of increased productivity can easily be eliminated by the dynamics in the global market. Cocoa is a globally traded commodity. Local prices are a function of the global prices traded on commodity exchanges in London and New York. The highly volatile and increasingly concentrated global cocoa market, similar to the other globally traded commodities, such as coffee, expose cocoa farmers to various market risks. Since the mid-1980s, cocoa farmers have experienced a spectacular decline and remarkable short-term volatilities in cocoa prices (figure 4). During the same period, the structure of the cocoa-chocolate GVC has significantly transformed. Key features of this restructuring included the rising horizontal concentration in the chocolate manufacturing segment, the emergence of vertically integrated large cocoa processors, and liberalization of the cocoa sector in major cocoa producing countries in West and Central Africa (Fold, 2001; UNCTAD, 2008). This rapid structural transformation has culminated into a structural imbalance, characterized by an oligopsonistic market, upstream in the chain, between a large number of smallholder suppliers and a handful of downstream buyers (UNCTAD, 2008). The existing power asymmetries in the cocoa value chain advise against forming partnerships with individual firms. It is often possible that the partnership actually reinforces these power asymmetries to the disadvantage of smallholders.

Figure 4: The Long-term Decline and Short-term Volatility in Global Cocoa Prices

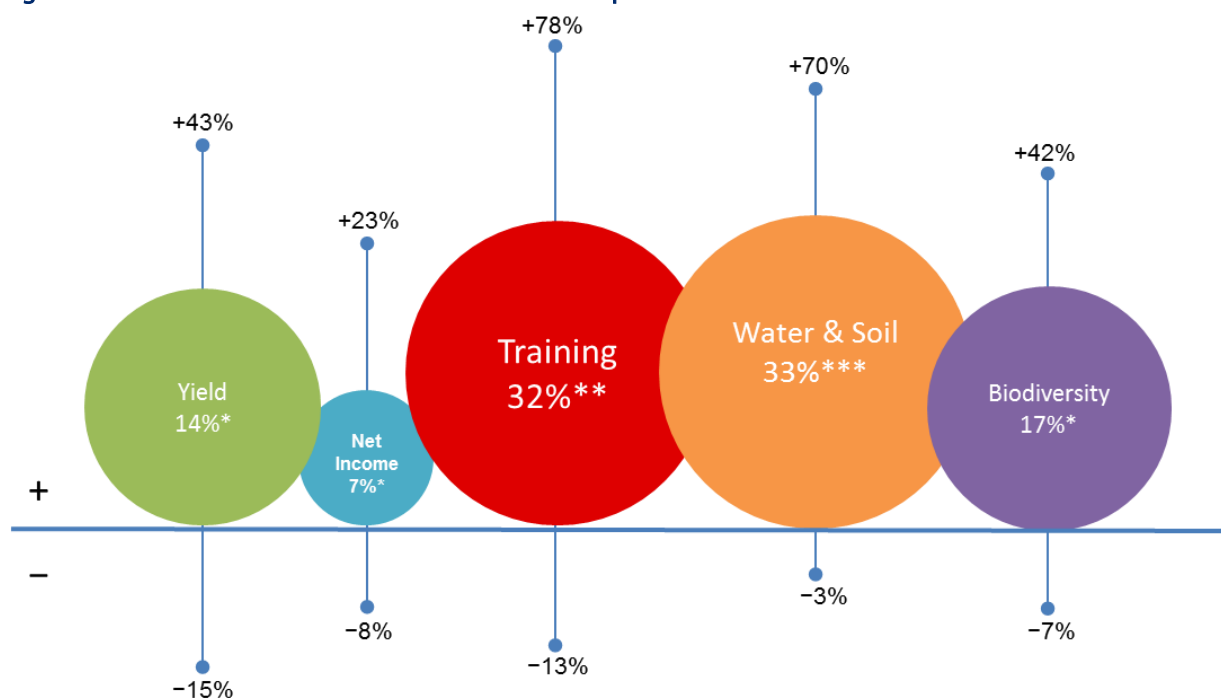


Source: Euromonitor, 2012; World Bank, 2014

⁴ The range of 1,400Rp - 4,400Rp was converted using Oanda historical currency converter, with rates set for June 1, 2008.

Concerning the economic effects, the partnerships can potentially lead to increased farmer productivity when they seek to promote farmer capabilities, given absent or dysfunctional extension services (Kessler et al., 2012). However, the effects are context-specific and vary considerably. A recent study by the Committee on Sustainability Assessment reported on the differences observed across a number of indicators between certified and non-certified cocoa and coffee farmers in 12 countries (COSA, 2013). Drawing on data points derived from 3,500 to 16,000 farm surveys, certified farmers demonstrated better training in farming techniques, improved farm practices (soil and water conservation, conserving biodiversity), higher yield (+14 percent) and a modest difference in net income (+7 percent) (see figure 5).

Figure 5: Certified Cocoa and Coffee Producers Compared to Uncertified Producers⁵



Source: COSA, 2013

Overall, partnerships to promote sustainable quality cocoa production, at least up to now, have illustrated considerable constraints to scale. The global demand for certified cocoa has lagged far behind the available supply (table 6). Starting from a small base, mainly Organic and Fairtrade, that accounted for less than one percent of global production (KPMG, 2013; Potts et al., 2014), the net volume of certified cocoa supply has increased more than twenty-fold between 2008 and 2012 (Potts et al., 2014). In 2012, just one-third of the quality-certified cocoa was actually sold as certified. Even if the gap between production and market-uptake

⁵ The data points derived from 3,500 to 16,000 farm surveys, undertaken in 12 countries in Latin America, Africa and Asia, comparing certified producers of coffee and cocoa to control group farmers. Certification included Organic, Fairtrade, Rainforest Alliance, UTZ Certified, Starbucks CAFE Practices, Nespresso AAA, and 4C. Please note that part of the data represent only an initial difference, and not an outcome over time. The variation found among certified producers is presented by the range lines in the graph. The significance level is indicated in the chart by asterisks: * = 90% level of confidence; **=95% level of confidence; ***=99% level of confidence.

of certified cocoa were transitional, the effective global market share of certified cocoa still remains marginal, just 7.3 percent of the estimated 4.1 million tons of cocoa produced worldwide in 2012 (FAOSTAT, 2014).

Table 6: Volume of Certified Cocoa Produced and Sold by Certification Scheme, 2012

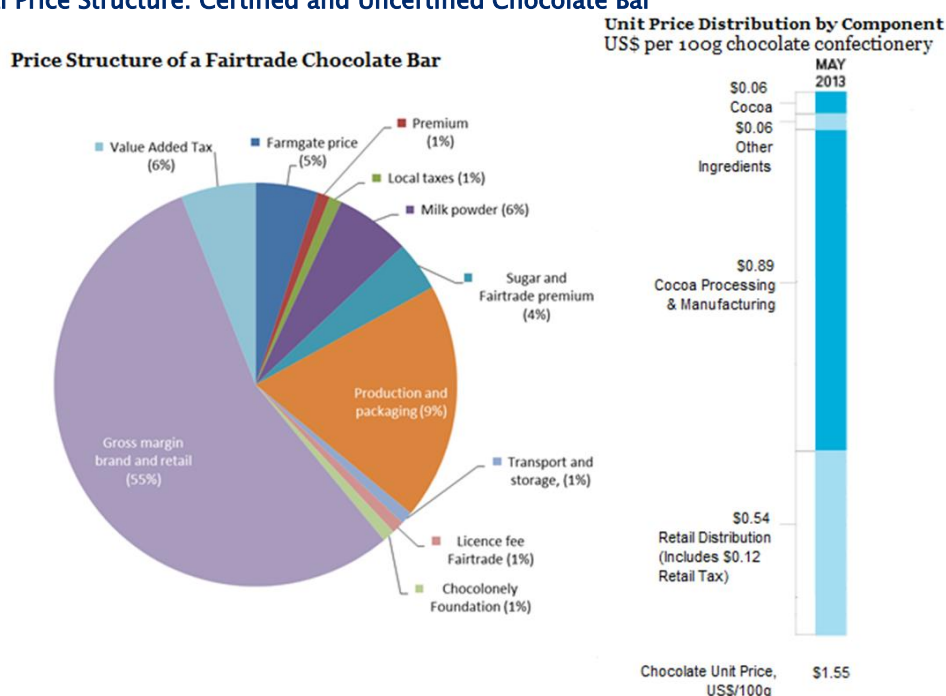
Certification Scheme	Production	Sale	% Sold as Certified
UTZ certified	534,614	118,641	22%
Rainforest Alliance	405,000	205,784	51%
Fairtrade International	175,900	68,300	39%
Organic*	103,554	77,539	75%
Total	1,219,068	470,264	
Total Certified (Adjusted for multiple certifications)**	890,000	300,000	33%

*Figures for 2011.

**Almost one-third of total certified production represented overlapping certification. As reported by the individual certification schemes, certified production approximately accounted for 30 percent of global cocoa production. Adjusted production levels of certified cocoa amounted to 22 percent of global production.

Source: Potts et al., 2014

Figure 6: Total Price Structure: Certified and Uncertified Chocolate Bar



Source: Tony Chocolonely, 2014

While partnerships can facilitate moderate increases in farmer income, this is only possible when farmers are paid price premiums, often not guaranteed. This goes against the general notion that economic benefits will automatically follow the issuance of quality compliance requirements. According to a literature review by International Trade Center (ITC), even the additional revenue for certified products was distributed unevenly along the value chain and mainly captured by brand manufactures (ITC, 2011). The share of the consumer price that accrues to a certified cocoa producer is still marginally small, not much different from conventional

cocoa. Figure 6 presents the price structure of a Tony Chocolonely Fairtrade chocolate bar, which suggests that the farmgate price, including the premium, still adds up to just 6 percent of the final price. Thus, the income effect of upgrading and certifications to smallholders are uncertain and dependent at best on the premiums received by smallholders. While partnerships can subsidize the associated initial costs borne by producers, smallholders have to bear the recurring costs of certification whereas premiums are often not guaranteed (table 6). The return on investment for certifications is at best uncertain for smallholders.

