OIKO CREDIT
investing in people

Agriculture report 2016

Focus on smallholder farmers

Contents
Agriculture report 2016

About the cover picture

A female worker harvesting maize on the two-hectare plot of land belonging to Parno, a member of the social enterprise Vasham Kosa Sejahtera (VKS). The enterprise, which was founded in 2013, provides value-chain financing to smallholder maize farmers with average plot sizes of less than one hectare.

VKS adopts a closed-loop model that integrates the supply of inputs, production financing, technical support and market linkage. The model helps to reduce production risks and ensures optimal harvests. In return for the services provided, VKS receives a small share of farmers' profits to cover operational costs.

Membership of VKS enables farmers to reduce their input costs and receive higher prices for their produce. By linking farmers with input suppliers, feed mills and buyers, VKS provides them with access to a value chain, which would otherwise remain inaccessible given their small size and production volumes.

VKS is Oikocredit's first agricultural partner in Indonesia and operates several units in the province of Lampung and Central Java. It aims to cover 15,000 hectares by 2020.

Photographs: Clemens Rikken, Nicafrance, Oikocredit and Opmeer Reports (including cover)

Introduction

World population is expected to grow to 7.8 billion people by 2020[1] – a 27% increase since 2000. With this growth, food demand continues to increase and is expected to accelerate at a greater rate as rural populations continue to migrate to urban areas and overall incomes continue to rise. A growing world population is also putting pressure on land and natural resources to fulfil this burgeoning food demand. There are over 500 million smallholder farms worldwide with over 2 billion people depending on these farms for their livelihoods.[2] Although reliable data is scarce, it is known that smallholders play a critical role in overall annual world food production.

The link between agricultural growth and poverty reduction has been well documented. Finance is a critical component of this growth and the opportunities for Oikocredit in this sphere are extensive. Untapped demand for smallholder finance is over $150 billion[3]. Investing in agriculture is in close alignment with our mission of helping to alleviate poverty and empower people on low incomes through financing.

Oikocredit sees agriculture as one of the most effective ways of reducing rural poverty through increases in income and strengthening food security strategies including crop diversity at smallholder level. Through investments in sustainable agriculture, Oikocredit provides farmers with the opportunity to participate in competitive local, regional and international markets. In addition to financial services, we can provide business development services in order to strengthen the capacity of our partner organizations.

We work with different partners across the value chain including producer groups, cooperatives, traders, processors and buyers. The common thread between all of our projects is that our financial products aim to have a direct and positive impact on the lives of smallholder farmers and their communities. We believe that the best way to achieve such an impact is through sustainable agricultural practices that focus on environmental, social and economic dimensions at the farm level.

Oikocredit has always provided support for agriculture and renewed its commitment in 2014 with the establishment of its AgriUnit whose primary function is to provide strategic guidance and strengthen the capacities of Oikocredit worldwide in the growth, quality and social impact of our agricultural portfolio.

We are pleased to present our second stocktaking report since the launch of the AgriUnit in January 2014. The first report, published in May 2014, offered an update on portfolio growth quality and impact for calendar year 2013. This report is reflective of the calendar year 2016 as well as significant efforts since the founding of the AgriUnit.

Overall, we are pleased with the progress we have made in the sector over the past three years. Since 2013 we have grown the outstanding agriculture portfolio by 145% from € 64.1 million to € 157.3 million in loan and equity investments. Our portfolio quality, measured as the percentage of the loan portfolio with payments more than 90 days overdue, decreased from 20% in 2013 to 11.1% in 2016. Impact data indicates that our outreach to small producers has increased by nearly 293,850 farmers, reaching 123% more farmers than in December 2013. Employment generation by our agricultural partners has increased by 21,718 to 40,872 temporary and permanent jobs, an increase of 113% in three years.

Coffee continues to be our priority sector – with 60% of our coffee partners possessing both fair trade and organic certifications. But we also have new and upcoming sectors such as cocoa (featured in this report) as well as grains and dairy. Our branding and fundraising efforts have resulted in an increased awareness of Oikocredit and its unique work in agriculture – as well as funding from donors to implement strategically important capacity building programmes such as Price Risk Management.

This report is dedicated to our dearly departed colleague Carina Torres who was instrumental in building up the work of our AgriUnit. Her commitment and enthusiasm is sorely missed.

Frank Rubio
Global Head – Agriculture
Oikocredit

[1] Worldometers.info, 'World Population Forecast", 2017.

[2] FAO, Agriculture Development Economics, 'Smallholder family farms', 2016.

[3] Initiative for Smallholder Finance, 'Inflection Point: Unlocking growth in the era of farmer finance', 2016.

