Typology of Cocoa Value Chain Governance in West Sulawesi

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ABSTRACT

This paper discusses the value chain in cocoa marketing activities that occur in cocoa farmers to cocoa bean processing institutions. The typological approach is carried out to find out the relationships that are established in each chain starting from the farmers as the first chain (producers) to the processing institutions. An efficient marketing process is one of the objectives of cocoa marketing activities. Value chain governance can illustrate typological coordination patterns that are related to each actor and show the type or type of governance type of each chain involved in marketing cocoa beans. Value chain governance (VCGs) is used to (1) identify the value chain and (2) determine the type of governance that is established in the cocoa market. So that we can know the conditions and types of governance that occur in the marketing of cocoa from the farmer to the final consumer. The method used is the analyze of VCGs by selecting a sample in a snowball sampling and calculating based on existing variables (complexity, codified, and capability). The results showed that through the VCGs approach which resulted in (1) there are 3 value chains with types of governance in cocoa marketing activities and (2) there are 3 value chains with types of governance, namely the value chain 1 (farmers–collectors-exporters) shows the Market type, value chain 2 (farmers-exporters) in Relational type, and value chian 3 in Hierarchy type (farmers-processing). Market type occurs if the value of complexity in low score, codification and capability gets a high score, Relational occurs if complexity and capability are in high value and the codification value is low, and Hierarchy occurs when the complexity is high but the codification and capability are low.

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Keywords:
Capability; codified; cocoa; complexity; VCGs
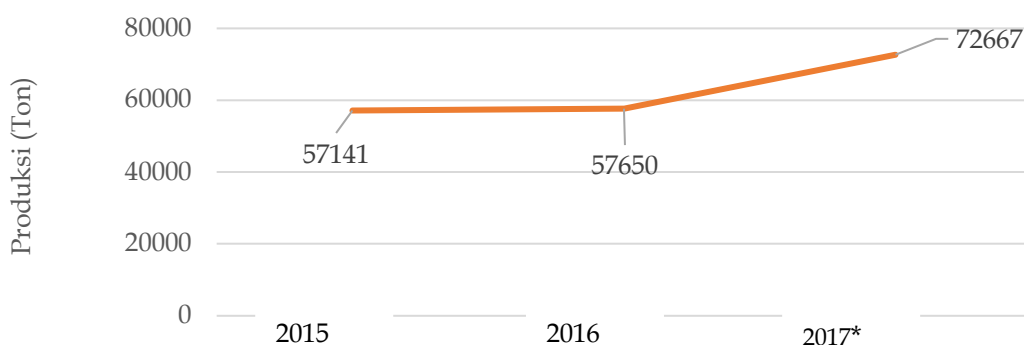
1. Introduction

Agricultural activities has become one of the important sectors in West Sulawesi particularly on plantation activities, because it can increasing the value of regional GDP (PDRB) on the basis of current prices of 42.07%, whereas plantation activities contribute 21.03% of the total. This can be achieved because it is supported by the potential of natural resources such as superior plantation crops in the West Sulawesi area *e.g* cocoa plants that having areas of 135,695.32 hectares, 6,445.28 hectares of coffee plantation, and 61,159.95 hectares of oil palm, so that cocoa plants are the vast area compared to the other plants and the increasing of production has been shown. It is

inseparable from the role of farmers who made cocoa commodity as a business activity process with the number of 5,300 farmers that has ownership status of their own (BPS Sulbar, 2017). Thus, this will directly affect the economic activities of farmers in West Sulawesi.

According to the results of research and evaluation conducted by the Monitoring Committee Jakarta Regional Autonomy Implementation (KPPOD) in 2013 the achievement of the Gernas Program in one District in West Sulawesi in the period of 2008-2011 Generally stated that the Gernas Program in the 2009-2011 period was able to increase cocoa production by 58 percent and productivity by 55 percent but there is one fundamental problem that Gernas found that the absence of cocoa stakeholders forum that brings all actors with an interest in the sale of cocoa.

Governance is one of the efforts of the set up to manage a system in achieving certain goals in order to benefit from the rule which applies to an organization or institution that collaborated with several individuals and groups so as to obtain benefits together. Particularly in the management of cocoa plantations, many involve the role of farmers in producing cocoa beans that are in accordance with market demand and in which a chain component is involved in producing products desired by consumers.

