



CASA

Commercial Agriculture for Smallholders and Agribusiness

Carbon finance opportunities for smallholder farmers in DRC – Phase II – Executive Summary
March 2024



Foreign, Commonwealth
& Development Office



TechnoServe
Business Solutions to Poverty®



**UK International
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Partnership | Progress | Prosperity

Agenda

1. Project overview

2. Summary learnings and recommendations

Appendix

There is both a need and an opportunity to support innovation at the nexus of climate action and smallholder livelihoods in DRC

1

DRC is critical to achieving global climate change targets

As the largest country in the Congo Basin, and holding 10% of the world's tropical forests, **DRC is the guardian of the single most important carbon sink** to protect against the impact of global greenhouse gas emissions on the climate

2

Smallholders are necessary agents to protect DRC's carbon sink

Deforestation in the DRC is occurring at an alarming rate and is **overwhelmingly caused by smallholders trying to make ends meet** through slash and burn agriculture and use of charcoal for energy

3

Smallholders are not benefitting sufficiently from existing initiatives

The main carbon finance model that exists in DRC is the Voluntary Carbon Market, whose future is uncertain. Most VCM models do not adequately address **agricultural intensification**, meaning the underlying incentive to deforest still exists

4

A value-chain approach can leverage MNC incentives to invest in smallholders

In export-led value chains such as **coffee and cocoa**, MNC incentives on living income, EUDR and value chain decarbonization can be leveraged to invest in SHFs. While **the scale is limited** to a handful of corporates, this is a unique additional opportunity

5

De-risking finance by FCDO could help protect forests and enhance livelihoods

Inclusive business models to promote **agroforestry and climate-smart agriculture** among smallholders can enhance resilience and livelihoods in a pro-nature way. Donor finance still needs to play a critical role in piloting and unlocking these opportunities

We have completed phase 2 of the project looking at monetizing climate finance for the benefit of smallholders in DRC

Objectives of this phase:



Find out how to **unlock financing for smallholder farmers in DRC**, via climate financing by exploring:

- **SBT** mechanism via MNCs leveraging emissions reduction commitments and EUDR
- More traditional **climate financing models**



Design **pilot(s) with specific agribusinesses** to test the approach and prove the concept



Further **validate and determine the potential scale** of this kind of solution

For coffee and cocoa, the SBT complements other MNC incentives to invest in smallholder production



Attainment of farmer living income:

Agricultural intensification can support firms' commitments to living income and fair trade through **increased farmer yields**



EUDR compliance:

Need to prove that agricultural products sold on the EU market do not originate from recently deforested land and have not contributed to forest degradation – creates clear incentive **to increase yields from existing plantations**



Reliable, high-quality supply:

Buyers want to increase reliability and efficiency of sourcing and can do this by investing in training farmers on how to **maximize productivity and quality**






Traceable cocoa with a strong sustainability story for end customers:

Leveraging of increasing customer demand for ethical and sustainable practices to differentiate brand from the competition – need to ensure farmers meet **minimum livelihood conditions**

Together, these incentives are more powerful than carbon finance alone

TechnoServe spent 3 months exploring potential initiatives with three companies, eventually prioritising two alternatives in cocoa

