Coffee Production in Ethiopia

A Call for Renovation and Rejuvenation

Scoping Study & Concept Proposal for Ethiopian Coffee Rehabilitation Fund

May 2026

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ETHIOPIAN
COFFEE AND TEA AUTHORITY

The
Food and Land Use
Coalition

STORI

Message of the Director General of ECTA

Adugna Debella (PhD)

It is my great pleasure to deliver a short message on this important document, which will play a key role in Ethiopia's coffee development sector.

Agriculture plays a number one role in Ethiopia's economy, accounting for over 80% of foreign exchange earnings about 34% of GDP, making it the linchpin of the national economy. Within the agricultural sector, the coffee industry holds significant importance, particularly in contributing to both the overall economy and the export sector.

As it is well known, Ethiopia is the home of Organic Arabica coffee, known for its aroma and taste. The country is the leading African country in supplying our favorite and best-selling products to the world market. About 25% of the country's population, including more than 6 million small coffee farmers, has made a living from coffee.

Our coffee is the backbone of the country's economy, accounting for 35 percent of total agricultural exports. The government of Ethiopia has given significant and renewed attention to the coffee sector, recognizing its critical importance to the national economy and the livelihoods of millions of people. This focus is formalized in national strategies and has resulted in record export revenues in recent years.

The sector is experiencing a significant boom, with record-breaking export revenues of over 2.65 billion USD by exporting 470,000 tons of coffee in the last fiscal year, driven by various initiatives undertaken by the government. The coffee sector's recent strides are supported by government reforms, improved supply chain efficiency, large-scale planting initiatives, and new international market access.

However, given its potential, neither the country nor the farmers are benefiting as much as they should. Production and productivity are very low; many coffee plants are aged and infected by diseases. To solve this problem, the government has made many efforts, especially over the past five years.

Among these, the green development path and replacing old coffee trees with new ones/rejuvenation have been instrumental in the coffee sector's growth. In the past five years, over 500,000 hectares of coffee plantations have been renovated and Rejuvenated, and the gap in awareness among farmers has also been reduced. In addition, coffee exports to the international market are showing significant changes in both quantity and quality. These practices are crucial for the long-term sustainability and resilience of the global coffee industry. So, it needs to be continued and strengthened further.

However, given the extent of the problem, the efforts taken so far are insufficient to address low coffee productivity. There is a long way to go before smallholder coffee farmers can actively adopt coffee renovation and rejuvenation. Providing access to sustainable, tailored financial services for R&R is extremely important. To this end, a comprehensive support structure, including finance, technical support, inputs, and technologies, is needed. Establishing a funding facility to support coffee production and address the systemic bottlenecks faced by smallholder coffee producers is both timely and essential.

Success on the path ahead hinges on a coordinated strategy that engages government, private sector, research centers, industry owners and local and international stakeholders. By fostering collaboration and implementing both targeted and comprehensive interventions, Ethiopia can cement its status as a global leader in coffee production while improving the well-being of its communities and ecosystems.

Message from FOLU Ethiopia Country Director

Sofia Ahmed

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. United by a shared vision of rapid and transformative change, the coalition comprises seven country platforms (Brazil, China, Colombia, Ethiopia, India, Indonesia, and Kenya), eight core international partners[1], and over 50 Ambassadors. FOLU promotes diversity, embraces innovative and systems thinking, and fosters consensus through evidence-based approaches to ensure that both people and nature can prosper.

FOLU Ethiopia has the honor of commissioning and presenting "Coffee Production in Ethiopia: A Call for Renovation and Rejuvenation – Scoping Study & Concept Proposal for the Ethiopian Coffee Rehabilitation Fund," a report prepared in collaboration with the Ethiopian Coffee and Tea Authority and conducted by Stori[2]. This report represents a comprehensive and timely contribution to ongoing efforts to transform Ethiopia's coffee sector, offering a strong analytical foundation for the establishment of the Ethiopian Coffee Rehabilitation Fund by clearly identifying the key challenges and opportunities within the country's coffee production systems. Developed through participatory and inclusive approaches, the study ensures that its findings are grounded in practical realities and enriched by diverse stakeholder perspectives. The report is structured in two main parts: the first presents the scoping study, which examines the current state of coffee production in Ethiopia and analyzes the potential for coffee renovation and rejuvenation, including its implications for smallholder farmers; the second outlines a concept proposal introducing an innovative financing mechanism to promote Coffee Renovation and Rejuvenation (R&R) across coffee farms.

