

**Climate-Smart Finance Workshop:
“Designing Investment Mechanisms to Finance Climate-Smart Cocoa in the
Ghanaian Cocoa Sector”**

**April 19th, 2017
Mensvic Grand Hotel, Accra, Ghana**

MORNING:

Time	Program
08:30-09:00	Registration
09:00-09:15	Welcome & Opening Remarks Christian Mensah, Senior Manager, West Africa, Rainforest Alliance Dean Segell, Manager, New Products and Knowledge, Convergence
09:15-09:30	CCAFS's Mainstreaming Climate Smart Agriculture (CSA) Christian Mensah, Senior Manager, West Africa, Rainforest Alliance
09:30-09:45	COCOBOD's CSA Vision and Strategy for the Cocoa Sector in Ghana Hon Joseph Boahen Aidoo, Chief Executive, Ghana Cocoa Board
09:45-10:00	Identification of CSA Investment Needs Hélène Roy, Senior Manager, Sustainable Finance, Rainforest Alliance
10:00-10:15	COCOBOD's Replanting and Rehabilitation Pilot Emmanuel A. Opoku, Executive Director, Ghana Cocoa Board
10:15-10:45	Coffee Break
10:45-11:30	Barriers and Opportunities to Finance CSA - Looking Through the Lenses of the Cocoa Value Chain and the Finance Sector <i>Presentation followed by Q&A</i> Corné de Louw, Senior Project Manager, Rabo Development
11:30-12:00	Proposed Blended Finance Solution for CSA Investments <i>Presentation followed by Q&A</i> Hélène Roy, Senior Manager Sustainable Finance, Rainforest Alliance Gael Lescornec, Partnership Manager, World Cocoa Foundation Joep Akkermans, Associate Director Loan Products Group, Rabobank
12:15-12:45	Designing CSA Loan Packages: Integrating CSA Criteria into Loan Design <i>Presentation followed by Q&A</i> Benjamin Schmerler, Senior Director of Investor Relations, Root Capital
12:45- 13:30	Lunch

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AFTERNOON:

12:45- 13:30	Lunch				
13:30-15:30	Working Groups				
	WG1: CSA Loan Structuration – Defining CSA loan structure and eligibility requirements for loan recipients <i>Facilitated by:</i> Benjamin Schmerler, Senior Director of Investor Relations, Root Capital	WG2: CSA Finance Delivery Through Financial Institutions- Delivering CSA finance through rural banks, S&L and other local financial institutions <i>Facilitated by:</i> Corné de Louw, Senior Project Manager, Rabo Development	WG3: CSA Finance Delivery Through the Value Chain - Leveraging LBCs' service delivery models to unlock smallholder CSA finance <i>Facilitated by:</i> Gael Lescornec, Partnership Manager, World Cocoa Foundation	WG4: Enabling Environment for CSA Finance in Ghana- Mobilizing youth and rethinking land-tenure for long-term impact <i>Facilitated by:</i> Christian Mensah, Senior Manager West Africa, Rainforest Alliance	WG5: Catalyzing Blended Finance at Scale to Achieve Impact – Identifying investment vehicles and blended finance solutions <i>Facilitated by:</i> Dean Segell, Manager, Convergence Joep Akkermans, Associate Director, Rabobank
15:30-16:00	Synthesis of Group Work Resolutions for the Way Forward Hélène Roy, Senior Manager Sustainable Finance, Rainforest Alliance				
16:00	Closing				

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Organization	Contact	Role
Advans Ghana	Samuel Asiamah Gyasi	Head of Rural finance
Advans Ghana	Kombo Prince Bontala	Rural & Agric Segment Intern
AgDevCo	Barbara Ghansah	Country Manager
Agricultural Development Bank	Mark Nii Amon Antonio	
Agro Eco	Willem-Albert Toose	Regional Manager West-Africa
Agro Eco	Selasse Gidiglo	Sustainable Agriculture, Environment and Development Advisor
Barclays Banks	Andrew Ahiaku	Head of Agribusiness, Retail & Business Banking Department
Barry Callebaut Ghana	Charity Sackitey	Managing Director
Barry Callebaut Ghana	Eddy Nartey	Financial Controller
CAL Bank	Emmanuel Godi	Relationship Officer
Central Bank of Ghana	Thomas T. Essel	Chief Manager, Governors Department
Cocoa Abrabopa Association	Femke Dekker	Executive Secretary, CAA
COCOBOD	Felix Obodai Torgbor	
COCOBOD	Emmanuel A. Opoku	Director, Research & Development
COCOBOD	Dr. Amoah	Executive Director
COCOBOD	Wahab Suleman	Cocoa Policy Advisor
COCOBOD	Michael Owusu-Manu	Technical Advisor
COCOBOD	Emelia Mansah Crenstil	Senior Technical Officer
Convergence	Dean Segell	Manager, New Products and Knowledge
Convergence	Trang Tran	New Products Associate
Daily Dispatch	Samuel Hinneh	Journalist
Dutch Embassy	Josephine Ecklu	Policy Officer Agribusiness
ECOM Ghana	Bismark Appiah-Kubi	Manager at SMS Ghana
Fidelity Bank	Gustav Nii Mokobi Aryee	Relationship Manager, Export Desk Corporate Banking Department
Fidelity Bank	Elorm Addae	Business Development Manager Commercial & SME Banking
Financial Access	Jan Cherim	Managing Partner

Ghana News Agency	Christian Akorlie	Journalist
GIZ Climate Finance Team	Isabel Walsch	Assistant to Technical Advisor
GIZ Climate Finance Team	Margaret Lin	
GN Bank	Richard Amofa	Credit Manager
Initiative for Smallholder Finance	Tom Carroll	Director
Innohub Limited	Ebenezer Arthur	Co-Founder/COO
International Institute of Tropical Agriculture (IITA)	Richard Asare	Lead Scientist
International Institute of Tropical Agriculture (IITA)	Dalaan Mustapha	Research Assistant
Kuapa kokoo Ltd	Samuel Adimado	Managing Director, KKL
Ministry of Agriculture	Kingsley Agyemang	Schedule Officer for Climate Change
Oikocredit	Jemimah Kwakye Fosu	Project Officer
OLAM Ghana	Isaac Sackey	
Opportunity International Savings and Loans	Kwame Owusu-Boateng	Chief Executive Officer
Rabobank	Corne de Louw	Senior Project Manager
Rabobank	Joep Akkerman	Associate Director Loan Products Group
Rainforest Alliance	Christian Mensah	Senior Manager, West Africa
Rainforest Alliance	Emily Boahen	Senior Associate
Rainforest Alliance	Helene Roy	Senior Manager Sustainable Finance
Rainforest Alliance	Anthony Adom	Senior Associate
Root Capital	Benjamin Schmerler	Senior Director
The Royal Bank	Atukwei Kortei	Assistant Vice President
Wienco	Mirjam van Leeuwen	Cocoa Value Chain Liaison
World Cocoa Foundation	Nene Akwetey-Kodjoe	WCF ACI II Project Coordinator
World Cocoa Foundation	Sander Muilerman	WCF Climate smart cocoa
World Cocoa Foundation	Gaël Lescornec	Partnership Manager

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****Notes from Working Group Discussions as reported by group facilitators****

WG1: CSA Loan Structuration

Facilitated by:

Benjamin Schmerler, Senior Director of Investor Relations, Root Capital

1.1: What types of CSA interventions might be financed? How might we structure the loans to match the investment profile while ensuring profitability for the borrowers? What could be possible loan terms?

- Specific CSA Investments: drip irrigation systems, hand dug wells, planting of shade trees, investments in soil fertility, grass strips to minimize erosion, drought tolerant planting materials including seeds, seedlings, nurseries, and plantain suckers.
- The most important aspect to ensure that CSA Investments are successful and there is a return on the investment is to create a “bundle”. The bundle will include the direct products such as drip irrigation and seeds combined with technical services package to ensure that the implementation of the CSA investment is done correctly and will achieve a high-rate of success. The group was aligned that the “bundle” is essential.

1.2: What are the eligibility requirements for smallholders, smallholder organizations or value chain intermediaries to receive CSA finance? What does a credit worthy business look like? What capacity building is needed to promote CSA lending in the Ghanaian cocoa sector?

- Good financial management
- Good governance
- Good strategic planning (with long-term view)
- Good standing with certification
- Assets on balance sheet
- Account receivables on balance sheet
- Collateral

1.3: What types of capital are needed to resource the loans proposed in question 1, recognizing the need for capacity building and/or mitigation of external risks identified in question 2

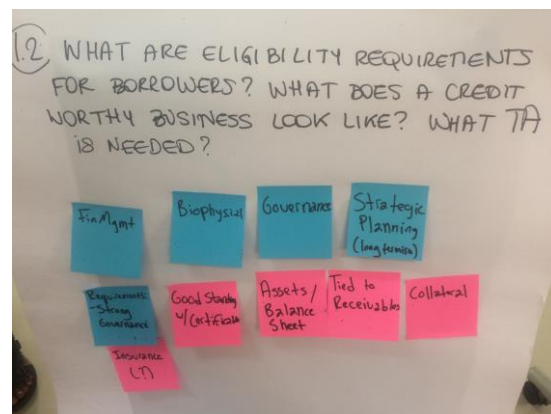
- One innovative way we came up with to finance CSA investments was to look at a business’s historical sales to the COCOBOD and use this as a basis for projecting future cash flows against which to make loans or investments.
- The best approach would be to come up with a conservative model that predicts the future sales to the COCOBOD as a secured market. This will allow the LBC and/or Coop to make long-term plans and

will provide lenders / investors with enough predictive estimates to lend against the future state of the business.

- The COCOBOD provides a unique opportunity unlike any other market because of their status as a confirmed buyer for all cocoa in the country, leveraging this feels like an essential piece to unlock CSA investments.

1.4: What is the real addressable market (in terms of the number of farmers) for CSA investments in Ghana? What are the implications for the size of CSA investments needed?

- There is a ton of addressable opportunity to make CSA investments in Ghana either through LBC's or producer cooperatives.
- The challenges are similar to most agricultural contexts – low producer capacity, local banks negative perception of agriculture, high interest rates, farmer loyalty, etc. That said, targeted technical programs increasing the capacity of MFIs to provide larger sums of capital to LBC or Cooperatives is one avenue, and capacity building directly to LBC or Cooperatives to access capital from social lenders or regional players is potential opportunity.
- The market size for CSA investments is massive and much underserved at present. One of the barriers that will be hard to overcome is the amount of “free” materials that cocoa farmers and organizations receive via the COCOBOD.



WG2: CSA Finance Delivery Through Financial Institutions

Facilitated by:

Corné de Louw, Senior Project Manager, Rabo Development

2.1: How important is it for Financial Institutions (FIs) to develop a F&A portfolio?

Important because:

- F&A the root of the economy
- Many people involved in F&A
- Significant contributor to GDP
- Financial inclusion is an important topic in Ghana
- For food security reasons
- Gives market opportunities
- The sector is underserved by banks

Barriers:

Related to the value chain

- Because of the high interest rates farmers are hardly able to repay loans
- Seasonality
- Poor irrigation systems
- Lack of good storage facilities
- Lack of skills at farmer level

Related to banks

- High costs of funds
- Lack of liquidity
- MFIs have to borrow from commercial banks at even higher interest rates
- High transactional costs
- Lack of F&A knowledge at financial institution level

Related to the enabling environment

- Unpredictable policies of the government

2.2: How to encourage FIs to develop comprehensive portfolios of CSA loan products accessible to partners, organizations, LBCs?

- Tax advantages
- Long term funding
- Concessional rates
- Risk sharing mechanisms
- Join forces with other stakeholders
- Secured markets/ off-take
- Insurance schemes
- Educated farmers
- Clear policies at governmental level
- Improved infrastructure
- Experienced management

2.3: What type of financing terms, guarantee schemes or risk sharing mechanisms can encourage FIs to develop a CSA lending portfolio?

- Depends on the experienced risks
- Depends on the mitigations across the value chain
- Value chain financing solutions

2.4: What level of interest can we expect from financial institutions to participate in CSA investment schemes?

- Depends on the business case. In the end, FIs must make profit



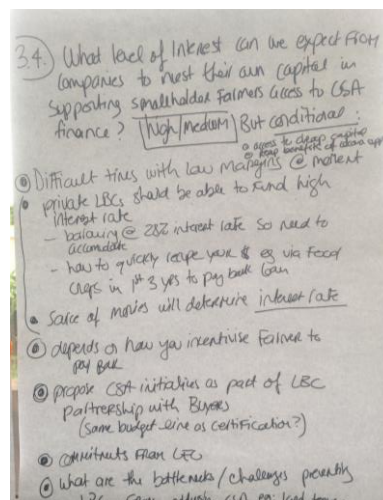
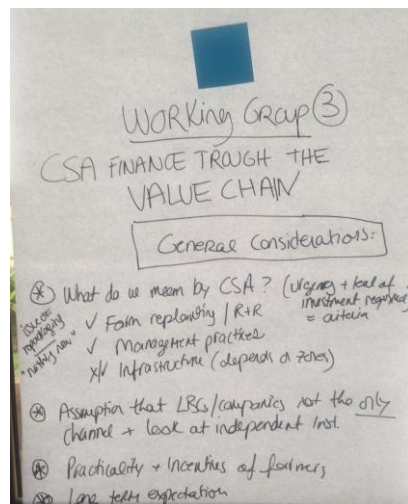
WG3: CSA Finance Delivery Through the Value Chain

Facilitated by:

Gael Lescornec, Partnership Manager, World Cocoa Foundation

General key points raised by the companies:

- LBCs/Companies are not the only financial delivery channels to smallholder. A sector solution should consider independent FIs to deliver financing to smallholders and value chain players
- How practical and realistic is this for the farmer
- What are our long-term expectations



3.1: How important is it for companies to provide smallholder farmers with access to climate-smart agriculture finance (input finance, renovation finance, CSA infrastructure finance)?

- Coming to agreement on what is CSA - As defined and packaged by the Rainforest Alliance CSA comprises (i) replanting/ R&R, (ii) management practices and (iii) infrastructure – companies felt that the first two are the most important with the third one depending on the regions / zones.

3.2: Is the availability of existing finance adequate through the companies' own schemes?

- Finance is available but not adequate and the delivery of finance is not taking place. Only credit is being delivered.

3.3: How can LBCs' Service Delivery Models (SDMs) be leveraged to deliver comprehensive portfolios of CSA loan products to smallholder cocoa producers?

- SDMs are not presented nor designed to deliver loans for farmers to pay back – Instead they are designed to provide trainings and inputs for free or on credit. In this regard, investing in sensitization and technical support would be required as well as promoting alternative livelihoods and having a robust segmentation strategy

3.4: What level of interest can we expect from companies to invest their own capital in supporting smallholder farmer access to CSA finance?

- Medium to High level of interest but conditional upon: (i) access to cheap capital, (ii) benefits in the form of cocoa supply, (iii) overcoming the challenges around interest rates, (iv) depends on how farmers can be incentivized to repay. Could propose CSA initiatives as part of LBC partnership with buyers (but this would be same budget line as certification)

WG4: Enabling Environment for CSA Finance in Ghana

Facilitated by:

Christian Mensah, Senior Manager West Africa, Rainforest Alliance

4.1: What are the main structural barriers that prevent the provision of CSA finance to the sector?