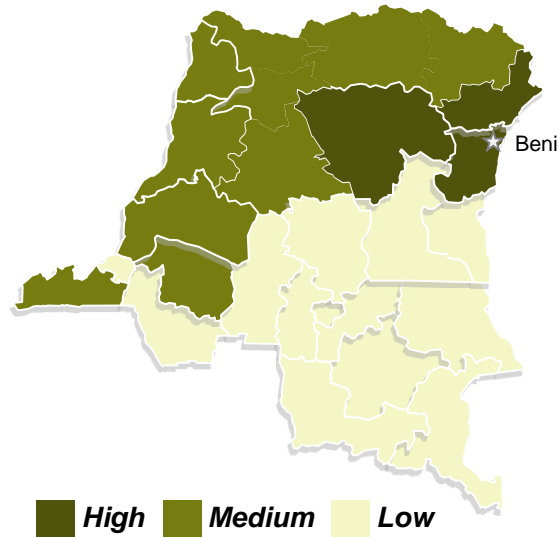
Potential: ■ High ■ Medium ■ Low

	Demand from buyers	Impact potential	Implementation feasibility
Coffee 	Medium – OFI and Nespresso interested in investing further in the region but no other interested multinationals identified	Low – Gorilla Coffee Alliance already working or planning to work on most of impact levers, so low additionality	High – Strong capacity from Virunga and possibility for TNS DRC to operate in South Kivu
Cocoa	 Medium¹ – Several buyers potentially interested but afraid of potential reputational and compliance risks for sourcing from DRC	High – High additionality due to lack of GAPs ² and potential to increase yields of farmers due to lack of initiatives focusing on cocoa	Medium – Fairly strong capacity from Bahari but instability in the regions of activity. Not possible for TNS to operate in North Kivu but exploring models involving local consultants
	 Medium¹ – Several buyers potentially interested but afraid of potential reputational and compliance risks for sourcing from DRC	High – High additionality due to lack of GAPs ² and potential to increase yields of farmers due to lack of initiatives focusing on cocoa	Medium – Fairly strong capacity from Bahari but instability in the regions of activity. Not possible for TNS to operate in North Kivu but exploring models involving local consultants

Notes: 1. Demand from buyers in cocoa is mixed, and still needs further investigation.

Cocoa is a \$90 million export sector that engages 50k farmers. 2-3 buyers account for around 80% of exports, which travel through the hub of Beni, North Kivu

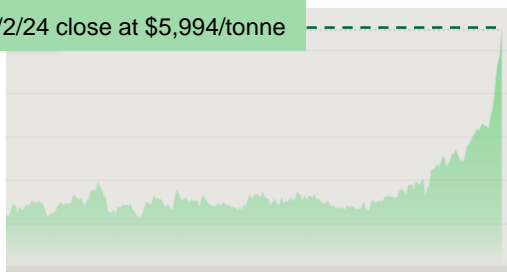
Cocoa agribusinesses concentration



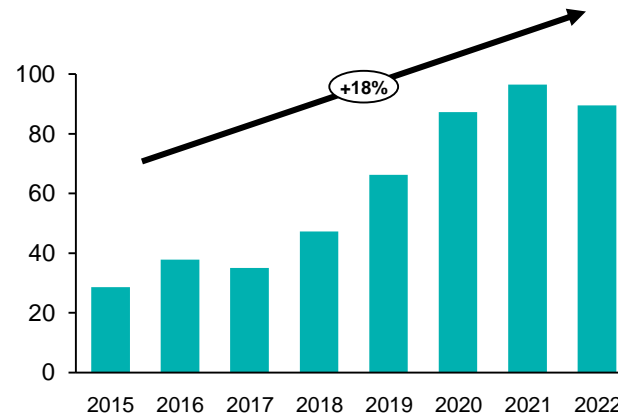
Main agribusinesses: Esco Kivu, COPAK, Bahari

Cocoa price evolution on NASDAQ over the past 5 years:

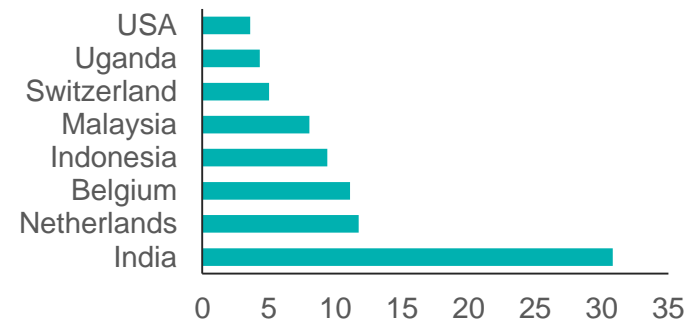
28/2/24 close at \$5,994/tonne



Cocoa exports from DRC 2015-2022 Millions of USD



Main cocoa export destinations 2022 Millions of USD



Major buyers

Nestle, Mars, Hersheys inter alia via local buyers (Esco, ECOM Trading, Minka, Touton, Walter Mater)

