Access To Finance For Cocoa Farmers

Access To Finance Working Group

Swiss Platform for Sustainable Cocoa

April 2019
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ABBREVIATIONS

DCA	Development Credit Authority
MFI	Microfinance Institution
CSAF	Council on Smallholder Agricultural Finance
NGO	Non-governmental organization
TA	Technical assistance
Coops	Cooperatives
SME	Small and medium enterprise
USAID	United States Agency for International Development
IT	Information Technology
IFC	International Finance Corporation
ICCO	International Cocoa Organization

EXECUTIVE SUMMARY

Smallholders farmers are the backbone of cocoa production: according to the International Cocoa Organization, almost 90% of the cocoa production worldwide comes from smallholdings under 5 hectares. However, most farmers lack access to finance with negative impact on their income and ability to produce in the long-term. The gap between the offer of credit and the demand for smallholder finance is estimated to exceed USD 150 billion. Systemic risks linked to cocoa production, low financial literacy, weak agricultural practices at farmer level and high transaction costs remain major obstacles to provide financial products and services to farmers, increase their resilience and lift them out of poverty. In this context, the Swiss Platform for Sustainable Cocoa ("the Platform") created The Access to Finance working group to **enable accessible, effective, cost-efficient and adequate financial and risk mitigation instruments for sustainable cocoa value chains**, especially of Swiss cocoa sector actors.

Although increasing access to finance to farmers in a sustainable manner is not easy, a number of players have experimented innovative approaches to overcome the sector's specific challenges that have shown promising results. Those approaches usually involve aggregators such as cooperatives, trading or processing companies sourcing from smallholder farmers. Those aggregators play a vital role in reaching out to smallholder farmers, linking them to markets and providing services such as credit for farm inputs and agronomic training.

The objective of the study is to **analyze successful cocoa financing schemes and identify key success factors** to provide access to finance to cocoa farmers and producer organizations. The analysis provides a **recommendation of tools and solutions** that could be implemented by the Platform to decrease risks and costs, address hurdles of accessibility and ensure that products serve the real needs of cocoa farmers. The report provides **an estimate of the budget required to implement** those tools and solutions, and **key performance indicators** to be measured.

The analysis of the case studies highlights **five key success factors** required to implement financing schemes aiming at addressing systemic risks, capacity issues and operational challenges linked to smallholder financing: effective and strong **partnerships** with value chain actors, **technical assistance** to improve farmers and producer organizations' business and agricultural skills, **customized products** adapted to farmers' needs and cash flows, **bundling** of financial and non-financial products and services and use of **technology** and digital payment systems to mitigate risks and serve farmers in a cost-effective way.

Those key success factors have already been implemented and tested by a number of players in the industry, including members of the Platform. Most initiatives however lack risk-mitigation schemes, financial incentives and/or technical support to be able to scale their operations. The Platform could have **a catalyzing role to replicate existing schemes with proven business models and impact** in different regions or countries by providing a **guarantee**. While the innovation component of such a pilot would be limited, it is a smart way to build on existing experience and knowledge to achieve impact, with limited costs and in a short timeframe.

The Platform could also **focus on addressing two gaps that still haven't been tackled by the sector at scale**: **access to long-term financing** for the renovation and rehabilitation of cocoa trees, and **access to shared information** between value chain actors to reduce transaction costs and risks. **Access to long-term financing can be enabled through a guarantee facility including a technical assistance component** to encourage lenders to enter and/or expand their portfolio to this higher-risk segment. The **development of a data platform** allowing to share information between value chain actors through the use of **blockchain technologies** for example would require the financing of a **feasibility study** prior to the development of the technology and roll-out of a pilot.

Although all financing models are needed to serve the vast needs of smallholder farmers, financial institutions typically have strong internal lending systems and are in the best position to address the full range of farmers' needs at scale. The recommendation is therefore to **conduct a pilot with a microfinance institution in partnership with value chain actors.**

This study serves as a starting point for the Platform members to agree on a pilot. Going forward, further exploration and action is needed in order to specific the design of the pilot, stakeholders and budget.

1. Background and Objectives

1.1 Background

Financial services for smallholder farmers are critical to enable them to invest in productivity and rehabilitation of their farms, improve post-harvest practices and quality, enable access to markets and smoothen household cash flow. Pre-harvest finance allows farmers to access quality inputs that will increase productivity and crop quality, thus increasing farmers' income while ensuring a more reliable supply for buyers. Post-harvest finance is also critical for cost-efficient aggregation of crops.

While the needs and market demand remain vast, it is not easily reached. The business case of this segment remains an obstacle to unlock capital flows to farmers. The leading challenges faced by lenders willing to engage in the agricultural sector can be categorized as follows (Miller):

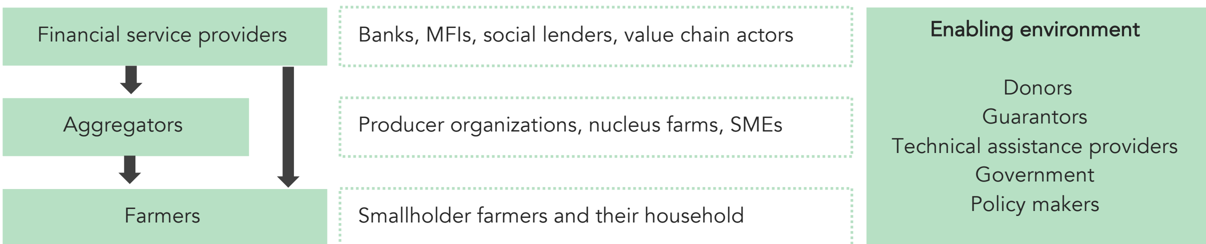
Key Constraints to Agricultural Lending

Vulnerability constraints (exogeneous risks)	Operational constraints (high costs)
Exposure to systemic risks (climate issues, disease) Market risks (price fluctuations)	High delivery costs and uneven cash flows Geographical dispersion
Capacity constraints (operational risks)	**Political and regulatory constraints (country risk)**
Weak farm practices Weak management capacity	Government intervention Regulatory constraints

Despite these challenges, there is a strong case to be made in favor of expanding the financial inclusion of smallholder farmers and growing interest in smallholder finance broadly. A number of key actors are now experimenting with innovative approaches to overcome the sector's specific challenges. A diverse set of actors currently channel credit to farmers either directly or through cooperatives and small and medium enterprises (SMEs). Those actors can be categorized in 4 main segments:

- **Commercial banks:** their participation in smallholder agricultural finance remains limited and usually indirect, through arrangements with input providers or buyers who on-lend to farmers, or through warehouse financing systems.
- **Microfinance institutions (MFIs):** MFIs usually target individual farmers but work in close coordination with cooperatives and SMEs to offer a range of complementary financial products and services to farmers.
- **Social lenders:** social lenders or impact investors such as Root Capital, Oikocredit or responsAbility mostly provide short-term trade finance to cooperatives and agricultural SMEs, backed by sales contracts with buyers. Some social lenders also provide long-term capital for the renovation of tree crops or investments in fixed assets.
- **Value chain actors:** buyers typically work with smallholder farmers in order to meet their procurement needs. Buyers tend to use their own balance sheet to supply credit and base their decisions on the business relationship and formal or informal contracts with farmers.

Smallholder Financing Channels



While banks and social lenders focus on aggregators only (ie. cooperatives and SMEs), buyers and microfinance institutions can target both aggregators and individual farmers. Using aggregators as intermediaries allows to decrease transaction costs and mitigate risks, but products are usually limited to crop financing and the model shows limited scalability. On the other hand, lending directly to farmers generates high transaction costs and requires a deep knowledge and understanding of farmers needs and cash flows. Models including partnerships between aggregators and financial institutions allow to tackle both costs and risks issues while generating higher value for farmers. Adequate program design and coordination are however required to ensure success.

1.2 Objectives of the study

The objective of the study is to **assess innovative approaches** related to the financing of cocoa farmers and **identify key success factors** allowing to reduce costs and risks and lower barriers to serving the cocoa sector. The study focuses on approaches tested in Switzerland main sourcing countries and includes a **recommendation of a pilot** to address the constraints mentioned above. A successful model is defined as a model that (i) addresses hurdles mentioned above (ii) effectively reaches cocoa farmers and generates productivity and/or quality increases (iii) shows good repayment rates (iv) is scalable.

1.3 Methodology

In order to narrow the landscape and case study review, 15 interviews were conducted with industry experts including buyers, impact investors specialized in agriculture lending, certification bodies, financial institutions active in producing countries, producer organizations and sustainable finance and trade initiatives. To complement the outcome of the interviews, more than 50 cases were assessed through desk research, out of which 10 were selected for detailed review to validate findings. The key limitation of this approach was the timeframe of 10 days and lack of publicly available information.