General description and trends

Portfolio growth[4]

Oikocredit's growth target for agriculture is to achieve an outstanding portfolio of € 200 million by the end of 2020. Since 2013, the outstanding agriculture portfolio has increased from € 64.1 million to € 157.3 million. Comparatively, the total Oikocredit developing financing[5] portfolio has also grown, from € 590.5 million to € 1,047 million. While in 2013 agriculture represented 11% of the total outstanding portfolio, the sector now accounts for 15% of investments. Meanwhile, the active[6] agriculture portfolio is also increasing, and had surpassed € 200 million by end of year 2016. The agriculture sector represents 15.7% of Oikocredit's total active portfolio.

Figures 1 – 4 provide a snapshot of the growth, variety and quality of Oikocredit's agricultural portfolio. Figure 1 shows the growth of the agriculture portfolio in comparison to Oikocredit's total development financing portfolio growth since 2013. Over the past three years, the outstanding agriculture portfolio has increased by 35% on average each year, with a total growth of 145% since 2013. By comparison, the total Oikocredit outstanding portfolio has increased by 21% on average per year with a cumulative growth rate of 77%. Although both the agriculture portfolio and total portfolio are increasing, the agriculture portfolio is growing at a quicker rate and thus represents a steadily increasing share of Oikocredit's total outstanding portfolio.

