

Longitudinal Study
Cooperativa Agroindustrial Cacao Alto Huallaga
(Alto Huallaga)



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Introduction

Introduction

Shared Interest annually publishes longitudinal case studies. Using research carried out over a number of months, the studies follow the customer journey over several years. The objective behind this process is to understand the level of impact Shared Interest finance has on a recipient business and its wider community.

The subject of this case study is, Cooperativa Agroindustrial Cacao Alto Huallaga (Alto Huallaga) a cocoa co-operative based in central Peru. Alto Huallaga first received finance from Shared Interest in 2013 and have since received several increases on their original Commercial Export Credit Facility (COEC) and a Stock Facility (SF).

The key objectives are:

1. To explore the impact of each financial product individually, to understand how Shared Interest finance has affected Alta Huallaga business operations and describe the change process that has taken place within the organisation.
2. To examine any impact the business finance has had on producers, employees, and the local community.
3. To determine the critical success factors involved in the growth and sustainability of Alta Huallaga.

Method

In gathering data for the study, we used both quantitative and qualitative methods including mini-surveys, semi-structured interviews and group discussions. The target population for the mini-surveys included 49 cocoa producers and 26 workers of Alto Huallaga. The semi-structured interviews included one producer and two employees including the General Manager, Jorge Simon. In addition, we reviewed all available documentation on Alto Huallaga from 2009 to 2020. This included proposals, annual reviews, field visits reports and financial reports. The quantitative data was analysed using descriptive statistics and the qualitative information was analysed using both inductive and deductive content analysis methods. This research was carried out in June 2021.

Background

According to statistics provided by the International Cocoa Organization (ICCO), there are 14m cocoa producers globally and they produce a total volume of about 4m MT. Of this, they estimate that nearly 95% is produced by smallholder farmers. The average size of a cocoa farm is three hectares and production in most is low. In the majority of cases, annual yield is between 500 and 600kg of dry cacao per hectare.

Latin America produces 16% of the world's cocoa beans and is known for its high quality yields. A report from the Latin American and Caribbean Network of Fair Trade Small Producers and Workers states that over 100,000 MT of Fairtrade cocoa is sold around the world (even though over 200,000 MT are produced), of which nearly 25,000 comes from Latin America and the Caribbean, corresponding to over 5m US Dollars in social premiums. It also highlights that 90% of organic Fairtrade cocoa is produced in the Latin American and Caribbean regions.

Cooperativa Agroindustrial Cacao Alto Huallaga (Alto Huallaga)

Alto Huallaga is a cocoa producing co-operative located in the Huánulo region of central Peru. Cooperativa Agroindustrial Cacao Alto Huallaga was founded as an association of cocoa producers in the valley of Alto Huallaga in 2009 and its membership covers a wide area and varied altitudes, which increases the sustainability of production. The co-operative holds Fairtrade, UTZ and organic certifications, which attract a premium price from European buyers focused on high-quality cocoa, guaranteeing a good income for its members. Five Collection Centres are strategically located in the towns of:

1. Tingo María
2. Aucayacu
3. Nuevo Progreso
4. Tocache
5. San Alejandro

These collection centres have been established in order to bring the advisory services and cocoa beneficiation to their partners in a way that guarantees the homogeneity of the product quality.

Alto Huallaga first contacted Shared Interest in 2012 when their Administrative Manager (now General Manager) visited our South American office in Lima. They became a Shared Interest customer in 2013, when we provided a Commercial Export Credit Facility (COEC) of 300k US Dollars.



Panoramic photo of the collection centre in development: dryers and drying materials

Business Growth and Sustainability

In 2015, Shared Interest approved an increase of the COEC facility to 700k US Dollars and it was increased again in 2016 to 900k US Dollars. During the same year, the Stock Facility was also increased to 200k US Dollars.