The literature review and interviews with industry experts allowed to identify a short list of key parameters widely adopted when implementing financing schemes later validated in the case studies:

Interventions	Definition
Involvement of value chain actors	Involvement of value chain actors such as buyers or input providers allows to facilitate cheaper and more effective access to inputs, services, and markets through economies of scale.
Producer aggregation	Aggregation of farmers in producer organizations, villages or clusters owned and controlled by farmers enabling them to achieve economies of scale and increase their bargaining power.
Certification	Compliance with a set of standards related to quality, traceability, working conditions of farmers and workers and sustainable production of cocoa. Certified farmers usually benefit from a minimum guaranteed price and/or a price premium.
Provision of non-credit products	Provision of savings accounts, health or crop insurances, and personal loans for off-farm activities allowing farmers to smoothen their cash flow and increase their resilience.
Technical assistance (TA) and training	Transfer of information and tools to address specific gaps. Technical assistance and training usually focus on strengthening financial literacy, governance and risk management policies, and improving quality and productivity.
Productivity package	Provision of technology (seedlings, inputs) and practices (planting, pruning, crop diversification) aiming at increasing crop yields and/or reducing losses related to pests and disease.
Post-harvest loss prevention	Provision of technology (packaging techniques), infrastructure (storage premises) or vehicles aiming at reducing losses between harvest and sale of cocoa beans.
Pricing arrangements	Pricing arrangements aim at protecting farmers from price volatility either through a guaranteed minimum price set by the government or certification standards, payment of a premium, or compensation mechanism in case of price decrease.
Mobile technology	Development of mobile and digital communication channels to provide farmers with information (e.g., prices, market sales, weather, and pest risks) and allow them to make digital payments to reduce cash handling risks.

Each of those interventions addresses one or several constraints mentioned in 1.1:

Interventions & issues addressed	Vulnerability	Operational	Capacity
Involvement of value chain actors	X	X	X
Producer aggregation		X	
Certification			X
Provision of non-credit products	X		X
Technical assistance and training	X		X
Productivity package	X		X
Post-harvest loss prevention	X		X
Pricing arrangements	X		
Mobile technology		X	

1.4 Selection of case studies

Case studies were selected based on available information in countries defined as "priority 1 countries" by the Platform, and include successful models in **Côte d'Ivoire, Ghana, Peru, Ecuador and the Philippines.** The practices highlighted are determined by the context in which they operate. The key elements related to the environment and influencing the different cases are: price regulation, infrastructure development and farmer aggregation level.

In Côte d'Ivoire and Ghana, the introduction of **price stabilization mechanisms** allows farmers to be certain about the price they will receive. It insulates farmers from fluctuations in world cocoa prices and reduces price risk. In both countries, only exporters authorized by the Ghana Cocoa Board (COCOBOD) and Conseil Café Cacao can sell cocoa beans. Those government bodies oversee the cocoa sector, including quality control. The **level of aggregation of farmers** also has a significant impact on the financing scheme. While around 50% of cocoa farmers are members of cooperatives In Côte d'Ivoire, in Ghana the preference of farmers was to develop informal groups, making financing to farmers more difficult. The **existence and development of rural infrastructure** such as roads, telecommunications, powers and irrigation systems is essential to agricultural production. In Madagascar where infrastructure is extremely weak, no successful example could be found (except a partnership between Barry Callebaut and a local private player).

Each case includes a short description of the entity, products and services provided, financing scheme and stakeholders and key success factors. Reviewed cases include examples of aggregators and financial institutions providing access to finance to cocoa farmers in partnership with cooperatives and/or buyers:

Entity	Country	Type of organization	Number of farmers involved	Cocoa sales in tons	Loan portfolio in mUSD	Purpose of the loan
Aggregators						
Ecookim	Côte d'Ivoire	Union	20,000	35,000	5,9	Tree planting
Acopagro	Peru	Cooperative	2,000	5,000	1,3	Tree planting
Oro Verde	Peru	Cooperative	1,208	1,269	0,4	Pre-harvest financing
Amazonas Trading	Peru	SME	3,200	8,710	0,6	Pre-harvest financing
Eco-Kakao	Ecuador	SME	2,500	2,500	1,6	Pre-harvest financing
Financial service providers						
Advans	Côte d'Ivoire	MFI	25,000	n/a	2,7	Input & trucks
Opportunity	Ghana	MFI	50,240	n/a	17,2	Input & tree planting
Financiera Confianza	Peru	MFI	200,000	n/a	1,8	Pre-harvest & capex
Agronomika	Philippines	MFI	10,000	n/a	n/a	Pre-harvest & capex
SIB – Doni Doni	Côte d'Ivoire	Bank	56 (coops)	n/a	4	Leasing of trucks

2. LESSONS LEARNT & CONCLUSIONS

Case studies show that **strategic partnerships and involvement of several actors of the value chain to provide products and services covering a broad range of needs** are fundamental to ensure success. Interventions must bring together all of the necessary components to serve the complex needs of farmers instead of focusing on weak links only: for example, smallholder farmers may have access to inputs but not to appropriate support enabling them to use it adequately; they may receive training on technology or good agricultural practices; yet lack access to financial products allowing them to invest in tools and equipment. While the farmer's household cash needs may be known, they may not have access to savings to smoothen their cash flow and will therefore have to sell to intermediaries often at lower prices in order to meet their immediate cash needs.

Efforts to finance farmers through aggregators or financial institutions have generally failed due to **management issues**, **inappropriate lending policies**, **disregard for market influences** and a lack **of understanding of farmers' household pressures** leading to **diversion/misuse of funds**. Those issues can be tackled through **technical assistance**, **collection of data** to develop products adapted to farmers' needs and implementation of tools or practices aiming at mitigating cash handling issues such as **in-kind delivery** of packages and **digital payments**.

Key success factors to provide financing to farmers while reducing transaction costs and risks, and maximizing impact can be summarized as follows:

1. **Effective and strong partnerships:** many of the case studies include various stakeholders with unique expertise in their field. Key stakeholders involved in all cases analyzed involve at least: **cooperatives or producer organizations, buyers and/or inputs suppliers and technical assistance providers**. The only exception is Financiera Confianza that does not work with value chain actors. Adequate coordination among actors involved is one of the key success factors of the financing arrangements.

2. **Technical assistance:** lack of capacity, limited technical knowledge, and weak internal controls at the aggregator and/or farmer level are often considered as the biggest bottleneck to expand access to finance in rural areas; **successful models therefore always involve a technical assistance program** targeting farmers and aggregators and focusing on technical, financial and business management training.

3. **Customized products:** many of the most successful approaches are tailored to meet the needs and stage of development of farmers and aggregators. It is critical to understand cash flows to properly assess risks and design finance services and related packages. For that, it is necessary to have **access to data** and **dedicated teams** in charge of product development and monitoring. Entities such as Ecookim, Advans, Opportunity or Kennemer collect extensive data in order to better manage risks and expand their outreach.

4. **Bundling of products and services:** to ensure loan repayment, most cases analyzed combine a range of products and services addressing farmers' wider needs and constraints in order to avoid business disruption and limit defaults. Those products and services include savings, education loans, insurances, mobile banking solutions, alternate crop packages to diversify income, access to inputs, seedlings, crop protection products and trees.

5. **In-kind delivery & digital payments** can lower the risk of the transactions and decrease transaction costs. Although few entities analyzed currently used digital tools mostly due to high implementation costs, the development of such tools could result in more cost-effective and low risk financial operations for both agribusiness companies and financial institutions.

A **disregard for market structure and influences** can also lead to issues. An **enabling business environment** and particularly government intervention, price regulation, farmers' organization and infrastructure often have a particular relevance in ensuring success in the cases analyzed:

- **Government intervention:** in the case of Amazonas Trading, government intervention to train farmers on the Mazorquero cocoa disease allowed to **improve farmers' skills** and **reduce procurement risks**. In the case of Côte d'Ivoire however, **political interference affected the financing programs**: the government prohibited the distribution of cocoa trees in order to avoid over-production and influence prices. Rainforest Alliance therefore had to replace cocoa trees by shade trees in his cocoa tree renovation program. The government also recently prevented the distribution of inputs by exporters. Buyers such as Barry Callebaut therefore had to fully delegate the purchase and distribution of inputs to Advans.

- **Price regulation:** in Côte d'Ivoire and Ghana, the price stabilization mechanisms allows farmers to be certain about the price they will receive and **avoid side-selling**. It insulates farmers from fluctuations in world cocoa prices and **reduces price risk**. In other countries like Peru and Ecuador where no such mechanism exists, the provision of complementary products and services to farmers combined with technical assistance and the payment of a quality premium allow to secure supply.

- **Farmer aggregation level:** as mentioned above, **cooperatives are an essential component of lending schemes**. Cooperatives are involved in the selection of borrowers, monitoring and collection process and sometimes share the risk of the transaction. Where the cooperative model is weak, additional effort has to be invested in aggregating farmers. For example, Kennemer had to develop farmer clusters in its lending program.

