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Eleonora Escalante Strategy
presents
the Summer Saga of the year

Cacao and Coffee 101.

Success strategies for Small Farm Holders

Episode 5.
New Models of Ownership and Corporate Governance

www.eleonoraescalantestrategy.com

Cacao and Coffee 101.
Success Strategies for Small Farm Holders

Next saga:
Human Talent:
From Feudal Slaves to Digital Beggars.
As of October 1st

Outline Calendar *One Season: From May 22nd to September 11th, 2026*

22-May Episode 1 Introduction	29-May Episode 2 A new philosophy beyond circular economy	5-June Episode 3 Sustainability: Beyond caring for the land Part I	12-June Episode 4 Sustainability: Beyond caring for the land Part II	17-22 June Teacher´s week Pedagogical Pause El Salvador Happy Teacher's Day	26-June Episode 5 New Models of Ownership & Corporate Governance
3-July Episode 6 Customer Segments	10-July Episode 7 Value Propositions I	17-July Episode 8 Value Propositions II	24-July Episode 9 Distribution Channels	31-July Episode 10 Certifications Quality Control FAIRTRADE	1-9 August Annual Holiday to Honor San Salvador the Divine Savior of the World
14-August Episode 11 Key Resources	21-August Episode 12 Revenue Streams Cost Structure	28-August Episode 13 Competitiveness, Research & Innovation	04-Sept Episode 14 Financing & Access to Capital	11-Sept Episode 15 Key Partnerships	18-September Episode 16 Epilogue Summary Conclusions Research Agenda

This outline is subject to change if the author considers it appropriate for your learning experience.

Eleonora Escalante Strategy
State of the Art Corporate Strategy

New Models of Ownership and Corporate Governance

AGENDA

Cacao and Coffee 101. Success Strategies for Small Farm Holders

1. Glossary Equity-financing terms
2. Connection between the AOC System and the Measure of Disaster Risks
3. Existing financing programs for coffee-cacao small farmers
4. Three new ownership models & structured finance.

Photo Source: https://www.renewablematter.eu/en/lavazza-introduces-the-first-circular-transition-centre-for-coffee

New Models of Ownership and Corporate Governance

Glossary Equity - Financing Terms

All the references cited and used for our inferences are shown in slide 18-19

Most of the premises of Ownership in any venture should be analyzed from the perspective of risk allocation: who will bear what risk, what proportion of it, until when, and the respective risk mitigation measures. Equity ownership can´t be measured only from the side of the sponsors (owners of the land and crops), but also from the side of the lenders and other financing players (as the government which expects taxes).

- **Balance Sheet Finance:** The company uses the corporate finance products to obtain needed funds. These are long-term debt, equity share sales, etc. In the case of debt, the lending decision is based on the overall balance sheet, projections of the profit-loss accounts and cashflows. The entire company is the focus of the credit decision.
- **Asset-Based Finance:** The focus here is on the value of the assets financed.
- **Project Finance:** It refers to a nonrecourse or limited recourse financing structure in which debt, equity, and credit enhancement are combined for a project, in which lenders as credit appraisals on the projected revenues from the project, rather than the general assets or the credit of the owner of the project (facility, productive land, etc.): The collateral is the revenue-producing contracts and other cash flows generated by the project.
- **Non-recourse debt:** The project sponsor (owners) do not have direct legal obligation to repay the project debt or make interest payments if the project cash flows prove inadequate to service debt.

Political Risk	Financial exposure to uncertainty as a result of the politically or social upheaval generated changes, including unfavorable government actions and nationalization.
Commercial Risk	Marketable nature events occurring or not of which have the potential to affect the technical or economic feasibility of a project. These events are nonpolitical in nature.
Currency Risk	The difficulties found by a foreign borrower on foreign affiliate in making future payments due in a currency other than the currency in which revenues are earned. Examples: currency devaluation risk, exchange rate risk.
Operational Risk	Management, expertise, soil, technical risks all together. It is the risk of loss as a result of operational errors or omissions, process failures, inadequate controls, other human error, and/or failures of underlying support systems.
Financial Risk	Defined as the potential for systemic instability or financial loss. These are classified in several types: **Credit Risk:** The risk of the borrower to meet its financial obligations (interest payments and scheduled amortization). **Liquidity Risk:** The risk that cash in hand (available cash resources) is insufficient to meet the short-term needs of the project or company **Incomed Risk:** The risk that annual income may be insufficient to cover its annual expenditures. **Interest Rate Risk:** The risk that future cash flows will fluctuate because of changes in market interest rates