Summary Findings: The AMARTA partnership was implemented in the context of a global industry in which the income of Indonesian smallholder cocoa farmers was undermined by two major trends. First, because of the poorly organized local value chain, cocoa farmers in Indonesia were plagued with persistent and long-term issues of poor quality and low productivity. Second, global cocoa prices had experienced significant decline, due in part to the increased concentration of downstream segments of the chain. In the context of asymmetric power relationships in GVCs, the partnership aimed to extend vertical coordination to the farmgate, where farmers would receive market signals via higher prices for the quality buyers desired. Sustainable inclusion of smallholders was undermined by the limited scale of the project and the less than ideal partner selection. In terms of scale, of the 1.4 million Indonesian cocoa farmers, AMARTA worked with just 22,500. Partner selection by-passed local traders and did not engage downstream brand chocolate manufacturers, the firms with the highest commercial interests in quality and future supply, and thus the potential to leverage the most governance over the cocoa supply chain (Box 1). Instead, AMARTA partnered with cocoa trader/processor firms, situating smallholders in a captive relationship with large companies that could choose to either exploit or support smallholders. Premium payments lacked transparent monitoring by third-party actors, so the prices received by farmers are uncertain at best. Even in certification schemes where third-party reporting increases transparency, farmers often do not receive the premiums that were expected (table 6). Thus, the income effect of higher yields reported in project evaluations, even for those 22,500 farmers, could have been easily diminished by the advantaged position of buyers or the inherent volatility of commodity prices in global markets.

CASE STUDY 2: THE HORTICULTURE SECTOR IN KENYA: KENYA HORTICULTURE DEVELOPMENT PROGRAM

OVERVIEW

Kenya is one of sub-Saharan Africa's largest exporters of fresh fruits and vegetables, and EurepGAP (now GlobalGAP)⁶ standards were feared to have a deleterious impact on the country's smallholders. It was expected that non-compliance would jeopardize the country's market position, leading to a drop in exports and a reduction in employment and smallholder income. The Kenya Horticulture Development Program started in 2003 and continued to 2009. To help the sector meet new standards requirements, KHDP formed 86 partnerships across various sectors, including businesses (55), non-governmental organizations (15), and government agencies (8) (Fintrac, 2009). Most partnerships in the private sector were with export firms.

The following case study illustrates how KHDP identified the need for public-private partnerships, how the partnerships were formed, what activities the partnership implemented, and what effect the partnerships had on smallholders.

PARTNERSHIP IDENTIFICATION: HOW WAS THE NEED FOR PARTNERSHIPS IDENTIFIED?

By building the capacity of smallholders, the project expected to ease the transition to adopting new EurepGAP quality standards for fresh fruits and vegetables, preventing the exclusion of smallholder producers from the high-value European market.

Beginning in the early 2000s, the requirements to export fresh fruits and vegetables to European retail markets grew increasingly complex, creating new challenges for Kenyan smallholders. Most notably, they faced a January 2005 deadline to comply with the new private EurepGAP standards, the most stringent compliance standards to date (Humphrey, 2008). Kenya's largest European market destination—the U.K. market—hosted the most retailers committed to EurepGAP. In 2000, these leading retail chains accounted for an estimated two-thirds of fruit and vegetable retail sales in the U.K. market (Dolan & Humphrey, 2000). In Kenya, perhaps more than anywhere else in the developing world, EurepGAP was expected to have a very significant impact. It was presumed that non-compliance would jeopardize the country's market position, leading to a drop in exports and a reduction in employment and smallholder income.

In early 2003, the Fresh Produce Exporters' Association of Kenya (FPEAK), the association representing smaller exporters, interpreted pending EurepGAP standards as mandatory for all horticultural exports to Europe (Humphrey, 2008; Jaffee et al., 2011). FPEAK warned that the new EurepGAP standards would undermine the entire industry and requested assistance from the international development agencies (Jaffee et al., 2011). Naturally, this stirred confusion among stakeholders and created a sense of urgency among donors (Humphrey, 2008). The development community, including USAID's KHDP, quickly responded to this call for assistance.

Since the 1970s, the export horticulture industry had been one of the Kenyan economy's principal successes. Throughout the period, a competitive and resilient industry, led by a group of local horticultural export firms, had overcome various market challenges to achieve this success. The industry had responded innovatively to

⁶ In 2007, the name of the EurepGAP (Euro-Retailer Produce Association Good Agriculture Practices) standard was changed to GlobalGAP.

market dynamics by altering its product mix, upgrading production and postharvest operations, and reinventing its competitive strategies (Jaffee et al., 2011).

During the 1970s, Kenya quickly positioned itself as the key supplier to the large Asian community in the United Kingdom of so-called “Asian” vegetables. Absorbing Uganda’s recently-exiled Asian community (Minot & Ngigi, 2003), Kenya’s horticulture export industry built on family and social ties between Asian traders in London and Nairobi. These social ties were critical in reducing risks and transaction costs in the vegetable trade at the time (Steglich et al., 2011).

By the 1980s, vegetables, particularly “Asian” vegetables and French beans, became the signature of Kenya’s fresh produce trade (Jaffee et al., 2011). Sourcing produce under spot market arrangements through intermediaries, local exporters then channeled it through wholesale markets to U.K. retailers. The low capital and high labor input requirements of horticulture production made smallholders ideal suppliers, providing them an opportunity to become competitive suppliers in the export industry. It was estimated that between 14,000 and 15,000 smallholders were involved in the production of fresh produce for exports, contributing to a combined 50 percent of the export volume of fruits and vegetables (Jaffee, 1995).

In the 1990s, exporters faced growing market concentration and increasingly sophisticated buyer requirements, particularly in the U.K. as the largest export market for Kenya. With large U.K. supermarket retailers accounting for approximately 76 percent of fruit and vegetable sales and controlling 70–90 percent of fresh produce imports, they largely bypassed traditional wholesalers (Dolan & Humphrey, 2000). Leveraging their buying power, supermarkets introduced their own brands and incorporated a competitive strategy focused on product differentiation in variety, processing and packaging. To execute this strategy, they reconfigured their supply chains and introduced “modernized procurement systems,” which relied on a smaller number of vertically coordinated suppliers (Dolan & Humphrey, 2000). In response, Kenya’s lead exporters successfully adjusted and upgraded into higher value fruit and vegetable markets, reducing the importance of the air-freight cost in their overall product price and increasing their competitive advantage vis-à-vis North African exporters (Jaffee et al., 2011).

Thus, exporters turned this challenge into an opportunity to increase their competitiveness (Jaffee and Masakure, 2005). Shifting market dynamics, however, threatened the survival of small and medium exporters and farmers (Humphrey, 2000). Of the 200 licensed exporters registered in Kenya at the time, only 50 were consistently operative. The remaining 150 firms only entered the market by exploiting favorable market conditions during the peak seasons (Jaffee, 1995). In the mid- to late 1980s, an estimated 7,000 smallholders regularly supplied the export market, accounting for 45 percent of volume (Jaffee, 1990; Jaffee et al., 2011). By the late 1990s, large exporters were sourcing 40 percent from their own farms, 42 percent from large commercial farms, and only 18 percent from small farms (Dolan & Humphrey, 2000).⁷ As the large export firms continued to differentiate themselves as providers of high-value horticulture crops, development agencies grew concerned over the inability of smallholders to comply with increasingly strict market requirements. In the early 2000s, a series of public-private partnerships were formed to sustain and promote smallholder inclusion in Kenya’s horticultural export industry.

⁷ Jaffee (2003) found that the absolute volume of smallholder produce was more or less the same in 2002 as it had been in 1989, but the decline in their share of total exports was attributable to little gain by smallholders from the increment in export volume during the 1990s.

PARTNERSHIP FORMATION: WHICH SEGMENT OF THE VALUE CHAIN DID THE PROJECT PARTNER WITH?

KHDP formed 86 partnerships across the sectors including businesses, non-governmental organizations and public agencies. Most partnerships in the private sector were with export firms, who it was determined were the gatekeepers through which smallholders must pass to have access to the high value European fresh fruits and vegetables market.

From 2003-09, KHDP formed 86 partnerships across the horticulture sector, including businesses (55), non-governmental organizations (15), and government agencies (Fintrac, 2009). Partners relevant to horticulture products (not flowers) ranged from small-scale women-owned businesses such as Kasarani Fresh Fruit processors and Mace Foods producing dried chili products, to large-scale export processors such as Woni Veg-Fru, Premier Foods, and Del Monte (Fintrac, 2009). KHDP dedicated \$1.7 million to the PPPs, across 48 grant agreements, co-investing with public and private sector organizations (table 7).

Of the US\$1.7 million, approximately 13 percent was distributed directly to 840 smallholder groups, or about \$270 per group, to fund demonstrations of new crops, technologies, training, and product development (Fintrac, 2009). When awarded to large export firms, the grants were almost entirely used to certify outgrower operations to meet EurepGAP standards. These partnerships were intended to provide smallholders with better production technologies, market linkages and higher income through their participation in the EurepGAP compliant value chains.

