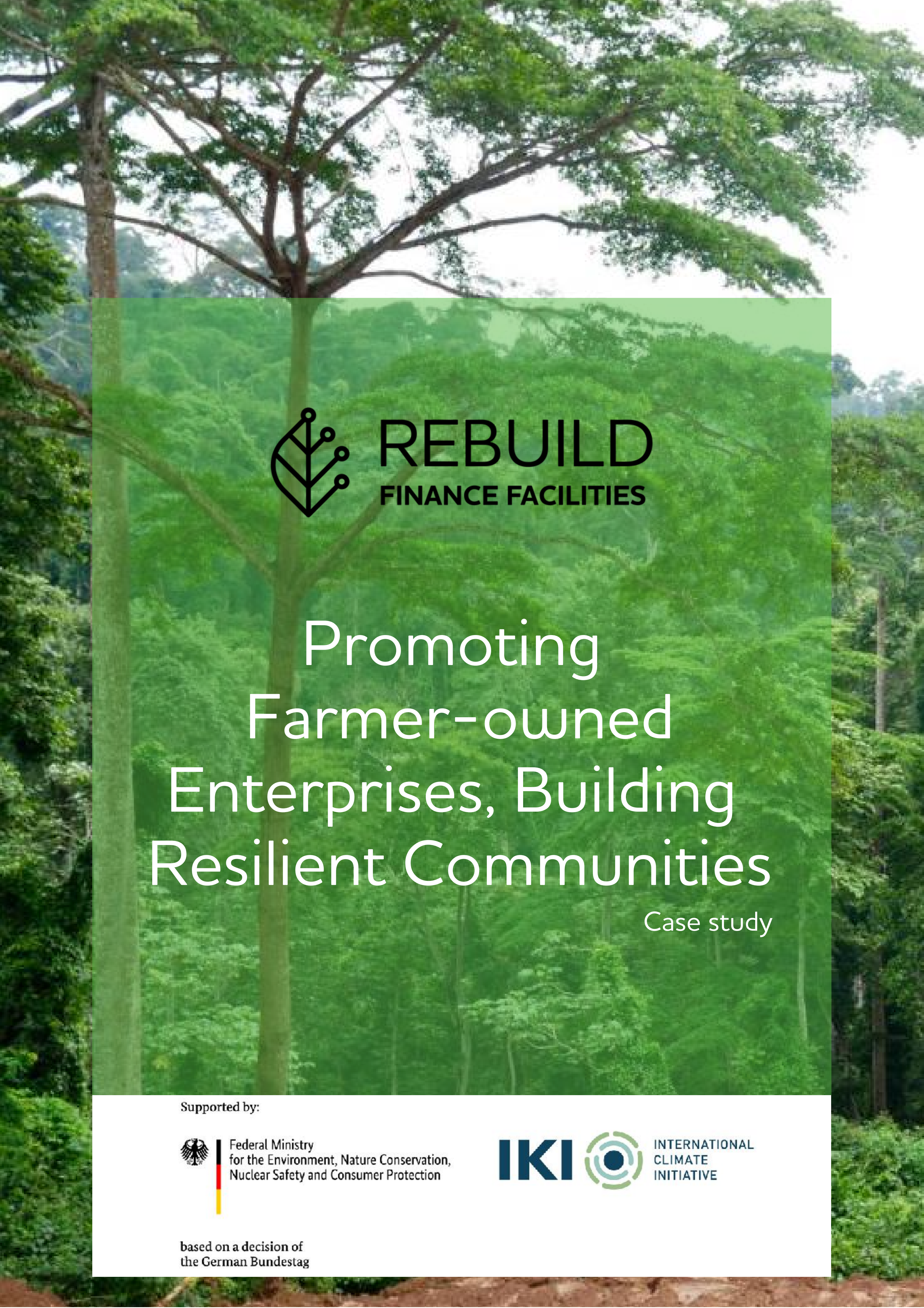

REBUILD
FINANCE FACILITIES

Promoting Farmer-owned Enterprises, Building Resilient Communities

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

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REGENERATION
ACCELERATING NATURAL SOLUTIONS

REBUILD
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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.