Production dynamics

- 55,000 farmers
- 60,752 ha under cultivation
- Many exporters, many buying directly
- Low yields compared with competition
- Internal migration from North Kivu into Ituri and Tshopo linked with cocoa growing opportunities

Market dynamics

- Cocoa is the leading agricultural export from DRC and is growing considerably
- Esco Kivu was the company to reintroduce cocoa production around 2005-2010
- Growing global demand and declining production / limited area for cultivation in W. Africa presents opportunity for DRC
- Low levels of farmer loyalty to buyers
- Around one third of production is exported to India which has lower traceability requirements than Europe
- Besides the formal export data, up to 60-70% of production is smuggled via Uganda/Rwanda, due to high export tax in DRC

Source: UN Comtrade; FAOSTAT; Elan reports; USAID Invest reports

Cocoa is undertaking a challenging period, creating an opportunity for DRC farmers

DRC has a large potential in cocoa...

- The **demand for cocoa in smaller origins like DRC is increasing** due to current structural challenges in West Africa including crop disease and adverse weather conditions
- There is an **opportunity to source high quality cocoa with good traceability** from local exporters in DRC

...but there are challenges to address for it to become a growing origin

- Existing **deforestation dynamics** pose **reputational and regulatory risks** for chocolate brands sourcing from DRC
- **Security risks make investments from brands riskier** as this increases the potential volatility of cocoa volumes

Potential scenarios








1. **Business as usual:** chocolate brands keep sourcing small amounts of cocoa from DRC
2. **Opportunity loss:** Global North cocoa buyers gradually decrease quantities sourced from DRC as the origin is not aligned with their sustainability and compliance objectives
3. **Opportunity gain:** A proof of concept is conducted showing that it is possible to source relatively significant volumes of cocoa from DRC in a way that is sustainable and compliant

Source: expert interviews

Buyers are greatly interested in improving traceability to achieve sustainable objectives around increased farmer income, forest conservation and preventing child labor

We find mixed appetite among buyers, with greatest potential among small-mid sized players

