

## Strategic way forward for Private Sector Engagement in the GCF PROMIRE project, Cote d'Ivoire

### 1. Stakeholders involved in the cocoa value chain

The PROMIRE project will engage with micro financial institutions (MFIs) and cocoa private companies that are members of the World Cocoa Foundation (WCF), as well as with selected traders to support the zero-deforestation cocoa production activities in the country. The following stakeholders, in addition to smallholder farmers and middlemen, are involved and will be involved in the cocoa value chain (table 1).

**Table 1 : Main private sector stakeholders involved/to be involved and their role in the cocoa supply chain in Cote d'Ivoire**

Types of companies	Role in cocoa value chain
<b>Cooperatives</b>	Cooperatives are composed by smallholder farmers that pay an annual fee to become members. Cooperatives support producers for the price negotiation of cocoa and its traceability. They collect cocoa beans from producers (members) and sell them to a trader/exporter or a chocolate manufacturer. Only 1 cooperative exists in the project area (La Mé region).
<b>Traders/ Grinders</b>	<p><b>Exporters:</b> Generally established in seaport cities, they fall into three categories: (i) small and medium-sized exporting enterprises (SMEX), (ii) exporting cooperatives, and (iii) commercial companies. They export cocoa to be transacted in international markets to the various chocolate companies.</p> <p><b>Traders/Buyers:</b> They refer to the category of actors who benefit from the financing of an exporting company that collects cocoa beans from cooperatives. They are often in direct contact with farmers to whom they provide materials, equipment and financial resources to collect the cocoa beans before they are delivered to the exporters. Traders include for instance, companies such as Altereco.</p> <p><b>Grinders:</b> These are the entities who have the capacity to carry out the first processing of cocoa, (grinding). They sell the cocoa paste directly to chocolate companies. Grinders include Olam, Cargill or Barry-Callebaut companies.</p>
<b>Chocolatiers</b>	These are the confectionery companies. The nine largest in the world, all present in Cote D'Ivoire, are: Mars Inc, Ferrero Group, Mondelēz International, Meiji Co Ltd, Hershey Co, Nestlé SA, Lindt & Sprüngli AG, Ezaki Glico Co Ltd, Pladis and Kellogg Co. These chocolatiers are part of the World Cocoa Foundation and the <b>Cocoa and Forests Initiative (CFI)</b> . <sup>1</sup> The CFI is an active commitment of top cocoa-producing countries part of the WCF <b>to end deforestation and restore forest areas through no further conversion of any forest land for cocoa production</b> . The agreement committed the participating companies to develop and present a joint public-private framework of action named <b>Joint Framework of Action of the Cocoa &amp; Forests Initiative</b> <sup>2</sup> to address deforestation. <sup>3</sup> To deliver the commitments set out in the Joint Framework of Action of the Cocoa & Forests Initiative, the WCF <sup>4</sup> companies agreed to develop a <b>detailed individual action plan</b> that spells out the specific actions to be taken during the 2018-2022 period. The CFI

<sup>1</sup> <http://www.worldcocoaoundation.org/cocoa-forests-initiative/> . PROMIRE activities will be included in this initiative.

<sup>2</sup> Available in French at <https://www.idhsustainabletrade.com/uploaded/2017/11/CDI-Framework-Final.pdf>

<sup>3</sup> <http://www.worldcocoaoundation.org/cocoa-forests-initiative/>

<sup>4</sup> The companies working in Cote D'Ivoire are Arysta Callivoire, Barry Callebaut, Blommer Chocolate Company, Cargill Cocoa and Chocolate, Cémoi, Chocolats Halba, Cocoonect, Cococo Chocolatiers, ECOM Group, Fazer, Ferrero, General Mills Inc., Godiva Chocolatier Inc., Guittard Chocolate Company, The Hershey Company, Indcresa, Lindt & Sprüngli Group, Marks & Spencer Food, Mars Wrigley Confectionery, Meiji Co. Ltd., Mondelēz International, Nestlé, Olam Cocoa, PBC Limited, Sainsbury's, SIAT, Tesco, Toms Group, Touton, Tree Global, Unilever, Valrhona, and J.H. Whittaker & Sons.