Production activities will continue to increase if supported by the enthusiasm of farmers in conducting good aquaculture activities, but if the results obtained by farmers are not as expected, it is assumed that this can affect the welfare of farmers so that market activities become an important support for farmers. Since 2015 to 2017 continued to increase production based on the data can be seen in Figure 1.

Figur e1. Amount of Cocoa Production in West Sulawesi in 2015-2017
Source: Ditjenbun 2016 (data processed)

According Ditjenbun 2016 the price of cocoa beans world of the year 2011 amounting to 2.74 (US $ / kg) and in 2014 only the range of 2.89 (US $ / Kg) but if the conversion Rupiah in the range of 9 068 (Rp / Kg) for 2011 and 2014 the exchange rate against the Rupiah valued at 12 440 (Rp / Kg) according to Bank Indonesia (BI 2015) data. The price increase that occurred was not sufficiently influential so that cocoa prices in the domestic market did not experience the increase was quite high and at the producer level from 2011 to 2014 it was worth 19 259 - 23 335 (Rp / Kg) in a period of 4 years farmers only experienced an increase of Rp 4 076 but if they saw the data happening the price is quite far between domestic prices and cocoa prices on the world market, so it needs to be studied further through the value chain governance (VCGs) approach on cocoa plantations to the level of cocoa marketing efficiency in West Sulawesi. As well as can be seen in Figure 2.

In Figure 2 shows an increase in the two prices, at domestic prices and world prices tend to increase the same but show a fairly far comparison or the price looks widening between the world and domestic prices that can be observed in the last year the price difference at the consumer level reaches Rp. 12 783 compared to the producer level or price at domestic producers, so it is assumed that in this case the cocoa marketing activities on the world market are not conveyed as a whole in buying and selling activities in the domestic market. The same is evidenced by the research of Nabhani et al (2015) that there is a gap between international prices and farmer prices due to the existence of asymmetry, especially on the supply side. Arsyad *et al* (2008) stated that the price of cocoa beans was influenced by prevailing export prices, exchange rate production growth and time conditions.
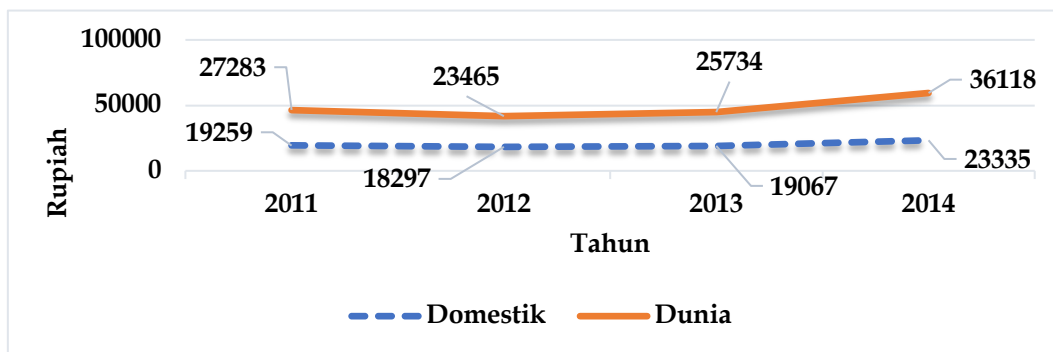

Figure 2 Comparison of the World Cocoa Bean Prices and Price-Level Manufacturer 2011- 2014.
Source: Pusdatin Cocoa Outlook, 2016 (after processing)

Effective and efficient marketing is the key to increasing income for farmers. According to Rheza and Karlinda (2013), the marketing value chain can affect the price level for farmers. In research Arsyad *et al.* (2013) marketing is one aspect in educating small farmers to strengthen cocoa institutions to achieve prosperity for small farmers in Indonesia. If the farmer's marketing chain gets shorter, it can increase the farmers' selling price of cocoa beans so that they can increase the price range received by farmers and easier market access and can shorten the marketing chain as well as in.