Key implications

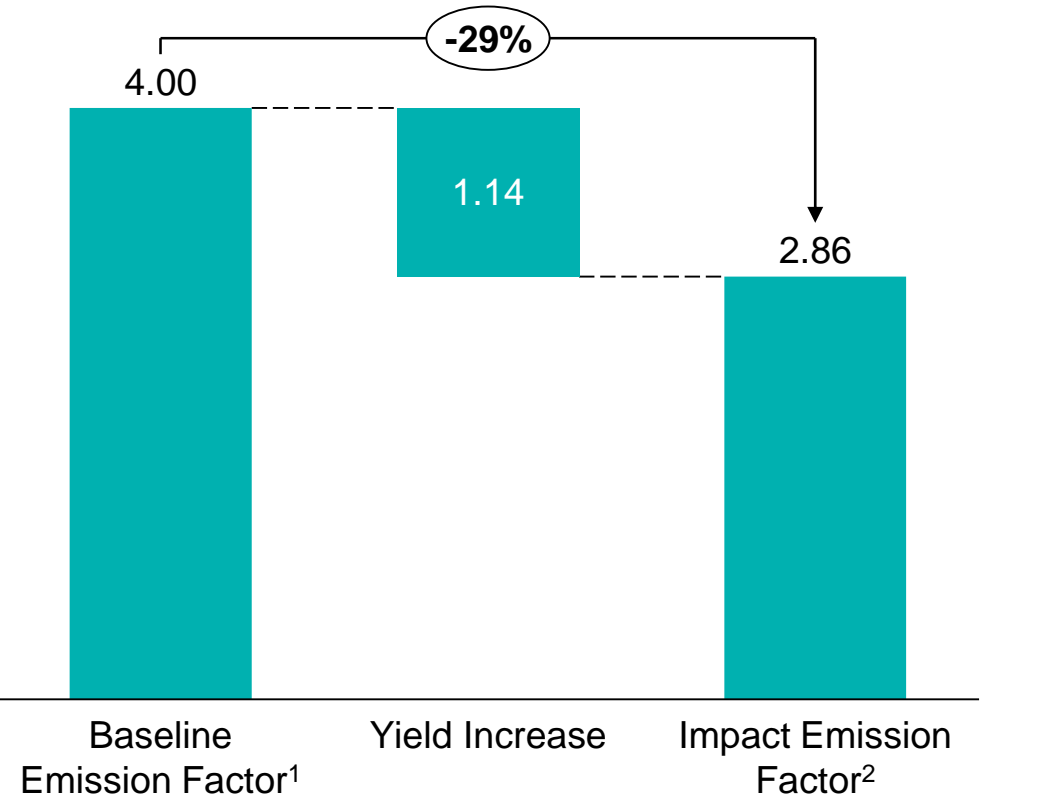
Buyer	Sustainability approach	Interest in DRC investment
	<i>“Our sustainability approach rests on 4 pillars – improving farmer income, human rights, sustainable ingredients, and traceability”</i>	Waiting for feedback. Their Gourmet division has the Cocoa Horizon initiative aligned with project goals that could be interested
	<i>“Our efforts involve renewable energy, helping farmers cut water use, improve crop yield, eliminating deforestation.”</i>	Waiting for feedback
	<i>“Our approach is to improve income resiliency and livelihoods, prioritize children’s well-being, and improved traceability for environment”</i>	Waiting for feedback
	<i>“Our sustainable cocoa strategy focuses on improved traceability and increasing farmer income”</i>	Waiting for feedback
	<i>“Centered around making cocoa profitable, forest restoration and community upliftment”</i>	Waiting for feedback
	<i>“Our partnership with East Congo Initiative focuses on increasing farmers income, no forced child labour and sustainability”</i>	Esco testing interest with them. It’s a specialty chocolatier who sources majority cocoa beans from Esco
