REBUILD
FINANCE FACILITIES

Building Financial and Organizational Strengths of Cooperatives

Case study

Supported by:

Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection

IKI INTERNATIONAL CLIMATE INITIATIVE

based on a decision of the German Bundestag

Supported by:

Federal Ministry
for the Environment, Nature Conservation,
Nuclear Safety and Consumer Protection

based on a decision of
the German Bundestag

IKI INTERNATIONAL CLIMATE INITIATIVE

REGENERATION
ACCELERATING NATURAL SOLUTIONS

REBUILD
FINANCE FACILITIES

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: Poppy Rodriguez/ Rebuild Facility
Text: Nana Agyepong
Design: Nana Agyepong

Contents

Foreword

The Rebuild Facility supports sustainable cocoa and coffee market access players (MAPs) in East and West Africa by providing working capital to deforestation free cocoa and specialty coffee ventures that protect, restore, and regenerate nature.

Jointly implemented by the Palladium Group and Systemiq under the Regeneration umbrella, the Facility works with funding from the German Federal Ministry for Environment, Nature Conservation, Nuclear Safety and Consumer Protection (BMUV). The Rebuild Facility's portfolio spans 5 countries - Ethiopia, Uganda, Kenya, Ghana, and Côte d'Ivoire.

The Rebuild Facility's mission is three-fold: to protect smallholder livelihoods, conserve tropical forests, and strengthen the private sector. Providing working capital, offered as a returnable grant, facilitates the continued purchase of sustainable commodities from smallholder farmers and cooperatives. As the commodities are successfully sold to end-markets, the grant is returned and redistributed to strengthen other market access players.

As of June 2023, the Rebuild Facility has successfully mobilized over 7.5 million euros of private finance to benefit over 50,000 smallholder farmers, keeping over 100,000 hectares of land under sustainable land management. The Rebuild Facility is on track to mobilise over 14 million euros of private finance into sustainable MAPs by the end of 2023.

This case study, focused on Côte d'Ivoire, shares how cocoa cooperative Cayat expanded on its agroforestry efforts and improved farmer confidence in the cooperative, thanks to the Rebuild Facility. This case study also reflects on the need for capacity building and institutional independence to enable cooperatives to fully benefit from certification.

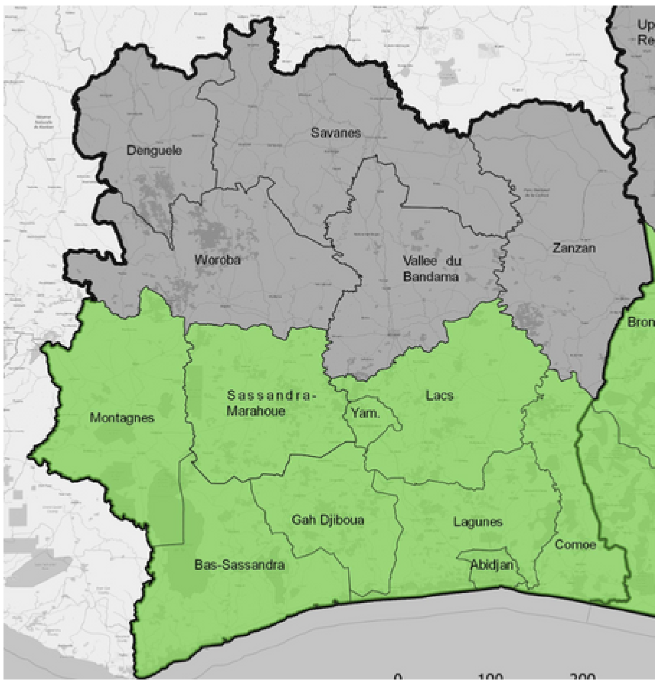
Executive summary

In 2021, Rebuild Facility provided a returnable grant to Cayat, a Rainforest Alliance (RFA) certified farmer cooperative in Adzope, Côte d'Ivoire.
The returnable grant was aimed at boosting Cayat cooperative's resources to expand its agroforestry efforts and become an independently financed organization.