Infrastructure:

- Poor Infrastructure development
- Little availability of banks or ATMs in rural cocoa areas (difficult to monitor use of credit and for the individual farmers to access banks)

Guarantees:

- No succession planning
- Unsure future of the farm (youth migrating to big cities, age of farmer, little perspective)
- Disconnect between generations (old persons farming, youth don't invest enough)
- Family farming, no business plan for long term

Entrepreneurship:

- Little documentation of financial input & output of farmer (high level of illiteracy)
- Non-existence of financial management systems
- Farming seen as a way of life not as a business
- Lack of capacity of know-how of farmers to invest in farm lands

Data and Information:

- Difficulty to assess farmer profiles/capacity
- Lack of understanding of agriculture by banks

Farm size:

- Average farm size is small

Inconsistent government policies and programs:

- Perception of farmers on loan repayment (things from government are free)
- Legal regimes (laws)
- Inconsistent government policies (free inputs to farmers)
- Unreliable distribution of inputs and shifting policies on suppliers

Organization of farmers:

- Poor organization of smallholder farmers
- Cooperative formation is by choice

Land and Tree tenure:

- Land litigation
- Undefined land tenure systems
- Property right (land belongs to family)

4.2: What changes in the enabling conditions and policies are necessary to enable CSA finance?

Capacity building:

- Dissemination of information about the importance of CSA practices to the Public (make it a social responsibility)
- Strengthen/incentivize farmer groups formation and development (Good structure)
- Capacity building of FBOs on financial services
- Farmer business solutions to boost understanding of agribusiness and savings

Land and Tree tenure:

- Clarify and operationalize tree tenure policy
- Improve land registration
- Policies should be legal and enforced

Consistency of government policies:

- Clear agreement between policy maker and stakeholders on land tenure and credit accessibility
- Development of clear policy on agricultural lending
- Need for a clear policy direction in addressing climate change

Infrastructure:

- Specific policies to develop rural infrastructure
- Proximity of credit facilities to producer groups (mobile banking)

- Encourage easy, accessible solutions through mobile banking

Farmer segmentation:

- Focus on exemplary farmers (not always all farmers)
- Clear location-based CSA recommendations and options to different category of farmers

Incentives:

- Provide incentives to financial sector to mobilise and finance farmer practicing CSA
- Encourage ICT penetration to the rural areas
- Support business to thrive in rural areas and provide incentives to the youth

Family business and inter-generational farming:

- Third party mediation in succession planning and business-like family business
- Involved the youth in farming to make succession from generation to another easy

Database:

- Develop database on farmers/farms/information and practices of CSA
- Information should be available to farmers and stakeholders

4.3: What are some initiatives from public and private sector being implemented to address these issues?

Government Policy:

- Streamlining government policies in input supply
- Cocoa platform

Infrastructure:

- Cocoa road programme
- Ghana Integrated Banking system, alternative to opening new bank branch in rural areas (MData, Mobile money, Smart agents etc.)

Entrepreneurship:

- Farmer Business School (FBS)
- R + R: Cocoa rehabilitation initiative (by COCOBOD)

Technical Assistance:

- CCAFS
- WCF
- CSC program
- BMZ
- REDD+

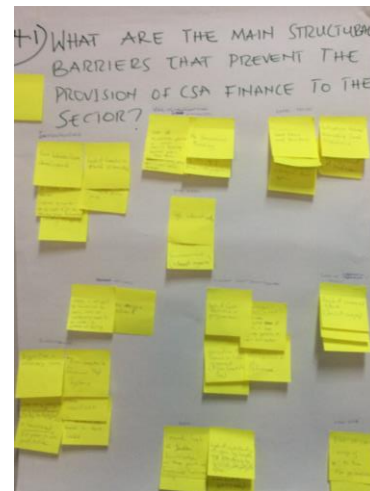
- GCFRY
- Individual private sector programs

Tree and Land tenure:

- Land Administration Programme (LAPII)
- FIP

4.4: What else needs to be done to support the sector?

- Effective multi-stakeholder dialogue/platform
- Strengthen existing and new platform
- Government should create enabling environment for business to thrive
- Strengthen institutional collaboration
- Develop heat and drought tolerant planting materials/varieties
- Create a market for Climate Smart Cocoa



WG5: Catalyzing Blended Finance at Scale to Achieve Impact

Facilitated by:

Dean Segell, Manager, Convergence

Joep Akkermans, Associate Director, Rabobank

5.1: What investment vehicle would be most appropriate to leverage blended finance at scale? What would the main components of such an investment vehicle be?

5.2: Which parties are most likely to participate? What would they require in order to participate?

5.3: What is a high-level action plan to move forward with one particular solution? What are the key next steps?

Discussion on aggregation points

- Only 3 big cooperatives in Ghana. However, when you look closely, they are structured around more of a marketing relationship and don't look like a typical cooperative. Cooperatives are typically driven by community.

- LBCs are natural aggregation points but have significant challenges. There is the challenge of side-selling – farmers are typically not loyal to LBCs. Some LBCs have had success in managing side selling by 1) ready to pick up cocoa when farmer ready to sell, 2) create trust and strong linkages with farmers to ensure their loyalty, 3) more collaboration amongst industry players (regulate against direct collusion, create incentives around input disbursements). Another challenge is data – LBCs do not have good smallholder data, besides for how much they purchased (e.g., they don't have data on the demographics of smallholders they purchase from). Only certain outliers like Ecom have good data on smallholders they work with.
- Purchasing clubs are not regulated and not loyal to LBCs. LBC profit based on volume and they therefore aim to reduce overhead costs. They prefer not to have purchasing clubs on payroll as this would increase costs. One suggestion that purchasing clubs should be licensed / regulated by COCOBOD.

Prerequisites for the finance solution

- COCOBOD involvement.
- Potentially LBCs as aggregation points (not cooperatives); ideally cooperatives with loyal smallholders (to avoid side selling). However, as outlined above, difficult to do.
- Data on smallholders. Unlikely to come from LBCs as they have poor data. COCOBOD in the process of collecting data but unlikely to be public. One recommendation should be grant specifically to collect data to underpin solution. Another suggestion was an electronic payment system, that is currently being discussed at high level at COCOBOD. Would mitigate side selling and act as a digital ID to collect data on smallholders.
- Fundamental change in input market. Currently, farmers receive inputs for free. Therefore, limited incentive to invest in production. Smallholders don't realize COCOBOD reduces price paid by cost of inputs. One suggestion: promise farmers higher prices and no free inputs to change this dynamic.

Leveraging COCOBOD syndicated structure.

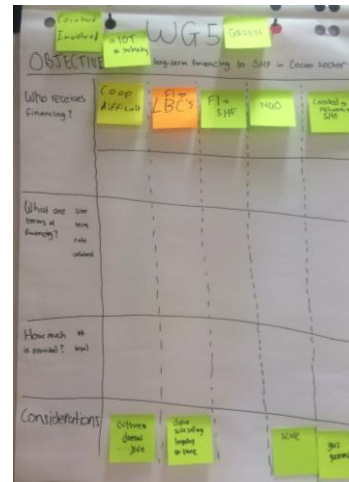
- Recommended as option that will be most likely address issue at scale.
- Government of Ghana as guarantor for banking syndicate to lend to COCOBOD to increase tenor of lending (instead of against short term buyer contracts). Banking syndicate takes risk on Government of Ghana (credit rating currently B). Banking syndicate likely require credit enhancement from MIGA, World Bank, AfDB, etc, as well physical cocoa as collateral.
- Banks and COCOBOD need to work better together. Currently there are trust issues. For this solution to work, COCOBOD needs to be more transparent with banks and provide updates on lending, collection activities, etc.
- Structure needs to be associated with large scale TA facility.
- In COCOBOD solution, lend directly to farmers. COCOBOD doesn't have capacity to manage lending, potentially pass-through local financial institutions.

- Action plan:

- Government must initiate because massive strategic decision. Strategic decision for 30% of economy to sit in COCOBOD instead of financial sector. Must be driven by Prime Minister, Ministers of Finance and Agriculture.
- Convener is required to bring together Government and COCOBOD to agree on solution. Potential convener could be IFAD or World Bank or other multilateral sovereign funding entity.
- Next step is to bring in banking syndicate and get comfortable with risks involved in longer term lending.
- Then structure implementation – what loan product looks like, who manages lending (local financial institutions), incentive schemes for farmers, service delivery models, etc.

Alternative solutions discussed

- Difficult to develop solution with financial institutions because of high interest rates, high collateral requirements, and limited incentives to work in the market. One option to incorporate banks in COCOBOD solution, but further thinking required.
- Social lenders are important transition forms of financing before financial institutions. However, these organizations cannot be the solution at scale.
- NGOs another sector that understand farmers and could be conduit for financing, but similar problems of scale.



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Mainstreaming Climate-Smart Cocoa



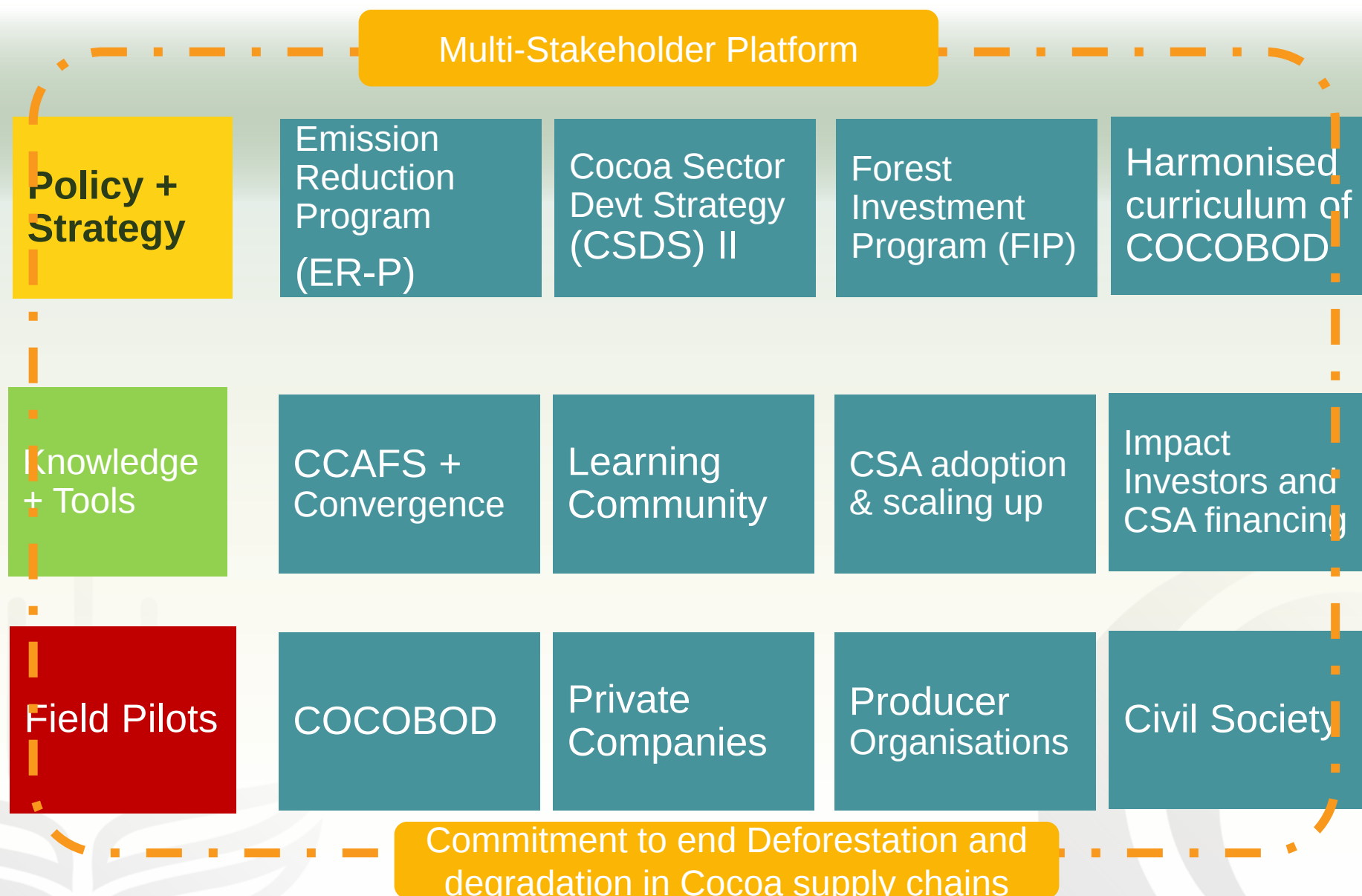
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Climate Smart Cocoa Landscape



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Climate Smart Cocoa Mainstreaming



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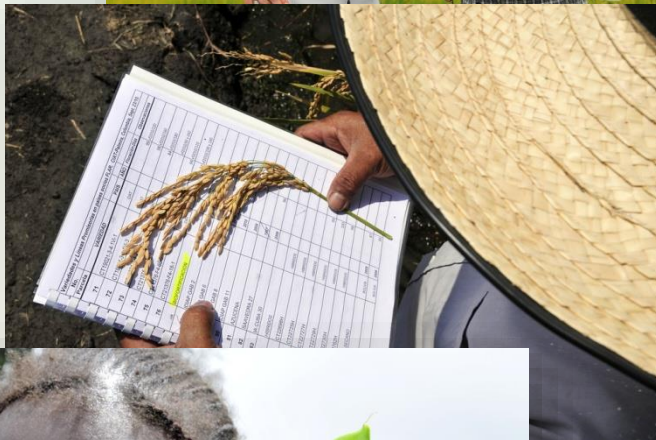
Key Agreements across programs...

- Climate change is happening but we can respond
- The impacts of climate change are not uniform across the cocoa belt
- There is no one-size fits all strategy: differentiated nature of the risks means differentiated strategies for adaptation
- Response needs to move from individual initiatives to sector-wide action
- Policy environment needs to be supportive of a sector wide approach
- Private sector engagement crucial to reach scale and deepen impacts
- Most importantly: farmers need to agree and believe the recommended strategies will bring about positive change

The Climate Change, Agriculture and Food Security (CCAFS) program



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Overall objectives:

- Identify and develop pro-poor adaptation and mitigation practices, technologies and policies for agriculture and food systems.
- Support the inclusion of agricultural issues in climate change policies, and of climate issues in agricultural policies, at all levels.