	<i>“Cocoa Plan rest on 4 pillars: farm productivity, child education, agroforestry, additional income”</i>	Not interested at the moment

- Given global price hikes in cocoa and structural shortages in West Africa, **buyers are interested in sourcing their balance from DRC**
- However, **demand for investing in SHF production is more nuanced**, especially among the largest “middlemen” (e.g. BC, JB cocoa), since:
 - Security is a risk to implementation / ROI as well as to reputation
 - Hard to justify a carbon story given lack of control over larger-scale deforestation activities (e.g., logging)
- The initiative would not only need to tackle farmer income and carbon objectives, **but also increased volume and EUDR traceability objectives to generate demand from investors**

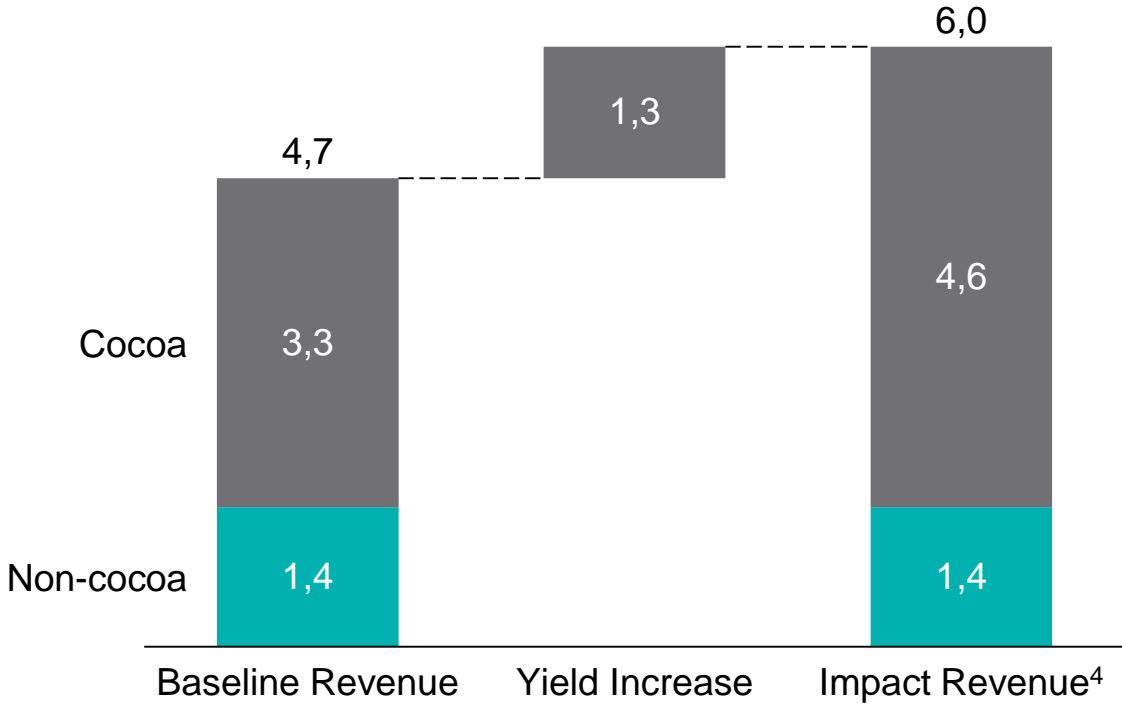
Working with cocoa farmers to adopt good, regenerative practices could reduce the emissions factor by ~29% and lead to ~27% increase in farmer revenues

