CONTRACT FARMING

FOR INCLUSIVE MARKET ACCESS

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Recent transformations in agrifood systems have created new technical requirements and compliance costs that make it increasingly difficult for resource-poor farmers to access modern market channels. In this respect, the question of whether contract farming (CF) can be an effective institutional mechanism to address this issue stands out as one of special relevance.

This book aims to typify the extent to which CF is helping small farmers to access markets and meet stringent requirements of manufacturers, retailers, exporters and service firms, from both food and non-food sectors such as biofuels and forestry. It seeks to clarify differences in the functionality of contracts depending on commodity, market, technology, public policies and country circumstances. Conceptual issues are discussed and real-world case study appraisals from developing regions are presented. The issues raised in the case studies and the key messages synthesized in the initial chapter bring new insights and contributions to further enrich knowledge on CF as a tool for inclusive market access in developing countries.

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Chapter 7

Organic chocolate for the Swiss market: Contract farming in the cocoa sector in Honduras

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7.1 INTRODUCTION

When small-scale farmers in developing countries secure contracts with large international buyers, they are protecting themselves against certain risks such as short-term price fluctuations and other market uncertainties. However, there are certain conditions that must be met to keep all parties satisfied with the commercial relationship that has been established. There are several agricultural sectors where contract farming (CF) is less common, including the coffee and cocoa sector. Coffee and cocoa producers in developing countries have arms-length contact with intermediaries and there are few cases of CF for cocoa. This chapter presents the case of small-scale cocoa farmers in Honduras, who have been able to establish CF agreements and a solid commercial relationship with a Swiss buyer.

This example from the field gives a different view as to how farmers can secure a sustainable income from the relationship established between an international buyer, which procures directly from them, and other local actors. Partnerships between the cocoa producers, the private firm and Non-governmental Organizations (NGOs) go beyond a contract; it is in the mutual interest of all parties to achieve a common goal that keeps all stakeholders committed to the relationship. A decade ago, most cocoa producers were abandoning their plantations because the prospects of a sustainable income from cocoa production were so grim. It has since become a reality for farmers to generate a reasonable livelihood from the income associated with cocoa production. The interaction among so many different actors in the sector, because of CF, was crucial in linking these farmers to a Swiss buyer.

7.2 HONDURAN COCOA FOR THE SWISS CHOCOLATE INDUSTRY

Numerous corporations worldwide source raw materials from developing countries, often not knowing exactly who is producing these commodities. This has particularly been the case in the chocolate and coffee industries. However, consumers in Europe, and especially in Switzerland, are increasingly demanding more information about the products they buy, thus motivating corporations to find ways to respond to these demands. In response to the changing market trends, Chocolats Halba, a division of Coop, one of the largest retailers in Switzerland, has launched a

pilot project that embraces its corporate philosophy of working with a supplier base it calls "partners" as opposed to unknown suppliers in developing countries. Other partners include NGOs, farmers' associations, local and regional research institutions and development cooperation organizations. Since 2008, Chocolats Halba has developed a collaborative relationship with about 500 organic cocoa producers in Honduras, who have now come under a contract scheme where they are supported in production and certification aspects, given access to credit and paid a fair price for their product.

Chocolats Halba is working with Helvetas, a Swiss private development cooperation organization (now called Helvetas Swiss Intercooperation), the Honduran Association of Cocoa Producers (APROCACAHO) and other partners in Honduras. They assist organic cocoa farmers in quality improvements, building up infrastructure and complete all the necessary export-related paperwork. Local and international partners have helped farmers in strengthening their organization, acquiring certifications (organic, fairtrade), and capacity building with regard to cocoa production. This relationship between the producers, Chocolats Halba and other partners is beneficial to all parties, as the result of the close collaboration with the organic farmers means that Chocolats Halba can source directly from producers, and is able to trace the product it will sell to consumers in Switzerland right down to the farm level. Furthermore, a strong relationship and mutual investments enable the value chain to improve quality jointly and therefore add value to the product. These organic cocoa farmers in Honduras are now profiting from having a secure buyer and a better income. Chocolats Halba has a secure source of certified organic cocoa beans, is improving the transparency of the value chain and assuring the farmer a fair price in a long-term perspective.