Table 7: Distribution of Partnerships Awards, by Sector and Category

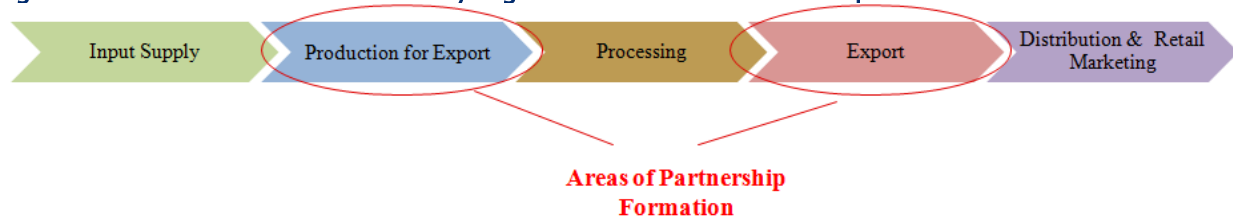
Category	Smallholders	NGO's	Firms	GOK	Trade Ass.	Total	%
Smallholder fund	221,328					221,328	13%
Standards			225,698	8,923	4,340	238,961	14%
Marketing	38,119		18,186		208,112	264,417	15%
Research			20,880	60,415		81,295	5%
Extension/Training		164,189	188,341	172,398		524,928	31%
New Products			389,334			389,334	23%
Total - \$	259,447	164,189	842,439	241,736	212,452	1,720,263	100%
%	15%	10%	49%	14%	12%	100%	

Note: Seven of the 48 grants, with a total amount of US\$187,160, were co-invested in Kenya's floriculture industry.

Source: Fintrac, 2009

Alongside KHDP, USAID's Kenya Business Development Services project (KBDS) and at least eight other development programs by various donors supported smallholders and exporters to meet EurepGAP compliance requirements (Jaffee et al., 2011). Most of these projects intended to leverage the commercial interests of horticultural exporters to improve the position of firms and smallholder producers. They provided cost-sharing support to export companies to promote the certification of outgrower schemes. Direct donor funding complemented partnerships to assist smallholder farmers (Fintrac, 2009). KHDP served as the lead donor-funded program for the horticulture industry since 2003 and cooperated with and provided technical support to various other ongoing donor interventions (Fintrac, 2009).

Figure 7: Horticultural Value Chains: Key Segments and KHDP's Partnerships



Source: CGGC

BOX 3. KEY SEGMENTS OF THE CERTIFIED HORTICULTURAL VALUE CHAIN

Since the 1990s, the globalization of horticultural supply chains, consolidated retail power, and quality-based competition has significantly transformed how the global system operates and the role of smallholders. By the late 1990s, supermarket retailers emerged as the lead actors governing the certified horticultural GVCs. The key segments of the value chain, outlined in figure 7, are input supply, production, processing, export, retail and distribution.

As a buyer-driven chain, the certified horticultural GVCs are vertically-coordinated. In the case of Kenyan horticultural exports, and their compliance to EurepGAP standards, the **supermarket retailers were the lead actors** who defined standards and other market requirements. Leading supermarket chains in Europe formed the Euro-Retailer Produce Association (EUREP), which in 1999 developed the EUREP Good Agriculture Practices (EurepGAP) standard for fruit and vegetables to increase consumer confidence in food safety. The standards provided legal protection for food safety issues, as well as differentiated products and enhanced their competitive advantage.

While **Kenyan exporters** played a key role in deciding how the local industry would meet EurepGAP and other requirements of European supermarkets, they ultimately assumed the role of standard adopters in the tightly coordinated quality-based competition of the horticulture GVC. In order to ensure compliance with the stringent requirements of supermarkets as their downstream buyers, they pursued alternative configurations for their supply chain, including backward integration, sourcing from medium-to-large farms, and buying from smallholders.

Regardless of farm size, when **producers** supplied the export market, they had to meet the requirements of exporters. In Kenya, smallholder production was part of a dual production system, involving smallholder producers and large farms, managed by vertically integrated **Kenyan exporters**.

In general, to engage local industry actors, partnerships followed three basic approaches (Jaffee et al., 2011):

- *export-firm-centered* approach to subsidize export firms' assistance to farmers;
- *intermediary-centered* approach to promote capabilities of independent business service providers; and
- *farmer-group-centered* approach directly training and equipping farmers.

In all cases, KHDP intended to foster direct and indirect commercial partnerships between smallholders and exporters. The 'export-firm-centered' approach held the view that EurepGAP-compliant exporters served as "gatekeepers" to high-value markets in Europe. Partnerships aimed to subsidize start-up costs for outgrower certification, specifically by sponsoring training, providing materials, providing access to software, and

subsidizing tests of soil, water, and products (Jaffee et al., 2011). The subsidies aimed to enhance smallholder competitiveness vis-à-vis large-scale certified production.

The ‘intermediary-centered’ approach subsidized the provision of support services. Instead of working directly with a select number of export firms, this approach sought to develop a range of services to aggregate smallholder production, ensuring smallholder inclusion in the export market, and in theory, avoid reinforcing the unequal power relations concentrated among 8-15 lead export companies (Jaffee et al., 2011).

The ‘farmer-group-centered’ approach directly partnered with smallholders. Initial donor assistance provided smallholders two-thirds the cost of EurepGAP certification. Farmers co-invested one-third of the initial investment needed. In addition, KHDP provided market analysis, technical advice on target crops, and field support to mobilize smallholder suppliers.

The partnerships did not engage relevant supermarket retailers in Europe. As the lead firms, supermarkets have played a critical role in governance over certified horticultural exports from Kenya, with two significant implications for smallholder producers. First, through vertical coordination, supermarkets put additional demands on exporters and producers, which required increased organization and financial support from actors inside and outside the chain. Second, this type of coordinated relationship was reinforced by a tight contractual relationship between retailers and the exporters. Elsewhere, such coordinating roles have also prompted supermarkets to provide technical and financial support to help producers reach the standards’ objectives.

PARTNERSHIP OUTCOMES: WHAT WERE THE OUTCOMES FOR SMALLHOLDERS?

Certification costs and stringent quality requirements in high-value export markets marginalized smallholders. Certification was not linked to any price premium whereas the associated adjustment processes in production practices, farm management, and maintaining a certified status remarkably increased production costs. Kenya’s horticulture exporters, on the other hand, effectively increased their investment, production, and exports to premium-paying supermarkets in Europe, particularly in the U.K. The export industry’s growth also generated alternative farm and non-farm employment opportunities to the urban poor.

A number of measurement issues make it very difficult to attribute outcomes to specific individual partnerships launched by KHDP. First, as mentioned above, KHDP formed 86 partnerships and co-invested US\$1.7 million through 48 grants. Second, several other donor programs were implemented in parallel, targeting the same objective of supporting smallholder EurepGAP certification. In such a crowded field, coordination issues were unavoidable. KHDP reported that its partnerships complemented other programs, but it was not uncommon for firms to receive assistance from multiple donor programs at the same time (Jaffee et al., 2011). Third, the available program documents do not report outputs and outcomes for individual partnerships.

In its final report, KHDP stated that it reached approximately 58,000 smallholders over the course of the project, 2003-2009. The associated key outcomes include (Fintrac, 2009):

- Beneficiaries of the program increased yields by more than 100 percent
- KHDP leveraged investments of more than \$10 million in drip irrigation, fruit processing, standards compliance, and “other technologies essential for a competitive industry”
- As of 2009, 2,350 smallholder suppliers had achieved GlobalGAP certification
- At least 94 percent of the 58,000 beneficiaries adopted one or more new farming technologies

Even if individual partnership interventions were not able to demonstrate high levels of success, various studies reported that with the continued innovative efforts of Kenya's export companies, the array of partnership programs led to a substantial aggregated effect. Kenya's fresh fruit and vegetable exporters found a niche and could successfully participate in certified high-value market segments in Europe. To meet quality standards, exporters restructured their local supply chains, pursuing one (or a combination of) three business models (Jaffee & Masakure, 2005):

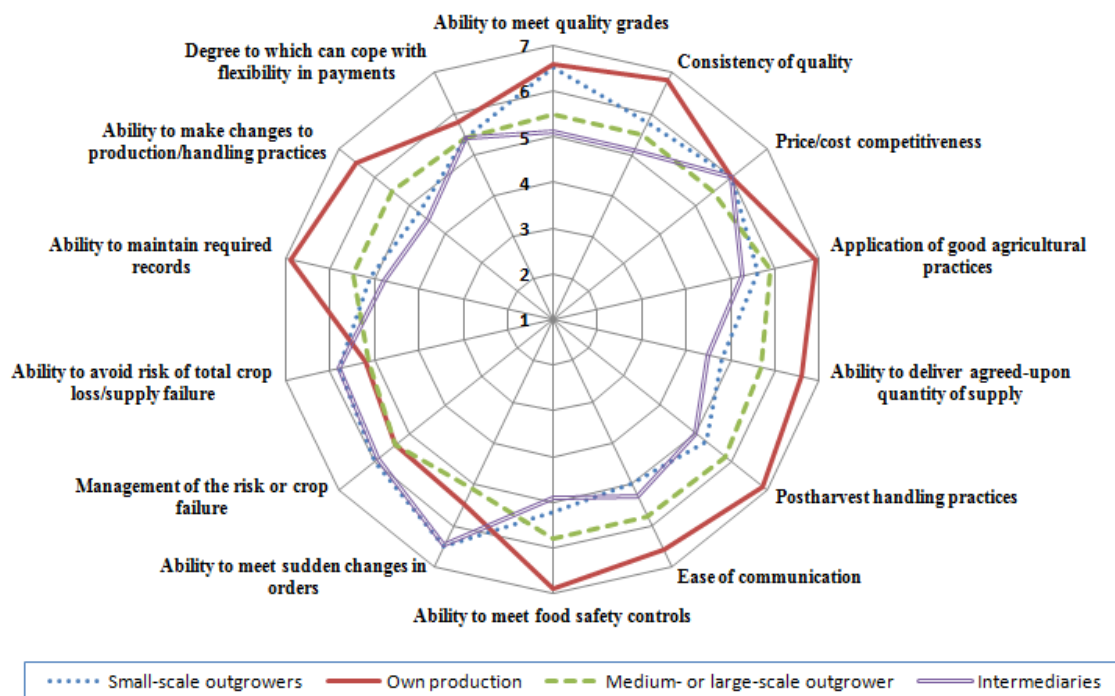
- (1) export firms that previously had farms invested or leased more farms, increasing their degree of vertically integrated production to provide "high care," traceability-demanding products;
- (2) to increase quality control, export firms worked only with proven-capable smallholders in out-grower schemes; and
- (3) export firms continued to source from smallholders for low-value-added products and segments, demanding less traceability and lower technology.

