

# Coffee Renovation and Rejuvenation in Ethiopia

Concept proposal for the  
Ethiopian Coffee Rehabilitation Fund

November 2025





# Foreword and acknowledgement

The Food and Land Use Coalition (FOLU), is a global community of innovators and experts working to advance sustainability, equity and resilience in food and land use systems.

Members of the coalition are AGRA, EAT, Global Alliance for Improved Nutrition (GAIN), Sustainable Development Solutions Network (SDSN), SYSTEMIQ, World Business Council for Sustainable Development (WBCSD), World Farmers' Organisation (WFO) and the World Resources Institute (WRI).

United by a shared vision of rapid and transformative change, this network of seven country platforms (Brazil, China, Colombia, Ethiopia, India, Indonesia, and Kenya), eight international partners, and over 50 Ambassadors, strives for a world in which food and land use systems enable people and nature to prosper. Created in 2017, FOLU advances diversity, embraces disruptive thinking, and forges consensus through an evidence-based approach. The coalition empowers farmers, policymakers, businesses, investors, and civil society to unlock collective action at scale.

FOLU in collaboration with the Ministry of Agriculture, the Agricultural Transformation Institute, as well as various stakeholders of coffee production in Ethiopia, including the finance sector, are exploring innovative ideas for a sustainable food and land use system in Ethiopia. In collaboration with Stori, FOLU has sought to promote solutions to address financing gaps of Ethiopia's coffee production by smallholder farmers.

This report, jointly published by FOLU Ethiopia and Stori, presents a concept proposal to use an innovative financing mechanism for promoting Coffee Renovation and Rejuvenation (R&R) in coffee farms. It suggests the establishment of a fund, the Ethiopian Coffee Rehabilitation Fund, which will provide smallholder farmers with financing and technical expertise so that

their aged coffee trees can be renovated and rejuvenated, with the goal to increase production volumes for the betterment of their livelihoods.

Thanks to financial support provided by the Norwegian International Climate and Forest Initiative (NICFI), and in collaboration with the Ethiopian Coffee and Tea Authority (ECTA), FOLU had commissioned Stori to produce a scoping study. As a follow-up to the scoping study and in line with its recommendations, this concept proposal presents the objectives, mechanisms, structure, and the action plan for the establishment of the Ethiopia Coffee Rehabilitation Fund.

We would like to thank the many individuals and institutions that have generously contributed time and energy to this work. This includes diverse consultations and contributions from national and international organizations, investors, donors, and program managers as well as participants of a validation workshop in Addis Ababa in March 2024. These different perspectives enriched the scoping study and provided the basis in the development of this concept proposal.

Furthermore, the authors acknowledge the suggestions from reviewers and Food and Land Use Coalition (FOLU) colleagues, both in Ethiopia and secretariat offices which have helped shape the final version of this concept proposal.

This document presents a financing mechanism that intends to solicit and inspire further action and investment. Complementary work seeks to explore a pilot program to test, validate, and potentially scale the proposed financing mechanism. We welcome the fair use of the report's content and further exchanges to take this novel agenda forward.

The contents and opinions expressed herein are those of the authors (FOLU Ethiopia and Stori) and do not necessarily reflect the views of the associated and/or supporting institutions. The usual disclaimer applies.

# Contents

|                                                                                           |    |
|-------------------------------------------------------------------------------------------|----|
| Foreword and acknowledgement .....                                                        | 3  |
| Executive Summary .....                                                                   | 5  |
| 1 Background and rationale for establishing an Ethiopian Coffee Rehabilitation Fund ..... | 9  |
| 1.1 Introduction.....                                                                     | 10 |
| 1.2 Lessons learned from the scoping study.....                                           | 10 |
| 1.3 Why the Ethiopian Coffee Rehabilitation Fund? .....                                   | 11 |
| 2 Objectives and options for the design of the ECRF .....                                 | 12 |
| 2.1 Objectives of the ECRF .....                                                          | 13 |
| 2.2 Important aspects to consider for the design of the facility .....                    | 13 |
| 2.3 Alternative approaches and recommendations .....                                      | 14 |
| 3 Proposed design and structure of the ECRF .....                                         | 16 |
| 3.1 The overall design.....                                                               | 17 |
| 3.2 ECRF governance and management .....                                                  | 18 |
| 3.3 A system of guarantees to ensure participation from commercial investors .....        | 19 |
| 3.4 Investment process and characteristics.....                                           | 20 |
| 3.5 Envisaged size of the ECRF and needed resources .....                                 | 21 |
| 3.6 Progress and performance monitoring .....                                             | 22 |
| 3.7 Technical assistance and complementary services.....                                  | 22 |
| 3.8 Risks and mitigation.....                                                             | 23 |
| 4 Action plan .....                                                                       | 24 |
| 5 Conclusion .....                                                                        | 29 |



# Executive Summary



## Background

Ethiopia's coffee sector, the birthplace of Arabica coffee and Africa's largest producer, is a cornerstone of the national economy, contributing 30–35% of export earnings and supporting the livelihoods of 25% of the country's population. However, the sector faces challenges, including low productivity, systemic barriers such as limited access to finance, vulnerability to climate change and diseases, compliance with anti-deforestation trade policies, and economic volatility. Recognizing the need for intervention, the Ethiopian Coffee Rehabilitation Fund (ECRF) is proposed as a transformative mechanism to address these challenges and promote the renovation and rejuvenation (R&R) of coffee farms throughout the country.

## Objectives and rationale

The ECRF's primary objective is to enhance access to finance for smallholder coffee farmers, enabling them to implement R&R strategies and adopt Good Agricultural Practices. In supporting farmers to implement R&R, the ECRF seeks to boost national coffee production while also improving farmers' income, building their capacity and the collaborations of all actors of the ecosystem. Boosting production in existing coffee farms also means reducing pressures to expand agriculture land into forests. This ultimately will improve the resilience of coffee production and promote environmental sustainability.

## Proposed structure and mechanisms

The facility is designed as a centralized basket of funds integrating resources from public and private stakeholders to finance R&R investments. It will offer concessional loans and financial incentives to smallholder coffee farmers (through banks, microfinance institutions, and farmers' cooperatives) while also providing them with the necessary technical assistance. In parallel, it will also foster engagement with diverse stakeholders of the coffee value chain and build the capacities of the ecosystem to support these investments.

The ECRF's funding model will feature the following:

- **Blended finance:** Combining grants from development and philanthropic partners with commercial investments made by financial and corporate investors.
- **Risk-limiting mechanisms:** To enhance investor confidence, the ECRF will implement several risk-limiting measures, including a capital guarantee. Specifically, a portion of the capital provided by development and philanthropic partners will be reserved to offer a first-loss guarantee to commercial investors. This mechanism will partially shield commercial investments in the fund, reducing downside risk and encouraging private sector participation.