General Manager Jorge Simon told us how this continued support enabled Alto Huallaga to collect and sell coffee consistently: *“In the past, the association worked in a very inconsistent way - one month on, half a month or one month off, sometimes the centres closed, since obtaining financing with Shared Interest, no centre has closed up to now.”*

At the end of 2019, Alto Huallaga chose to restructure their finance facilities to better meet their needs. Their Stock Facility was increased from 200k US Dollars to 400k US Dollars and their COEC facility reduced from 900k US Dollars to 700k US Dollars.

To strengthen the sustainability of the business and increase profit, in 2020, Alto Huallaga began producing cocoa butter and powder, which have much higher profit margins than beans.

Figure 1: Production volumes (kg) of cocoa

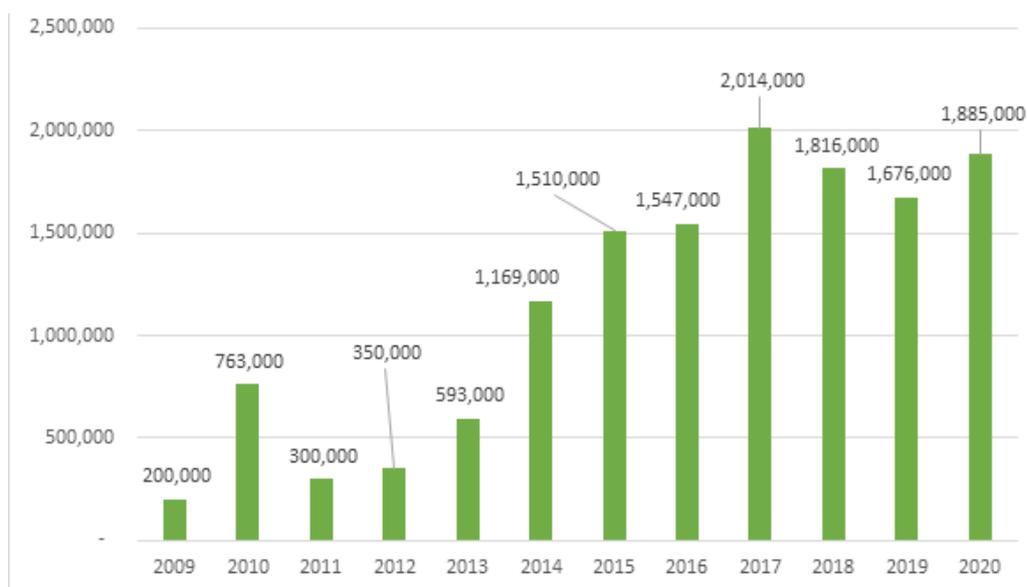


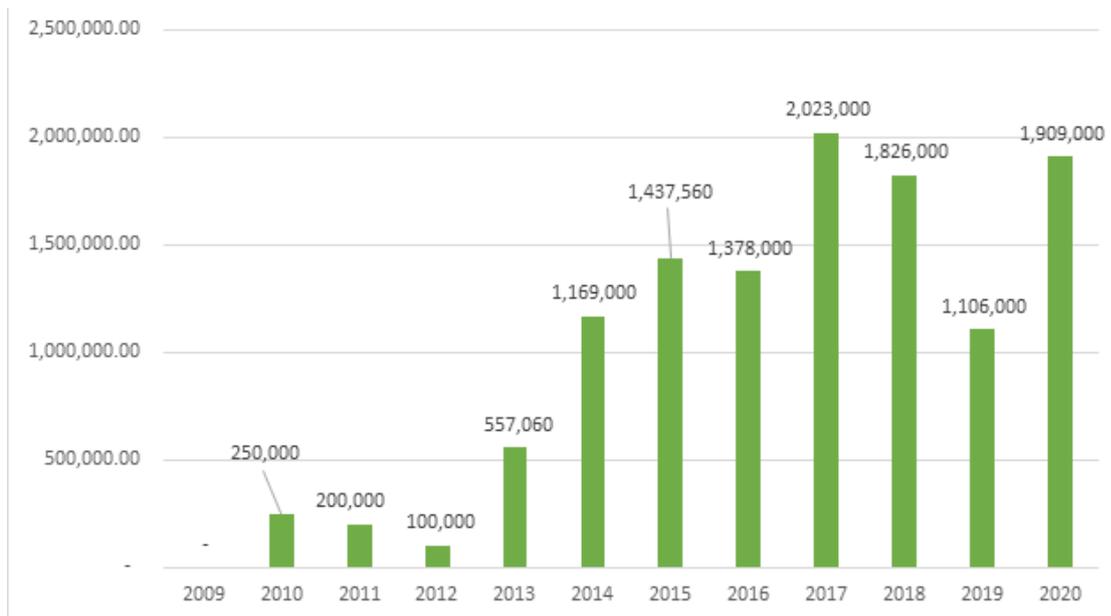
Figure 1 shows how cocoa production began to increase in 2013 after Alto Huallaga secured their first finance facility, which enabled them to start to provide technical assistance and training in good farming practices to their members, to improve the production of their farms.