7.3 COCOA PRODUCTION IN HONDURAS: RELEVANT ASPECTS

Cocoa has been grown in the Mesoamerican region for centuries and has its origins in the region. Historians have found traces of cocoa consumption in the Ulúa valley in Honduras and traced cocoa consumption as far back as 1150 BC (Joyce and Henderson, 2010). For the Mayas, the cocoa bean was of great value and was also used as a form of currency. Cocoa was consumed as a thick and bitter beverage, known as *xocoatl*, made from ground cocoa beans mixed with water, black pepper, vanilla and spices. It was first brought to Europe by the Spaniards, but sugar was added to suit the taste of Europeans and by the late seventeenth century it had gained great popularity in France, although it was a luxury enjoyed not by the masses, but by the nobility. Subsequently, the invention of the cocoa press and a dramatic drop in the prices of sugar and cocoa made chocolate popular among people of all income levels. Switzerland, and most prominently the Nestlé, Lindt, Suchard and Sprüngli companies became dominant actors in the expanding chocolate market.

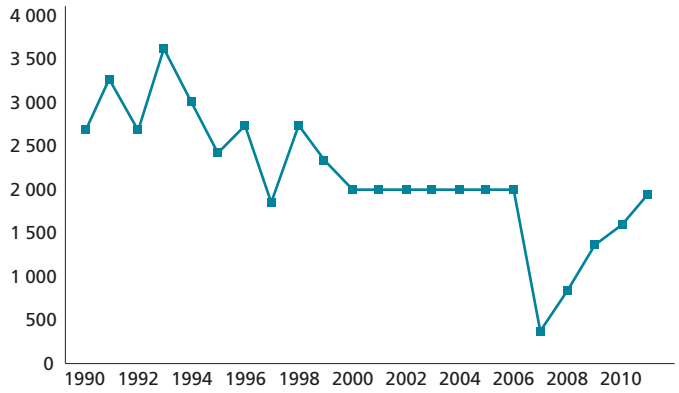
Cocoa cultivation has had a long tradition in Honduras and the Mesoamerican region, but coffee has become the leading agricultural product in terms of production volume and trade. Over 90 000 families (SAG, 2010) depend on coffee production, compared with a mere 1 200 families producing cocoa. Nevertheless, cocoa production is still an important agricultural product for farmers in Honduras and the market is currently growing. During the 1980s and 1990s, the cocoa sector in Honduras was booming, but in 1998 most of the cocoa plantations in northern Honduras were

badly hit by Hurricane Mitch and producers reported significant economic losses. Another factor that distressed cocoa producers in the years after Hurricane Mitch was the farmgate price for cocoa. According to the ICCO (2010), the liberalization of cocoa marketing systems in the 1990s was reflected in the farmgate prices in most cocoa-producing countries which were consequently largely determined by international prices. Farmgate prices have shown greater fluctuations in most cocoa-producing countries since the mid- to late 1990s. The price for cocoa today depends not only on changes in international cocoa prices, but also on variations in the international value of the domestic currency, and specific local market structures and conditions (for example taxation, competition, distance from port and quality).

Despite the fluctuations in production experienced over the last 15 years (Figure 7.1), cocoa production in Honduras in recent years looks promising. According to a report by PYMERURAL (2010b), Honduran cocoa producers are gaining access to a very specific market segment, because of the conditions under which cocoa is currently produced in Honduras, i.e. cocoa is grown with fruit trees, which give the beans a particular flavour. International retailers have shown interest in sourcing cocoa from Honduras for the high-end retail market. Additionally, diverse NGOs, public and private organizations and development cooperation programmes have been active in developing the potential of small-scale producers to meet the demands of the international market. Public and private actors have been influential in the expansion of the cocoa sector. In 2008, over 250 000 new cocoa trees were planted (PYMERURAL, 2010a). Particular attention has been paid to organic production.

Most of the cocoa production in Honduras is concentrated on the northern coast, which has ideal climatic conditions for production. The geographic departments are Cortés, Atlántida, Yoro, Santa Bárbara and Gracias a Dios, which account for 950 of the estimated 1 200 cocoa producers in the country (SAG, 2010). In other departments, namely Copán and Olancho, cocoa plantations have not yet reached

FIGURE 7.1
Total cocoa production in Honduras (tonnes)



Source: FAOSTAT, 2013.

FIGURE 7.2
Distribution of cocoa production in Honduras

Source: PYMERURAL, 2010b.