Kenya's horticultural exports continued to expand and diversify. French bean exports increased in volume from 15,450 tons in 2003 to 32,190 tons in 2007 (Jaffee et al., 2011). While French beans maintained a prominent position in the sales of most leading companies, by the early 2000s, Kenya exported some 75 horticultural crops, including 30 different types of fruit and 27 types of vegetables to European markets, not only as raw materials but increasingly as pre-prepared vegetables (Humphrey et al., 2004). The margins for French beans were increasingly under pressure, but its high volume helped spread overhead costs and enable less expensive bulk air-freight charter arrangements (Jaffee et al., 2011).

Nevertheless, smallholders were increasingly marginalized by the cost-cutting pressures in certified export markets. Certification was not linked to any price premium whereas the associated adjustment processes in production practices, farm management, and maintaining a certified status remarkably increased production costs (Dolan & Humphrey, 2000; Jaffee, 2003; Jaffee et al., 2011; Tallontire et al., 2014). While two-thirds of certification costs were subsidized by the partnership, the one-third share of the investment cost (on average GBP433) required of smallholders represented a substantial burden, i.e., 237 percent of their annual production margin (on average GBP182), before labor costs (Graffham et al., 2007). Even for the larger farmer groups, for whom it was possible to better distribute fixed costs, EurepGAP-compliance costs reached one-third of their annual income (Asfaw et al., 2007). In addition, the criteria Kenya's exporters used to decide whether they should "produce or buy" were not favorable to smallholders (see figure 8). Among those criteria, three elements—consistency of quality, the ability to make changes to production/handling practices, and the ability to maintain required records—were the most important concerns when sourcing from smallholders. These product and process related quality aspects were often a barrier to entry by Kenyan smallholders into the higher-value horticultural value chains (Asfaw et al., 2010).

Beyond the initial investment, continued participation also required smallholders to bear high recurring costs. Without intensive subsidized resources, in many cases, the so-called "pockets of excellence," supported by the partnership resources, had no staying power or potential to replicate. Smallholder outgrower schemes had high rates of turnover. The highly cited reports (Asfaw *et al.* 2010; de Battisti *et al.* 2009; Dolan and Humphrey 2000; Roy and Thorat 2008) about Kenya's horticulture sector found that 60% of smallholders that once were EurepGAP-certified had been dropped by their exporter partner. Smallholders also voluntarily dropped out of the certified chains, due mostly to high recurring costs of compliance and insufficient premiums for certified crops (Battisti et al., 2009).

Figure 8: Performance Criteria for Sourcing from Alternative Supply Options



Source: (Jaffee et al., 2011)

While a continuing theme of this case is industry growth at the expense of smallholders, the case studies prepared for the World Bank suggest packing houses, processing facilities, and larger farms provide jobs to urban poor, and that these jobs may provide a faster and more efficient path out of poverty than ensuring smallholder inclusion in the production segment of the chain (P. English et al., 2004). Indeed, by the late 2000s, there were 50,000 people employed on larger horticultural farms and in packinghouses in Kenya (Jaffee et al., 2011). The exact number of jobs linked to the export market is not available, due in part to the difficulty in separating out the export segment from the much larger domestic segment (P. English et al., 2004).

These non-farm jobs have led to some social upgrading. The wages for packinghouse positions were slightly more than positions on large farms (see table 8). Wages for packinghouses ranged from \$2.30 to \$6.33 per day, and wages for farms ranged from \$1.63 to \$2.20 per day (World Bank, 2009). However, with the exception of semi-skilled positions in packinghouses, there are wage disparities based on gender, with women earning substantially less than men (World Bank, 2009). Women are not considered for skilled positions (R. English, 2007; World Bank, 2009). Between 70 percent and 80 percent of these jobs are also held by women, most of which are under the age of 35, and categorized as being “alone”, single, widowed, divorced, or separated (P. English et al., 2004; R. English, 2007).

Table 8: Wages in Kenyan Packinghouses and Farms, by gender, 2001

	Packinghouse		Farm	
	Men	Women	Men	Women
Unskilled	\$ 2.71	\$ 2.30	\$ 1.65	\$ 1.63
Semiskilled	\$ 2.84	\$ 3.01	\$ 2.20	\$ 1.82
Skilled	\$ 6.33	N/A	\$ 1.98	N/A

Source: (World Bank, 2009)

Summary Findings: KHDP partnerships supported the horticulture sector in Kenya in its transition to adopting new EurepGAP quality standards for fresh fruit and vegetables. This case highlights the reality that certification should not be equated with the capabilities required to meet standards in high-value markets. Since the project ended, a majority of smallholders have left the high-value horticulture value chain, citing reasons that include an inability to provide a consistent product that meets buyers' demands and an inability to afford high recurring costs of certification. While global market dynamics had tightened contractual relationships between Kenyan exporters and retailers, and have put additional cost and demands on marginalized smallholders, certain aspects of partnership design, if done differently, would have allowed better leveraging of GVC governance to achieve the partnership objective. KHDP presumed that EurepGAP compliance would be required of all horticulture exports to Europe, rather than exclusively EurepGAP retailers. KHDP would have learned the true nature of certification requirements had they coordinated with the EurepGAP supermarkets requiring them. However, rather than partnering with supermarket retailers, the consumer-facing lead firms in these vertically-coordinated horticultural value chains, KHDP chose instead to partner with intermediary export firms. Not only did this decision perpetuate misunderstandings of the nature and timing of certifications, but also strengthened the position of export firms vis-à-vis smallholders. As the partners in this case, Kenya's horticulture exporters effectively increased their investment, production, and exports to premium-paying supermarkets in Europe, particularly in the U.K. While upgrading to high-value export markets marginalized smallholders, the export industry's growth provided alternative farm and non-farm employment opportunities to the urban poor. The poverty-reduction outcome of these alternative income opportunities, however, depends on whether the poor have the right set of skills and appropriate bargaining power essential to protect worker rights.

CASE STUDY 3: THE COFFEE SECTOR IN RWANDA: SUSTAINING PARTNERSHIPS TO ENHANCE RURAL ENTERPRISE AND AGRIBUSINESS DEVELOPMENT PROGRAM

OVERVIEW

At the turn of the millennium, the Rwandan coffee sector faced several challenges. Productivity was down and quality was mediocre. The market price for coffee had been in decline and was nearing record lows. In 2000, USAID initiated three projects to develop the coffee sector. The projects successfully helped smallholders improve the quality of their coffee to meet specialty status, substantially increasing smallholder revenues. To ensure the sustainability of previous projects, USAID implemented the Sustaining Partnerships to enhance Rural Enterprise and Agribusiness Development (SPREAD) project. A development alliance made up of U.S. and Rwandan universities, enterprises and NGOs, including Texas A&M University Norman Borlaug Institute of International Agriculture, SPREAD formed a four-year partnership with a collective of coffee cooperatives and specialty coffee roasters, establishing goals to reinforce linkages with specialty roasters and build the capacity of cooperatives to succeed in the new market.

The following case study illustrates how SPREAD identified the need for a public private partnership, how the partnership was formed, what activities the partnership implemented, and what effects the partnership had on smallholders.

PARTNERSHIP IDENTIFICATION: HOW WAS THE NEED A PARTNERSHIP IDENTIFIED?

By building on the work of previous projects, the partnership hoped to strengthen the capacity of coffee farmer cooperatives to produce specialty coffee and solidify linkages with specialty coffee roasters, ensuring the sustainability of accomplishments achieved during the previous five years.

In the early 2000s, most Rwandan coffee smallholders were performing poorly, with very small plots, averaging just 150 bushes, many of which were more than 30 years old (Chemonics International, 2006). They had low productivity and were increasingly unable to compete with large producing countries, such as Brazil and Vietnam, which at the time were increasing productivity. Many smallholder coffee growers had abandoned production, but in 2002 about 400,000 remained committed (Chemonics International, 2006).

The country's coffee sector produced Arabica coffee of mediocre quality—unsorted and only occasionally washed—which was indicated by a negative price premium on international markets (Oehmke et al., 2011). The country's geography and climate—higher elevations (1,000–2,000 meters) with cooler climate (15°C–24°C) and optimal annual rainfall (1,500–2,000 millimeters)—provide nearly ideal growing conditions for growing the Arabica coffee needed to produce specialty coffee, which would offer a substantial premium over the commodity price which they were accustomed to receiving (ICO, 2014). However, without meeting additional criteria for proper cultivation, harvest, and processing, smallholders could not achieve “specialty” status.