The model allows to attract catalytic investment while maintaining affordability for smallholder Coffee Farmers (SHCFs).

The fund's deployment model will be designed around:

- **A debt window:** The ECRF will make concessional loans available to finance institutions and cooperatives, which will in turn issue microloans to SHCFs. Loans are structured with terms that fit the context of coffee R&R, including concessional interest rates, 6-8 year tenures, 2-3 year grace periods, as well as inflation adjusted payment schedules.
- **A grant window:** Pay-for-performance incentives will reward both financial institutions (such as microfinance institutions) and farmers for achieving key milestones. These incentives will be tied to their loans and the attainment of pre-set performance targets. If institutions meet these targets, financial intermediaries will receive partial debt relief. Similarly, farmers will earn financial rewards for adhering to loan terms: successfully implementing R&R practices; demonstrating compliance with good agricultural practices. The facility will also create a system that promotes accountability and maximizes impact, while also lowering risk for commercial investors and catalyzing action.
- **Technical assistance and support:** Comprehensive support will be implemented alongside investments, aiming to support farmers, cooperatives, and microfinance institutions, including through agronomic advice, financial literacy training, access to inputs, and tools for monitoring and reporting.

## Governance

The ECRF's governance structure includes a Secretariat for operational management, a Board of Directors for strategic oversight, and an Investment Committee to evaluate funding decisions. The ECRF and its secretariat will be hosted by a private financial institution in Ethiopia which will support the administration of the facility. An Assembly of funders will ensure alignment with stakeholder interests and a Strategic partners' forum will build synergies within broader development efforts.

## Risk mitigation

To mitigate risks, the ECRF will implement robust performance monitoring systems. In addition, a phased implementation through a pilot program will help validate the model and build investor confidence.

To maximize participation among farmers, the Secretariat and its partners will focus on targeted outreach activities. Demonstration plots showcasing the R&R interventions will serve as practical examples to illustrate their benefits and build farmer confidence.

## Targeted size of the ECRF

The initial implementation cycle of the ECRF aims to support approximately 160,000 smallholder coffee farmers cultivating 55,000 hectares. Focusing primarily on those with low productivity and aging coffee trees, this ensures that resources are directed where impact is greatest—boosting yields, improving farmer incomes, and demonstrating proof of concept in areas most in need, while keeping the program financially and operationally feasible. This represents an intervention on 25% of the coffee farmland. To achieve this, US\$ 110 million in repayable financing and US\$ 50 million in grants are required over 7 years to cover R&R investments, performance incentives, technical assistance, and fund management.

## Action plan and scalability

An eight-step action plan outlines the ECRF's establishment, including stakeholder engagement, legal formalization, pilot testing, and resource mobilization. Starting with a pilot project, the ECRF will then adapt and scale its operations nationally, promoting R&R of all coffee farms in Ethiopia.

## Conclusion

The ECRF represents a strategic and innovative opportunity to revitalize Ethiopia's coffee sector and secure its global competitiveness. By addressing systemic barriers and fostering collaboration, the ECRF aims to create lasting impacts on farmer livelihoods, environmental sustainability, and economic growth. With coordinated efforts from all stakeholders, the fund has the power to transform Ethiopia's coffee landscape and contribute to the broader development of the country.



# 1

## Background and rationale for establishing an Ethiopian Coffee Rehabilitation Fund



## 1.1 Introduction

Ethiopia's coffee sector holds a unique position as the birthplace of Arabica coffee and Africa's largest coffee producer. With coffee contributing 30–35% of Ethiopia's export earnings and supporting the livelihoods of 25% of its population, the sector is a cornerstone of the national economy and cultural identity. However, as highlighted in the scoping study titled *Coffee Production in Ethiopia: A Call for Renovation and Rejuvenation*, the sector faces critical challenges:

- **Low productivity:** Yields are 75% lower than in Vietnam, 56% lower than in Brazil, and 22% lower than in Colombia, with many coffee trees exceeding their optimal production age.
- **Systemic barriers:** Smallholder coffee farmers (SHCFs), who grow 95% of Ethiopia's coffee, face inadequate access to finance, technical assistance, and agricultural inputs.
- **Environmental pressures:** Climate change, pest and disease outbreaks, and the need for compliance with international sustainability regulations, such as the EU Deforestation Regulation (EUDR), exacerbate the difficulties for farmers.
- **Economic volatility:** Persistent inflation, foreign exchange shortages, and price instability in international coffee markets have further strained the sector.

## 1.2 Lessons learned from the scoping study

The scoping study titled, *Coffee Production in Ethiopia: A Call for Renovation and Rejuvenation*, published by the Food and Land Use Coalition in Ethiopia and Stori, highlights that renovation and rejuvenation (R&R) programs—when combined with Good Agricultural Practices (GAP)—offer a transformative opportunity to address the sector's key challenges. Approximately 80% of Ethiopia's coffee farms require interventions such as replanting and stumping.

Following up on the scoping study's three recommendations, this concept note proposes to 1) establish a dedicated financing mechanism, 2) build the knowledge of farmers and other stakeholders of the coffee value chain, and 3) create a fund to manage both financial flows and support activities in Ethiopia.

This proposal is the result of numerous meetings with key stakeholders, including smallholder coffee farmers, cooperatives, government institutions, coffee roasters and exporters, coffee associations, development agencies, and financial institutions. It advocates for the creation of an Ethiopian Coffee Rehabilitation Fund (ECRF) to improve farmer's access for long-term financing, which will be used to implement R&R and adoption of good agricultural practices. It also presents the ECRF's main features.

### 1.3 Why the Ethiopian Coffee Rehabilitation Fund?

The ECRF is envisioned to systematically direct resources to smallholder coffee farmers, allowing them to make adequate investments for the renewal and rejuvenation of their coffee trees.

The term “rehabilitation” encompasses the dual strategies of renovation and rejuvenation in coffee farm management. Renovation involves the replacement of aged or unproductive coffee trees through seedling planting and infill strategies, ensuring the replenishment of tree stock and enhanced productivity over time. Rejuvenation, on the other hand, focuses on revitalizing existing coffee trees through practices such as stumping and pruning, aimed at improving the vigor and yield of mature coffee trees. Together, these approaches form a comprehensive framework for restoring the health, sustainability, and economic viability of coffee farms, addressing both immediate and

long-term productivity challenges. By adopting this integrated perspective, the proposed intervention seeks to promote resilient coffee systems and secure livelihoods for farming communities.

The ECRF will offer a comprehensive solution to farmers, the recipients of loans and technical assistance, as well as to development actors and commercial investors. The fund will integrate loan- and grant-based financing, technical assistance, and capacity-building programs, fostering transformative change in Ethiopia's coffee sector and unlocking its full potential. It will pull resources from both public and private sources in a mostly market based and sustainable manner to provide financing and incentivize farmers to perform R&R. It will build the capacity of Ethiopia's coffee sector and financial ecosystem towards the rehabilitation of coffee farms.



