



REBUILD
FINANCE FACILITIES

Building Compliance Mechanisms in Coffee and Cocoa Value Chains

Risk Management and Due Diligence Case study

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Federal Ministry
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REGENERATION
ACCELERATING NATURAL SOLUTIONS



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Regeneration is a partnership between Systemiq and Palladium International.
Regeneration's mission is to accelerate natural solutions to tackle the climate crisis.



rebuild@thepalladiumgroup.com



regeneration.io/rebuild-facility/

Cover photo: Regeneration

Text: Shasi Wagle, Lydia Rowland, Nana Agyepong.

Design: Nana Agyepong



About the Rebuild Facility

The Rebuild Facility is a finance facility of Regeneration, which supports sustainable cocoa and coffee businesses in East and West Africa to protect smallholder livelihoods, conserve tropical forests, and strengthen the private sector. Rebuild Facility provides returnable grants to aggregators, off-takers, and buyers of specialty cocoa and coffee to protect at-risk value chains and to safeguard the incomes of forest-dependent communities.

Jointly implemented by Palladium International and Systemiq under the Regeneration umbrella, Rebuild Facility is funded by the German Federal Ministry for Environment, Nature Conservation, Nuclear Safety and Consumer Protection (BMUV). The programme's portfolio spans 5 countries - Ethiopia, Uganda, Kenya, Ghana, and Cote d'Ivoire.

As of June 2023, the Rebuild Facility has provided about 13.1 million euros in returnable grants to 22 grantees, securing the incomes of over 50,000 smallholder farmers, and keeping over 100,000 hectares of land under sustainable land management. The Rebuild Facility is on track to unlock over 14 million euros of private finance for sustainable MAPs by the end of 2023.



Building Compliance Mechanisms in Coffee and Cocoa Value Chains

Developing the due diligence procedure

The Rebuild Facility created tailored due diligence to assess the strengths and weaknesses of potential grantees entering the portfolio. Using the standard Palladium due diligence forms as a base, the Rebuild Facility considered the risks and challenges inherent in the supply chains, commodities and countries of operation and adjusted the questions accordingly to ensure high-quality information is received about critical areas such as safeguarding controls.

For example, given the high prevalence of child labour in the cocoa industry, apart from requiring a child labour prevention policy, we also included additional questions on who within the Market Access Player's organisation takes responsibility for safeguarding. This helps us understand what (if any) capacity and resources the organisation has for this and guides us towards the best person to engage on these issues during the due diligence interview.

Cocoa and coffee are complex supply chains, which means that grantees often work with a number of other suppliers. We introduced a check within the Due Diligence Questionnaire about how the lead organisation manages downstream partners to observe proper business code of conduct.



The code of conduct includes provisions on business integrity and ethics, privacy and information protection, international health and safety regulations, respectful workplace policies, international governance, as well as safeguarding against child exploitation and the prevention of Sexual Exploitation, Abuse and Harassment (SEAH).

A final element that the Rebuild Facility had to incorporate into its Due Diligence process was the organisation's alignment with standardized compliance frameworks such as the International Finance Corporation's Performance Standards on Environmental and Social Sustainability. In order to align with such international best-practice approaches, the Rebuild Facility made small but critical adjustments to the Due Diligence Questionnaire, building the questions regarding whistleblowing and grievance mechanisms not just to cover existence of such tools, but whether procedures are designed to protect whistleblowers from reprisals, and whether they are widely communicated and accessible (for e.g.: whether whistleblower lines are displayed in farming communities and the grantee's workplace and trainings are conducted on spotting and reporting issues).



Grantee due diligence roadmap

The Rebuild Facility implements a Risk Management Framework to operationalize Environmental and Social Management Standards (ESMS) prescribed by BMUV and Palladium's risk management mechanism.

01

Due-diligence Assessment (DDA) for potential projects, flagging gaps within MAPs and developing risk cards for the potential risk, mitigation action plan, and timeline to resolve the risk.