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Foreword

The Rebuild Facility is a returnable grants facility that supports sustainable cocoa and coffee 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 Palladium International 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 Cote d'Ivoire.

The Rebuild Facility's mission is three-pronged: 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.

Since 2020, the Rebuild Facility successfully mobilized over €4.5 million 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 projected to mobilise over €14 million of private finance into sustainable market access play by the end of 2023.

This case study, focused on Ghana, shares how farmer-owned Adom Cocoa Buying Company scaled up its deforestation-free cocoa enterprise, set-up a Sustainable Land Management strategy, promoted agroforestry on 6,159 hectares of farmland, restored 200 hectares of degraded forest land, and improved the livelihoods of 1,948 farmers, thanks to the Rebuild Facility returnable grant.

This case study also discusses how grantees manage the risks created by foreign exchange rate fluctuations and implications on the Rebuild Facility's grant delivery model.

Executive Summary

In 2022, the Rebuild Facility provided a returnable grant of Adom Cocoa Buying Company Ltd (ACBC), a licensed cocoa buying company in Ahafo, Ghana.

The Rebuild Facility returnable grant was Adom Cocoa's first external funding and contributed towards:

- Raising Adom Cocoa's total purchase volume to meet the requirement for the Ghana Cocoa Board (COCOBOD) funding;
- Setting up a new Sustainable Land Management strategy;
- Restoring 200 Ha of formerly degraded forest under the Ghana Cocoa-Forest REDD+ programme within the first year. Adom Cocoa is currently working to restore an additional 300 hectares of degraded forest.
- Improving 1,948 farmers' livelihoods; and
- Promoting agroforestry on 6,159 hectares of farmland.

Additionally, the grant and its due diligence process enabled Adom Cocoa to implement internal policies on sustainability, occupational health and safety, child labour, as well as build their credit history, which improved their investor-preparedness position.

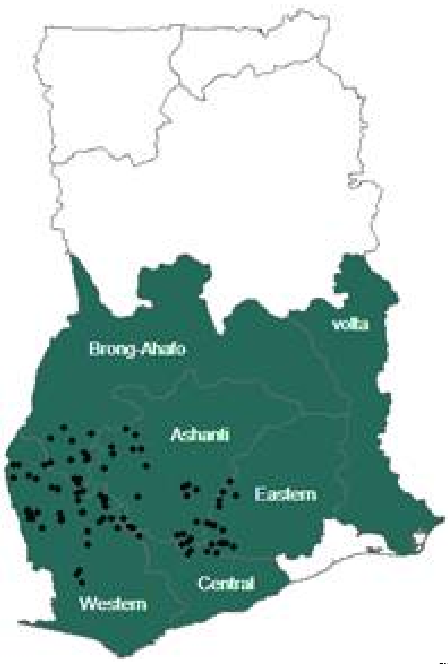
In spite of worsening macroeconomic conditions in Ghana, Adom Cocoa successfully repaid the returnable grant and achieved its impact targets. Adom Cocoa qualified for a second round of Rebuild funding in 2023, and this is expected to deepen the impacts from the first round. Through the establishment of longer-term relationships with grantees like Adom Cocoa Buying Company, the Rebuild Facility can continue to support and protect farmer incomes and promote deforestation-free cocoa.

Ghana Cocoa Context

Cocoa is Ghana's most important agricultural commodity, generating about $2 billion in foreign exchange annually.[i] As the second leading cocoa producing country (after Cote d'Ivoire) in the world, Ghana holds a 20% market share in global cocoa production.[ii] Cocoa accounts for roughly 57% of all agricultural exports and supports the livelihoods of about 850,000 farm families involved in cocoa farming and its related activities. Production is predominant in high forests and forest transition zones, encompassing seven out of the sixteen regions of Ghana: Eastern, Ashanti, Brong Ahafo, Volta, Central, Western, and Western North regions. Cocoa is harvested in two seasons throughout the year- the main harvest takes place from October to January and the light-crop from April to June.

