



Executive summary

IDEATION OF SMALL MEDIUM ENTERPRISE (SME) SERVICES IN COCOA GROWING COMMUNITIES IN GHANA

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Solidaridad



Royal Tropical Institute

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INTRODUCTION

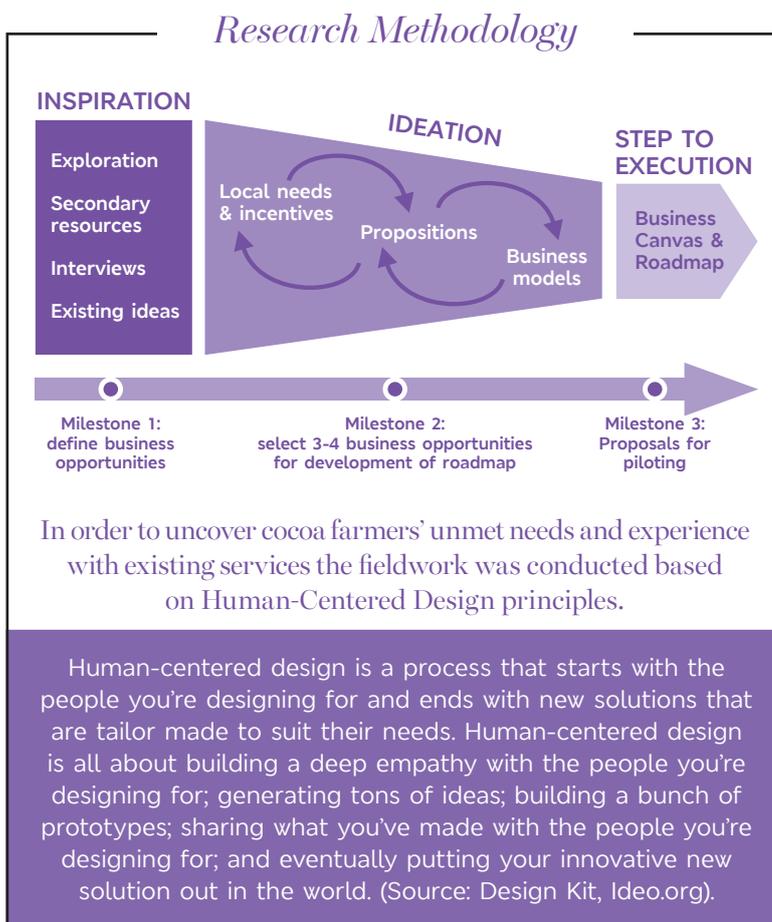
The Royal Tropical Institute (KIT) was commissioned by Solidaridad, in partnership with Marks & Spencer, to understand the unmet needs of cocoa growing communities in Ghana, ideate new SME service concepts and develop high-level business models. The study was to also provide Solidaridad with a roadmap to foster SME development.

This is a summary of the study, describing the highlights of the findings and the SME opportunities that were selected by the study’s steering committee as the most promising for creating the desired impact.

The study was led by Anna Laven (KIT) and Pabla van Heck (independent), with great support of the Solidaridad West Africa Cocoa Team, Bernard Awaitey (Barry Callebaut), Maurits de Koning (independent) and Verina Ingram (LEI/Wageningen UR).

Small Medium Enterprise (SME) services

A thriving service sector offering products/services in an affordable and easily accessible manner to farmers, would contribute directly to viable cocoa farming and cocoa growing communities. The service sector can be divided into two kinds of enterprises; **agri related services** (e.g. nurseries, agrochemicals, training) and **non-agri related services** (e.g. health products, mobile phones). Cocoa farming enterprises and service enterprises both have the need for professional entrepreneurs. Small Medium Enterprises (SMEs) can be defined as enterprises with on average more than 5 employees. This is part of Solidaridad’s vision on inclusive and sustainable market transformation.



