

LATIN AMERICAN CACAO INITIATIVE

latinamerican | 
COCOA INICIATIVE

 DEVELOPMENT BANK
OF LATIN AMERICA



01. Background

The market for cocoa has been dynamic and growing in recent years. World production of conventional cocoa was 4.192 million tons on average between 2014 and 2015. Of this total, 72% is produced in Africa, 10% in Asia and Oceania and the remaining 18% is from Latin America, which produces an average of 744,000 tons¹. However, the main producer of fine and aromatic cocoa aimed at the markets that are more mature and with a greater capacity to pay is Latin America.

The great comparative advantage that is based on a fortunate geographic position, as well as other aspects such as genetic and the diversity that is typical of Latin American ecosystems, have enabled the region to contain 7 of the 11 genetic clusters of cocoa. This unique feature has enabled the strategic positioning of the region as the main supplier of prime varieties of cocoa, a segment that has the highest level of growth among

¹ New trends in the international cacao market: opportunities for Peru as a producer of fine and aromatic cacao, ICCO, Oct. 2015

all the segments of cocoa worldwide (9% annually)². Thus, Latin America is responsible for 80% of the world production of fine and aromatic cocoa, with a total of 198,000 tons exported in 2015.

The production and export of fine and aromatic cocoa in Latin America is quite representative in most exporting countries in the region. In this regard, according to the information of the 2015 ICCO recommendation panel, from 100% to 95% of total exports of cocoa from countries that include Bolivia, Costa Rica, Mexico and Colombia are of these prime varieties, while in Peru, Ecuador and Panama, they represent 75% to 50% of the country's total cocoa exports, showing its potential to generate positive impacts in the region.

02. The Challenge

Recent regional and international trends in the demand for products that are natural, healthy and result from ethical and ecological commercial practices are the main impetus to the fine and aromatic cocoa segment.

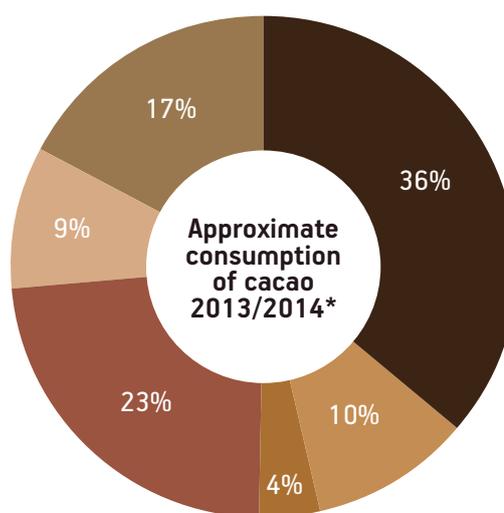
By itself, however, this does not guarantee the contribution of cocoa to economic inclusion, to boosting the competitiveness of Latin America, or a commitment to adapt to climate change. Thus, the main challenges can be identified as:

1. Improving the income of farmers through good agricultural and environmental practices that give them comprehensive opportunities in the development of the agroforestry system.
2. Developing domestic markets and improving conditions for access to international markets.
3. Scientific research applied to the diversification and value added of the supply, and promoting new applications of cocoa for cosmetic, pharmaceutical, industrial and food purposes.
4. The application of ethical biotrade practices, adding value to the reputation and quality of the regional supply.
5. Access to timely and adequate financing.
6. Modern standards to facilitate compliance with international regulations, applied scientific research and competitiveness.

Highlights – Cacao Fino y de Aroma:

- Global Production: 243,303 tons.
- Latin American Production: 197,173 tons.
- Latin American Market Share: 81%
- Top 5 producers: Ecuador, Dominican República, Peru, Venezuela and Colombia.
- Market growth: 9% annually (200% greater than generic cacao)
- Cost per Ton: Between US\$ 3,500 and US\$ 10,000

Source: ICCO , 2015



- European Union
- Other european countries
- Africa
- North America
- Latin America
- Asia and Oceania

²ICCO, 2015 – International cocoa market.

* Source: ICCO, Quarterly Statistical Bulletin on Cacao

03. The Opportunity

To the extent that the demand for fine and aromatic cocoa continues growing, it appears that this is the right moment to support initiatives that promote research, innovation and diversification of the supply. The opportunity is to promote new applications in segments such as the phytopharmaceutical and cosmetics, as well as to consolidate a differentiated positioning as the leading food industry supplier in the category of prime chocolates.

