

Social Impact of Ethical and Conventional Cocoa Trading on Forest-Dependent People in Ecuador

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EXECUTIVE SUMMARY

The fair-trade of cocoa, a scheme operated by Maquita Cuschunchic (MCCH) – an Ecuadorian NGO - is compared to the conventional trade in cocoa in terms of the impact on the local livelihoods of smallholder farmers in two coastal provinces in western Ecuador. Fair-trade schemes aim to improve the position of farmers and theoretically offer farmers with a range of benefits including ‘fairer prices’, a long-term relationship, capacity building and credit facilities. Fair-trade also offers a marketing niche to importers to help guarantee business reputations by showing ‘good’ impact. Further, fair-trade schemes can attract the support of other development agencies to an enterprise or group. The extent to which farmers really benefit from fair-trade schemes and in what way is explored in this report.

Farmers consistently perceived the fair-trade in cocoa to be bringing them benefits. A higher price has been paid by MCCH compared to that offered by conventional farmers in the past although currently the price differential is marginal. This is partly due to the effect of MCCH on local prices. Fairer weighing and grading was found to be a clear advantage providing farmers with a better deal. Other types of human capital benefits derived by participants in this trade include capacity building support on marketing skills, organisational development, production and post-harvest techniques taught through a Cocoa School. Fair-trade schemes also attract support from other development agencies (the honeypot tendency). The impact of capacity building and of the fair-trade scheme overall has not as yet been systematically evaluated by the NGO concerned.

MCCH began by supporting communal shops in rural villages which enabled them to start to build long term relationships of trust with smallholder farmers who grow cocoa, amongst other crops. Later MCCH responded to farmer concerns regarding the sale of their cocoa as a result of exclusion from the existing shopkeepers. Rapidly MCCH also moved from working with secondary level federations to community based organisations and cooperatives.

At the same time the rapid expansion of MCCH’s involvement in cocoa trading (MCCH is now within the top five cocoa exporters of Ecuador) is putting pressure on their staff capacity and on the ability to ensure benefits are returned to producers. The geographical coverage is limited and MCCH have focused on areas of high cocoa production and the specific ethnic groups that grow cocoa. Certain rural groups therefore are unable to participate in the scheme – for example the Chachi indigenous group that do not grow cocoa – and farmers in remote locations in both provinces. The scaling-up capacity of any one NGO may be limited but this combined with a single commodity focus means that there is a danger that the poorest and most marginalised producers remain excluded from the trade and development assistance. MCCH associates have not been keen to reinvest incomes from fair-trade cocoa in their cocoa trees. They are unwilling to make this the central household source of income, since they need to spread risk by investing in diverse activities and crops.

Fair-trade in a single commodity may not be able to create sufficient significant or lasting change to enable forest dependent people to be able to build up their access to different

types of capital assets on the road to a sustainable livelihood. Recent political and economic turmoil in Ecuador may also undermine attempts to build an alternative fair trade movement. However, MCCH so far has been extremely successful in breaking the monopoly practices of conventional traders in cocoa marketing by offering improved terms of trading to farmers and long-term relationships, a result which is based on the people-centred approach of MCCH.

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Acronyms

BIRF	Banco Interamericano de Reconstruccion y Fomento (Inter-american Bank for Reconstruction and Promotion)
BNF	Banco Nacional de Fomento (National Promotion Bank)
CARE	Care International
FECP	Canadian Ecuador Development Fund or Fondo Ecuatoriano Canadiense de Desarrollo
FEPP	Fondo Ecuatorianum Populorum Progresio
MCCH	Maquita Cushunchic

Glossary

<i>Acopiador</i>	Collector/trader/local buyer
<i>Antiguos</i>	Older settlers
MCCH Associate	Farmers in a local community organisation (some formed by MCCH for the marketing of cocoa)
<i>Mayoristas</i>	Large traders
<i>pepa de oro</i>	Bean of gold (due to commercial value)
<i>Montubio</i>	coastal <u>peasants</u>
<i>hacendados</i>	large landowners
<i>tendal</i>	drying and collection centre

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1.0 Introduction

This report presents the results of a study comparing the impact of ethical and conventional trading in cocoa on the livelihoods of people depending on the forest. In particular it looks at the fair-trade in cocoa in Ecuador by Maquita Cushinchic (MCCH). MCCH is the main organisation in Ecuador exporting cocoa to fair trade markets. It also sells through brokers to conventional markets, and lately MCCH has exported directly to manufacturers.

The study is part of a project “Ethical trade and forest dependent people” funded by the Forest Research Programme, DFID. The project objectives are to identify the potential of ethical trade to improve forest dependent people’s livelihoods and to assess the impact of global trading regulations and markets on the viability and potential of ethical trade. Finally, the project will develop guidelines for implementing ethical trade for the benefit of forest dependent people. This is the second of three comparative studies identifying the potential of ethical trade in improving forest dependent people’s livelihoods, and contributing to the development of guidelines in implementing ethical trade. A parallel study has been carried out with the objective of analysing the financial sustainability of fair-trade in cocoa, and to analyse the value chain, in order to identify the economic opportunities and constraints relating to the trade.

Ethical trade, as used by the Natural Resources and Ethical Trade (NRET) programme, is an umbrella term referring to different approaches to trade that have social and/or environmental objectives as well as commercial ones. In this report we refer to fair-trade initiatives as an example of ethical trade¹. The MCCH scheme of fair-trade in cocoa was selected because it is a scheme which has been in existence for some years allowing social impact to be assessed and secondly because examples of conventional and ethical trade of the same commodity exist in parallel in the same geographic region thus enabling comparison.

The study assesses the impact² of the cocoa trade on local people using the sustainable livelihoods framework where benefits and disbenefits are assessed against five types of capital asset. This multi-dimensional framework is important where livelihood strategies of any particular group require a range of capital assets, and where decisions cannot be understood by reference to a single type of asset (e.g. financial). The framework also allows us to assess how different people are affected by the cocoa trade and in what way.

This framework is complemented by reference to the forest dependency model proposed by Byron and Arnold which highlights how different degrees and types of forest utilisation impact on the natural resource. Forest dependency is also a conceptual framework, which explores the differing kinds of relationship between people and the forest, and the changing pressures on and trends affecting forest sustainability. It allows

¹ Other examples include ethical sourcing, commercial organic agriculture and trade in certified forest products.

² Impact assessment can be defined as “the systematic analysis of the lasting or significant changes – positive or negative, intended or not – in people’s lives brought about by a given action or series of actions.” (“Learning to Value Change: A Guide for Development Agencies. Oxfam, Roche 1999”²).

the characterisation of different forest dependent groups (e.g. hunter-gatherers), and encourages examination of how different groups respond to economic opportunities such as trade, and how these opportunities can impact upon the forest.

Both the sustainable livelihoods framework and the forest dependency model encourage the researcher to view trade in a particular commodity, not as a discrete activity, but as one part of a multi-faceted and dynamic system where, for instance, financial benefit may not be the sole consideration. However, it needs to be emphasised that sustainable livelihoods and forest-dependency are both at an early stage of development, and in this study their contribution has been to clarify our thinking rather than to provide rigorous tools for use in the field.