02

The Risk Committee, consisting of experts within Palladium's network, reviews all risks and mitigation action items and recommends projects with satisfactory mitigation measures for funding consideration.

03

Once the grant is disbursed, the Implementation Team and Project Management team review risks and mitigation actions every 2 weeks, ensuring continued compliance with environmental and social management standards.



The DDA process supports local operating and small market access players in developing and implementing policies, control procedures, compliance guidelines, and monitoring violations. This ensures that beyond the direct grant benefits, MAPs are left better off institutionally and more attractive to other investors.

How the Rebuild Facility's approach improves grantee credentials.

As of June 2023, Rebuild Facility has completed DDAs for 22 grantees, half of which initially did not meet the due diligence standards. The Rebuild Facility supported those projects to address the gaps and build adequate ESMS mechanisms so that they could be subsequently considered for Rebuild Facility's returnable grant. For smaller companies who often do not have strong institutional structures and standardized policies, addressing these gaps can be a demanding undertaking. However, this and the ongoing risk management once the grant is approved have resulted in excellent outcomes for grantees.

- Coffee Ithaka implemented a new set of Codes of Conduct and started passing them down to its supply chain partners. This has improved their overall compliance level and reduced the business risk.
- Agri-Evolve was able to improve their partly developed compliance mechanism to meet the Rebuild requirements. This improvement



allowed them to pass the risk profile assessment set by other international funders including ResponsAbility. As a result, they have received additional finance of over Euro 2 million from investors.

- ETCOF Trading PLC improved their supply chain compliance mechanisms that allowed them to directly source coffee from farmers and supply to Coffee Ithaka. As an outcome of Rebuild Facility DDA, they have established a Sustainability Department in their coffee business vertical.
- Adom Cocoa built their entire compliance process including policies, procedures and compliance monitoring mechanisms working with the Rebuild Facility. This process helped them to source business deals with internationally renowned offtakers and smoothly complete DDA undertaken by another funder, IDH, for a potential financing.
- Cayat Cooperative enhanced its sustainability unit and activities based on the capacity limitations flagged by the Rebuild DDA. As a result, they could meet the safeguards requirements set by international offtakers and could negotiate higher prices for their Cocoa.



Key Lessons from Rebuild Facility's due diligence with grantees

- Improving the process and procedure requires commitment from the grantee company's top management. Extensive engagement is necessary with the key decision-makers to ensure that MAP allocates resources to address identified gaps within a short period.
- Making businesses understand how the robust compliance mechanism helps reduce overall risks for the business and improve their business performance helps to win the commitment to address gaps and positions grantees to access other financing opportunities that they could not have accessed prior to the Rebuild Facility.
- There exists an opportunity to substantially reduce safeguarding risks by building an integrated risk monitoring and addressing mechanism using the codes of business conduct, standards set by certification agencies, sustainability initiatives, and by simplifying the compliance standards and procedures.
- Effective knowledge transfer process develops capacity of local and smaller market access players. Rebuild Facility assessed lower risk levels during the subsequent financing rounds when the MAPs were supported to develop and manage monitoring process. Key supports included providing checklists, sample/suggested policy measures and guidelines, and regular follow-up/guidance to timely address gaps.



Feedback from grantees on the Rebuild Facility's due diligence process



The due diligence itself created value for Coffee Ithaka and made us stronger. For example, Coffee Ithaka Group now has a fully enforced written Code of Conduct, and all our business units (Ethiopia, Switzerland, and Portugal) benefit from the same level of insurance coverage. The support of Rebuild (diagnosis, suggestions, documentation drafting...) has been instrumental in the implementation of those improvements for our company. We grew into being a better organization thanks to you!

Coffee Ithaka,
Ethiopia



Adom Cocoa
Buying Company
Ltd.
Ghana

The cooperative and Adom received the needed guidance from the Rebuild facility team to make the processes which could have been challenging more flexible. The Rebuild facility due diligence assessment also contributed to the development and implementation of new policies and control mechanisms for the Adom and the cooperative.



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