# 2

## Objectives and options for the design of the ECRF



## 2.1 Objectives of the ECRF

The main goal of the funding facility is to increase Ethiopia's SHCFs access to finance so that they can make the necessary investments into R&R of their farms, increase their yields and incomes, thereby also growing Ethiopia's national coffee production and exports. To address each of the challenges mentioned in the introduction, the facility should also target several complementary goals to:

- Build the capacity of farmers to adopt GAP: to implement R&R investments, and to improve the management of farms going forward.
- Enhance the capacity and collaborations between actors of the ecosystem: SHCFs, cooperatives, traders, agronomists, and financiers.
- Improve the resilience of coffee production: resistance to pests, diseases, and improving the adaptation to climate change.
- Promote the compliance with EUDR and other anti-deforestation trade policies to come by creating further disincentives to deforestation.

## 2.2 Important aspects to consider for the design of the facility

To reach these goals, the scoping study helps to define key aspects that should drive the establishment of the fund. These were confirmed by interviews with stakeholders and can be summarized as follows:

- 1. Comprehensive loan financing:** The ECRF should offer loan-based financial support to SHCFs, with mechanisms in place to replace their income during the R&R process. Programs that promoted R&R without financing the unavoidable loss of income in the early years of R&R have failed to implement R&R at scale in small farms.
- 2. Blended finance instrument:** The ECRF should be designed as a blended finance mechanism that combines and strikes an appropriate balance between concessional funds from development actors with commercial capital from investors. This catalytic model helps pool enough resources to target most of the land in need of R&R in the country. It is also market-driven in the sense that it seeks to attract for-profit investors who would decide to take a portion of the risk involved in exchange for an economic return. Development funds would also help to partially de-risk investments and limit the cost of the loans, thereby bridging a gap between commercial investors and SHCFs.
- 3. Technical assistance:** Knowledge regarding financial implications of the loans, GAP, and specific techniques for planting, stumping, and pruning coffee trees should be taught to SHCFs and other actors of the financing and agriculture value chains. This assistance will be crucial for the success of R&R investments and be offered alongside financing.

**4. Build on the existing ecosystem:** Given the complex value chain in Ethiopia's coffee sector, the ECRF should strategically partner with local entities. Farmers' cooperatives and Savings and Credit Cooperatives (SACCOs) share pivotal in piloting R&R loan-based projects, giving SHCF a voice in the Ethiopian Commodity Exchange (ECX) and in channeling premium prices from certifications directly to smallholder farmers, thus contributing to the funding facility. Tree nurseries should have the capacity and knowledge to produce high-quality seedlings necessary for the renovation of farms. Local non-financial micro and small enterprises should also, through the ECRF, gain access to financing. Specialized

entities should also support the intervention in the provision of technical assistance.

**5. Government engagement:** The government's engagement with the ECRF is crucial – in leading the establishment of the facility, fostering an enabling environment (especially with regard to the regulatory framework and policy alignment), and supporting the implementation of activities (including the collection of data and measurement of outcomes). Aligning with government, the Ministry of Finance, the Ministry of Agriculture, and the ECTA's expectations is essential to ensure the sustainability and scalability of the ECRF.

## 2.3 Alternative approaches and recommendations

The ECRF can adopt different structural models to fulfil its objectives of promoting R&R in Ethiopia's coffee sector. Each model provides a distinct framework for establishing the fund and for integrating grants, commercial investments, and partnerships. The following three scenarios draw from experiences in financing agricultural investments:

**Scenario 1 - Gradual approach:** This model emphasizes a step-by-step implementation strategy from the viewpoint of the type of funding raised. In its initial phase, a pilot project relies solely on development and philanthropic actors providing the necessary resources, with the aim to demonstrate (not only to investors but to all stakeholders) the soundness and impact of the intervention, in the hope that future investments can be financed by private actors.

This approach allows for testing mechanisms before letting them be driven by market forces. While it allows to build investor confidence gradually, it requires a longer timeline and offers no guarantee that private actors will eventually assume responsibility for financing and scaling the intervention. The risk of siloed operations, particularly during the grant-funded phase, is also a concern.

Many programs illustrate this approach: with at least an initial phase focuses on providing inputs. TechnoServe's *"Tools for Stumping"* in Ethiopia, or Conservation International's *"One Tree for Every Bag"* in El Salvador, Guatemala, and Mexico are examples of such programs. While neither program explicitly

outlines future phases, their provision of essential inputs for R&R—tools in one case and seedlings in the other—suggests that as participating farmers experience increased production, the initiative could naturally lead to larger investments or enable farmers to self-finance an expansion of R&R on their farms.

**Scenario 2 - Matching approach:** Under this structure, the ECRF oversees the use of development grants to provide technical assistance and incentive payments to SHCFs. Private actors, such as microfinance institutions and cooperatives (MFIs), are expected to raise matching funds from investors.

The model's strength lies in its market-driven approach, as it requires investments from other actors to complement the investments channeled through the ECRF. However, its feasibility in Ethiopia's context is limited: while many microfinance institutions can legally raise funds from external investors, they continue to face liquidity constraints as they are often unable to secure long-term financing. Also, the absence of mechanisms to ensure alignment between grants and market conditions is an additional hurdle this model must face.

Facilities that make investments with co-financiers exemplify this approach. A recent example of this approach is the Climate Investment Funds' approval of a US\$37 million investment through its *Nature, People, and Climate Investment program* to help protect rural communities in Ethiopia from climate-related shocks.

*Indeed, this investment is dependent upon other actors – including the World Bank and the African Development Bank – mobilizing as much as US\$ 492 million.*

**Scenario 3 – Comprehensive approach:** This model establishes the ECRF as a centralized funding facility responsible for managing all aspects of the initiative, including grants, commercial investments, technical assistance, and stakeholder coordination. A phased implementation, starting with a smaller-scale pilot project before looking at a national-scale program, remains coherent with this approach.

By pooling resources and providing a holistic support system, this approach ensures alignment among diverse actors and immediate implementation of

market-driven interventions. It offers significant advantages, including streamlined operations, enhanced stakeholder collaboration, and controlled monitoring of risks and outcomes. However, it requires substantial upfront engagement from government, development partners, and private sector actors, as well as a sophisticated management structure.

Colombia's Permanency, Sustainability, and Future program illustrates this approach in many ways: implemented between 2008 and 2014, it provided coffee farmers with a R&R package consisting in a combination of agronomic and business assistance, inputs, as well as customized financial arrangements and incentives.