Project goals



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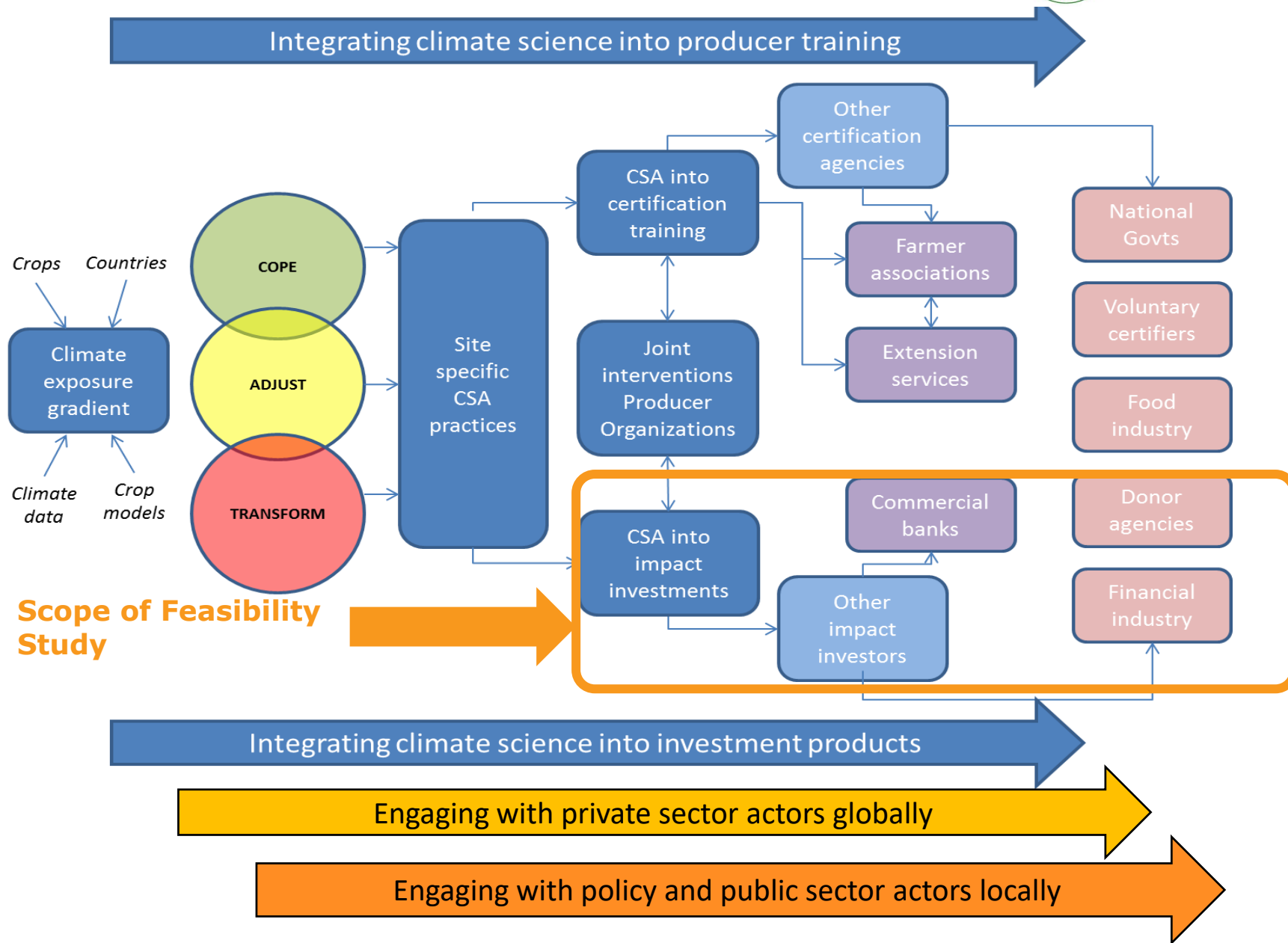
What we are doing

- Test ways to drive CSA adoption at scale with appropriate support and incentives:
 - a) Integration of site specific CSA practices into extension services tied to voluntary certification schemes; and,
 - b) Integration of site specific CSA practices into producer organization financing models
- Engage local actors in the above process through multi-stakeholder platforms (such as this meeting) in an on-going way
- Support / Build on existing activities and co-create and achieve business, research and policy goals

How we work - Proposed impact pathway



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Co-Create Decision Support Tools

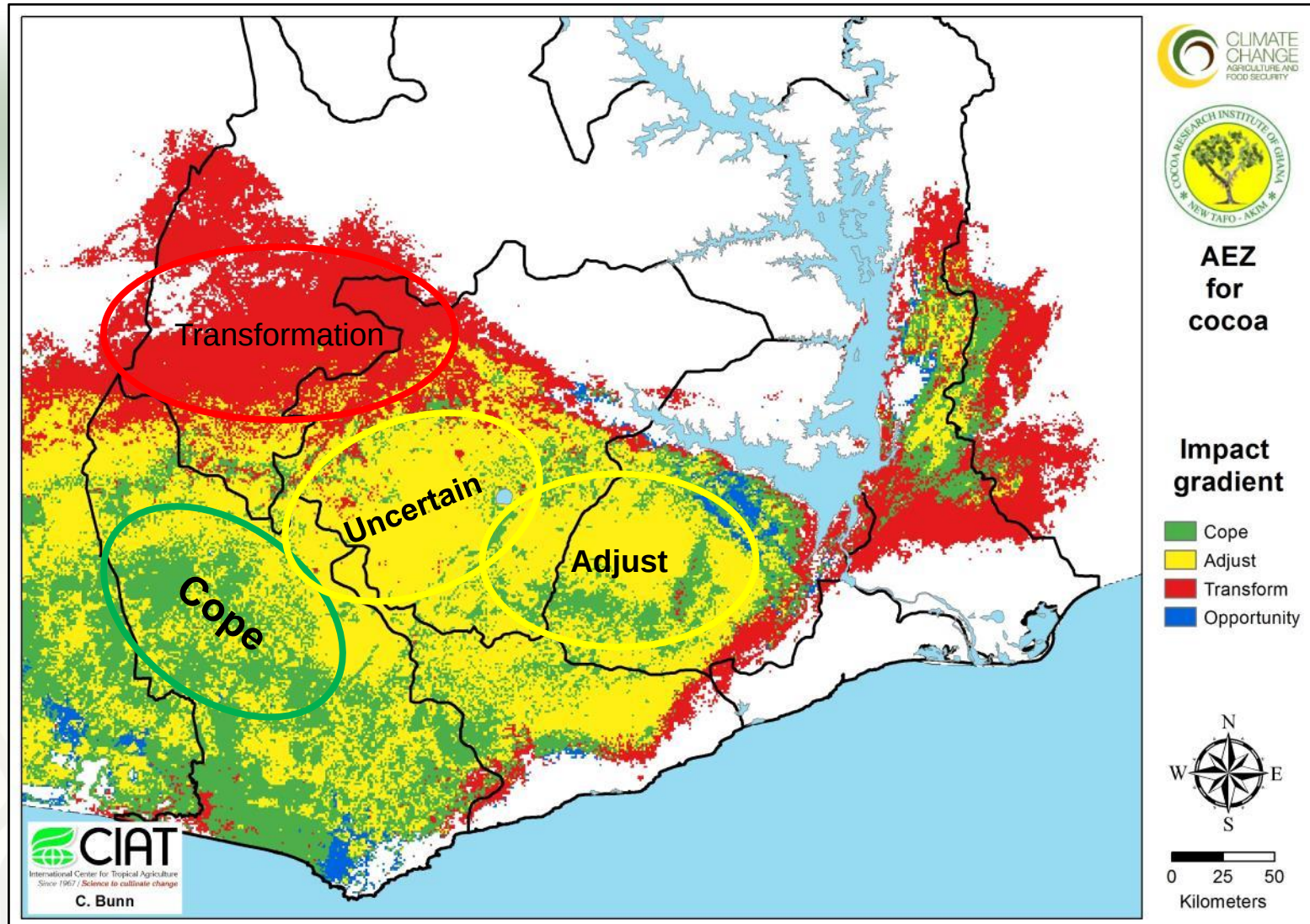


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- Climate exposure mapping
- CSA practice menu by impact gradient
- Cost benefit analysis
- Enterprise level survey tool
- Blended financial solutions
- M&E approach for climate resilience (geared for company use)
- *What is the projected climate impact in particular places?*
- *How can farmers and supply chain actor respond?*
- *How much would it cost to implement CSA practices?*
- *Are the climate smart cooperatives and local businesses equipped to implement CSA practices?*
- *Are access to financial services enhancing farmer productivity and resilience?*
- *How do we measure progress?*

Climate change impact gradient



CSA practice menu by impact gradient



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CSA Practices Package Recommendations

Zone	Description of Key climatic hazards	Agro-ecological conditions (current)	System step	Level			
				Minimum	Bronze At least 80% of Minimum +	Silver Minimum + 80% Bronze +	Gold Bronze +Silver +
Coping + Risk Zone	Less significant or unpredictable climate impact trajectories. BMPs will therefore focus on general GAPs and no-regret solutions to build stronger systems to enhance adaptive capacity.		Weed control	at least three times a year	at least three times a year (but based on farm condition)	Regular weeding + cover crops	Regular weeding + cover crops + mulching
			Fertiliser	Recommended 3-bag inorganic (fallow period every 5th year)	Recommended 3-bag inorganic + organic fertiliser	Recommended 3-bag inorganic + additional inorganic but dependent on soil or leaf analysis + organic	Recommended 3-bag inorganic + additional inorganic but dependent on soil or leaf analysis + organic
			Harvesting	2-3 week intervals	2-3 week intervals	2-3 week intervals	2-3 week intervals
			Post harvest	6-7 day fermentation, twice turning, placenta inclusive	6-7 day fermentation, 2 turning, placenta inclusive	6-7 day fermentation, 2 turning, placenta inclusive	6-7 day fermentation, 2 turning, without placenta
			Drying				
			Storage	Dry and aerated storage	Dry and aerated storage	Dry, aerated and secured storage	Dry, aerated and secured storage
			<u>Shade management</u>				
			Set up	minimum 15 shade trees/ha	minimum 18 shade trees/ha	minimum 20 shade trees/ha + windbreak	minimum 25 shade trees/ha + windbreak
			Tree species		A combination of semi-deciduous and deciduous species with different leave shedding	A combination of semi-deciduous and deciduous species with different leave shedding	A combination of semi-deciduous and deciduous species with different leave shedding

Designing a financing facility for
smallholder climate smart agriculture
finance in the Ghanaian cocoa sector

Feasibility Study

Project Contribution



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The project is contributing to:

- Clear knowledge of what types of CSA practices to promote where, for whom and with what return on investment
- Knowledge of under what conditions extension and PO investments function as incentives for CSA uptake at scale
- Identification of additional public-private incentives needed to promote widespread CSA adoption in the cocoa sector
- Functional multi-stakeholder platforms that combines climate science with industry knowledge to reduce risk faced by cocoa in Ghana going forward
- We seek to add value to existing climate change initiatives and look forward to collaborating with you on Climate Smart financing solutions in the sector.

Thank you



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We look forward to a good discussion





Identifying Smallholder Investment Needs for CSA Practice Adoption

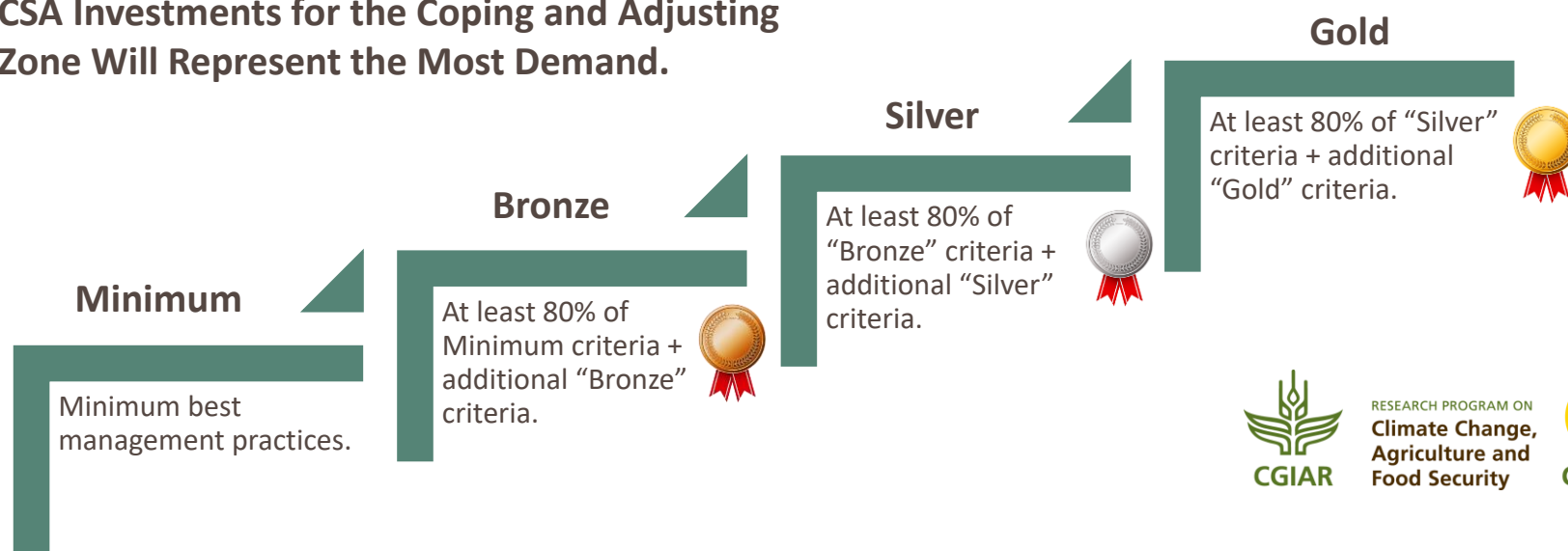
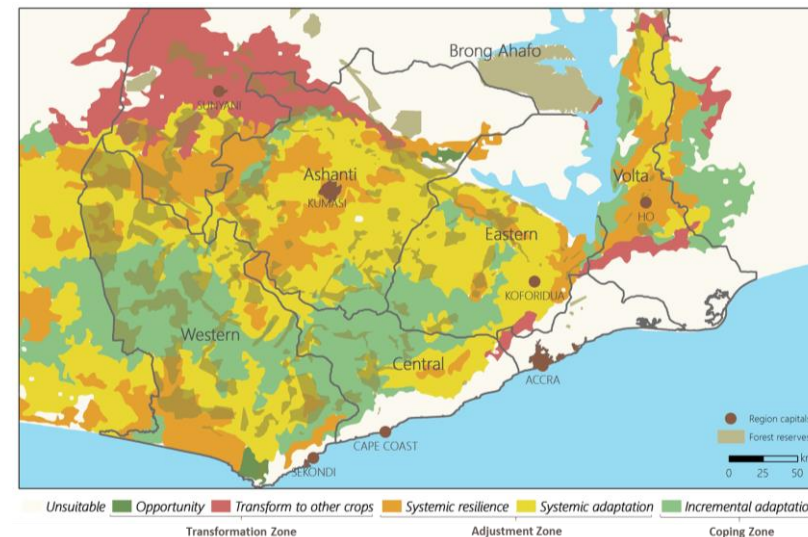
Cost-Benefit Analysis: Preliminary Results Only

CSA Finance Workshop – Accra, Ghana – April 19th, 2017



Background Information

- **Technical CSA practice packages*** developed for each impact zones: **Coping Zone, Adjustment Zone and Transformation Zone.**
- In each impact zone, farmers will be able to chose between four different adoption levels: **Minimum, Bronze, Silver and Gold.**
- Each CSA package corresponds to different level of farm-level investments over time.
- **CSA Investments for the Coping and Adjusting Zone Will Represent the Most Demand.**



*Detailed CSA packages will be released by the Rainforest Alliance and IITA in 2017.