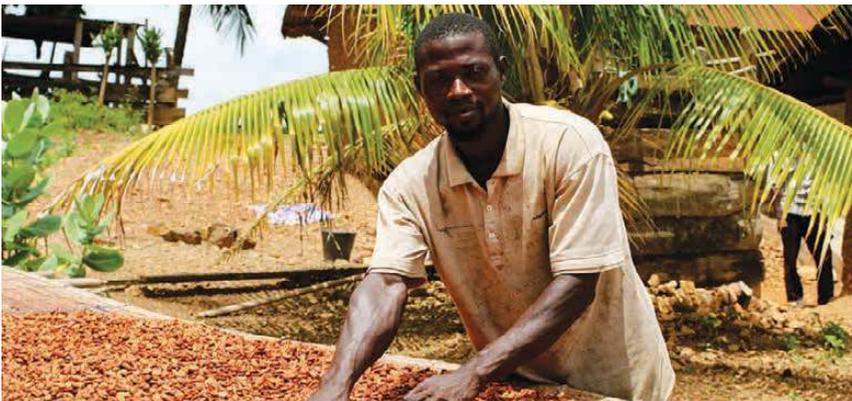
This means that we interviewed and observed farmers and existing cocoa SME service providers in their marketplace, on their farms and in their community in order to understand their everyday behaviour, their authentic contexts and the challenges they face along the value chain. The team then synthesized the data into actionable insights and ideated a long list of SME services concepts. A small number of those ideas were then elaborated further and refined during the second phase of the study.

Study Scope

The fieldwork was conducted in selected communities in the Ashanti, Brong Ahafo, and Central regions. The respondents were diverse, including a wide range of cocoa farmers (male/female, young/elderly, part-time/full-time, cocoa service providers (COCOBOD & private nurseries, tricycle drivers, input shop staff, temporary labourers), and other SMEs (FanMilk distributor, tailors, mobile phone repair shops, wholesale traders, etc). In addition, key subsidiaries falling under COCOBOD, licensed buying companies, input suppliers, NGOs and social entrepreneurs and more were interviewed in Kumasi and Accra.

STUDY FINDINGS

Cocoa farmers are a diverse group



Cocoa farmers are not a homogeneous group. Various target groups were identified through the study based on various behavioural and demographic characteristics. Each group has different cocoa farming drivers and needs, which require differentiated propositions and business models. Key groups that were identified during the study:

- **Full-time, mature farmers** with larger land sizes were found to be more likely to be farming full time because they were able to generate sufficient income and needed to dedicate all their time to working/ managing the farm. While noting that this was not a quantitative study, 7+ acres seemed to be from where this started (these were often elderly farmers who hadn't divided their land amongst their children yet).
- **Part-time cocoa farmers** with smaller plot sizes have other businesses & self-employment activities. Whichever is more profitable, is the activity that gets the most attention. Cocoa farm proceeds are often used to invest in the other business (or in that of their children's business or in their children's education).
- **'Start-up' young cocoa farmers:** while there is a notion that 'no youth' want to work in cocoa, we found that there is a (small) group of committed, young people choosing to be cocoa farmers and starting-up new farms. They often also work (or start) as farm labourers, or go into land tenure arrangements, to gain experience and save for their next investment.
- **Widow cocoa farmers:** many elderly women that have outlived their husbands are struggling to manage their (inherited) farms, which leads to very low yields and income. Their grown-up children have often moved away and cannot provide the required support.
- **Telephone cocoa farmers/absentee farmers:** (young) professionals in the city, especially those working in the agricultural sector, are investing in cocoa farms since they recognize their business potential. But they manage them from a distance, without leaving their day jobs.
- **Well-trained 'certification' farmers** have been trained and are implementing good agricultural practices. As a result they have better yields and are becoming an example for their fellow farmers in the community.
- **'Legacy' farmers** have strong relationships with the land and historical ties to the legacy of cocoa. They wouldn't want to leave it: 'My grandfather took the land from nature and it is my duty to respect it'.