Jorge Simon said: *“We do a full review of their land and give the necessary suggestions for them to improve. We also give them placements so they can see how model plots are being managed, where there is greater concentration of crop and they can see how they can almost duplicate their production.”*

They also began providing credit at a reduced rate to enable farmers to purchase fertilisers and other inputs. Production continued to steadily increase from 2013 to 2017. In late 2018 and throughout 2019, production declined due to the increased challenges of pests. This

was resolved with increased fertilisation and improved agricultural activities and production in 2020 started to increase.

Figure 2: Volume (kg) of cocoa exported



In 2013, the volume of cocoa exported by Alto Huallaga significantly increased from 100,000kg in 2012 to 557,060 kg in 2013 after they received their first COEC facility from Shared Interest and as production increased. Export volumes continued to steadily increase before peaking in 2017.

By 2015 Alto Huallaga were among the top ten exporters in Peru but, as shown in Figure 2, export volumes began to decline from 2018 – 2019 due to a significant drop in the international market price for cocoa.

In 2019, the co-operative choose to increase sales to the local market, which offered a more competitive price and, as a result, 34% of their production was sold on the local market that year. Another factor in the decline seen in 2019 was the global concern about the effects of cadmium (a chemical found naturally in cacao) on kidney health. As a result, the European Union (EU) introduced new restrictions on the acceptable level of cadmium in processed chocolate and Alto Huallaga took time to ensure their product would meet the new standard.

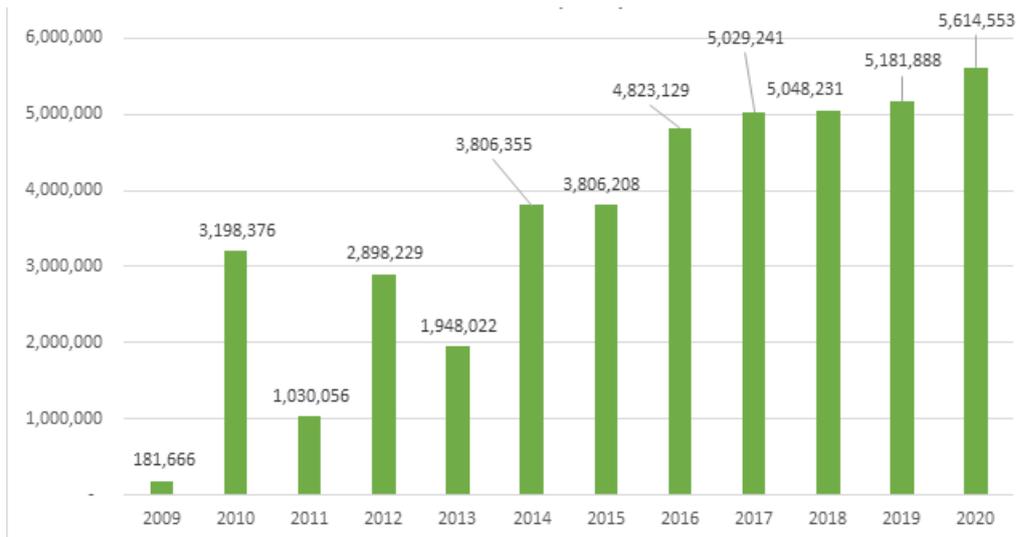
In 2020, they exported 100% of their production and started a new commercial relationship with an international buyer. This year, they became the second highest exporter of cocoa in Peru and they have been able to diversify their client base to increase their sustainability.