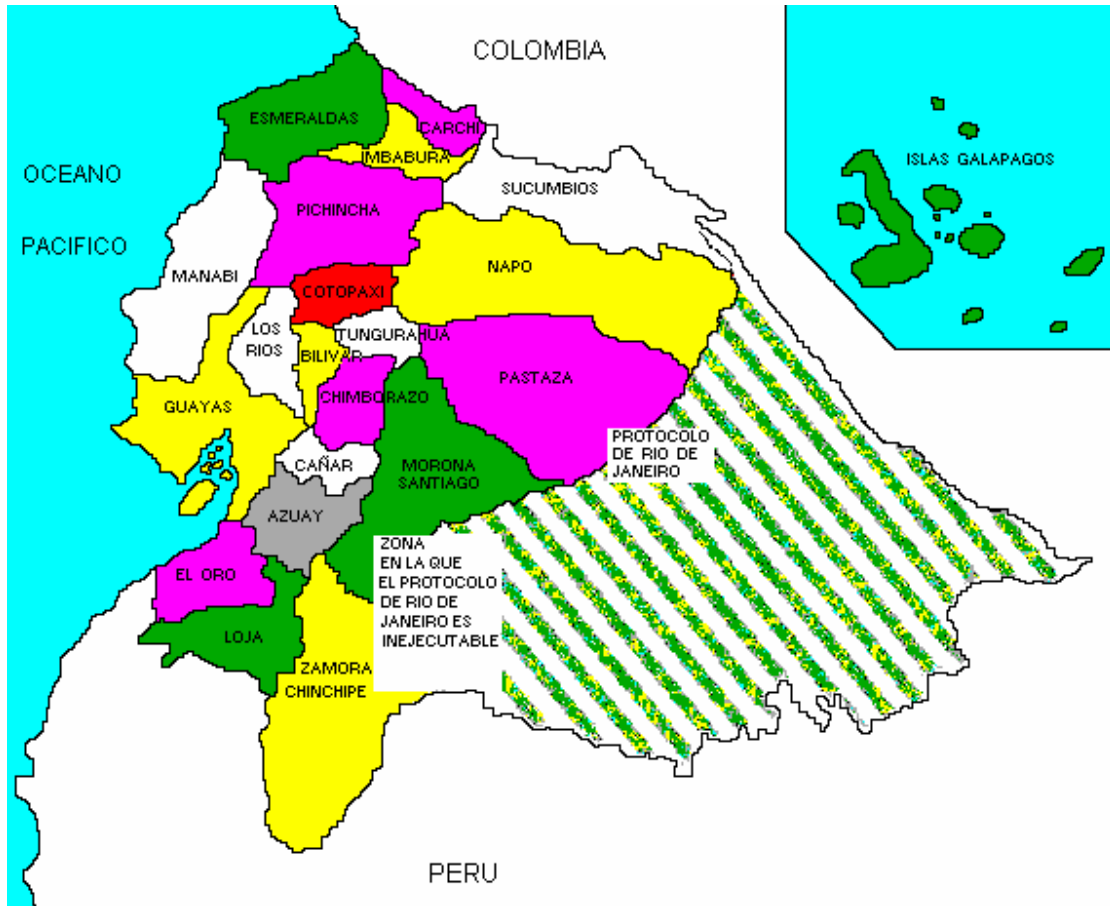
The impact study involved consultative research in the field, carried out by a local consultant anthropologist and managed by NRET. Two provinces in western Ecuador – Manabí and Esmeraldas – were selected for fieldwork. These areas were chosen because cocoa growing in these regions is predominantly on small and medium sized farms, compared to the large cocoa farms which are the norm in the South. The two zones differ agroecologically (Manabí vegetation is mainly dry tropical forest, whereas in Esmeraldas humid tropical forest predominates) and culturally (*montubio* farmers – colonists from the highland and other parts of the coastal area of *mestizo* descent – are in the majority in Manabí, whereas the Esmeraldas population is made up of people of mainly Afroecuadorian descent). Levels of social organisation also vary. MCCH has established varying relationships with the different groups³. The Chachi indigenous group do not grow much cocoa. The Afroecuadorian population has a secondary participation in cocoa production in Esmeraldas and practically non-existent involvement in cocoa growing in Manabí. The lands occupied by the colonists are the most suitable for the cultivation of cocoa and of the different social groups they produce the largest quantities of cocoa. Two communities were selected in each zone to cover different types of local level organisation and the level of development of commercialisation of products and market integration.

2.0 Context

The principal vegetation cover of Esmeraldas Province is tropical humid forest. The region was successively occupied by different ethnic groups: firstly the Chachis arrived (now located mainly along the rivers of Santiago, Cayapas and Onzole). Later the Afroecuadorians arrived (who currently occupy the coastal strip closer to the seaboard). In the 20th Century the Mestizos established *haciendas* (large landholdings) in the province. Coastal farmers have migrated into Esmeraldas and have established farms dispersed across the territory (and to a lesser extent colonist Indians from the mountains). The lands of the Afroecuadorians were recognised as customary lands or “*comunas*” at the end of the 19th century. The *haciendas* were formed in the first decades of the 20th Century mainly as a result of the expansion of cocoa growing in the south of the country. Many of these farms have fragmented as a result of low productivity of cocoa and changes in market trends. On the few remaining *haciendas* cocoa production has been abandoned.

³ The Chachi population is currently estimated at 4000 to 8000 people, and the Afroecuadorian population at 500,000. No figures were available for the colonist population in these provinces.

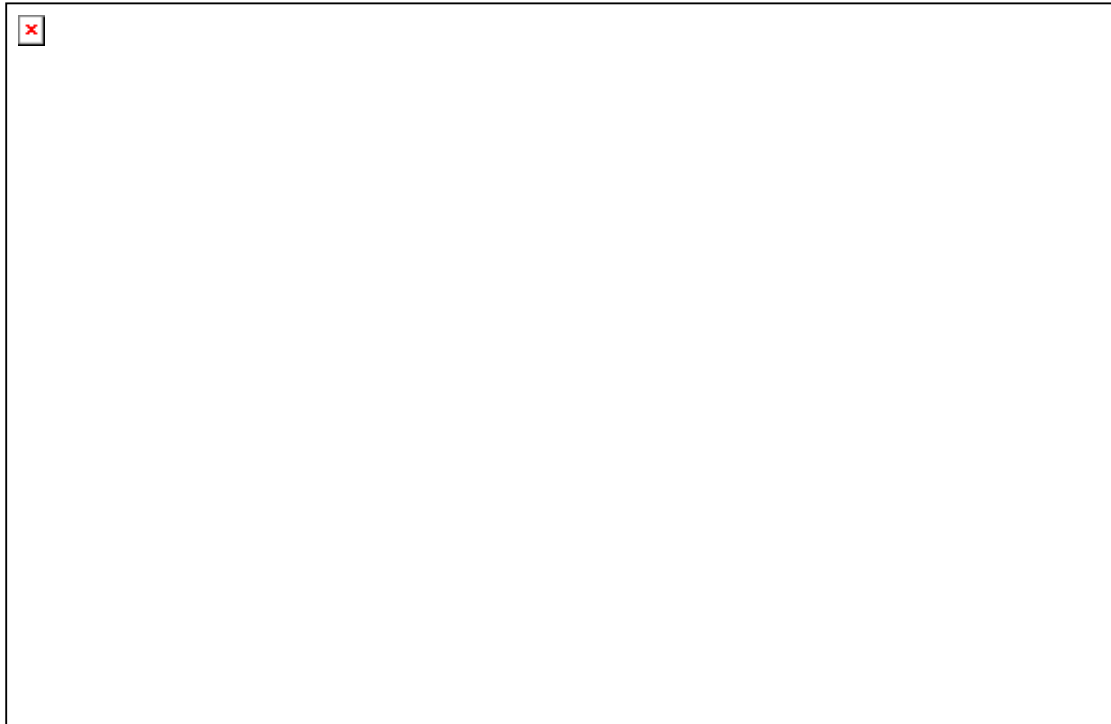
Diagram 1: Map of Ecuador and Manabí and Esmeraldas Provinces.



Two different groups of producers can be distinguished in Manabí Province, namely the coastal farmers and the large landowners. The first group, the coastal farmers, are known as “*montubios*” (creole and european ancestry) and are different from the indigenous farmers from the mountains. Some of these farmers produce cocoa on the land they have owned for a long time, whereas others have migrated within the same province in search of new lands to cultivate— land with natural forest and on which they produce cocoa as well as many other crops. The second group consist of the large and medium-sized landowners or *hacendados* with Mestizo ancestry. In the Manabí *haciendas*, the main trend is to move away from cocoa production to other crops due to the decline in cocoa prices.

Smallholder cocoa farmers in both provinces engage in a wide variety of activities and grow or trade diverse crops. This strategy enables them to spread risk (a sensible strategy given the boom-bust cycles of extraction that characterise this part of Ecuador). Smallholder fields are scattered over wide areas. Producers take cocoa straight from their fields to the embarcation point on the river or roads which means there a large number of marketing points. Cocoa production varies according to the area cultivated, the age of the

trees, crop diseases, climatic variations and strategies employed to lengthen the marketing period. This strategy entails the sale of small quantities of cocoa – ‘*pepitiar*’ in order to buy food or pay for health and education costs. The cocoa harvest lasts between 6 to 8 months of the year, providing farmers with a small but extended source of income. The smallholders sell cocoa in different conditions: semi-green, *en baba* (fresh) without fermentation, or fermented at different levels of humidity, either with or without basic sorting.



Drying Cocoa in Maldonado, Esmeraldas

The lands cultivated by the smallholders are isolated and remote compared to the farms of the larger landowners. Afroecuadorians live in the lowland parts of Esmeraldas and colonists who occupied land in recent decades have been forced to occupy the higher zones distant from the cities. The better lands in the middle zones and relatively flat areas have been occupied by *haciendas* and medium-sized land holders. Coffee, cocoa, peanuts and tagua (vegetable ivory) are cultivated on the more traditional smallholder farms. In the latter, “modern” crops are produced such as bananas and oil palm.

Livelihoods in both Manabí and Esmeraldas Provinces are overwhelmingly based on collection, hunting and fishing for food as well as subsistence agriculture. Subsistence agriculture and gathering are most important in Esmeraldas. Trading is more widespread in Manabí particularly in fruit products. Chachis practice shifting cultivation. The livelihoods of both the Chachis and the Afroecuadorians depend on the forest for the wild flora and fauna, land and water. The colonist farmers also depend on the forest but are slightly less forest-dependent than the former groups, and generally tend to be more integrated into the market economy. The main characteristic of the farm is the mix of cultivated, fruit and timber trees and of secondary products (herbs and shrubs). The on-

farm vegetation is often denser than primary forest. In terms of physical capital, access to transportation is the biggest constraint on economic development and the region has many zones that are difficult to access – those far from water courses and roads. Improvements to accessibility have been made in recent years due to the construction of several major roads in the 1990s. However, these roads have been damaged in recent years by the rains of el Niño. Access to credit for the large majority of smallholders is extremely limited. The traders provide credit in small quantities to certain producers, mainly colonists, and to a lesser degree to Afroecuadorians (the latter are also assisted by MCCH). The Chachis remain at the margin of these types of transaction. Currently, with the banking system crisis, access to credit for smallholders has become even more difficult. Only certain populations which are supported by external institutions have hope of obtaining credit.