Example of CSA Investments

Farm Replanting Replanting of Cocoa Trees Following CSA Recommendations

- 40% of Cocoa Farms
- Long-Term Investment
- Upfront Replanting Costs:
 - ✓ Labor: land preparation, nursery setting & management, planting, maintenance etc.
 - ✓ Input: quality cocoa seedlings, shade trees, leguminous, agrochemicals, etc.
 - ✓ Equipment: nursery setting, land preparation, etc.
 - ✓ Income Gap for producers

Farm Rehabilitation (Maintenance) Best Management Practices Following CSA Recommendations

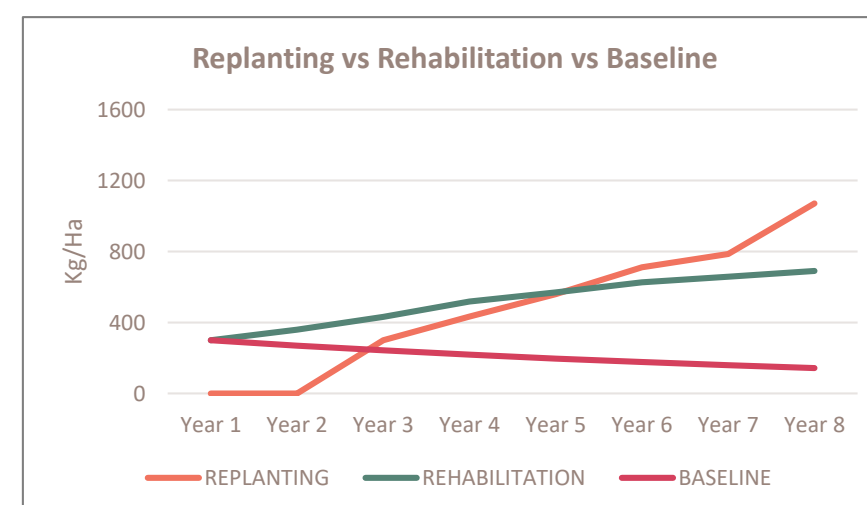
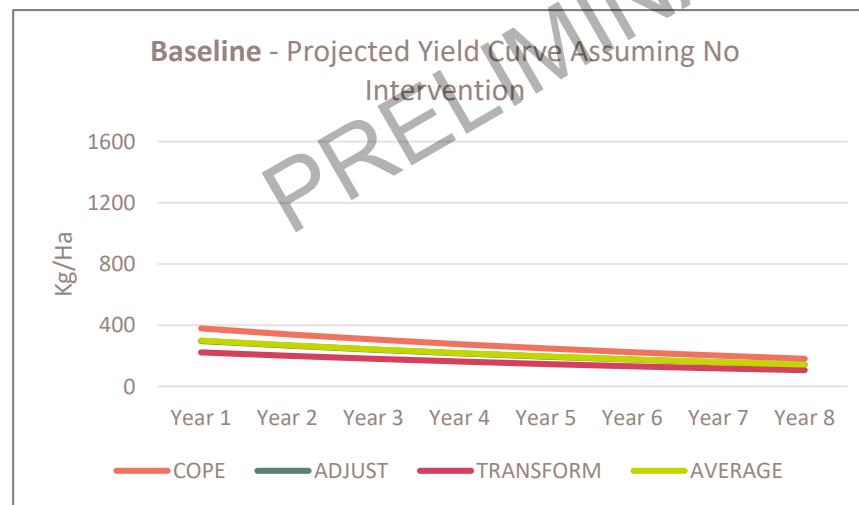
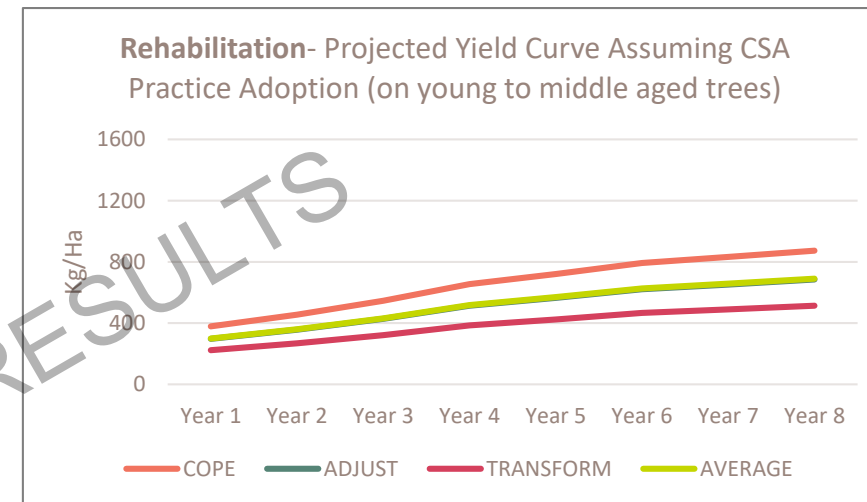
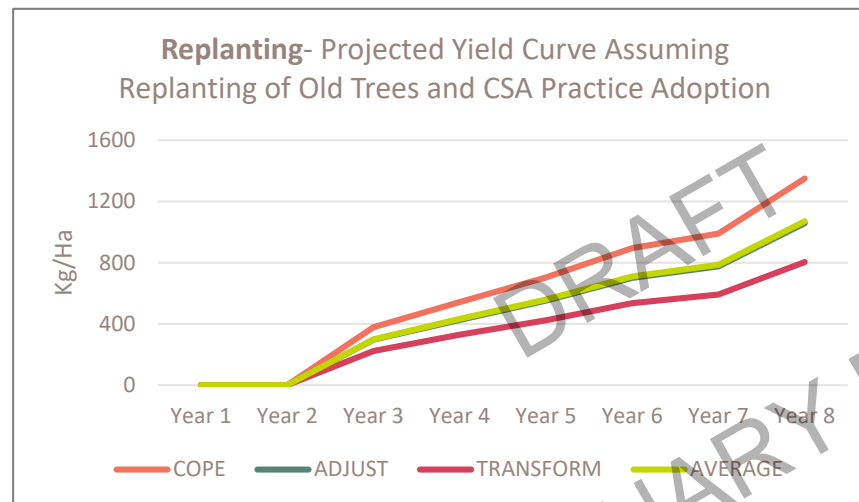
- 100% of Cocoa Farms
- Working Capital
- Annual Maintenance Costs:
 - ✓ Labor: farm maintenance, pruning, application of agrochemicals, harvest, water/irrigation management, cultivation of diversification crops etc.
 - ✓ Input: agrochemicals (fertilizer, pesticides) etc.
 - ✓ Small Equipment: traditional irrigation system, tools, etc.

CSA Infrastructure Investments

- Depending on Farm Exposure to Climate Change
- Long-term Investment
- Examples Investments:
 - ✓ Establishment of trenches for irrigation
 - ✓ Water Pump
 - ✓ Water Collection Systems

The Adoption of CSA Practices Can Significantly Boost Productivity and Farmer Revenues

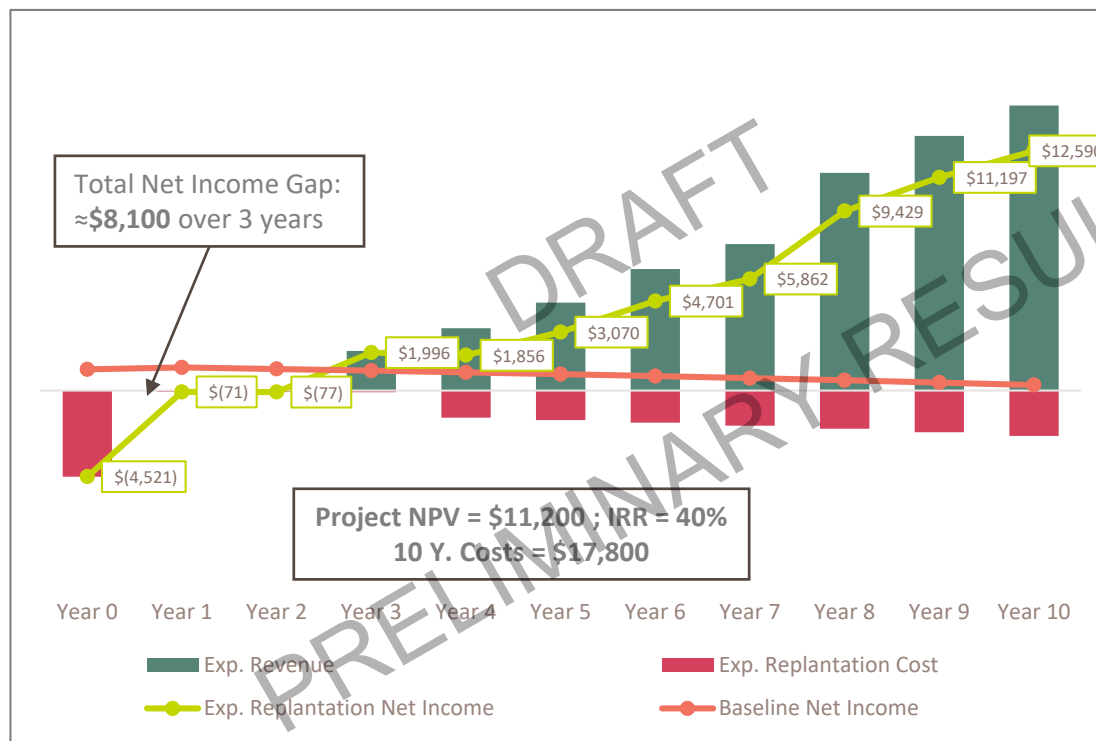
Projected 8 Year Yield Curves Assuming Different Set of Practices are Implemented in Each of the 3 Climate Zones



Preliminary Results
FOR DISCUSSION ONLY

Highest Expected Costs Are for Replanting Old Cocoa Trees, Which Translate in Significant Income Gaps for Producers ...

10 Year P&L for Replanting an av. 2.8Ha Farm (ALL AT ONCE)



Key Assumptions:

- Plot is entirely replanted in Year 1 (100%)
- Cocoa prices are set at 2016/2017 COCOBOD price (1,914 USD/MT)
- Newly planted cocoa trees reach a maximum productivity of 1,180 kg/ha in Year 10
- Cost of inputs are fully paid by farmer – without accounting for government subsidies
- Revenue from intercropping are NOT taken into account
- Projected Producer Price Change and Inflation Rate = 9%
- Discount rate = 15%.

Main revenue drivers

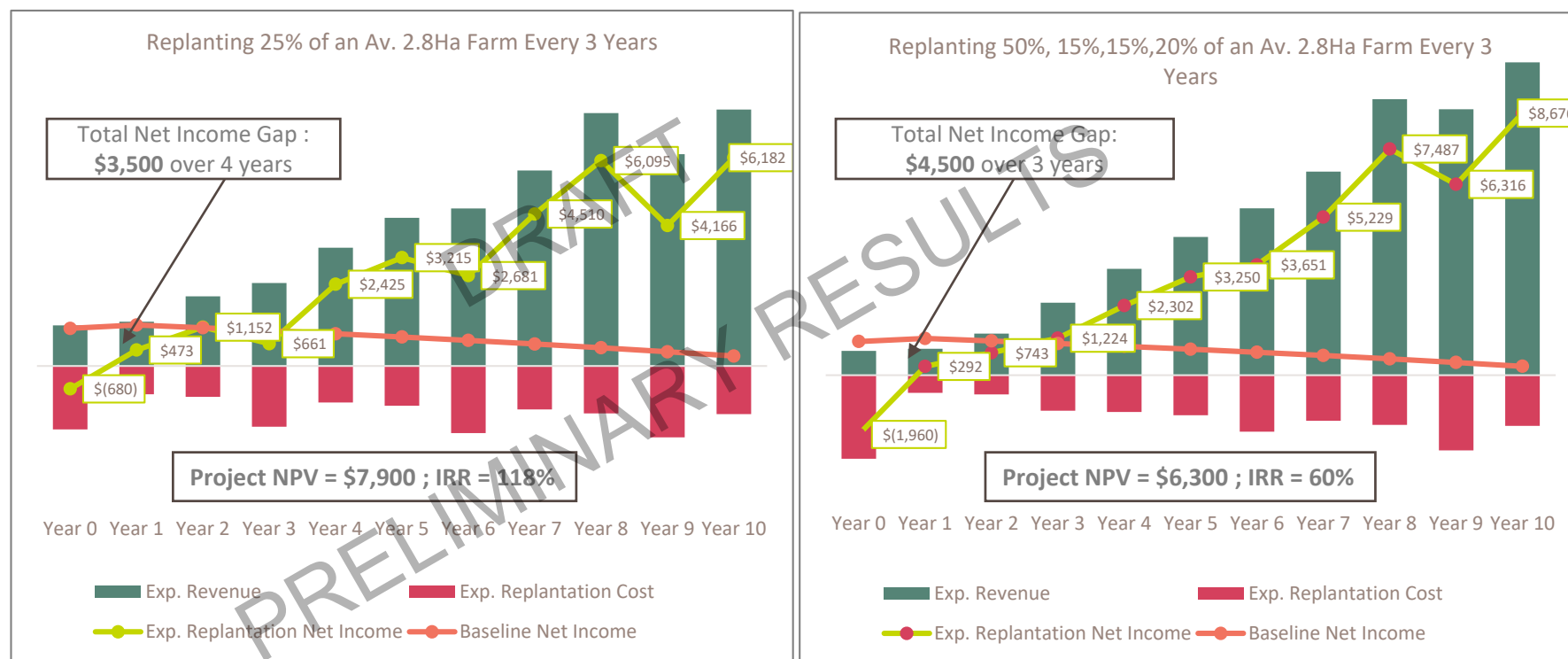
- Trees typically reach **peak productivity in Year 10 years** (av. 1,180 kg/ha across climatic zones) and remain productive until 25-30 years old ;
- Due to the replanted trees being completely **unproductive for the first 3 years**, profit immediately dips in year 0 (or Year 1 depending on when upfront costs are incurred) and only surpasses the baseline scenario in Year 3 or 4.

Main cost drivers

- All replanting costs are incurred in Year 0 covering costs of inputs (cocoa seedlings, shade trees, inter crops, etc.), labor, transportation and additional services for land preparation;
- Agrochemicals are the highest costs** (\$277 /ha for fertilizer and crop protection) starting Year 4;

Tailored Farm-level Replanting Strategies Can Reduce Producer's Income Gap and/or Improve Project Profitability

10 Year P&L for Replanting a 2.8 Ha Average Farm- Assuming Different Replanting Strategies



Key Assumptions:

- LEFT: Farmer replants 25% of his plot every third year (starting in year 0)
- RIGHT: Farmer replants 50% of his plot on Year 0, 15% on Year 3, 15% on Year 6 and 20% on Year 9
- Cocoa prices are set at 2016/2017 COCOBOD price (1,914 USD/MT)
- Newly planted cocoa trees reach a maximum productivity of 1,180 kg/ha in Year 10; rehabilitated trees (before replanting) reach a maximum productivity of 690 kg/ha over a 8 Year period

- Cost of inputs are fully paid by farmer – without accounting for government subsidies
- Revenue from intercropping are NOT taken into account
- Projected Producer Price Change and Inflation Rate = 9%
- Discount rate = 15%

Preliminary Results
FOR DISCUSSION ONLY

R&R Finance – A Few Takeaways

- **Staggered replanting strategies** can reduce producer's income gap and/or improve project profitability
- Farmers need an (additional) **source income to overcome early stage income gap**: e.g. pre-financing of income, crop diversification / intercropping, income diversification
- **Tailor-made financing schemes for R&R** need to take into account long-term funding with grace period and repayment schedule matching the yield curve of the crop



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Barriers and Opportunities to finance Climate Smart Agriculture