Governance is a broad concept based on interactions that are interwoven in chains that have been organized and do not occur randomly. The governance of value chains (VCGs) can illustrate typologically the patterns of coordination that are established in each actor (Gereffi *et al* 2005). Value chain development is a participatory process that leads to comprehensive and coordinated interventions to achieve pro-community economic growth as an initial chain especially for small farmers and all value chain actors, including resource-poor producers (ACIAR 2012). So, by analyzing the value chain system that emphasizes governance (governance) can make us understand about the conditions of the challenge, and the competition that occurs by identifying relationships and mechanisms in coordination, and understanding how interconnected chain actors are interwoven.

Governance is one form of efforts that is made from regulating to managing a system in achieving certain goals in order to obtain the benefits from the existence rules which enforced in an organization or institution work with several individuals and groups so that they benefited together. Particularly, in the management of cocoa plantation involves many roles of farmers in producing cocoa beans that in accordance to market

demand and chained involving components in providing the products that desired by consumers, thus it describes the forms of cocoa value chain governance in West Sulawesi.

Value chain governance illustrates typological pattern regarding coordination that established of each the involved players in marketing cocoa beans. Value chain development is a participatory process that leads to comprehensive and coordinated interventions to achieve pro-community economic growth as an initial chain particularly for small farmers and all value chain players, including resource-poor producers, so as to analyzing the value chain system that emphasizes governance can make understanding about the condition of challenges and competition by identifying the relationships and mechanisms in coordination, also understanding on how chain players are well interconnected or interwoven.

Governance is a broad concept based on interactions that are interwoven in organized chains that do not occur randomly (Gereffi, et al 2005). Typology in governance will be better if supported by consumers or buyers, and in research led by Vurro *et al* (2009), which aims to broaden the concept of value chain governance from the relationships between companies and the global world because they find obstacles to regulation of international trade, reduced transportation costs, and advances in technology and communication. According to Gereffi *et al* (2005) by presenting five types of value chain governance i.e hierarchy, captive, relational, modular, and market concludes that the global value chain structures are depending on three variables: transaction complexity, ability to codify transactions, and capability on the supply basis (for example knowledgeable users, like producers in the automotive industry, plays an important role in forming the rules). The value chain governance theory based on three main factors, i.e as follows:

1. Complexity, the information and knowledge transfer that need to maintain certain transactions, especially regarding product specifications and interwoven processes.

2. Codification, the extent to which in this information and knowledge can be codified through investment between the parties in transaction.

3. Capability, the supplier's actual and potential capabilities in relation to the adjusted needs of the transaction results.

Therefore, the purposes of conducting this research were analyzing and identifying the value chain that occurs on each supply, also determining the intertwined type of governance in cocoa marketing activities in West Sulawesi.

2. Method

In this study, there are questions and research objectives need to be achieved, i.e identifying the existing value chain and determining the type of governance that occurs in West Sulawesi by collecting data and then processing the obtained data as a support in answering questions. Analysis were carried out qualitatively and quantitatively to achieve the purposes of the study. In obtaining the qualitative data, descriptive analysis was carried out to analyze the form of governance (value chain governance) of cocoa marketing in West Sulawesi through analysis of value chain governance by evaluated 3 variables (complexity, codification and capability) which are determining in governance typology assessment of indicator derivation of each

variables. In quantitative analysis, the indicator results from existing variables were calculated. The data were collected on location purposively and used a snowball sampling.

2.1. Analysis *Value Chain Governance*

Governance analysis conducted descriptively by using a questionnaire containing a series of questions that can reduce and describe the occurred value chain occurs, in order to find out the working various rules on the value chain, as well as existing coordination, regulation, and control systems when the value chain is formed. The initial purpose in this study will be answered used a cocoa value chain analysis by observing the relationships between players that generates a typology of value chain governance or through descriptive analysis by observing the main variables in classified governance from the value chain as stated by Gereffy *et al.* (2005).

Approachment was conducted in order to be able to discover the 3 variables in typology determining by mapping each variable through considering, evaluating and indicators derivation of these three variables as according to Gereffy (2005), as follow:

1. Complexity, the main indicator of a farmer's ability to fulfill products (cocoa beans) that needed by consumer,

2. Codification, the main indicator of farmers' ability to classify the types of quality that needed by buyer, and

3. Capability, using indicators by looking at the ability of farmers and consumer to make an agreement formally and informally.