In terms of social and cultural capital there are differences between ethnic groups. Both the Chachis and Afroecuadorians have had to change their customs over the last century to conform to the norms of external groups (e.g. in their attire, bodypainting). The Afroecuadorians have lost their mother tongue having had to adapt to the demands of the *conquistadores*, priests and missionaries, but maintain a strong spirituality with different forms of religious syncretism and links to nature. Spirituality is a cohesive social force which strengthens kinship networks and communities in the rural areas as well as rural-urban linkages⁴. The Chachis have access to bilingual education and have maintained their mother tongue – the *cha'palaachi*. This bilingualism differentiates the Chachi from other groups. Although many people engage in production and commercialisation of different natural products, the Chachis dedicate relatively more of their time to traditional forms of hunting, gathering and subsistence agriculture. The '*manabita*' colonist farmers tend to be more individualistic in their social organisation and are more integrated into the market economy than either the Chachis or Afroecuadorians.

Chachi, Afroecuadorian and colonist families, living in remote locations, have little access to adequate health and educational facilities. (See photo below). Chachis in particular tend to remain on the margins of formal education, although increasingly bilingual teachers have been trained. The political capital of these different ethnic groups also varies. As a result of the rapid colonisation process by *manabita* farmers the Chachis and Afroecuadorians were forced to try and defend their lands, and in the process (with support from external organisations) they have also increased their political representation and organisation. Both the Chachis and Afroecuadorians are marginalised and excluded in Peruvian society. Racism against the Afroecuadorian population is particularly prevalent and they are yet to establish a national level organisational presence. The state and NGOs have developed relations with the Chachis although these remain fairly paternalistic.

⁴ At the community level difficult tasks have their own denominated saint. Each saint is celebrated each year and each village has its own saint, which is the motivation for visits between the villages and the establishment and maintenance of social inter-relations.

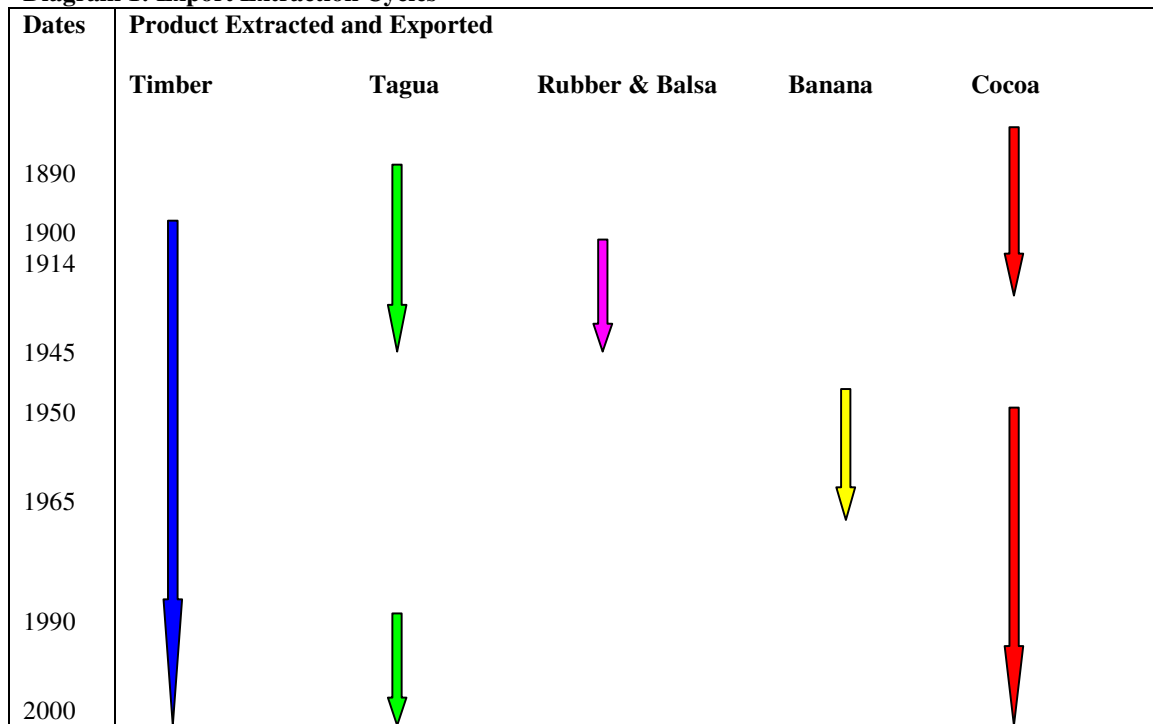


A colonist family farm in Quininde

Historical economic trends in Esmeraldas and Manabí are characterised by boom bust cycles of extraction. These are summarised in diagram 1 (on the following page). The export of timber from the region began in the early 20th Century and continues today. Tagua, rubber, balsa wood, bananas and cocoa have all undergone boom and bust cycles of extraction.

The trade in tagua seeds (from the tagua palm *Philatelephas aecuatorialis*) began in 1890 and continued until the onset of the Second World War. Raw 'vegetable ivory' from the palm was exported until the advent of plastic when the tagua trade collapsed. The trade was reinitiated in 1990 due to the development of markets for natural products. Rubber was exported between the two World Wars, as well as balsa wood, but the trade also collapsed with the development of synthetic products. A boom in bananas led large areas of tagua, rubber trees and virgin forest was felled, so that massive banana plantations could be created. However, poor soils and a lack of recycling of nutrients meant that the trees would only last for 2 to 3 years. Bananas were initially grown by the *hacendados* (large landowners) using workers brought to the region for this purpose, but later extended into the lands of the Afroecuadorians, Chachis and Colonists (the latter began to settle in the region at this time). However, the regional industry declined when the monocropping of bananas began in other coastal regions of Ecuador.

Diagram 1: Export Extraction Cycles



2.1 Cocoa

Wild cocoa still exists in the forests of Esmeraldas albeit at a very low density. The rapid increase in the production of cocoa began with the large landowners in the provinces in the south of the country (Guayas, El Oro, Los Rios, Azuay). Production and export reached its peak toward the end of the 19th Century and in the first decades of the 20th Century. Cocoa was brought from the southern provinces to Manabí first and then Esmeraldas. Hybrid cocoa varieties were introduced (national x, trintario and venezolano). During these periods economic activity in Manabí was characterised by the following: trade in the plant called '*la paja toquilla*' used to make hats, coffee cultivation and rubber collection (on a small and medium scale). In Esmeraldas virgin forest predominated until the middle of the 19th Century and the area was sparsely populated. Gold was extracted and tobacco was produced for export. Wild products such as tagua were marketed on a small scale.

The increase in cocoa production was not as spectacular in the north of the country as in the south. Nor did the boom last as long as a result of the decline in cocoa marketing with the outbreak of the First World War. The production of cocoa contributed to the increase in formation of *haciendas* (large landholdings) in both provinces. The expansion of the cocoa trade in the south coincides with the decline in the production and trade of traditional products in Manabi. The growth of cocoa trading was cut short by the First World War. Cocoa production and export began to recover after the Second World War, although it never regained the same importance in the Ecuadorian economy as at the

beginning of the 20th Century, when cocoa was considered the '*pepa de oro*' or 'bean of gold'.

The Chachi indigenous groups in Onzole played a part in the initial trading of cocoa, when they began to cultivate cocoa which they offered as a drink to visitors, but they currently grow and trade little cocoa. Amongst the Afroecuadorians cocoa is only one crop amongst many. The majority of cocoa trees on Afroecuadorian farms date from between 1950 and 1960. This coincided with the trading of cocoa to Colombia. The opening of the Esmeraldas-Borbón road in the 1980's the sale of cocoa to intermediaries began, both as direct sale in return for cash and in exchange for basic goods. Farmers interviewed said that the price of cocoa fell significantly in the 1990's. As a result the extent of cocoa cultivation also declined. The ageing of the trees led to decreased productivity. This decline was exacerbated by the increase in cocoa pests (known locally as *monilia* and *escoba de bruja*). This reduction in productivity led to the abandonment of many cocoa trees, and the extraction of timber on a small scale replaced the crop. In 1992 MCCH began supporting the export of cocoa from these provinces.

The State tried to promote the production of cocoa and in 1971 introduced legislation aimed at stimulating agroindustry with tax exemption incentives. Factories proliferated which were involved in making semi-manufactured and manufactured products from cocoa for export. Many traders and large cultivators of cocoa turned to manufacturing, but maintained the same structure of commercialisation as when it was exported raw. In 1982, after a national strike in which the representatives of Ecuadorian farmer organisations participated, the protectionist and pro-industrial legislation was repealed and the free export of the raw *pepa* (bean) was re-introduced. Many *haciendas* collapsed and a large number of factories went out of business⁵.