## Recommended approach

Given the urgency of addressing Ethiopia's aging coffee plantations and the need for sustainable, long-term investments, the third scenario (comprehensive approach) is the most suitable structure for the ECRF. It aligns stakeholders with complementary expertise and interests, ensures a coordinated response to systemic challenges, and leverages both

development and commercial funding to drive R&R at scale and in a manner that is innovative. While the approach demands substantial initial coordination and partnership-building, it offers the best prospects for achieving the fund's objectives effectively and sustainably.

# 3

## Proposed design and structure of the ECRF

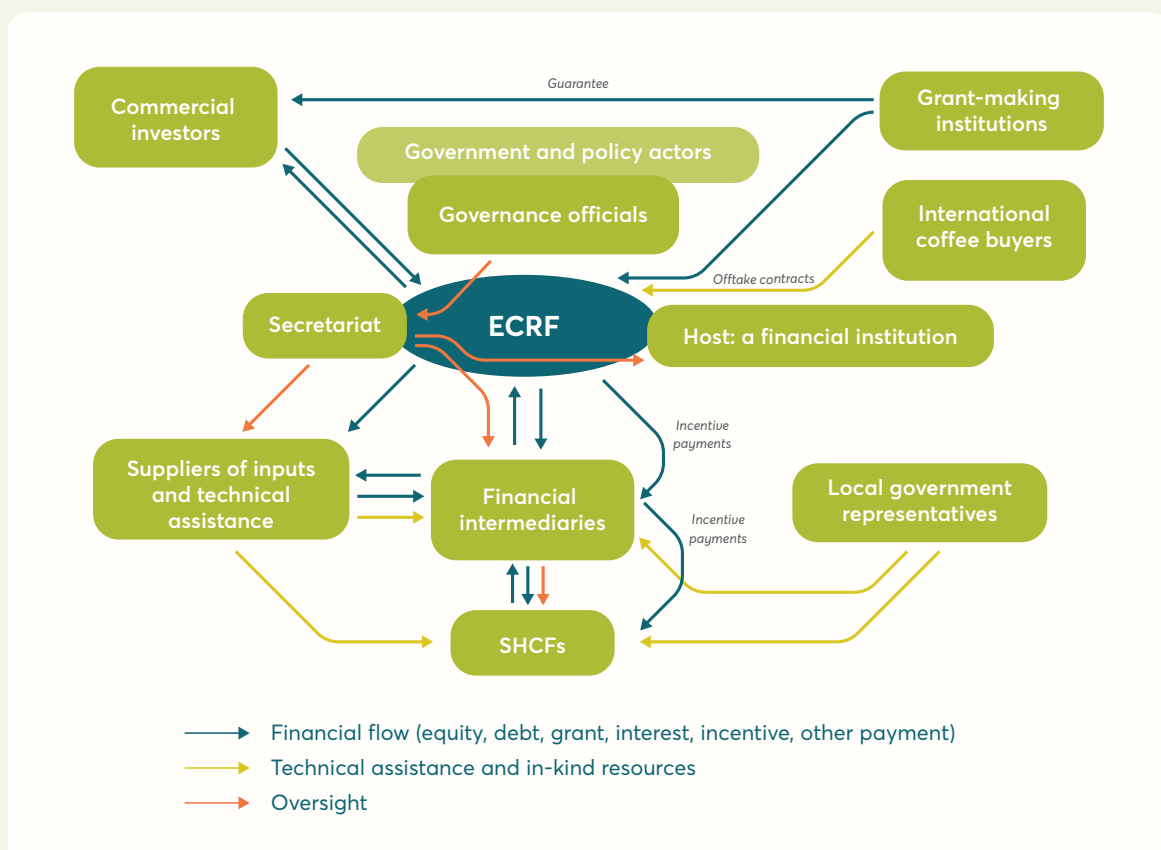


### 3.1 The overall design

In line with the recommendations in the previous section, the structure of the intended ECRF is further detailed. Under the third scenario above, the ECRF is established as a centralized funding facility responsible for managing all aspects of the initiative,

including financial flows, technical assistance, and stakeholder coordination. The following diagram (Fig1). describes the interaction between each stakeholder involved in the ECRF.

**Figure 1: ECRF structure and partners relations**



At its core, the ECRF manages financial flows and mainly acts as a link between funders, financial intermediaries (FIs), and SHCFs. The facility combines commercial investments and grants to fund its

activities. Grant-making institutions, on the one hand, provide resources that cover pay-on-performance incentives to farmers, financial intermediaries, input suppliers, and other relevant ecosystem actors.

These resources also cover the technical assistance destined to build the capacity of SHCFs and other stakeholders and the first-loss guarantee. Commercial investors, on the other hand, contribute repayable funds in the form of interest-bearing loans, which are channeled through the ECRF, then to FIs, and finally to SHCFs, allowing them to finance the R&R efforts on their farm.

The facility's governance structure includes a Secretariat responsible for operational management and coordination, supported by governance officials who provide strategic oversight. The Secretariat, composed of a small team of experts, ensures the smooth implementation of activities, reporting, and stakeholder engagement. External actors, including private banks, government entities, cooperatives, and business support organizations, play critical roles in disbursing funds, supplying inputs, and providing

technical assistance.

Key external partners include local banks hosting the ECRF, FIs structuring and offering microloans, cooperatives facilitating outreach to SHCFs, and stakeholders across the coffee value chain supplying essential inputs like equipment and seedlings. Technical assistance providers, including agronomists and financial advisors, further support SHCFs and financial intermediaries in maximizing the impact of R&R investments.