Based on Table 1 the levels or dynamics that occur are as follows.

Table 1. Indicators on the three Variables of VCGs

No	Variables		Indicators	Judgment Yes	No	Points
1	**Complexity** Using the main indicators on the ability of farmers to fulfill the product (cocoa beans) needed by consumers	a	Know the type of product that will be purchased by consumers	1	0	1
		b	Know the number of products that can be produced	1	0	1
		c	Know how to handle the product produced	1	0	1
		d	Knowing the consequences of the product produced	1	0	1
		e	Know the prerequisites submitted by consumers and the provisions of the products to be sold	1	0	1
			Total		0	**5**
2	**Codification** Using the main indicators on farmers' ability to classify the types of cocoa beans with the quality needed by consumers	a	Get service to improve product quality and quality	1	0	1
		b	Knowing the determination of the level of grading on the product to be produced	1	0	1
		c	Knowing the existence of rules and monitoring of product results that apply	1	0	1
		d	Knowing the existence of tools used in measuring the quality of the products produced	1	0	1
		e	Whether the support services provided are in accordance with the specified product requirements	1	0	1
			Total	**5**	**0**	**5**

3	**Capability** Using indicators by looking at the ability of farmers and consumers to make an agreement formally and informally.	a	Knowing the form of contract that is established	1	0	1
		b	Is the contract formal and knows the contents of the agreement	1	0	1
		c	Whether buyers demand is difficult to fulfill	1	0	1
		d	Do you get incentives for compliance with the rules that apply	1	0	1
		e	What is there a law or sanction given	1	0	1
			Total	**5**	**0**	**5**

The measurement can be made of indicators or criteria that represents the three variables above with the consideration of evaluating the calculation on each point of obtained indicators and eventually will show a number that can be concluded according to the criteria derivation on the indicators. The highest number is 5 points and can be categorized as high, but if the value is less than 5, then the average calculation done by using an average value of 3 so that if the obtained points or value number are more higher will be categorized into high dynamics and vice versa. If the obtained points are < 3 will be stated as low, it is because of the typology category in VCGs that has been developed by Gereffi *et al* (2005), the dynamics model as illustrated following in Table 2.

Tabel 2. Dynamics *Value Chain Governance*

Tipologi *(VCGs)*	Complexitas	Codified	Capability
Market	Low	High	High
Modular	High	High	High
Relational	High	Low	High
Captive	High	High	Low
Hierarchy	High	Low	Low

Source: Gereffi *et al.* (2005)

3. Results and Discussion

3.1. Mapping Value chain Cocoa in West Sulawesi

Mapping the value chain was done to discover and to describe the conditions of the cocoa value chain in West Sulawesi. This step is a way to facilitate the analysis of value chain activities that are interwoven in each player in order to recognize the conditions the value in each chain has increased or vice versa, which starts from the farmers chain who act as suppliers, until the retailers of the cocoa beans final product.
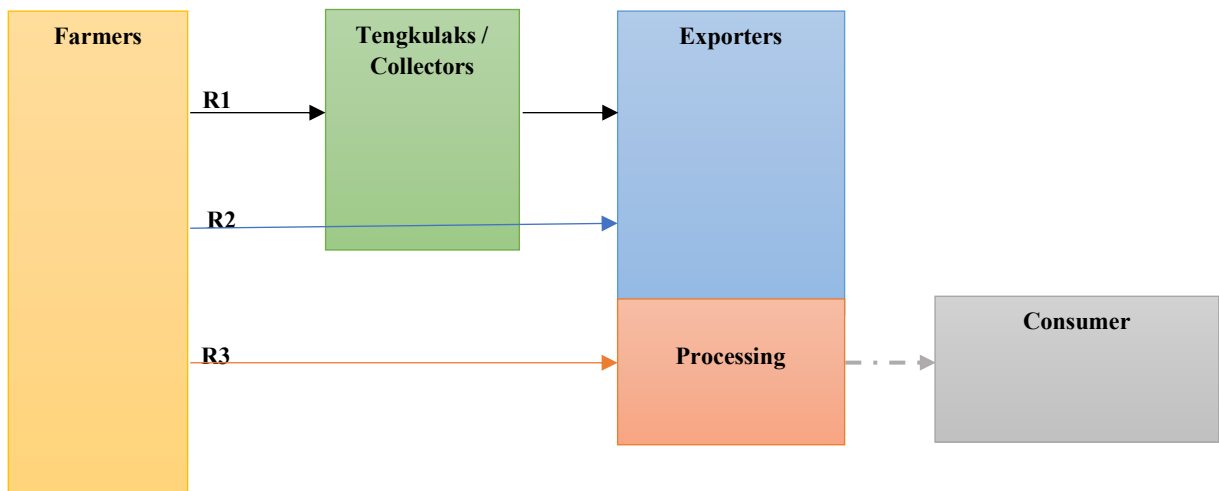
Figur 4. Mapping value chain activites cocoa in West Sulawesi