Jorge Simon commented: *“We have been able to expand our financing [after Shared Interest], both international and domestic, we have options in finance and we have alliances, now we have people wanting to work with us whereas before we were ignored when we were looking for partners to assist us develop.”*

As production volumes began to increase in 2013, the value of sales also started to increase. Figure 3 shows a slight decline in sales in 2015 because their buyer detected traces of weed-killer in some of the cocoa and deducted the organic margin from the price paid, leading to a reduction in value of sales. An investigation was conducted and it was found that, due to the close proximity of farms, some Alto Huallaga members were

affected by the neighbouring farms use of weed-killer. To minimise this going forward Alta Huallaga implemented a plan to increase awareness on organic standards and its importance to the association, they hired more technical assistants to improve the monitoring of the farms, increased the price paid to the farmers for the organic cocoa and facilitated the acquisition of organic fertilisers for the members. Since these measures were taken, no other issues have occurred. In 2016, sales increased due to an increase in exported volumes and the co-operative began selling to a two additional buyers giving more certainty on price and sales volumes.

Figure 3: Sales value (USD) of cocoa



As mentioned above a decline in the world price of cocoa in 2019 led to a reduction in production and sales. In 2020, the value of sales increased as all of the cocoa produced was sold to international buyers at a higher value than could be achieved in the local market. Alto Huallaga estimates a further increase in sales in 2021 after securing an additional buyer for their cocoa.

Jorge Simon, told us how this converted into improved conditions for the workers:

“The finance in 2013, this is when we started to improve working conditions bit by bit. Before there were no desks or tables or floor (just earth) or internet, then we moved from desk computers to laptops, now we have fibre optic there are so many things that have improved for the workers.”

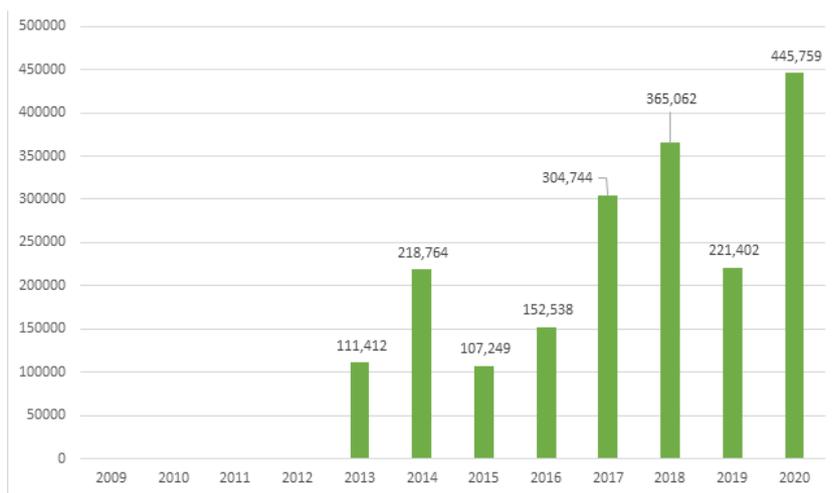
Jorge also commented on the impact of finance from Shared Interest on the producers:

“The support [from Shared Interest] gave us stability, the interest rate is good, we have good cash flow and it has generated confidence in the farmers and the workers. When I started, the co-operative owed money to all workers and now it doesn’t owe anything.”