	companies, the government of Côte d'Ivoire and national stakeholders, have also agreed to start planning the <b>second phase of the action plan covering the 2021-2030</b> . <sup>5</sup> As for now, private sector companies are reticent to invest in zero-deforestation cocoa production activities as they expect to be provided by evidence and concrete examples from the field and at local producers' level. PROMIRE project will bring this experience and evidence and to serve as input for the <u>second phase of the abovementioned action plan</u> .
<b>MFIs</b>	MFIs are operating widely in Cote D'Ivoire in agriculture, trade and services (table 2). There are 11 institutions operating in the project area and three institutions work across the three regions: Union Nationale Des Coopératives d'Épargne et de Crédit (UNACOOPEC); Réseau des Caisses Mutuelles d'Epargne et de Crédit (RCMEC); and CELPAID-Finances SA. While MFIs provide financial services for the agriculture, forestry and fisheries sectors, these are not adapted to the specific conditions and constraints of the forestry and agroforestry sectors, in particular the cocoa subsector.

**Table 2: MFIs in Côte d'Ivoire**

Name of MFI	Sectors of intervention	Presence in the project sites	Credit volume	Loan terms / Requirements	Interest rate/credit formula	Profile
<b>CADES</b>	Trade Agriculture	La Mé	50,000 to 3,000,000 FCFA (100 to 6,000 USD)	Membership for min 3 months. Pre-saving preference. Warranties: Deposit of 20% of the loan	4.5% over 3 months; 8.5% over 6 months; 17% over 12 months 20% - 12 months	Recent creation: 2017; No specific credit lines for agriculture and forestry activities.
<b>CECKA</b>	Maintenance of plantations (& reforestation) Agriculture Trade	La Mé	Up to 5,000,000 FCFA (10,000 USD)	Membership for min 3 months Financial warranties: Downstream	15% per year, over 12 months for agriculture and 15 months for reforestation	No specific credit lines for agriculture and forestry activities.
<b>CASUDCO</b>	Trade Agriculture (rubber, oil palm, cocoa)	Sud Comoe	Up to 5,000,000 FCFA (10,000 USD)	Very short-term savings: 3 months Financial warranties: Downstream	14 to 17% per year over 10 to 12 months.	Local target with a good control of local context; No specific credit lines for agriculture and forestry activities.
<b>ADVANS</b>	Micro-entrepreneurs (trade, services, etc.), craftsmen and SMEs.	Not operating in any regions, but the project will determine under activity 2.4.3. their potential involvement as per financial instrument they could provide	150,000 FCFA to 100,000,000 FCFA (300 to 200,000 USD)	Credit without pre-savings obligation. Warranties: personal (minimum salary of 200,000 FCFA or solvent trader); materials (buildings, furniture) Technical and financial feasibility study	1.6% per month. Digressive rate, calculated on the remaining amount owed.	Large amounts reaching up to 100 million FCFA; "Cocoa credit" loan developed but not yet tested nor implemented.
<b>FIDRA SA</b>	Agriculture Trade Breeding	La Mé	Up to 5,000,000 FCFA (10,000 USD)	Compulsory advance savings.	20% per year (12 to 36 months)	Targets mainly retirees and pre-retirees from all

<sup>5</sup> Discussions on the second phase were expected to take place in April 2020 but have been postponed to June 2020 due to the current COVID-19 emergency.