This research shows that marketing activities or activities in each chain found in three chain actors then sell their cocoa beans to marketing institutions consisting of 7 middlemen, 3 exporters and 2 processing and farmers consist of 100 farmers (R1 = 70 farmers, R2 = 28 farmer, and R3 = 2 farmers), the chain starts from the farmer as the first producer of products that cultivates cocoa to produce cocoa beans as export raw materials and raw materials for processing up to the end consumers who need it, and the parties involved according to each position according to the results of the cocoa value chain mapping in West Sulawesi or can be seen in Figure 4.

The study results of Arjakusuma *et al* (2013) in the carried out value chain mapping, there are seven players involved in the value chain, i.e raw material suppliers, suppliers of supporting materials (sugar, coloring materials, packaging), restaurant sales agents / retailers, and consumers. All players who involved in the value chain have their respective functions and roles. But, in this study there were 3 chain players from farmers as suppliers (producers) of the main traders and large traders acting as consumers who submitted specifications for the products. Kotler (2003) and Levens (2010) stated that the marketing channel describes a network where all parties are interrelated with each other in distributing goods and services that started from producers so that they are conveyed to consumers. According to ACIAR (2012), the stages in mapping each value chain are conducted to find what is the core of the involved players, products flow, knowledge and information in the chain, origin and to where the products were delivered. The condition of the cocoa value chain in West Sulawesi as mapped in Figure 4.

3.2. The Role of actors in Each Value Chain

The players in each chain can be identified from their respective roles in the cocoa value chain in West Sulawesi of each chain that perform cocoa trading through transactions in each chain that can be discovered after the mapping of the value chain (R1, R2, and R3). In order to find out the role of each chain according to the results of research, thus it can be described from each chain starting from the basic chain, i.e farmers, traders, wholesalers and processing activities that proceed to sell the cocoa beans final product. The roles of each cocoa value chain in West Sulawesi as follows:

3.2.1 Farmers - Collectors - Wholesalers/Exporters (Chain 1)

Activities in producing agricultural raw materials are generally carried out by farmers or it can be said as a routine activity for a number of people who have farming livelihood as farmers by managing their land or gardens in cultivating cocoa to produce cocoa beans, which in a product that ready to be sold and processed by other entrepreneurs. The marketing of cocoa beans has been throughout in overseas or commonly referred to as export activities and there are also those who doing the various processing to produce final products that ready for consumption and ready to use such as (chocolate bars and chocolate powder).

3.2.2. Farmers-Wholesalers/Exporters (Chain 2)

Collector traders that having a relationship or relevance between farmers and collectors is a thread of trust between them. The traceability result in the field shows that some farmers have such strong ties among them who obtained money for capital loans to fulfill the cost of education for their children of farmers, so that cocoa farmers were bounded to sell their cocoa to these traders, thus their debt can be paid and repaid.

The implementation of quality control that performed by the company based on the results of research is to determine the content and threshold of control points using a digital tool that will automatically provide information on the percentage of each content in the potential cocoa beans they would buy, in order to detect the pint control initially cocoa beans are raised above the scales, then quality control or quality checked for samples of weighed products. The following components that become standard in quality control by wholesalers can be seen in Table 3.