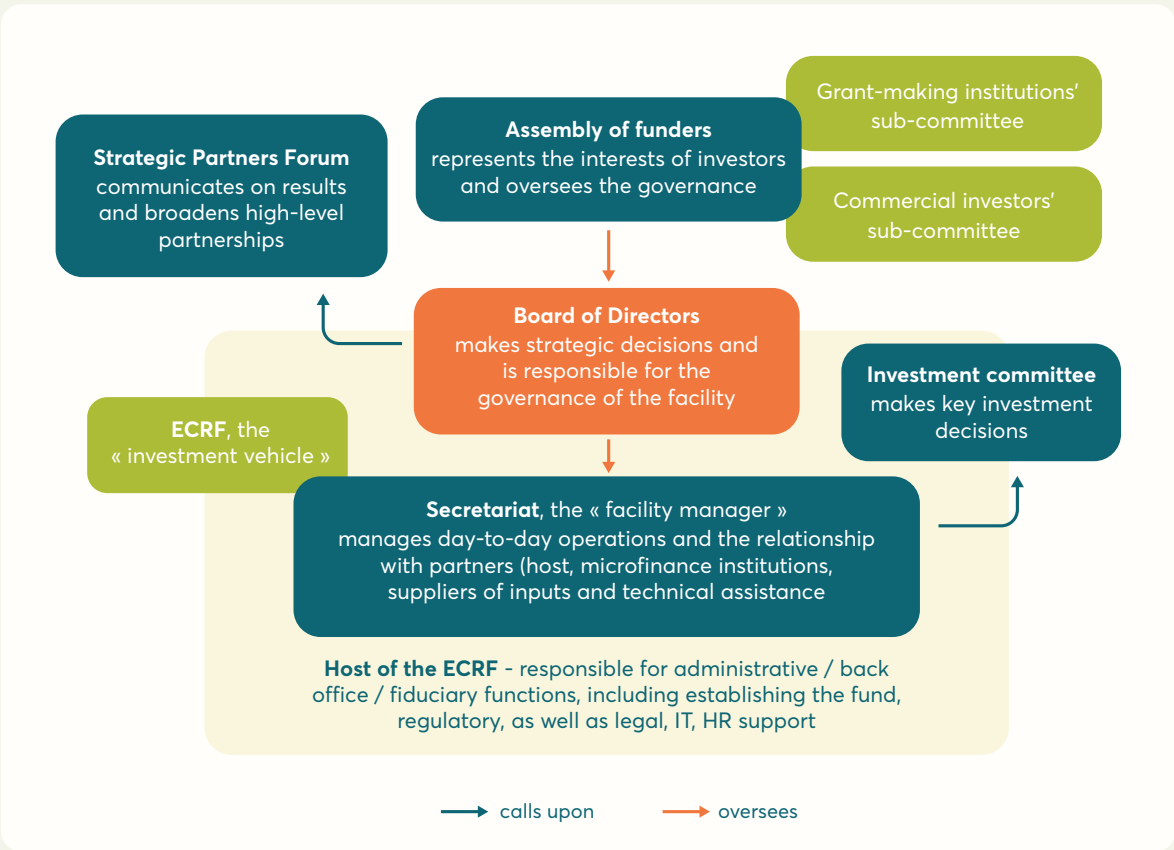
The ECRF's structure strategically avoids unnecessary complexity by focusing on core activities while leveraging partnerships with experienced local actors. This streamlined approach ensures feasibility while allowing the facility to achieve its goals of revitalizing Ethiopia's coffee sector and enhancing sustainability.

### 3.2 ECRF governance and management

The governance structure of the ECRF is designed to oversee both the complex financial flows and its engagements with multiple stakeholders: decision-making processes and responsibilities are clearly defined across various governance bodies. This structure also ensures accountability of the facility

manager, efficiency of operations, and alignment with the various stakeholders. The ECRF will engage multiple bodies to manage as well as oversee operations, report to funders, and achieve its objectives.

Figure 2: ECRF Governance and Management



At the heart of the governance framework is the **Secretariat**, which serves as the facility manager. This team of 3-7 experts will be hosted by a private financial institution – yet it remains independent from it and has the decisional authority conferred to it by the Board of Directors. It will coordinate all activities, from technical assistance to financial flows, and act as the central operational body. The Secretariat will evaluate technical providers, conduct due diligence, and present investment opportunities to the Investment Committee, reporting to the Board of Directors.

The **Assembly of Funders**, comprising commercial investors and grant-making institutions, will meet annually to review key developments, and elect the Board of Directors. It will be supported by subcommittees for donors and investors, which provide inputs to guide its discussions.

The **Board of Directors**, the primary decision-making body, will meet quarterly to oversee the ECRF's strategic direction and financial operations. It will approve the yearly audited financial statements and sustainability report. Its members, comprising 6-12 individuals, will include representatives from

grant-making institutions, commercial investors, government, and external experts in fields like agronomy and investment.

The **Investment Committee**, a subset of the Board collaborating with independent experts, will focus on evaluating and approving investment decisions based on analyses presented by the Secretariat. Comprising 3-5 members, this body ensures the separation of duties and limits risk in key financial transactions.

The **Host** is a private bank which will manage back-office functions such as compliance, HR, legal matters, and fiduciary responsibilities, drawing on its expertise in fund management in Ethiopia. External partners, including financial auditors and consultants, will support the bank in assessing the social and financial impact of the fund.

Lastly, the **Strategic Partners' Forum** will convene annually, bringing together high-level international coffee industry stakeholders and policymakers. This forum will provide an avenue for sharing results, seeking guidance, and fostering collaboration to promote sustainable development in Ethiopia's coffee sector.

### 3.3 A system of guarantees to ensure participation from commercial investors

To address the reluctance of commercial and foreign investors to make the long-term investments into Ethiopia's coffee value chain, the ECRF incorporates a robust system of guarantees to mitigate risks for investors and ensure their participation until the intervention is proven a success not only from a developmental standpoint but also from a commercial one.

The proposed guarantees are as follows:

#### i. Capital guarantee for commercial investors

A first-loss guarantee, financed by grant-making organizations, protects commercial investors by covering a portion of potential losses. This includes risks from currency fluctuations (USD/BIR exchange) over the term of the loans and repayment defaults from investees. The guarantee ensures that while investments remain market-driven, investor exposure to significant risks is substantially reduced. Drawing on the example from Root Capital's learning report on the Coffee Farmer Resilience Initiative, the proposed guarantee would cover first-loss exposure of up to 20% of repayable investments in the event of default.

#### Offtake contracts

Long-term purchase agreements with international coffee traders provide assurances of price stability and market demand. The ECRF will play a key role in facilitating offtake contracts between aggregators—such as unions, primary cooperatives, and exporters—and buyers, ensuring price stability and market access, while also ensuring timely loan repayments. These contracts, backed by the ECRF's framework, can serve as collateral for financial intermediaries, enabling SHCFs to access credit for R&R investments with greater security and confidence.

## ii. Collateral from financial intermediaries

Participating Financial Institutions (FIs) will pledge assets such as inventories, buildings, or land, covering a portion of loan principals. This collateral will also reduce the investor risk, while also incentivizing FIs to carefully assess borrower risk, monitor loans

effectively, and prioritize repayment collection efforts.

These guarantees collectively enhance investor confidence, support SHCFs in accessing financing, and ensure the sustainability of the ECRF's activities.

## 3.4 Investment process and characteristics

This section describes the investments that the ECRF will expect to make. Specifically, the ECRF will provide loans to FIs and farmers' cooperatives, which will, in turn, issue microloans to SHCFs to support their R&R efforts. An investee will first have to demonstrate that the institution meets criteria for eligibility. A due diligence phase will follow before the decision is made by the investment committee to offer it a loan and the specific terms of the loans will then be set.

To make the overall proposal and mechanism

concrete, the targeted characteristics of these investments are described below.

While it will be the responsibility of the ECRF to advertise the financing opportunity to FIs and select the ones that will be able to borrow from the fund and the precise terms and conditions of each of the loans. It will be the responsibility of the FIs to do the same with SHCFs: advertise the financing opportunity, select them, and decide of the exact terms of the loans – as long as these are aligned with the guidelines below.