Cocoa production represents a contribution to the region in different ways. On the one hand, it generates a strong **cultural and social contribution** to Latin America. Between 80% and 90% of world cocoa production is based on small-scale family activities, i.e., farms of less than 5 ha. It also promotes, directly and indirectly, economic inclusion and improvement of the standards of living of more than 3 million people in Latin America.³ Cocoa, then, becomes an integrating factor and catalyst of opportunities to share knowledge, traditions, cultures, identities and experiences in the region of the producing populations.



Moreover, a comprehensive approach, based on principles of biotrade and market orientation offers the opportunity to stimulate a new generation of green businesses able to contribute to the agenda of sustainable development that the region seeks. Support for business activities that generate a good or service from the sustainable use of the country's native biodiversity, in this case associated with cocoa, under **good environmental, social and economic practices**, becomes an opportunity for the sustainable development of the region.

Finally, the opportunity for Latin America represented by the development and production of fine and aromatic cocoa is evident in its **potential in international markets**. This region is the main supplier of this variety, directing it mainly to mature international markets with

greater capacity to pay, such as the European Union and North America.⁴ While global demand for conventional cocoa increases at an average of 3.0% per year,³ the prime varieties have the highest growth rate of all the segments of cocoa worldwide, reaching 9% per year.²

The value of the market trend and the preferential price of fine cocoa in world markets are also worth noting. While a ton of generic or genetically modified cocoa has an average value between US\$ 3,100 and US\$ 3,500 / ton; the fine and aromatic cocoa native to Latin America has a value that may vary between US\$ 3,500 and US\$ 10,000 / ton.¹

³The world cocoa economy: current status, challenges and prospects, 2014

⁴ICCO – Thecocoamarketsituation, 2014

04. The Response

Latin American Cacao Initiative is a project of the Green Business Unit of the Directorate of Environment and Climate Change of CAF that will last five years, and is expected to begin in January 2017, and with some activities in 2016. It aims to *catalyze the development of fine and aromatic cocoa as a sustainable economic activity and an integrating element of the people who have used it ancestrally in Latin America, achieving significant social and environmental impact on the conservation of biodiversity associated with cocoa, favoring the entry of Latin American cocoa into markets that favor biotrade and the supply of quality.*

The project envisages a comprehensive approach to development of the value chain for fine and aromatic cocoa, seeking to leverage a qualitative leap in the regional industry.

Based on the interest identified among different member countries of CAF, the Project will focus its efforts on collaboration with at least ten cocoa producing countries that bring together 75% of the world's production: Mexico, Panama, Dominican Republic, Colombia, Ecuador, Peru, Brazil, Costa Rica and Bolivia. CAF, as the organization in charge of the implementation, will work together with the national governments to define a structure of governance that monitors, assesses and ensures the alignment of the impacts with the priorities of each country.

Implementation of the project will be conducted with the participation of regional strategic members and local partners whose experience and recognition enables them to contribute to reaching the expected results.



Goals:

The Project has as expected preliminary goals:

1. Build capacity through participatory social innovation to the organizations of small farmers in order to improve their management, administration and organization, create alliances among members of the value chain and support institutional strengthening.
2. Provide competitive access to special markets for fine and aromatic cocoa with a differentiating and quality element.
3. Identify, stimulate and design lines of credit that enable the development of the cocoa activity.
4. Identify products with value added that the industry can make in order to boost its participation in national and international markets. Develop and promote varieties of fine cocoa that have potential.
5. Rescue the cultural importance and development of cocoa.
6. Collect and disseminate information on experiences, lessons learned and best practices.

Comprehensive Approach

The Project seeks a systemic approach, to which it is committed in a logical framework, to a process of comprehensive and sustainable development of the value chain for fine and aromatic cocoa. Also in the area of the systemic approach, cooperation will be essential at different levels:

Macro level: Influencing policies and a favorable environment for businesses associated with cocoa.

Meso level: Strengthening representative bodies / associations, governmental bodies and multi-sectorial dialogue platforms.

Micro level: Strengthening technical skills and knowledge throughout the value chain, encouraging traceability and facilitating access to financial tools, technology and markets.

05. The Principles

The Project will seek to operate on four main principles in order to strengthen value chains while overcoming productive barriers of knowledge, skill and technology; achieving significant social and environmental impacts on the conservation of biodiversity and adding value to the supply. It will thus support the entrance of Latin American cocoa into markets that favor biotrade and the supply of quality:

- 1. Inclusive development:** It is important that poor households and small businesses are able to benefit from economic development. Thus, the equitable distribution of benefits in the value chain for cocoa trade is a requirement for inclusive development.
- 2. Systemic Change:** Bringing together stakeholders and establishing a joint agenda for the development of the sector resolve underlying systemic constraints. This approach of multiple actors includes an entire spectrum of stakeholders, from local communities, national governments, credit unions, large companies, to investors, industry associations and influential civil society organizations.
- 3. Local Initiative:** Considering that effective and sustainable solutions can only be achieved if local actors shape and drive their own agendas.
- 4. Contextualized solutions:** Working with local actors to place value on traditional knowledge in addition to finding solutions that are appropriate to their specific needs and challenges permit the generation of effective and economically viable processes.