Initiated in 2000, three projects set out to develop Rwandan agriculture: the Partnership to Enhance Agriculture in Rwanda through Linkages (PEARL), Agribusiness Development Assistance to Rwanda (ADAR), and a PL-480 project to improve food security. In each project, efforts to develop the coffee sector were a relatively small portion of the total project scope. However, shortly after the projects began, project agronomists from Michigan State and Texas A&M universities in the United States received a tip from the

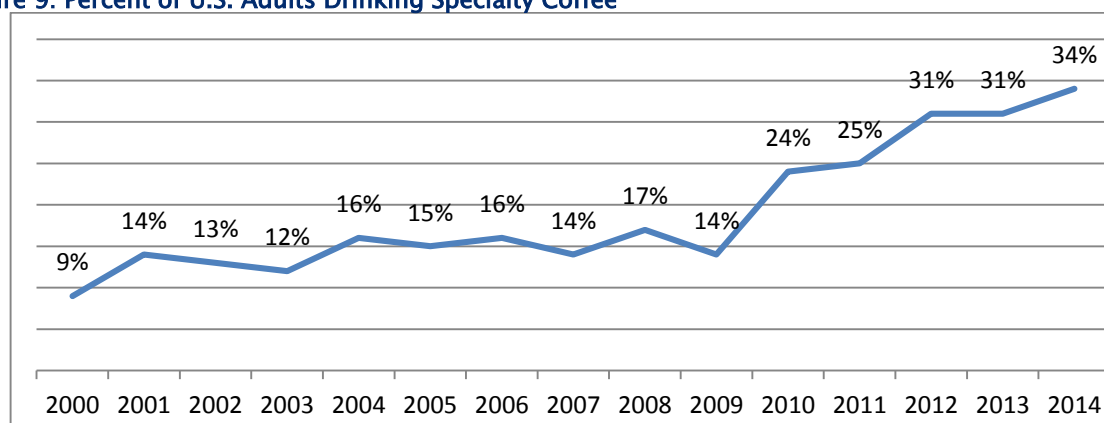
Rector of the National University of Rwanda that farmers in a nearby village were producing high quality coffee. The agronomists confirmed the quality of the coffee. Growing conditions were not only ideal, but might actually qualify for entry into the rapidly growing “specialty coffee” niche market. Project leaders pursued the possibility, recognized the potential opportunities for smallholders to greatly increase household income, and quickly modified project strategies to focus on upgrading coffee to meet specialty quality standards.

To help smallholders learn the techniques necessary to produce specialty coffee, USAID and development practitioners implemented a series of projects, spanning nearly a decade. Projects included training programs to improve growing techniques, such as fertilizer application, pest-prevention, and pruning. More important, projects aimed to improve harvesting and processing practices. Growers learned to harvest cherries while on the branch and deliver them to a washing station to be sorted, de-pulped, and washed. Growers then sun-dried the beans until they reached an optimal humidity content of approximately 10–12 percent (SCAA, 2012).

The success of USAID’s partnerships in the Rwandan coffee sector can be explained, in part, by its problem-oriented approach and flexible long-term investment to develop the sector over the course of ten years. The ability to identify external factors (the rapidly growing specialty coffee market), internal factors (the ideal growing conditions and coffee variety in Rwanda), and implement ten years of coordinated, overlapping projects provided an ideal environment in which the partnerships could be successful. Figure 9 shows that in 2000, the U.S. market for specialty coffees was small, but growing rapidly, presenting the opportunity for smallholders to earn more than twice the price per pound as commodity-grade coffee (SCAA, 2014b).

In addition to ideal elevation and climate, Rwanda was densely populated, with a relatively well-established transportation infrastructure, boasting nearly 15,000 km of roads, capable of transporting coffee from farms to washing stations to the capital for export (EON, 2014). The sector just lacked the knowledge and capability to produce specialty coffee, and the marketing to make buyers aware of it. The PEARL and SPREAD programs correctly identified the challenges and opportunities, and acted accordingly to address them.

Figure 9: Percent of U.S. Adults Drinking Specialty Coffee



Source: (SCAA, 2014b)

In 2000, there were a number of coffee cooperatives in Rwanda, but they were not well-managed and existed almost exclusively for the sake of harvesting and aggregating commodity-grade coffee for export. Initiated in

2000, USAID's PEARL I project facilitated the training of coffee cooperatives, the first of which was based in Maraba District of Butare Province. PEARL teamed up with Michigan State University Texas A&M University, the National University of Rwanda, the Kigali Institute of Technology, and the Rwanda Agricultural Research Institute to assist cooperatives such as Maraba with business plan development, credit negotiations, agronomy, construction of coffee washing stations (CWS), coffee processing, Fair Trade certification, cupping (the technique by which one evaluates coffee quality) and marketing (Kitzantides, 2010; Oehmke et al., 2011).

In addition to the PEARL projects, ADAR, a six year project provided technical assistance and training for processing and marketing to small and medium-sized agribusiness firms (Chemonics International, 2006). The ADAR project also provided technical and financial assistance to nine smallholder cooperatives in the form of grants, locally sourced technical assistance and training, financing for study tours, and in-bound and out-bound marketing missions (Chemonics International, 2006).

In order to ensure the sustainability of PEARL's services to Rwandan coffee cooperatives, the Rwandan Small Holder Specialty Coffee Company (RWASHOSCCO) was established in 2005 as a farmer-owned marketing, exporting and roasting company that brings together 11 cooperatives of close to 20,000 farmers owning 19 coffee washing stations throughout the country. RWASHOSCCO also provides key technical assistance and services to smallholder cooperatives and operates a Kigali-based roaster which sells to the domestic market. The company's shareholders are the cooperatives themselves, who pay an annual fee of 2.5 percent of their gross sales, and all of RWASHOSCCO's profits are to be distributed back to the farmers.

To address the concern for sustainability, in 2006 USAID initiated the SPREAD program. A development alliance made up of U.S. and Rwandan universities, enterprises and NGOs, including Texas A&M University Norman Borlaug Institute of International Agriculture, SPREAD formed a four-year partnership with RWASHOSCCO, establishing the goal "to provide rural cooperatives and enterprises involved in high-value commodity chains with appropriate technical assistance" (Kitzantides, 2010).

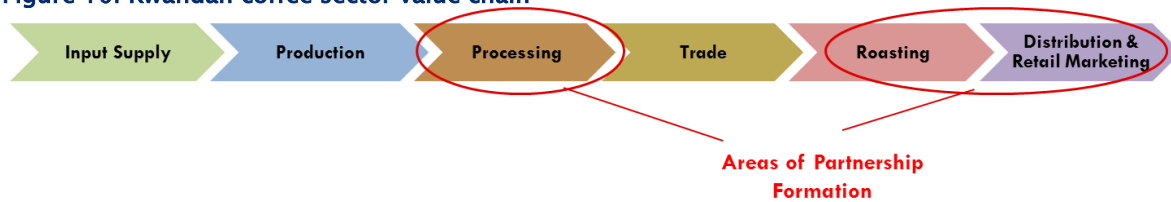
SPREAD also fortified linkages developed under PEARL. Important to this process was the organization of Golden Cup and Cup of Excellence (CoE) competitions, during which internationally established tasters and buyers sample, rate and have the option to buy batches of premium-quality coffee on an individual-lot basis.

PARTNERSHIP FORMATION: WHICH SEGMENT OF THE VALUE CHAIN DID THE PROJECT PARTNER WITH?

SPREAD partnered with the newly-formed collective of smallholder coffee cooperatives, RWASHOSCCO, and a selection of specialty coffee roasters. Continuing the work established during PEARL, the goal of SPREAD was to reinforce the technical and financial capacity of coffee washing stations so smallholders would continue producing specialty coffee at economies of scale sufficient to attract specialty coffee roasters. As a result, Rwanda would solidify its newly-established status as a producer of specialty coffee, and smallholders would continue to earn a premium in excess of 100 percent of the commodity price they were accustomed to, greatly improving their economic wellbeing.

SPREAD contributed to enhancing Rwanda's reputation as a country that produces high-quality coffee, effectively attracting international specialty coffee buyers' and private investors' interest in the sector. The project chose to engage in two types of partnerships: one with cooperative groups, such as RWASHOSCCO; and another with a select group of specialty coffee roasters and retailers.

Figure 10: Rwandan coffee sector value chain



Source: Adapted from (Bamber et al., 2014)

BOX 4. KEY SEGMENTS OF THE COFFEE VALUE CHAIN

The Rwandan coffee value chain is depicted in figure 10. Moving from left to right, the chain begins with inputs and ends with marketing and retail.

Inputs include items such as seedlings and fertilizers. Most inputs are provided at little-to-no cost by OCIR-CAFÉ, the Rwandan national coffee authority (Chemonics, 2006). Production refers to the cultivation and harvest of coffee trees. Rwandan smallholders grow Arabica coffee on landholdings averaging less than 0.5 hectares per capita, making it especially difficult for smallholders to achieve economies of scale¹ (Kitzantides, 2010).

Processing green coffee falls under two categories, dry and wet. Dry processing usually takes place on the farm, and consists of simply allowing the beans to dry in the cherry under the sun. Once dry, the brittle cherry falls away from the bean. Wet processing requires a wet mill to de-pulp beans out of the cherries, ferment the beans, and then sun-dry them on an elevated screen to achieve a desired humidity content. In Rwanda, because landholdings are so small, it is not economical to have washing stations on the farm. Instead, washing stations were built at the cooperative level, or established by private firms. SPREAD's first partner, RWASHOSCCO, operates in the processing segment.