3.0 Conventional and fair-trade definitions

It is important to define how fair-trade is meant to be different from conventional trade before describing the impact in this specific case. Fair-trade is an alternative trading system that challenges conventional trading relations. Conventional trading relations are described by fair-trade advocates as offering benefit to small producers who have limited access to world markets and a weak bargaining position in relation to intermediate traders (middlemen). Although some fair-trade schemes have an environmental dimension, such as organic agriculture, fair-trade is primarily focused on social benefits for its producers. These benefits derive from a) the price premium charged to Western consumers for fair-trade products, b) the longer-term developmental as well as trade-driven relations between buyers and producers, and c) a social development premium for producers' groups.

⁵ Following this a project financed by the Banco Interamericano de Reconstrucción y Fomento began a programme for the rehabilitation of cocoa stocks on an area of 300,000 ha distributed throughout the country. However, new crops, mainly bananas and recently oil palm, displaced the cultivation of cocoa, and it ceased to be a crop characterised by production in large areas.

Box 1: "Fair-trade" principles

"Fair-trade" is specifically targeted to do the following:

- improve the position of the marginalised producers – many of whom are not employed.
- it is more about the trading *relationship* than about the performance of the supplier.

Key concepts of "Fair-trade" are:

- direct trade
- a fair price
- a long-term relationship
- credit facilities

Crucially, it relies on the significant subset of consumers willing to pay a little more or being more discriminating to support a fairer way to do business. Fairtrade is a competitive tool, opening up new markets. The opposite of Fairtrade is conventional trade".

(Source Wells, 1998⁶)

Having said this, there is no single approach to fair-trade. For instance, not all 'fair-trade produce' commands a premium price. In some instances, the producer may be producing for both conventional and fair-trade markets, and there may be no effective way of distinguishing the product. In other instances, there may not be a fair-trade market for the product. In these cases, the benefits to producers must be derived from the trading relationship and what, for instance, that means in increasing market access or reducing costs (e.g. through providing better credit terms). Marketing and the relationship between producer and buyer is integral to fair-trade, as is capacity building for producers involved in the trade. Producers are normally organised in groups (typically co-operatives) which are used as selling agents as well as a conduit for development activities amongst producers. To ensure that producer groups are delivering benefits to members, there is a system of monitoring and evaluation (called certification). Fair-trade certification is annual and the same certifiers are encouraged to maintain continuity rather than changes being required to ensure accurate certification.⁷

4.0 Conventional trade in cocoa

The conventional trade in cocoa is mainly concentrated on larger plantations in southern Ecuador, whilst smallholder production predominates in northern Ecuador. The large port of Guayaquil exercises a national monopoly on cocoa and large export companies are concentrated in here. All exported cocoa passes through Guayaquil. The price is determined firstly in New York, and local traders learn it from the radio, contacts in Guayaquil, or the cocoa buying companies which will also inform them of the volumes demanded.

Farmers buy manufactured and agricultural products from the small village shops and at local markets. They also sell part of their products in these places, including cocoa. Cocoa which is not taken to the shops or markets, is collected by the traders as they travel

⁶ Wells, P. (1998) Fairtrade into the year 2000. Unpublished paper, London, Fairtrade Foundation

⁷ See "Ethical Trade and Sustainable Rural Livelihoods: Natural Resources and Ethical Trade Programme, NRI" in D. Carney (ed.) "Sustainable Rural Livelihoods: What contribution can we make?" DFID 1998.

along the roads and rivers. The traders act mainly as buyers, although sometimes they carry manufactured goods when they have a shop or when they carry orders for the farmers (the price of these goods is deducted by the traders from the cocoa bought). Commercial transactions between the traders and smallholders include the *regateo* (haggling) and the *fiado* (buying on trust/credit). Haggling occurs over the price and the weight of the product. Generally, it is an unequal relationship, although the trader has to offset risks and transaction costs⁸. The most common form of sale is selling cocoa in small quantities which means that the farmer is in a weak bargaining position in relation to the trader. If the farmer does not accept the price and weight determined by the trader they lose the option to sell their cocoa (and to buy other goods). At the same time the farmer may lose access to the places where he trades (the shops are important sources of market information and contacts).

Buying '*al fiado*' (on credit/trust) is a commonly used mechanism by which the trader provides products for the farmer in return for a promise of future payment. People go to the shop to ask for products '*al fiado*' (for varying periods – days and weeks). This mechanism is very important in times of catastrophe such as that experienced during the recent El Niño. One of the ways to cancel the *fiado* is paying in kind. Some consider that the lower price paid for the cocoa is a form of paying the interest. However, *al fiado* is different from formal credit. Formal credit involves explicit interest rates, and liquidating the credit concludes the contractual relationship. If the credit agreement is not met, then interest is compounded. If the agreement is fulfilled then there is a good basis for future agreements. In the '*al fiado*' system financial implications are seldom explicit; rather a social obligation is created that can result in a more onerous deal for the farmers from whom product will be demanded. In this way a relationship of dependency is established. In many cases, this mechanism means that farmers remain in a state of continual indebtedness which places the trader in a position to sell products and buy cocoa under increasingly favourable conditions.

Trade in cocoa at the village level reflects the scarcity of cash in the rural economy and the marginalised position of the farmers. Farmers spread the sale of forest produce over a long period because there are no saving mechanisms which would enable them to obtain cash immediately when needed. When large amounts of cash are obtained on sale of produce it is quickly spent on basic goods (clothes and tools). The annual distribution of the cocoa harvest is helpful for the farmers because the harvest can last 8 months. The availability of labour also influences the timing of the harvesting and the sale of the cocoa.

⁸ These include poor roads, lack of transport, inclement weather affecting the bought product, delay in the sale of the product which can cause losses due to fluctuations in the prices, loss of humidity can lead to loss of product weight.

Points of cocoa buying and trading are three-fold: small settlements, along rivers and roads and in towns. Most traders have appointed cocoa buyers in each small rural settlement. A balance is provided and bags for storing the cocoa and a small amount of money to pay for the cocoa in cash. These village level buyers may run a small shop and in some cases the buying of cocoa is carried out both at the market and in the shop. The village level buyers are well known in an area as the recognised agent of a given company. There are few independent buyers at the village level due to the lack of financial capital available. The existence of these buyers in each village is related to the scattered distribution of the fields where cocoa is grown and the fragmented sale of cocoa through the harvest⁹. (See photo below). Cocoa is traded in better located villages on a specific market day and in other villages through shops and stalls at markets in neighbouring villages. The local buyers do not sort the cocoa but collect together as much as they can and this is then collected after a few days by the local trader or '*acopidaor*'.

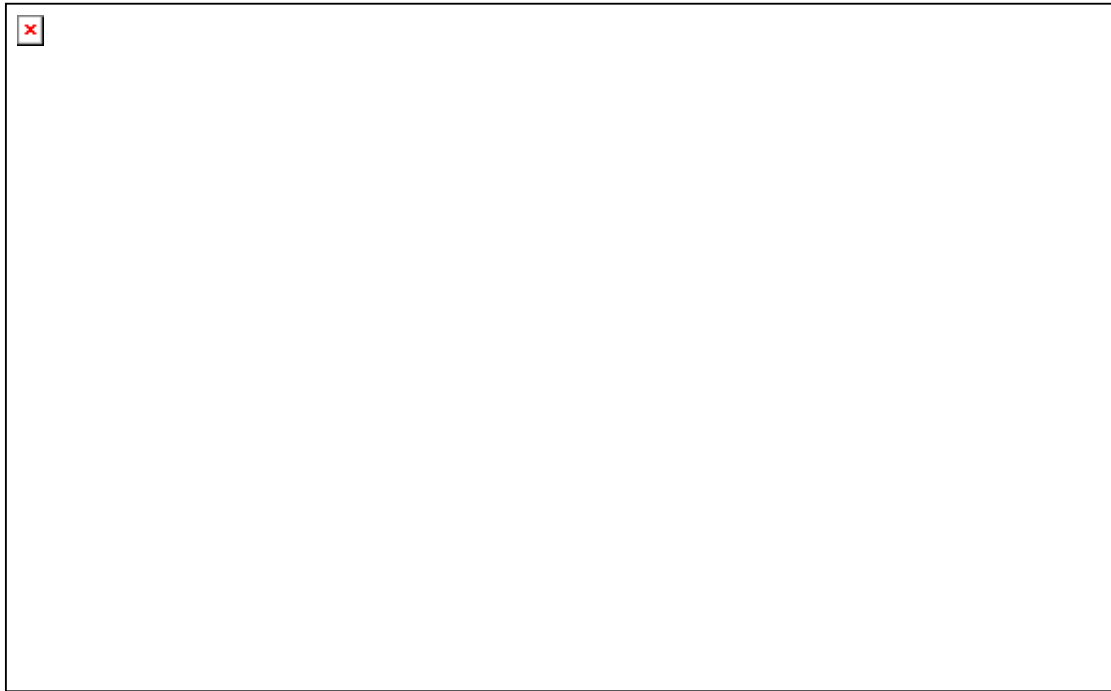


Weighing Cocoa : Sale of cocoa in small quantities known as to “*pepitear*”

Trading in cocoa also occurs along the roads and rivers. The local traders buy cocoa at small river ports and wherever farmers signal they have cocoa to sell. (Please see photo on next page). The smallholders and local buyers know which day the traders will pass by and await their arrival. Larger quantities of cocoa are traded along the rivers and roads than in the small villages, and this is why the local traders are personally involved. At the point of transaction, the trader asks the village level buyer to weigh the cocoa. The trader makes the payment, and although the farmer may not be happy with the price offered and the weighing and grading process employed s/he has few alternative options.

