

# SCPP Knowledge Brief

## Public-Private Partnerships: Transforming a Pre-Commercial Sector into a Competitive One



### RESULT HIGHLIGHTS

- CHF 51.3 million of total PPP fund managed in 10 years, comprising contributions from
  - 10 public organizations (CHF 39.4 million)
  - 12 private companies (CHF 11.9 million)
- SCPP delivered 1.9 million in-person training days, reaching 165,000 farmers growing cocoa on 210,000 ha of land, out of which
  - 92,000 farmers and 123,000 ha of land were certified
  - 42,000 farmers achieved an attributable gross income increase of at least 75%
- By program end, training and traceability services commercially delivered by Koltiva, cocoa companies and their certificate holders

### SUMMARY

Swisscontact’s engagement in Indonesia’s cocoa sector started as a technical assistance/training delivery project, intended to boost farmers’ livelihoods in NTT and support post-tsunami economic recovery in Aceh. This engagement then evolved under SCPP, to become one of the largest Public-Private Partnership (PPP) platforms in the global commodity sector.

SCPP showcased how a well-convened PPP can harness public and private investments and collaborations to drive sector-wide improvements, transforming a pre-commercial sector into a competitive one. SCPP also demonstrated how a PPP approach and strategy need to evolve in keeping with the changing context, functions and actors within the sector.

### CONTEXT

Despite rising global cocoa demands and prices, Indonesia’s cocoa sector was previously unable to tap into this potential. Deteriorating yield and low cocoa quality were caused by unproductive old trees, pest and disease problems, and inferior farming practices that plagued the sector. Low farmer knowledge on Good Agricultural Practices (GAP) was identified as the core issue.

Investments into upgrading farmer knowledge were limited and fragmented. Collaboration among sector stakeholders was also weak. Due to fierce competition, private firms were not talking with each other. They were reluctant to invest in farmer training for fear of side selling and free rider problems. They depended on government for the provision of extension services.

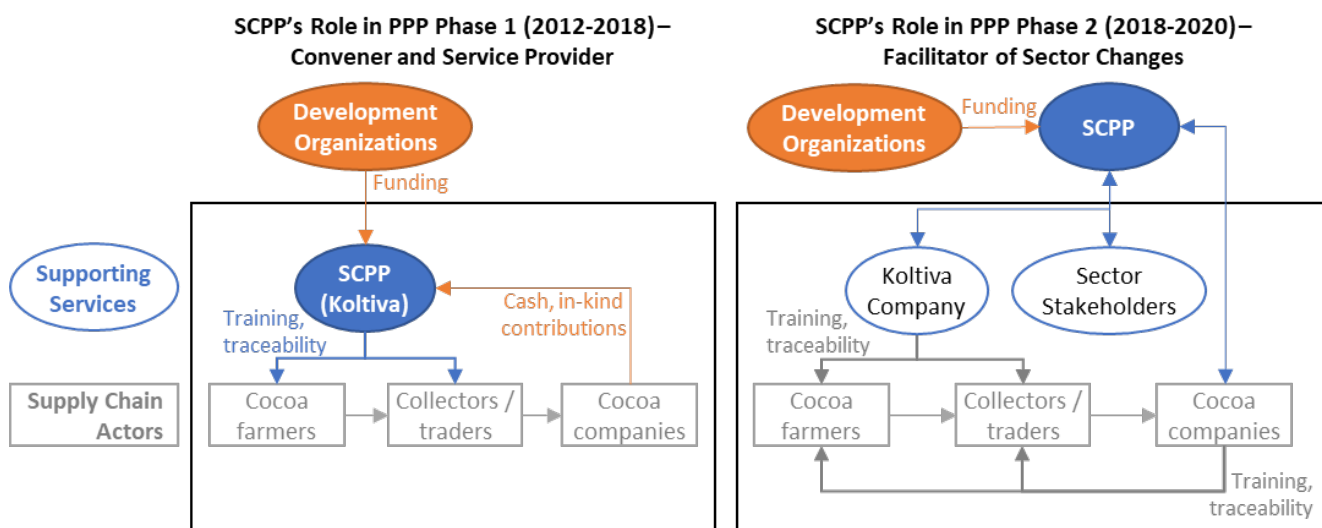
Several larger, multinational cocoa companies and development organizations had their own programs on supply chain sustainability and responsible sourcing. However, these endeavors were small-scale, scattered and uncoordinated, and thus could not create any visible, structural changes in the sector.

### INNOVATION

To fill the absence of farmer upgrading function in the sector, SCPP (first PPP stage) directed the public-private coalition to deliver high-quality, large-scale training. This effort was complemented by a traceability system, enabling farmers to access certification and premiums.

As these supporting services matured and became commercially viable, SCPP (second PPP stage) shifted into facilitative mode (i.e., supporting cocoa companies and service providers with innovations so they could perform their functions more effectively and efficiently).





**PPP Stage 1 (2012-2018)**

Supported by SECO funding, SCPP engaged additional private and public partners from the outset of the Program, and convinced them of the necessity for well-concerted efforts and synergized investments to render sector-wide improvements.