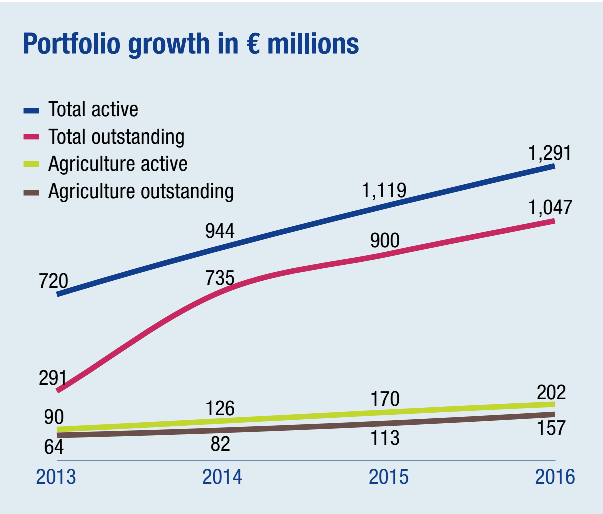

Figure 1

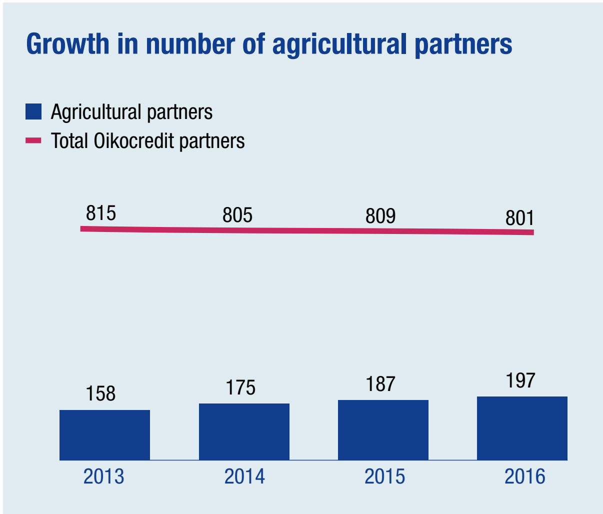

Figure 2

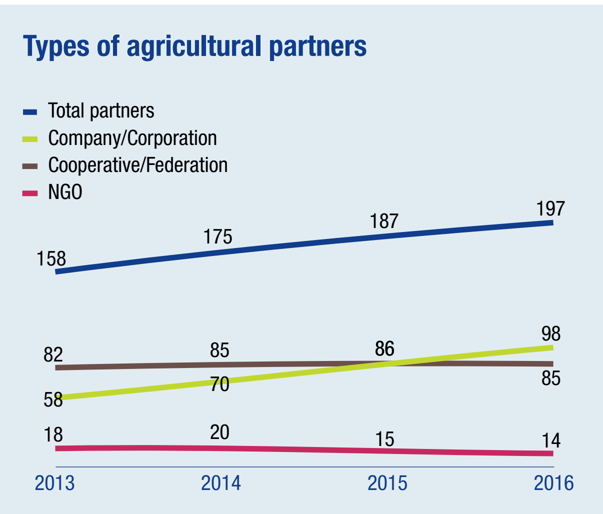

Figure 3

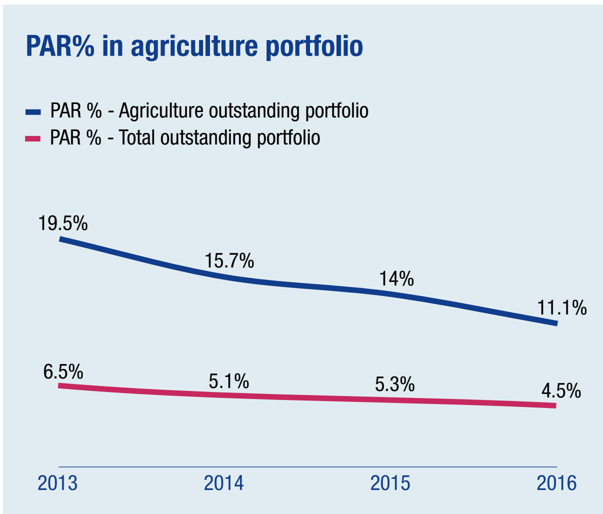

Figure 4

[4] Credit lines and trade-financing are a significant part (38%) of the agriculture portfolio. Depending on the season of a particular crop, credit lines often open at the beginning of the year and close by the end of it. For this reason, they do not appear in the outstanding portfolio. In order to present an accurate description of the agricultural sector, the graphs in the section "Diversity in agriculture" of this report are based on the active portfolio.

[5] Development financing refers to total loan and equity investments.

[6] Active portfolio is the sum of the outstanding portfolio and the committed amount not yet disbursed.

Oikocredit partners have changed in variety greatly over the past few years. The number of agricultural partners grew from 158 in 2013 to 197 in 2016. Figure 2 illustrates that for the period 2013 to 2016, the percentage of agricultural partners ranged from 19% to 26% of the total number of Oikocredit partners. The agriculture portfolio has not only increased in portfolio size more quickly than the overall portfolio, we are also gradually adding on more and more partners in agriculture while the number of partners in the overall portfolio has declined slightly over the past few years.

Partner mix

At the end of 2016, 50% of agricultural partners were organized as companies, 43% were cooperatives or similar farmer groups, and 7% were non-governmental organizations (NGOs) (Figure 3). This year, total corporation partners surpassed total cooperative partners for the first time. This is reflective of our growth in investments in small to medium enterprises (SMEs) – especially as we increase our African portfolio, where cooperatives and farmer associations are less developed. Despite the partner type, the common theme in all partnerships in agriculture is that financing offered by Oikocredit ultimately benefits the smallholder farmer. Although SME financing has been steadily increasing since 2013, moving forward Oikocredit expects to maintain a balance between corporation partners and farmer-based organizations.

Portfolio quality

Portfolio at Risk (PAR 90) – the percentage of the loan portfolio with payments more than 90 days overdue – is a key indicator to measure quality and performance of the agriculture portfolio. Agriculture is by nature a riskier endeavour than microfinance as demonstrated by the higher PAR levels of the agriculture portfolio in relation to the Oikocredit overall portfolio. By year-end 2016, the agriculture loan portfolio PAR had fallen to 11.1% (from 14.0% in 2015) compared to 4.5% for the entire loan portfolio. One of the main objectives of the AgriUnit is to build capacities of the Oikocredit regional offices to better measure risk and improve monitoring in the field to detect projects potentially facing issues early on. Hence, the expectations are that PAR will continue to gradually drop over the coming years as the portfolio grows and better mitigation strategies are put in place.

Geographic composition

Figure 5 shows that while Latin America continues to account for the largest share of the agriculture loan portfolio by far, Africa has increased its share of the active portfolio over time. The share of the Eastern Europe & Central Asia region has declined slowly, though the active portfolio amount has remained consistent at around € 15 million per year. Asia represents a steady 3% share of the portfolio each year.

Agriculture active lending portfolio per region[7]