	Life insurance, health insurance and education program products.		Exceptionally 10,000,000 FCFA	Amount payable: 33% maximum of superannuation. On-site verification. Warranties: Personal (pension) or/and materials (buildings, furniture)		sectors of activity: good social inclusiveness; No specific credit lines for agriculture and forestry activities.
<b>CMCI</b>	Investment credit, Market Finance for Trade Transport Hotel Small processing industry Peri urban breeding Construction Agribusiness Short-cycle agriculture	Sud Comoe	Up to 1,000,000 FCFA (2,000 USD)	Investment financing: Membership Subscription for 1 share at least Mandatory advance savings Savings Solidarity bond Gages Market financing or working capital: Subscription 5 shares at least Direct debit to CMCI Guarantee deposit Insurance Credit Caution	16% per year over 36 months max  2% per month over 6 months max	Provides training in financial education for its members. No specific credit lines for agriculture and forestry activities.
<b>MICROCRED/Baobab</b>	Traders Micro-entrepreneurs	Sud Comoe La Mé	100,000 to 30,000,000 FCFA (200 to 60,000 USD)	Warranty: depending on the credit amount	27% per year	New brand launched by the MICROCRED Group, dedicated to the distribution of innovative non-financial products (targeting low-income populations); No specific credit lines for agriculture and forestry activities.
<b>ADEC SA</b>	Open	Agneby Tiassa	Up to 1,000,000 FCFA (2,000 USD)	Warranty: depending on the credit amount		Female-dominated shareholders; No specific credit lines for agriculture and forestry activities.
<b>UNACOOPEC-CI</b>	Agriculture: microproject, solidarity loan, working capital need, campaign loan Forestry: hevea (rubber) production Crafts Consumption Habitat/land tenure Investment Trade	Agneby Tiassa La Mé Sud Comoe	Variable, and linked to the deposit amount. Can reach large amounts (from 45K to 200 million euros)	Membership for min 3 months. Mandatory pre-season regular savings: at least 33% of the loan amount. For investment: present a project Warranty: Material or financial warranty.	18% per year (degressive). 0.8% per month 3 to 24 months max (exceptionally 36 months)	Pioneer and leader in the microfinance sector. Important proximity network; Experience: permanent presence in the MFI sector for more than 35 years; No specific credit line for agriculture and forestry activities but can consider repayment schedules adjusted to production cycle.

<b>RCMEC-CI</b>	Agriculture (11% of the total volume of credits) Trade Micro-entreprises	Agneby Tiassa La Mé Sud Comoe	Up to 10,000,000 FCFA (average loan: 2 M FCFA – 4,000 USD)	Warranty: financial or material (including land titles) Business plan	15 to 18% per year In the framework of a project: 10 to 12% per year (eg. Project supported by UN agencies)	Present in rural area; no specific credit line for agriculture but flexible for it. Interest rate negotiable if the beneficiary is in the framework of a project (case of a project supported by UNIDO).
<b>CELPAID</b>	Electronic currency Trade Catering Transportation SME/PMI pay management Funding for purchase orders. Agriculture	Agneby Tiassa La Mé Sud Comoe	Individual: Up to 5,000,000 FCFA (10,000 USD) Companies: up to 50,000,000 FCFA (100,000 USD)	Membership for 3 months min. Application fee: 2% of the loan amount. Warranties: Deposit or endorsement	1.5% per month (12 to 36 months)	Focus on NTIC tools: development of communication platforms for customers; No specific credit lines for agriculture and forestry activities.

## 2. Engagement of cooperatives and private sector in the project:

### 2.1 At project formulation stage

- Initial discussions with Mondelez, CEMOI and Mars, members of WCF, who have shown interest to increase investment in sustainable and zero-deforestation cocoa production as part of the implementation of the PROMIRE project. During implementation phase, this interest is expected to be concretized.
- Other member companies of CFI and working in the project regions will be added to the list of PROMIRE partners once their action plans are updated, and once the extension phase of CFI (2021-2030) is concretized.
- PROMIRE team has performed a characterization of the MFIs working in Cote D'Ivoire including extensive discussion with local banks and MFIs grouped within the Professional Association of Decentralized Financial Systems of Côte d'Ivoire regrouping the local banks and MFI in Côte d'Ivoire (see table 2), which have expressed their interest in investing in forestry and agroforestry activities (a letter of intent from the association has been provided).

### 2.2 At implementation stage

- PROMIRE will concretely engage small producers and cooperatives as well as the private sector cocoa companies and MFIs in zero-deforestation cocoa production through a two-pronged strategy, detailed in the sections below. This strategy -to be refined at the initial stage of implementation- will target these actors to enable them to find a common ground to work together sustainably.

- PROMIRE will engage with MFIs to enhance their capacities in the provision microcredit lines taking into consideration the specific features of investment needed in the forestry and agroforestry sector (e.g. tenor, flexibility for the interest rate).
- FAO will engage with cocoa companies and traders in Cote D'Ivoire to include the project sites in their supply of zero-deforestation cocoa production based on the sustainable forestry and agroforestry activities to be implemented by the project.
- The project will ultimately engage with small producers. In Cote d'Ivoire most of the production of cocoa is produced by poor rural farmers who remain mostly unorganized (only 8 % belong to cooperatives) and do not usually have access to credit (only 11 % have access to credit lines).<sup>10</sup>
- To ensure this engagement, the project will:

**a) Engagement with small producers and cooperatives:** Cooperatives are the best vehicle for ensuring the link between producers and markets through fair negotiations with private sector entities in Côte d'Ivoire. Therefore, the following will be pursued by the project:

- Create two cooperatives (in Sud Comoé and Agneby Tiassa regions) and encourage the producers identified through the agrarian diagnosis, and responding to the beneficiaries' selection criteria, to join the cooperatives. These producers benefit from technical assistance to adopt sustainable agroforestry models targeting the link with zero-deforestation cocoa value chains;
- Establish the necessary administrative and operational procedures for the two newly created cooperatives: support and capacity building on accounting, members management, determination of membership costs and contributions<sup>6</sup> and formalize their legal establishment;
- Strengthen cooperatives technical, operational and financial capacity. Training on financial literacy including funds management, bookkeeping and accounting, benefits of the adoption of sustainable production, investment, and negotiation with traders / trade. The capacity of the existing La Mé cooperative (SCOOPS.PCBM for '*Société Coopérative Simplifiée des producteurs de cacao biologique de la Mé*'<sup>7</sup>) will be assessed in order to align the planned training with their technical and financial needs;<sup>8</sup>

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<sup>6</sup> A standardized amount of membership fees applicable for all cooperatives does not exist. This amount depends on the cooperative own decision-making process and as stated in its internal rules.

<sup>7</sup> Cooperative of la Mé (SCOOPS.PCBM) has been recently created as part of the implementation of the REDD+ project in this region. In 2019, the cooperative benefited from grants to support acquisition of equipment, building of a store dedicated to the storage of organic and fair-trade cocoa and for the recruitment of a cabinet to organize specific training on cooperative operations and financial management. The Cooperative of La Mé operates in agriculture, especially in the coffee and cocoa sectors. Its main objective is to carry out or facilitate all operations concerning collection, storage, processing and marketing of members' products. As for now, this cooperative has 184 members spread over three villages, namely Bieby, Diasson and Mébifon. To become a member, one must own a plot of at least 1 ha of cocoa crops in the district of the region. This cooperative support its members by covering training costs, in particular those relating to operations, the technical supervision of members, the recruitment of specialists for the promotion of good agricultural practices. It has a bank account in a bank in Adzopé and its financial resources come from share capital obtained by subscription and payment of every members, payment of membership fees or subsidies granted by any natural or legal person for its operation or necessary investments, capital borrowed and guaranteed by the joint guarantee and legal, statutory and optional reserves created by deduction from the accounting surpluses for the financial year created.

<sup>8</sup> Financial needs will be address in the framework of the business plan.

- **Develop robust business plans<sup>9</sup>** informed by a **market assessment** to explore the legal aspects needed for promoting potential eligible investments among key beneficiaries (cooperatives and small-scale producers), the priorities in each region regarding contracts, the legal context which enable the promotion of potential eligible investment in the regions, the alignment with local policies e.g. development plans and the assessment of the cocoa sector (highlighting the priority and potentiality of the beneficiaries -cooperatives and small-scale producers) and the update of the economic and financial analysis of the different agroforestry models.

These business plans will aim at the following (*depending on the specific needs of the cooperative and the targeted region context*):

- (i) Establish purchase agreements with cocoa companies based on the experience of the premium prices established by the la Mé cooperative (see Table 3) for the high-quality cocoa produced through project output 2.3;
  - (ii) Be subject to receiving micro credits lines from MFIs through loan agreements;
  - (iii) Extend sustainable agroforestry activities through investments from the cocoa companies (*investments in this regard will be guided by the land use planning and tenure right activities developed through project output 2.1*).
- Support cooperatives, through technical assistance, to present their business plans to cocoa companies and MFIs (linked to project activity 2.4.3.).

As a result, cooperatives will be in a better position to negotiate price and purchase agreements with potential buyers, cocoa companies and traders and members of CFI, for the certified organic and fair-trade cocoa production and for the deforestation-free cocoa production (see as reference table 3).

**Table 3: Cocoa production estimates / projections** (*to be adjusted during project implementation*) in the project sites.<sup>10</sup>

	<b>Volume of organic and fair-trade certified cocoa (TM)</b>	<b>Volume of sustainable, deforestation-free cocoa (TM)</b>
Year 1	-	0
Year 2	27	140
Year 3	20	305
Year 4	65	373
Year 5	68	562.5
Year 6	97	660.5

<sup>9</sup> Detailing the objective of the cooperatives and their financial and technical needs. This will help the cooperative to better target the potential future partners in the framework of resource mobilization.