Trade includes firms that buy coffee from producers and processors and ship it to roasters. More than 80 percent of green coffee beans are traded internationally, and trading companies play an important role in coffee GVCs (TCC, 2012). Traders purchase green coffee from growers and grower associations and ship the beans to the end-market. Large roasters rarely source beans directly from producers (Bamber et al., 2014). This segment is highly concentrated with just three firms—ECOM, ED&F Man, and Neumann Gruppe—representing 50 percent of global trade in green coffee (Fair Trade Movement, 2014).

Roasting includes firms that produce roast coffee. Since the quality of roast coffee can decline in a matter of weeks, most roasting takes place in major end markets of Europe, North America, and increasingly, East Asia (Bamber et al., 2014). The roasting segment is also highly concentrated. In 1998, just before USAID initiated project interventions in the sector, the top two roasters represented 29 percent of the market, and the top six roasters represented 60 percent of the market (FAO, 2008).

Marketing takes place via three channels: retail, food service, and specialty coffee roasters. Retail accounts for 70–80 percent of consumption, represented by large players such as Tesco and Wal-Mart (Bamber et al., 2014). Specialty coffee roasters emerged in the late 1990s and early 2000s. Selling prepared coffee, as well as roasted beans, these firms compete on high quality and through compelling stories about the conditions under which their coffee is produced (Bamber et al., 2014).

The decision to partner with RWASHOSCCO and other cooperatives was based on lessons learned in the PEARL project, which set out to help as many smallholders as possible to meet the rapidly growing market opportunity. As a consequence of this results-oriented approach, sustainability took second priority. Indeed, project documents state that if sustainability had been a primary goal in PEARL, they would have constructed far fewer CWS, and focused instead on ensuring those select few CWS were sustainable (Chemonics, 2006). Although PEARL constructed more than 50 CWS, few would likely continue without further support. Thus, the primary reason SPREAD partnered at the processor level with RWASHOSCCO and the 20,000 smallholder members was to ensure the successes of PEARL were sustained. Emphasis switched from the establishment of cooperatives and CWS to developing a comprehensive CWS support and quality control system. In particular, SPREAD also helped RWASHOSCCO build capacity to function as its own export business, directly linking smallholder cooperatives to international buyers (Kitzantides, 2010).

The decision to partner directly with processors at the cooperative level, rather than via an intermediary such as an exporter, was critical to smallholder success, even for those not producing for the specialty market. In the decades leading up to the late 1990s, due to factors including the collapse of the International Coffee Agreement, termination of production quotas in 1989, and rapid expansion of productivity in countries such as Viet Nam, commodity coffee prices had been volatile and in steady decent (Valkila et al., 2010). Smallholders in developing countries were increasingly at a disadvantage to negotiate price with large exporters sourcing for consolidated international buyers. By partnering with processors, in particular with the 20,000-member RWASHOSCCO, these projects fortified the entities that represent the interests of smallholders, restoring at least some balance of power between smallholders and large international buyers and ensuring inclusive development. At the very least, this partnership helped prevent a dependent relationship between individual farmers and large buyers.

The decision to partner with specialty coffee roasters was the result of two factors. First, Rwanda's limited potential to produce large quantities of commodity-grade coffee did not attract large traders and roasters. The coffee trading and roasting segments of the value chain are very concentrated, with remarkably large firms. Just three firms—ECOM, ED&F Man, and Neumann Gruppe—represent 50 percent of global trade in green coffee, and five firms—Kraft-Mondelez, Nestle, Proctor & Gamble, Sara Lee, and Tchibo—represent 45 percent of roasting (Fair Trade Movement, 2014). Given Rwanda's small geographic footprint (25,000 sq. km) and its coffee sector's relatively low scale (150 bushes per farm), large trading and roasting firms had little incentive to invest resources in a country with such limited potential to produce large volumes of coffee.

The second factor that led to the decision to partner with specialty roasters was the result of practitioners' knowledge—particularly those in PEARL, such as university agronomists and project leader, Tim Schilling—of the evolving dynamic coffee market at the time. Due to the relatively stable but slow growth in coffee consumption at the time (just 1 percent per year from 1987-1997), the market was considered “mature” (Ponte, 2002). In response to slow growth in consumption, a small but significant segment of specialty roasters began to invest in market segmentation, carving out new markets with increased value added and a higher potential for growth in consumption. A key part of this new market segment revolved around being able to tell “a story” about sourcing high-quality coffee and paying poor farmers a living wage for it. Project leaders believed if Rwandans could meet the high levels of quality, they could more than double their revenue.

The purpose of SPREAD, then, was to partner with specialty roasters to strengthen those linkages by legitimizing the coffee sector's new specialty status. To do so, SPREAD worked with coffee-sector stakeholders, particularly specialty coffee roasters, to introduce the Golden Cup coffee competition to

Rwanda in 2007, demonstrating that Rwanda had both the coffee quality and necessary information systems (for traceability). Continuing to work with specialty coffee roasters and Cup of Excellence executives, in 2008 SPREAD practitioners brought the more prestigious CoE competition to Rwanda—the first such competition ever held in Africa (Oehmke et al., 2011). This was no small feat. In addition to the cost, which is approximately \$300,000, hosting the event requires substantial work. Producer organizations must be trained how to prepare and submit samples, and a dry run must be conducted in the year prior to the event. After a successful initial competition, a second CoE competition was held in 2010.

CoE's interest rose to a new level. These firms were integral to the development of the specialty coffee market, taking risks in new regions to discover high quality beans with unique flavor profiles, and paying a premium never before seen in producer countries. These firms ranged in size, between a hundred and a few thousand employees.

The decision to engage several relatively small but dynamic specialty coffee roasters, including Community Coffee, Counter Culture, Intelligentsia and Stumptown, facilitated smallholder gains. Unlike traditional coffee roasters who may have adopted a corporate social responsibility (CSR) initiative later on, these firms were *created* with a core mission of being socially responsible corporations and to ensure smallholders would receive a living wage. In fact, the Specialty Coffee Association of America (SCAA), the industry association representing many of these firms, hosts a library of related reports, including *A Blueprint to End Hunger in the Coffeelands*, and *Understanding the Triple Bottom Line* (SCAA, 2014a).

Once these firms identify regions from which they would like to source, they proactively provide technical assistance to cooperatives and become direct buyers, bypassing any intermediaries. This is of critical importance. In many, if not most agricultural value chains, intermediaries extract value disproportionate to the role they play, most often at the expense of the smallholder. Firms such as Counter Culture do not commit to future contracts, which allow them to be more flexible. Since they are not locked into a price at which they need to sell in the future, these smaller firms can offer smallholder cooperatives a higher price without compromising profitability (Ionescu, 2014).

The process to engage firms such as these requires market knowledge. It is an iterative process, involving phone calls, followed by sharing of coffee samples and descriptions of the producing organizations and their farms. It takes time and careful coordination to identify which companies would be most open to new and untested origins.

PARTNERSHIP OUTCOMES: WHAT WERE THE OUTCOMES FOR SMALLHOLDERS?

The SPREAD partnership, together with its predecessors, resulted in an optimal outcome that supported growth in the sector and ensured smallholders captured a fair share of those gains. Productive capability and collective organization of smallholders were critical underlying pillars of this positive outcome. Organizational innovation at the level of local industry—such as establishment of smallholder cooperatives, RWASHOSCCO, and the Cup of Excellence—were critical to improve the position of smallholder vis-à-vis large buyers. These local-global linkages facilitated co-evolution of sustainable trade relationships based on mutual trust and commercial interests.

Many of SPREAD's project outcomes built upon previous projects, particularly PEARL. Thus, the outcomes of earlier projects are also outlined below.

Assistance provided through the PEARL and SPREAD programs increased the number of CWS from 2 in 2000 to 54 in 2005 and 187 in 2010 (Oehmke et al., 2011). Consequently, the fully washed coffee (FWC) value chain grew from exporting 32 tons of coffee in 2002 to 5800 tons in 2010 (Oehmke et al., 2011). Due to these investments in quality, coffee production, exports, and unit price increased from 2005 through 2009, relative to the previous five-year period. Impact assessments conducted by USAID indicate that the PEARL and SPREAD programs not only boosted the economic performance and visibility of the Rwandan coffee sector, but also contributed to poverty reduction. Results from an audit conducted in 2010 indicate that SPREAD and its predecessor projects delivered 82 percent higher incomes for beneficiaries, compared with a control group, from 2000 to 2010, as well as a 17 percent lower incidence of poverty by 2010 (Mason, 2011; Oehmke et al., 2011).⁸ Of Rwanda's 394,000 smallholders, 29 percent now participate in the fully washed coffee value chain, and 14.3 percent have risen above the poverty line (USAID, 2012). Implementing partners, government of Rwanda officials, and coffee farmers largely attribute these instances of economic upgrading to the SPREAD program (Mason, 2011).

The most important approach to both projects was the promotion of CWS to improve the quality of coffee. Instead of focusing directly on individual smallholders, most projects preferred instead to concentrate on collective entities, such as cooperatives. The rationale was that most farmers had only small plots of land, incapable of producing significant volume, and thus working through a larger entity would provide a more efficient means to provide equipment and technical training. Further, it was believed that working with cooperatives would create a more equitable distribution of benefits from improved market linkages. Of course, some limited intervention occurred at the individual level, including efforts to replace old trees, increase use of inputs, and expand the use of shade trees (Jaffee et al., 2011). Additionally, the ADAR project worked almost exclusively to develop private coffee processors who could process independent smallholders' beans (Chemonics, 2006).

The Maraba cooperative pilot project was a success in that it penetrated the high-priced competitive American specialty coffee market and gained recognition in the U.K. and elsewhere through the sale of Maraba coffee in over 350 Sainsbury supermarkets (USAID, 2006).⁹ Thus, the key outcome arising from PEARL I was the institution of FWC value chain, producing coffee that met specialty buyers' standards.¹⁰ Following on the success of the PEARL I's work with the Maraba cooperative, PEARL II emphasized the establishment of additional producer cooperatives and CWS by providing technical and financial assistance to new organizations.