The major players in Ghana's cocoa value chain are farmers and farmer owned cooperatives, Licensed Buying Companies (LBCs) and the Ghana Cocoa Board (COCOBOD). Mostly privately-owned, LBCs are the only companies mandated to purchase cocoa from farmers and then sell to COCOBOD, a fully state-owned company and the sole controller of the Ghanaian cocoa market. As the only institution permitted to sell Ghanaian cocoa to the world market, COCOBOD sets the farmgate price of cocoa for the crop year, enforces quality standards, and coordinates marketing activities domestically and internationally.

All LBCs deliver cocoa to the Cocoa Marketing Board (CMB), a subsidiary of COCOBOD, for further delivery to domestic and international buyers. Where local or international buyers have a direct purchase contract with an LBC, the CMB acts as a middleman to receive and forward the cocoa beans to the buyer. COCOBOD also secures and distributes funding to LBCs for their operations, usually at 16-18% interest per annum and lower than average market rates of around 35%.



Cocoa growing areas in Ghana.[iii]

Environmental & Livelihood Threats

The Asunafo landscape, located in the Ahafo region, consists mainly of the semi-deciduous forest with large species of trees including the Kyenkyen (Antiaris toxicaria), Dahoma (Piptadeniastrum africanum), Kusia/Öpepe (Nauclea diderrichii), Penkwa/Sapele (Entandrophragma cylindricum), Oprono/Aprököma (Antrocaryon micraster), Emire (Terminalia ivorensis), and Onyina (Ceiba pentandra). The area is a forest transition zone, with grasslands and clusters of drought-resistant trees such as baobabs (Adansonia Species) and acacias bordering the savannah zone to the north. With a forest biomass of over 100 tonnes per hectare, the landscape forms part of the Bia-Juaboso forest landscape, one of the country's major cocoa farming regions, producing 60,000 metric tonnes a year.

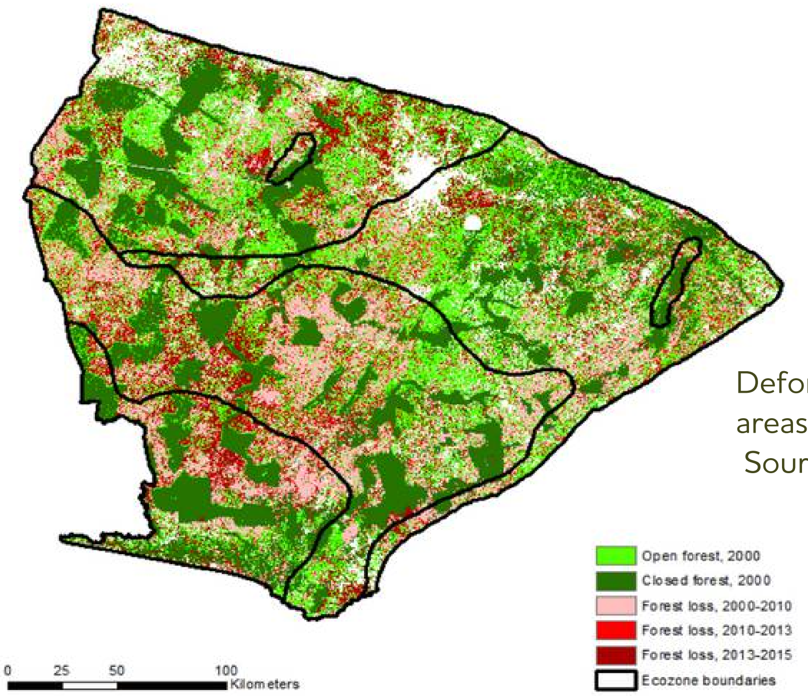
These areas are renowned for hosting some of Ghana's last remnants of relatively untouched forest and representing one of the best examples of a transition zone between moist evergreen and moist semi-deciduous forest types, according to UNESCO.[iv]

The Asunafo District is home to the white-necked rockfowl which has been classified as a vulnerable specie under the IUCN international criteria for threatened species.

Nearby lies forest reserves like the Bia Tano Forest Reserve, Ayum Forest Reserve, Bonkoni Forest reserve, Subim Forest Reserve, and Bonsam Bepo Forest Reserve. This forest ecosystem hosts significant populations of unique floral and fauna species, including exceptionally high emergent trees, over 62 species of mammals, 600 butterfly and 160 bird species. They include 35 threatened species of flora and fauna, such as chimpanzees and the endangered white-breasted guinea fowl and bongo forest antelope.