New Models of Ownership and Corporate Governance

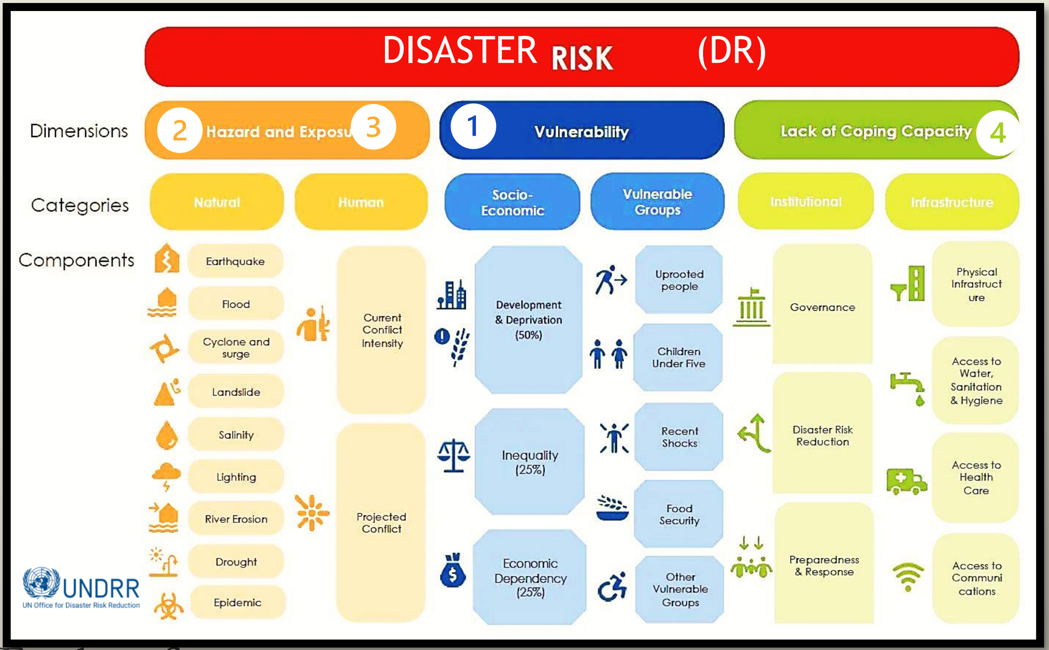
Glossary Equity - Financing Terms

The ownership of a coffee or cacao farm is measured by the will of the owner to face and mitigate all the risks associated with its production and value chain.
Risks are measurable possibilities of losing or not gaining value in each of the stages of the value chain of an endeavor.
In the case of the upstream small-farmers, their risks are quantitively measured under different scenarios, while the uncertainties can´t be measured. This idea is crucial, because every small farmer has a particular mix of risks.

Inventory Risk	Possibility that a product price changes, becomes obsolete or other factors that shrink the value of inventory
Systematic Risk	The risk affecting an entire business or country, regional, global industry, not just one company.
Unsystematic risk	The one-time occurrence that may affect a single property or business, such as fire.
Natural Disaster Risk	The potential loss of life, injury, or destroyed or damaged assets which could occur to a system, society or a community in a specific period, determined probabilistically as a function of hazard, exposure, vulnerability and capacity.

According to the United Nations Disasters Risks Reduction, a disaster risk holds 4 components:

UNDRR
UN Office for Disaster Risk Reduction



All the references cited and used for our inferences are shown in slide 18-19

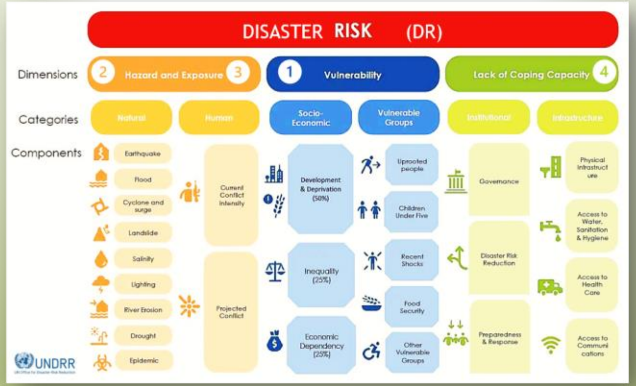
Cacao and Coffee 101.
Success Strategies for Small Farm Holders

New Models of Ownership and Corporate Governance

Connection between the AOC system and the measure of disaster risks

All the references cited and used for our inferences are shown in slide 12-13

Each small farmer is obliged to learn and acknowledge his or her matrix of risks associated to his/her land.
The system of an **Appellation of Origin Contrôlée (AOC)** is the mechanism or methodology for which each small farmer can also measure all the risks components of the "terroir" of his/her land. It is important to quantify all the risks associated with the land, of which the disaster risks are the most relevant.
Can you see the connection between AOC system and the measure of disaster risks?



There is a link

The AOC is the honest base from which the terroir of each small farmer can be measured. However, in the context of climate-disaster risks, there are other variables that should be considered for each cacao and coffee plot.
The financing and the ownership structure of each farm will be tied to these variables.

AOC Terroir Variables Assessment for coffee and cacao crops

- Environment regulations and compliance
- Air Quality Control
- Moisture Control
- Rainfall and Stormwater management
- Waste Residual Management
- Soil Management
- Sunlight/ shade Management
- Temperature Management
- Wind mitigation
- Degree of optimization in matching the variety with the land
- Any other terroir bioclimatic index applicable

Facing Disaster Risks oblige all farmers to consider new bioclimatic variables of terroir in its respective crops.