Women fulfil stereotypical roles, but with emerging independence

There is (still) a culture where men and women have their own role in the family, community and business. Women are often seen in traditionally female types of economic activities, e.g. tailoring, baking, catering, trading (foodstuff, clothes etc.), and hairdressing. They also have their own roles in cocoa farming, such as nursery management and post-harvest activities, including pod-breaking, fermenting and drying. In addition, women are found to be processing cocoa pod husks into an ingredient used for soap making, which was identified as a women-specific opportunity in need of further professionalisation.

In general, there were many women generating an income, both on and off the cocoa farm. However, this was with varying degrees of success. Due to the male dominated culture and women being less visible as cocoa farmers, women living in cocoa growing communities need to be targeted directly and with tailored services, or there is a risk that they will be bypassed or under-served.

As with farmers and women, there also isn't 'one youth'. They are a heterogeneous group too who are driven by different motivations, ambitions and contexts, including parental influence, level of education and access to other options...

- Education is the ticket to a better life: a good education is seen as the basis for a better future and a life in the city with better jobs. But not everyone can pursue this financially or has the capabilities, which limits options beyond cocoa. Many youth were trying to work and save money to continue their chosen professional training and/or apprenticeship after finishing high school.
- Gold mining is creating a 'bling' culture: in areas where youth are exposed to (illegal) gold mining a culture is emerging of fast/easy money. Youth are turning their backs on cocoa and becoming 'addicted' to the promise of high earnings, which is among others spent on flashy accessories and electronic gadgets.
- Young youth (teens) are rebellious and voice their 'disdain' for cocoa: 'never in my life will I become a cocoa farmer like my parents'. Teens see (only) the hardship of being a cocoa farmer referring particularly to the tedious nature of the work, but many older youth do recognize the value and income potential.

The need seems to rather be around building the general business skills, including financial literacy.

There is a vibrant local SME culture

There is a vibrant local SME and self-employment culture already existing in Ghana, with many services targeting the cocoa sector. Examples include: private nurseries, Spray Service Provision, input shops, tricycle transportation and hand tool smiths. These economic activities are driven by the needs that the entrepreneurs see in their marketplace, their personal interests, ambition of the entrepreneur and their particular context (e.g. family business). However, not all entrepreneurs are skilled in running businesses and some are just getting by. Sometimes, (public) market distortions hampered their businesses. Therefore:

- A market of local demand and offer is already place and it is uncertain if Solidaridad should 'intervene' at the community level by promoting certain services. The need seems to rather be around building the general business skills, including financial literacy, of these local entrepreneurs, and their resilience.

However, an unmet need for quality warrants 'higher level' SME development

While there are indeed many SME services, their quality and professionalism were often found to be lacking, especially regarding inputs, tools and labour. Farmers frequently complained of poor quality products and services and shared a feeling of 'being cheated'. Examples that were shared included: fake fertilizers, deliberate overuse by spraying gangs, and equipment that easily breaks. With limited spending power farmers are extra critical of the value they receive for their hard-earned money. Travelling to bigger towns was one option that was shared to access more choice and a desire to experience 'city like' services and products. Therefore:

- the study's approach was to focus on 'higher-level' services; those that deliver a quality aspect which farmers desire and local entrepreneurs cannot achieve on their own because they require 'institutional' engagement and knowledge, such as policy changes, technology applications or collaboration with large companies. These are the type of innovations that could potentially drive sector transformation and would warrant market intervention from an organization such as Solidaridad to act as a bridge between community SMEs and exposed professionals.

Quality inputs do not reach the farmers, despite subsidies

COCOBOD distributes fertilizer and hybrid seedlings meant to support productivity and enhance farmers access to input critical for production. Not all farmers have access to these inputs and even those who do are in limited quantities. This creates a supply gap and opens up business opportunities around input supply. Currently many input shops are selling counterfeit chemicals and 'informal' nurseries are arising. There is a strong demand for quality inputs and proper information on their application.

The lack of available suitable land and inefficient existing land use are some of the major constraints for the future of cocoa production.