Fluctuations in Fairtrade Premium earned, as shown in Figure 5, reflect the volume of cocoa sold to the international market. Between 2013 and 2014, the Premium earned increased sharply as Alto Huallaga significantly increased their sales to Fairtrade buyers. In 2015, the value earned reduced as their main buyer requested a larger volume of conventional and

organic cocoa, and reduced their Fairtrade order. In 2016, Alto Huallaga began selling to a second fair trade buyer, leading to an increase in their Premium earned from 152,538 US Dollars in 2016 to 365,062 US Dollars in 2018. However, in 2019, the Premium earned reduced as the co-operative sold an increased proportion of their cocoa on the local market. The rate then increased in 2020 as they returned to selling 100% of their cocoa on the export market.

Figure 4: Fairtrade premium earned (USD)



This Premium has supported Alto Huallaga to implement a number of social and business initiatives. Jorge Simon comments:

“There have been many things we have done, health, finance, which have been possible because of Fairtrade. There have been repairs needed where we have been able to assist because of money provided by Fairtrade. Signs, communal areas, assembly hall and investment in the structures of the co-operative.”

It should also be noted that at the height of the pandemic, Alto Huallaga obtained a loan from Banco Continental. This local commercial bank was able to offer support under the Reactiva Peru scheme established to support organisations affected by Covid-19. Unlike many co-operatives, the organisation was able to adapt and quickly recover their normal level of operations, despite a high level of Government restrictions on movement in the region.

Social impact

In 2009, soon after acquiring the land to operate, Alto Huallaga built the first road in the area. This provided a focal point for people to build houses and other establishments and started an era of community development. The co-operative provided electricity to ten households and successfully campaigned for the area to be connected to the electrical grid.

The increase in sales and the Fairtrade Premium has also enabled Alto Huallaga to establish a number of social, educational and health initiatives to support farmers, their families, and the wider community. The co-operative provides financial support to workers who require healthcare and they offer financial support to bereaved worker families. They have also provided mental health workshops. In addition, the co-operative has provided free training to

chocolatiers and, as a direct result, the district of Tingo Maria has seen an increase in businesses producing chocolate.

The organisation has also arranged for technicians to visit farms and communities to deliver gender equity training, discussing the issues facing women. Women's participation at all levels is very important to the co-operative. Over the years, on average, 20% of members have been women, 40% of the Board are women and on the advisory council, three out of six members are women.

In 2017, the co-operative launched a soil improvement project, which investigated the impact of fertilisers to reduce cadmium in the soil, which can threaten soil quality, food safety and human health. As a result of actions taken after the study, cadmium has reduced by 40%. Currently they are delivering a project in partnership with a government organisation, focused on pests and diseases.

Organic production is at the centre of their business. Training has been delivered to producers in the correct application of fertiliser, and the negative impact of deforestation. Alto Huallaga has also worked alongside private and public organisations to deliver workshops on the dangers of contamination caused by the use of chemicals.

In 2018, Alto Huallaga formed an alliance with a French NGO to deliver a project focused on reforestation and sustainable wood management. Activities delivered as part of this project include planting trees suitable for wood on the farms and in surrounding areas, and planting trees to provide shade for the cocoa plants to support their growth and to create natural boundaries.

In a survey to their farmers, we found that the majority of those surveyed said that their income levels had improved; 49% said significantly and 35% moderately.

Interview with Carlos Enrique Gómez Bernal

Carlos is 51 years old and lives with his wife. He is a cocoa farmer and has been a member of Alto Huallaga since 2012, where he also served as president for seven years. Carlos' farm is three hectares and he received the land as inheritance from his parents who were also cocoa farmers.