New Models of Ownership and Corporate Governance

Connection between the AOC system and the measure of disaster risks

All the references cited and used for our inferences are shown in slide 18-19

The Terroir is more than a Geographical Denomination for Marketing purposes. The system of an Appellation of Origin Controlée (AOC) is the mechanism or methodology that must be used as a profound study of the soil, air, moisture, rainfall-storm water management, sunlight-shade management, temperature control, wind and all the rest of bioclimatic risks that affect the production of the coffee and cocoa crops for a specific farm. There is a link between product, farmers and place beyond the Geographical Indicators

The AOC system for coffee and cacao is not designed as an Indication of Origin (GI or IS).
The cocoa and coffee beans are the fruits of the terroir and need to be subject to legal and environmental regulation. Let me explain certain buzzword and acronyms that requires your understanding to avoid syntaxis mistakes of the **Appellation d´origine contrôlée**

GI	IS	AO	PDO	PGI	TRIPS	IGO
Geographical Indications (GI): Indications which identify a product as originating in the territory , or a region, or locality, where a given quality, reputation or other characteristic of the product is essentially attributable to its geographical origin.	***Indication of Source (IS):*** It is a generic sign that signifies the product´s origin fits with a geographic place on the map of the world (country, region or specified place). Examples: Made in China. Product of Papua Guinea. It functions as a generic trademark, a minimalist regulation of truth telling about the origin of the product	***Appellation d´Origine Controlée (AOC) France:*** Products are uniquely linked to specific regions and its terroir (influence of climate, weather, soil-terrain, etc. Products whose natural qualities depend on those characteristic features and have been identified by competent authorities in the country of origin with an institutional recognition.	***EU Protected Designation of Origin (PDO):*** Product names registered as PDO are those that have the strongest links to the place in which they are made. Every part of the value chain: production, processing and preparation process must take place in that specific region. Example: Kalamata olive oil made with Kalamata olives raised in Greece, with all value chain made there.	***Protected Geographical Indication (PGI):*** PGI indicates the relation between the specific geographic region and the name of the product, where a particular quality, value chain section, reputation or other characteristic is essentially attributable to its geographical origin. At least one of the stages of value chain placed in the region	***Trade Related Aspects of Intellectual Property Rights (TRIPS).*** It is one of three core treaties managed by the World Trade Organization (WTO). TRIPS obliges countries to establish and enforce a minimum level of protection for intellectual property (IP) rights. It has a framework for dispute mediation and implementation of national IP regulations.	***Indications of Geographical Origin (IGO):*** IGO was adopted by the WTO (2001) to refer to a generic common denominator to refer to the various terms used to indicate the geographical origin of goods, to avoid confusion with specific terms that are otherwise legally defined, e.g. geographical indications (GI), indications of source (IS), and appellations of origin(AO).

New Models of Ownership and Corporate Governance

Connection between the AOC system and the measure of disaster risks

All the references cited and used for our inferences are shown in slide 18-19

The terroir provides the foundation for a specific AOC.
The variables to measure the terroir in France are:

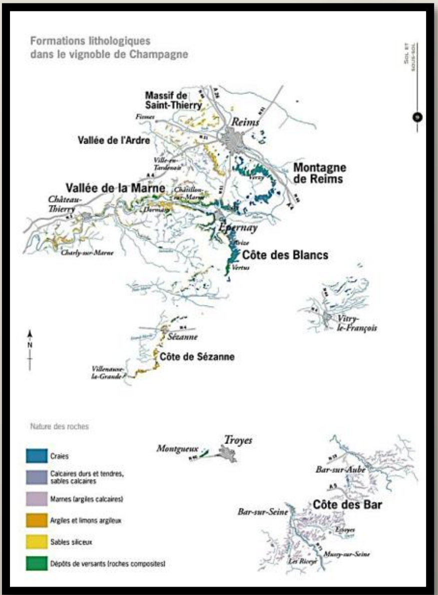
1. A geographic location of land & elevation
2. Soil composition ad structure
3. Mineral content of the soil
4. Wind velocity
5. Frequency of fog
6. Average high and low temperatures
7. Micro-climates
8. Rainfall-drainage-irrigation techniques
9. Sunshine degree and variation in orientation
10. Slope
11. Human practices of cultivation
12. Know-how of experience of the farmers.
13. Yields per hectare
14. % of sugar, level of alcohol
15. Blends of varieties specified.
16. Tasting categories.

The "Terroir" of the crops (cacao or coffee) is the crucial "ingredient" in the process of legitimation of quality of the beans. The "logic of the terroir" implies that the beans must be subject of regulation. France created the AOC. The members of the European Union have created the PDO.

Appellation d´Origine Controlée (AOC) For France ⟷ Protected Designation of Origin (PDO) For European Union

Each nation or region of coffee and cacao must create their own AOC legitimate regulation of the beans.

Example: Champagne, France.



- The regions of Champagne registered under an AOC are characterized by its unique soil around Reims and Épernay (100 miles from Paris) where there is a chalky soft, porous top soil, rich in minerals and fossils. The northerly climate is subject to extreme variations of heat and cold. It appears the mix of these two factors (soil and climate) make the quality of the varieties of grapes (Chardonnay, Pinot Meunier and Pinot Noir). Natural compost is used as fertilizer.
- The manufacturing methods and skilled personnel can be copies, but not the soil/climate affecting the quality of the grapes.
- The vineyards of Champagne are not owned primarily by the 110 Champagne commercial houses, but by 15,000 growers who have long-term contracts with the houses.
- Around 5,000 vignerons (growers) keep their grapes and make Champagne themselves with 5 designations (see next page).