⁹ Half a pound of cocoa at the time of the fieldwork fetched 1700 sucres, which is equivalent to roughly 15 US cents. Two pounds fetched 7,500 sucres (i.e. approximately 65 US cents). In some cases smallholders barter their cocoa for food products brought into the region (rice, sugar, oil, dried fish).

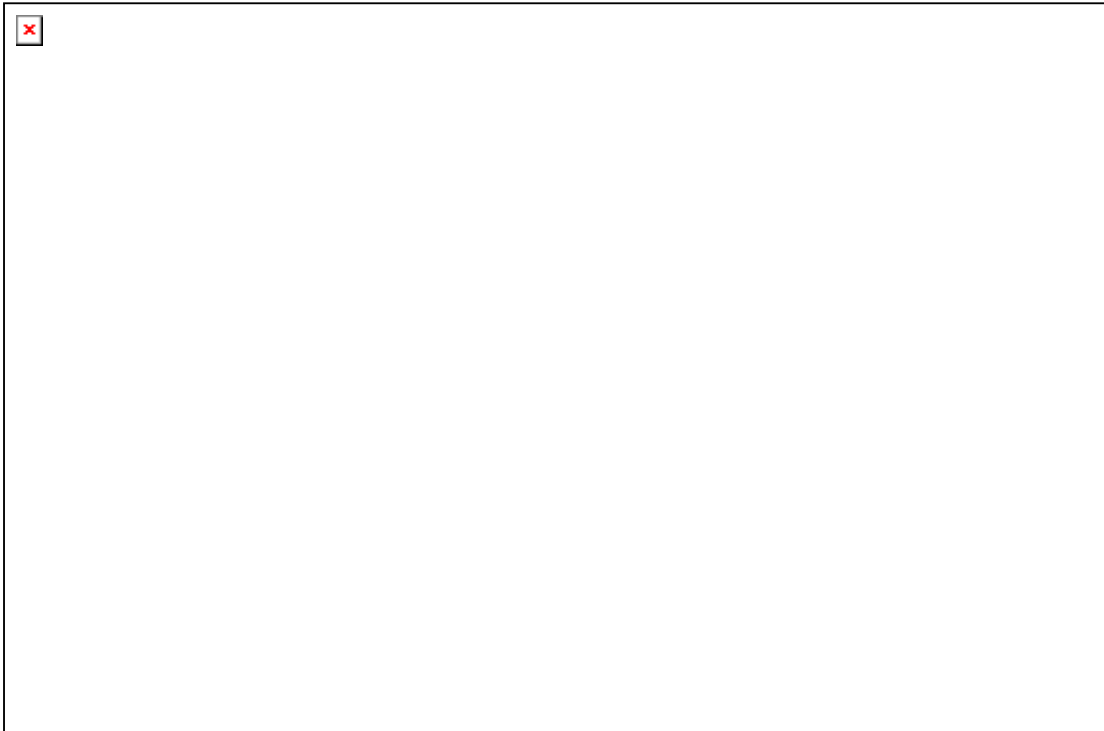
The trader collects different quantities of cocoa and the quality is not considered¹⁰. The traders' main aim is to acquire sufficient volumes to sell to the city. Local traders have relative control of the areas of the cocoa producing zones where they operate. In the larger cities – parish capitals - it is possible to find three or four traders who together control a whole area of production, but each one has a specific route and as a result competition is not very intense.



Isolated Aforecuadorian community along the river in Borbón, Esmeraldas

Cocoa trading also occurs in the towns where the larger traders buy up the cocoa accumulated by local traders until a sufficient volume is collected for transport to Guayaquil. (See photo on next page.) One or two major towns exist in the cocoa producing areas where the small and medium flows of cocoa converge because of the better access to Guayaquil.

¹⁰ The clean cocoa is more or less mixed with cocoa affected by pests and disease (known locally as *la monilia* or *escoba de bruja* - 'witches broom').



Cocoa buying shop, Borbón

Two types of larger traders operate in these towns – large traders from export companies and independent larger traders¹¹. Firstly, the larger traders from export companies buy cocoa for the companies in Guayaquil - sometimes they are traders from the locality but act in the name of the company, whilst others have received capital to operate and have been recruited for the companies because they are known traders with many connections. The companies look to ensure the storage of cocoa from this stage of ‘*acopio*’ or collection¹². Other traders operate as company agents (i.e. employees of the export companies).

The second group are independent large traders – i.e. professional traders engaged in the buying and selling of cocoa. Few specialise solely in cocoa trading, and prefer to buy and sell most of the products produced by local farmers: coffee, rice, cocoa, peanuts, tagua and maize.

5.0 Fair-trade in cocoa

The Ecuadorian NGO MCCH, which supplies cocoa to fair-trade organisations (e.g. Max Havelaar), offers an alternative model to conventional trade. The major part of its exports are however to conventional markets, but MCCH say that it has an ‘ethical’

¹¹ Two groups of independent traders can be identified: a) those that concentrate on cocoa and transport it themselves to Guayaquil, and b) the majority of traders who collect cocoa and sell them to different buyers (agents of commercial houses, to other traders, MCCH and occasionally to export companies).

¹² The large traders in the towns are interested in the quality of the cocoa that they buy. However, they are mostly interested in the humidity of the cocoa because this can cause transport problems. Secondly, the level of infestation by pest or diseases is of concern. The size of the grains is a matter which they leave for the export traders.

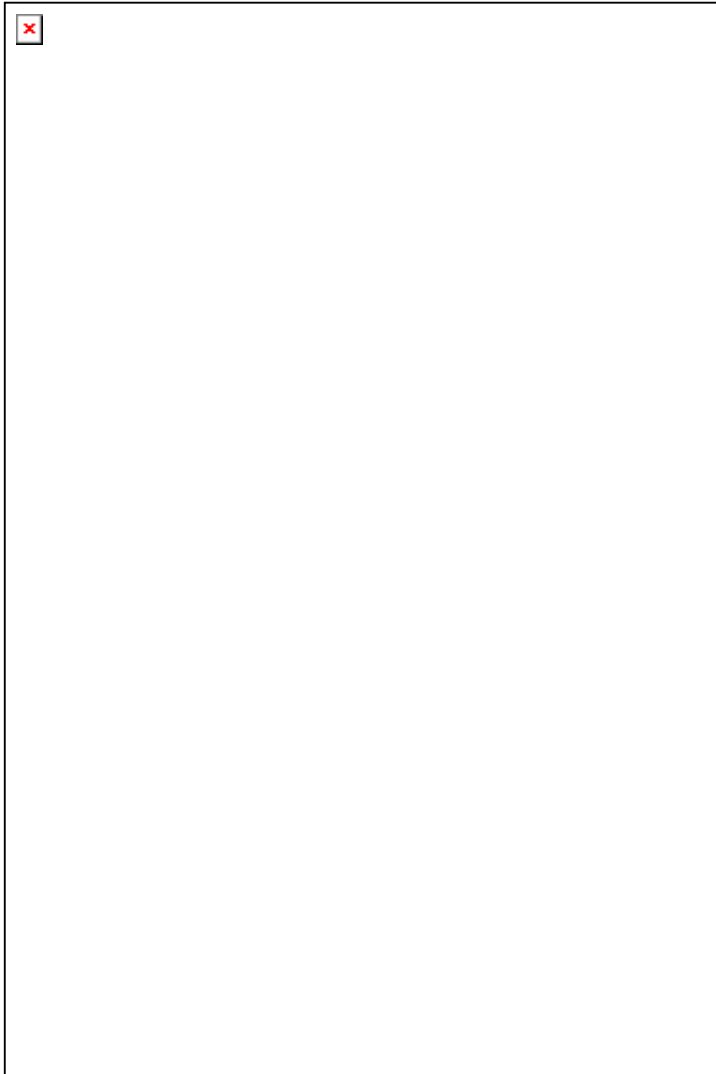
approach to trading regardless of the end market. MCCH and the company it has formed – Agroexportadora Maquita – operate in the provinces of Manabí and Esmeraldas in Ecuador and so theoretically, a difference in impact on poor producers and improvements in the number of livelihood opportunities or reduced vulnerability should be identifiable compared to that of conventional companies. MCCH are also forming alliances with some conventional traders.