By 2004, Rwanda had become a highly sought-after origin of specialty coffee, and its coffees were being sold through over 30 renowned specialty coffee roasters and importers in the U.S., Europe and Japan (Kitzantides, 2010). Rwandan cooperatives made their first sale to Starbucks in 2004, and in 2006, Starbucks successfully marketed Rwandan coffee under their premium "black apron" brand. Priced retail at \$13 a half pound, the coffee sold out faster than any previous black apron release (JE Austin Associates, 2007). An impact report published in 2006 indicates that as a result of the four initiatives, approximately 50,000 households saw their

⁸ This assessment is based on simple "difference-in-differences" comparison of 2010 poverty rates among smallholders participating in the FWC value chain with those not participating in the FWC chain. This comparison showed a poverty headcount rate of 65 percent among smallholders in the FWC chain compared with a rate of 82 percent in the comparison group

⁹ Sales of specialty coffee occurred initially through purchase of 18 tons of specialty-grade FWS by Community Coffee, a Louisiana-based roaster.

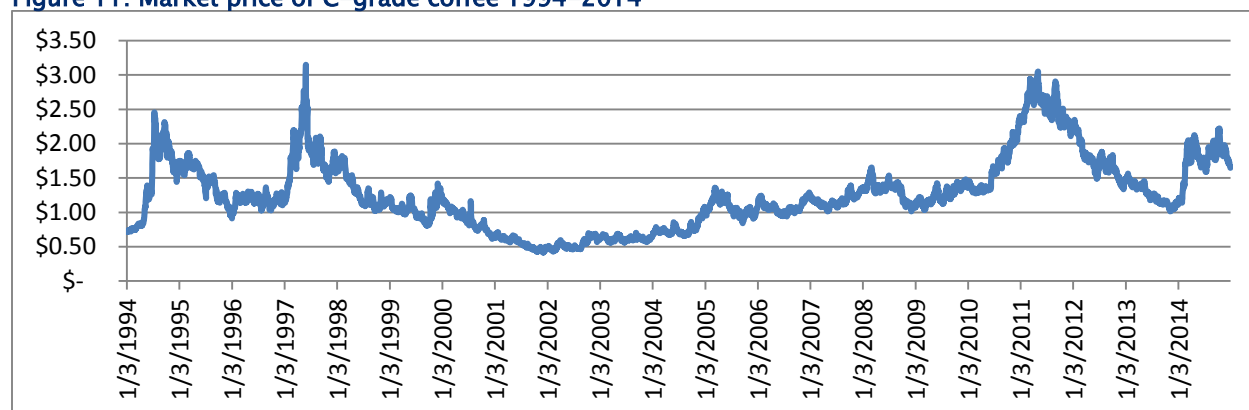
¹⁰ In order to qualify as FWC, coffee must be washed in a coffee washing station, rather than on the farm.

incomes from coffee production double, and some 4,000 jobs were created at coffee washing stations (Chemonics International, 2006).¹¹ Many of these jobs are part time during the harvest season, and others are full time positions to manage the CWS. Employees in these positions learn valuable skills, such as accounting, marketing, and negotiating (Jaffee et al., 2011).

Despite the remarkable success achieved during the first five years of projects, much work needed to be done to ensure the sector's development would be sustainable. Final program documents expressed a need to reinforce the technical capacities of cooperatives and the financial management of coffee washing stations. The newly established “non-profit” company, RWASHOSCCO, would also require continued support to help develop the capacity of its 20 cooperatives and shareholders.

As is the case for most commodities, it is challenging to implement a partnership that both generates economic growth and ensures smallholders benefit. Similar to cocoa, under the dynamic conditions in global coffee markets, the development outcomes of partnership interventions are uncertain and face constraints to scale. The concentration of markets, and fragmented nature of smallholder production in the coffee market, result in an asymmetric retention of value along the coffee value chain, which over time has eroded smallholder share of value. Market price volatility or decline can also quickly erode any higher net income generated from better yields. Figures 11 and 12 show the market price and price volatility of global prices for mild Arabica coffee from 1994 to 2004 (ICE, 2014). Exposure to this volatility was especially relevant to the coffee market in the 1990s, when commodity coffee consumption levels had plateaued.

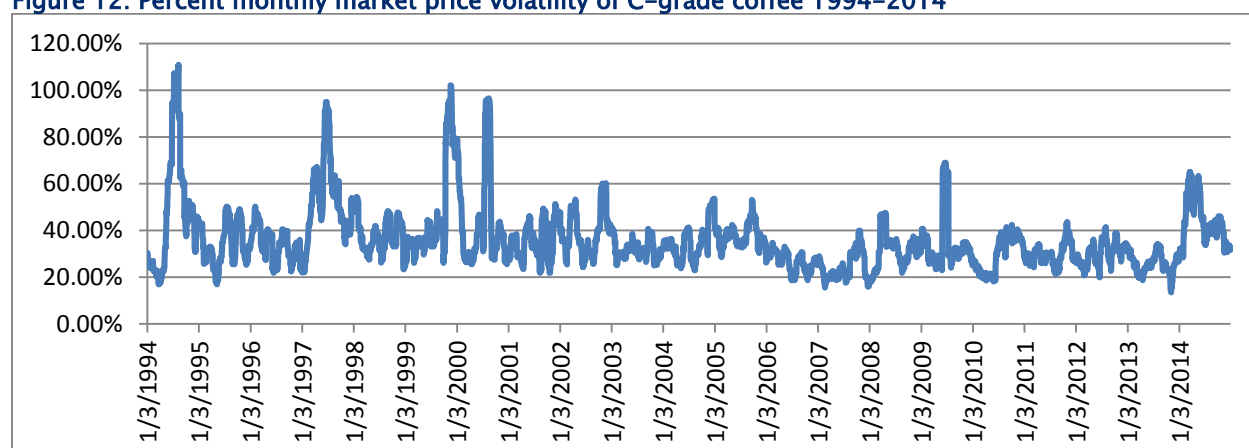
Figure 11: Market price of C-grade coffee 1994–2014



Source: (ICE, 2014)

¹¹ Citing a report published by Chemonics in 2005, Kitzantides (2010) noted that PEARL and related projects led to a doubling of income among only 20,000 farmers and the creation of only 2,000 jobs.

Figure 12: Percent monthly market price volatility of C-grade coffee 1994–2014



Source: (ICE, 2014)

Efforts to bring higher revenues to smallholders via certifications, such as Fair Trade and Rainforest Alliance, are often negated by the associated costs to smallholders, or as seen in Table 4, the lack of benefits to smallholders. In 2012, just 12 percent of certified coffee produced was sold as certified, meaning that 88 percent of the certified coffee smallholders paid a premium to produce did not receive a premium in the market (Potts et al., 2014). Pricing data are scarce, but at least one report states that UTZ-certified producers earn on average just \$0.04 per pound more than the C-grade price (Potts et al., 2014). Recent studies show that consumers pay a significant premium for Fair Trade certified coffee, but a larger share of this premium stays in the consumer country, empowering roasters and retailers (Valkila et al., 2010). This is very important. More often than not, it is the companies that make the decision about certification in their supply chain, not the farmers. Yet farmers must assume the cost of certification to stay competitive, and then hope to receive a premium.

Table 9: Volume of certified coffee produced, compared to volume sold, 2012

Certification Scheme	Production	Sale	% Sold as Certified
AAA	247,114	No data	No data
4C Association	1,782,058	152,708	2%
C.A.F.E. Practices	457,339	222,550	3%
Fairtrade	430,000	128,000	2%
Organic	248,767	133,163	2%
Rainforest Alliance	265,565	129,846	2%
UTZ Certified	715,648	188,096	3%
Global Certified Production	3,300,000	840,000	12%

Source: Potts et al., 2014

Smallholders growing for the specialty coffee market can sell their coffee at premiums significantly higher than certified coffee and receive a larger share of the retail price, without needing to invest resources necessary to become certified. For example, compared to the 2014 minimum price established for Fair Trade, Organic Certified coffee, \$1.90 per pound, the average price specialty coffee growers received during the first nine months of 2014 was \$2.72, and as high as \$3.60 (Farmers to 40, 2014). Table 10 shows that globally, smallholders receive an average of 23.1 percent of the retail price for specialty coffee, compared to just 10

percent of the retail price of C-grade coffee (FAO, 2004; Farmers to 40, 2014). The market for specialty coffee is niche, and thus it is not always recommended to promote smallholder entry into the market. However, in smaller countries with ideal conditions, such as Rwanda, niche markets such as these can have considerable benefits for smallholders.

Table 10: Share of retail price of specialty coffee paid to smallholder cooperatives, 2014

Roaster	Average Adjusted Retail Price per Green Pound	Share of Retail Price Going to Cooperative
Amavida Coffee	\$14.40	19.8%
Bongo Java Roasting Co.	\$12.08	25.6%
Café Campesino	\$11.27	24.3%
Coffee Exchange	\$13.66	19.3%
Conscious Coffees	\$14.72	20.2%
DOMA Coffee Roasting Company	\$16.58	18.7%
Heine Brothers Coffee	\$13.60	19.9%
Higher Grounds	\$12.09	23.5%
Just Coffee Cooperative	\$12.71	23.0%
Kickapoo Coffee	\$17.85	16.0%
Larry's Beans	\$15.65	16.7%
Sweetwater Organic Coffee	\$11.33	25.5%
Third Coast Coffee	\$7.65	38.5%
Average	\$12.71	23.1%

Source: (Farmers to 40, 2014)

Summary Findings: Partner selection in SPREAD navigated multiple challenges inherent to agricultural commodities, resulting in an optimal outcome that promoted economic growth in the sector and ensured smallholders captured a fair share of those gains. First, as mentioned earlier, by partnering with cooperatives, SPREAD built capacity that would improve the position of producers vis-à-vis large buyers, benefitting even those farmers who did not sell fully washed coffee. Second, and more important, SPREAD identified a market that would pay a premium for a higher quality product, that farmers could achieve with relatively simple upgrades and minimal costs, and that did not require they pursue a costly certification process. Finally, partnering with specialty coffee roasters who pay a premium based on their corporate mission to pay smallholders a living wage ensured the long-term sustainability of smallholder gains that would not be eroded by commodity price volatility or decline.