Considering the main approaches, and based on the recognition of cocoa as a culture and economic activity that is typical of the region, the Latin American Cocoa Initiative Project can make a significant contribution to placing value on this natural capital, thus contributing to regional integration and sustainable development.



Project Components:

- 1. Market access:** Provide competitive access to special markets for fine and aromatic cocoa with a differentiating and quality element.
- 2. Access to financing:** Identify, stimulate and design lines of credit that enable the development of the cocoa activity.
- 3. Cultural value of cocoa:** Rescue the cultural importance and development of cocoa.
- 4. Regional strategy to systematize and exchange experiences:** Collect and disseminate information on experiences, lessons learned and best practices.



06. Impact Goals

Market Access:

- Fine cacao accesses national and international markets and obtains better prices.
- The experiences and lessons learned were systematized and disseminated.
- Examples of good practices in each country were replicated.
- Methodology to characterize the profile of flavors and aromas of cocoa.
- Identification and promotion of potentially productive and quality varieties.
- The project website and web commercial information system were developed.
- A catalog of regional varieties and flavors was developed.
- Tasting laboratories were implemented.

Access to financing:

- Access to financing was increased for small producers and associations of small producers.
- A regional investment fund to promote the competitive improvement of cocoa was designed and implemented.
- Innovative new products for the food, pharmaceutical and cosmetics lines were developed.
- Ancestral practices were identified and rescued that can be implemented by organizations for the development and sale of their products.



Cultural value of cocoa:

- Information on the historical and cultural value of, and on ancestral knowledge about cocoa was generated and disseminated.

Regional strategy to systematize and exchange experiences:

- The Regional Cocoa Observatory was launched.
- Project results were disseminated.
- Project indicators were met.

07. Overall Indicators

- ❖ At least 50 organizations supported in activities of promotion and differentiation, attending trade fairs and business roundtables, certifications and such by the end of the project.
- ❖ At least 25 organizations supported in promotional activities obtained better prices by the end of the project.
- ❖ A regional contest for fine and aromatic cocoa designed and implemented by the end of the second year of implementation.
- ❖ At least 4 regional workshops / forums / symposia for dissemination and exchange of experiences and lessons learned implemented by the end of the project.
- ❖ A website and commercial information system that include the characteristic supply in each country designed and implemented by the end of the second year of implementation.
- ❖ At least 2,000 visits to the website and commercial information system by the end of the project.
- ❖ A technical document establishing a protocol for characterizing flavors to be used regionally by the end of the second year of implementation.
- ❖ Catalog of regional varieties and flavors by the end of the third year of implementation.
- ❖ Nine tasting laboratories designed and implemented by the end of the project.
- ❖ At least nine training workshops on the methodology of the tasting laboratory to key players by the end of the project.
- ❖ A financial product consistent with the existing resources in CAF (green finance) directed specifically to the cocoa sector designed by the end of the second year of implementation.
- ❖ At least 270 people from the financial sector trained in opportunities in the sector and their particular financing needs by the end of the third year of implementation.
- ❖ At least 18 financial institutions implement lines of credit that are tailored to the needs of the sector by the end of the fourth year of implementation.
- ❖ At least 20 organizations / producers access special lines of credit by the end of the project.
- ❖ At least 50 initiatives / companies that access at least \$ 100,000 in grant funds for new applications and uses of cocoa in the food, pharmaceutical and cosmetic industries; research; market studies; research on ancestral practices; etc. by the end of the project.
- ❖ At least 5 publications on historical and cultural elements and contributions of cocoa to sustainable development by the end of the fourth year of implementation.
- ❖ A Regional Symposium on the cultural value of cocoa and its historical, archaeological and anthropological elements implemented by the end of the project.
- ❖ A video about the cultural, economic and human side of cocoa by the end of the project.
- ❖ A Regional Cocoa Observatory implemented by the end of the second year of implementation and its updating, dissemination and administration.
- ❖ A regional communication plan designed and implemented by the end of the project.
- ❖ A web application for monitoring the project.
- ❖ At least two meetings per year for monitoring budget implementation, execution of activities and fulfillment of indicators.

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