IS   IS   IS

- Please do not confuse the GI (geographic indication) or IS (Indication of Source) with an AOC or PDO.
- Marca País or trademark or Made in "X nation" is not an AOC. It is an IS (indication of Source).
- A certification with Fairtrade or other entities doesn´t provide an AOC to the beans.
- The measure of the terroir involved in an AOC or PDO is more complex, and it requires the Nation or the Regional (a conglomerate of nations) legitimation, validation, and authorization with standards accepted by the EU and USA.
- "The Terroir refers to an area or terrain (usually small) where the soil and microclimate impart distinctive qualities to products" (Elizabeth Barham).

New Models of Ownership and Corporate Governance

Example: Champagne, France.

Connection between the AOC system and the measure of disaster risks

Variety is the spice of life"

All the references cited and used for our inferences are shown in slide 18-19

The terroir provides the foundation for a segmentation of products.
The vignerons (farm growers) know by heart and experience that they are not selling grapes; they are selling a specific AOC category of bubbly champagne.
The blending of the grapes is the art of the winemaker.
The goal of the producers is not the raw material of one grape variety, but the mix of blending them in specific percentages to create a particular formula year over year.
This only happens when standards are complied, regulations are met, and no fraud is accepted in the industry.

The "Terroir" of the region of Champagne allows the foundation of different categories of vineyards and flavors.

Appellation d´Origine Controlée (AOC)
For France

↔

Protected Designation of Origin (PDO)
For European Union

Category 1: Type of producer (Fine print)

Type	Description
NM	Négotiant-Manipulant. Producers that buy grapes to make wine
RM	Récoltant-Manipulant. Growers that make and sell wine from their own grapes
RC	Récoltant-Coopérateur. Growers that make and sell with cooperatives
CM	Coopérative-Manipulant: Gatherers of growers that make and sell on behalf of its members
MA	Marque d´Acheteur: Third Party Brand not related to production.

Category 2: Level of Vintage.

Factors	Non vintage	Vintage	Prestige Cuvée
Vineyards Ratings according to quality	80%-90% rating	90%-100% rating	100% only
Grapes Pinot Meunier included in Chardonnay?	Almost always	Sometimes	Rarely
Blending Quality	Access 30-60 still wines several years	Access to 30-60 still wines from one year	Only the best wines from best vineyards.
Aging Legal minimum	15 months in bottle	3 years in bottle	4 to 7 years bottle

Category 3: Style of body or weight of wine

Type	Brands
Light	Abelé, Besserat de Bellefon, Bricout, Charbaut, Jacquesson, Lanson, Taillevent
Light to Medium	Ayala, Billecart-Salmon, De Venoge, Laurent-Perrier, Nicolas Feuillatte, Perrier-Jouet, Pommery, Tattinger
Medium	Charles Heidsieck, Delamotte, Deutz, Heidsieck-Monopole, Jacquart, Perrier, Moet &Chandon, Mumm, Philip-Ponnat, Piper-Heidsieck, Pol Roger, Salon
Medium to Full	Alfred Gratien, Gosset, Henriot, Sélosse, Ruinart, Veuve Clicquot
Full	Bollinger, Krug, Louis Roederer.

Category 4: Level of dryness (% sugar)

Type	Description
Extra Brut	Very-very dry. 0-0.6% sugar
Brut	Very dry: 0.6% to 1.5% sugar
Extra Dry	Extra-Dry Off dry: 1.2%-2% sugar
Sec	Lightly Sweet 1.7% to 3.5% sugar
Demi -Sec	Sweet 3.3% to 5% sugar
Doux	Quite Sweet More than 5% sugar.

Cacao and Coffee 101.
Success Strategies for Small Farm Holders

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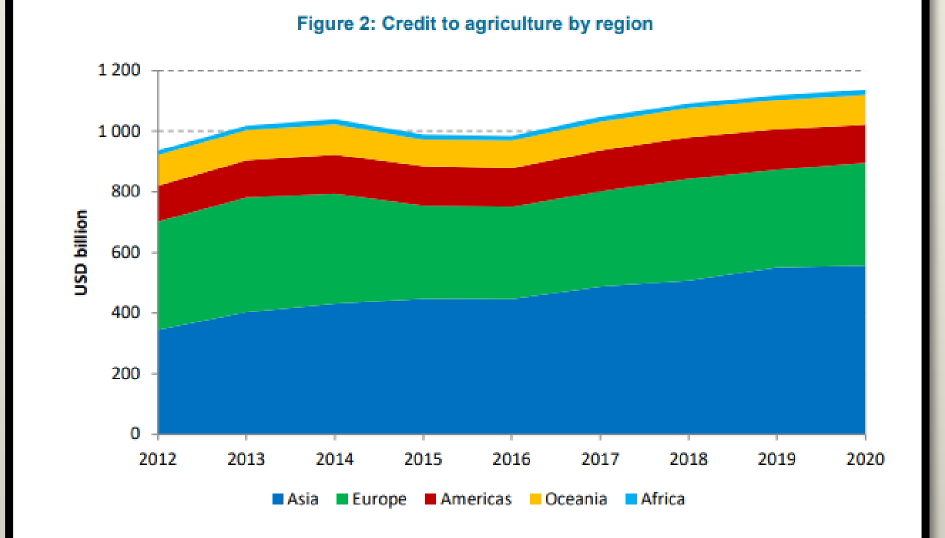
New Models of Ownership and Corporate Governance