### Eligibility criteria

Entities engaging in microfinance activities, such as standalone MFIs, SACCOs, farmers' cooperatives, and farmers' unions, will be eligible to borrow from the ECRF. These organizations must demonstrate the capacity to structure, monitor, and enforce microloan terms for SHCFs.

### Terms of loans to FIs

The loans issued by the ECRF to eligible FIs will be structured to maximize flexibility and minimize risks. Key terms include:

- **Investment size:** Ranging from US\$ 100,000 to US\$ 10,000,000 (in Ethiopian Birr equivalent), allowing funding for both small-scale and large-scale FIs (including unions and the microfinance institutions that have the status of banks).
- **Collateral:** at least 25% of the outstanding loan amount must be pledged by the FIs to the ECRF.
- **Disbursement:** Funds are provided to FIs in one tranche, aligned with the harvesting period and R&R investment timelines. Loan agreements with SHCFs should therefore be secured in advance to prevent unnecessary accrual of interest.
- **Grace period:** A three-year grace period on principal repayments to account for the non-productive period following R&R investments.
- **Inflation adjustment:** Loans will be pegged to official inflation rates, with bi-annual adjustments to safeguard investors against devaluation and limit the currency risk borne by the ECRF.
- **Interest rate:** Annual interest rates will range from 4–6%.
- **Term:** 6 years.

## Conditions and performance incentives for FIs

FIs must demonstrate that the funds are directed toward SHCFs performing R&R activities on their farms. The terms of these loans (amount, tenure, grace period, interest) must be in line with the fund's

guidelines. To promote effective use of funds, FIs will receive performance-based incentives in the form of partial debt forgiveness.

## Expected terms of the loans from FIs to SHCFs

- **Investment size:** Between US\$ 250 and US\$ 10,000 per farmer, depending on farm size and specific R&R requirements (modeled estimates use US\$ 2,010 loan for an archetypal farm of one hectare, where R&R is performed on 25% of the trees)
- **Grace period:** Three years to coincide with the non-productive period of stumped or replanted coffee trees.
- **Inflation adjustment:** Just as for loans to FIs, loans to SHCFs will be pegged to inflation to preserve the value of repayments. Farmer – whose revenues are loosely but still correlated to the international price of coffee – should be protected from the increase in consumer prices typically seen in Ethiopia.
- **Interest rate:** Annual interest rate of 10%. This rate is designed to strike a balance between affordability for farmers—ensuring they are not overburdened by debt—and financial viability for the facility, making it attractive to commercial investors and sustainable over the long term.
- **Term:** 5 to 6 years depending on the projected cashflows of the farm.
- **Conditions:** Loans must cover costs directly related to R&R, including seedlings, tools, labor, and income-loss compensation. Farmers must comply with environmental stewardship commitments, adhere to technical assistance programs, and submit to regular farm visits for monitoring.

## Farmer incentives

To further encourage participation and compliance, SHCFs will be eligible for performance-based incentives, authorized by the ECRF and paid through FIs. These incentives, amounting to up to 25% of the loan principal (over the course of the loan – although these should be split into multiple payments), aim to compensate farmers for loan interest during the initial years and reward them for adhering to loan terms and good agricultural practices. Recommendations

for incentives will be made by FIs and technical support providers, with sporadic checks by the ECRF secretariat to ensure compliance.

Through these characteristics, the ECRF establishes a comprehensive and practical financial model to support SHCFs, strengthen microfinance networks, and drive sustainable R&R investments in Ethiopia's coffee sector.

## 3.5 Envisaged size of the ECRF and needed resources

The ECRF is designed to support approximately 160,000 SHCFs cultivating a total of 55,000 hectares of coffee farmland. This estimate is based on the assumption that 10% of all SHCFs in Ethiopia whose land requires R&R will participate in the initial cycle of the program. Since each farm is expected to carry R&R activities on 25% of its land (cf. FOLU's Scoping

study), this translates into the rehabilitation of 13,700 hectares.

To fund this effort, the ECRF requires to raise funds of a total of **US\$ 160 million: US\$ 110 million in repayable financing**, calculated based on an estimated loan amount of US\$ 2,010 per hectare for R&R investments (ibid).<sup>1</sup> Additionally, **grants totaling US\$ 50 million**

<sup>1</sup> The repayable financing targets a 4% annual return, calculated as follows: 10% interest paid by farmers, less 5% margin retained by financial intermediaries, less 1% fee retained by the ECRF for its management.

are needed to cover the costs of performance incentives, technical assistance, and the operational management of the ECRF during one program cycle.<sup>2</sup> This combined funding<sup>3</sup> ensures that farmers receive

the financing they need to conduct R&R, along with the necessary support and capacity-building to maximize the success of their investments.

### 3.6 Progress and performance monitoring

The monitoring of the ECRF will be performed through the collection and analysis of several Key Performance Indicators (KPIs). These will not only allow incentive payments to be made but will also allow the secretariat to build a dashboard and thus continuously keep track of the operations and performance of the transactions with FIs and with SHCFs.

The KPIs monitored will include the following measures, which will be aggregated at the Microfinance Institutions (MFIs) level and supported by information compiled by local representatives of the Ethiopian government. The aspects listed below are expected to be used for incentive payments and to be monitored on an annual basis:

- Characteristics of the microfinance institution's portfolio: number of farmers (disaggregated by gender) who obtained loans vs. target,

payback rate, outstanding value of loans to SHCFs vs. loan from ECRF to the MFI, average term, average interest charged, weighted-average number of years left, number and outstanding value of loans to SHCFs in arrears and in default, incentive paid.

- Characteristics of the farms benefiting from credits: average size of the harvested areas, age of trees, altitude, yields per hectare, percentage of harvest which has certifications,
- Status of the investments made by SHCFs: these can be checked through number of trees replanted by SHCFs to date vs. target, number of trees stumped to date vs. target, percentage R&R area harvested, yields during the period vs. target, amount of incentive paid.
- Prices per kg of green-coffee-bean equivalent at farm gate.

### 3.7 Technical assistance and complementary services

The ECRF recognizes that effective financial support must be complemented by robust technical assistance (TA) and capacity-building initiatives to ensure the sustainability and impact of R&R investments. These services are designed to equip SHCFs and other stakeholders with the knowledge, skills, and tools necessary for successful implementation and long-term benefits.

#### Farmer support and capacity building

SHCFs will receive targeted technical assistance to build their capacity in GAP and R&R techniques. This includes agronomic advice on selecting suitable coffee varieties, optimal replanting and stumping methods, and maintenance protocols to sustain yield improvements. Demonstration plots will be established to showcase successful R&R practices, allowing farmers to witness firsthand the benefits of adopting these techniques. Financial training will also be provided to enhance farmers' understanding of loan mechanics and the profitability of R&R investments.