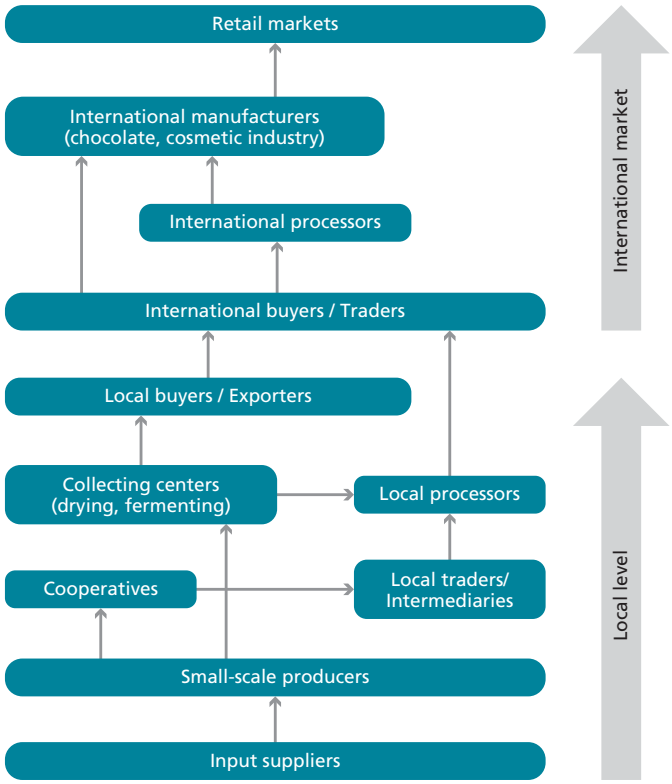
a maturity stage (Figure 7.2). The Honduran Ministry of Agriculture (SAG, 2010) reports that there are roughly 2 100 ha of cocoa planted nationwide and most of the cocoa is produced on areas of 2 ha or less. Cocoa production is almost exclusively in the hands of small-scale farmers. Most cocoa farms are found in areas 200 m above sea level and since cocoa trees require shade, most farms have several fruit and wood trees. The fruit trees commonly found alongside cocoa production are mango and avocado. Tropical trees are also often planted, typically from the Aquifoliaceae, Mimosaceae, Combretaceae and Meliaceae families (FHIA, 2007).

One of the biggest challenges for producers in Gracias a Dios department is access to collection centres or buyers. The Mosquitia, a tropical rain forest, is located in this area and there are no roads, making access to potential customers extremely difficult. In fact, the cocoa beans are typically transported by small wooden boats to Brus Laguna, a larger coastal town in Gracias a Dios. Producers in all other areas have easier access by road to San Pedro Sula, the second largest city in the country and the place where most buyers are to be found.

7.4 ACTORS AND INTERACTIONS IN THE COCOA VALUE CHAIN

At the local level, small-scale farmers are at the base of the cocoa value chain (Figure 7.3). Input suppliers mainly sell fertilizers and pesticides to the producers. Until recently, producers had contact with intermediaries who would buy the cocoa beans and transport them to collection centres for drying and fermenting (CATIE, 2006). There are few processors, mainly the plant built by APROCACAHO in San Pedro Sula, but some of the production is also sold to neighbouring countries,

FIGURE 7.3
The cocoa value chain in Honduras



Source: Author's own.

mainly Guatemala, El Salvador and Costa Rica (SAG, 2010). The local industrial demand for cocoa is weak, with approximately 14 industrial plants that demand cocoa for further processing (mostly for cocoa powder) – total volumes absorbed by these local processors is an estimated 3 percent. Most of the *cooperativas* (farmers' associations) carry out trade agreements and negotiate with international buyers. Until 2009, up to 98 percent of the total national production was exported to the United States of America, Belgium, the Netherlands, Spain, Costa Rica, El Salvador, Guatemala and Italy (SAG, 2010).

In general, cocoa producers in Honduras have limited technical knowledge related to production aspects, particularly organic production; they also have scarce resources. In a survey conducted by PYMERURAL (2010b) where over half the cocoa producers in Honduras were interviewed, only 5 percent had acquired secondary-level education. The vast majority of small-scale producers had but a primary-level education. The fact that the education level is so low makes aspects such as managing production costs, dealing with standards and negotiating with traders more challenging. APROCACAHO and other organizations such as FHIA,