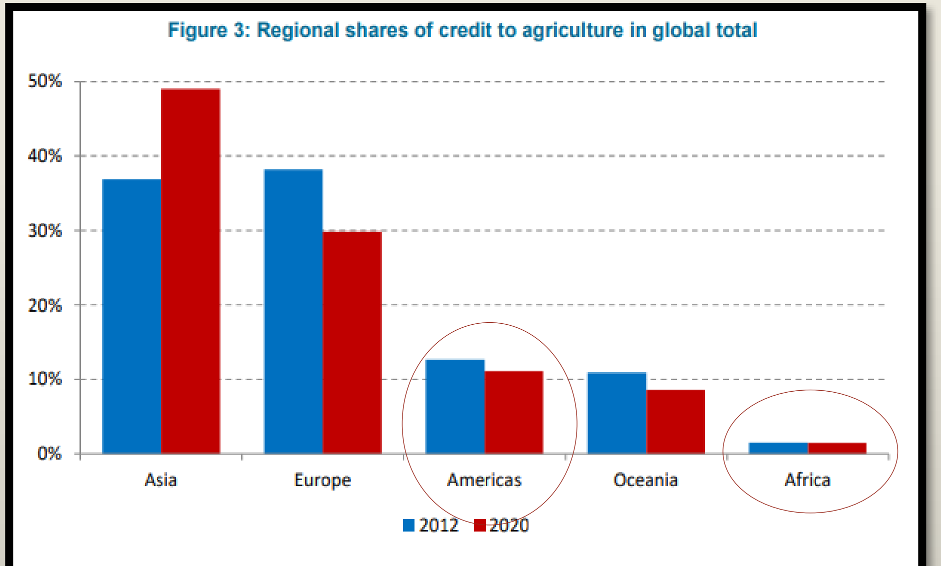
Existing financing programs for coffee-cacao small farmers

Coffee & Cacao and other crops from the tropical belt regions are underserved by good development credit adapted to their climate change conditions.

The credit to agriculture is not something that banks like to do in the tropical belt regions (América and Africa).



Source: FAO. 2022. FAOSTAT: Credit to agriculture. In: *FAO*. Rome. Cited February 2022. http://www.fao.org/faostat/en/#data/IC



Source: FAO. 2022. FAOSTAT: Credit to agriculture. In: *FAO*. Rome. Cited February 2022. http://www.fao.org/faostat/en/#data/IC

Source: https://openknowledge.fao.org/server/api/core/bitstreams/a7fd67b7-56a4-4270-951d-be6b8530c66c/content

All the references cited and used for our inferences are shown in slide 18-19

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New Models of Ownership and Corporate Governance

Existing financing programs for coffee-cacao small farmers. Main examples.

All the references cited and used for our inferences are shown in slide 18-19

The financing structures of an agricultural commodity production is extremely limited.
Sadly, coffee and cacao were positioned as a bulk grain commodity, without any differentiation. And this is not true. Each bean has a denomination of origin, because of the terroir mix.
With an AOC system, the coffee and cacao beans can be differentiated at the source of the upstream, changing the traditional international pricing.

Now let´s acknowledge what is available for coffee and small farmers.

The commercial banking value proposition for small farmers.

Example. Rabobank.

Rabo AgriFinance

Corporate Finance Credit

Wholesale

Typical traditional products for bigger established players.

- Credits: short, medium and long term.
- Working capital financing
- Value Chain Finance (VCF)
- Syndicated loans
- Green loans
- Sustainbaility linked loans
- Mergers and Acquisitions.
- Exchange-Interest Rate derivatives.

Rural

Rabo Agrifinance LLC is one of the most innovative pioneers' banks for farmers. It extends financing for clean energy, equipment, input (seeds, fertilizers), operating cashflow loans, real estate loans, agricultural insurance, commodity risk hedging, and interest rate hedging.
The tailor-made solutions are always adapted to the terroir of the crops.
https://www.rabobankna.com/agricultural-financing/
Rabo Rural Fund: This fund was created to support farming cooperatives and small and medium enterprises in poor nations. It helps mainly with trade finance and guarantee schemes.

Banking for Food

AGRI3Fund: established with the UNEP, in collaboration with IDH (The Sustainable Trade Initiative) and FMO (the Dutch Entrepreneurial Development Bank) and other financial players, depending on the deal. *https://agri3.com/*
Some deals of Sustainable Agriculture Finance with participation of Rabobank.

1. Renova Pasto 2.0, Brazil. $5million, 3 years period of grace.
2. Samuel Locks, grain and cotton producer, Brazil. $20 million 10 years loan with guarantee
3. Lindolpho Pio de Carvalho Dias group (LPCD), Cattle, Brazil. 5 million 10 Years loan.