Illustrative model to test

Emission factor, kgCO2 per kg of cocoa



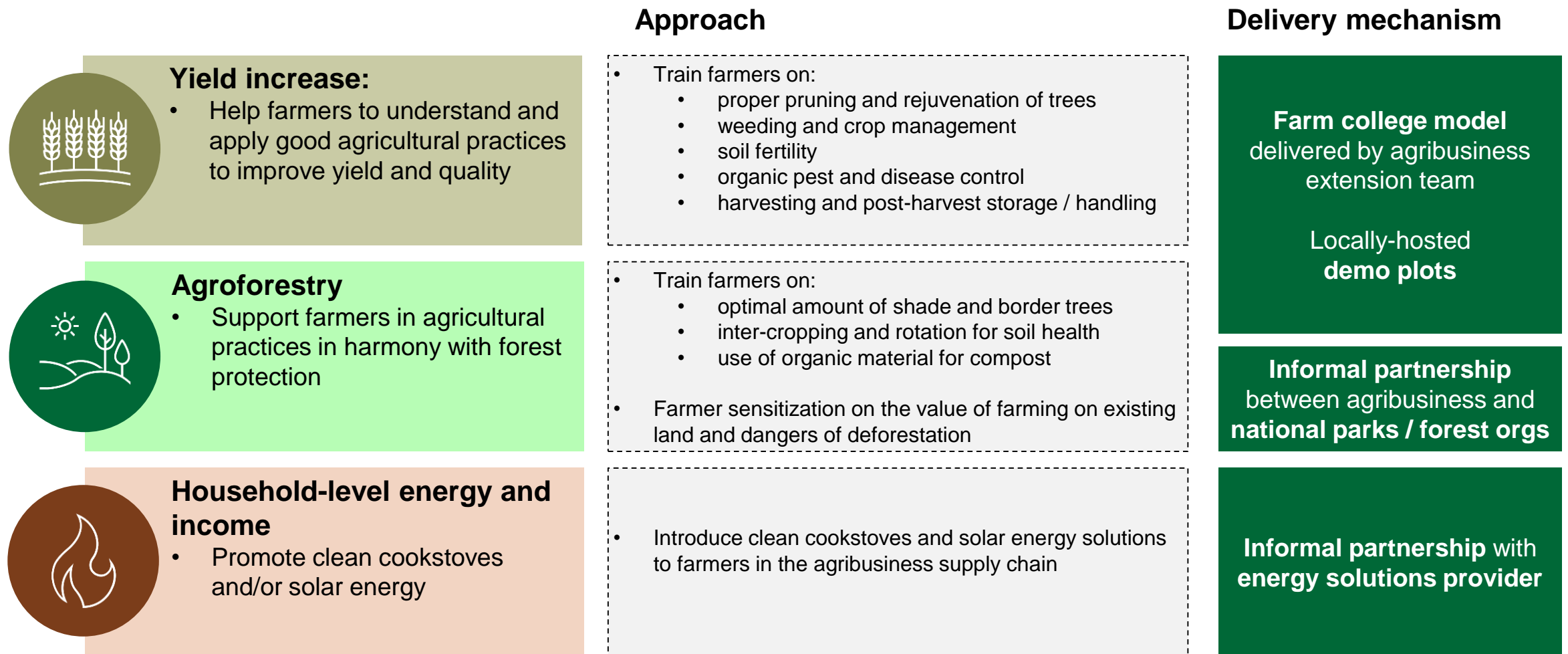
Revenue increase per farmer³, USD k



Notes: 1. Baseline emissions factor to be confirmed, estimate based on desk research, 2. Final emissions factor calculated assuming total emissions per hectare remains and yield increases from 500 to 700 kg/ha 3. Revenue impact (Avg land size: 1 ha, baseline Yield: 500 kg / ka, optimal yield: 700 kg/ha, price: 6.6USD/kg as of March 2024, Non-cocoa revenue at 30% of baseline and remaining constant); 4. Impact revenue would also increase due to charcoal savings; however yet to be calculated

Source: Team analysis, Expert interviews, Agribusiness interviews, Research Studies

A potential program could combine cascading farmer training and household-level interventions to increase yields while protecting forest from increased pursuit of cocoa



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The study offers several learnings relevant to future FCDO investments in green growth