Cocoa Value Chain Ghana



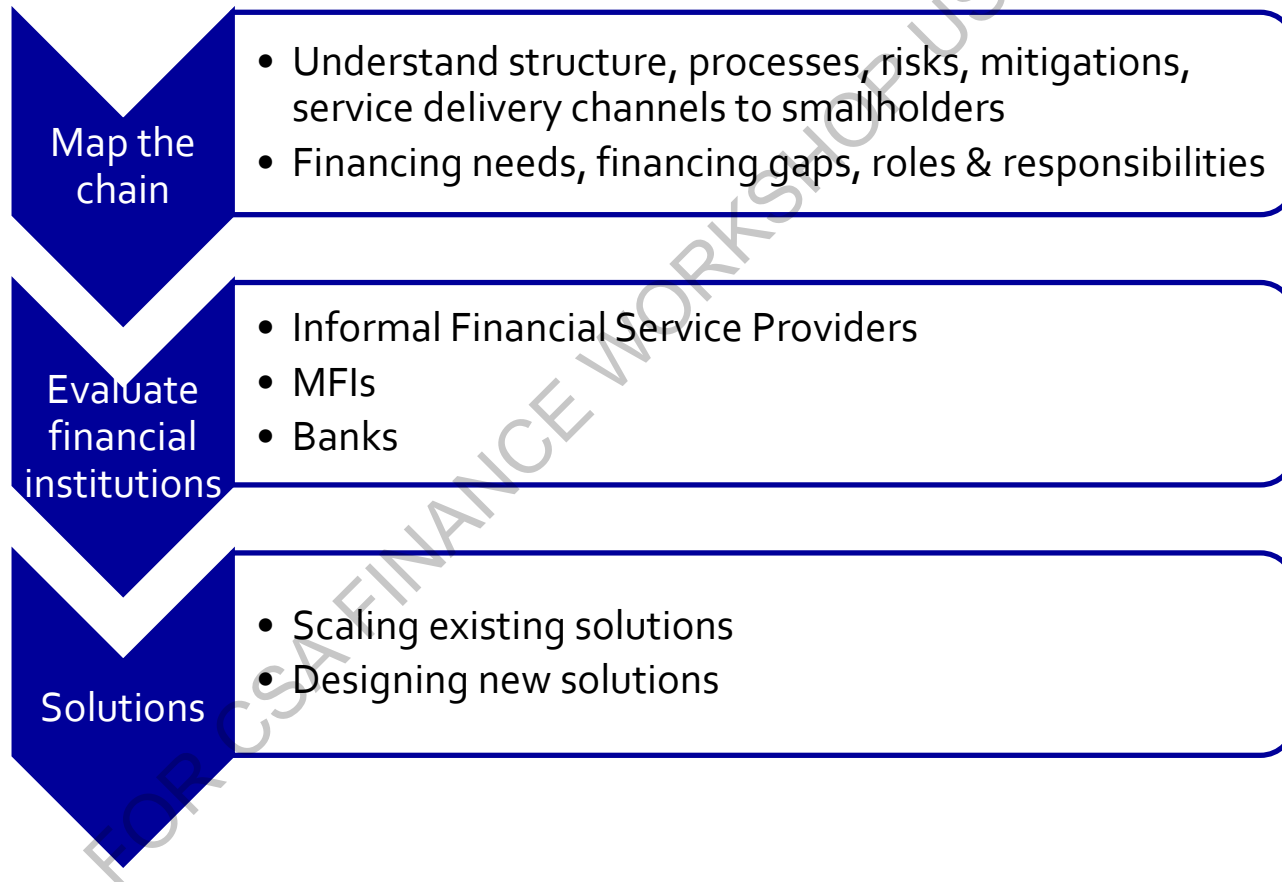
Rabobank

1

Setting the scene

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Access to finance is required to increase productivity and to implement Climate Smart Agricultural Practices...



2

Risks & Barriers to finance CSA: from a value chain perspective

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Quality inputs are available, but.....



It is critical **to improve the distribution** of high quality seedlings, fertilizer and plant protection products:



- New seedlings are needed to replace at least 40% of the countries cocoa trees (Swollen shoot virus disease and aging trees)
- 60,000,000 seedling distributed by COCOBOD in the 2015/16 season, however seedlings are very vulnerable during infancy; 30% of the seedlings do not survive the distribution



- The distribution of subsidized inputs causes **market distortion**
- Lack of access to inputs, caused by an unequal and inefficient distribution system

Land & Tree titles are an important driver for farmers to invest in their farm.....



But the legal framework is complex:

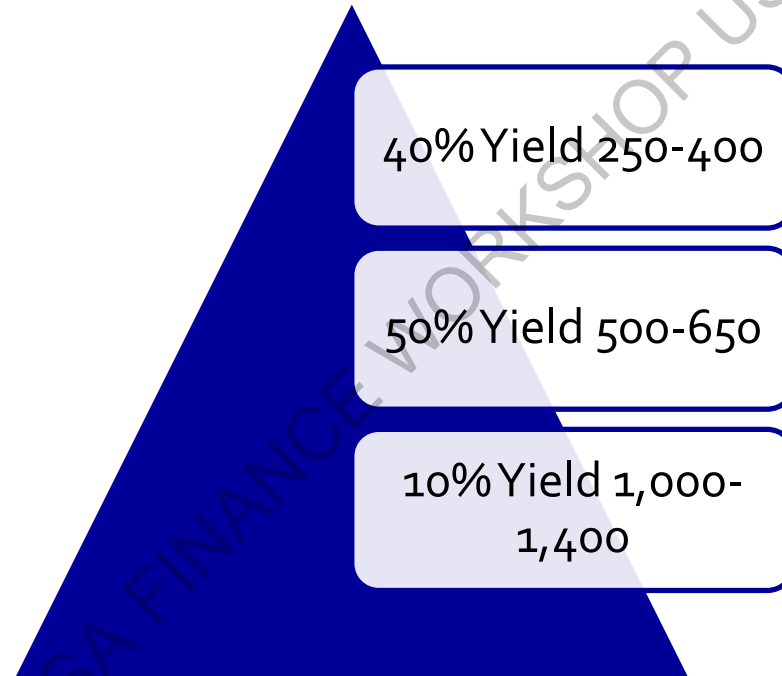
- The 1992 constitution of the Republic of Ghana
- The land title registration law of 1986
- The office of the administrator of stool lands act of 1994
- The lands commission act of 2008

The complexity of land and tree tenure policy is one of the major constraints to improve cocoa productivity

Ghana counts around 800,000 cocoa farmers, mostly smallholder farmers with low yields...



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and social challenges such as succession which is not easily discussed....



Risks & Barriers	Current Solutions	Residual Challenges
Many smallholder farmers		Segmentation of farmers with a business-like mind-set
Aging trees	COCOBOD's replanting scheme	More long-term funding needed to finance R&R schemes Diversification strategies
Aging farmers	COCOBOD's Youth program	Diversification strategies
Lack of Collateral (no Land- and Tree tenure)	Obtain for land titles with support of specialized organizations	Scaling of activities
Lack of entrepreneurialism		Segmentation of entrepreneurial farmers
Gender inequality		Joint decision making
Succession is not easily discussed		Development of family succession planning strategies Family business planning as part of a technical assistance program

3

Opportunities to finance CSA: from a value chain perspective

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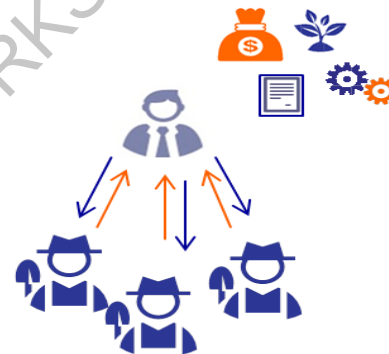
To overcome all the challenges the last mile service delivery is key...



Service Delivery Models (SDMs) are supply chain structures which provides services such as training, access to inputs and information to farmers required to increase their performance and sustainability (source: IDH).



Multiparty



Centralized

Driven by LBCs, Input Providers and farmer organizations...



Service Delivery Model	Driven by LBCs	Driven by Input Providers	Driven by Farmer Organizations
Examples	ECOM, Barry Callebaut, OLAM, Touton Kuapa Kokoo	Wienco Calli Ghana Company	Cocoa Abrabopa Kuapa Kokoo Farmer Union
Type of Services	Farmer training Planting materials Fertilizer & crop protection Community support	Fertilizer & crop protection	Farmer training Planting materials Fertilizer & crop protection Community support

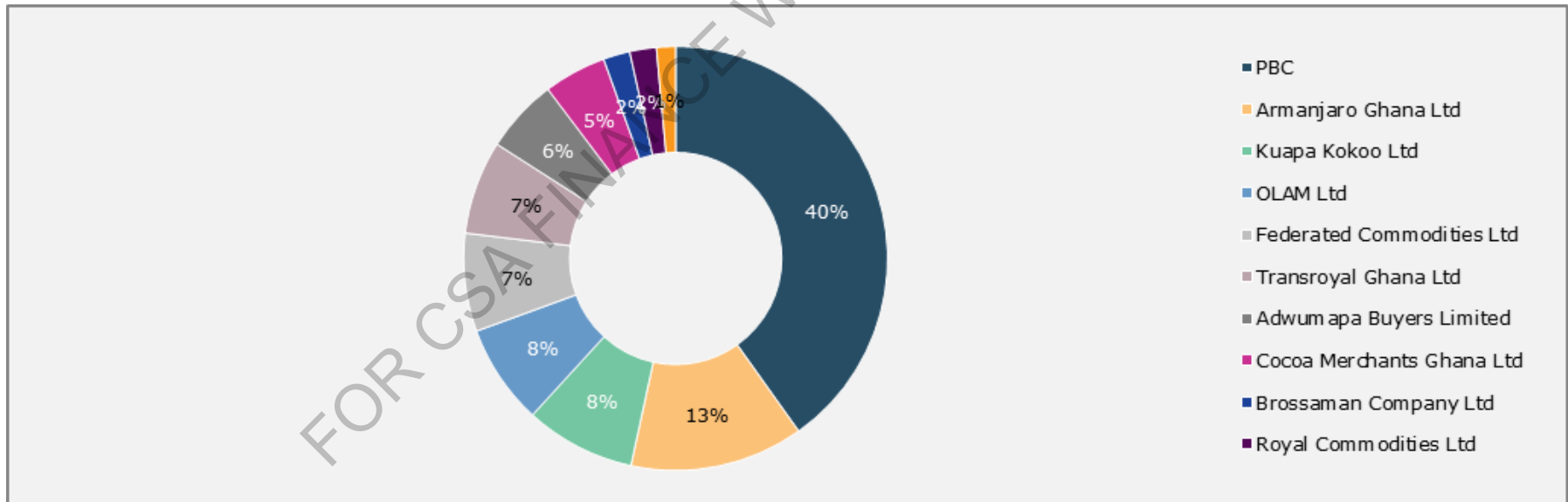


which have a close cooperation with Licensed Buying Companies (LBCs)



Four categories:

- The former subsidiary of COCOBOD, Produce Buying Company (PBC)
- Domestically owned LBCs
- Cooperative based LBCs
- LBCs owned by international companies



However residual challenges remain.....



Risks & Barriers	Current Solutions	Residual Challenges
Subsidized services	Inputs and seedlings distributed through COCOBOD	Availability of high quality inputs and seedlings
Interest-free input finance	Through SDMs	Creating a paradigm shift with involvement of financial institutions
SDMs are <u>top-down</u> , driven by suppliers/ exporters	Donors & Government pay for the services	Demand driven, farmers should pay for the services
Side-selling by farmers	Many farmers are not organized	Establishing farmer-based organizations
Access to finance	Available through some LBCs/Financial Institutions	Scale of availability is limited and only short-term
Ineffective of service delivery due to large distances		Establishment more SDMs
Knowledge gap	GAP training, yield enhancement techniques	Leveraging SDM models
Limited replicability		Additional funds to replicate commercial viable SDMs

4

Finance needs, current
finance solutions & residual
finance challenges

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Finance needs are partly fulfilled, however there is still a significant 'gap'...



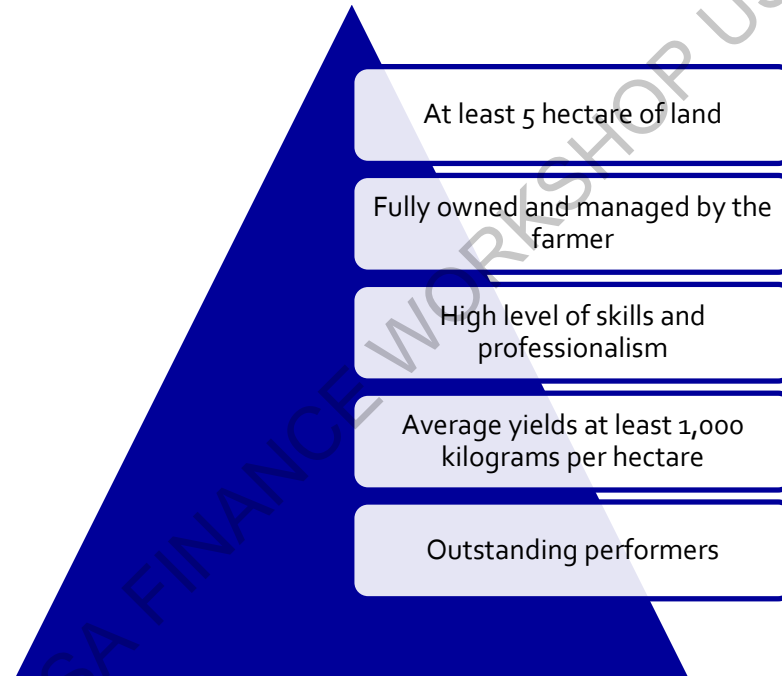
Finance needs	Current Finance Solutions	Residual Finance Challenges
Renovation/ Replanting (seedlings & labour)	COCOBOD replanting program, Private initiatives	Long-term finance to invest in high quality seedlings & to scale R&R schemes
Financial means to overcome the period of negative cash flow in case of replanting		A phased approach to R&R significantly contributes to the self-financing of the investments and reduces the need for other sources of funding
Labour (harvest, drying, etc.)	Private Loans	
Equipment for land preparation	Private Loans	
Drip Irrigation systems		Depending on business-case at farm level (see chapter 4)
Rehabilitation (labour for pruning, mulching, etc.)		Long-term finance to invest in rehabilitation & renovation
Additional inputs (shade trees/ seedlings for crop diversification)		Short- and/or Long-term finance based on the cash-flow of a farmer