The returnable grant contributed towards:
- the expansion of agroforestry and farmer training efforts;
- improving 1,408 farmers' livelihoods; and
- the promotion of agroforestry on 6,159 hectares of farmlands.

Côte d'Ivoire cocoa context

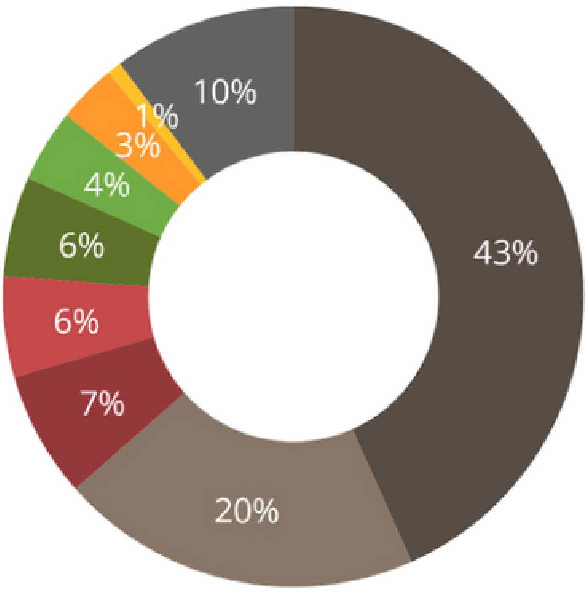
Côte d'Ivoire is the biggest cocoa producer in the world, supplying more than 40% of the world's cocoa.[i] The cocoa sector is a vital pillar of the country's economy, contributing to government revenue, foreign exchange earnings and employment. Two-thirds of the country's active population work in the cocoa industry, which supports six million people and at least 843,798 smallholder producers.[ii] Cocoa covers 40% of the nation's export crop land, much of it dominated by input-intensive full-sun monocrops.



Cocoa growing areas (highlighted green) in Côte d'Ivoire. Credit: Science Direct

The cocoa sector is primarily organized through a system of cooperatives and licensed cocoa exporters, regulated by the Conseil Café-Cacao (CCC) of Côte d'Ivoire. CCC regulates the production, marketing, and export of cocoa and coffee, and oversees cocoa bean price setting, quality control, licensing, and supervision of exporters, and coordinates the distribution of agricultural inputs to cocoa farmers.

Despite cocoa's significance to the Ivorian economy, many smallholders make less than €0.8 a day. As is the case in many countries that grow cocoa, there is an unfair division of value and risk in the supply chain.[iii] For example, farmers only get about 6.6% of the overall value of each tonne of cocoa that is sold.



Source: ICCO Bulletin No. 3, Cocoa Year 2021/2022, cocoa season 2020/2021

In 2019, Côte d'Ivoire partnered with neighbouring country Ghana to annouce a joint Living Income Differential (LID) aimed at guaranteeing producers a minimum $400-a-tonne living-wage premium over global cocoa prices . This was initially well-received by international buyers and cocoa giants.[iv] However, with the onset of the COVID-19 pandemic, global demand and cocoa prices plunged before they built up a cushion. Around the same time, major global commodity traders began to negotiate down a separate country premium to avoid losses from paying both the LID and country premiums, according to the inter-governmental Ivory Coast-Ghana Cocoa Initiative (CIGCI) that developed the LID.

Environmental Threats

With farmers earning lower incomes for their beans and lowering productivity, thousands of smallholder farmers are expanding their cocoa farms, frequently into forests and protected areas. But shifting prices and poor production (brought on by changing climatic conditions and unsustainable farming methods), not farm size, are the cause of lower incomes.