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APPENDIX I. INVENTORY OF DEVELOPMENT PARTNERSHIPS

OVERVIEW

This minidatabase primarily provides a detailed inventory of the development partnership cases identified and the details of the selected cases. The document is intended to provide an update to and seek consultation from the USAID and ACDI/VOCA project team. This output incorporates the agreed research focus discussed by the CGGC and USAID and ACDI/VOCA project teams via two conference calls on the 13 August and 18 September, 2014.

This Appendix contains an inventory of 135 development PPP cases. For each case, you can find detailed descriptive information including: the partnership title, a brief overview, the name of the respective donor & partnership program, the start and end date, targeted sector or products, and the country or region. Each case is categorized in terms the partnership mechanisms and the nature of associated intervention(s). More detailed descriptive information about each partnership can be found in the Case Inventory table. The table below provides an overview of the distribution of partnership cases across donor programs and intervention foci.

Donor/Program	Total # of Cases	Producer Capability			Market Linkages			Other
		Input supply/markets	Non-financial services	Financial Services	Strengthening vertical market linkages	Alternative linkages/Niche markets	Horizontal organization /working relations	
Australian Agency for International Development	21	4	11	2	7	1	0	1
Enterprise Challenge Fund	21	4	11	2	7	1	0	1
Germancy BMZ/GIZ	16	3	7	0	2	3	4	4
DeveloPPP.de	16	3	7	0	2	3	4	4
U.K Department for International Development	7	1	2	2	5	1	0	0
Business Innovation Facility	5	0	2	2	4	0	0	0
Business Linkages Challenge Funds	1	1	0	0	1	0	0	0
Responsible and Accountable Garment Sector Challenge Fund	1	0	0	0	0	1	0	0
Netherlands Ministry of Foreign Affairs	14	2	6	2	3	8	0	0
PPP Facilitaty for Sustainable Entrepreneurship and Food Security	5	2	3	2	1	3	0	0
Private Sector Investment Program	9	0	3	0	2	5	0	0
Sweden International Development Agency	11	1	4	0	3	6	2	0
Innovations Against Poverty	11	1	4	0	3	6	2	0
United States Agency for International Development	66	10	35	6	26	10	12	2
Global Development Alliance	57	10	30	3	23	9	10	1
New Alliance	9	0	5	3	3	1	2	1
Total	135	21	65	12	46	29	18	7

The table above reports, for example, that for the Enterprise Challenge Fund Program of the Australian Agency for International Development, we identified a total of 21 partnership cases and these 21 cases are

distributed as follows: input supply/markets (4), Non-financial services (11), financial services (2), strengthening vertical market linkages (7), alternative linkages/niche markets (1) and other (1). This sums up to 26, which is more than the total number of cases because a single partnership case has intervened in more than one focal area. This analysis indicates that nearly 48 percent (65 cases) of all identified cases delivered non-financial services, and more than 55 percent (75 cases) of all cases targeted either to strengthen existing market linkages or develop alternative niche markets. This represents a particular focus at the micro-level and directly working on building capability of producers and linking them to market.

DEFINITIONS OF TERMS

1. Producer Capability

- Input supply/markets: Partnership supports input supply by either directly delivering related inputs or strengthening input markets
- Non-financial services: Partnership delivers training, extension and technical services to farmers
- Financial services: Partnership either directly delivers or supports financial services such as loans or insurance

2. Market Linkages

- Strengthening vertical market linkages: Partnership supports business-to-business or producer-to-business relationships along the value chain
- Alternative linkages/Niche markets: Partnership creates new relationships primarily by supporting certification of sustainability standard products and processes
- Horizontal organization/working relations: Partnership supports linkages between actors in the same segment of the value chain
- Other: Dimensions not categorized under any of the above dimensions

3. Partnership Mechanisms

- Business Matchmaking: Partnership either organizes matchmaking events or requires firms from the donor home country to find a local business partner
- Incentivize Investment: Partnership finances projects that primarily establish processing plants and other productive infrastructure in the target developing country
- Leverage Private Finance: Partnership primarily aims to raise private funds to finance its own development programs and strategies
- Policy Advocacy: Partnership focuses or incorporates policy reform and establishment of supportive policy frameworks

ACRONYMS

AusAid	Australian Agency for International Development
BIF	Business Innovation Facility
BLC Fund	Business Linkages Challenge Fund
BMZ/GIZ	German Federal Ministry for Economic Cooperation and Development /German International Cooperation
DFID	UK Department for International Development
ECF	Enterprise Challenge Fund
FSEF	Facility for Sustainable Entrepreneurship and Food Security

GDA	Global Development Alliance
IAP	Innovation Against Poverty
NAL	New Alliance
NMFA	Netherlands Ministry of Foreign Affairs
PSI	Private Sector Investment
SIDA	Swedish Agency for International Development
USAID	United States Agency for International Development

SOURCES (WEBSITES AND DATABASE CONSULTED)

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SELECTED CASES

CASE 1: USAID and Private Sector Partnership in the Cocoa Sector in Indonesia			
Case Title: AMARTA Sulawesi Kakao Alliance Phase I	Budget	Duration	Case Material/Reports
This partnership involved large multinational companies from the cocoa-chocolate industry, Blommer Chocolate Company and Olam International . This case makes additional 'longitudinal' and historical analysis possible by drawing on separate but related partnership materials: SUCCESS Asia Alliance, Sustainable Cocoa Production Program, and Cocoa Innovation Project in Indonesia. Additionally, CGGC has access to an extensive list of GVC related studies related to the global cocoa industry. Indonesia is also the third largest producer of cocoa in the world. Besides, with the growing industry concerns over supply shortages of cocoa in global markets, this case will support analyzing the 'additionality' argument, particularly, when it comes to donor partnerships with multinational corporations.	US\$ 21 million	2006 - 2011	1) 2007 AMARTA Annual Report 2) 2008 AMARTA Annual Report 3) 2009 AMARTA Annual Report 4) 2011 AMARTA Final Report 5) 2011 A Collaborative Approach to Cocoa Sustainability 6) 2005 Final Report SUCCESS Alliance Indonesia
CASE 2: USAID and Coffee Cooperatives in the Coffee Sector in Rwanda			
Case Title: Sustaining Partnerships to Enhance Rural Enterprise and Agribusiness Development (SPREAD)	Budget	Duration	Case Material
In contrast to 'CASE 1', this partnership involved small enterprises and cooperatives. In contrast to Indonesia as the third largest global cocoa producer, it presents a small country case, Rwanda in the coffee GVC. The partnership was undertaken to support the Government of Rwanda's policy to transform all Rwandan coffee into high-quality products to increase income and reduce poverty among smallholder farmers. This partnership case was also preceded by the other related and USAID-funded partnerships such as Partnership for Enhancing Agriculture in Rwanda through Linkages (PEARL) Phase I & II implemented during 2000 - 2005. The collected case materials provide detailed contextual policy and industry context. In addition, CGGC has access to multiple GVC studies related to coffee sector in East Africa. This case also illustrates the importance of involving state agencies and seeking their buy-in to ensure sustained impact.	US\$ 5 million	2006 - 2011	1) 2011 The Impact of USAID Investment on Sustainable Poverty Reduction Among Rwandan Smallholder Coffee Producers 2) 2011 Audit of Rwanda's Agricultural Activities 3) 2011 Poverty Reduction among Rwandan Smallholder Coffee Producers - A Synthesis 4) 2010 SPREAD Integrated Community Health Program Mid-term Evaluation 5) 2006 Assessing USAID's Investments in Rwanda's Coffee Sector 6) 2006 Strengthening Agricultural Capabilities
CASE 4: USAID and Private Sector Partnership in the Horticulture Sector in Kenya			
Case Title: Kenya Horticulture Development Program (KHDP)	Budget	Duration	Case Material/Reports
This partnership involved engagements with 86 different entities, including 55 private sector partners. Of the private sector partners, most were of host country origin, though some, such as Premier Foods were of European origin. The size of private sector partners ranged from small, women-owned businesses to large multinational processors. Compared to Case 1 and Case 2, this provides an excellent mix of foreign and domestic private sector partners of both large and small scale. Like Case 1, this case makes additional 'longitudinal' and historical analysis possible by drawing on separate but related partnership materials, particularly from the Kenya Business Development Program (KBDS), which worked closely with the same sectors during the same time period. CGGC has studied Kenyan avocado production under the KBDS program, focusing on sustainable inclusion of smallholders.	US\$ 10 million	2003-2009	1) KHDP Final Evaluation 2) KHDP and KBDS Impact Evaluation 3) Office of Inspector General Audit of Selected Programs 4) Tree Fruit Assessments 5) KHDP Mango Opportunities Presentation 6) Smallholders and Inclusive Growth Field Report 18--Longitudinal Study

CASE INVENTORY

See attached Excel file "Inventory of Cases."