5

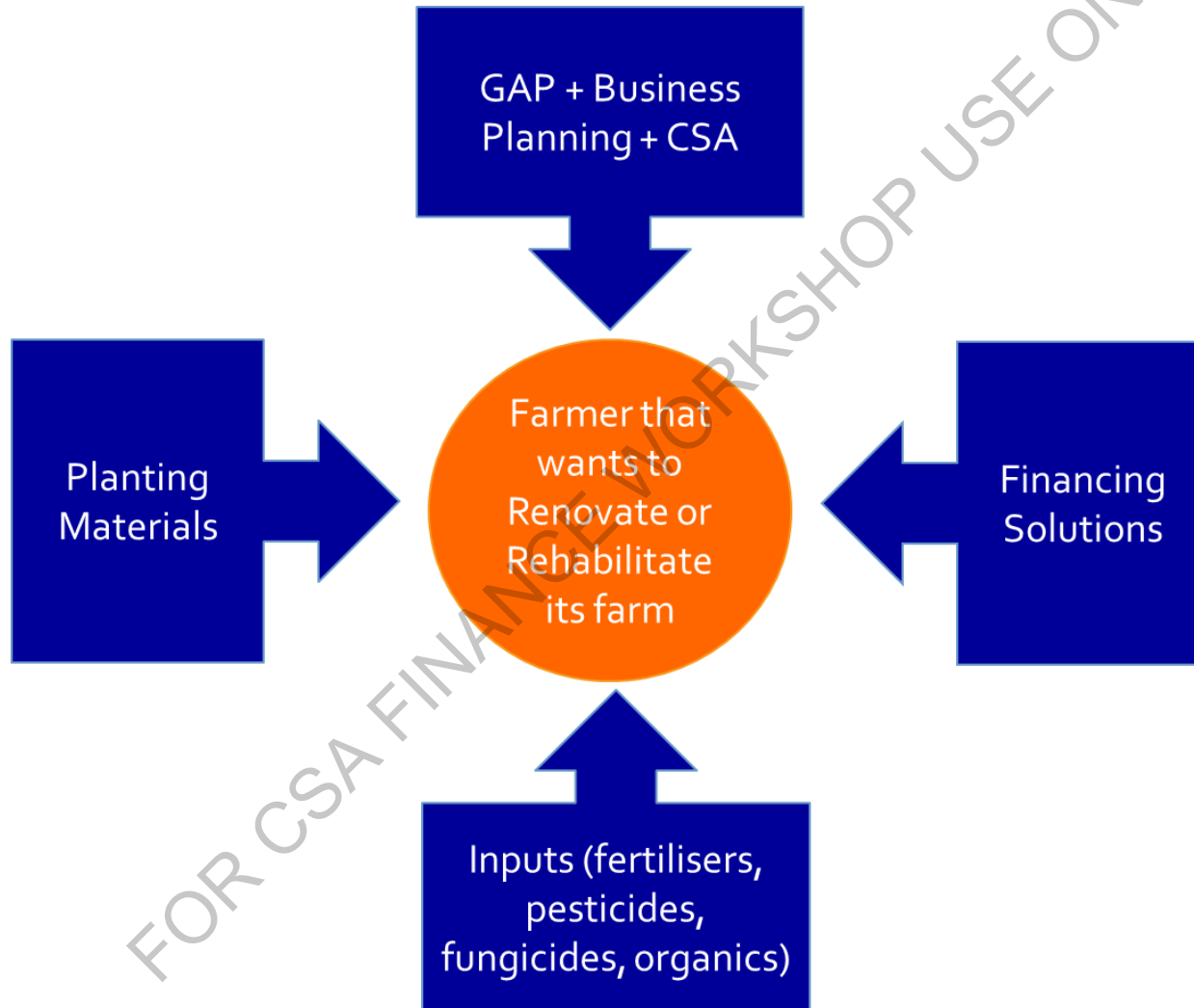
Recommendations regarding solution design

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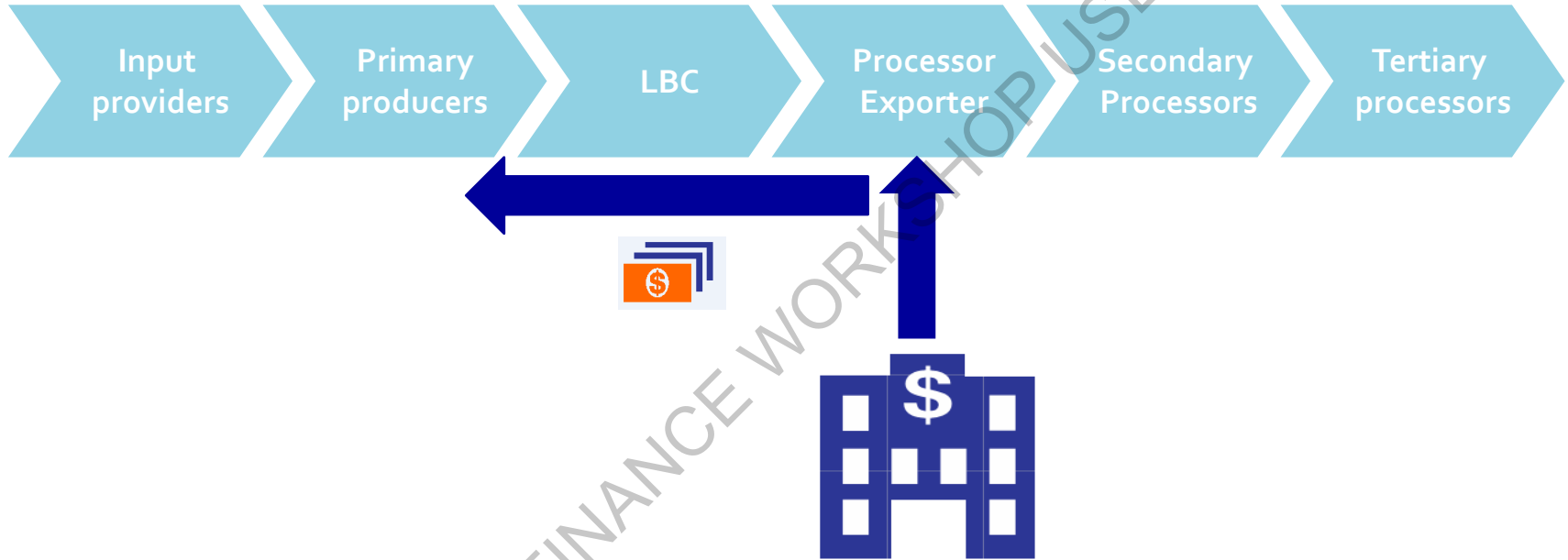
Solutions should be driven by farmer segmentation...



and based on an integrated approach....



Including leading LBCs related to exporters to overcome the hurdles in the chain



6

Financial Ecosystem analysis

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Financial solutions need a conducive financial landscape.....



Organisational form	Informal Group	Standalone formal SACCO	SACCO network	MFI network	Bank (Licensed)
	SUSU Collectors, Savings Groups, Informal Money Lenders	70 Non-Bank Financial Institutions	141 ARB APEX Bank network	429 MFIs	33 Banks

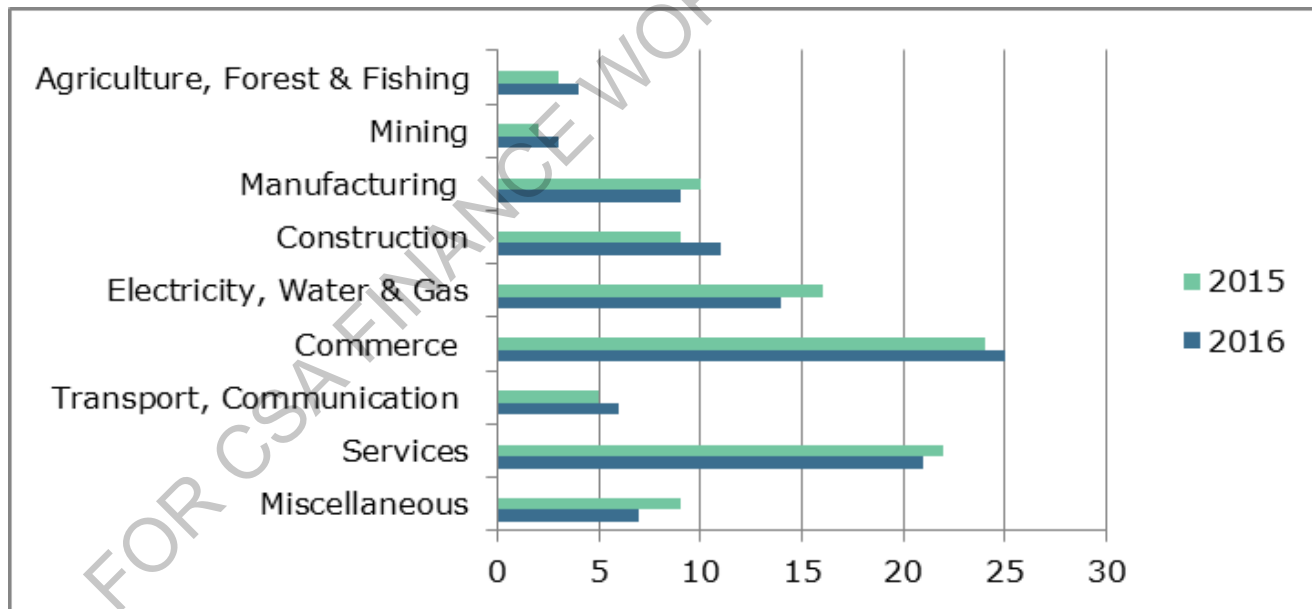


and a committed financial sector...



The performance of the financial sector in general has significant impact on individual financial institutions:

Low appetite to finance Food & Agribusiness:



With ideally involvement at each stage of the cocoa value chain...



	Farmers	Input Provider	LBC	Processor/ Exporter
Informal Finance Provider				
Rural Banks				
MFIs				
Commercial banks				

Informal Groups, Rural Banks & Micro Finance Institutions (MFIs) serve the farmer segment, but.....



- Are **not the preferred financial partner** to unlock CSA finance for the following reasons:
- Governance
- Implementation capacity
- Product portfolio
- Scale
- Execution power
- Access to capital

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7

Risks & Barriers to finance CSA: from the perspective of the financial sector

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Banks have sufficient capital and liquidity, but are still cautious to lend funds to F&A sectors, because of....



- High Non-Performing Loan portfolio
- Impact of BASEL requirements
- High perceived risks in Food & Agribusiness sectors
- Changing regulations and a weakening economy makes financial institutions cautious to lend money
- Banks are focussed on creating FX flows
- Lack of Long-Term funding

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Let alone to lend funds on to farmers in the cocoa sector.....



- Low and erratic cash flow stream
- High transactional costs
- Lack of collateral
- High credit risk

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8

Opportunities to finance CSA: from the perspective of the financial sector

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Impact investors play an important role in the solution design, but.....



should not provide funding directly to exporters/LBCs, but through selected banks, because.....

- Local banks are needed to create **a long-term** solution
- A strong local banking industry is important to **boost** the Ghanaian economy
- Value chain partners **remain dependent** on international organizations
- It creates a more balanced supply chain, otherwise the forces in the chain are too much **concentrated** at LBC level

Which means that financial institutions play a key role and have to overcome the following Risks & Barriers to finance CSA:



Risks & Barriers	Current Solutions	Residual Challenges
Limit outreach in rural areas	On-lending through non-banking institutions	Mobile Banking penetration in cocoa regions
Lack of F&A Knowledge	USAID-FINGAP	Agri finance Capacity Building
High NPL, implementation of BASEL requirements, high perceived risks in F&A sectors	Low appetite to lend funds on to F&A Sectors	Providing of Long-Term funding
High interest rates	Challenge to repay loans	Loans at concessional rates (<u>FX risk</u>)
Changing regulations and a weakening economy makes financial institutions cautious to lend money.	Low appetite to lend funds on to F&A Sectors	Strengthening knowledge base at financial institutions
Banks are focussed on creating FX flows		Design business case at bank level to show the profitability of servicing upstream players in the supply chain
Business Case at farmer level		Business Case including a sensitivity analysis
Business Case at bank level	Most of the banks do not have a Food & Agribusiness strategy	Business Case at bank level
Lack of Long-Term funding		Blended Finance Solutions

However, serving F&A actors and more specifically cocoa farmers gives banks an opportunity to increase their client base...



If they meet the following criteria:

- Having a strong outreach in the cocoa regions (client intimacy)
- Commitment to serve Food & Agribusiness across the chain
- Having a Client base in cocoa sector
- Able to select outstanding performers

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A select number of banks meet the criteria, based on...



- Size of the bank
- F&A portfolio
- F&A knowledge
- Branch network in the cocoa region
- Well-developed channel strategy (mobile banking solutions play an important role to design cash-less solutions)

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Which leads to the following conclusions:



- Segmentation of farmers is important (outstanding performers)
- A minimum farm size and productivity is critical to secure long term viability of the farms and to create a buffer to finance the renovation going forward
- A phased approach to overcome the negative cash flow in the first years
- Providing an integrated package (including training on succession) through SDMs backed by leading processors/exporters
- Risk sharing across commercial partners in the chain is a pre-requisite for solution design
- Include selected banks in the proposed solution to create a sustainable solution
- Assist banks in the transition from collateral based finance to cash-flow based finance
- Long-term funding at concessional rates are necessary, but FX risk should be managed properly

9

Questions & Discussion

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Designing Blended-finance Solutions For CSA Investments In The Ghanaian Cocoa Sector

Workshop : April 19th, 2017



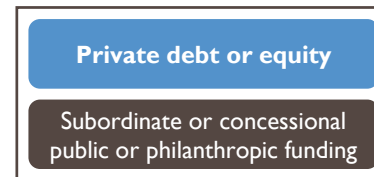
WHAT IS BLENDED FINANCE?

Blended finance uses **catalytic capital** from public or philanthropic sources **to attract private sector investment to emerging markets for global development impact.**

There are three signature markings of a blended finance transaction:

1. The transaction – whether a project, company, fund, or structured offering – is intended to **yield a financial return.**
2. The **venture or activity contributes toward meeting the SDGs** in an emerging market. Not every investor in the transaction will have that intent; there may be participants who are drawn instead by diversification, returns, or a strategic opportunity to enter a new market.
3. The **public and/or philanthropic parties at the table are catalytic**, making a deal happen that would otherwise attract little or no interest from the private sector.

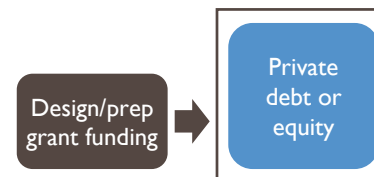
Practically, Convergence considers the following transaction archetypes as blended finance.



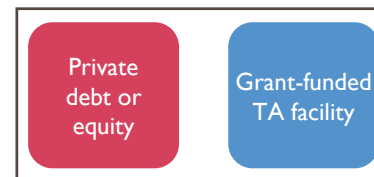
Public or philanthropic investors are subordinate or concessional within the capital structure



Public or philanthropic investor provide guarantees or insurance adjacent to the capital structure



Transaction design or preparation is grant funded



Transaction is associated with a grant-funded Technical Assistance facility

Archetypes of Blended Finance Structure

Archetypes of Blended Finance Structure

① Guarantee to FIs

To Lend to Exporter and LBCs
(leveraging FI's own balance sheet)

② New R&R or CSA Fund

To Lend to FIs or LBCs; who then
on-lend to farmers
(not on FIs or LBCs balance sheet)

③ R&R/CSA Portfolios Within Existing Funds

④ Adaptation of COCOBOD's Syndicated Loan

- World Cocoa Foundation (WCF) represents over **80% of global cocoa and chocolate industry**
- It convenes public and private partners around efforts for a sustainable cocoa supply chain focusing on **improved livelihoods, increased productivity and environmental protection**
- Through important initiatives: **CocoaAction – Africa Cocoa Initiative - Climate Smart Cocoa Program - Cocoa and Forests Initiative**
- Linked to all these: **Feasibility of a blended finance vehicle for the renovation and rehabilitation (R&R)** of diseased and aged cocoa trees in West Africa undertaken by WCF/ISF with support from key partners:

Objectives

- Facilitate intensification investments & Restore degraded lands
- Professionalize cocoa farmers & Ensure sustainable and diversified livelihoods

Scale & Scope

- 10-20 year timeframe
- Actors best positioned to deliver: exporting companies, cooperatives, financial institutions, or direct to farmers (aligned to government strategy)
- Effective Segmentation: Criteria for defining bankable farmers?
- R&R Package: What is the minimum package needed and can it be prescriptive ?