Since 1995, the area covered by cocoa plantations has grown by 44%, to an estimated 3.52 million hectares. In 2020, the National Forest and Wildlife Inventory (IFFN), declared the country's forest cover at an all-time low of 9.2%. Cocoa thrives in forest areas, so increased deforestation rates which affects local weather patterns and causes carbon emissions will eventually impact cocoa production. Reports show that cocoa producing areas will no longer be able to grow cocoa by 2050, if current deforestation trends continue.[v]

Low negotiating power of farmer cooperatives

Only 20 of the 1,500 cooperatives[vi] that were operational between 2016 and 2019 sold directly to overseas buyers, accounting for barely 10% of the country's cocoa exports.[vii] Cocoa exporters, mainly subsidiaries of multinational commodity traders, dominate the market. Manufacturers and exporters, often part of the same multinational company, partially pre-finance cocoa cooperatives and receive the cocoa during harvesting. This benefits manufacturers because they can determine how much farmers earn depending on the quality and quantity they buy. Since most cooperatives cannot export cocoa, they usually have to sell to whoever would buy, often at lower prices, losing up to 33% of the export price.

This dynamic is also evident for certified producers. Certified cooperatives sell their cocoa to the traders who pre-finance them, limiting their market to one buyer. Without access to international markets, coupled with receiving a fraction of the real value for their crop, farmers have fewer reasons to switch to more sustainable methods of cocoa production required to get into these markets, reinforcing the cycle of inaccessible markets, low incomes and consequently, forest loss.

Grantee in focus:

Cayat Cooperative and Cargill BV

The Yakassé Attobrou Agricultural Cooperative (Cayat) was established in 2010 and is headquartered in Adzopé, which is in the Mé area of southeastern Côte d'Ivoire. The cooperative sources cocoa from smallholder farmers in 42 municipal areas, including Adzopé and Yakassé-Attobrou. Currently, Cayat works with 2,566 members who cultivate cocoa on about 7,041 hectares of land. Since acquiring export license in 2018, Cayat has been selling its Rainforest Alliance (RFA) certified cocoa directly on the international market, mainly to Cargill BV.

The Cayat Cooperative farmers cultivate cocoa about 80 km from the capital Abidjan. The soil in the region is typically made up of sandy clay and the vegetation is akin to tropical forest regions. Over the last two decades, the terrain has deteriorated due to deforestation prompted by intense agriculture, artisanal gold mining, and urbanization. As a result, nearby forests like the Besso, Yapo-Abbé, Hein, N'Zodji and Mabi remain under threat of deforestation.

In response to this, Cayat implements an agroforestry program, which has been critical in rebuilding the cocoa-growing land that surrounds these forest regions. Cayat offers all necessary inputs to its members as an incentive and to alleviate some of the challenges associated with shifting from a monoculture to a mixed agroforestry system. These include providing farmers with seedlings raised in women-run nurseries. In 2020, Cayat supplied more than 20,000 seedlings including fruit plants (Akpi, Kplé, orange, avocado) and timber (Fraké, Framiré, Tiama). Cayat also conducts monitoring initiatives to identify problem areas and track member farmers' progress. Cayat owns and operates a local radio station that broadcasts educational content within the community. The farmer radio broadcasts information on sustainable production of cocoa and other crops grown in the area.

Cayat farmers are trained on agroforestry, which involves planting fruit and timber trees alongside the cocoa trees. Credit: Cayat.

Beyond this, Cayat has invested in green energy, water infrastructure, and building schools and health centers. Between 2015 and 2021, three schools were Kong, Yakasse Attobrou, and Diangobo. New health centers were also built in Yakasse Attoubrou and Becedi Brignan.

Cayat and Cargill BV

Cargill BV is a commodity trading firm based in the Netherlands. The firm deals in a variety of agricultural products, including cocoa. Cargill buys Rainforest Alliance certified cocoa beans from Cayat directly and supports the cooperative's community-based agroforestry efforts to distribute 20,000 forest tree seedlings to its members every year. Cargill Côte d'Ivoire's support to Cayat has also entailed mapping 73.5% of all farms to assess deforestation-related activities within the sourcing area. Farmers that are certified under RFA receive training on climate-smart agriculture, business management, women empowerment, and digital financial services under Cargill's Cooperative Academy program. Cayat is one of the beneficiary cooperatives of Cargill Côte d'Ivoire's 'Coop Academy' which seeks to upskill cooperatives through better management techniques, allowing them to operate more efficiently and successfully.