MCCH was created to promote the marketing of farmers products and has departments focusing on grains from the mountain regions, artisanal products and cocoa. MCCH began supporting farmers through running communal shops providing access in remote areas to manufactured goods and other farmers products. Farmers suggested that the MCCH bought their produce, including cocoa, partly to avoid pressure from local shop owners. MCCH carried out an initial feasibility study in 1991. Initially the proposal was to establish a marketing system in parallel to the export of cocoa with the explicit aims of working with farmer organisations, and securing a fair price and weight and a premium for any good quality cocoa produced. Export began through an opportunity provided by Max Havelaar (a fair-trade labelling organisation) for the export of cocoa to Holland in 1992. Max Havelaar thus acted as a catalyst for MCCH to move into the export of cocoa. By 1993 the order had tripled and MCCH achieved recognition in alternative markets but also in conventional ones. In 1994 they began to work with local level organisations rather than secondary level farmer federations and began to pay a premium for the cocoa. MCCH chose a diverse marketing strategy with much of the cocoa actually being sold on conventional markets. Cocoa volumes have risen year on year. According to the Manager of the Cocoa Programme export began with 12 tonnes in 1992 and by 1999 “export volumes reached between 5 and 6,000 tonnes”.

MCCH has 12 main clients in North America and Europe, and sells to ethical market institutions, through brokers to the conventional market, and directly recently to chocolate manufacturers. The majority of the cocoa bought by MCCH is now sold to conventional markets. The staff of the drying centre in Esmeraldas estimated that of the annual acquisitions of cocoa in the province, 20% comes from the associates of MCCH and 80% comes from non-associates. The export company of Maquita Cushunchic (according to MCCH) is currently in the top five Ecuadorian export companies (of a total of 35).

The mixing of cocoa affected by ‘*monilla*’ and ‘*escoba de bruja*’ (pests) is viewed as a serious obstacle by MCCH, although MCCH is one of the few cocoa buyers that try to exclude very badly infected beans. The only selection that MCCH makes is by size and appearance.

MCCH is currently considering changes in its methods of obtaining cocoa. Currently, MCCH promoters buy cocoa from associates¹³ directly at the point of production and also from non-associates¹⁴.



For the producers this is a great advantage – as important as the fairer price and weighing process.

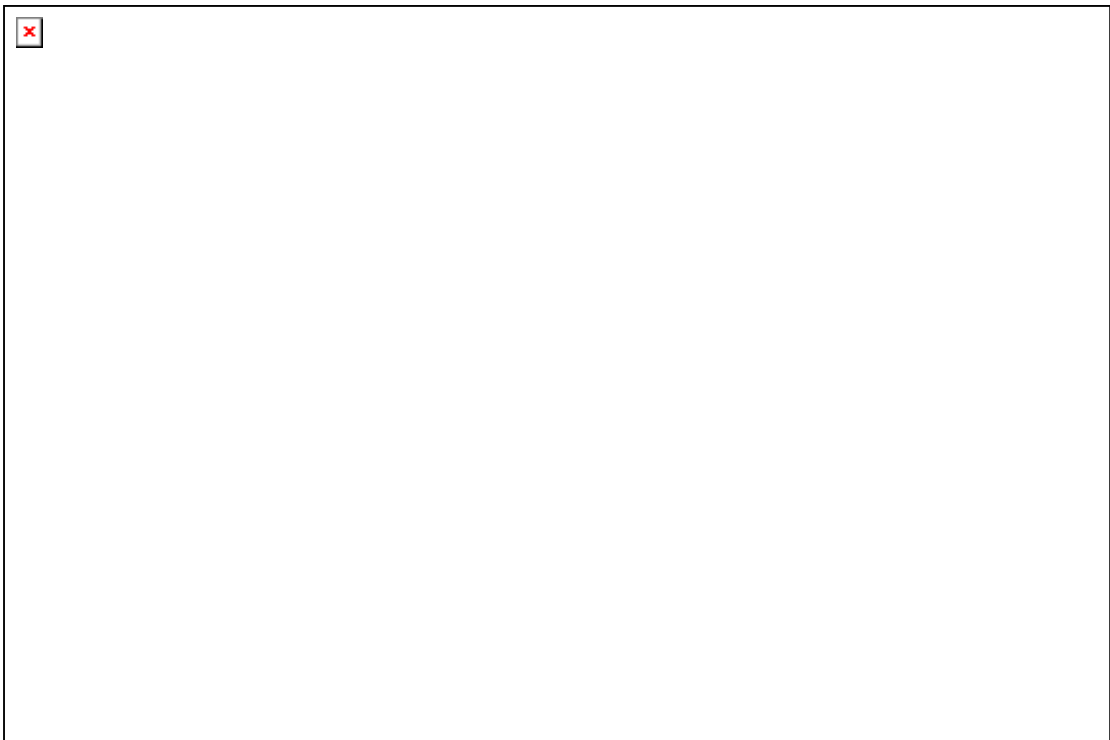
However, this is a very costly practice for MCCH in terms of personnel, vehicles and the risks of transporting cash. MCCH is not able to increase the number of promoters dedicated to marketing but wishes to maintain the current number of promoters in capacity building tasks and organisational strengthening. Instead they propose to establish new local *tendales* (processing and buying centres) to which producers will bring their cocoa

Cocoa Farmer with Cocoa infested with “*Monilla*” pest (Quninde, Esmeraldas)

¹³ Farmers in a local community organisation (some formed by MCCH for the marketing of cocoa)

¹⁴ MCCH promoters and buyers buy from associates at pre-arranged times. They will also buy from non-associates when they pass by.

MCCH buys cocoa in some areas from individual farmers and in other areas from cooperatives. (Please see photo below). In Maldonado, MCCH has a written agreement with the Afroecuadorian Las Mercedes Cooperative (which operates with support from the Canadian Ecuadorian Development Fund). The associates of this cooperative are the farmers. The cooperative buys cocoa from the farmers along fair-trade principles. An agreement has been established between MCCH and this cooperative which includes MCCH providing technical support to the associate farmers, through the “Cocoa School”. Export in Ecuador occurs through *tendales* which are collection, processing (drying and sorting) and trading centres.



MCCH zonal buyer and farmers weighing the cocoa

MCCH staff identified various reasons for the rapid increase in export volumes, including:

- Following principles of service based on ethical principles;
- Lesson learning about their experiences - organising regular workshops, monitoring and evaluations allowing improvements to be made;
- Support from ethically motivated trade organisations.¹⁵ These organisations provided technical assistance, exchange of experiences and provision of operating capital through loans, advances and donations;
- Success in the search for external markets and responding to the strict requirements of the markets¹⁶;

¹⁵ European (Max Havelaar, OS3, EDCS), Pan para el Mundo (Bread for the World) amongst others, and Latin American (FEPP of Ecuador, El Ceibo of Bolivia, CONACADO from Dominican Republic).

- Capacity building has been central for MCCH staff and local farmer leaders. MCCH aim to develop “an alternative trade movement”. The farmers consistently identified with this concept;
- MCCH has managed to achieve internal storage of cocoa, in volumes which enable them to meet the demands of external buyers (partly through paying a higher price).

MCCH supports smallholders in and through cocoa marketing in a variety of ways. Firstly, MCCH has established local farmer organisations specifically for cocoa commercialisation. Secondly, where farmer organisations do not have their own collector or trader, MCCH sends its own zone buyer to purchase cocoa. Thirdly, MCCH has written agreements with farmer cooperatives (some supported by other development agencies) who supply them with cocoa. Fourthly, some farmers and traders sell their cocoa to MCCH direct at the drying place (*tendal*) in Esmeraldas.

Some of the local farmer organisations were formed with the support of MCCH for the commercialisation of cocoa. Within these organisations some smallholder farmers dedicate themselves to the buying of cocoa to sell it to MCCH. MCCH nominates someone from the village and the community ratifies it and this person is known as “the *acopiador*” or village promoter of MCCH (for example, MCCH works with an *acopiador* from the farmer organisation in Poza Honda colonist village, Manabí province). Where local organisations do not have their own trader/collectors to commercialise cocoa this is said to be because they do not have access to means of transport (either their own or communal), or simply because communication routes do not exist. Instead the MCCH zone buyer, accompanied by an assistant, travels as far as possible along the road or river. The farmers carry their loads to these points (e.g. in Quinindé, Esmeraldas - a colonist settlement). The MCCH promoter has access to a rural truck and scales, as well as cash for immediate payment. No limits are placed on the volume bought, and farmers know which day the MCCH promoter will visit.

Associates of MCCH generally benefit from a higher price than that offered to them by other traders. However, in recent times this price has not been much higher (if at all) than that offered by other traders – partly because MCCH’s activities have pushed up local prices. Paradoxically, on the routes in which MCCH operate the difference in prices is minimal, precisely because MCCH is operating as a regulator of prices in the area, and the farmers are in a stronger position to negotiate. The non-members do not have access to this price but they do benefit from the fairer weighing process. All smallholders know that the cocoa will be correctly classified according to its humidity by the MCCH promoter. However, the promoter does not accept poor quality cocoa (i.e. if it is infested with pests or diseases).

The MCCH *acopiador* or zone buyer competes with conventional traders – both the independents and those buying cocoa for a larger trader. The advantages offered by MCCH are clearly recognised by the farmers, but the farmers will still sell to conventional traders if there are delays or if they are in debt.

¹⁶ MCCH have 12 important clients (American and European). MCCH sell to ethical market institutions and through brokers they sell to the conventional market and directly recently to chocolate makers.