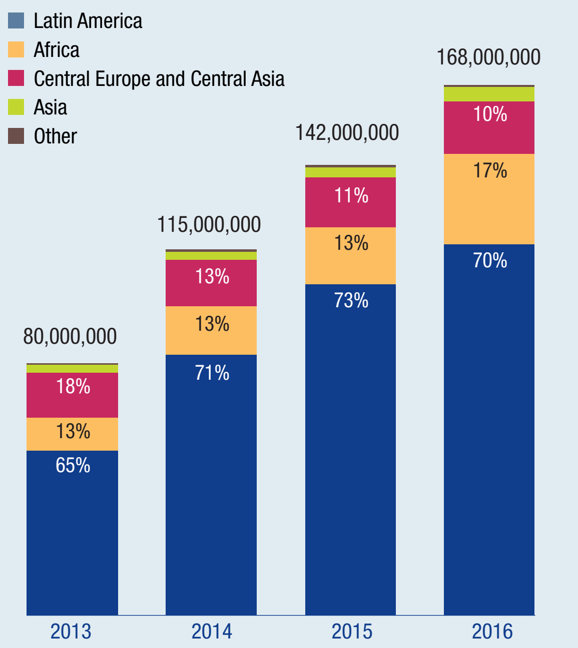

Figure 5

Latin America is generally composed of countries with more stable economies and a long history of cooperatives. Coffee and cocoa are well developed smallholder sectors in the region, which coincide with the crop expertise that Oikocredit has developed over its long history financing partners supporting the two crops. Meanwhile, our strategic efforts have been driving growth in Oikocredit's African portfolio. During the past two years, the West Africa team has been developing its agri-portfolio mainly in cash crops such as cocoa, cashew nut and rice but also fresh fruits and dairy. In East Africa, we have experienced challenges with market and price-related risks. However, the region expects growth in structured markets such as coffee and tea, as well as commodities crucial for food security such as maize, rice and milk as well as growth in financing other partners involved in value addition on locally produced food products.

Efforts to standardize and improve the assessment of agriculture partners started in the Mexico, Central America & the Caribbean (MCAC) region and the South America Northern Region (SANR) in 2015, and the unit is now poised to take on the challenge of starting implementation in other regions. Our strategy revolves

[7] Does not include equity investments.

around using efficient agri-financing tools to improve services to our partners. The second emphasis is focusing on financing partners in sustainable supply chains guaranteed by certifications like fair trade, organic or Rainforest Alliance; or partners achieving high ratings under Oikocredit's environmental, social and governance (ESG) scorecard. Looking ahead, 2017 will be the year to start financing more soft commodities like sustainable cocoa, palm oil, soya and other grains.

Diversity in agriculture

Figure 6 shows the top six countries with the highest active loan portfolio. These six countries account for 53% of total agriculture lending. Argentina is first, followed by Uruguay. 76% of the funding in these countries is to producer groups, compared to 43% of the global portfolio. The Argentina portfolio is heavily concentrated in grains, while Uruguay's top commodity is dairy and its related products. Peru, Costa Rica and Honduras have strong coffee portfolios, collectively reaching € 23 million in active coffee loans.

Figure 7 illustrates the commodity makeup of the active agriculture development finance portfolio, including both loans and equity. Coffee continues to be the most significant commodity in the agriculture portfolio, accounting for 27% of total active financing. Over 90% of the coffee portfolio is in Latin America. Grains – which includes maize, rice, wheat, quinoa, sesame, and other grain crops – account for 22% of the active portfolio. Dairy and cocoa are target sectors of Oikocredit's agriculture strategy and both continue to experience growth, reaching 8% and 6% respectively.

Figure 8 displays the top six commodities financed by Oikocredit at year-end 2016. Oikocredit now finances over € 55 million in coffee. Grains is also an important sector, grown primarily in Eastern Europe and southern South America. In 2016, 56% of the cocoa portfolio was focused in West Africa. Fibres includes wool and cotton.

Social performance

Many stakeholders have benefited as a result of Oikocredit financing to agricultural partners. The following table summarizes some key social indicators as at year-end 2016.[8] Nearly 40,900 workers were employed permanently or seasonally by our agriculture partners – a slight decline (-7%) from the previous year. Oikocredit financing reached 181,207 cooperative members, an increase of 46,023 (34%) from 2015. In 2016, our agriculture partners reached 533,657 farmers – an increase of 65% from the number of farmers benefiting from our reporting agriculture partners in 2015 (from 322,594 to 533,657).