Table 3. Component of *quality control* Cocoa beans at exporter companies

Quality control	Benchmark (%)
Moisture cal	7
Bean count cal	0.2
Waste cal	2.5
Mould cal	4

Premium is a form of reward for farmers who have obtained product certification from the International Certification of Cocoa (UTZ) institution. Premium payments are made so that farmers can maintain their products in compliance with the conditions or requirements in cocoa cultivation activities. Additionally, evaluation and inspection of plantation will be performed every 2 years by certification institution. If violations are found, the sanctions that will be imposed are revocation of premium for farmers who commited violations.

3.2.3. Farmers-Processing (Chain 3)

Processing activities of cocoa beans in West Sulawesi are still classified as a small industry according to the results of this study and direct observation at the time of production. The used machine has a capacity that only able to process 15 kg of raw materials for one batch production with a maximum duration of 5 hours to produce 200 to 500 chocolate bars.

3.3. Governance Value Chain Cocoa(Value Chain Governance)in West Sulawesi

This study using analysis of governance by approaching qualitatively according to the theory developed by Gereffi *et al* (2005) to see and measure indicators through three basic variables that a parameter (complexity, codified, and capability) to be able to determine and map the typology of governance that occurs and to know supplier competencies, based on these three variables will result in different chain coordination. Before knowing the type of Value Chain Governance (VCGs), then first know how the linkages that are intertwined with the actors or actors involved. According to the survey results revealed a governance model based on the analysis VCGs which can be seen from the dynamics of that kind that exists between the farmers as follows:

3.3.1 Type Market in Chains 1

Results reveal that the typology of governance based on the analysis VCGs seen from the results the dynamics that occur in the type that exists between farmers and traders of wholesalers to wholesalers (R1) are types Market from the calculation of each variable and indicator, where the condition can be seen that the ability of farmers to access information from consumers is still low due to conditions products marketed by producers (farmers) do not have specifications or the absence of provisions that apply to the product in the sense that the products.

3.3.2 Relational Type on Chain 2

Based on the research that has been done that the relationship between the farmer at the marketing agency R2 is the company or merchant exporters are classified as being in this type of Relational. The use of quality control on products makes the farmers in West Sulawesi make this a consideration to sell their products directly to large traders even though the price offered is high, but because they feel a lot of loss or volume cuts and affect the price of their products and other reasons if they do sales at the company will increase costs because to reach the company transportation costs are needed, time spent in reaching the company is added to the process quality control that is not fast. The presence of quality control was also stated by Sturgeon (2001) that by using the level of standardization of the product as a process and the underlying steps in determining the price of the product and its need to make competence become high.

3.3.3 Type Hierarchy on Chain 3

The raw material obtaining is continuously the processing done a deal to farmers who are willing to do the fermentation by the direction given by the processing, so that the subject of the agreement is the quality of cocoa beans, and the price will be the last. From the results of the study that there is an agreement that must be obeyed and the product specifications imposed by consumers so that the type that is established in the cocoa value chain for farmers and processing chains is the Hierarchy. For the price received by farmers in this chain

As there is a mutual need relationship between each other where cocoa farmers will sell their produce to be able to meet their needs, but there are some farmers who sell their produce to marketing institutions from the lower level to the upper level based on several considerations such as access to marketing institutions, prices that apply to marketing institutions and the process of interaction that occurs in these institutions. According to Nabhani *et al* (2015) that the participation of farmers in the *GVC can* not actively increase the quantity of life for farmers but this condition provides space and

opportunity to be able to enter through VCGs where the role of technology and information is needed to assist farmers in conducting codified transaction activities better and can find out market information. Based on the type of *VCG* from the results of the study which shows that there is a relationship and linkages that are intertwined in each value chain as follows:

Based on the previous description of the conditions established in each cocoa bean value chain actor as well as the relationship formation process so in this study will show how governance of value chains or *VCGs*. To be able to determine each of these types seen from the complexity of information and knowledge, the ability of producers to codify information and the ability of producers to respond, this is needed to know the ability of *suppliers* to manage information and knowledge to be able to make transactions especially those directly related with the product specifications required by the consumer so that it will be known howa capability and potential *suppliers* in response to a request submitted by buyers. So that from this description it can be seen the type of governance of each chain (R1, R2 and R3) in cocoa farming activities in West Sulawesi which starts from farmers as the first chain or can also be referred to as the main actor in cocoa farming activities until it reaches the next chain who acts as buyers. Furthermore, it can be seen the level or dynamics of the cocoa value chain that occurs in West Sulawesi presented in Table 4.