#### Stakeholder engagement and behavioral change

The ECRF aims to drive behavioral change across the coffee supply chain. This includes fostering a commitment

<sup>2</sup> Grants include payments for technical assistance, pay-for-results incentives, as well as a 1%-of-program-spending fee collected annually by the ECRF for its management.

<sup>3</sup> This specified funding does not include the first-loss guarantee to investors. The guarantee mechanism would require US\$ 22 million to be made available – through callable funds – to the ECRF in case of need (ie, defaults).

among farmers to make long-term agricultural investments, encouraging investors to support Ethiopia's coffee sector, and incentivizing FIs to develop loan packages aligned with R&R needs. Additionally, coffee traders will be encouraged to enter long-term purchase agreements to reduce price volatility and promote sector sustainability.

## Digital tools and monitoring systems

To support transparency and accountability, SHCFs and other partners will have access to digital tools for tracking and reporting R&R activities. For instance, devices and software will enable SHCFs to document tree stumping, replanting, input usage, and yield data, which can then be monitored by FIs and shared with ECRF stakeholders. The use of digital lending platforms will also be promoted and leveraged to ensure that smallholder coffee farmers' can apply and access funding in an efficient manner using applications on their phone, particularly in remote areas. Training will be provided to ensure effective use of these tools.

## Conditions for participation

Participation in technical assistance programs will be a prerequisite for accessing loans and incentive payments. Farmers and financial intermediaries must demonstrate active engagement and compliance with TA programs, ensuring alignment with the ECRF's objectives. This integrated approach reinforces the effectiveness of R&R investments and drives long-term, sustainable improvements in Ethiopia's coffee sector.

## 3.8 Risks and mitigation

The ECRF presents an ambitious and innovative approach to addressing one of the primary barriers to R&R in Ethiopia: access to finance. While its integrated design and compartmentalized governance structure enhance its robustness, several risks must be addressed to ensure successful implementation.

### i. Complexity and administrative hurdles

The establishment of an innovative facility like the ECRF requires creating a network of partnerships and navigating administrative challenges. Mitigating these risks involves leveraging the expertise of key institutions in Ethiopia, particularly the financial institution hosting the ECRF, which will provide legal and administrative support. Early validation of stakeholders and careful identification of partners will be critical to addressing these hurdles effectively.

### ii. Engaging with farmers

One of the most significant risks is the reluctance of SHCFs to participate in R&R investments, particularly during the initial phases. This can be mitigated by showcasing the benefits of R&R through demonstration plots, robust outreach by microfinance institutions and cooperatives, and tailored technical assistance. These efforts will help build trust and demonstrate the long-term value of participation to SHCFs.

### iii. Securing adequate funding

Convincing diverse investors—both grant-making institutions and commercial entities—to commit to the substantial funding required poses a significant challenge. Initial stakeholders, the Secretariat, and the Board of Directors will need to conduct focused fundraising activities and clearly articulate the rationale and potential impact of the ECRF. A phased approach to fundraising, starting with a smaller-scale pilot project, blending development funds and impact investments, will serve as a proof of concept, attracting additional investment over time.

Through these mitigation measures, the ECRF aims to overcome challenges and establish itself as a sustainable and impactful initiative in Ethiopia's coffee sector.

# 4

## Action plan



The following action agenda was developed to create a dynamic roadmap of the specific steps and initiatives required to set up the ECRF. It includes eight building blocks:

1. Strategic foundations of the ECRF and partnerships development
2. Legal establishment and operational framework
3. Financial modelling and capitalization
4. Pilot testing and iterative improvement
5. Human resources and capacity building
6. Risk management, sustainability, and internal controls
7. Monitoring, evaluation, and learning
8. Scalability and expansion

Within each building blocks, a list of actions are established and related to a timeframe and to the identification of one actor expected to take the lead. The timeframe is categorized as "immediate" (0 to 6 months) which can be understood as actions to be done as soon as possible; "short-term" (6 months to 2 years from now), which is a relatively brief period; "medium-term" (2 to 4 years), which is an intermediate duration; and "long-term" (over 4 years), which is an extended period focused on broader strategic activities.

It is important to note that a pilot project proposal and validation workshop will be developed as part of this project. These steps will provide opportunities to validate the financial mechanism with key stakeholders, including government institutions, cooperatives, financial institutions, and development partners. These milestones will also help to garner support from the Government of Ethiopia and to identify a suitable host for the fund.

### Building Block 1: Strategic foundations of the ECRF and partnerships development

Goal: Establish a clear strategic direction for the ECRF with well-defined objectives.

| #   | Action                                                                                                                                                                                                                                                 | Timeframe  | Actors                                  |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-----------------------------------------|
| 1.1 | Organize an expert consultation to fine-tune the financial mechanism (e.g., retreat in a working group format with selected stakeholders of the initiative, including potential donors, investors, implementors, partners, as well as outside experts) | Immediate  | FOLU                                    |
| 1.2 | Secure support and alignment with the Ethiopian government (Agricultural Transformation Institute, Investment Commission, State Ministers, Minister of Finance, Minister of Agriculture, and Prime Minister's office)                                  | Immediate  | FOLU / ECTA                             |
| 1.3 | Identification and selection of a financial institution to establish and host the fund.                                                                                                                                                                | Immediate  | ECTA                                    |
| 1.4 | Selection of eligible cooperatives, brokers, unions, processing facilities, and micro-financial institutions to link funds with SHCFs.                                                                                                                 | Immediate  | ECTA and Federal Cooperative Commission |
| 1.5 | Identification and selection of relevant capacity building facilitators for both agricultural assistance and financial assistance.                                                                                                                     | Immediate  | ECTA                                    |
| 1.6 | Selection of relevant partners such as suppliers of seedlings and of necessary inputs.                                                                                                                                                                 | Immediate  | ECTA                                    |
| 1.7 | Formalization of partnerships through MOUs.                                                                                                                                                                                                            | Short-term | ECTA and Secretariat                    |

### Building Block 2: Legal establishment and operational framework

Goal: Create a formal entity with a clear operational framework, ensuring legal compliance.

| #   | Action                                                                                                                                                                                               | Timeframe  | Leading actor                     |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-----------------------------------|
| 2.1 | Determination of the most appropriate legal form for the ECRF.                                                                                                                                       | Immediate  | Selected host                     |
| 2.2 | Establishment of an internal governance framework outlining roles and responsibilities of key personnel.                                                                                             | Immediate  | ECTA / FOLU                       |
| 2.3 | Liaising with Ethiopian policy makers on national frameworks relevant to this initiative (incl. blended finance framework, public-private partnership proclamation, and the investment proclamation) | Short-term | Secretariat / Ministry of Finance |
| 2.4 | Preparation of operational policies and procedures, including risk management, loan disbursement, and safeguards.                                                                                    | Short-term | Secretariat                       |
| 2.5 | Assessment of regulatory requirements and ensure regulatory compliance, obtain necessary licenses and permits, especially for financial activities.                                                  | Short-term | Selected host                     |
| 2.6 | Formal registration of the ECRF.                                                                                                                                                                     | Short-term | Selected host with Secretariat    |
| 2.7 | Setting up of accounting systems and financial reporting frameworks in line with international standards.                                                                                            | Short-term | Selected host with Secretariat    |
| 2.8 | Implementation of financial management software for accurate portfolio management.                                                                                                                   | Short-term | Selected host with Secretariat    |