However, with a growing population of some 150,000 people living in the surrounding district and cocoa farming being the predominant livelihood, many independent cocoa farmers who often work in isolation and receive low yields for their crops have had little incentive not to encroach into protected forests. Agricultural expansion has led to increasing deforestation, accounting for nearly 140,000 ha of high forest zone loss each year, and over a quarter of this deforestation is driven by cocoa production.[v]

Cocoa is an understory crop, meaning it thrives under the shade in forest zones and its soil structure and fertility, rainfall, and temperature requirements can only be met in the forest zones. Degrading the forest zone threatens cocoa production in Ghana because it inhibits future yields and simply cannot move to another area.[vi]



Deforestation in the GCFRO areas from 2000 - 2015.
Source: IDH Sustainable Trade

To curb this trend, the Bia-Juaboso area has been designated as one of the nine Hotspot Intervention Areas (HIAs) for interventions to tackle unsustainable cocoa farming under the Ghana Cocoa-Forest REDD+ programme. The 20-year programme seeks to significantly reduce carbon emissions resulting from cocoa expansion into forests by working with cross-sectoral stakeholders to promote appropriate climate-smart cocoa production approaches.[vii]

Low farmer incomes

West African cocoa farmers receive between 3-6% of the price of a chocolate bar, yet they are exposed to majority of the risk – they are on the front lines of the climate crisis, which leaves them vulnerable to drought, pests, and diseases that can decimate a harvest.[viii] Most cocoa producers do not earn a living income and more than two-thirds of cocoa producers in West African countries live below the poverty line, according to the World Cocoa Foundation.[ix] Cocoa is the largest income source (about two-thirds or more), for most cocoa households in Ghana, so cocoa prices and yield have a big effect on total farmer incomes.

There is also potentially a self-amplifying mechanism in the direct relationship between household income, input use, and cocoa yield, where wealthier households can afford to invest in agricultural inputs and earn higher cocoa yields as a result.[x] Unfortunately, the same mechanism can bring poorer farmers into a negative spiral or poverty trap where their cocoa area and yield is too small to earn a decent income from cocoa, while their lack of income prevents them from being able to invest in inputs to improve their yield. With the majority of Ghanaian cocoa farmers being smallholders, the latter scenario is the more common reality.

With low yields and income, cocoa farmer groups often have low bargaining power and members have decreasing confidence in the group. This results in side-selling, where farmers individually sell their cocoa outside the cooperative’s aggregation in hopes of making quicker money without the cooperative.

Grantee in focus:

Adom Cocoa & the Asunafo Cooperative Cocoa Farmers and Marketing Union

Only 4% of LBCs in Ghana are farmer-owned. Adom Cocoa Buying Ltd. was established to ensure farmers and cocoa-growing communities benefit from profits made by LBCs. Categorized within the Rebuild Facility's scheme as a tier 3 company, Adom Cocoa is jointly owned by eight certified cooperative unions in Ghana, with a combined total membership of over 27,000 farmers from 361 farming communities across Ghana. 40% of Adom Cocoa is owned by the Asunafo Cooperative Cocoa Farmers and Marketing Union (ACFMU).

ACFMU was established in 2008 by Cadbury through its Cadbury Cocoa Partnership program. The program, now Mondelēz's Cocoa Life, works with international cocoa certification organizations – Fairtrade and Rainforest Alliance – to promote sustainable cocoa farming and empower cocoa communities. ACFMU has supply contracts with chocolate giants Tony's Chocolonely and Mondelez to supply ethical, certified cocoa beans for chocolate production at premium prices.

Most of ACFMU's 9,812 member farmers are in the Brong Ahafo region, where farming is the main source of livelihood for 69% of the population, and most households are reliant on cocoa production for their livelihoods.[xi]
Beyond cocoa production, ACFMU has invested in community infrastructure such as schools, boreholes, health infrastructure, teacher bungalows, community social centres, and community warehouses through strategic partnerships.

These contributions have made ACFMU's success a driver of development in the area and evidence of how successful rural enterprises can improve larger community welfare.