Many farmers complained of a shortage in 'approved' chemicals, hybrid seedlings and other quality supplies, together with limited access to proper information on their application. This was strengthened by the observation that most input shops were carrying counterfeit chemicals and the number of 'informal' nurseries. Major chemical suppliers have voiced their dissatisfaction with the current distribution and are seeking/ developing direct market entry strategies (that avoid sharing shelf space with the poor quality currently available).

Insufficient land trade hampers growth and cocoa farm investments

While there is a certain level of trade in land and share-cropping opportunities are taking place, this is still mainly happening based on existing social networks. With the growth in conflicting land use (e.g. urbanization, mining), dwindling farm sizes and labour migration there is a need for a more transparent system to facilitate the exchange and consolidation of land tenure agreements. This will be crucial for the development of the cocoa sector, especially as forest protection climbs on the agenda.

It can now take farmers a long time to find and 'dispose' land, creating opportunity for exploitative dealings, both for sellers and buyers (including share-croppers). Farmers also voiced having insufficient capacity to judge whether land was of good quality or not and what the legal rights are. Access to finance is another major hurdle. The traditional chief system still has significant influence on the process, in addition to the legal requirements (through Commissioners of Oath & the Lands Commission).

The lack of available suitable land and inefficient existing land use are some of the major constraints for the future of cocoa production.

Growing demand for labour, but high costs and poor quality are limiting

The study found that the demand for labour is growing due to a rise in telephone and part-time farmers, insufficient capacity of elderly farmers and increased workloads due to adoption of Good Agricultural Practices (GAP) in and beyond Certification projects. On the other hand, labour migration, seasonal needs and the tedious nature of the work leads to labour shortage, especially of 'good labourers'.

The current payment system is still based on fixed daily rates, instead of per output or tasks completed, making it difficult for farmers to ensure they are receiving value for money. Once a hard working and trustworthy labourer is found, they receive extra incentives (cash or in kind such as meals and gifts). The use of modern equipment, protective gear and good agricultural practices is still limited, creating the potential for efficiency gains and professionalisation.

Sustainable cocoa will become mainstream and necessitate extra knowledge by farmers

While the production of certified cocoa in Ghana is currently increasing, the demand is not stable and certified cocoa is already being sold as conventional cocoa. LBCs and other stakeholders are predicting that the production of sustainable cocoa will become mainstream and 'simply' a requirement for doing business as such large traders are developing their own sustainability programmes.

Certification has brought awareness and knowledge to those 'front running' farmers that have been part of the schemes until now. They have been able to enjoy the training and those that are applying the learned agriculture practices are reaping the benefits of increased yields. Their neighbours are noticing this and so in the communities where certification has been implemented there is a significant demand for access to knowledge from the unorganised, but exposed, farmers.

If the certification landscape changes and other routes towards sustainable cocoa are taken, farmer education and engagement will remain one of the key building blocks.



Not all is what it seems, pockets of 'hidden prosperity'

While there are certainly many farmers that are struggling to make ends meet, the study showed that cocoa farming can also be a lucrative business. We also encountered anecdotes that certain farmers own apartments in the nearby cities, send their children abroad for their studies, make investments in their children's businesses (e.g. mobile phone repair shop) and buy 'luxury' goods such as music installations, mobile phones, satellite TVs, motorcycles.

Cocoa farming is not isolated

Cocoa farmers are not only growing cocoa, but many farmers also grow other cash crops (such as oil palm) and food crops. Therefore, the SME services for cocoa could also have relevance for the agricultural sector in general.

Farmers experience very little of their own product

Chocolate consumption in Ghana is very low, which does not support the reputation of cocoa as an aspirational income generating activity. The government is currently undertaking activities to support local consumption. Local applications of cocoa (not chocolate) are consumed though and there is an opportunity to develop nutritional cocoa-based treats to support the positioning of the cocoa sector, increase farmer pride and create business opportunities for women.

SUMMARY OF THE SELECTED OPPORTUNITIES

Based on the first phase of the study, the team ideated a long list of opportunities in the service sector, relevant for cocoa production. This list was downsized considering criteria like farmer needs, market potential, robustness of the opportunity, contribution to professionalisation of the cocoa sector, farmers' expected willingness to pay for the (new) services and strategic priorities of stakeholders. Ultimately, four concepts were further explored.