Top six countries with largest active agriculture loan portfolio in € millions

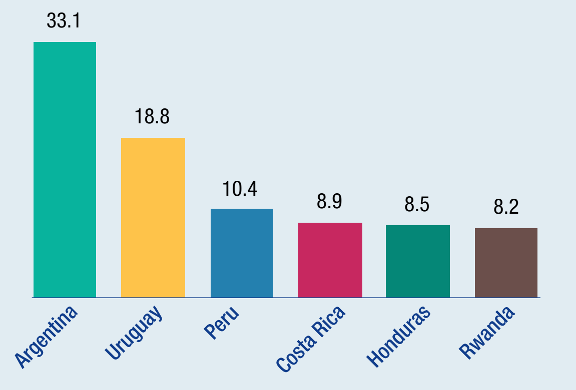

Figure 6

Product composition of total active development financing portfolio

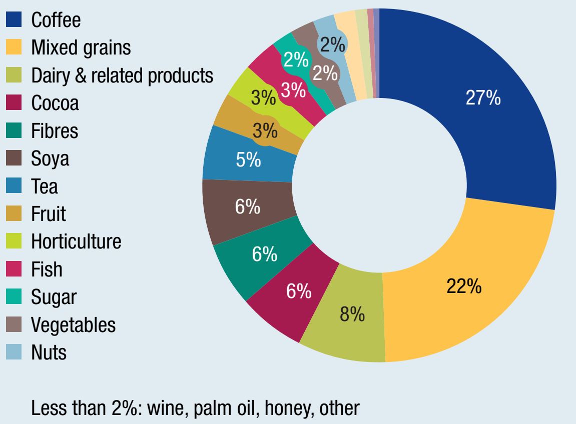

Figure 7

Top six commodities in active development financing portfolio in € millions

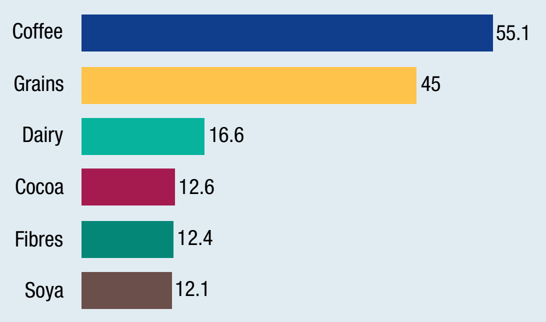

Figure 8

[8] 130 agriculture partners reporting.

The rice company Société de Développement Agro Pastorale du Rwanda (SODAR Ltd) processes paddy rice supplied by almost 10,000 farmers associated with cooperatives in the districts Rusizi and Nyamasheke in Rwanda.

AGRICULTURE KEY SOCIAL INDICATORS (31 December 2016)	
Number of permanent wage workers	24,587
Number of temporary wage workers	16,285
Number of cooperative members reached	181,207
Numbers of farmers reached	533,657

Oikocredit has 56 partners with either fair trade or organic certification; 39 of these partners have both certifications. Additionally, 24 partners reported achieving Rainforest Alliance certification. For heavily exported commodities like coffee and cocoa, 74% of partners are fair trade certified and 62% are organic.

Increasing the focus on equity

In addition to lending, Oikocredit continues to grow its equity investments in agricultural partners around the world. This is in response to requests from existing and potential agricultural partners who are looking for long-term risk capital and strategic support. Equity enables Oikocredit to enhance its positive impact, offering patient capital and a long-term horizon.

Working with equity partners, we take significant minority stakes and support partners by offering guidance on governance issues and key strategic decisions through active shareholder engagement and board participation. In many cases we also add value by leveraging on Oikocredit's international network and by bringing in prospective co-investors.

AGRICULTURE EQUITY PORTFOLIO (31 December 2016)	
Active portfolio size	€ 35.5
Portfolio growth 2013-2016	245%
% of total Oikocredit active agriculture portfolio	17.6%
Number of partners	13
Average investment size	€ 3.5

The equity agriculture active portfolio in € millions

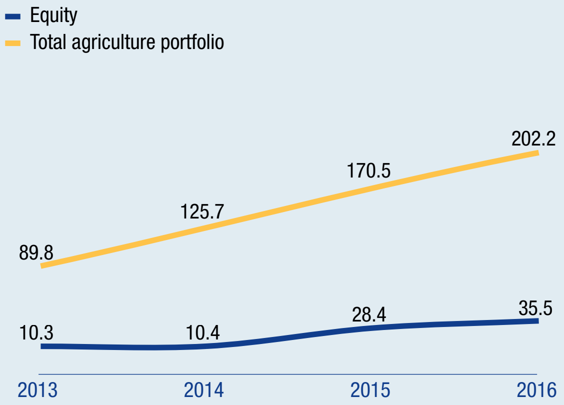

Figure 9

The agricultural equity portfolio rapidly increased to € 32.8 million outstanding in 2016 (21% of Oikocredit's total agricultural portfolio) and € 35.5 million in active portfolio (18%). In 2013, equity in agriculture projects totalled only € 10.3 million.

Oikocredit had 13 agricultural equity partners as at end of year 2016, across 10 different countries. Investments range through a diversity of agriculture sectors, including tea, coffee, fish, cereals, cotton, nuts, cocoa, and fruit. Moving forward, equity will continue to become a growing part of Oikocredit's total development finance portfolio.

Key risk drivers

Growth was robust for the Oikocredit agricultural portfolio in 2016 – but portfolio quality continued to suffer. Although portfolio at risk (PAR 90)[9] was lower in 2016 (11.1%) compared with 2015 (14%), PAR in absolute terms was higher. The absolute PAR increased from € 13.5 million in 2015 to € 13.9 million in 2016. Loan restructurings by the end of 2016 were valued at € 7.6 million while total portfolio write-offs were € 3.5 million, representing 3% of the total outstanding loan portfolio.

A certain level of PAR is always to be expected in agriculture given the inherent risks in the sector, such as commodity price risk, natural disasters, and crop diseases and pests. Nevertheless, PAR and loan restructurings generate increased provisions which negatively affect our cost coverage – thus, the risk needs to be effectively managed. Risks should be carefully identified during the project analysis phase; strategies to mitigate risk must be put in place at an early stage; and partners need to be monitored closely to ensure timely repayment.

