

Executive summary of the study

Cost structure and access to finance

of cooperatives collaborating with PRO-PLANTEURS

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Importance of cocoa in Côte d'Ivoire and the project PRO-PLANTEURS.

Côte d'Ivoire is an agricultural country and the largest producer of cocoa beans with a market share of about 41% and an estimated production of 1.98 million metric tons in 2016-17. Côte d'Ivoire's economy grew by about 10% in recent years. However, small cocoa farmers do not benefit from this growth and 72% live below the poverty line.

PRO-PLANTEURS, a cooperation between the *Conseil du Café-Cacao* (CCC), the German Federal Ministry for Economic Cooperation and Development (BMZ), the German Ministry for Food and Agriculture (BMEL) and members of the German Initiative on Sustainable Cocoa (GISCO), is a project seeking to professionalize cooperative societies and their approximately 20,000 cocoa producing members and their families in Côte d'Ivoire. During project implementation an urgent need of cocoa cooperatives became evident, the need to access financial services, specifically financing, giving them the opportunity to invest to grow their business.

Purpose of the study and methodology

The objective of this study was to analyze the possibilities and conditions for access to financing for cocoa cooperatives. On the other side, the study looks into the financial and operational structure of 10 cooperatives selected from the 18 the project collaborates with in its first phase, including the need for credit. The aim is to express an opinion on their possibilities to access credit financing through a financial institution in the short or medium term taking into account the identified available offer of financial services. The analysis also includes an overview of necessary capacity development/support to the 10 cooperatives for them to be able to access credit.

The methodology used is a mix of methods allowing verification and triangulation of the obtained information. A desk study was used as the basis for the development of the interview guides. Quantitative and qualitative data was collected through semi-structured interviews with different stakeholders, including the cooperatives, financial institutions, relevant public authorities and other industry projects and donors. 15 financial institutions of various types, such as commercial banks, microfinance institutions and credit and savings cooperatives as well as social investors were included in the analysis. The 10 cooperatives to be analyzed were selected in collaboration with the stakeholders and based on predetermined objective criteria. The limitations identified during the study relate to the reliability of the information received by the cooperative and the time allocated for the analysis.

The cocoa sector and its recent development

Between 800,000 and 1 3000,000 smallholder farmers in Côte d'Ivoire operate plantations with an average size of between 1,5 and 5 ha and are supposed to feed 8 million people. Certification of cocoa plays a significant role in Côte d'Ivoire with more than 500,000 metric tons of cocoa certified in 2015. However, an observed decline in the demand of certified cocoa deprives cooperatives (and producers) of an important income source.

The Ministry of Agriculture and Rural Development (MINADER) is the responsible authority for the cocoa sector. However, the cocoa sector falls under the competence of the *Conseil du Café-Cacao* (CCC), which was created during the sector reform in 2012. It is responsible for the management, regulation, development and the stabilization of the cocoa price.

Within the institutional framework, the National Agency for the Support of the Rural Development (ANADER) provides agricultural extension services. Its coffee and cocoa program includes five pillars, including Good Agricultural Practices (GAP), supply of inputs to young cocoa farmers, assistance to cooperatives and the fight against swollen shoot. The National Center for Agronomic Research (CNRA) is the main research institute in Côte d'Ivoire, while the Interprofessional Fund for Agricultural Research and Advice (FIRCA) ensures funding for agricultural programs. Nevertheless, FIRCA does not deduct contributions in the coffee-cocoa sector, since this is the responsibility of the CCC.

Since the sector reform in 2012, cocoa prices are defined by a forward auction sale. The farm gate price is set at 60% of the CIF price. While the farm gate prices were increased steadily in recent years, problems in the sector since the beginning of 2017 led to a decrease of the farm gate prices during the interim campaign. It has been fixed at 36% below the price of the previous campaign. This development has a negative impact on cooperatives and their members as well as potentially on the financial institutions that financed the sector. Demand and price forecasts are not unanimous, but foresee only a slight increase of 10% over the next 12 months.

Cocoa cooperative

Much of the region's 2,200 cooperatives in the cocoa sector do not operate according to cooperative principles. Only about a quarter of the cocoa farmers are organized in cooperatives. Cooperatives face stiff competition from intermediaries. The OHADA law regulates cooperatives.