Product Offering

- Revolving fund of 7-15 year financing commitments
- Blended capital with different tranches of investments
- Technical assistance facility

Fund Options

- Create window in existing fund **OR**
- Create new fund with experienced manager



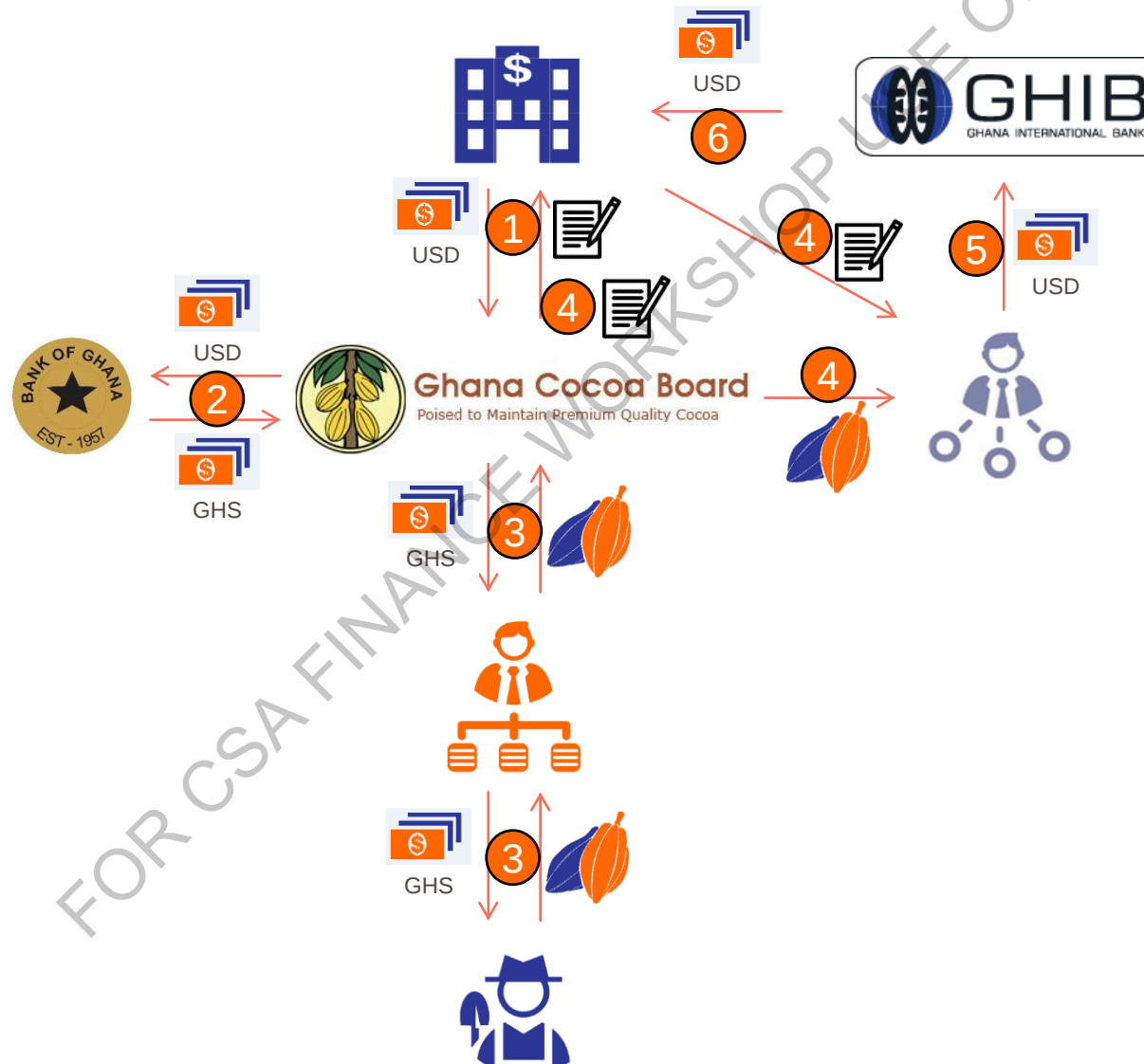
Anti Trust Statement

As participants in this group, we need to be mindful of the constraints of antitrust laws. During both the formal and informal parts of this meeting, participants shall not enter into discussions, agreements or concerted actions that may have as their object or effect the restriction of competition. This prohibition covers the exchange of competitively sensitive information including, but not limited to, information concerning individual prices, production, sales, capacities, costs, rates, coverages, market practices, claims settlement practices, company level investments, or any other competitive aspect of an individual company's operation.

The participants acknowledge that any efforts made by this group to promote sustainable and enhanced product supply shall not result in any understandings or agreements to limit individual activities or efforts to the same ends.

Each participant is obliged to speak up immediately for the purpose of preventing any discussion falling outside these bounds.

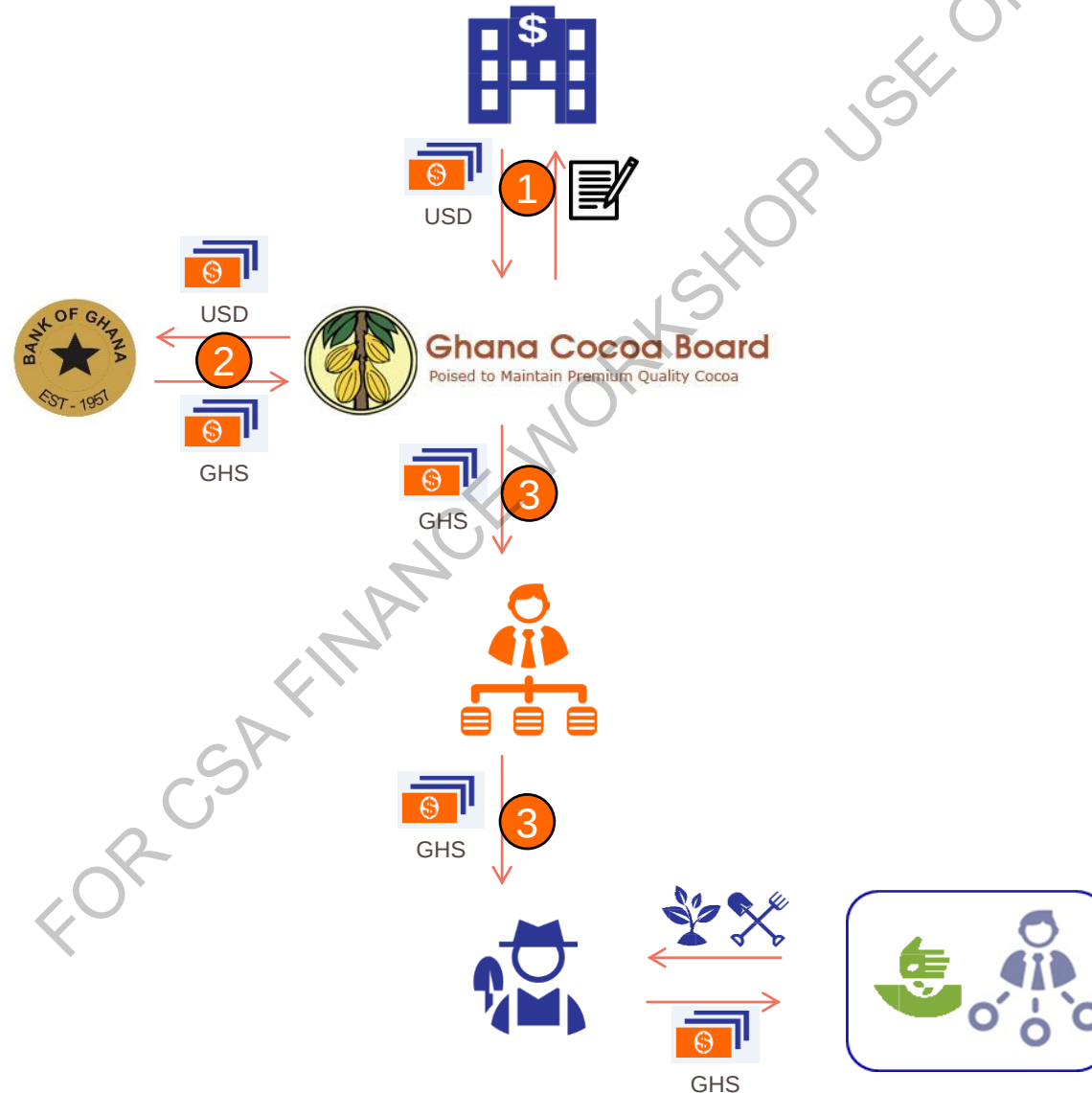
Syndicated Finance Structure



Each year Cocobod sets up a **Pre-Export Finance Facility** with a Banking Syndicate in order to **prefund** the **export** of cocoa.

- The Banking Syndicate **advances** USD against assignments of **fixed priced export contracts** with acceptable off-takers.
- Off-takers **repay** USD through GHIB upon receipt of **shipping documents**.

Syndicated Loan as a Basis for R&R/CSA Finance



Using the Syndicated structure as a basis for an Investment Facility:

- Replacement is needed for **fixed priced export contracts** in order to draw USD under the facility.
- Repayments will be **delayed**

Afternoon Working Groups

WG1: CSA Loan Structuration

Defining CSA loan structure and eligibility requirements for loan recipients

WG2: CSA Finance Delivery Through Financial Institutions

Delivering CSA finance through rural banks, S&L and other local financial institutions

WG3: CSA Finance Delivery Through the Value Chain

Leveraging LBCs' service delivery models to unlock smallholder CSA finance

WG4: Enabling Environment for CSA Finance in Ghana

Mobilizing youth and rethinking land-tenure for long-term impact

WG5: Catalyzing Blended Finance at Scale to Achieve Impact

Identifying investment vehicles and blended finance solutions



www.rainforest-alliance.org



Designing Climate-Smart Loan Products

A Blended Finance Approach to Farm Renovation

Benjamin Schmerler, Senior Director



Mission

Grow rural prosperity by investing in agricultural businesses that build sustainable livelihoods in Africa and Latin America

Vision

Thriving financial market serving agricultural businesses that generate long-term social, economic, and environmental sustainability for small-scale farmers and their communities around the world



Two Sectors, Similar Challenge: Global Need for Coffee R&R

The Estimate ➤  **3M hectares** *at a cost of*  **\$6 billion** *and* **\$35 billion**
in need of immediate R&R Year 1 Year 2 – 25

Ongoing Factors ➤

Low and Declining Yields

Aging Trees

Disease and Pest Outbreaks

Underinvestment in Agriculture

Latin American Crisis ➤

Example: Coffee Leaf Rust Epidemic in Latin America (2012-2013)

Economic losses including
500,000
coffee-related jobs, and
\$1Billion in lost revenue

Countries in state of
emergency:

Guatemala, Honduras,
Panama, El Salvador,
Costa Rica, and Peru

R&R financing estimates provided by Dalberg, 2015.

Coffee Farmer Resilience Initiative (CFRI)

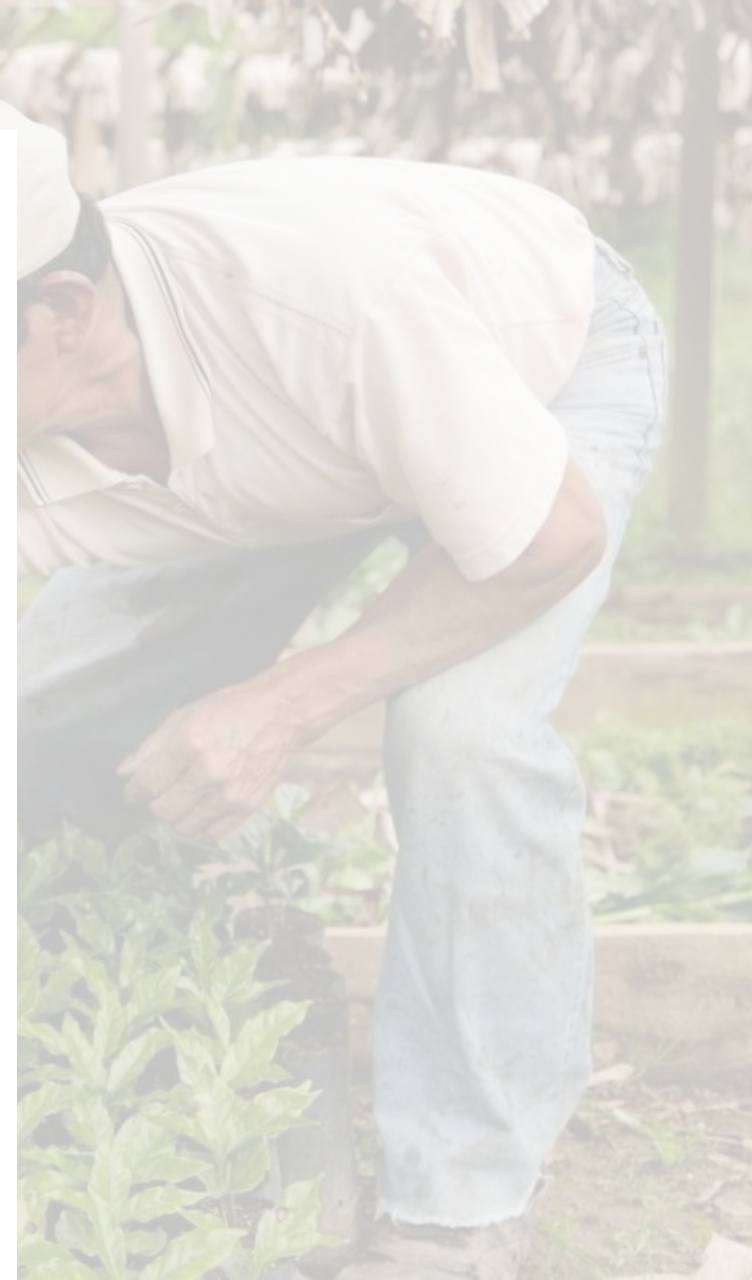


Structuring R&R Loans

RENOVATION & REHABILITATION LOANS

Amount	\$100,000 to \$2 million
Purpose	Rehabilitation or renovation of permanent crops
Tenor	Three visits per year to the enterprise as well as to the farms of 20 percent of participating producers, a sample randomly selected by a Root Capital agronomist
Monitoring	Amortized repayment of principal beginning in year three; interest payments beginning immediately and paid on a quarterly basis
Repayment	Amortized repayment of principal beginning in year three; interest payments beginning immediately and paid on a quarterly basis
Collateral Requirements	100 percent loan-to-value on a fully discounted basis over the life of the loan; offered in land, facilities, or hard assets, or through joint guarantee