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Success Strategies for Small Farm Holders

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New Models of Ownership and Corporate Governance

Existing financing programs for coffee-cacao small farmers

All the references cited and used for our inferences are shown in slide 18-19

Coffee & Cacao are sold through commodities futures contracts.
The coffee traders (usually intermediaries who buy the beans from the small farmers) promise to deliver the beans by a certain date at a predetermined price.
The Intercontinental Exchange, known as ICE, began in 2000 as an electronic platform for trading energy futures and options.
ICE is now the platform for selling coffee and cacao beans. ICE is the e-marketplace were coffee and cacao beans are transacted by producers, exporters, trade houses, importers and roasters as well as managed funds and both institutional and short-term investors.

Now let´s acknowledge what is available for coffee and small farmers.

The development financing institutions value proposition for small farmers.

Example. IFAD

IFAD INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

https://www.ifad.org/

Investing in Rural People

Programs & Projects

- Rural finance for coffee comprises different projects related to climate change, rural finance, market access, value chain development support, etc.
- When it comes to cacao and coffee, the focus has been to help farmers to certify their farms under Fairtrade, Organic Rainforest Alliance, UTZ Certified, etc. Purpose: teach sustainable practices and promote “caring for the land”.
- Risk insurance has been promoted with the IFAD-INSURED program.
- Other initiatives available.

Grants

- The grants are non-reimbursable funds given to different players: NGOs, research and academic entities, producers, and private companies.
- Eligibility for the grant is dependent on the nation as an IFAD member state.
- Most of the grants are given to strengthen the small farmers capacities in technical aspects, value chain development, land caring and regeneration, entrepreneurship, building capacity training, etc.

Initiatives and Facilities

- Climate finance to small-holders
- Agricultural Research and Development
- Agri-Business Capital Fund
- FARMS program for migrants, refugees, and displaced
- Insurance programs
- Investing in livelihood resilience and the soil
- Rural Women economic Empowerment
- Other initiatives…

IFAD building in Rome.

IFAD is the United Nations specialized agency created in the 1970s decade to promote agricultural development in developing nations.

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New Models of Ownership and Corporate Governance

Existing financing programs for coffee-cacao small farmers

The Coffee, Sugar and Cocoa Exchange (CS&CE) was a commodities exchange established in September 1979 to facilitate commodity futures trading. The CS&CE merged with the New York Cotton Exchange in 2004, to create the New York Board of Trade (NYBOT). This entity was bought by the Intercontinental Exchange (ICE) in 2007. As of 2024, the coffee and cacao beans are traded at the ICE Futures U.S. Both futures and options are actively traded there.

All the references cited and used for our inferences are shown in slide 18-19

Now let´s acknowledge what is available for coffee and small farmers.

The Word Bank (IFC) value proposition for small farmers.
Example: IFC

IFC International Finance Corporation WORLD BANK GROUP
Creating Markets, Creating Opportunities

IFC Agriculture and Forestry

Investing in Food Security & Safety

- The purpose of the IFC is to serve big-ticket deals, usually above 5 million dollars with big partners in the coffee and cacao sectors which then offer solutions to small-farmers.
- There are 4 programs in this area:
  1. AgriConnect | World Bank Group
  2. Food Systems Development Program (FSDP)
  3. Global Agriculture and Food Security Program (GAFSP)
  4. Global Food Safety and Food Loss Prevention Advisory Program
- Examples of IFC Deals:
  - Nespresso Sustainability Innovation Fund: $4.1 Million for small farmers in Uganda and Zimbabwe and $6 million for the Biocarbon Fund Initiative for Sustainable Forest Landscapes in Ethiopia and Kenya.
  - GAFSP, IDB, Ecom, Exportadora Atlantic and Starbucks $30 million loan to renew coffee plantations and eradicate rust in Nicaragua.
  - Volcafe and ABSA $60 million commodity trade finance facility for working capital to 75,000 farmers.

Promoting inclusive development

- Providing skills that help untrained small farmers and enterprise owners (specially women) to administer their farms, yields, pricing, commercial patterns and trends, risk management tools, etc.
- The main setting is the ALP: Agribusiness Leadership Program has been the main product in this area. https://www.ifc.org/en/what-we-do/sector-expertise/agribusiness-forestry/promoting-inclusive-development/agribusiness-leadership-program
- Other programs are: Last Mile Retailer and Women in Agribusiness Value Chains

IFC is the financing-technical assistance organization that helps the midstream major players and banks, which then help the upstream small farmers in big-scale deals (above 5 million dollars).

Supporting sustainability

- This pillar is about financing banks or midstream coffee-cacao entities to help small farmers in promoting climate smart agriculture, rehabilitation of degraded lands, regenerative practices of agriculture, certification of farmers, help the farmers to meet strict environmental and social standards with the beans., provide long term financing, insurance products, training about sustainable agroforestry practices, and blended finance.
- Examples of deals: Cocoa supply Chain in West Africa, Andean Cacao plantation expansion in Colombia, Mercon Group-ECOM financing, Blended Finance in Central America.