TABLE 7.1
Main actors in the cocoa value chain in Honduras

Name	Scope	Type
APROCACAHO	Honduran Association of Cocoa Producers (also a processor)	Association (Honduras)
Chocolats Halba	Cocoa buyer	Private enterprise (Switzerland)
Helvetas	Private development organization	NGO (Switzerland)
FHIA	Honduran Foundation for Agricultural Research	Research institution (Honduras)
PYMERURAL – Swisscontact	Programme for Rural Development – Swiss Foundation for Technical Cooperation	Regional public-private partnership (PPP) (Honduras, Nicaragua, Switzerland)
Ecomercados	Project executed by the Swiss Foundation for Development and International Cooperation (Intercooperation)	NGO (Switzerland)
TechnoServe	Business development organization	NGO (United States of America)
FUNDER	Foundation for Rural Enterprise Development	NGO (Honduras)
Kawo Bu Kaya	Cocoa Producers' Association (Mosquitia)	Association (Honduras)
MOPAWI	Local capacity-building organization (Mosquitia)	NGO (Honduras)
APACH	Agroforestry Producers' Association, Choloma	Association (Honduras)
APROCAFICH	Fine Cocoa Producers' Association, Choloma	Association (Honduras)
EACPAC	Cuyamel Producers' Association	Association (Honduras)

Source: Author's own

TechnoServe, diverse NGOs (see Table 7.1) and, in the last few years, Helvetas, have been active in training these producers.

Training small-scale cocoa farmers is one important way to increase production and improve yields, although financial resources are equally as important. The total average monthly net income of the producers is lower than US$320 (PYMERURAL, 2010b). An average family has six members, which means that there is little money to invest in proper infrastructure (for storing, drying and fermenting cocoa beans) and transportation to the collection centres. Thus, farmers have had to rely heavily on intermediaries to buy the cocoa and transport it to the centres for processing. The price paid for unprocessed beans is low and intermediaries often pay producers the lowest price they can, leaving producers little bargaining power.

Nevertheless, funding options for small-scale producers are becoming increasingly available. These funds are usually credits from specialized institutions that aim at helping farmers. Access to credits from private banks is difficult and tied to conditions that most farmers cannot meet. One of these organizations giving credit to cocoa producers is FUNDER (the Foundation for Rural Enterprise Development). Through a strategic alliance with APROCACAHO, FUNDER has assisted over 500 producers with small loans. As the cocoa sector continues to grow, more funding will be available to producers. Another form of assistance has been the Coop Sustainability Fund, which has been used to improve post-harvest infrastructure.

FHIA, the Honduran Foundation for Agricultural Research, has invested over 25 years of research in cocoa and agroforestry. New technologies and knowledge on the sustainable production of cocoa in agroforestry systems have been generated and transferred by this institution, which has an agroforestry research station with an extension of 145 ha. A wide array of genetic material is collected there and used for demonstration purposes. FHIA promotes the replacement of low-value crops with high-value cacao agroforestry systems. FHIA was one of the first and most relevant alliances established by Chocolats Halba when the project was first launched and since then it has provided expertise on cocoa production to the farmers. FHIA has carried out substantial work in the Mosquitia region over the past few years (FHIA, 2008).

Swiss organizations are notably present in the sector and have funded several projects and programmes to support the cocoa sector in Honduras. For example, PYMERURAL is a programme of public-private regional interaction, national and local for the competitive development of the rural micro, small and medium enterprises (MSMEs) in Honduras and Nicaragua, funded by Swisscontact. It has two complementary approaches: value chain and territorial local economic development. It is aligned with relevant public policies in both countries, promoting the capacity building of different actors and actions for inclusive economic development. PYMERURAL has worked in partnership with the Ministry of Agriculture, APROCACAHO, FUNDER, FHIA, Ecomercados and Helvetas Honduras to improve financing mechanisms for cocoa producers, designing and implementing a competitiveness monitor for the cocoa value chain (PYMERURAL, 2010a). According to Mr Anibal Ayala, President of APROCACAHO, the support of PYMERURAL has helped APROCACAHO "position itself as the leading organization representing the interests of cocoa producers, encouraging the affiliation of other smaller farmers' organizations".

The most relevant Swiss organization, which has been key to linking cocoa producers with a private company in Switzerland, has been Helvetas Swiss Intercooperation. Since 2007, it has been working closely in Honduras with APROCACAHO, Chocolats Halba, Ecomercados, FHIA, FUNDER, PYMERURAL and TechnoServe. APROCACAHO, as the main institution responsible for the development of the cocoa sector in Honduras, was a key partner for Chocolats Halba. APROCACAHO, founded in the 1980s, currently represents about 600 small-scale producers located throughout the country. Until recently, an estimated 95 percent of the total cocoa production in Honduras was traded through intermediaries to APROCACAHO. Intermediaries bring the cocoa beans to the collection points, especially from remote places with difficult access, such as the Mosquitia region in eastern Honduras. Contracts were established between Chocolats Halba and APROCACAHO.