For cocoa buyers, the PPP offered access to public co-funding to upgrade their producers with large-scale, high-quality training – something they could not do using their own resources and competences.

For development organizations, the PPP allowed them to leverage cash and in-kind investments from private parties for development purposes. By working directly with cocoa lead firms, they were assured that any beneficial changes brought by the public investments would be sustained and scaled-up, promising a higher likelihood of sustainability.

SCPP were best placed to lead the coalition and convene diverse – and sometimes competing – parties, because it possessed key services no other parties had: Proven training models, an operable traceability system, and highly skilled troops on the ground.

Proven results would attract further public and private investments to continue expanding the SCPP model into a PPP-funded service delivery entity in the sector. To this end, SCPP invested in training government extension officers, private sector field staff and lead farmers, so that they could deliver the training to other farmers beyond SCPP’s timeframe.

**WHY TRAINING & TRACEABILITY?**

SCPP strategy and approach were built on the model, evidence and lessons generated by PEKA (SCPP’s predecessor project). Using a large-scale survey with 1,100 samples that compared the productivity and income of cocoa farmers before and after the intervention, PEKA proved that a well-designed and executed training program could improve the average cocoa yield by 124%, raising yield levels from around 300kg to 700kg per ha. This held a key solution to reversing the decline of cocoa and pivoting to make it a competitive commodity.

Traceability<sup>a)</sup> was the gateway to ensuring the credibility and transparency of certification compliance. It provided information down to the farmer and cocoa garden – a level of detail never seen in sustainability certification at that time. It provided the basis data for planning certification quota and real-time tracking of the production, yield and GAP adoption rate among farmers.

Through price premiums, cocoa farmers were enabled to pay for the additional costs of compliance and gain higher net-income. Certificate holders and cocoa companies were resourced to deliver functions in accordance with certification requirements and supported with investment in innovations to improve supply chain performance. These are indeed the prerequisites for the long-lasting adoption and internalization of sustainability practices.

*SCPP had been the largest PPP of its kind in Indonesia, and we are proud to have been part of that. It facilitated cooperation within the cocoa sector, aligned sustainability programs of the private sector and served as an incubator for innovations in cocoa and other commodities, such as CocoaTrace and FarmNetX.*

**Donor representative, 2020**

a) For further elaboration, see Knowledge Brief on Traceability for Sustainability.

*The 10 years of work with SCPP and a lot of key partners has been amazing. We have successfully stabilized the declining crop. It has now been flat for the last 3 to 4 years. That is promising for something that was going downwards for a long time.*

**Cocoa manufacturer, 2020**

## PPP Stage 2 (2018-2020)

### Changed Overall Sector Context

Despite tangible successes in the early years, an unanticipated exogenous factor lowered the growth and undercut the competitiveness of the Indonesian cocoa sector: Since 2016/17, bumper harvests in Africa (particularly Cote d'Ivoire) depressed global prices below the 10-year average. Both global and domestic cocoa prices have remained in the lower range ever since.

This dire situation was exacerbated by the competition from increasingly more attractive commodities like palm oil and maize, whose growth were boosted by large government and private investments. As cocoa became less attractive, many farmers ceased investment in cocoa, abandoned their gardens, or left the sector.

As a result, domestic cocoa production shriveled, the number of producers and cultivation areas dropped, GAP adoption rates stagnated, and the dropout rate of certified farmers increased. SCPP studies discovered that the certification premiums, which conform to global price levels, received by farmers were not substantial enough and could not justify their extra efforts and cost of compliance. Unsurprisingly, many farmers opted to sell to non-certified channels offering lower prices and demanding fewer requirements.

On the bright side, sector stakeholders gradually took over the supporting services initially delivered by SCPP:

- Koltiva secured commercial contracts from cocoa companies to deliver CoC (Code of Conduct) training, internal audits and traceability services.
- Some cocoa buyers established their own traceability system and expanded their field team to deliver farmer training.
- Sector platforms like CSP (Cocoa Sustainability Partnership) and PISAgro (Partnership for Indonesia Sustainable Agriculture) stepped up their game in voicing the industry needs and lobbying for government support, (e.g., in promoting cocoa-specific slow-release fertilizer technology).

These changes called for a different program approach.



### Adjusted Program Approach

The exodus from the cocoa sector signified fundamental incentive issues for farmers. This problem could not be resolved through training; only cocoa buyers held a solution, as they had the capability to rectify the imbalances of premiums distribution and reduce the burdens borne by farmers.

Under competitive pressure, industry players realized that blanket coverage farmer upgrading was no longer the appropriate approach. Investments should focus on prospective farmers to produce positive returns.

Instead of providing direct solutions, SCPP switched to a facilitative role (i.e., supporting cocoa companies and Koltiva to perform better in their functions, by helping them develop and test innovative tools and models<sup>b)</sup>):

- **FarmNetX:** Identifying farmers who exhibit high adoption scores and are influential in their network, then building their capacity to disseminate innovations.
- **Transformative Coaching:** Bespoke, participatory coaching approach that emphasizes the role of women in co-managing cocoa as a family business.
- **Polyculture Model:** Income diversification from timber, fruit and seasonal crops and/or livestock, to reduce susceptibility to cocoa price fluctuations.