- **Infrastructure development:** with thousands of farmers with high levels of illiteracy spread over several regions, the collection of beans, delivery of products and services to farmers and monitoring of loans is a key challenge. In this context, the development of roads, storage premises and communication network is fundamental to reduce transaction costs and risks. Very few cases could be found in Madagascar (defined as priority 2 country) where business environment is extremely challenging: farmers are located in very remote areas, infrastructure is really poor, governance and management are generally weak, and the financial sector underdeveloped.

Guarantees, risk sharing agreements and first loss mechanisms act as catalyzers to encourage actors to enter the sector or expand their outreach:

- Guarantees: Financiera Confianza and Opportunity both benefit from a USAID's Development Credit Authority (DCA) credit guarantee covering 50% of the risks. Advans also benefited from a guarantee from the World Cocoa Foundation when starting its cocoa financing program.
- Risk sharing agreements and first loss: Ecookim implemented a risk sharing agreement between the credit union and member cooperatives, Advans input credit schemes involved a risk sharing agreement between the cooperatives, Advans and input providers. The International Finance Corporation (IFC) guarantees 50% of SIB leasing portfolio through a risk-sharing facility with the bank.

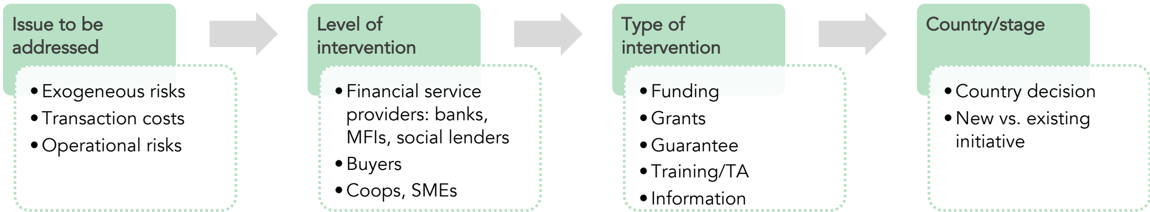
Crop insurance products were sometimes mentioned in the different packages and structures but as components of the different programs, not as key success factors. The main obstacle is linked to the implementation of such insurances at the farmers' level and costs of such products.

Long-term financing remains largely uncovered. The few initiatives developed stopped due to the lack of availability of cooperatives to manage long term loan portfolios and farmers to understand the long-term structure of the loans. Some financial institutions however such as Agronomika and Opportunity managed to provide long term financing to farmers applying good agricultural practices with a credit history and positive track record.

3. Recommendation for a Pilot

3.1 Options for pilots: evolution vs. revolution

The objective of the pilot is to overcome hurdles not successfully dealt with so far and with the potential to be scaled and taken up by the sector.



The analysis of the case studies shows that most issues have been tackled through a number of interventions. The Council on Smallholder Access to Finance[1] (CSAF) launched by a group of social lenders in 2012 identified the following tools and instruments that could allow to scale those initiatives and unlock the flow of finance to serve smallholder farmers:

- **Concessional and long-term funding** to increase risk appetite for agricultural lending,
- **Credit guarantees** and/or "first-loss" buffer to encourage lending to higher risk segments,
- **A financial incentive facility** to finance transaction costs,
- **Grants to collect data** and develop specific products,
- **Technical assistance** to lenders to lower operating costs and to borrowers to reduce their risk profile.

Option 1: support the expansion of existing programs to new countries
A low hanging fruit for the platform would be to support existing initiatives to scale their operations or expand through one of the mechanisms above: actors such as Advans have implemented all required success factors in their operations and are looking for guarantees to support the extension of their cocoa financing program to Ghana.

Option 2: develop new initiatives
The case studies and interviews reflect some critical gaps that remain unaddressed:

- As mentioned in the conclusions of the report, access to **long-term financing for farmers** to finance the renovation and rehabilitation of cocoa fields is an area that remains largely uncovered. Some entities like Ecookim or Barry Callebaut have tried to implement long-term financing program but stopped due to operational constraints. Providing long term financing to farmers through cooperatives and SMEs has proven to be a challenge as very few of these aggregators have the capacity and financial resources to manage a long-term loan portfolio. MFIs seem to be in the best position to provide long-term financing to farmers at scale applying the key success factors mentioned above: entities such as Advans, Opportunity or Agronomika have managed to provide long term financing to farmers using graduation models. **A guarantee to MFIs coupled with technical assistance would help these institutions adapt their short-term lending model to meet the financial needs of cocoa farmers**.

- Although partnerships are highlighted as a key success factor, **data collection and information sharing among stakeholders** is today limited by technical and legal constraints. Data collection and sharing would however allow to get a better understanding of farmers' economics, develop products adapted to their needs, and further decrease transaction costs and risks for stakeholders and improve the traceability and transparency in the cocoa value chain. There is an increasing concern to be able to digitally capture farmer and transaction data in the field to **track the effectiveness of financing and measure the related impact**.

[1] The Council on Smallholder Agricultural Finance (CSAF) is an alliance focused on creating a thriving, sustainable and transparent financial market to serve the financing needs of small and growing agricultural businesses in low- and middle-income countries worldwide.

Being able to track both the economic and the physical movement of the cocoa from farmer to final export could also inform stakeholders involved in the value chain of ways to **reduce transaction costs and where to add value.** The use of **Blockchain technologies** for data processing seems to be a hot topic since a few years. **A feasibility study conducted in partnership with a data platform or technology consulting firm** would allow to identify the needs, IT and legal constraints and solutions to address it.

Issue addressed	Address risks related to expansion in new countries	Fill long term financing gap	Fill information gap
Type of intervention	Guarantee	Guarantee & TA	Grant & TA
Level of intervention	MFI	MFI & social lenders	Various
Actors involved	MFI, TA provider, coop	FSP, TA provider, buyer, coop	FSP, input, buyer, coop
Low hanging fruits	Advans	Advans, Opportunity	Advans & Barry Callebaut
Timeframe	8-12 months	8-12 months	12-18 months
Budget	Approx. USD 50k	Approx. USD 100k	Approx. USD 200k
Existing experiences	World Cocoa Foundation	Coffee Resilience Fund (Root)	Blueprint (Falcon)
Pros	Quick set-up Limited costs Proven impact	Unaddressed need for farmers Addresses supply issue Addresses climate resilience Easy to measure and report on	Increases transparency Reduces costs and risks Replicable/scalable
Cons	Scale up vs. innovation	Long term commitment Longer timeframe Higher costs Limited # of successful cases Exposure to single commodity	IT and legal challenges Longer timeframe Higher costs Less tangible impact Heavy oversight required

3.2 Project steps and costs

Steps	Estimated costs in %		
	Option 1	Option 2	Options 3
Project idea	5%	3%	2%
Project design	10%	10%	15%
Project appraisal	5%	3%	2%
Selection of stakeholders	10%	5%	2%
Process/technology development	20%	30%	30%
Implementation/roll-out	30%	30%	30%
Monitoring and reporting	20%	20%	20%
TOTAL	100%	100%	100%

3.3 Key performance indicators

Key performance indicators would have to cover 3 components related to the beneficiaries, access to finance and impact:

Indicators related to beneficiaries:
- Number of farmers reached
- Number of women farmers reached

Indicators related to access to finance:
- Total loan portfolio targeting cocoa farmers
- Share of long-term financing
- Average loan per farmer
- Number of farmers with banking account

Impact related indicators:
- Increase in cocoa production in %
- Increase in yields in %
- Increase in income and % of cocoa revenues in overall income

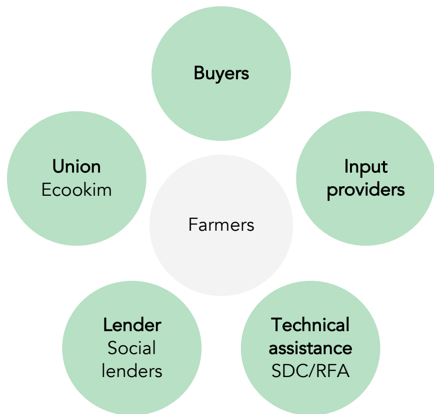
4. Case Studies

Case 1: Ecookim, Côte d'Ivoire

Ecookim is a union of 23 cocoa cooperatives created in 2004 and gathering more than 20,000 members. The union is Fairtrade, UTZ and Rainforest Alliance certified and covers 74,000 hectares of cocoa fields. Ecookim exported more than 35,000 MT for total sales of USD 83 million in 2017. In addition to the collection and export of cocoa beans, Ecookim provides a **broad range of products and services** to its members covering the entire process, from production to delivery: distribution of seeds, cocoa plants (300,000 plants to 20 cooperatives) and cocoa trees (to 7 cooperatives), training on good agricultural and management practices, distribution of inputs, crop protection products and harvest tools (33,000 tool packages distributed), distribution of motorcycles and collection vehicles to prevent post-harvest losses and secured supply, and provision of pre-harvest financing of cooperatives.