7.5 LINKING COCOA PRODUCERS TO THE SWISS MARKET: THE CHOCOLATS HALBA EXPERIENCE

According to CAOBISCO (2011), Switzerland has the highest per capita consumption of chocolate in the world, averaging 10.8 kg per year. It has a long tradition in processing cocoa and chocolate confectionery and represents a huge industry. Not only are the Swiss conscious about the choices they make, but they are also looking for high-quality products. They have a sense of responsibility that sets them apart from many consumers in the world. Supermarkets, in particular the Coop, clearly

designate the origin of their products – a response to the need for information by Swiss consumers and a trend that is becoming more popular and necessary. The function of a product is not only to fulfil a need or want, but also to do so in a way that speaks for the values of the consumer.

The selection of a pilot project in Honduras was most appropriate, given the five issues this company has as core values. The goal Chocolats Halba has set for itself is to produce high-quality chocolate, while helping farmers in cocoa-producing countries to earn a sustainable income. Biodiversity should be safeguarded and the environmental impact should be as minimal as possible. Because of the location of the cocoa producers in the Patuca region in the tropical rain forest, the project also has to deal with aspects related to the conservation of biodiversity and sustainable production. Thus, Chocolats Halba has positioned itself to respond to customer demands while maintaining its corporate values.

Helvetas first came into contact with Chocolats Halba with the intention of linking Honduran producers with a private company in Switzerland in 2007. After an exhaustive analysis of the cocoa regions in the world, the ten most important cocoa-producing regions were identified and Honduras was selected because of its potential. According to the studies undertaken, the genetic material of the cocoa in Honduras is ideal for the production of high-quality organic chocolate. In 2008, the project started and other local partners were brought on board. APROCACAHO was the first partner approached and contracting schemes were drawn up. A multipartite contract was established between Chocolats Halba, APROCACAHO and the cocoa farmers. Other partners included the following farmers' associations: APACH, Cooperativa San Fernando de Omoa, Kawo Bu Kaya and Flor de los Laureles. Part of the contract with APROCACAHO included funding for the project, which came from three sources: Helvetas, Chocolats Halba and the Coop Sustainability Fund. The first phase of the project was executed from 2008 to 2010. The following targets were achieved:

- reforestation of 150 ha of tropical rain forest under an agroforestry system, benefiting 150 rural families
- building up the infrastructure of two associations for drying and fermentation of cocoa beans, as well as warehouses
- analysis and improvement of the drying and fermenting processes
- export of the first container to Switzerland
- production of the first chocolate prototype made from Honduran hybrid cocoa beans

The second phase of the project began in 2011. At this stage, the main goal was to improve the sustainable income of farmers by establishing a long-term supply chain. An important characteristic of this chain is that the cocoa has to be organic and fairtrade-certified. The project partners expect that the cocoa producers and the associations that represent them take leadership in the execution of the required processes for production, post-harvest management, marketing and other administrative aspects required by the organic and fairtrade labels. They should also continue expanding the agroforestry systems in other regions of the country such as Olancho, seeking sustainable production in order to position Honduran cocoa in the high-quality international market. Financial systems and *ex ante* export

guarantees have been promoted so that small and medium-sized producers have a higher incentive to engage in organic production of cocoa. These financial systems must also provide a safety net for those organic farmers who are already producing organic cocoa, mostly because they have to meet certain criteria for the agreement to persist (such as meeting certain export volumes).

Although the demand for organic cocoa is growing at a fast pace, the organic cocoa market still represents a very small share of the total cocoa market, estimated at less than 0.5 percent of total production (ICCO, 2010). Certified organic cocoa producers must comply with all requirements of importing countries on production of organic products. Given the complexity of these transactions (i.e. paperwork, costs), the main incentive for cocoa farmers is that organic cocoa commands a higher price than conventional cocoa, usually ranging from US$100 to US$300 per tonne (ICCO, 2010). Countries with smaller production volumes, such as Honduras, can fetch much higher premiums if they sell fine or high-quality organic cocoa. This premium should cover both the cost of fulfilling organic cocoa production requirements and the cost of going through a compliance process to acquire organic certification. Although Helvetas and Chocolats Halba, together with APROCACAHO, have helped farmers meet these requirements by providing the necessary training and assisting in the certification process, the premium must be high enough for them to cover the less tangible costs, such as the time and effort invested in the whole process.