Specific financing terms and conditions may differ



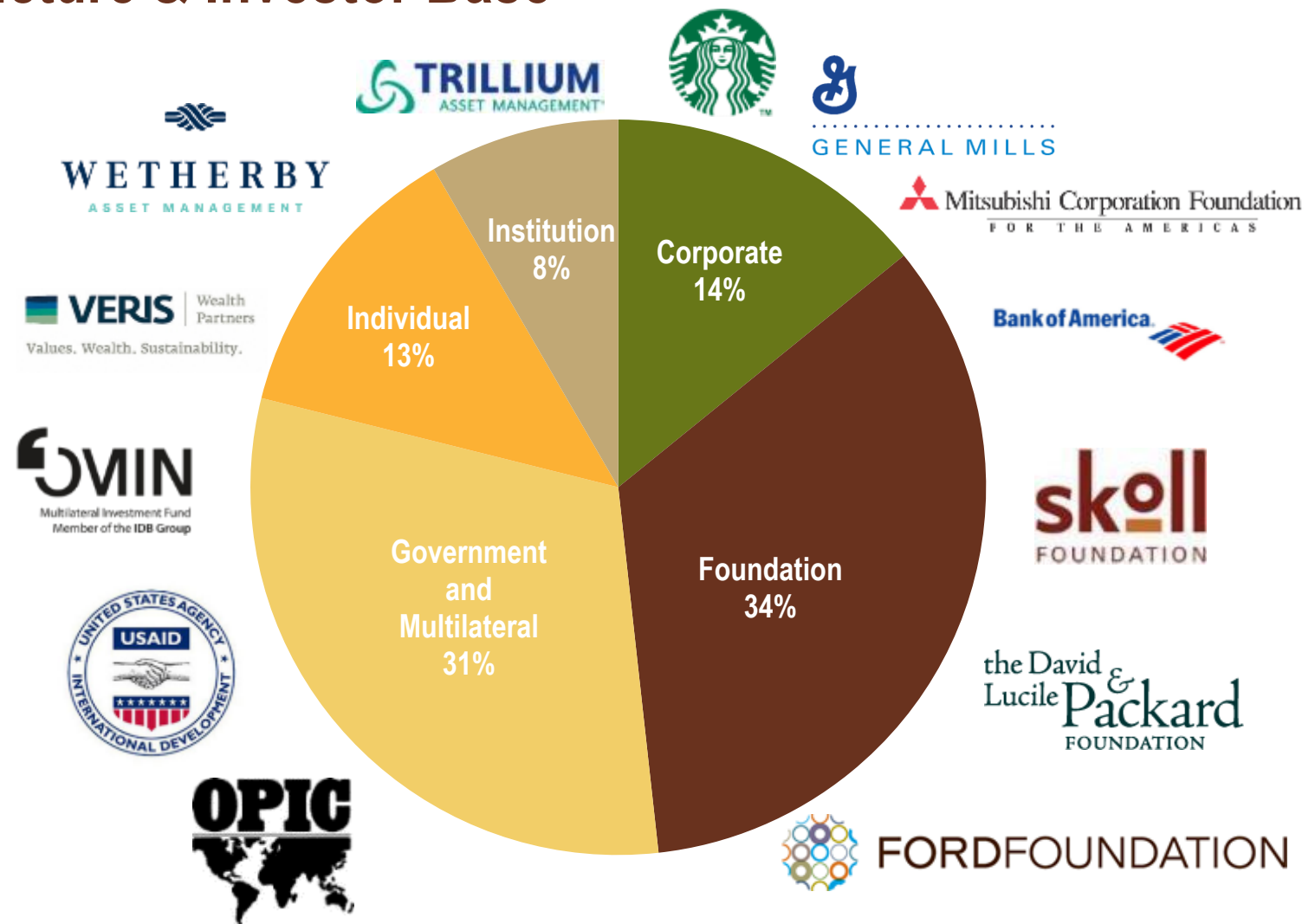
Capital Structure & Investor Base

\$130M
Capital Under Management

4.2 to 1
Debt-to-Equity

100%
Repayment Rate to Investors

200+
Investors



Root has secured four guarantee facilities from USAID's Development Credit Authority (DCA)

Blended Finance is Essential



Coffee Farmer Resilience Initiative (CFRI)

Foundation
Support

Ford
Lending Capital
\$5M

Skoll, DOEN,
Swedish Postcode
& Open Road
Technical Assistance
\$700K

KGM
First Loss
\$400K

Private Sector
Support

Public Sector
Support

IDB
Technical Assistance
\$2.5M

USAID
Credit Guarantee
& Technical Assistance
\$15M & \$2M

IDB
Lending Capital
\$3M

Starbucks
Lending Capital
\$4.5M

KGM, CC,
& EE
Technical Assistance
\$2M



rootcapital®

Initiative Outcomes: Renovation

\$9M

Amount of Long-Term Loans Approved

4,100

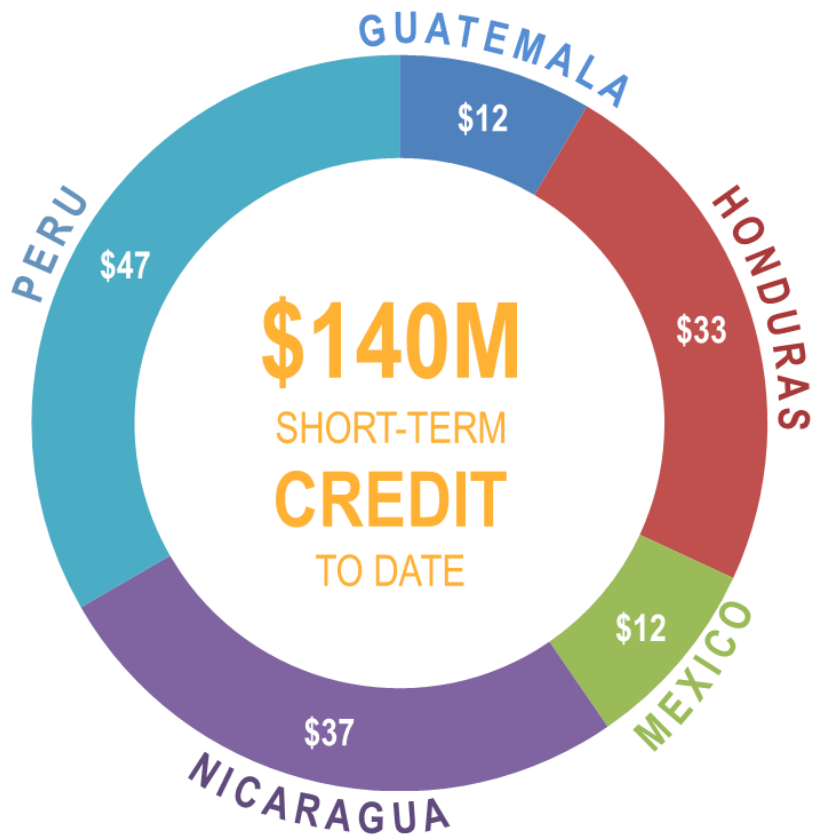
Number of Producers Renovating / Rehabilitating

5,330

Number of Hectares Renovated / Rehabilitated

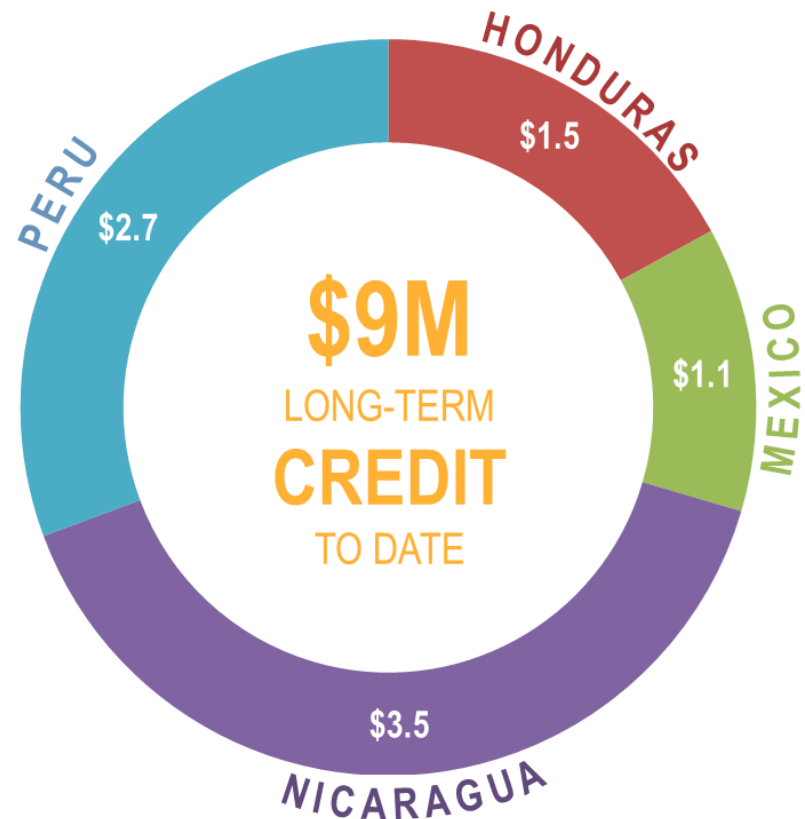


Short-Term Lending Under CFRI



Amounts Disbursed in USD (Millions)

Long-Term Lending Under CFRI



Amounts Approved in USD (Millions)

Initiative Outcomes: Advisory

72

Business received ICS implementation

349

Days of onsite Agronomic training

300

Technicians trained

\$1.5M

Small grants disbursed



What We've Learned So Far – Implications for Cocoa

- **Capital Supply / Demand** continues to be biggest barrier → no solutions at scale of the problem
- **Risk aversion is higher** than we anticipated – investing in R&R needs to make financial sense for farmers.
- Debates continue over the **value of rehabilitation vs. renovation** as a response to disease shocks, and **optimal varieties** to balance productivity, quality, and resilience objectives → highlights **need for ongoing technical assistance**
- **Lack of quality control at nurseries** led to increased costs (high seedling mortality, nurseries mistakenly mixed varieties) → need a true **value chain approach**
- Despite urgency, **many organizations lack internal capacity** and cannot absorb or manage long-term renovation loans → highlights needs for ongoing financial technical assistance

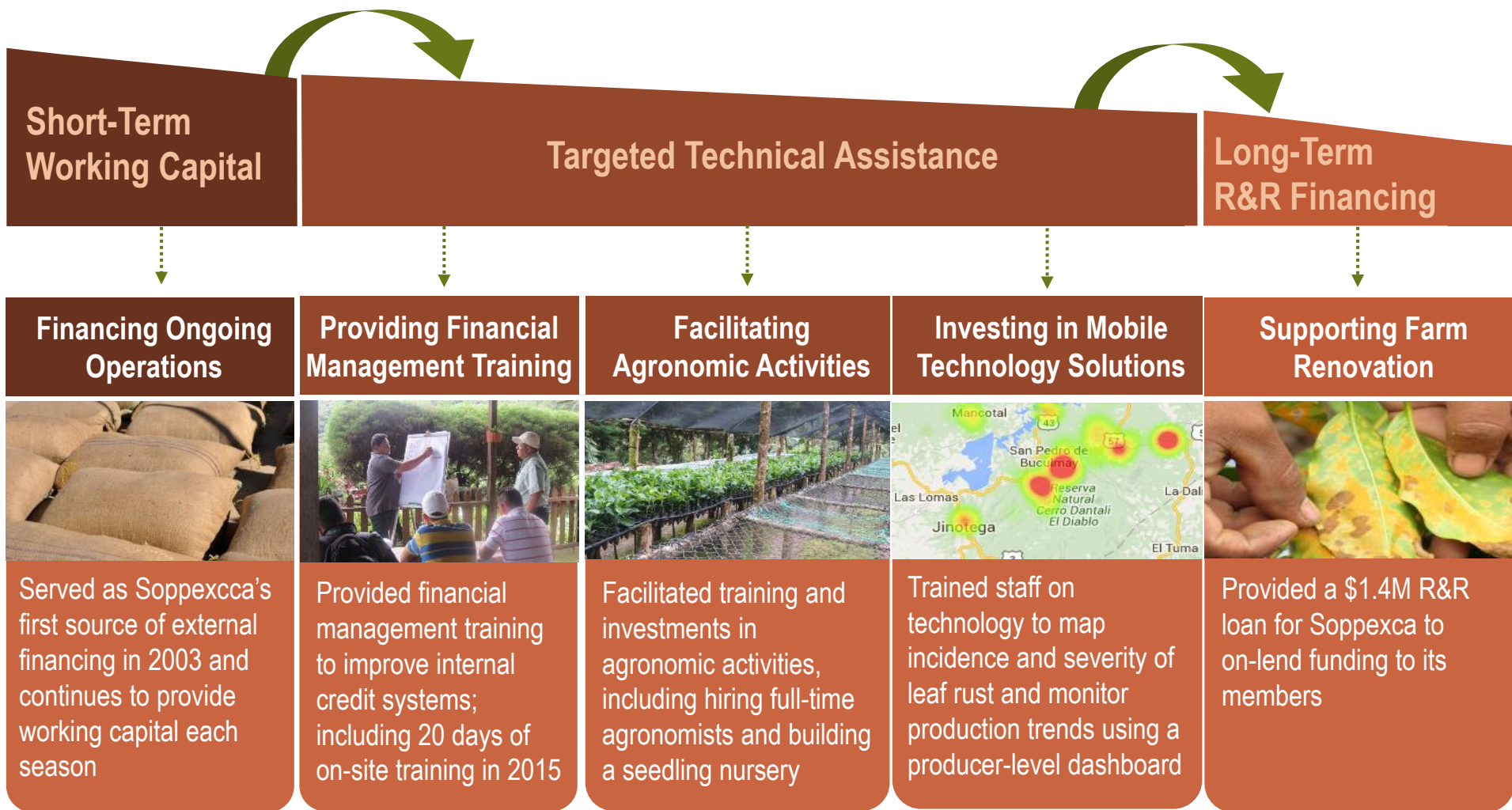




Thank You

Appendix

Case Study: Soppexcca, Nicaragua

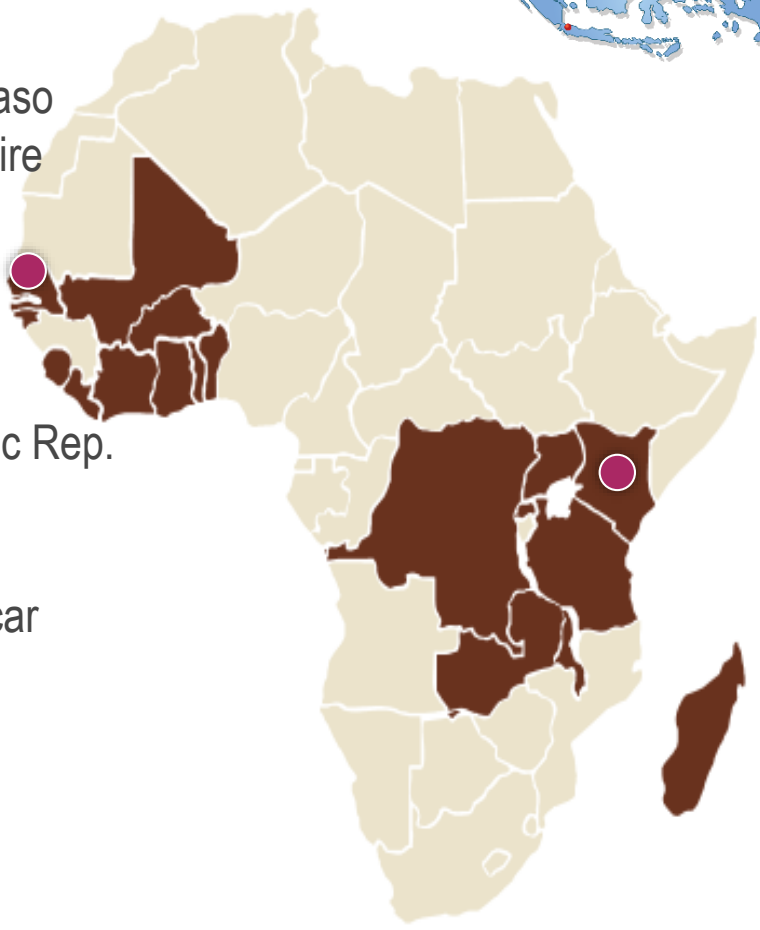


Geographic Footprint | Active in 26 Countries



AFRICA

- Benin
- Burkina Faso
- Cote d'Ivoire
- Ghana
- Mali
- Senegal
- Togo
- Democratic Rep. of Congo
- Kenya
- Madagascar
- Malawi
- Rwanda
- Tanzania
- Uganda
- Zambia



ASIA

- Indonesia