"Before, the diseases that are always in the cocoa we [producers] didn't know how to control them, so with the technical support of the Association at that time, we started to change the history of production."



Carlos Enrique Gómez Bernal

Carlos told us how the co-operative has supported him to access fertilisers through an affordable credit scheme and technical officers have taken soil samples from his farm to calculate how much fertiliser he needs to apply;

"In the past, members used to fertilise for the sake of fertilising. So now with the support of the co-operative doing soil analysis we know what percentage of fertiliser each plant needs. It is no longer a useless expense."

Carlos has also received training in post-harvest handling, quality control and farm management and participated in internships organised by the co-operative to enable farmers

to travel to other regions to learn about different farming methods. This has all lead to increased cocoa production.

“The co-operative always does internships with the members, and that has allowed us to know realities of other regions, and in those internships you learn a lot and you apply it in your plot.”

Whilst President, he went to the Salon Du Chocolat in Paris (a global event dedicated to showcasing the best in chocolate and cocoa) and to BIOFACH (the world’s leading trade fair for organic food) in Germany.

When Carlos first joined the co-operative in 2012, he was producing 800 kg per hectare. Now, as a result of technical training and support received, he is hoping to record 1,700 kg per hectare. Despite this growth in production, Carlos’s farm has also been affected by climate change, which has resulted in an increase of diseases and pests. To help reduce this impact, Carlos is visited by a technician from Alto Huallaga weekly. He shared how these visits have played a vital role in helping him increase his resilience to the effects of climate change:

“When you have a visit from the technician, you know what to do with your plot. Before if there was a pest, most of the members would use chemical products. But then the co-operative started to work on the organic aspect.”

From the sale of his cocoa, Carlos earns on average 1,350 PEN (£239) per month. Every two months, he also works as a driver to supplement his income earing an extra 1,000 PEN (£178). Carlos manages his farm independently but hires two workers to support him with harvesting cocoa. He pays each of them 50 PEN per day (£11).

In addition to the training, Carlos receives in cocoa production and harvesting, he also shared how Alto Huallaga provides emotional and mental health support to their members with support from professionals.

“Before, the social problems they experienced here in the Alto Huallaga have been very hard, and there are some members that have had family losses, or there are some children that have lost their parents. So trainings on emotional topics, have made us change quite a lot in those issues. The member is now more communicative, if he has any problem he is talking about his problems. So, he trusts more the co-operative.”

When he first joined Alto Huallaga, Carlos remembers that he could wait up to 15 days to be paid after delivering his cocoa to the co-operative but since Shared Interest started working with Alto Huallaga, he has noticed a significant improvement.

“When we had no financing, we were improving little by little and the payment was longer than 15 days. Now the payment is on time, some days it takes a couple of days at the most, but mostly the payment is on time. I deliver the product right now, the next day they are depositing in my account.”

Carlos also explained how Alto Huallaga supported its members with emergency loans to purchase food or medicine and helped with funeral expenses after recent floods and Covid-19.

“With Covid, the co-operative is always in constant communication with us, you know, about what do we need? What problems do we have? They are always in communication with us. If any of the members were sick, the co-operative was providing support immediately,

medicines, they taught us how to make disinfectant foot bath when entering the house, how to manage the entrance of each person when they come to visit you.”

He concluded;

“Shared Interest’s name will always be in the history of the co-operative because they were the only financier at the time that believed in us.”

Interview with Geider Falcon Paredes

Geider is 39 years old and lives with his wife and two children. He also supports his parents by paying for their health insurance. He works at Alto Huallaga as the Chief of Production and he is also a trained agronomist. Geider was one of the founders of the co-operative in 2009 and was the first president of the council.



According to Geider, in the early years of the business, the working conditions at Alto Huallaga were poor.

“A lot was lacking, we sold a lot to the Italian buyer and we depended a lot on them for financing, but this was limited and we couldn’t purchase or invest in scale or find alternative sustainable customers. Our buildings were in a poor state and overall it was difficult to find quality cocoa.”