Advances to first level cooperatives reached USD 5.9 million at the peak of the season. Total working capital needs of USD 20 million are covered exclusively by social lenders including Alterfin, Oikocredit, Incofin, Shared Interest, responsAbility and Agrif with amounts ranging from USD 500k to 8 million.

In 2016, Rainforest Alliance (RFA) developed a **multi-stakeholder partnership** including Ecookim, Alterfin as lender, a donor (the Swiss Development Agency, via responsAbility's Technical Assistance Facility) and Rainforest for the project design and technical assistance. The partnership aimed at providing smallholders access to inputs and to the services necessary to renew old tree stocks. In total, the project landscape included 1,400 hectares of cocoa plantation. The participating cocoa farmers received **one-on-one coaching from field technicians** as well as **training on best agricultural practices** and record-keeping.



To successfully unlock renovation and rehabilitation financing for smallholders, the project focused on 3 main areas:

- Provide farmers **access to in-kind loans** for the purchase of inputs;
- **Build business skills** among cooperatives to enable them to manage their members' loans;
- Help smallholders implement **best management practices** to enable them to repay the loans received.

In order to provide financing to farmers, Ecookim received a 4-year loan from Alterfin of EUR 100,000. In partnership with the president of the cooperatives, **Ecookim selected 3 cooperatives and 334 farmers that would benefit from the input financing scheme and technical assistance**. Selection criteria included among others loyalty to the cooperative (no side-selling), regular participation in training and commitment to participate in the program over 4 years. As long-term loans were too difficult to explain to farmers, Ecookim provided short term loans of maximum 1 year to farmers. Ecookim took 100% of the risk, with no guarantee from third parties.

Three financing options were made available to farmers, representing different services and repayment schedules and **tailored to the financing needs of the smallholders**: the basic package included crop protection products, the second crop protection products and fertilizers, and the third package included tree plants on top. **Package selection was done by Ecookim technical agents**, and 2 agents financed by the technical assistance facility. Ecookim technical agents trained "trainer farmers" to provide **constant support to farmers on the field**. Ecookim was buying inputs directly from input providers and delivering it to the cooperatives. After 3 years, 98% of the loans have been repaid, with very limited adjustments made to the overall scheme.

Those results were achieved thanks to Ecookim **strong internal controls** developed after the political crisis in Côte d'Ivoire: due to the conflict, a number of pre-harvest loans could not be repaid and first level cooperatives accumulated bad debts in excess of EUR 600,000 as of December 2013. In 2014, Ecookim made it mandatory for all cooperatives to have at least **2 permanent skilled staff**: a director and an accountant. In order to recover outstanding loans, Ecookim focused on (1) close monitoring, (2) strict conditions to approve pre-finance, (3) retaining 10 XOF/Kg to repay the "old debt".

In 2015, the General Assembly of the Union implemented a **joint guarantee from all first level cooperatives** towards the Union to make first level cooperatives jointly responsible for the repayment of their debt and prevent accumulation of debt at the Union level. Ecookim also started disbursing in tranches to reduce the risk. Thanks to the **focus of the management and internal auditor** on recovery, old debt was reduced to EUR 258,000 in 2017, and is expected to be fully repaid in the coming years.

Key success factors:

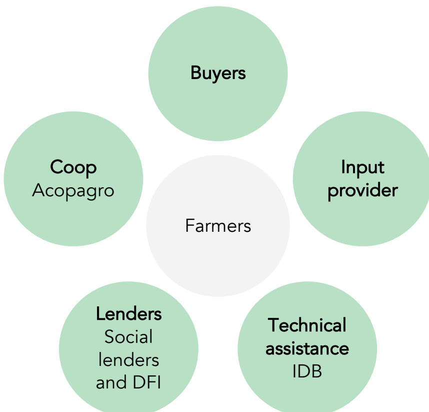
> **Involvement of value chain actors:** partnership with value chain actors and industry stakeholders
> **Producer aggregation:** involvement of the cooperatives in the selection of beneficiaries
> **Technical assistance** and constant support to cooperatives and farmers
> **Provision of productivity packages** and **prevention of post-harvest losses**
> **Price premium** paid for certified cocoa
> **Dedicated staff** in charge of loan monitoring
> **Tailor-made packages** adapted to farmers' cash flows and capacities
> **Strong internal policies and controls** in place to manage loans to first level cooperatives and farmers
> **Risk sharing** agreement between first level cooperatives

Case 2: ACOPAGRO, Peru

The cooperative ACOPAGRO was founded in 1997 to improve the quality of the cocoa and provide technical assistance to farmers as part of a project led by the United Nations Development Programme (UNDP). ACOPAGRO gathers smallholder producers that harvest cocoa and coconut, situated in the Central Huallaga Valley in the San Martin region of Peru. The cooperative was the first to export cocoa in Peru. ACOPAGRO contributed to the creation of the Peru Cocoa Alliance together with CARANA, USAID, the National Commission for Development and Life without Drugs of Peru (DEVIDA), ECOM Agroindustrial Corp and Romex Trading. The program focuses on 4 areas that constitute ACOPAGRO's key strengths: the promotion of new technologies, improvement of harvest and post-harvest processes, the promotion of access to finance and commitment to fine-flavor cocoa varieties within an integrated agro-forestry system.

Since its creation, the cooperative has grown from 27 to more than 2,000 members today. In 2017, it exported 5,000 MT of Fairtrade and organic certified cocoa beans for a total of USD 13.2 million of sales. Thanks to **dedicated technical services**, ACOPAGRO members produce higher yields than the average organic farm in Peru. **ACOPAGRO produces its own high-quality seedlings** and predominantly plants a high yielding cocoa variety. ACOPAGRO team of technicians provides **training to farmers on fertilization, pruning and disease management**.

Total working capital needs to prefinance, store and export cocoa beans is estimated around USD 5 million with current cocoa prices. The cooperative working capital needs are mostly financed by social lenders such as responsAbility, Rabobank Foundation, Triodos and Shared Interest for amounts ranging from USD 1.5 to 2.5 million depending on cocoa price fluctuations. In 2017, the Inter-American Development Bank (IDB) approved a USD 1 million long term debt for ACOPAGRO. This loan was granted to give more loans to producers for the **purchasing of tools, fertilizers, plant-health products to combat diseases and installation of new cocoa plantation or irrigation system**. IDB also provided a **grant to monitor adequate usage of tools and inputs and to supervise the cocoa collection process.**



ACOPAGRO buys cocoa beans at **market price and distributes part of the margin and FLO premium to members.** The cooperative also gives microloans to its members, which are deducted from the payment of cocoa beans.

Advances to farmers reached USD 1.3 million in 2017 and have been growing year on year due to the increase of the membership base and the high importance of this service for the members. Pre-harvest financing is provided to members in January, February and March with payments up to 12-15 months and a 3-month grace period.

Farmers can receive a maximum of USD 10,000 and pay a 1.5% interest rate per month. Advances are not granted directly to members but through 6 collectors who receive a maximum of USD 30,000 per week, renewable as cocoa is delivered. Those collectors sign an annual contract with ACOPAGRO and provide land title as collateral. Over the years, ACOPAGRO management has greatly **enhanced its loan and collection policy**. **An experienced bank collection officer was hired** to establish more stringent processes to manage advances to members and collection of loans. Late payments represent 3% of total outstanding portfolio.

Key success factors:

> **Partnership** with the Peru Cocoa Alliance to improve farmers' technical capacity and financial literacy
> **Technical assistance** and constant support to farmers
> **Provision of productivity packages** (own production of seedlings)
> **Price premium** paid for certified cocoa
> **Strong internal policies and controls** in place to manage loans to farmers
> **Dedicated technical services and collection officer**

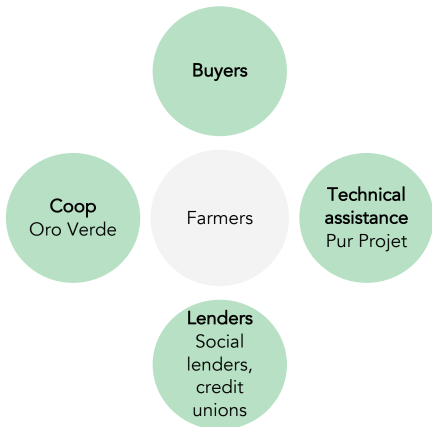
CASE 3: ORO VERDE, PERU

Oro Verde is a cooperative founded in 1999 gathering coffee and cocoa from 1,208 active members through 10 collection centers for cocoa and 8 centers for coffee. The cooperative has a team of **14 technicians visiting farmers to provide technical advice on fertilization, pruning and disease management, and supervising tree plantation** as part of an environmental project.