Equity partner Nicafrance supports smallholder coffee farmers in Nicaragua who own land in need of renovation, often due to the effects of la roya (coffee leaf rust), by facilitating technical assistance, providing interest-free loans for restoration and providing coffee trees to farmers at no cost.

To gain better insights into risks, we analyzed historical portfolio data that included all projects that were provisioned by more than 50% and/or written off during 2016. The purpose of the analysis was to identify the key reasons why the projects have fallen into PAR and to determine, in retrospect, what could have been done differently to avoid this problem. By mapping the underlying drivers of credit risk in agriculture, Oikocredit can learn valuable lessons and make appropriate changes to policies, risk assessment tools, and loan procedures to avoid similar mistakes in the future.

A large majority of the projects (60%) were working capital loans, which tend to be riskier in that they do not have a specific purpose. Rather, funds are used to cover general company expenses and cash deficits during the year. Effective cash management requires good financial management skills which has historically been a challenge for some of our partners. Interestingly enough, trade credit – which represents a large part of the Oikocredit coffee portfolio – represents a very small portion of projects in PAR, at just 5%. Our coffee trade credit portfolio, mostly with cooperatives and mostly in Latin America, is the best performing portion of our agricultural loan portfolio.

Figure 10 offers more detailed information on the specific drivers for default for the loans analyzed in 2016. The largest amount of non-performing loans occurred with projects where management capacity was limited. Crop failure due to weather and pests followed closely as the second highest driver towards loan default. Aspects such as buyer default or misuse of funds would probably occur less in loans approved after 2015 since we now track all of our buyers and request reference checks for buyers who we do not have a relationship with.

Causes of non-performing agriculture loans in € millions

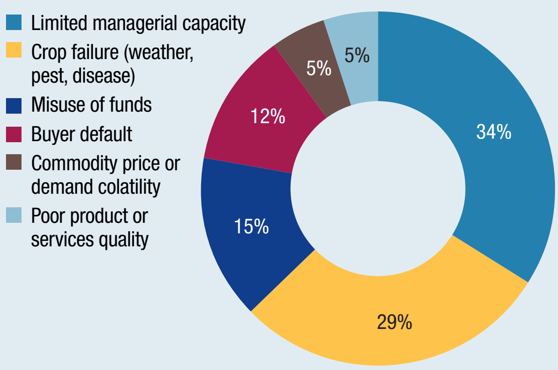

Figure 10

The analysis identified areas that Oikocredit can improve upon in the future through continued training and skills development. Oikocredit's AgriUnit will continue to conduct historical analysis to utilize lessons learned towards the continual improvement in the quality of the agricultural portfolio.

[9] PAR 90 is the principal amount (net after repayments) of loans overdue by 90 days.

Price risk management: What it is and how it will help

Coffee farmers are subject to volatile patterns of price fluctuations caused by climate change impact, extended droughts, the outbursts of plant disease and changing market demands. Even small variations in coffee prices can have huge consequences for smallholder farmers who depend on coffee sales for their livelihoods. Price risk is in fact the most important and significant risk that smallholder coffee farmers face and for this reason it is critical that farmers' cooperatives have the capacity to implement strategies in price risk management (PRM). In a Fair Trade USA report, it was found that cooperatives with price management strategies had increased farmers' incomes by more than 20% in a one-year period.

Oikocredit has collaborated with the Inter-American Development Bank (IDB), Fair Trade USA, Keurig Green Mountain and Catholic Relief Services for a unique three-year capacity building project to support smallholder coffee farmers facing volatile markets. The project aims to transform the profitability, creditworthiness, and competitiveness of 16 selected cooperatives from Honduras, Guatemala, Nicaragua, Colombia and Peru. The main objective is to equip coffee producers' organizations with the skills and tools needed for price risk management best practices, including stock management and offset hedging.

This multi-year project (2017-2019) is the first such programme in Latin America and a great step into improving the lives of smallholder coffee farmers in the region. Oikocredit will lead the capacity building programme, with our PRM staff based in Costa Rica.

PRM project components

Organizational strengthening
Training for managers and board members for implementing price risk management strategies

Development of a price risk management toolkit
Stock management skills, training materials, a risk assessment tool and a web-based price risk simulator

Apprenticeship programme
A peer-to-peer learning opportunity to be hosted by two cooperatives with considerable experience in price risk management

Options financing
In culmination of the project, Oikocredit will provide financing to cover costs related to price risk management

Perspective from a coffee cooperative

For Oikocredit partner Aldea Global, the decision to start implementing PRM strategies came as a necessity after an incursion from a local governmental coffee agency caused Nicaraguan coffee prices to rise, while the NYSE[10] market was going down. The cooperative understood that working with futures provided a remedy to the situation, and began implementing PRM strategies in its everyday purchases from coffee farmers based on premium differentials, market behaviour and daily monitoring of its inventory. The practices translate into increased payments for cooperative members.