7.6 A STEP BEYOND CONTRACTS: ESTABLISHING PARTNERSHIPS WITH SMALL-SCALE FARMERS

One of the main objectives of the project was to work directly with key partners in Honduras (Chocolats Halba buys from APROCACAHO) and have a direct link with small-scale producers. It has been a challenge to implement coordination mechanisms in order to help the producers achieve a certain level of quality. One of the main issues was that cocoa farmers were very poorly organized, and sold their cocoa to intermediaries with few quality checks. Making sure that farmers are better organized so that volumes can be consolidated and quality checks built into all aspects of production, in particular the drying and fermentation stage, is critical. Small-scale producers bring the cocoa beans to the cooperative, which typically has a collection centre, where the cocoa beans are fermented and dried while being constantly monitored for quality. The cocoa is then transported directly to APROCACAHO's central warehouse. Since Chocolats Halba cuts out intermediaries and works directly with the cocoa farmers and their associations, they benefit from fair prices and a long-term business relationship. Those farmers who are part of the contract scheme are also trained (through farmer field schools), assisted in setting up infrastructure and given microcredit for reforestation. It is expected that the lessons learned from this project will be transferred to other places, helping to meet the huge long-term demand for organic cocoa (Coop, 2011). This model is somewhat different from other CF experiences, because it is essentially a project with diverse partners involved (i.e. NGOs, associations, research institutions, government agencies) and not only a lead firm establishing contracts with suppliers.

Contracts and coordination mechanisms (collection points and quality checks at each stage of the process) have been of great importance for farmers to have a chance to export organic cocoa. Without the existence of these contracts, exporting

to Switzerland would be virtually impossible for small-scale producers. A tripartite contract between the producers, APROCACAHO and Chocolats Halba has been signed. The contract specifies that certain quality criteria must be met for export. If producers do not reach this quality standard, APROCACAHO will still buy their cocoa, but at a lower price. Thus, there is a motivation to produce, ferment and dry high quality-cocoa beans. The post-harvest facilities have been instrumental in the development of the project. It is at these centres where Chocolats Halba monitors certain quality aspects that must be met by cocoa producers. Clear quality guidelines have been given to the producers (Table 7.2).

One of the main benefits of establishing partnerships with cocoa producers and other local actors is that Chocolats Halba, together with Helvetas and APROCACAHO, has actively engaged local producers in training courses, where the critical aspects of organic production and sustainable cultivation of cocoa are taught. By summer 2010, 150 farmers in the Patuca region of Honduras had completed a training course on sustainable and organic production of cocoa. Furthermore, there are about 150 ha of organic cocoa cultivated in this region. Because Chocolats Halba is part of Coop, one of the largest retailers in Switzerland, the Coop Sustainability Fund has been made available for this project. This fund supports and promotes innovative projects to the amount of 15 million Swiss francs a year.

Chocolats Halba has sought to establish a transparent, long-term and direct collaboration with farmers' cooperatives in three different areas of Honduras. Setting up a long-term supply chain for high-grade fairtrade and Bio Suisse-certified organic cocoa not only improves the living conditions of local cocoa farmers, but also provides Chocolats Halba with a long-term source of high-quality, sustainably cultivated cocoa. This project includes the reforestation of cleared rain forest and the use of organic, water-conserving production methods, thus helping to maintain biodiversity (Coop, 2011). APROCACAHO, because of growing demand and the interaction with Chocolats Halba, has built two processing and packing plants to export cocoa beans to Europe. The Coop Sustainability Fund has also been instrumental in the improvement of local infrastructure conducive to ensuring improved drying conditions. Greenhouses made of wooden platforms raised about a metre

TABLE 7.2
Quality requirements for cocoa beans

Quality criteria	Standard
Humidity	Max. 6.5%
Grain weight	Min. 1.05 g
Appearance	Min. 90%
Fungal rot (external)	Max. 7%
Fermentation	Min. 75%
Under-fermented (i.e. not up to standard above)	Max. 3%
Fungal rot (internal)	Max. 1%

Source: PYMERURAL, 2011.

above the ground and covered with plastic keep the beans dry and therefore they retain a better quality during the drying process.