The cooperative sold 1,269 MT of cocoa and 21,000 qq of coffee in 2017. Oro Verde is Fairtrade, Rainforest, UTZ and organic certified with around 70% of cocoa volumes sold as Fairtrade Organic. Cocoa farmers manage on average 1.8 ha of land and produce on average 1,500 MT of cocoa beans. The cooperative secures supply by providing **higher prices to farmers** delivering certified cocoa. Oro Verde sells cocoa to a diversified pool of reputable buyers including Walter Matter, Pronatec, Tradin Organic and Minka.

Total working capital needs in 2017 were estimated around USD 3.2 million, with advances to farmers representing USD 400k. Those advances are used for the purchase of inputs. Financing needs are covered by one bank with fixed assets as collateral, credit unions such as Coopac Norandino, Coop Abaco and Caja Maynas with sales contracts as collateral or no collateral for amounts ranging from USD 60k to 450K, and by social lenders such as Alterfin, Triodos, responsAbility and Rabobank Foundation for amounts varying between USD 400k and USD 1 million with sales contracts as collateral. Oro Verde has a very good track record with all lenders.

Oro Verde works to **identify high quality, productive and disease-resistant trees to build up a tree nursery program to provide farmers with improved varieties.** This includes a **reforestation project** with Pur Projet called Jubilacion Segura involving the planting of 2 million trees to help the cooperative achieve a zero-carbon footprint: the project involves a **partnership with farmers to co-finance the installation of a cocoa plot** in a dynamic agroforestry system. The project operator provides 50% of installation costs in the form of **plant material, organic compost and technical assistance** while the farmer provides the other half, mainly as labor and tools. The objective of the project is to create a virtuous circle of self-sustaining financing, integrating an increasing number of producers with no need to raise additional funds. For 7 years, half of the income of the production is used to finance the installation of new plots for other farmers in order to broaden the number of beneficiaries.



At the end of the 7 years, the producer becomes the exclusive owner of the plot. The launch of the project has been positively welcomed by the volunteer farmers. The project covers 105 hectares and is still in a pilot phase but first projects implemented by Pur Projet 10 years ago have shown promising results. Oro Verde also implemented a bee keeping program to enable farmers to diversify their income.

Key success factors:

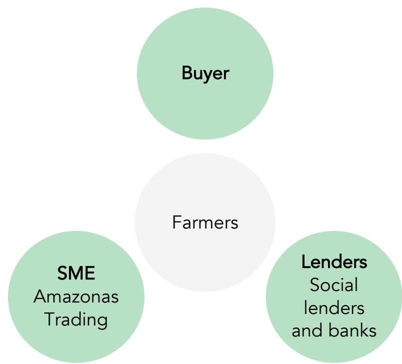
- > **Partnership** between a project designer, the cooperative, farmers and local foundations
- > **Involvement of volunteer farmers** through a co-financing system
- > **Technical assistance** and constant support to farmers
- > **Provision of productivity packages** (own production of seedlings, income diversification)
- > **Price premium** paid for certified cocoa
- > **Dedicated technical services**

CASE 4: AMAZONAS TRADING, PERU

Amazonas trading is the second cocoa exporter in Peru with 9 years of experience in the cocoa market. The company collects cocoa beans from farmers through 10 collecting units in Peru. Each unit buys cocoa from farmers and other gatherers. The company is owned by the CEO, José Antonio Mejía and his wife (56%) and the Sales Director (44%). Prior to the creation of Amazonas Trading, the CEO worked at CAC Naranjillo as Sales Director of Trading Organic. Mundo Supply, based in Holland, is a related company and a buyer of Amazonas trading. This company was created to sell cocoa beans to chocolatiers and supermarkets.

In 2017, Amazonas exported 8,710 MT of cocoa for a total of USD 19 million of sales. More than 70% of total sales are concentrated in 2 main buyers: Barry Callebaut and Walter Matter. The **affiliated company** represents 15% of total sales. Amazonas buys from 3,200 farmers, of which 2,484 are UTZ certified. Total area under UTZ certification is now estimated around 7,368 ha. Amazonas also buys organic cocoa from 760 producers cultivating 2,501 ha. Amazonas offers to most of its associated farmers at least one of the **international recognized certifications** such as UTZ, Fairtrade, Rainforest Alliance and Organic.

Despite the decrease of cocoa prices, managed to increase its gross margin thanks to the increase of organic sales generating an additional 200 USD/MT that also benefit thousands of farmers involved in the production of certified cocoa. Amazonas adopts a conservative price management policy to limit exposure to price risk fluctuations. Working capital needs to fill the gap between advances to farmers and payment from buyers exceed USD 10.8 million. Working capital is mostly financed by banks and by one social lender (responsAbility). During the 2017 harvest, BBVA approved USD 6 million with fixed assets as collateral, BCP approved USD 2 million with a mortgage on the shareholders' house, and BanBif USD 600k with shareholders' personal guarantee. Advances to farmers exceeded USD 600k in 2017 (USD 800k in March 2018).



Amazonas trading was the second cocoa exporter in 2017. The company achieved good margins despite a decrease of sales due to the drop of international cocoa prices thanks to the sale of certified cocoa and adequate price risk management strategies. The company also managed to control production risks related to a cocoa disease called Mazorquero in its main producing regions thanks to the support of the government: the National Service of Agrarian Health (SENASA) developed workshops and trainings in the regions affected by the disease to teach farmers how to recognize and control it. The disease had limited impact on Amazonas operations that planned to increase its exports to 11,850 MT in 2018.

Key success factors:

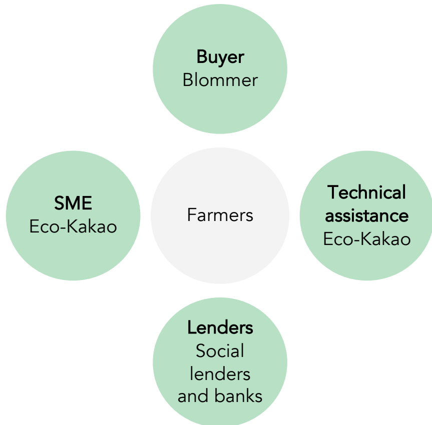
- > **Strong management** with relevant experience in the sector
- > **Involvement in multiple certification programs and focus on high quality, organic cocoa**
- > **Training** to farmers and producer organizations
- > **Technical assistance from the government** to improve farmers' capacities and prevent diseases
- > **Pricing arrangements**: payment of a performance bonus to farmers
- > **Own processing plant** and storage premises, **very good processes and logistics**
- > **Affiliated companies** ensuring logistics until port of destination in Europe

CASE 5: ECO-KAKAO, ECUADOR

Eco-Kakao is a family company with 21 years of experience developing sustainable programs of productivity and quality in Guayaquil. The Owner and founder of the company Ivan Ontaneda is the former president of The National Association of Cocoa Exporters AneCacao, and the president of The National Federation of Exporters from Ecuador Fedexport.

Eco-Kakao was established in 1996 and started a **strategic partnership with Blommer Chocolate Company** 11 years ago. Blommer is the largest cocoa processor and ingredient chocolate supplier in North America. The company is a leader in advancing sustainable cocoa farming, playing an active role in the World Cocoa Foundation and promoting sustainable farming practices through its privately managed programs in Cote d'Ivoire, Indonesia and Ecuador. Ecuador represents 23% of total purchases (around 35,000 MT – including conventional cocoa, certified and sustainable). Eco-Kakao projects to supply 32% of Blommer Ecuadorian purchases by the end of 2018. Eco-Kakao total sales reached USD 9.8 million in 2017 for 4,900 MT of cocoa beans exported. Although 100% was sold to Blommer in 2017, the company started to diversify sales to other buyers in 2018.

Working capital needs are close to USD 4 million and more than 60% is financed by social lenders. In 2017, Eco-Kakao advanced USD 1.6 million to farmers for the purchase of cocoa. Those advances turn into inventory and are revolving each year. The company works with 2,500 cocoa farmers, improving their productivity and quality control through 2 Private Sponsored and International well-known programs: Proyecto Aurora QTS and Proyecto Sassandra:



- AURORA: launched in 2015, Aurora QTS (Quality, Traceability, and Sustainability) is the first **sustainability program** in Ecuador. The main objective is to obtain the **best fine flavored cocoa** grain taking advantage of the weather, soil and water conditions of the region. **Eco-Kakao works with a group of small-scale producer associations**; providing **technical assistance, training and quality improvements monitoring**. At the same time, Eco-Kakao secures its own procurement with a fair price, high quality standards and traceability.

- SASSANDRA: Sassandra is a sustainable project developed in partnership with Blommer to obtain a fine flavored cocoa grain. Eco-Kakao started the first **Cocoa Field Schools in coordination with small farmers associations** with the **financial support from Blommer and the Government**. Eco-Kakao invests between USD 50,000 and USD 60,000 per year in the maintenance of the program to finance training and technology development. Running costs are fully covered by Eco-Kakao that expects to recover it through the premium paid on upcoming sustainable cocoa shipments.