In recognition of its work, ACFMU was awarded as the Most Formalized Cooperative in Ghana in 2019, and the Best Global Fairtrade Small Producers Organization in 2020.

After more than a decade of operations, ACFMU joined with seven other farmer unions across Ghana to form the Adom Cocoa Buying Company Ltd. Adom Cocoa began operations in the last quarter of 2021, and as a newly incorporated company, it had neither the financial history nor track record to access commercial financing and did not qualify for seed funding from COCOBOD.

Community warehouse for the Asunafo cooperative. Credit: Adom Cocoa

Borehole and water tank built by the Asunafo cooperative. Credit: Adom Cocoa

Rebuild Facility's funding targeted ACFMU farmers who supply Tony's Chocolonely through Adom Cocoa.

IMPACT

The Rebuild Facility returnable grant was the catalyst for the commercial viability of Adom Cocoa. Being associated with international funders like funders like BMUV through the Rebuild Facility positioned Adom Cocoa as a trustworthy and investment-ready company. This led to Adom Cocoa receiving €500,000 financing from Didwa (a registered company of Cocoasource in Ghana), for the 2022 season, shortly after receiving the returnable grant.

The combined funding from the Rebuild Facility and Didwa allowed Adom Cocoa to achieve the 500 MT minimum cocoa volume required to qualify for COCOBOD financing. As a result, Adom Cocoa successfully secured COCOBOD funding for the next season.

The returnable grant also allowed Adom Cocoa to reach impact targets in the Rebuild Facility's 3 categories: finance mobilised, livelihoods, and environmental impacts.

Private finance mobilized:

The total revenue generated through Rebuild funding enabled Adom Cocoa to undertake FLO-cert Audit preparation exercise in July 2022, train staff, board members and other cooperative leadership on Adom Cocoa's policies and operational manual.
Revenue generated also helped cover the operational cost of onboarding new cooperatives joining Adom Cocoa.

Livelihoods impact:

The returnable grant directly improved 1,948 farmers' livelihoods. Farmer incomes increased mainly from the premiums from their certified beans, and Adom Cocoa's profit-sharing model.
Increased working capital from the grant led to an increased revenue of EUR 150,444 through premiums distributed to members, in addition to shareholder dividends.

The additional working capital made available to Adom Cocoa allowed it to use other resources to supply coconut seedlings, as well as start-up materials for poultry and vegetable farming to provide farmers with additional income streams.
Farmers gained higher confidence in the Asunafo farmers union, which reduced side-selling. Further, it encouraged more farmers to join the union.

Environmental impact (Forests protected, afforestation and agroforestry):
Before the Rebuild Facility grant, ACFMU farmers had deforestation-free cocoa certification. The union had also planted 50,000 economic tree seedlings on 6,159 Ha of cocoa farms as part of agroforestry efforts. During the implementation of the grant, Adom Cocoa was encouraged to strengthen its deforestation-free cocoa strategies and join the Ghana Cocoa Forest REDD+ Programme.

As a result, Adom Cocoa set up a new Sustainable Land Management strategy and intensified efforts to adopt climate-smart practices on all member farms. Member cooperatives collectively raised and distributed about 160,000 economic trees for planting on cocoa farms. Adom Cocoa also officially joined the Ghana Cocoa Forest REDD+ Programme (GCFRP) and is actively restoring formerly degraded forest within the Bia-Juaboso landscape. So far, 200 hectares of formerly degraded forest have been restored.

Adom Cocoa trained 2,876 farmers, its management, staff, and contractors on climate-smart agriculture, Good Agricultural Practices (GAPs) and governance policies implemented as part of the grant due diligence process.

Through continuous training of members on climate-smart agricultural practices, about 30% of new farms established by members are adopting modern farm practices while old farms are adopting sustainable land management practices.


Adom Cocoa farmers cultivate coconut trees for additional income. Credit: Adom Cocoa.

"We believe that due to Rebuild Facility funding we received, side selling was reduced drastically, making the members have more confidence in Adom than our competitors. Therefore, we are confident with this partnership and admitting new members is workable."

Patrick Owusu,
General Manager, Adom Cocoa.

Lessons from Ghana

Adom Cocoa's high impact and scalability.