Table 4. Value chain dynamics or governance type of cocoa farming activities in West Sulawesi

Chain	Kompleksitas	Kodifikasi	Kapabilitas	Tipe
Value chain 1 (R1)	2.73	3.19	3.99	*Market*
Value chain 2 (R2)	4.82	3.0	4.0	*Modular*
Value chain 3 (R3)	4.5	1.2	2	*Hierarchy*

According to the results of the study it is known that the governance model based on analysis *VCGs* can be seen from the results of dynamics that occur that the typology that exists between farmers and traders (R1) is a type *Market* based on the results of analysis and calculation at each existing variables and indicators where these conditions can be seen if the ability of farmers to access information from consumers is still low because the condition of the product marketed by producers (farmers) does not have specifications or the absence of provisions that apply differently. At the institute exporter (R2) which enforces *quality control of* the product by the sense that the products offered by keinginan consumers and it is quite simple if the observed product (cocoa) after dried would be directly sold to wholesalers collectors/middlemen so that Bid entwined based on the number of products available and determined by consumers. So it can be concluded that the ability of farmers to access supply and of information based on the wishes of consumers are farmers who sell their products in the processing chain of seeds, whereas the opposite is the R2 of type *Modular* where farmers prefer to sell their products to traders collectors, but there are some grounds were obtained from interviews that most farmers do not want to sell their products to other places because of their emotional privately between farmers and middlemen. So that information is needed by farmers and must be conveyed well that can be done by large traders as consumers by conveying information about the type to the quality of products desired by consumers, and farmers as producers can produce products that are desired by consumers.

In Table 4 shows that in the Market type R1 with values (2.73, 3.19 and 3.99), and R2 is the Modular type because according to the calculation results through analysis that the values obtained on each variable with average (4.82, 3.0 and 4.0) and at R3 shows the lowest average. So it can be disimpulkan that the ability of farmers to access supply and information based on the wishes of consumers are farmers who sell their products to R2, but farmers prefer to sell their cocoa beans to the merchant middleman for several reasons obtained from the interviews that most farmers do not want to sell products elsewhere because of their emotional tiesonal privately between farmers and traders pengumpul while R3 ability of farmers to access information and consumers' desire to act as an institution processing is low based on the findings in this chain is that all the provisions of the product based on the agreement made by the processing party as consumers and has been agreed to by farmers as suppliers of raw materials to be obeyed.

According to the research results it is known that the governance model based on analysis *VCGs* can be seen from the results of the dynamics that occur that the typology that exists between farmers and traders (R1) is a type *Market* based on the results of analysis and calculation on each variable and indicator where the conditions can be seen if the ability of farmers to access information from consumers is still low because the condition of products marketed by producers (farmers) do not have specifications or the absence of provisions that apply differently to wholesalers who impose *quality control* on products in the sense that the products offered are based on consumer desires and those It is quite simple if it is observed that the product (cocoa beans) after dry will be directly sold to traders / middlemen so that the price offer is based on the number of products available and determined by consumers.

The use of *quality control* on products makes the farmers in West Sulawesi make this a considerable consideration to sell their products directly to large traders because they feel a lot of loss or deduction to the price of their products and another reason is that if selling to the company will increase costs because to reach the company, transportation costs are needed, the time spent in reaching the company is added, and the process *quality control* is not fast. The presence of *quality control* was also proposed Sturgeon (2001) that by using the standard rate products as the process and basic fundamental step in the pricing of products and the need for high competence.

4. Conclusion

This study shows the results of the approach through identification of the Value Chain Governance or governance typology that occurs in the marketing activities of cocoa in West Sulawesi, namely there are 3 value chains, namely R1 (farmer value chain, trader collectors and wholesalers/exporters), R2 (farmer value chains and collectors), R3 (farmer value chains and processing). As well as the type of governance shown based on the analysis that has been carried out in this study that in R1 shows the Market type, R2 has a Modular type, and R3 is a chain of processing activities by showing the results of the Hierarchy type.

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