Key success factors:

> **Strong management** with relevant experience in the sector
> **Strategic partnership** with a leading buyer, government and producer organizations
> **Involvement of producer organizations**
> **Involvement in sustainability and traceability program**
> **Provision of productivity packages** (own production of seedlings, income diversification)
> **Technical assistance** and training to farmers
> **Dedicated technical services**

CASE 6: ADVANS, CÔTE D'IVOIRE

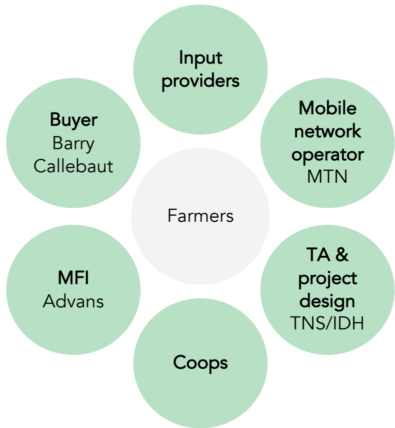
Advans SA is an international microfinance group established in 2005 with 9 subsidiaries in 7 countries in Africa and Asia. Advans offers a **wide range of financial products and services including loans, current accounts, saving plans, insurance and transfers.** Advans Côte d'Ivoire was the fifth greenfield microfinance institution established by Advans SA in 2012. The group has built a strong network in urban centers and is now focusing on increasing its outreach in semi-rural and rural areas.

In order to serve clients in these areas in a sustainable way, Advans focused on developing tailored credit and deposit products addressing the specific needs of rural families and on the introduction of innovative delivery channels.

Advans was the first bank in Côte d'Ivoire to offer financial products to smallholder farmers. In November 2012 a **partnership was established with TechnoServe (TNS) and IDH through the Cocoa Livelihoods Program**, led by the World Cocoa Foundation, which was working to increase the income of cocoa farmers in West Africa. Advans started with an input financing scheme in **partnership with input providers, cooperatives and exporters**.

The input financing scheme works as follows: Advans identifies eligible cooperatives and conducts a due diligence, Advans then pays input suppliers according to the analysis and volume of credit approved. **The input suppliers deliver the inputs** to the cooperative in April. **The cooperative then selects eligible farmers** based on a number of criteria (ie. size of land, track record with the cooperative).

Farmers are trained by Technoserve and the input supplier on credit management and correct use of inputs. The cooperative collects the cocoa from farmers during the harvest and delivers it to the exporters who deduct the loan instalments from the payment on behalf of Advans until the loan is fully repaid. Loan repayment schedule are structured to match the cocoa harvest with instalments staggered from October to January. The partnership included a **risk sharing agreement** between Advans, the cooperative (20% deposit) and input providers (10%). The World Cocoa Foundation also provided a guarantee of 10%. Loan portfolio reached USD 2.7 million in 2018 with 25,000 farmers involved.



The evolution of the initial scheme reflect the success of the initiative: 1/training to farmers was covered by input providers only and Technoserve exited the partnership, 2/the World Cocoa Foundation stopped providing a guarantee after 5 years and 3/cooperatives started making direct repayments to Advans instead of going through exporters.

Advans partnered with Barry Callebaut in 2016 to provide **in-kind credit** to more than 100,000 smallholder farmers in Côte d'Ivoire together with the International Finance Corporation (IFC) and The Sustainable Trade Initiative (IDH) through a **risk-sharing agreement** of USD 9 million.

Two **productivity packages** are provided directly to farmers and farmer cooperatives on a credit basis: the basic package provides crop protection products and training in pruning and the second package provides fertilizers on top to professional and creditworthy farmers, with trees under 20 years of age. Both packages are supported by **on-farm individualized coaching** through Barry Callebaut accredited agents. To receive the productivity package on credit, **farmers are assisted to open a bank account where they have to save part of the package value up-front**. The accounts are opened at Advans. Barry Callebaut offers farmers a **premium per kg** at the end of the season when cocoa trees do not give pods and farmers do not otherwise get cash (offering a de facto savings program). Although Barry Callebaut was delivering input packages directly to farmers at the beginning of the partnership, the recent change of regulation in Côte d'Ivoire preventing exporters from providing inputs directly to farmers led to expand Advans' responsibility to the purchase and distribution of inputs.

Since 2017, Advans has opened 6 branches in rural areas close to large cocoa centers and now counts a team of **10 officers dedicated to agricultural financing**. In addition to the input credit scheme, Advans developed a specific product for cocoa cooperatives called **"Credit-Camion" or truck-loan** to allow cooperatives to buy new trucks and improve their procurement capacity. The loan can be repaid over 2 years with repayments linked to the cocoa cycle. So far, the model has shown excellent results with **0% default** until 2017**.** A few defaults were registered in 2018 due to the strong decrease of cocoa prices and some delays in cocoa delivery.

In order to reach farmers directly without going through the cooperative, Advans developed **savings products, education loans and life insurance products:**

- With the support of CGAP, Advans developed a **remunerated digital savings account** in partnership with MTN, a mobile network operator.

The digital solution is accessible on all phones and easy to use for illiterate farmers. Transactions between the Advans savings account and e-wallet are free. Those digital payment solutions also **limit cash handling issues and thefts**, quite common in the country. The product was launched in 2016 and is now used by 18,000 farmers. A group of trainers constantly train farmers on the importance of savings and how to use digital solutions. The digital solution can also be used by cooperatives.

- As **savings accounts and payments services were not sufficient to retain farmers**, Advans conducted interviews among farmers to better understand their needs. 40% of producers interviewed replied that they couldn't send their children to school on time or not at all due to the lack of access to finance. Most rely on informal lending sources to finance school fees, or on the cooperative (with a negative impact on the cooperative's working capital). Advans therefore developed a digital education product. Producers can apply for a loan from 30 to 300 euros in July/August; credit decision is based on a scoring and the money transferred immediately if the credit is approved. Loans are repaid during the next harvest. The first pilot conducted in 2017 on 242 producers was very successful with 0% default. In 2018, 1,118 farmers benefited from a loan, with 36 loans delayed (3% default in number; 1.5% in volume). The cooperative shares 10% of the risk.
- Advans launched a **life insurance product** in 2018 for producers and their families (including parents) in partnership with an insurance provider. The process was adapted to rural areas. 200 producers have subscribed so far.

Advans product development costs for agricultural lending were covered by grants. Although the input credit scheme and credit-camion are now financially sustainable, products targeting individual farmers haven't reached breakeven.

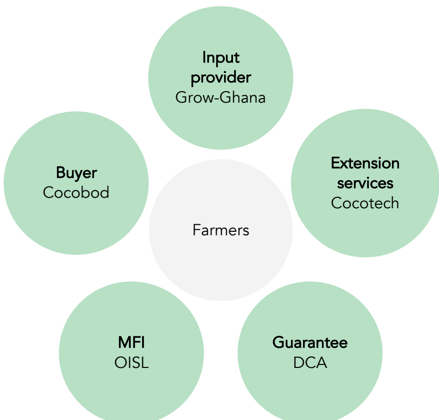
Key success factors:

> **Multi-stakeholder partnership** with key cocoa players and cooperatives
> **Risk sharing agreement between stakeholders and guarantees** from third-parties
> **Involvement of producer organizations** in the selection and monitoring of beneficiaries
> **In-kind delivery of inputs vs. cash and mobile technology** to limit cash handling risks
> **Provision of customized, non-credit products** as savings and insurance products to retain farmers
> **Provision of productivity packages** adapted to the farmers' needs and capacities
> **On-farm individualized coaching** for farmers and training for cooperatives
> **Local presence** and **dedicated team** to agricultural financing

CASE 7: OPPORTUNITY INTERNATIONAL SAVINGS & LOANS (OISL), GHANA

Opportunity International Savings and Loans (OISL) is one of the largest microfinance institutions in the world. The company was created to offer deposit services and increase outreach to Ghana's most marginalized rural families and communities. In 2016, Opportunity Ghana signed an agreement with a chocolate manufacturer to increase its outreach to 50,000 additional cocoa farmers by 2021.

Opportunity's AgFinance model is designed to reduce risks and costs by partnering with institutions that complement Opportunity's financial services with high-quality inputs, training and market access. The cocoa market in Ghana is highly structured; the government associated Cocobod purchases all cocoa. In this market, Opportunity is implementing a **supply side partnership** in which no buyer contract is necessary. The partnership involves the Cocobod as buyer (via agents), Cocotech as extension services provider, Grow-Ghana as input provider and OISL as a finance provider. The program generated positive results with a dramatic increase in number of clients using fertilizers and positive impact on production and yields compared to non-clients who experienced a decline in production and yields.



Opportunity International has invested more than USD 20 million over the past 10 years in **electronic and mobile technologies to reduce transaction costs and bring services to the most marginalized** and remote clients.