The partnership (through contracts and interactions with the Swiss firm and local actors) that has been built up with the retailer in Switzerland has allowed these cocoa farmers to have direct access to a market that a few years ago was unthinkable for such small-scale producers. However, because APROCACAHO has signed a contract with Chocolats Halba and it exports as an association representing the producers, reaching the Swiss market has become a reality. The agreement between both entities was first established in 2009 and conditions are reviewed biannually.

7.7 CHANGING PROCUREMENT PRACTICES: CONTRACT FEATURES AND ORGANIZATIONAL APPROACH

The way of establishing contracts and agreements with different partners and entities in Honduras has been complex for Chocolats Halba and Helvetas. A contract has been established with APROCACAHO and it, in turn, works with smaller associations: Cooperativa San Fernando de Omoa, APACH, APROSACAO, Kawo Bu Kaya and Flor de los Laureles in the Mosquitia region. It is the task of APROCACAHO to manage and consolidate the export volumes required by the buyers. All the organic cocoa is stored in the warehouse provided by APROCACAHO until the export volume is reached. Keeping the product in defined locations simplifies the task of monitoring to ensure high quality. The contract specifications have been outlined by Chocolats Halba and agreed by APROCACAHO, giving the producers limited bargaining power to influence these conditions. However, APROCACAHO is the association representing the small-scale producers and thus conducts transactions in the name of the farmers it represents. Dealing with a few associations reduces transaction costs for the buyer and facilitates aspects such as communication and the transmission of codified information (i.e. contract specifications, standards and requirements) for the farmers.

The relationship established between Chocolats Halba, APROCACAHO and cocoa producers in Honduras has increased the transparency of the supply chain. The producers are paid a higher price for their product. Traditionally, this sector has paid farmers 30–50 percent of the free on board[16] (FOB) price for cocoa beans. Chocolats Halba pays 75–80 percent of the FOB price to the producers because the intermediaries are eliminated. The price paid to producers has been predefined under the terms of the contract. To establish a price, the New York Board of Trade (NYBOT) and London Stock Exchange (LSE) are used as price references and the fairtrade minimum price must also be taken into consideration, which covers producers' average costs of production. Once the base price is established, a differential for organic certification is added to this price, and producers are also paid a fairtrade

[16] Under the Incoterms 2010 standard published by the International Chamber of Commerce, FOB is an acronym for free on board, and means that the seller pays for transportation of the goods to the port of shipment, plus loading costs. The buyer pays the cost of marine freight transport, insurance, unloading and transportation from the arrival port to the final destination.

premium[17] in addition to the payment for their products. Chocolats Halba will pay producers a price above the market price. Another benefit for small-scale producers is the training they have received related to sustainable organic production and quality management.

In April 2010, and again at the beginning of 2013, several stakeholders, including producers and representatives from APROCACAHO, Cooperativa San Fernando de Omoa, APACH, APROSACAO, Kawo Bu Kaya and Flor de los Laureles were invited to visit Chocolats Halba for the official launch of the Honduran chocolate in the market. Chocolats Halba and Helvetas financed the visit, which had the goal of making all the interested parties aware of how important quality is at each and every step of the production process. They saw the whole production process at the factory, the laboratory tests that are conducted, and other quality control aspects, and were able to visit the supermarkets and retail points where chocolate is sold. The Honduran producers now have a better understanding of why quality is so important. Workshops were conducted to talk about quality and organic chocolate. They have seen where the end product is sold and who buys it. This is a distinctive type of relationship, going beyond a contract, because the producer is considered by the buyers as part of the whole process and they have developed a sense of pride in their work and product. Chocolats Halba has repeatedly stated that the Honduran producers are its partners, indicating that the relationship goes beyond buyer-supplier and a contract specifying what each party is expected to do (Fromm, 2010). For Chocolats Halba, the benefit of this project is that it is doing something in tune with its corporate values.

The investments made by Chocolats Halba, Coop and Helvetas are estimated to be over US$1.8 million. Helvetas is responsible for the administration of these funds for the development of a supply base of cocoa producers and associations in Honduras. Most of the money has been used for training purposes (including farmer field schools), strengthening the cocoa chain in the country, and helping producers comply with organic certifications (COOP, 2011).