SCPP ensured these innovations produced net-benefits for cocoa companies, certificate holders and farmers, delivered in a sustainable, commercially feasible model.

b) For further description of innovations, see Knowledge Brief on FarmNetX, Transformative Coaching and Polyculture

*The Social Network Analysis (FarmNetX) has been of particular interest to us. It is an interesting and innovative way to improve the demonstration effect both for traditional programs like GAP, but also new ideas like digital finance.*

**Cocoa Buying Company, 2020**

	PPP Stage 1 (2012-2018)	PPP Stage 2 (2018-2020)
<b>Overall Sector Context</b>	<ul style="list-style-type: none"> <li>Increasing global demand, constrained supply, favorable price level</li> <li>Despite declining production, Indonesia aspiring to become world's second largest</li> </ul>	<ul style="list-style-type: none"> <li>Global price declining and stagnating due to bumper harvests in Africa</li> <li>Farmers investing less in cocoa, exiting the sector, or shifting to other crops</li> </ul>
<b>Sector Response</b>	<ul style="list-style-type: none"> <li>Supply chain expansion</li> <li>Engage more farmers, increase their yield and get them certified</li> </ul>	<ul style="list-style-type: none"> <li>Supply chain consolidation</li> <li>Enhance supply efficiency (i.e., fewer but higher performing farmers and suppliers)</li> </ul>
<b>Program Approach</b>	<ul style="list-style-type: none"> <li>Farmer-centric approach: Large-scale trainings, generic modules, strengthening farmer groups and cooperatives</li> <li>SCPP to deliver the services (training and traceability) using public and private resources in a pre-commercial market</li> </ul>	<ul style="list-style-type: none"> <li>Industry-centric approach: Selected, prospective farmers, tailor-made modules, strengthening certificate holders</li> <li>SCPP to support sector stakeholders (i.e., cocoa buyers and specialized service providers) to develop innovations and commercial services</li> </ul>
<b>Sustainability Vision</b>	<ul style="list-style-type: none"> <li>Demonstrated benefits would crowd in investments to a new PPP-funded service delivery entity in the sector</li> </ul>	<ul style="list-style-type: none"> <li>Commercially robust models would pay for themselves, independent of public money, and grow in response to increasing service demands</li> </ul>

## KEY LESSONS

- **Ensure core funding as a basis for program operation.** SECO long-term support provided SCPP with a stable platform for developing innovations and partnerships with numerous cocoa companies. SECO funding enabled the leveraging of co-investments from other donors and private sources.
- **Build the partnership proposal on a validated approach, solid implementation track-record and measured results.** Visions, ideas and concepts are frequently abstract and/or difficult to grasp, and thus harder to sell. Consider piloting to prove models at a smaller scale.
- **Focus on missing functions and services needed by partners.** Besides training and traceability services, SCPP offered high-performing field implementation teams dispersed in key locations. They had first-hand information and contact with farmers, traders and other local market actors. They also secured endorsement and support from local governments to allow uninterrupted program implementation.
- **Design interventions with a view to scale up.** SCPP training syllabi were structured, modularized and codified. This was critical for the rapid expansion of program scale and replication in other locations.
- **Invest seriously in relationship management and communication.** Trust is the currency of effective convening function. Open documentation and data help build credibility. Impartiality is instrumental in mediating conflicting interests and brokering deals.
- **Do not hesitate to adjust program approach and strategy** when the overall framework conditions have changed. Slowness in anticipating and responding could render the program ineffective and irrelevant. Secure donor support in the process.
- **Do not neglect the importance of robust admin and operation systems.** Donor funding comes with demanding stipulations and complex procedures. Expand team capacity and adapt internal policies and processes when needed. As different donors have different specifications, consider enlisting external experts who are familiar with specific donor systems (e.g., when dealing with audits). Be prepared to lend private partners a helping hand in administrative matters, as they are mostly unaccustomed to dealing with donor requirements.

## WAY FORWARD

**Sustainable Landscapes.** There are high-risk factors that cannot be mitigated by sector-level interventions. These include landscape-level issues (e.g., deforestation, flooding, drought and forest fires). Hence, partnerships need to be extended to other stakeholders working in the same economic, ecological or social landscape:

- Other commodity firms (e.g., palm oil, coffee, rubber) on landscape-level supply chain alignment.
- Local and national governments on regulatory frameworks and their effective enforcement.
- Smallholder farmers, forest communities and local NGOs on payment for environmental services (PES) or benefit sharing from carbon payments.
- Financial institutions and impact investors on green financing or long-term replanting loan schemes.

*We use a high-maintenance communication approach, treating our partner companies as clients. We are available to them whenever they reach out; we must not wait to respond. We cannot wait to follow up.*

SCPP team, 2018