### Building Block 3: Financial modelling and capitalization

Goal: Secure the financial viability of the ECRF through sustainable financial models and resource mobilization.

| #   | Action                                                                                                                                                                                                                         | Timeframe  | Leading actor             |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|---------------------------|
| 3.1 | Prospection for funding: identification of potential investors, businesses, and development actors.                                                                                                                            | Immediate  | ECTA / FOLU               |
| 3.2 | Development of a clear plan for initial capitalization with commitments from various sources.                                                                                                                                  | Immediate  | ECTA                      |
| 3.3 | Design of resilient financial models accommodating sector needs and market risks.                                                                                                                                              | Short-term | Secretariat               |
| 3.4 | Open of the first fundraising roundtable, focused on funding the pilot, leading to the signature of the contractual agreements with and between investors (including guarantee, grant obligations, debt/equity documentation). | Short-term | Board of Directors        |
| 3.5 | Prospection and opening of the second wave of funding for the national scaling up of the program.                                                                                                                              | Long-term  | Board of Directors / ECTA |

### Building Block 4: Pilot testing and iterative improvement

Goal: Test and improve the ECRF design through pilot testing in representative regions.

| #   | Action                                                                                                                                         | Timeframe   | Leading actor                      |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------|-------------|------------------------------------|
| 4.1 | Development, identification, and execution of a detailed pilot testing plan, which includes region, target group, model farm(s), and partners. | Immediate   | FOLU / ECTA                        |
| 4.2 | Fix terms of contractual agreements with partners (debt agreement with cooperative, service agreements with other implementing partners).      | Short-term  | Secretariat / Investment committee |
| 4.3 | Deployment of monitoring and data collection for performance indicators during the pilot phase.                                                | Short-term  | Secretariat                        |
| 4.4 | Definition of final metrics.                                                                                                                   | Short-term  | Secretariat                        |
| 4.5 | Organize stakeholder feedback and reporting mechanisms and apply findings to improve the ECRF design.                                          | Medium-term | Board of Directors                 |

### Building Block 5: ECRF's human resources and capacity building

Goal: Enhance the capacity of the ECRF team and implementing partners.

| #   | Action                                                                                                                                     | Timeframe   | Leading actor      |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------|-------------|--------------------|
| 5.1 | Recruitment of a team for the secretariat: individuals with experience in fund management, agricultural finance, and development projects. | Short-term  | ECTA               |
| 5.2 | Identification of initial governance officials: Board of Directors, Investment Committee.                                                  | Short-term  | ECTA               |
| 5.3 | Definition of human resource policies and staff training programs to build institutional capacity.                                         | Short-term  | Board of Directors |
| 5.4 | Design and deliver training programs tailored to various stakeholders for R&R implementation.                                              | Medium-term | Secretariat        |

### Building Block 6: Risk management, sustainability, and internal controls

Goal: Manage risks proactively and integrate sustainability principles into ECRF activities.

| #   | Action                                                                                                                                       | Timeframe   | Leading actor      |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------|-------------|--------------------|
| 6.1 | Conduction of a detailed risk mapping exercise and development of a risk management plan.                                                    | Short-term  | Secretariat        |
| 6.2 | Investigate solutions to mitigate currency risks (USD/ETB and EUR/ETB) for the ECRF: offtake contracts as well as currency hedging contracts | Short-term  | Secretariat        |
| 6.3 | Creation a sustainability charter outlining commitments to environmental, social and governance standards.                                   | Medium-term | Secretariat        |
| 6.4 | Development of internal control mechanisms and establish audit procedures to maintain financial integrity.                                   | Medium-term | Board of Directors |

### Building Block 7: Monitoring, evaluation, and learning

Goal: Establish a system for ongoing assessment of the ECRF's impact and promote a learning environment.

| #   | Action                                                                                                         | Timeframe   | Leading actor |
|-----|----------------------------------------------------------------------------------------------------------------|-------------|---------------|
| 7.1 | Identification and selection of relevant impact measurement tools and service providers.                       | Immediate   | ECTA          |
| 7.2 | Definition of KPIs linked to strategic objectives and implement technology solutions for data analysis.        | Short-term  | Secretariat   |
| 7.3 | Establishment a robust monitoring and reporting system to track the performance and impact of funded projects. | Medium-term | Secretariat   |

### Building Block 8: Scalability and expansion

Goal: Position the ECRF for growth and replication, extending its impact within the coffee sector and beyond.

| #   | Action                                                                                                                                                | Timeframe   | Leading actor      |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|--------------------|
| 8.1 | Creation of an outreach strategy and development of communication and marketing materials to inform SHCFs and other stakeholders about ECRF services. | Medium-term | Secretariat        |
| 8.2 | Exploration of opportunities to apply the ECRF model to other agricultural sectors or geographic regions                                              | Long-term   | Board of Directors |
| 8.3 | Promotion of the ECRF in international settings to explore scaling up technical assistance and co-financing opportunities.                            | Long-term   | Board of Directors |
| 8.4 | Exploration of a nationwide project in collaboration with the government of Ethiopia.                                                                 | Long-term   | Policy actors      |

# 5

## Conclusion





The ECRF represents a bold and comprehensive approach to addressing critical challenges in Ethiopia's coffee sector. By combining innovative finance mechanisms such as blended finance and pay-for-performance incentives, complemented by technical assistance and coordinated stakeholder engagement, the ECRF aims to revitalize smallholder coffee farms at scale, enhance productivity, and promote sustainability in the coffee sector.

This proposal outlines a structured framework for establishing the ECRF, emphasizing the importance of collaboration between public, private, and development actors. Through its integrated design, the ECRF not only seeks to address systemic barriers to finance but also

aims to foster behavioral change across the coffee value chain. By implementing a phased and adaptable approach, starting with a pilot project before scaling up the intervention, the fund can demonstrate its feasibility and impact, attracting further investment and strengthening Ethiopia's position as a global coffee leader.

As the initiative moves forward, the commitment from all stakeholders—government, co-operatives, microfinance institutions, and investors—will be critical. Together, these efforts will ensure that the ECRF delivers transformative impact, securing livelihoods for Ethiopia's coffee farmers and contributing to the sustainable growth of the sector.



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