



Briefing note on the work by the WBCSD-SNV Alliance

COCOA VALUE CHAIN IN ECUADOR

The WBCSD-SNV Alliance is working towards the creation of an inclusive business with the participation of companies and entities linked to the cocoa value chain so as to build a business that could eventually serve as a model to be *replicated* at both national and regional scale.

The Alliance is working with all actors from the cocoa farmers to the purchaser of the commodity, with the ultimate aim to provide a win-win for all parties involved. This will be achieved by means of technical assistance, access to new irrigation technology, loans to small producers, and agricultural insurance.

Some facts on cocoa in Ecuador:

- Overall, Ecuador has around 120'000 cocoa producers, which amounts to about 5% of the economically active population.
- 243 thousand hectares of land are currently being used to produce cocoa in the country.
- Cocoa exports amount to US \$ 160 million (equivalent of 3% of the country's non-petroleum exports).

Main entities solicited by the Alliance to set up this inclusive business:

- **Universal Sweets Industries (chocolate manufacturer)** – this company is part of the Nobis Consortium, headed by Isabel Noboa. With an annual turnover of US\$ 60 million, it is the second largest industrial group in Ecuador, and ranks as one of the country's leading confectionery and food companies. Its products are chocolate and consumer cocoas; hard and soft candy; pasta, cookies, crackers; and semi-finished goods for industrial use including cocoa powder, butter and liquor. Its plant, employing 320 people, is located in downtown Guayaquil, and processes some 66'000 qq per year.
 - Benefits for Universal via the inclusive business: a reliable supply of coca both in terms of quantity and quality; reduced transaction costs due to direct contact with producers rather than via middlemen; traceability of the cocoa; sustainable relationship with the suppliers
- **Amanco (irrigation component):** the Latin American leader in pipe systems for housing, infrastructure and irrigation, with US \$ 950 million of gross sales in 2006. Amanco aims to support farming units of all sizes to switch from traditional to exportable crops by using modern technologies and therewith enhance their income. Amanco expects to sell some 14'000 irrigation systems across Latin America by 2015, for a total of US\$ 28 million.
 - Benefits for Amanco via the inclusive business: market penetration and knowledge development with regard to doing business with the low-income segment (in line with Amanco's strategy doing business in Latin America); potential market of 100'000 hectares with deficits in irrigation techniques; access to multilateral sources of credit via the Alliance
- **Financial sector and insurances:** there are currently several actors with a potential interest (private banks, Banco Nacional de Fomento, cooperatives, networks of rural

- banks), but there is a heterogeneous penetration level in the rural sector. In addition, a high risk perception and high administrative costs are prevalent in doing business around agriculture and with small producers. Access to credit is limited to a mere 17% of agricultural producers.
- Benefits for the finance and insurance sector via the inclusive business: expansion and deepening of portfolios towards the small producers segment, reduce risks via contract-based agriculture; develop financial services specialized on the segment of small producers of other value chains (coffee, maize, etc.); access to multilateral funding sources via the Alliance
 - **Cocoa producers** in the province of Los Ríos and surroundings: 58'000 hectares of surface, the Asociación Cacaoteros Catarama would acts as a pilot group (founded in 2000, 56 active members, producing 60-80 metric tons of cocoa per year)
 - Benefits for the producers via the inclusive business: ensuring access to market and a planned growth in the amounts of cocoa supplied; increase income via a just price in terms of competitiveness, better productivity, quality, and financing conditions; access to technical assistance and irrigation to improve productivity and quality; access to financing sources via the alliance and contractual agriculture
 - **ACDI-VOCA:** technical assistance company working in agribusiness systems, enterprise development, financial services, and community development
 - Benefits for ACDI-VOCA via the inclusive business: opportunity to increase impact of technical assistance; opportunity to integrate and sustainable develop technology, marketing, and organizational strengthening components

Overall challenges

- Linking all the stakeholders around this inclusive business plan
- Finance / access to credit - the main bottleneck is still the financing issue. We have had meetings with the various players in the financial sector, but so far no one is willing to take the first step before seeing a pilot project being financed by another entity. The risk factor is a very sensitive issue, as no one is willing to incur any risk without sound guarantees. Obviously, the ones that have the least solid guarantees are the small cocoa producers. We have therefore been in touch with Colonial Seguros in connection to their most notably covering the risks connected to natural disasters (think of El Niño phenomenon).
- Access to water and to market for producers
- Advocating the importance of inclusive business and inclusive economic growth to the new Ecuadorian government headed by Rafael Correa since early 2007

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