Panel: Creating Economic Opportunity for Smallholders and Traders through Value Chain Microfinance

This session will explore the potential for building livelihoods and economic opportunity through value chain microfinance and partnerships between smallholders/traders, producer cooperatives, market-connected companies and financial services providers. Who are the main players in the value chain and what are their main strengths and challenges? How do production cycles, prices, productivity and family influence access to finance of smallholders/trader? What are the pros and cons of finance provided by downstream partners (e.g.: processors, exporters, manufacturers)? How can better microfinance contribute to building smallholder livelihoods and economic opportunity?

The session moderator will begin the session by introducing each of the speakers. Each speaker will then be invited to make a formal presentation on the topic. The time limit for each presentation will be 15 Minutes.

Following the presentations, approximately 20-30 minutes will be used for additional comments and questions from the audience.
• Please ensure that your presentation provides some specific examples, key learning’s or new ideas that will be of value to the audience. Please be prepared to present a clear conclusion in which you outline the specific points you would like the audience to consider.

• Please ensure that your presentation is on topic, and that the content is not too promotional or generic.

• If you plan to use PowerPoint, please limit your presentation to no more than 10 slides.

• Please take note of the time limit for your presentation (as noted above). Time limits will be strictly enforced.

To help us finalise arrangements for the Summit, we kindly request that you submit a copy of your presentation to Mr. Jeff Wagner at jeff.wagner@ft.com. The deadline for submitting your presentation is 19 October 2015.
Value Chain Finance – The case of Cocoa Agribusiness Financing Facility (AFF)

Dr. Dirk Lebe, Financial Services Specialist, Swisscontact Indonesia
Basic information
- Chocolate is a 120 billion USD industry
- Indonesia is the 3rd largest producer of cocoa in the world
- There are about 1 million to 1.6 million cocoa farmers in Indonesia, producing in average 450kg/ha/year
- Income from that cocoa production corresponds to 80-100 USD per month
- Cocoa has a permanent cash flow, because it pods are all over the year on the tree.
- As cash crop it is susceptible to agricultural risks
Statistics about Indonesian cocoa farmers

- Average age 43.8 years
- Average farm size 1.05 hectare
- 96.08% want to learn, how to save
- 60.91% think they are disciplined enough to save
- 95.07% think, loans are a big responsibility
- 58.30% want a loan
- 55.48% considered as unprofessional
- 89.04% with less than 2ha cocoa farm
- 21.60% have a land certificate
Partnerships

Farmer / Banks
- 24.30% of farmers have an active saving account
- 5.64% have experience with bank loans

Traders / Banks
- No numbers, but a large number of traders gets pre-financed by farmers!

Cooperatives / Banks
- Barely creditworthy
- Too young, too few members, no history
Current constraints hindering banks going into the sector

- Lack of sector knowledge
- Collateral (land certification, cocoa beans, etc.)
- Data/Identification of creditworthy farmers
- Operational area of banks vs. location of farms
- Perceived agricultural risks incl. side selling
- Better business opportunities for banks
- Long term perspectives
SCPP Value/Supply Chain Partnerships

Research and Farm Inputs | Cocoa Farming | Trading | Processing | Manufacturing

- ICCRI
- syngenta
- CIAT
- UTZ Certified
- Control IMO
- Nestlé
- Mars
- ADM Cocoa
- Mondelez International
- Barry Callebaut
- Cargill
How to tackle the Value Chain constraints?

Research and Farm Inputs
- Implementing Nurseries
- Research on Pesticide use, behavior, etc.

Cocoa Farming

Trading

Processing

Manufacturing

Access to Markets
- Often upstream financing
- No downstream financing from processors or manufacturers

Training in Good Agricultural Practices
- Training in Financial Literacy
- Support in land registration
- Strengthen Farmer Organizations
- Collecting data

Financial Institutions
- Training on Cocoa Sector and Cocoa Financials
- Provision of data
- Identification of lower risk farmers
- Support in product development
Can we identify creditworthy clients, meaning cocoa farmers with sufficient repayment capacity, understanding their business, maybe with collateral?
Professional Cocoa Farmers have 30% more trees per hectare and a 4.4 times higher yields per tree compared to unprofessional farmers.
It’s all about data
(Example from Aceh)

Yield [kg/ha]

Average Yield (kg/ha)

Bottom 10%  Baseline  Postline  Top 10%  Top 1%

205  451  721  1,177  1,583

(Estimated) Default Risk

Bottom 10%  Baseline  Postline  Top 10%  Top 1%

30%  15%  5%  1%  0.5%
An Indonesian IT Start-Up Company
How better microfinance can contribute to livelihood and economic development

- 54.39% of the farmer have no loan experience
- Only 5.64% have loan experience with banks
- 39.53% need in the future money for farm investments (and 56.13% for school fees)
- Farmers need a package of knowledge, better planting material and access to finance for agri-inputs

Potential in Indonesia 150 – 200 million USD in cocoa (top 20% of the farmer only)
Cocoa Finance is in its infancy. We can drive the development.
Looking forward to the discussion!

More information about Cocoa and Swisscontact can be found just on the next slides.
**ECONOMIC DIMENSION**

The cocoa sector adopts measures to enhance transparency, farm profitability and cocoa quality.

**SOCIAL DIMENSION**

The cocoa sector supports local communities to enhance their living standards.

**ENVIRONMENT DIMENSION**

The cocoa sector adopts climate smart and environmentally friendly measures.

**Reduction of poverty & greenhouse gas emission in the Indonesian cocoa sector**

Increased competitiveness of an environmentally responsible and inclusive cocoa value chain.
Loan Experience of farmers

Loan Source
- Family & Friends, 54.51%
- Trader, 26.78%
- Bank, 13.10%
- Cooperative, Other, 9.56%
- Other, 12.47%

Loans Used For
- Cocoa Farm, 40.69%
- School Fees, 38.38%
- Daily Expenses, 29.17%
- Other Businesses, 8.47%
- Buying New Land, 5.10%

Future Money Needs
- School fees, 56.13%
- Farm investment, 39.53%
- Emergencies, 35.15%
- Health Care, 21.67%
- Other Business, 6.37%
Understanding the Cocoa Sector and the Crop Cycles
Knowledge Sharing on Cocoa

Report based on data of 8,067 cocoa farmers in SCPP
Knowledge Sharing on Cocoa
Knowledge Sharing on Cocoa
Swisscontact is the Swiss Foundation for Technical Cooperation

- Founded in 1959
- 100+ projects in 30 countries
- In Asia working in:
  Bangladesh, Cambodia, Indonesia, Laos, Myanmar, and Nepal
Swisscontact has been working in Value-chain financing in Asia, Africa and Latin America

Snapshot of current projects:

- Agribusiness Financing Facility, Indonesia
- Making Markets work for the Chars, Bangladesh
- Micro-leasing, Eastern Africa (Kenya, Tanzania, Uganda, Rwanda) and Latin America (Peru, Nicargua, El Salvador)
**Work approach**

We create opportunities for people seeking to improve their living conditions and livelihoods through their own initiatives and integrating them into local commercial life.

**Core areas**

We encourage entrepreneurship and efficient use of resources, provide access to skills development and financial services.

**Doing the right thing together**

Swisscontact is the ideal partner for companies, foundations or individuals seeking to make a meaningful and lasting contribution to sustainable development and poverty reduction.

**Vision**

We make a sustained, effective contribution towards the reduction of economic disparities in an increasingly complex, globalized world.

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[Swisscontact website]
In case Swisscontact shall implement a project for you, please contact:

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