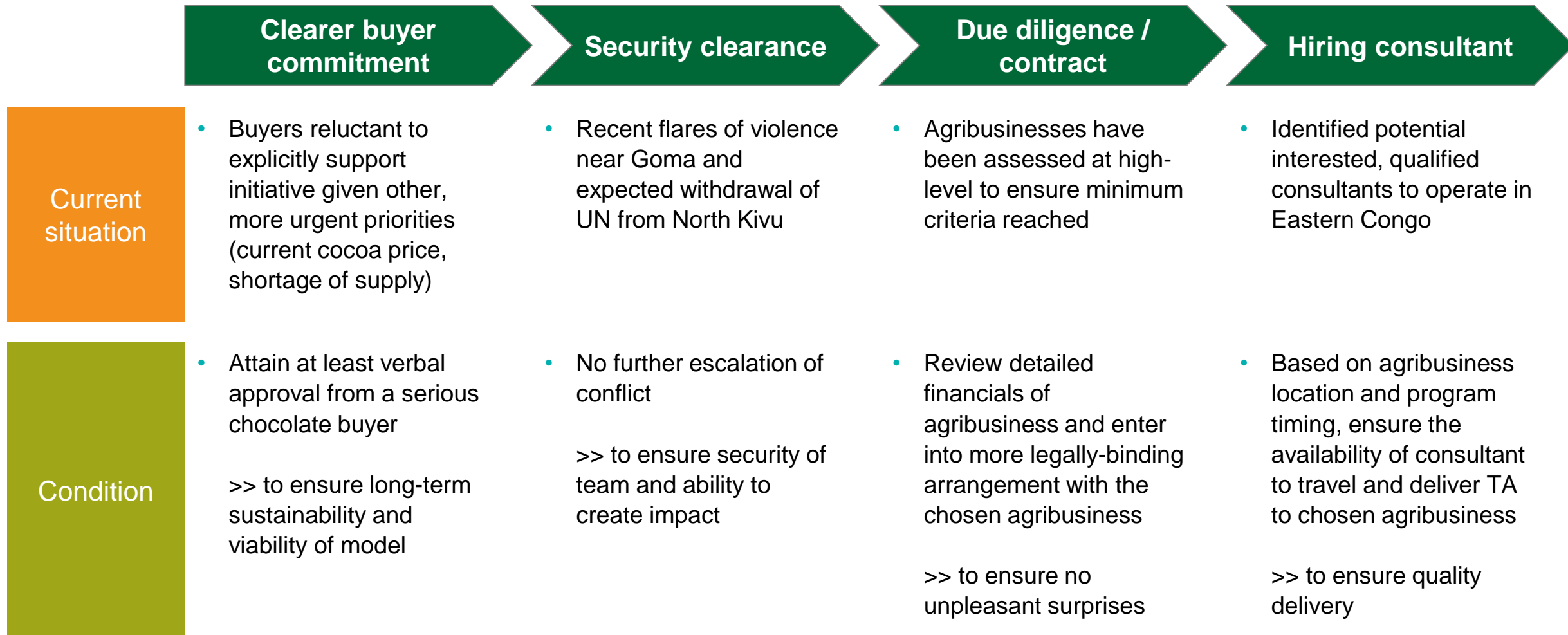
Learnings

- Deforestation in DRC is complex, driven by expansion of small-scale agriculture alongside (sometimes illegal) logging and mining projects. Any existing efforts to bring climate finance into DRC via VCM projects have had questionable performance
- Export-led value chains with SBT incentives are interesting but buyers have concerns to invest in DRC
 - Cocoa and coffee are the most attractive value chains for attracting private sector investment given DRC's ability to be competitive in this space, the potential to increase yields through agricultural intensification, and the applicability of an agroforestry approach
 - However, in cocoa, MNCs are currently most concerned about stabilizing prices and achieving EUDR compliance
- For local value chains, internal incentives such as reliability of supply can be more relevant for promoting inclusive business models and smallholder investment (versus carbon finance)
 - Leveraging external investment to support this - even via impact investors, would be exceptionally challenging

Implications for FCDO

- Smallholder farmer market-based approach to combat deforestation needs to be complemented with:
 - traditional climate finance programs on food crops
 - governance programs to support enforcement of existing government policy and regulation, and
 - more humanitarian programs for IDPs
- While pursuing a pilot with a single agribusiness, FCDO/ CASA could continue to engage MNCs to determine appetite for a more SBT-driven investment initiative, once EUDR comes into force
- Future FCDO agribusiness programs could incorporate an advisory and technical assistance approach for the largest agribusinesses, to encourage more inclusive business models:
 - focused on leveraging local incentives
 - right-sized TA package given the smaller business size
 - emphasis on learning-by-doing rather than expensive analysis that may not return ("fail fast")

We recommend initiating a pilot once a set of conditions are met



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Bahari has a keen interest to partner with FCDO, but is still lining up buyer commitment