As a grantee, Adom Cocoa achieved positive results within a relatively short period, performed very well in terms of grant management (governance, reporting and repayment), and demonstrated high potential for commercial success and scalability. These are attributable to Adom Cocoa's farmer-first model and sustainability-focused approach, as well as the Rebuild Facility's due diligence process and close-relationship with the grantee throughout implementation.

Although Adom Cocoa is a new company, its member cooperatives like the ACFMU have a longer history of sustainability and mission-aligned supply chain partners that shape Adom Cocoa's mission. As a result, the Rebuild Facility's push for Adom Cocoa to deepen their focus on the sustainable cocoa market and increase agroforestry efforts was well-received and relatively easy to implement.

With the institutional will in place, Rebuild Facility's due diligence process allowed Adom Cocoa to build the internal capacity for compliance with international standards, positioning them to benefit from the international market and meet stronger deforestation regulations in cocoa. The Rebuild facility also provided exposure to and experience working with international financiers and impact investors.

With the ongoing second-round funding from the Rebuild Facility, Adom Cocoa can leverage gains from the first round to achieve faster and more impactful success.

Foreign exchange loss and risks to grantees.

The grant was scheduled for repayment after six months of disbursement, in October 2022. However, due to the rapid devaluation of the cedi, Adom Cocoa repaid the grant in July, 3 months earlier than scheduled. At the time Adom Cocoa received the grant, the market rate of the cedi was 8.4 to the euro. When Adom

Cocoa repaid the grant in July, rates had gone up by 30%, at 12 cedis to the euro. By October 2022, the cedi had lost 52% of its value and was named by Bloomberg as the world's worst performing currency.[xii]

In response to this, Adom Cocoa developed a risk mitigation plan where the euros received as premiums from Tony's Chocoloney would be reserved (after releasing equivalent Cedi premiums to farmers) to repay the grant at the end of the season. Adom Cocoa was able to accumulate the necessary foreign currency to repay the Rebuild Facility at the end of the first round of funding. Adom Cocoa had also achieved its grants targets quickly; therefore, it was reasonable to repay the grant before its October due date to avoid further exposure to worsening exchange rates.

The experience with Adom Cocoa highlighted the potential for the Rebuild Facility to offer technical assistance on tailor-made risk mitigation planning for grantees, where grantees could receive support to develop workable solutions to manage risks, as experienced in Ghana. COCOBOD sets the cocoa purchase price at the top of the season in cedis, and LBCs conduct sales in local currency. However, grantees' payment obligations to the Rebuild Facility are denominated in euros at fluctuating rates. When the Ghana Cedi weakens, as seen in 2022, the grantee would have to shell out higher amounts of cedis than initially planned to repay the grant, potentially leaving them worse off.

Considering this and ongoing global economic uncertainty, the Rebuild Facility can reduce vulnerable grantees' risk in the future by exploring strategies like currency hedging, exchange rate ceilings, and recycling funds more than once within a funding window, depending on the circumstances and needs of the grantee.

Currency hedging can be done through requiring grantees in unstable economies to enter into hedging contracts with their banks to acquire a set foreign exchange rate at the future repayment date, regardless of actual rates at the time of repayment. Alternatively, the Rebuild Facility may place an exchange rate ceiling for such grantees, allocating a small portion of the grant to absorb losses from fluctuations. Here, the Rebuild Facility could potentially receive less than the disbursed amount at the end of the funding period in cases where actual rates are above the exchange rate ceiling.

The Rebuild Facility could also allow subgrantees to use the grant two or three times within the funding period, subject to the availability of cocoa beans in the harvest season. In Adom Cocoa's case, the exchange rate risk management plan developed with the Rebuild Facility grant team revealed that they could repay the grant after one purchase round with no losses only where the cedi devalued by around 5%. After a second purchase round, they could absorb 10-15% cedi devaluation with no losses. Upon a third purchase round within the same funding window, Adom Cocoa would make enough revenue to cover any cedi devaluation rate. Therefore, allowing subgrantees to reuse the funds more than once within a grant period could potentially unlock more revenue and secure the incomes of more farming households.

However, unlocking these benefits would require releasing funds to the grantee early in the harvest season when there is an abundance of cocoa beans available for purchase.

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