Land Brokering Agency

The first opportunity explored was a Land Brokering Agency that matches 'buyers' and 'sellers' of land and/or tenure agreements (land marketplace).

The agency should provide a full range of services, including finding land and interested farmers, land mapping, assessing land quality and land rights, support with the legal process, re-mediation of family land disputes and access to financiers.

It is foreseen that this service will have a significant ICT component and service various different segments, including all key groups of farmers mentioned earlier. This will require a robust 'back-end' on which differentiated 'front ends' can be built. Integrity is an important value of the agency.

Labour & Equipment Agency

The second opportunity is a Labour & Equipment Agency that provides training and employment to youth on farm establishment, maintenance and even full farm management.

This opportunity focuses on youth interested in an agricultural career path and helps them gain the experience and income required to invest in their own farm one day.

For the agency to be efficient in delivering quality labour it has to take into account: 1) a tailored approach according to farmers' needs, 2) adoption of appropriate good agricultural practices and; 3) output based rates instead of daily rates.

This will show farmers that the labour and equipment service is an investment to improve farm yields, and not just a cost.

1-stop-shop

The third opportunity explored is the 'Next Generation' franchise opportunity. This consists of a 1-stop modern & convenient rural retailer providing quality inputs, equipment, personal gear and tailored advice to serve farmers.

Customers will also be able to purchase household supplies that are not easily available at the local market. Credit with fair terms will be provided to farmers who come in frequently and are reliable. The staff will be well-trained and aware of the latest information so that they can provide farmers with relevant advice.

Private extension & sustainability service

The last opportunity explored is the Private Extension & Sustainability service. Two customer groups will be served; a) Unorganized farmers who are exposed to certified farmers and see the benefits of good agricultural practices first-hand. But currently don't have access – or don't want to be part of an organized programme. As well as b) Processors/ brands/ buying companies seeking new well-trained 'good' farmers and their cocoa for their sustainable cocoa programs as well as 'stories'/evidence for their consumer marketing objectives.

The Private Extension & Sustainability service SME will deliver high qualitative training on sustainable cocoa practices and certification, to achieve higher yields as well as higher quality of cocoa. Farmers participating will receive a certificate that acknowledge participation and meeting the criteria of sustainable cocoa practices (audited by the SME). Once the farmer has completed certain certificates and their farm passes the test, the SME will also help to link them to 'better' purchasers. Accompanying quality communication materials are also available to support unorganized farmers to build their own 'sustainability story', and a verifiable M&E system. Niche sustainability services are also available on, for example, women empowerment and reducing child labour.

For traders building their own sustainable cocoa programs, and/ or seeking 'certification' ready farmers, the SME provides access to farmers who have already received good agri-practice training, are successfully implementing what they have learned, and are interested in 'taking the next step'. This will reduce search costs, lead times and drop-out rates. Whilst having access to 'good' cocoa with respect for people and environment.

Dropped opportunities

1. Complement public nurseries with 100% accessible reliable **private nurseries** to meet customer demand and contribute to farmer rehabilitation and production. Employment opportunity for women as managers and laborers.
2. **Ghana Cocoa Treats** to increase local consumption of cocoa; for nutrition, health and pleasure.
3. **Ghana Flavor Cocoa**; origin cocoa with recognizable flavor, fetching a higher price on world market.
4. **Pod husks** for socially responsible body care; natural potassium made from cocoa waste (safe & smokeless processing) which empowers marginalized women (direct chain with better income) and has a 'story' to tell conscious consumers.
5. **Micro & SME start-up apprenticeship**: a competitive apprenticeship for motivated youth who are interested in started their own biz, for example after completion of a vocational training. They will learn the basic skills required for running a business.



Next steps

The project group is now focussing on next steps including raising awareness of the outcome of the study and opportunities for funding and investment by stakeholders. Furthermore a concept will be developed on strategies and approach to developing the SMEs proposed in this study.

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