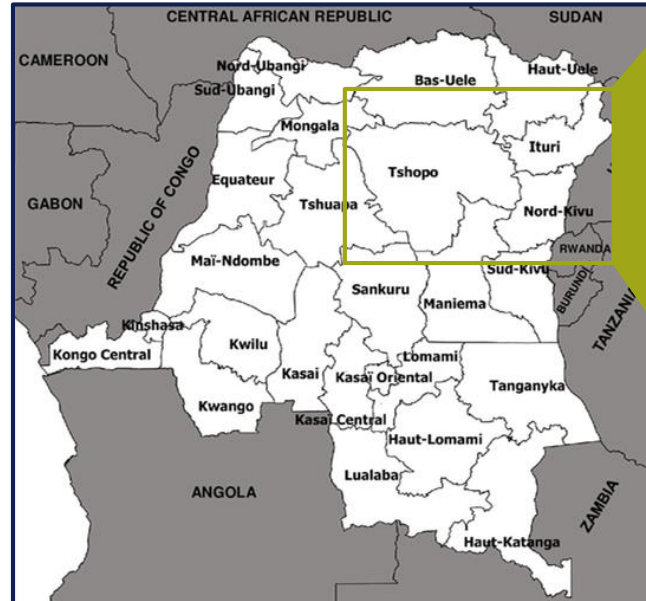


Agribusiness overview

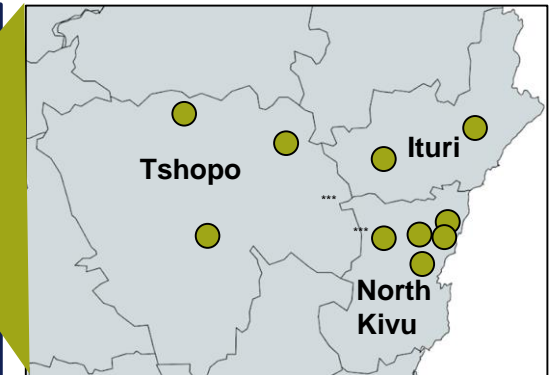
Name	Enterprise Bahari Sarl
HQ	Beni, North Kivu
Founding year	2021
Ownership	Congolese company with a Swiss shareholder
Key market	Mainly selling to buyers in the EU and Asia
# SHFs	7,047
On-farm opportunities	<ul style="list-style-type: none"> Cocoa agronomy extension to increase yields Agroforestry Crop residue management
Off-farm opportunities	<ul style="list-style-type: none"> Small livestock Cookstove distribution Solar distribution
Related opportunities	<ul style="list-style-type: none"> Data collection to calculate carbon*

Geographical presence**

Map of DR Congo



● Agribusiness presence



Total cultivated area

~8,500 Ha

Territories with SHF presence

North Kivu: Watalinga, Mabalako, Irango, Kyanzaba, Kantina, Rwenzori ;
Ituri: Mambasa, Irumu; Thsopo : TBC

* Data collection considered as a way of enabling longer-term investment by providing buyers with more accurate information on current carbon footprint

** Detailed geographical presence at the chiefdom/sector level to be collected

*** Exact location in Tshopo to be confirmed with agribusiness

Source: Company interviews and data

As the largest cocoa exporter, Esco Kivu would be a good partner, but would need to be motivated by a clear request from one of their buyers

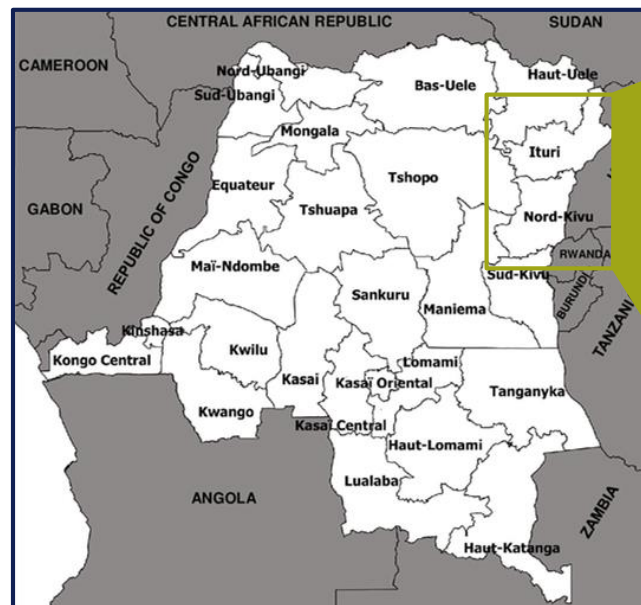


Agribusiness overview

Name	Esco Kivu
HQ	Beni, North Kivu
Founding year	1970
Ownership	Private for-profit company
Key market	Mainly selling to EU buyers, with some buyers in the US and Asia
# SHFs	40,000 but only 20,000 accessible
On-farm opportunities	<ul style="list-style-type: none"> • Inputs • Cocoa agronomy extension to increase yields • Agroforestry • Crop residue management
Off-farm opportunities	<ul style="list-style-type: none"> • Small livestock • Cookstove distribution • Solar distribution
Related opportunities	<ul style="list-style-type: none"> • Data collection to calculate carbon*

Geographical presence**

Map of DRC



● Agribusiness presence

Total cultivated area

~4,400 Ha

Territories with SHF presence

North Kivu: Beni, Lubero ;
Ituri: Irumu, Mambasa

* Data collection considered as a way of enabling longer-term investment by providing buyers with more accurate information on current carbon footprint

** Detailed geographical presence at the chiefdom/sector level to be collected

Source: Company interviews and data