<sup>10</sup> These estimates are aligned with the analysis included in the Economic and Financial Analysis.

## **b) Engagement with the private sector:**

### **Cocoa Business Sector:**

- Actively contribute to the national technical exchange and dialogue (through CFI and cocoa innovation platform amongst others) on the following:
  - Development of deforestation-free cocoa production principles and criteria (in line with future EU regulations amongst others);
  - Advocacy for the adoption at national level of a principle of a “premium price” for deforestation-free cocoa production. The reference for the premium price will be initially based on the one established by La Me cooperative (see table 4);

**Table 4: Organic and fair-trade cocoa premium price breakdown** *(using as reference the price applied by AlterEco company)*

<b>Elements constituting the price of Organic and fair-trade cocoa</b>	<b>Price (FCFA/kg)</b>	<b>Price (USD/Kg)</b>
Conventional cocoa	750	~ 1.5
Premium price linked to organic and fair-trade certification <sup>11</sup>	400	~ 0.8
Premium price linked to sustainable production in agroforestry systems	100	~ 0.2
Cooperative administrative costs	150	~ 0.3
TOTAL (price per kilo of cocoa bean under organic, fair trade and sustainable technics)	1400	~ 2.8

- Share experiences, evidence and results from the project in order to guide and support the private sector in their investments in zero-deforestation cocoa production. In particular, the project will support WCF to ensure alignment with action plans, in particular:
  - Strengthened territorial planning and land security, through the involvement of private sector (through CFI) in territorial planning discussions (output 2.1)
  - Through the development of cocoa supply from the project areas targeting zero-deforestation cocoa production (output 2.4)
  - Through the investment in sustainable forestry and agroforestry systems expanding the area of the project sites (output 2.3)
- Establish regular meetings (every 3 months) with Cocoa and Forest Initiative and member cocoa companies to expand on forestry and agroforestry interventions and to seek additional opportunities for the establishment of purchase contracts based on national and international market development and dynamism. AlterEco company is already purchasing 15 TM of certified organic and fair-trade cocoa production of the La Mé region from the SCOOPS.PCBM cooperative at preferential price. AlterEco company has indicated during formulation stage that the company is willing to buy up to 25 TM/year of cocoa beans from the La Mé cooperative and from other

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<sup>11</sup> Certification by ECOCERT

cooperatives at premium price (see table 4) for high quality cocoa (certified organic and fair-trade cocoa).

- Actively participate with stakeholders in dialogues on optimal business models for the sustainable development of agroforestry systems and value chains to delineate policies aimed at ultimately changing the behavior of all stakeholders along the cocoa value chain

#### **Micro-financial institutions (MFIs):**

- Gap analysis: based on the results of the first identification of MFIs in Côte d'Ivoire (see Table 2), develop an in-depth analysis of the three micro-finance institutions available in the three regions and identify site specific and changing barriers which influence the level of investment required on agroforestry and forestry sector, including the level of liquidity needed. The results of this analysis will inform if additional MFIs need to be involved in the project. This analysis will also inform on capacity gaps and needs for potential involvement of additional MFIs that would need to be involved and not currently present in the targeted regions. This assessment will be carried out via data collection through the association of MFIs, and direct exchanges with the MFIs for a better identification of potential financial instruments to be mobilized for cooperatives.
- Identify additional MFIs/LFIs and local banks that could receive technical support from the project in order to link and tailor their services to the project beneficiaries. Particular attention will be given to Advans as this MFI has already benefited in the past from technical assistance for the development of financial services for cocoa producers. Advans is willing to launch a financial product addressing sustainable cocoa production and agroforestry (not tested yet). PROMIRE team is expected to participate in the inception phase, supporting Advans and strengthening technical aspects to better tailor financial instruments to cocoa producer's needs.
- Capacity building and technical assistance: Provide technical support to MFIs/LFIs to:
  - (i) Enhance their ability to invest in sustainable cocoa interventions and ensure robust environmental and social management systems are in place;
  - (ii) Identify and test adequate financial instruments to be used for the benefit of smallholders and/or newly established cooperatives; while being respectful of environmental and social safeguards.