MCCH also buys cocoa through cooperatives. In Maldonado, an Afroecuadorian community in Esmeraldas Province, cocoa collection has been carried out by the Agriculture Cooperative of Concepción, which groups associates from eight communities in the zone. The cooperative attempts to promote different crops, amongst them cocoa and implements youth and women's projects. Of the 200 households in Maldonado, 70 are associates of the cooperative and all of them produce cocoa. MCCH is committed to buying all the cocoa which the cooperative can collect from the zone¹⁷. The associates of the cooperative benefit from the Cocoa School which MCCH promotes. The cooperative has access to community warehouses and has a buyer of cocoa in each of the villages of the zone (each buyer has access to a truck, a canoe, a central warehouse and a drying centre in Maldonado).

Finally, cocoa is also brought directly to the drying centre of MCCH in Esmeraldas by both Colonists and Afroecuadorians. The cocoa which is centrally collected varies in quality and variety. This cocoa is processed removing the humidity before sending it to the MCCH drying centre in Guayaquil.

The collection of cocoa from non-associate producers is in part carried out by the promoter on his buying trips, but it is mainly the independent traders and the major traders who supply the cocoa produced by non-associates to MCCH. These independent and large traders arrive at the Esmeraldas drying centre and they are paid cash – the price depends on the level of humidity of the cocoa and the price established in Guayaquil.

6.0 Benefits for smallholders from the fair-trade in cocoa

The benefits offered to smallholders by MCCH include:

- a higher price paid for the cocoa and/or influence on local prices,
- a fairer and more transparent weighing system,
- provision of market information,
- cash payments,
- access to transport,
- incentives for the production of better quality cocoa by smallholders, and
- capacity building of MCCH agents and the cocoa growers.

Premium prices are only offered to associates, but MCCH's operations have led to local prices being pushed up thus benefiting both associate and non-associate farmers. Farmers and traders try to find out what MCCH is paying before engaging in cocoa trading taking this as a reference point for the weekly price. MCCH cannot maintain a constantly higher price when conventional prices rise to meet it. Currently, the price difference is so low as to be almost negligible. A clear difficulty faced by MCCH is that manifested in the complaints of farmers that the premium – for quality and for being an associate of MCCH – has stopped being effective and is very low, at only S/3,000.00¹⁸ (US\$ 0.27). The

¹⁷ Cooperative leaders say this is only a temporary arrangement. In future this group wish to collect more cocoa from the Borbón area and transport this directly themselves to Guayaquil for export. Currently, they lack access to capital.

¹⁸ At the time of fieldwork the currency exchange rate was fluctuating wildly. Here an exchange rate of 11,111 sucres to the US \$ is given.

approach of MCCH in terms of better prices and fairer weighing and grading is also beginning to influence practices in relation to other products such as coffee.

Fairer weighing and grading means that the farmers obtain a better deal overall. The balances used function correctly. The determination of the weight of the cocoa is directly related to the humidity of the cocoa and this determines the price paid. The MCCH buyers use a chart to determine humidity. On occasions when the farmers do not agree with the MCCH buyers, the MCCH staff demonstrate how they have achieved the assessment of humidity and sometimes will reassess the measurement and tend to err on the side of the farmer. A consequence of this transparency in the measuring of the humidity and thus in determining the price, is that MCCH encourages the production of better quality cocoa. The drier and fermented cocoa fetches the best price, although MCCH will not buy cocoa that is badly affected by pests and diseases.

Associates have priority in MCCH's buying of cocoa, which solves their transport problem. In some areas MCCH buys directly from farmers and MCCH has its own lorries and rural trucks. This has many advantages for MCCH which can maintain relations with their clients, ensure the basic storage quantity required, and be in direct contact with local problems arising. For the farmers, in a zone where transport is one of the key constraints, it saves them money (transport charges for goods and passenger fees) to the nearest towns and transport waiting times.

In terms of capacity building, MCCH has trained all its commercial agents – the promoters who are responsible for cocoa collection in each zone and farmers involved in the trade of cocoa. In some areas, MCCH has made an important advance in forming commercial leaders. Training is also provided through the Cocoa School (see box below).

Box 1: The Cocoa School¹⁹

The Cocoa School organised by MCCH has three levels.

- Level 1: provides training on production (conventional and ecological), and post-harvest technologies. Further, this level includes a module on organisational development.
- Level 2: trains farmers in farm management (including basic accounting, farm business management and organisational management).
- Level 3: trains farmers as coordinators of the collection/processing centres, including marketing, administration and leadership. The school is designed to train farmers over a period of three years. Modules (lasting 2-3 days) include theory and practice and each module covers a specific theme (such as land preparation). Workshops are open to non-associates.

The Cocoa School is still in its early stages and its impact has not been systematically assessed. All the farmers interviewed were positive about this training, but not all

¹⁹ MCCH also include modules on nutrition, gender, and the principles and values of MCCH in these workshops.

recommendations have been taken up by the farmers, such as reinvestment in cocoa through replanting (due to the labour requirements and the temporary reduction of income that would result).

MCCH aims to form an alternative commercial movement. This movement currently involves MCCH staff, local area promoters and the majority of farmer leaders of local organisations involved in cocoa production. Many farmers interviewed without prompting identified with the idea of an alternative trade movement and its principles. Farmers interviewed who are associates of MCCH identified with this 'movement' and felt 'satisfied' with the delivery of benefits and the development of self-esteem resulting from the support from MCCH and the relationships of trust developed.

The coverage in geographical terms of MCCH is limited. Some groups are excluded due to their location. No particular stakeholder occupational groups nor specific ethnic groups are excluded from joining MCCH's scheme. The Chachi ethnic group are marginalised from this particular fair-trade scheme because they do not cultivate cocoa. However, cocoa producers that live in remote areas are likely to be amongst the more marginalised and possibly poorer sections of society. These farmers may continue to be excluded because of the physical difficulties in reaching them. Farmers in these remoter areas on several occasions said that they would like MCCH to operate in their zone, although problems of accessibility and MCCH capacity are obstacles to this. MCCH staff capacity is currently at full stretch. MCCH says that to cover a larger area or to organise more producers for cocoa marketing would be difficult. The current promoters are totally occupied with a variety of different functions. Expansion of the number of promoters is limited by the high cost of training, payment of salaries and provision of vehicles.

There are no major obstacles to farmers joining the fair-trade cocoa scheme of MCCH in areas where it operates. Associates of MCCH are those farmers who belong to a local community organisation, some which were formed by MCCH specifically for the marketing of cocoa. Non-associates can, however, attend training workshops. There are 60 associates (heads of household) in the Las Mercedes 1 community organisation (including village and neighbouring community producers). The tendency to include all the producers in a community occurs as much in Esmeraldas as in Manabí. There do not appear to be specific obstacles to participation in the scheme or biases according to origin or ethnic group.

In the neighbouring community of La Laguna, the 55 heads of family are associates of MCCH. In Maldonado, of the 200 families, 77 belong to the MCCH Cooperative, and these represent all the cocoa producing families in that area. In El Artonal, in Quinindé, the 19 families of the community are all associates of the organisation which commercialises cocoa. Although, only the heads of household are members often others from the family can and do participate. MCCH encourages the participation of women in these meetings. Women are included in leadership skills training workshops and MCCH promoters also include women. However, if heads of household tend to be male there is the potential for female exclusion particularly from the control of cash obtained from the sale of cocoa and it is important not to assume trickle across benefits at the intra-household level.

The majority of groups formed by MCCH are for cocoa marketing. However, other groups are included in MCCH cocoa fair-trading such as the Afroecuadorian group (the Mercedes Cooperative). MCCH specifically attempts to make alliances with other organisations to increase their impact.

Smallholder producers of cocoa have some criticisms of MCCH's approach and felt able to make these openly in the presence of MCCH staff indicating a degree of trust in the relationships between farmers and MCCH staff. Farmers wanted further information about how prices are set and said they did not understand why it was determined exclusively in Guayaquil. In some zones, where there are no community based organisations, the farmers were keen for MCCH to amplify the dissemination of information on prices.

A clear difficulty faced by MCCH is that manifested in the complaints of farmers that the premium has stopped being significant. In certain areas the farmers also said that the MCCH zone buyers should have more cash available so that they are not left owing the producers when they hand in their cocoa. MCCH aim to pay cash immediately for cocoa bought, but these comments indicate that occasionally access to cash is limited. Finally, farmers also commented that MCCH should buy cocoa only from the "better" intermediaries and that standards of conduct should be set down which these traders fulfill.

7.0 Conclusions

This study has attempted to assess whether the involvement in fair-trade marketing of cocoa by MCCH compared to conventional trading has led to any lasting or significant changes in local livelihoods. Impact assessment needs to be systematic but local perceptions or judgements of impact are essential. Further, these judgements will vary depending on who is judging the significance of change (e.g. according to class, gender, age etc). Different members of smallholder farming families were interviewed and were consistently positive about the support received from MCCH. In the perceptions of the producers, the MCCH fair-trade cocoa scheme is delivering benefits to farmers (slightly higher prices or pushing up local prices, fairer weighing, technical advice etc). As with many organisations involved in fair-trade MCCH has not as yet been able to make an assessment themselves of the longer-term impact of its involvement in cocoa marketing for smallholders and their livelihoods. There is a growing recognition amongst organisations involved in fair-trade that more attention needs to be paid to impact assessment. A key challenge for fair trade schemes is to be able to ensure that there is an equitable distribution of benefits whilst avoiding top-heavy monitoring and evaluation and remaining financially viable.