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New Models of Ownership and Corporate Governance

Existing financing programs for coffee-cacao small farmers

ICE owns stock, commodities, futures and options exchanges in the United States, Europe, Canada, and Singapore. ICE bought the New York Stock Exchange in 2012 for $8.2 billion. The ICE now holds on to and controls the remnants of the CS&CE.

Now let´s acknowledge what is available for coffee and small farmers.

The Green Finance value proposition for small farmers.

Two Examples:

Food Securities Fund Accountable Cocoa and Coffee Tranche (FSF ACCT)

GREEN CLIMATE FUND

- The FSF ACCT facility is a deal of 212 million USD to provide working capital, pre-harvest finance and technical assistance to small farmers operating in cacao, coffee and other crops small farms in 10 countries: Cote d´Ivoire, Uganda, Perú, Nigeria, Ghana, Dominican Republic, Ecuador, Guatemala, Rwanda, and Costa Rica.
- The business model was tested for 4 years. It has mobilized investments, guarantees and intl. midstream cacao-coffee players to invest on it.
- The financing is called FSF loans: the offering of pre-harvest finance and working capital is conditioned to solve issues of soil degradation, crop price hedging, water resource protection, deforestation reduction, improvement of beans quality, compliance with regulatory requirements, and the application of operational risk management by the farmers.
- The Technical assistance purpose is educational: To teach the farmers about the supply chain factors on how and what to do to implement climate smart practices: mixed agroforestry, drought resistant crops, parametric insurance products, land tenure protection, certification of the supply chain, etc.
- The interesting thing about this Fund is how the farmers commit to climate smart agriculture in exchange for working capital.
- $50 million are coming from the United Nations GEF providing $40m in junior equity and $10m in senior equity for the fund’s Accountable Cocoa and Coffee Tranche (ACCT), $6 million in grants (technical assistance). The rest ($156 million) is expected to be raised from private co-investors.
- Example of this structure that is already being rolled out in El Salvador:

UN environment programme gef

Blended Finance Facility for Climate Resilience in Coffee and Cacao Value Chains: CC-Blend

For more information visit: https://www.unep.org/gef/projects/blended-finance-facility-climate-resilience-coffee-and-cacao-value-chains-cc-blend

All the references cited and used for our inferences are shown in slide 18-19

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New Models of Ownership and Corporate Governance

Three new ownership models & structured finance.

The land is never touched as a collateral by the credit deal. Covenants should be created to always keep the land under the farmer ownership.

The financing structure comes first before the commercial structure. Credit enhancement for development financing is completely different than the one extended by commercial banks. We recommend the DFIs for these type of deals.

1 *Small Farmers Credit Enhancement Facilities*

- Small Farmer Equity (land) not shared by the farmer in the deal. The land remains intact, even in event of climate disasters (drought, floods, fire, etc). 100% shares remain in the farmer´s organization.
  A Credit Enhancement is the tool for excellence built for poor nations by the capital markets.
- There are different formats of credit enhancements. Most of them are backed by the government, and rarely by institutional funds. However, there are certain initiatives, in which the credit enhancement occurs because a multilateral organization of the United Nations create it. The issue with credit enhancement facilities is that they have been created it using the philosophy of the commercial structure before the development financing structure. Once this occurs, we land into the same traditional Agri finance structures of lending.
- Types of credit enhancement facilities that can be used in the coffee and cacao sectors with the small farmers of the Tropical Belt:

Total or Partial Credit Guarantee Scheme

The third-party guarantor could be private midstream European processors of cacao and coffee players. Or a multilateral, or the government of the micro-region where the small farmers are producing the beans.
Most of the risks associated to cacao or coffee farm are negotiated to be taken by multiple guarantors.

Comfort Undertakings

The comfort letter is an implied guarantee in which the guarantor takes the risk concern of the lender. In the case of natural disaster like floods, riverbank erosion or droughts (all climate change events), this may include a covenant of a coffee or cocoa European processing multinational with an excellent rating to continue with the project until the farmers could manage to reshuffle and continue with the production of the beans.

Blended Finance

This term is wrongly used to finance digital systems nowadays. A blended finance deal can´t happen without strict regulatory frameworks, supervision and control from the government, because this entity is the First-loss capital institution (public funds act as shock-cushion protecting private investors), and in digital deals, the government is not acting as that at all.
Historically a blended finance is merely a financing structure that combines different types of funds: philanthropic, private capital, public contributions, multilateral development banks, DFIs, institutional investors as pension funds, etc.

Insurance

This is an instrument well known by the midstream importers of beans. It is used in advanced loss of revenue, marine cargo transportation, trade disruption (political risks, transit and force majeure), or for export financing requirements.

Warranties

Warranties must extend protection to the small farmers after the arrival of the beans to Europe or USA is completed. The warranty is given because the flavor of whole-sealed beans are subject to change over time after 6 months (coffee) or 1-3 years (cacao)

Indemnification Obligations

This is a contractual instrument allocating liability among those who may be liable for a loss in advance. This obligation must be designed to protect small farmers against the actions of several scenarios. It is a shifting risk instrument.