The quality of the cocoa was low as the soils were of low quality, only protected by wire fencing, and the warehouses were made of wood, which is susceptible to contamination and resulted in poor quality cocoa. The low income of the co-operative also meant that staff were not able to always be paid on time, prioritising those members with financial dependents.

As Alto Huallaga became more established, they focused on growing the organisation. They looked for other investors but struggled to secure international financing.

“Before we had international financing we worked with local investors who provided capital for stock that allowed us to buy and export small amounts” (12.5 MT initially, increasing to 100 MT) But the interest was very very high and the amount wasn’t enough for us to export at the volumes projected.

“With the financing from Shared Interest we had a very rapid growth which became more and more sustainable.”

Now the land where the co-operative is based is completely secure with a 9m high wall, which assures quality of the cocoa and safety of staff. The co-operative also constructed an office and warehouse, which holds 250 MT of cocoa.

Geider has been supported through the co-operative to attend a number of training sessions. In 2014, he attended English classes and trained in organic production and fair trade. Alto Huallaga funded 50% of the cost of these courses. He has also received training in soil management and tropical crops delivered by experts from the National Agrarian University La Molina in Lima and from the Peru Cacao Alliance.

Geider told us of the impact of the training provided to members: “[They were] mainly in quality improvements, quality control and we have won quality competitions at both local and national level and international, thanks to the training.”

In 2019, the co-operative came third in a national competition, the first producer from their region to qualify.

“I feel secure, because we work on the basis of results and the results have been good in terms of exports. If there aren’t results, nobody has job security”

He commented on how Shared Interest has contributed to improved job security through providing access to finance: *“Without capital we can’t do anything, we would have to go back to local financiers with extremely high interest rates.”*

Since buying the first plot of land in 2009, Geider has seen how the co-operative has supported the surrounding communities, including the installation of a permanent source of electricity.

“When we bought the land in 2009 it was wild, we were the only ones buying land. After buying, we started to build a road. With the road, others started buying land close to the co-operative and now it is organised and populated. We were the only ones with electricity; we provided it to around ten families living close by.”

“We are grateful for the support [of financiers] and the coop has grown and we now have stability and thanks to Shared Interest which is one of the main backers. No one believed in the coop, but it gambled, and had faith and this has led to good results and growth.”



Geider Falcon Paredes delivering training on the fermentation process of cocoa beans.

Summary

As the impact of climate change makes farming more difficult in Peru, technical assistance and financing has become even more crucial for many small farmer co-operatives. Alta Huallaga, like many co-operatives, has faced challenges. However, our research has shown that the organisation is more resilient and sustainable since receiving our finance. The past

two years have been particularly challenging, as pests and disease damaged their cocoa trees. Despite this, the co-operative increased the amount of cocoa sold to the international market and began new commercial relationships in the past two years. They are now working on developing derivative products such as cocoa butter and powder: the profitability of these items can be up to five times higher than cocoa. To enable the co-operative to produce these additional products, they are building a production plant, which will be completed in 2023.

Over the past eight years, the co-operative has doubled the number of employees and now works with over 500 farmers, 33% of which are women. Training provision has embedded organic farming practices and improved yields, while also reducing environmental impact through reforestation and sustainable wood management. Sales have increased from 1.95m US Dollars to 5.6m US dollars in 2020. In addition, the Fairtrade Premium they have earned has increased from 111k US Dollars in 2013 to 446k US Dollars in 2020.

Increased production and sales have led to increased employment and income for the workers and farmers. In addition to this, the community has benefitted substantially from improved road infrastructure, the installation of electricity and health care provision.

“Shared Interest will always be remembered in the history of the coop as providing assistance when we really needed it and given that without finance nothing can be achieved.” Jorge Simon, Alto Huallaga General Manager.