Warren Armstrong, the general manager of Aldea Global, explains that a coffee organization looking to undertake PRM needs first and foremost a solid governance structure and a managerial team and board that are tuned in to the practices and willing to work as a team. "For me, PRM is an essential way for safekeeping your earnings and profit as a coffee organization. In coffee, there are thousands of ways that you can lose your money. Safekeeping your profits is a multifaceted endeavour; having in place good PRM strategy is one of the most important of them."

The programme will offer training that engages cooperative stakeholders at all levels, peer learning and cooperative-to-cooperative exchanges, and financing to cooperatives to undertake their PRM strategies. Through the implementation of PRM strategies at the cooperative level, approximately 5,000 smallholder farmers represented by these cooperatives will also become project beneficiaries. A simulation-based programme and a PRM toolkit will be created to provide experiential learning in the use of hedging instruments.

By strengthening coffee cooperatives, they will be better able to offer their members more stable revenue sources, support inventory management and more accurately forecast their financial situations over time. Oikocredit is very excited about this initiative and we expect that the tools currently being developed will also be of value, both for other coffee cooperatives in the future and for other commodities we support, in addressing price volatility.

[10] New York Stock Exchange. The referenced event occurred between November 2014 and February 2015.

Leveraging partnerships for impact

Mitigating risk for SMEs in West Africa

In 2016, Oikocredit set up a US$ 24 million loan guarantee with the US Agency for International Development (USAID) and USAID's Development Credit Authority. The facility is designed to incentivize financing for high-impact projects that may otherwise be deemed too risky. This partnership has extended access to finance, benefitting smallholder famers of cashew and shea nuts, cereals, livestock, mango, and other agricultural value chains. This is one example of methods Oikocredit is pursuing to mitigate risk in the region.

Red organic coffee berries and their beans

Capacity building worldwide

In addition to the Price Risk Management project, Oikocredit implements other capacity building methods to improve governance and management knowledge and skills amongst its agriculture partners, with the ultimate goal of increasing farmer welfare.

Another example of capacity building is to farmer-based organizations in Uganda. In 2016, Oikocredit worked with two organizations: Panyimur Dei and Wadelai Pakwinyo ACEs in Nebbi District with the objectives of improving their governance, managerial, financial and production management knowledge – and to be able to gain access to financial services. Based on these objectives, training in strategic planning, governance, accounting and records management, as well as post-harvest handling, were delivered during the year.

Some of the achievements have been that the farmer-based organizations have started compiling production data for purposes of planning and also securing some contracts for market. They are now able to bulk their production and market collectively, increasing their negotiation power with potential markets. In terms of strategic planning, organizations are aware of the importance of long-term strategy and business plans and policies are being written. Moreover, the management and board have clear roles and responsibilities, have put in place all the necessary committees, and meetings are being held regularly and documented.

The project is still ongoing and the next steps will be to monitor until the organizations start receiving the crop financing; we will then monitor the repayment of the financing.

Increasing recognition in smallholder financing

Brand awareness and sector recognition became important goals for agriculture in 2016. Oikocredit has been investing in sustainable agriculture for almost forty years, but a dedicated team to drive growth in the sector was only formed as recently as 2014. The AgriUnit dedicated significant time and resources in 2016, contributing to key conferences, trade shows, and other events prioritizing the need for smallholder financing.

In March, Oikocredit hosted a panel at *Cracking the Nut* conference in Washington, DC on the challenges and opportunities organizations face in the production and financing of sustainable palm oil. The panel featured current Oikocredit partners as well as industry leaders such as Dr. Bronner's. In coffee, Oikocredit continues to embolden its presence at the Specialty Coffee Association (SCA)'s annual events in the Americas and Europe. In June, Oikocredit sponsored the industry awards presented at the European SCA event, 'World of Coffee' in Dublin.

Representatives from Oikocredit were invited to provide expert opinions at notable gatherings such as the USAID Feed the Future roundtable on financing agriculture, food security and nutrition, and the Innovation Forum's conference on 'How business can engage smallholder farmers'. Both events took place in Washington, DC. Frank Rubio also spoke on a panel sponsored by *The Guardian* entitled 'From Colombia to Côte d'Ivoire: how to help farmers tackle climate change' hosted in London. The event was preceded by a series of articles from the news outlet featuring Oikocredit's work with smallholders and how they have been impacted by drastic weather events and rising temperatures around the globe.