Opportunity International addresses the financial needs of rural communities through **low-cost branches** or low-cost outlets that reach surrounding rural communities, **mobile vans** bringing banking services to rural clients, **agent banking** ie. point-of-sale devices in bank branches, mobile vans and local businesses to allow clients to bank in a variety of easy-to-reach locations, **ATMs** located in community gathering places enable clients to bank at any time, **cell phone banking** programs enabling clients to repay loans or transfer funds into OISL savings accounts from their mobile device.

Opportunity started agricultural lending under the **"Informed lending" Production Finance model**. "Informed lending" is a parametric lending model anchored on: (i) the exact mapping of the borrower farm's plots (plot sizes, altitude, access to water); (ii) a diagnostic of the borrower's household profile (demographics of the family, breakdown of all farm enterprises such as crops/land used, other sources of income/activity, access to water/roads/bank, mobile phone use); and, (iii) the crop profile, including costs of inputs and labor, and returns based on yield and price data.

Combined with **targeted extension services**, the financed farmer often improves food crop yields, allowing the reallocation of a portion of the land to cash crops. In addition to these assessment techniques, Opportunity seeks to **secure loan recovery by concentrating on cash crops with regulated output buyers**. For these contract farming financing operations, Opportunity helps to **reduce the risk of side-selling through advance cash provision** to farmers during the lean season when farmers are most likely to succumb to the temptation of side-selling.

Opportunity also managed to provide Tree Crop financing using a **"graduation" model:** initial loans are for short-term improvements of existing trees through input and working capital loans, and longer-term credit is offered once a strong track record is built. The lack of registered land ownership remains a barrier. This is an area Opportunity is willing to explore to facilitate land titles for smallholders through a partnership with an organization experienced with land rights and tenure issues.

In all countries where the agricultural finance initiative exists, Opportunity utilizes USAID Development Credit Authority guarantees to mitigate the risk of lending to the sector. This four-year loan guarantee takes 50% of the credit risk for loans going to the rural farming community. This is however not a long-term strategy as Opportunity aims at marking agricultural lending a sustainable enterprise with risk mitigants embedded in operations.

Key success factors:

- **Multi-stakeholder partnership** with value chain actors
- **Provision of non-credit products** such as savings, insurances, inputs, market access and training
- **Informed lending and customized** products and services adapted to plot sizes and capacities
- **Targeted extension services** through strategic partnerships
- **Productivity packages** including inputs and protection clothing
- **Use of mobile technology** to limit costs, cash handling risks and reach most marginalized farmers
- **Graduation model** from short to long term investments based on track record
- **Guarantees from** external parties

CASE 8: FINANCIERA CONFIANZA, PERU

In May 2013, Financiera Confianza completed a merger with Caja Rural de Ahorro y Cre�dito Nuestra Gente, with investment and other support from the BBVA Microfinance Foundation, IFC, Financiera Confianza's founding NGO SEPAR, and other shareholders. Financiera Confianza has a **network of more than 150 branches** and serves close to 500,000 clients including 200,000 borrowers. Portfolio reaches USD 1.8 million in 2017, with 25% of the portfolio invested in rural areas and 19% related to agricultural activities. Average disbursed loan reach USD 1,294 in 2017. Investments in agriculture are capped and can't exceed equity levels.

Currently, Financiera Confianza benefits from a **treasury-backed credit guarantee from USAID Peru**. The Development Credit Authority (DCA) guarantees up to 50% of working capital and fixed investment loans issued by Financiera Confianza to targeted beneficiaries. Specific efforts are made to reach women and first-time borrowers. **USAID's partnership with Alianza Cacao helps to channel qualified borrowers to the banks.** The Peru Cacao Alliance is a public-private partnership supported by USAID. USAID provides financing for **on-farm technical assistance packages** which will increase farmers' yields and improve the quality of their cacao. Farm yields are expected to nearly double over five years. The Peru Cacao Alliance also facilitates USD 10 million in loans so that farmers and all value chain actors are able to invest in their production and expansion.

Financiera Confianza provides two main agricultural credit products for small and larger clients. Both products follow a lending methodology involving **an integrated credit analysis of all income sources, expenses, and farming activities, resulting in a loan with flexible payments**. Financiera Confianza takes a **conservative approach to assessing the creditworthiness of a farmer** by using low market prices and productivity expectations in its evaluations. It has a manual cash flow tool, combined with cost information sheets per region, which it uses to evaluate the size of the loan and the ability of each client to repay. Regardless of the loan product, **Financiera Confianza does not require secured collateral** except for loans exceeding USD 20,000. Both products offer a loan term of up to 12 months for working capital loans and two years for fixed asset loans. **Producer organizations guarantee** a certain proportion or the whole amount disbursed to their members. Financiera Confianza also offers **education and housing loans**, as well as **group loans** for agricultural and non-agricultural activities. All loan products have a **mandatory credit life insurance** policy included. Other products are available to agricultural clients, such as intrabank **transfers, savings accounts, and insurance**.

Although credit officers from Caja Nuestra Gente are mostly agronomists, they were trained to serve both agricultural and non-agricultural clients. These credit officers are however supported by a **product specialist** (one in each region) who is responsible for ensuring the quality of the agricultural product, as well as compliance and on-the-job training for credit officers. The product specialist usually has an agronomy background. **The investment in staff with technical background allowed to maintain one of the lowest portfolio at risk in Peru.**

The **high level of decentralization** has allowed Financiera Confianza to rapidly react in case of issues in its rural and agricultural portfolio: it allowed for example to maintain a low portfolio at risk during the coffee leaf rust issue outbreak thanks to a quick and effective reaction of the local management. In also presents challenges linked to infrastructure and human resources costs. In order to reduce transaction costs, the MFI has developed an app to allow credit officers to manage the credit application off-line. **Digitalization is seen as a key component** to reduce transaction costs and increase financial inclusion.

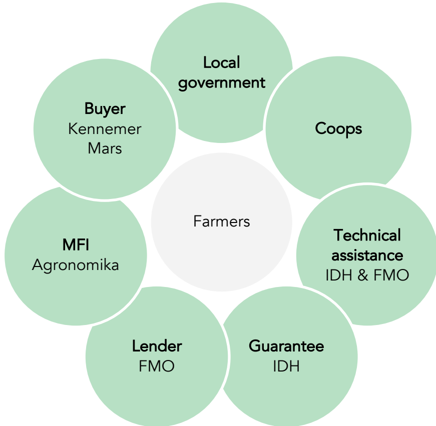
Key success factors:

> **Historical focus on rural areas**
> **Targeted extension services** through a **strategic partnership** with a large local cocoa network
> **Provision of non-credit products** such as savings, insurances and transfers
> **Conservative approach** to lending and **tailor-made repayment schedules**
> **Involvement of producer organizations** in the selection of beneficiaries
> **Use of mobile technology** to limit costs and reach most marginalized farmers
> **Dedicated product specialists** overseeing agricultural lending
> **Local presence** through a large network of rural branches allowing to react quickly in case of issue
> **Guarantees from external parties and from producer organizations**

Case 9: Agronomika Finance Corporation, Philippines

Agronomika Finance Corporation is a finance company delivering financial products and services to farmers and rural entrepreneurs in agri and non-agri value chains. Agronomika is a registered finance company under the Financing Company Act of 1998 by the Securities and Exchange Commission of the Republic of the Philippines, Department of Finance. Agronomika covers 4 regions and 12 provinces. Agronomika secured start-up capital through an equity investment by IncluVest (a Netherlands-based Impact Investment Fund) and through debt funding by FMO (the Dutch Development Bank) supported by a **first loss guarantee** of IDH.

The company partners with Kennemer Foods International to offer short and long-term loans combined with access to Kennemer's growership program which includes access to quality inputs, planting materials, technology & training as well as buying and post-harvest facilities. Kennemer Foods International is specialized in the growing, sourcing and trading of fermented cacao beans sourced from smallholder farmers. Established in 2010, Kennemer started out as a buying and post-harvest center in Davao and expanded its services after realizing that there was insufficient volume of quality cacao beans available in the Philippines. Kennemer has a **long-standing commercial and strategic relationship with Mars, Inc.** Mars is Kennemer's biggest customer. Mars and Kennemer began a partnership in mid-2012, which involves the sharing of planting research and technology, as well as best practices for cacao growing, harvesting, fermentation, and drying.



Kennemer cacao **contract growing program encompasses the agricultural value chain** and involves farmer cooperatives, local government partners, agrarian reform beneficiary organizations and private landowners. Kennemer's comprehensive program includes: high quality **planting material and other inputs**, **technology and training** in good cacao farming practices, on-going **mentorship and supervision**, **post-harvest assistance**, **guaranteed buy-back** of the harvest at prices linked to the world-price, facilitation of **access to financing**.