All the references cited and used for our inferences are shown in slide 18-19

New Models of Ownership and Corporate Governance

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Three new ownership models & structured finance.

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A project climate finance can raise debt in the capital markets. Bond offering to the public should receive a rating by a recognized rating agency. The structuring of the deal by raising partial debt at capital markets can be managed under project finance structures. A global coffee or cacao climate-change bonds issue could be extremely appealing for investors. Take in mind, that it is well proven that more than 30% of the global population drinks 2 or 3 coffee cups per day.

2 *Project Climate Finance for the Tropical Belt cacao-coffee producers.*

- With this structure, the farmers bean harvests of one micro-region with a particular AOC (for example, a micro-region with 500 farmers have obtained an AOC, in which each farm produces 8.80 metric tons of coffee or 10 metric tons of cacao beans). It is the aggregated annual production of the beans (with perfect AOC compliance of quality) that creates the cashflows for the farmers, not the land. The land remains untouched (it is not used as a collateral for working capital or other type of debts).
- The nature of raising this debt is project climate finance, in which the beans are the asset under long term contracts directly with the European midstream players (not passing through ICE as a commodity transaction). For example: the 500 farmers NewCo negotiate the price directly with Nestlé or Barry Callebaut. No commodity transaction involved.
- The complexity of the risk allocation structure requires a project finance structure of many farmers with the same AOC associated in between under a NewCo.
- This is a bundled project climate finance structure in which multiple parties (lenders of first resort, political and climate risk insurers, multilaterals, the government, export credit agencies, etc) decide to share the risks allocation, safeguarding the land of the farmers. This type of transaction is innovative because it implies a risk allocation among multiple parties, based on the quality of the beans. From here the importance of getting an AOC is not superficial. The government legislative and regulatory systems to procure the AOC control and monitoring must be implemented. Since the priority is to keep the ownership of the land in the hands of the farmer. The complexity of the risk allocation structure requires a project finance structure of many farmers with the same AOC under a NewCo.
- The project finance participants should negotiate the risk matrix for the beans production facility. All risks in a project financing must be allocated so a nonrecourse or limited recourse financing is possible. There is a risk reward equation, in consequence the small-farmers are all tied to care for their farms production within a framework accepted by all the parties involved, including agencies as Standard and Poors who will need to learn how to do agricultural assessments for coffee and cacao ratings according to AOC beans. The rating of agriculture debt based on production of cacao beans or coffee green beans of excellent quality is completely different than selling beans as a commodity through exchange traders.

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Microfinance Institutions are not new. The microfinance model consists in provide financing capital (loans) to the excluded poor citizens of societies.
Using the network of microfinance entities to deliver loans for the small farmers of coffee and cacao is a challenge. IT is important to lower interest rates to farmers, below the banks. (high interest rates kill the microfinance purpose).
The only way this model can succeed is with a blended finance structure, in which the credit risk is absorbed by a guarantor.

3 *Climate Change & Refinancing Microfinance*

- Small farmers with properties below 10 ha are usually over-indebted with working capital loans, probably with a mortgage in which the collateral is the land, and with a complex credit history. To add a new loan to address climate change through microfinance with interest rates of 5 bps above the commercial banking offer, is too much burden for the farmers.
- However, there have been certain experiments of blended finance structures as the one of the UN GEF CCBlend in El Salvador.
- Our proposal is a bit different, it is an integral practical solution that requires a funding with almost null interest rate to the Microfinance entities, so, they could lend at low interest rates to the farmers. The components of the loan for each farmer will have three uses of funds:
  1. **Refinancing:** Help the indebted farmers to refinance their current, removing the land as a collateral, by tying the projected bean harvests as a financing security instead.
  2. **New Operational financing** to raise yields, regenerate the soil, water irrigation, and provide indirect shade: This amount is correlated to the number of hectares (if more than 2 farmers decide to associate to work together). It includes working capital requirements (enhanced varietal coffee or cacao of the AOC for the specific terroir of the farm, organic fertilizers, no chemical pesticides, farm labor decent salaries, equipment or a warehouse if needed, etc).
  3. **Climate disasters loan guarantee:** Risk that should be absorbed by a total or partial credit guarantee (unpredictable weather or other climate natural events).
  4. **Technical Assistance of Agriculture/finance management** experts paid by donors. These Agri-finance advisors are crucial, particularly during the first 5 years of the project. They will be residing in the specific micro-region of coffee and cacao and will be available to provide their expertise at any time to the farmers.

Refinancing + New Operational Financing + Climate Disaster Loan Guarantee + Agri-finance Technical Assistance

The low interest rate is important. Microfinance entities can´t charge rates above the commercial banks to the farmers.

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All the variables measured by the AOC terroir assessment are sources of projects that will require climate change financing. Can you see the link that connects the harvests with possibilities of green finance?
Without a doubt we believe that all the farms on the tropical belt will benefit from an AOC system segmentation. Our contribution is to open the eyes to all the global value chain players about it. The upstream pricing commodity mistake must be fixed first. And with it, the transparence of the whole value chain will be correct for all, the upstream (farmers), midstream (European-American processors of the beans), downstream (Final transformers into experiences for the ultimate consumers).

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