In almost all cases, the volume of cocoa collected by PRO-PLANTEURS cooperatives is declining over the last three years (by up to more than 50%). At the same time, for seven of the ten cooperatives, the number of members has grown considerably since their inception. Only two cooperatives lost members. Nevertheless, women and young people remain substantially under-represented. In general, PRO-PLANTEURS cooperatives have a high turnover, with half of them having a turnover of between 1 and 2 billion CFA francs. As for the net results posted, they are positive in 2015 for all cooperatives. Eight of the ten PRO-PLANTEURS cooperatives undergoing analysis are at least certified by one of the three standards Fairtrade, UTZ or Rainforest Alliance. All cooperatives offer social benefits to their members and communities. However, the extent of these social benefits depends substantially on the volume of activities of each cooperative and on the level of premiums received.

Apart from two cooperatives, all cooperatives have benefited from a pre-financing facility of their buyers during the last campaign showing the confidence of the buyer in a cooperative. Five of the ten PRO-PLANTEURS cooperatives have credit experience ranging from a few million CFA million to several hundred million CFA francs, which shows a level of experience well above the average of cooperatives.

The financial system in Côte d'Ivoire

The financial system in Côte d'Ivoire does not play its role as a financial intermediary. Commercial banks account for more than three-quarters of the financial sector's assets and generally provide only short-term credits. Microfinance institutions and mutual societies, (microfinance institutions and mutual societies) accounts for only 2% of the sector's assets and is therefore marginal in terms of volume. However, in terms of numbers of accounts, with one third of all accounts, it contributes significantly to the sector total. With an average loan amount of around EUR 3,100, the microfinance sector represents less than 5% of the country's total credits. Additionally, the sector's portfolio quality is poor, especially for mutuals and cooperatives. With two-thirds of institutions not complying with regulatory norms, the regulatory authority has started to consolidate the sector. In summary, the macroeconomic role of microfinance remains limited but catalytic at the individual level, especially for the poorest populations.

In Côte d'Ivoire, three operators offer mobile money services. The acceptance of this service was slow at first but has increased and continues to grow with a rate of between 3% and 10% per quarter. With a mobile phone penetration of more than 100% and a weak formal financial inclusion, the country's environment is favorable to the development of digital financial services. Studies also show a great interest of cocoa farmers for mobile money services.

In terms of agricultural financing, only 6% of bank credit is allocated to the agricultural sector, mainly to multinationals, processing and exporting cocoa, with the exception of financing a few large cooperatives. For the microfinance sector, this rate rises slightly to 9.5% of the portfolio. Only 5% of smallholder farmers have credit at a financial institution or supplier.

Commercial banks and agricultural finance

Banks in Côte d'Ivoire offer mainly classic products for retail clients and large companies in the country. The products are mainly distributed through traditional a branch network. Most banks have timidly started to open branches in the country's secondary cities. Some of them have started to develop partnerships with mobile phone companies, but this usually does not go beyond the sale of phone credit and, in some cases, transfers between mobile wallet and bank account. The agricultural sector is a significant part of the banks' portfolio, but customers are mainly major exporters or in exceptional cases very large cooperatives with export licenses. The loans offered are generally large amounts of several millions of EUR loaned to finance cocoa harvest in the short term and guaranteed with a contract of an international buyer.

The decentralized financial system and agricultural finance

The three institutions analyzed allocate between 2% and 12% of their credit portfolio to the agricultural sector, with cocoa being the main crop financed. While UNACOOPEC-CI funds individual producers, Advans and MicroCred focus currently at the level of the cooperative.

However, Advans is developing products to work with individual growers. The products for cooperatives currently focus on short-term financing of the cocoa harvest. The institutions show interest (or are already in the process of) developing products to finance assets.

Social investors / funds and cocoa funding

Nine social investors are active in the cocoa sector in Côte d'Ivoire. The size of their portfolios, their targets and their policies and conditions diverge. Most also focus on short-term financing for buying beans during the harvest. Four funds offer funding for the purchase of equipment, especially trucks. Similar to the banks, a number of funds request an international purchase contract and an export license. This represents the major obstacle for access to financing for the majority of cooperatives in Côte d'Ivoire. Recognizing this limitation, a number of funds consider collaboration with domestic buyers or Ivorian branches of large multinationals. However, three of the funds work with non-exporting cooperatives. These three investors are at the same time the institutions offering the lowest amounts of funding (starting from 50,000 EUR).

Donor and industry projects

Most buyers pre-finance cooperatives during the harvests by providing working capital to buy cocoa beans. These funds, although criticized for being hardly formalized and lacking transparency, are often the only way to finance the collection of cocoa beans for cooperatives.