Kennemer initially provided loans to coconut growers to invest in cocoa and increase their overall farm income. More than 30,000 coconut farmers benefited from Kennemer's inclusive cocoa sourcing model, increasing their income to levels equivalent to the Philippine average income per capita. Kennemer relies on **Cacao Doctors** to ensure the implementation of good agricultural practices and adequate use of input packages. Cacao Doctors are farmers who benefit from intensive training from Kennemer to become consolidators of beans under the Kennemer buying program, distributors of planting material and inputs and providers of pruning and rehabilitation support services. Cacao Doctors run their own for-profit agri-enterprise and provide **ongoing coaching and support services to the farmers** in their cluster as a business.

Agronomika proposes short term financing (3-12 months) to finance cocoa and other crops, and mid to long term financing for the establishment and rejuvenation of crops (1-6 years) and for the purchase of assets such as farm equipment, vehicles, etc. against mortgage (up to 5 years). SMEs and producer organizations can also receive financing through receivable or warehouse financing (up to 3 years). The farm establishment loan covers critical farm requirements during the first 2 years including farm inputs and services as well as access to Kennemer's growership program. Repayment of the principal loan amount starts 2 years after planting or with the first harvest (whichever is earlier). Proof of land ownership for land to be planted is required for farmers to be eligible. Farm productivity loans target farmers with existing cacao farms who are selling their produce to Kennemer. The loan covers inputs and services up to one year for trees in their productive stage. The loan is repaid with the harvest cycle of the produce.

To receive a loan, farmers must be part of a **farmer cluster** and pass assessments on both the viability of the farm to grow cocoa and the farmer's ability and desire to grow cocoa. These assessments, performed by a loan officer and validated by a **field technician** (agronomist), include checks on the farm's access to water, shade and quality of the soil, and the farming experience, other income sources, credit history, etc.

Combined technical support, access to knowledge, input and finance contributed to transform farmers into entrepreneurs with a positive operational, financial and profitable track record.

Significant scale could be achieved thanks to Kennemer buyers that acted as important partners to these projects, both in cocoa growing techniques and post-harvest technologies as well as in the off-take of Kennemer's cocoa bean production. Tailor-made finance, linking farmers' future cash flows to loan repayments and rigorous farm monitoring procedures and tools were also key to ensure success.

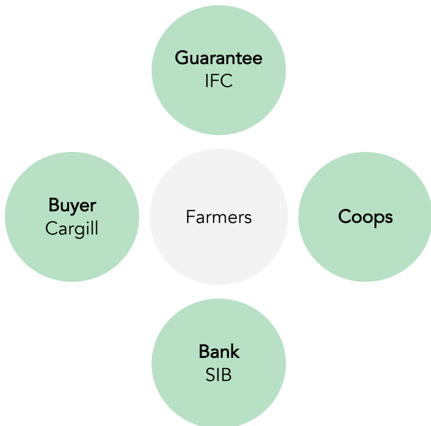
Key success factors:

> **Multi-stakeholder partnership** with cocoa buyers, local government and cooperatives
> **Long-standing commercial and strategic relationship with Mars** allowing knowledge exchange
> **Aggregation of farmers** in clusters
> **Provision of both short and long term financing to farmers**
> **Provision of productivity packages** including planting material and inputs
> **Post-harvest assistance**
> **On-going coaching and support** to farmers through Cocoa Doctors and technical team
> **Guaranteed buy-back** of the harvest
> **Guarantees** from third-parties

CASE 10: SIB DONI-DONI PROJECT, CÔTE D'IVOIRE

In 2016, **Cargill launched a leasing program supported by IFC in partnership with the Société Ivoirienne de Banque (SIB).** The program called Doni-Doni allowed 56 cooperatives increase profitability and productivity by leasing trucks instead of purchasing them outright, offsetting prohibitive repair and maintenance costs.

IFC is guaranteeing 50% of an up to USD 6 million leasing portfolio through a **risk-sharing facility with SIB**, which is providing medium-term financing to cooperatives that are supplying cocoa to Cargill. Doni Doni and the risk-sharing facility have provided farmer organizations with access to over USD 4 million in financing and helped them to buy more than 130 new trucks. Although this facility is not directed to farmers directly, they benefit from the productivity and profitability gains of their cooperatives. Farmer cooperatives first sign up for Doni Doni, paying 10% of the cost of a truck upfront and authorizing Cargill to redirect part of their fee toward a savings fund to cover their monthly payments. SIB offers three-year loans to the cooperatives, which receive banking accounts as part of the program.



Cargill developed a **mobile money program** to provide farmers with access to banking services and increase their saving capacity. The pilot launched in 2015 involved five cooperatives, has seen 447 new bank accounts opened until 2017 and resulted in USD 71,000 of savings and USD 53,000 paid to farmers in premiums. Five more cooperatives were expected to join the program. Doni-Doni is a continuation of a **business skill program** offering cooperative members and leaders a 28-day intensive training session on governance, management, and financial and auditing skills. **Hands-on support** is an important element of the program.

Cargill is replicating the Cote d'Ivoire model in Cameroon and Ghana, where farmers face the same limiting factors. A second credit facility which provides cooperatives with approved, **high-quality crop protection products** has also been successful and is being replicated in Ghana, Cameroun and Indonesia.

Key success factors:

> **Partnership** with a leading buyer for the selection of cooperatives and repayment
> **Risk sharing agreement between stakeholders and guarantees** from IFC
> **Provision of non-credit products** (mobile money program, savings accounts, inputs)
> **Leasing vs. cash** to secure the loan, limit risks related to cash handling and misuse of funds
> **Business skill program and hands-on** support to farmers and cooperatives

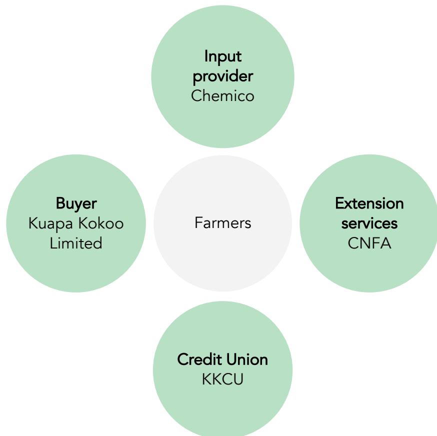
EXAMPLE OF FAILURE

Kuapa Kokoo was created in 1993 after the liberalization of the cocoa market to protect farmers' interests. A group of cocoa farmers came together to form a cooperative that would collect and sell its own cocoa beans to the Government Cocoa Buying Board with the support from Twin and SNV. From the beginning Kuapa Kokoo was established in compliance with Fairtrade standards. In 1997, farmers voted to set up their own chocolate company. The next year Divine Chocolate was born. Kuapa Kokoo has over 100,000 members gathered in 1,300 village societies and is one of the largest cooperatives in Africa. Kuapa Kokoo consists of:

- Kuapa Kokoo Farmers Union (KKFU): representatives of the national Kuapa Kokoo Farmers Union are elected by farmers representatives at the regional level, elected themselves by village societies;
- Kuapa Kokoo Limited: the trading arm of Kuapa Kokoo;
- Kuapa Kokoo Farmers Trust: responsible for distributing money for community projects, generated from the fair trade premium between the farmers;
- Kuapa Kokoo Credit Union: provides credit and banking services for the farmers (not active now);
- Divine Chocolate: marketing a range of premium chocolate made with traceable Kuapa Kokoo cocoa - in UK, USA and around the world.

The Credit Union was set-up to provide loans to members at competitive rates, as well as financial literacy training. Members had to contribute in order to get a loan based on the amount deposited. However, major problems were encountered with the running of the credit union involving the non-repayment of loans. **Members were not using the loan for the purpose intended** and were not repaying. Press releases also mention **corruption issues** in 2018.

In 2016, Kuapa Kokoo provided **crop protection products and fertilizers on credit** to its members in collaboration with Chemico, a Ghananian-owned input supply company and the Citizens Network for Foreign Activities (CNFA), a United States Based Non-Governmental Organization funded by the Gates Foundation. CNFA also supported the development of business centers (store, training centers) and provided **training to farmers** on usage of inputs. In order to reduce the risk of non-payment to Chemico, **farmers were asked to save the equivalent of 1 bag of cocoa in savings with the credit union** before they could benefit from the package.



The objective of the scheme was to generate productivity increases and encourage farmers to invest in their farms. However, instead of investing in tools, planting material or inputs, **farmers invested the extra income in their children's education and in housing improvement**. Challenges were also related to the **late delivery of inputs**: instead of being delivered in February and March, inputs were delivered around June and July when the application does not have any impact on the production. Farmers had to purchase inputs on the black market in the meantime at higher costs but still had to pay for late inputs delivered by the union at delivery.

Key issues:

> **Management issues** at the union level
> **Lack of adequate lending and monitoring policies**
> **Coordination issues** among stakeholders leading to late delivery of inputs
> **Cash vs. in-kind delivery or inputs** leading to diversion of funds
> **Late delivery of inputs** leading to diversion of funds