Oikocredit continues to build upon its role as a founding member of the Council for Smallholder Agriculture Finance (CSAF), alongside six other founding member peers leading the smallholder finance sector, and two new members. The consortium works together to develop industry standards and best practices for social lenders targeting agricultural businesses that aggregate smallholder farmers in developing countries.

Focus on cocoa

Globally, 5.5 million smallholder cocoa farmers (most of them with farms smaller than 5 hectares) and 14 million farm workers rely on cocoa for their livelihoods. Global demand is expected to exceed 4.5 million tonnes by 2020.[11] Cocoa provides an essential source of income and employment for millions of smallholders and is a vital source of foreign exchange for governments of developing countries. As the cocoa industry grows, so do its challenges and opportunities – where Oikocredit is invested in the commodity's sustainable future.

Partners

The number of Oikocredit partners has slowly increased in the past years, reaching a total of eight. Our partners are in Côte d'Ivoire (3), Ecuador (2), Dominican Republic (1), Ghana (1), and Peru (1), combined for an outstanding lending portfolio of € 8.5 million and an average approval loan size of € 1 million. In West Africa, mainly in Ghana and in Côte d'Ivoire, Oikocredit first started its deliberate approach to target the cocoa sector in 2011. Seven of our cocoa partners have fair trade certification, and five hold organic certification.

Production

Cocoa is a popular cash crop grown throughout the humid tropics. A cocoa tree takes about five years to produce its first beans and reaches peak production in about 10 years. The cocoa fruit pods are harvested twice a year (seasons are October-March and April-September), whereby the cocoa pod seeds are then extracted, fermented and dried to become cocoa beans. Cocoa is a delicate crop that is affected by bad weather, pests and diseases. For the past year in the West African region, cocoa quality and production has been affected by two main problems: climate variations and the increasing aging of cocoa trees.

Financing the cocoa sector

Cocoa is an essential raw commodity for millions of smallholders, but the sector is facing unsustainable pressures. The main challenge (which is also key to success) is to provide cocoa partners with funds in due time, particularly when they need to provide smallholder producers with pre-payment advances to ensure receipt of the cocoa pods at the start of the season.

In addition, another critical action is ensuring the partner has enough working capital funding to collect, process, and export its cocoa. In Côte d'Ivoire, where prices are controlled by the government, partners must compete on volumes purchased, whereby output of the partners therefore depends to a large extent on the turnaround time and how much financing they are able to secure during the season to purchase cocoa beans.

[11] Fairtrade Cocoa Commodity Briefing, April 2016.

ECOOKIM

Enterprise Cooperative Kimbe (ECOOKIM) was founded in 2004. Their partnerships have grown to 23 cooperatives in 12 different regions in Côte d'Ivoire, and are organized into sections of small producers who produce both cocoa and coffee. Oikocredit's relationship with ECOOKIM began in 2015 with the approval of a XOF 500 million (€ 1.6 million) credit line to be utilized as working capital to purchase, process and export cocoa beans. ECOOKIM's main service is to procure raw cocoa from cooperatives, and process, transport, store and export cocoa beans during the cocoa season.

According to Oikocredit's West African agriculture technical advisor Solene Prince Agbodjan, ECOOKIM is a transparent, well-organized group that provides direct support to their farmer members. "They are a great partner for Oikocredit to work with because we share the same vision. ECOOKIM is not there simply to collect the cocoa from the producer members, but to accompany them on their individual development pathways." Our relationship with ECOOKIM enables us to support and contribute to the growth of other small cocoa cooperative groups and reach new smallholder members.

Ultimately, ECOOKIM has effectively supported and organized disadvantaged and marginalized people living in the impoverished Western and Northern regions of Côte d'Ivoire. ECOOKIM has increased its membership to 12,555 cocoa growers, of which 98% live in rural areas. Most significantly, the farmers themselves are direct owners of ECOOKIM.

www.oikocredit.org

Our approach

Oikocredit is a worldwide cooperative and financial institution that promotes sustainable development by providing loans, capital and capacity building support to microfinance institutions, cooperatives, fair trade organizations and small to medium enterprises. As a social investor, Oikocredit's work is guided by the principle of empowering people to improve their livelihoods. Oikocredit offers a triple return to its investors: social, environmental and financial. In addition to earning modest financial returns, investors are secure in the knowledge that their money is being used to improve livelihoods, promote fair trade and respect the planet's natural resources.

At 31 December 2016, we had 801 partners in 70 countries. Being close to our clients and knowing their markets through our network of local staff is at the heart of our work.

OIKO CREDIT
investing in people

Oikocredit International
T + 31 33 422 40 40
F +31 33 465 03 38
E info@oikocredit.org

Berkenweg 7
3818 LA Amersfoort
The Netherlands

PO Box 2136
3800 CC Amersfoort
The Netherlands

AgriUnit
E oi.agriunit@oikocredit.org