Certifications play an important role in the modality of the contract established with the Swiss buyers. In essence, they are the core of the business relationship for the cocoa producers. Without going through a certification process, there would be no possibility for them to export to Switzerland and particularly to Chocolats Halba. Therefore, the initial phase of the project, and the actions of the supporting organizations were geared towards helping these farmers produce in a sustainable way. Another issue that is a core corporate value of Chocolats Halba is sustainability. Because the producers it procures from are located in a natural reserve area, there has been a strong orientation, if not pressure, to engage these producers in sustainable agriculture practices. With the funds provided by the Swiss organiza-

[17] The fairtrade premium is a sum of money paid on top of the agreed fairtrade price for investment in social, environmental or economic development projects, decided upon democratically by producers within the farmers' organization. The premium fund is typically invested in education and healthcare, farm improvements to increase yield and quality, or processing facilities to increase income. http://www.fairtrade.org.uk/what_is_fairtrade/fairtrade_certification_and_the_fairtrade_mark/the_fairtrade_premium.aspx

tions, five farmers' associations now have organic certifications. Standards and certifications are coordination mechanisms guaranteeing that buyers will have a product that meets very specific requirements. If producers do not comply, the agreement could not take place.

Managing a project of this nature presents several challenges. There are external factors that have to be dealt with, otherwise the success of the project could be compromised. Switzerland is not close to Honduras and, logistically, there are barriers including language and cultural differences. Communication is imperative in the success of any business relationship. Making sure that the producers understand the conditions of formal business agreements is part of the challenge. Certain complexities regarding standards are new to these cocoa producers. For small-scale producers, the risk of not complying with standards and certifications, or not fulfilling the expected volumes is high. For Chocolats Halba, securing a constant supply of high-quality cocoa beans produced under very specific environmental conditions is an even greater risk, even after establishing formal agreements with APROCACAHO and small-scale producers. The requirements that have to be met are high. Not only are certifications expected, but certain environmental conditions, particular to the region (i.e. agroforestry systems in a tropical rain forest area) must be respected.

For the cocoa producers, the stakes are equally as high. The cocoa sector in the country is just beginning to thrive, after a decade-long slump. Above all, the profits from engaging in organic production must be visible to the producers. Funding opportunities are currently at the disposal of farmers, and access to credits is possible, but the improvements and upgrading made in terms of production, post-harvest infrastructure and certifications should rapidly translate into an increased cash flow. Otherwise, the prospects of an increased income are not really obvious to farmers and the decision to engage in organic production of high-quality cocoa will be difficult to take, i.e. short-term benefits should be tangible.

7.8 CONCLUSIONS

The cocoa sector in Honduras is beginning to thrive again, after being badly affected by natural disasters, falling prices in the international market and the spread of plant diseases. The cocoa bean, that was once sacred to the Mayan civilization and has its origin in Honduras and the Mesoamerican region, can again be grown under conditions favourable to the producers and the environment in which it is cultivated. It would be simplistic to attribute the growth of this sector to the influence of a Swiss company sourcing from Honduras and establishing contracts with farmers. CF and the establishment of agreements between the cocoa producers and Chocolats Halba have played a significant role, yet essentially it is the market that is the real pull in this CF example. However, this has not been the only factor responsible for the revitalization of the cocoa sector. Rather, it has been the work of numerous organizations, both local and international, from both the public and private sector, that have worked together to support producers and the Honduran cocoa sector in particular. For increased smallholder participation in the agricultural sector, it is imperative that multiple stakeholders are involved. The increased prices paid to the cocoa farmers have helped them achieve a better income, but it has been the investment made in training (i.e. increased knowledge on organic production aspects, thus

promoting awareness about quality, agricultural practices and environmental issues) that will have the greatest impact in the future.

To date, the export volume delivered to Chocolats Halba is still low, but the potential to develop this market exists. Current trends indicate that the demand for organic products, among them cocoa, will continue to grow. Thus, for Honduran cocoa producers to remain competitive, they must keep complying with the standards and certifications that are essential for their survival. If these requirements are not met, they will have little chance of maintaining access to high-value export markets in the future. The relationship built between producers and Chocolats Halba has been favourable for small-scale farmers, as they have had to transform their production practices and upgrade their processes. They have acquired new knowledge and implemented improved practices in the drying and fermentation of the cocoa beans. This has all been because of the agreements with Chocolats Halba and the other supporting organizations. It has not been possible to set a monetary value against these gains, but they would probably be as high if not higher, than the premium prices farmers are now paid for their cocoa. The case of the cocoa sector in Honduras supports other empirical studies of how CF can be beneficial for small-scale producers in developing countries.

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