MCCH has constructed a parallel system of cocoa marketing through appointing *acopiadores* or promoters from the farmer organisations, complemented by the MCCH zonal buyers. The majority of the cocoa is now sold on conventional markets (i.e. does not command a premium price), but the end point of the sale is irrelevant if the fair-trade scheme is still benefiting producers. MCCH is attempting to alter the terms of trading between producer and buyer. In the past this has included a higher price, although at the time of the fieldwork the price obtained was only slightly higher than the prices offered

by conventional traders. This is partly due to the influence of MCCH itself on local markets – sustaining a higher price represents a difficulty for fair-trade schemes of this kind.

A key characteristic of many of the communities in Manabí and Esmeraldas Provinces is that they are very isolated and remote. Transport is a key constraint to marketing. Overcoming this obstacle is important for any commercial enterprise. The extent to which a fair-trade organisation such as MCCH can overcome major infrastructure and transport problems more than any other export company is a key question. MCCH are reaching many isolated producers, but their geographical coverage is limited which means that some of the most marginalised cocoa smallholders continue to remain excluded from the trade.

MCCH has chosen the areas of highest production in which to operate. For this reason, MCCH does not work with the Chachis who produce low volumes of cocoa. In Esmeraldas MCCH works with the Afroecuadorians through the Cooperative Las Mercedes (which collects cocoa for sale to MCCH in Maldonado). MCCH works most intensively in the zone of the colonists of Quininde-El Artonal (also in Esmeraldas), because of its high production of cocoa. In Manabi, specifically in La Laguna and Las Mercedes 1, MCCH organizes trade responding to demands of the producers. MCCH are also planning to establish new collection centres in both provinces but only in the areas of highest production.

MCCH zone buyers prioritise the roads where MCCH local organisations exist and includes roads where there is a higher concentration of cocoa. This is an understandable strategy to maximise impact, although the consequence is that some isolated groups continue to be marginalised. In some cases major infrastructure, such as bridge construction, is required to connect a specific village to accessible roads and to allow cocoa marketing,

Whilst the geographical capacity of MCCH is limited, where MCCH does operate there are no real barriers to specific occupational or ethnic groups participating in the fair-trade cocoa scheme. Access to land and some experience in cultivating cocoa (the Chachis for example do not cultivate much cocoa) are the basic requirements for participation. Where specific groups, such as the Chachis, do not participate this is largely due to the single commodity focus of fair-trade schemes rather than an active exclusion operated by MCCH. In any one community where MCCH operates the majority of farmers have joined the scheme. The associates of MCCH tend to be heads of household, and whilst women can and do participate in training activities and work as promoters, at the same time there is a risk that an assumption is being made that benefits will trickle-across at the intra-household level.

When households face a particularly difficult time they turn to the shopkeepers to provide them with goods '*al fiado*' (on credit) and to the traders for small loans. The '*al fiado*' system appears to be a double-edged sword for the producers: it acts as a safety net enabling farmers to cope when facing adversity, but the households pay this back many times over in better times. The latter means that it is more difficult for them to achieve the 'ratchet' effect in their livelihoods (to increase significant access to different types of

capital and to gradually improve their overall quality of life – i.e. to escape the poverty trap). Higher incomes from fair-trade cocoa (from better prices and more accurate weighing) could assist farmers in these difficult times, although it is not clear whether the monetary differences would be sufficient to release farmers from the need to obtain goods ‘*al fiado*’. Links with the shops provide farmers with access to social capital (e.g. information dissemination, social contacts). If farmers buy at the MCCH communal shops then pressure is often put on them by the shopkeepers who refuse to buy their cocoa. Farmers can sell their cocoa via MCCH but it is not clear whether the farmers lose any access to important social capital as a result.

Cocoa is not the main income generator in the family budget, but it does provide a fairly reliable and alternative source of cash income throughout most of each year, particularly because the harvest lasts for 8 months of the year. Small portions of cocoa are sold because no monetised savings schemes are available. Returns on cocoa marketing have been improved, but at the same time reinvestment in cocoa trees is not a favoured strategy of smallholder farmers. This is because of potential pest and disease problems and variable yields²⁰. Instead the farmers invest in diverse crops and activities in order to ensure a secure livelihood. This would appear to be a wise strategy given the boom-bust cycles of commercial extraction evident in this region of Ecuador.

The approach of MCCH has led farmers to try and market other products of similar characteristics such as oranges and vegetables because they have increased their understanding of marketing having worked with MCCH in the sale of cocoa. Cocoa is not a labour intensive crop - the main labour required is at harvesting. The cocoa is grown on farms which are in reality complex agroforestry systems. Farmers market a diverse range of crops and there is potential for MCCH theoretically to support fair-trade marketing of other crops, such as tagua. This would provide opportunities for higher incomes and fairer weighing from a variety of products. The higher prices offered and correct weighing is also beginning to apply in the marketing of other products such as coffee.

MCCH has focused mainly on trading rather than production - a characteristic of fair-trade approaches. However, they have also provided technical support as part of their smallholder farmer capacity building. MCCH has also sought synergy by cooperating with other development agencies (e.g. various organisations are supporting the Cocoa School). At the same time fair-trade schemes can attract complementary development support from other organisations – the honeypot tendency – and influence other organisations (the Cocoa School has influenced the ideas in the Afroecuadorian National Plan which includes projects on cocoa and follows the mode of production and marketing promoted through the Cocoa School and by MCCH).

Capacity building support is provided to farmers in production, post-harvest and marketing skills through the Cocoa School, for example, but not directly to community

²⁰ Most cocoa producers do not use fertilisers. MCCH has promoted cocoa grafting and nurseries to renovate the older cocoa plantations (more than 40 years old). Pests and diseases attacking the cocoa represent a serious problem and neither biological control methods nor agrochemicals are known to control them. MCCH is promoting greater planning or ordering of their plots, cleaning the trees and burning of infested areas, although whether farmers have implemented these recommendations is unclear. MCCH could possibly apply for organic certification (especially for the Ecuadorian “*aroma nacional*” variety).

development projects through a social premium. Fair-trade schemes need to focus on capacity building to achieve significant and lasting change, particularly if the size of price differentials is limited. MCCH moved rapidly from working with secondary level organisations (federations) to community level organisations (in some cases creating new ones where these did not exist). Some of these community-based organisations, such as the Las Mercedes cooperative aim to export directly themselves in the future and will require capacity building support if they are to do so.

Rapid commercial success has presented new challenges for MCCH in terms of its capacity to manage the export of cocoa. MCCH has found that to compete it has had to buy large quantities of cocoa from conventional traders as well as smallholder farmers. Further the exponential growth in its export of cocoa has not been so closely matched by return of profits to smallholders.

MCCH also support quality control by not accepting cocoa which is infested by disease/pests, although they do accept low levels of pest and disease (at the discretion of the promoters) and by carrying out fair grading of the cocoa. Support to improving quality is a key role that can be played by fair-trade organisations with their international exposure and access to information regarding new regulations, although improved quality standards across an industry usually requires an industry-wide effort.

A key characteristic of fair-trade schemes is that they attempt to build long-term relationships with farmers. There are many indications that MCCH staff have achieved a remarkable level of trust between themselves and farmers. The transparency and fair treatment in negotiations by MCCH is valued by the farmers. Interestingly, MCCH began interacting with farmers in some villages through the communal shops and this helped to build producer trust. Further, by responding to farmer demands that MCCH buy their cocoa, the organisation demonstrated its ability to listen to the farmers' concerns. Farmers clearly identify with MCCH's support for an "alternative trade movement". The religious principles of MCCH – a church based organisation – are strongly apparent in their approach.

MCCH have social concerns at the heart of their operations. Environmental concerns tend to be secondary, although many fair-trade organisations would point to the interconnectedness of social and environmental issues underpinning sustainable livelihoods, but at the same time it is fair to say that fair-trade schemes are driven by social not environmental concerns. Improving cocoa production and supporting fairer terms of trade will provide added value to agroforestry systems of secondary forest.

Northern fair-trade organisations can clearly play an important catalytic role in providing farmers and organisations such as MCCH with access to international export markets and the opportunity to gain credibility in both conventional and fair-trade markets. The orders from Max Havelaar acted as a catalyst in getting MCCH started in their involvement in cocoa exporting.

In conclusion the MCCH fair-trade cocoa scheme has led to benefits for participating farmers in terms of improved social capital (via local organisation, networks between producer organisations) and human capital (technical knowledge and skills improved

through the Cocoa School). Improvements in marketing skills are combined with provision of market information. Payment in cash and improved incomes (from higher prices/better weighing and grading) may build financial capital, particularly where it helps farmers to avoid falling into *al fiado* arrangements with shopkeepers and traders. In recent years Ecuador has undergone significant political and economic insecurity that may undermine attempts at building an alternative fair trade movement. However, MCCH so far has been extremely successful in breaking the monopoly practices of conventional traders in cocoa marketing by offering improved terms of trading to farmers and long-term relationships, a result which is based on the people-centred approach of MCCH.