Several projects have been developed between industry, donors and financial institutions. The Doni-Doni project (Cargill, SIB, IFC) facilitates leasing of new trucks over a period of three years with reimbursements being deducted from cocoa bean deliveries. The Cocoa Challenge Fund (IDH, CCC) has mobilized 5 million EUR over five years to improve the living and working conditions of cocoa producers and cooperatives, inter alia by improving the financial services available offering technical assistance to financial institutions and cocoa cooperatives. The project Finance for Cocoa Smallholders R & R (Rainforest Alliance, Ecookim, Alterfin, ResponsAbility) aims to develop and test a financing model for the renovation and rehabilitation of cocoa plantations.

The public sector and its involvement

Several state-owned banks and the Guarantee Fund for coffee-cocoa cooperatives became bankrupt due to poor management and had to close. Given past failures in the financing of the agricultural sector in general and the cocoa sector specifically, currently there is no direct (credit) financing to the agricultural sector. Instead, the government seeks to remove obstacles for financial institutions wanting to finance the agricultural sector. An example is the joint refinancing program between MINADER and the German KfW Development Bank.

Public funding for the agricultural sector is allocated through subsidies related to seeds and pesticides/insecticides that are made available to producers free of charge as well as the fight against the Swollen Shoot disease. Nevertheless, the quantities of seeds distributed are insufficient and not all producers benefit from it.

Conclusions and recommendations

The analysis shows that it remains difficult to access financial services from the rural areas of Côte d'Ivoire. Few institutions have a physical presence outside major or secondary cities. As

regards access to payment services and savings, the most promising offers for cooperatives and especially individual producers are digital financial services as well as informal savings groups. In terms of access to credit, this analysis shows that in the medium and short-term social investors and microfinance institutions are best positioned to meet the financing needs.

Conditions of financial institutions and opportunities on the offer side

Main conditions for access to financing for cooperatives are the proper registration of the cooperative, an export license, minimum turnover or volume of cocoa collected, a partnership with a buyer, accounting systems as well as the existence of reliable financial statements and governance bodies.

Based on these criteria, two institutions seem to show a high possibility for cooperatives to access funding. Four institutions offer an average opportunity for the cooperatives, since they have one or two basic criteria, which cannot be fulfilled by a large part of the assessed cooperatives in the short term. Finally, there are four institutions that represent only a fairly low possibility for being a potential partner for the PRO-PLANTEURS cooperatives. These institutions have at least two basic criteria that are unlikely to be met by the cooperatives (in the short or medium term).

Characteristics of cooperatives and opportunities on the demand side

Based on the analysis carried out in this study, four of the cooperatives are eligible for funding in the short-term. For three cooperatives, additional efforts must be made (management, good governance) before they can request funding. Finally, the three remaining cooperatives are not considered eligible for funding until considerable effort is made, taking into consideration certain weaknesses shown.

Recommendations for PRO-PLANTEURS

Some general recommendations emerge from the analysis and discussions with the various stakeholders. Closer cooperation with other GIZ programs in Côte d'Ivoire, in particular the SSAB program, can create synergies. PRO-PLANTEURS should also discuss and analyze possible collaborations with projects such as the Rainforest Alliance Initiative with Ecookim and Alterfin to analyze the potential of replication within the project. Support from the group of social investors, which show great interest in developing a product, or model that allows them to finance cooperatives that do not have an export license could be considered. Even if the commercial banks show little interest, it is advisable to keep in touch with these institutions informing them of developments and potential in the sector. A recommendation with a longer horizon, but with even greater impact, is to support the development of framework conditions (for the financial sector as well as the agricultural sector) providing incentives for financial institutions to enter the agricultural sector. In addition, continued support for the professionalization of cooperatives is still necessary, but must be adapted to the stage of development of each cooperative. It is also suggested to include training in financial education in the technical assistance program.

PRO-PLANTEURS: Next steps upon validation workshop with local stakeholders (01.08.2017)

1. Individual review of the results of the financial analysis with each of the 10 cooperatives participating in the study.
2. Financial and organizational coaching of the 4 cooperatives identified as able to access finance in the short term, in order to support them to accomplish requirements and make a successful application of financial services.
3. In cooperation with UNACOOPEC-CI and/or Advance (possibly in consultation with SSAB), develop a working plan for the rest of cooperatives. The working plan should contain the measures needed to be accomplished in order to improve finance access of these cooperatives in the medium term. Evaluate the opportunities of inserting these cooperatives in the IDH-Program.
4. Support of the cooperatives in order to strengthen their relationship with buyers and make their financing more efficient.

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