The Rebuild Facility returnable grant was aimed at continuing Cayat's purchase schedules and securing the cooperative members' incomes, which had been interrupted by COVID-19. Purchased beans had been left unsold in warehouses and at the ports due to decreased demand from Europe caused by the second wave of COVID-19. The shortage of shipping containers due to disruption in global trade also impacted exports even when demand began to recover. With sales halted, Cayat was unable to buy newly harvested cocoa from its farmers.

Impact of the returnable grant

The Rebuild Facility gave grant went toward securing the incomes of 1,408 Rainforest Alliance certified farmers within the cooperative. With the grant, Cayat was able to resume its purchase contracts with farmers even while shipping delays persisted.

Sales diversification and access to finance

Previously, Cayat only received partial harvest pre-financing from its offtaker Cargill. With the returnable grant, Cayat was able to make full payment to its member farmers ahead of the harvest season. This incentivised farmers to wait until coffee cherries ripened before harvesting, ensuring higher quality coffee and better prices. The grant provided a foundation for Cayat to begin to operate independently and think strategically as a business in the niche sustainable cocoa market. As part of this, Cayat is currently exploring cocoa processing for distribution on the local Ivorian market.

Cayat also capitalized on the visibility and credibility from its experience with international financiers like the BMUV through the Rebuild Facility, and was able to negotiate lower interest rates (from 13% to 8%) and access more financing in the next harvest season.

Additionally, due to Cayat's increased purchasing power from the grant, the cooperative was able to buy from more farmers, both members and non-members. This has made Cayat a more attractive cooperative and increased the confidence, cooperation, and loyalty of existing members.

Lessons from Côte d'Ivoire

As a locally operated cooperative, Cayat's long-standing relationship with Cargill provides an example of how international buyers can build strong and traceable value chains with local partners. However, this comes with the unintended risk of overreliance on a single offtaker. Through the encouragement and financing from the Rebuild Facility, Cayat committed to investing in capacity building and institutional changes toward expanding its capacity to supply Cargill and new offtakers; becoming an independent and business-oriented institution.

The Rebuild Facility's work with Cayat shows how access to finance mechanisms like returnable grants can challenge and incentivize local MAPs to invest in the institutional changes and internal capacity required to truly access and benefit from international markets.

[i] Swiss Platform for Sustainable Cocoa https://www.kakaoplattform.ch/about-cocoa/cocoa-facts-and-figures#:~:text=Most%20cocoa%20is%20produced%20in%20West%20Africa&text=C%C3%B4te%20d'Ivoire%20and%20Ghana%20are%20by%20far%20the%20two,followed%20by%20Ecuador%20with%207%20%25.

[ii] Okoth, 'What's stopping some Ivorian cocoa farmers adopting agroforestry?'

[iii] Govind Bhutada, Cocoa: A Bittersweet Supply Chain

[iv] Cocoa Post: Ghana and Côte d'Ivoire Announce Living Income Differential for Cocoa Farmers.

[v] Läderach, P., Martinez-Valle, A., Schroth, G. et al. Predicting the future climatic suitability for cocoa farming of the world's leading producer countries, Ghana, and Côte d'Ivoire. Climatic Change 119, 841–854 (2013). https://doi.org/10.1007/s10584-013-0774-8

vi] Study on the state of farmer cooperatives in the cocoa sector of Côte d'Ivoire via https://www.kakaoforum.de/fileadmin/Redaktion/Studien/GISCO_COOP_Report_GEFAK_final.pdf

[vii] Mapping cocoa exports from Côte d'Ivoire and Ghana. https://insights.trase.earth/insights/mapping-cocoa-exports-cote-divoire-ghana/

Supported by:

Federal Ministry
for the Environment, Nature Conservation,
Nuclear Safety and Consumer Protection

IKI INTERNATIONAL CLIMATE INITIATIVE

based on a decision of
the German Bundestag