The results of the study underscore the urgent need for bold, coordinated, and structural interventions to revitalize Ethiopia's coffee sector. In particular, it highlights how targeted renovation and rejuvenation efforts can significantly enhance productivity, improve farmer livelihoods, and strengthen resilience to climate and market shocks. These insights make a compelling case for scaling up investment and aligning efforts across public and private actors. This publication goes beyond analysis by presenting a well-designed concept proposal for the establishment of the Ethiopian Coffee Rehabilitation Fund. The proposal offers a rationale and clear pathway for mobilizing resources, coordinating stakeholders, and implementing sustainable financing mechanisms to support long-term coffee sector transformation in Ethiopia.

FOLU is pleased with the completion and publication of this work and expresses its gratitude to Norway's International Climate and Forest Initiative (NICFI) and Norwegian Agency for Development Cooperation (Norad) for financial support, as well as to the many individuals and institutions who contributed their time and expertise. The report also benefited from contributions by external reviewers[3] and members of the FOLU coalition secretariat. The views expressed, however, remain those of the authors and do not necessarily reflect those of the supporting institutions.

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

2 Stori's team was led by Franklin Riboud and included the participation from Iván Stola, Tsion Lemawossen Demissie, and Tadesse Woldemariam Gole.

3 External reviewers we wish to thank include Gashaw Abate from IFPRI, Ben Cohen from WBCS, Mauricio Benitez from Big Valley, and Dawit Ayele from Growth Capital Analytics.

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Part One

Scoping Study

Executive Summary

Ethiopia, as the birthplace of Arabica coffee and Africa's largest coffee producer, holds a critical position in the global coffee market. The sector contributes 30–35% of Ethiopia's export earnings, supports the livelihoods of 25% of the population, and plays a vital role in the country's culture and economy. However, the industry faces significant challenges, including low productivity. Smallholder coffee farmers, who grow coffee on plots of land smaller than two hectares, harvest 95% of the coffee produced in the country. Most of them depend on coffee production for their sustenance. Yet, most of them produce coffee using traditional techniques with limited adoption of good agronomic practices. Many of them live below the poverty line. Climate change and diseases are increasingly affecting coffee farms. The sector is also subject to stringent compliance requirements and volatile prices in international coffee markets. Addressing these issues is essential to ensuring Ethiopia's continued prominence in the global coffee trade and improving the livelihoods of its farmers.

Renovation and rejuvenation programs as key drivers for improving yields

This scoping study identifies renovation and rejuvenation as the cornerstone strategy to revitalize Ethiopia's coffee sector. Many coffee farms are overdue for interventions such as replanting and stumping, which, when combined with good agricultural practices, could significantly increase national production. Implementing such a strategy stands not only to increase yields, but also farmers' income, as well as improve the resilience and sustainable growth of the coffee production sector. Additionally, by increasing productivity, this strategy also increases the value of existing coffee plantations and can thus help curb deforestation.

Despite its transformative potential, implementing this strategy poses significant challenges, including relatively high costs and multi-year investments, as well as the complexity of deploying it across a fragmented value chain. Additionally, coffee farmers face systemic barriers to accessing the finance, inputs, and technical assistance they need.

Financial implications for a typical farm in Ethiopia

Renovating and rejuvenating coffee plantations has several financial implications at the farm level. It requires financing to cover the costs of inputs and the income loss incurred while stumped or newly planted trees become productive again. As such, it is essential to demonstrate that the investment is ultimately a profitable one, so that farmers can repay their loans as production levels rise.

Taking the example of an archetypal farm of one hectare, an intervention on 25% of that parcel is considered with a mix of trees replanted and stumped. The costs incurred for that farm are estimated at US$ 2,750. Following three years of decreased production, production levels will rapidly resume and surpass previous levels, allowing a loan to be repaid progressively over six years. Once the loan is repaid, the farmer will then wholly benefit from the increased production value until the next cycle of renovation and rejuvenation. Increased productioniv for a period of 10 years is estimated to represent US$ 5,550. The return on investment over this period exceeds 100%, making it a highly profitable investment.

A complex macroeconomic context and coffee value-chain challenges

The Ethiopian government has taken significant economic reform measures to promote growth and development. Key among these is the comprehensive Homegrown Economic Reform (HGER) program, designed to correct macroeconomic imbalances, remedy sectoral bottlenecks and structural impediments, rebalance the sources of Economic growth, and unlock new growth opportunities. Implementation of this reform agenda has greatly contributed to the economy's resilience-building and helped to withstand the impact of the complex challenges it has faced.

Over the past five years, Ethiopia has made remarkable strides in its coffee sector, doubling annual production from about 500,000 tons to over 1 million tons and generating export revenues surpassing 2.6 billion USD. This achievement is not just about numbers—it reflects the government's deliberate efforts to modernize the sector, improve quality, and expand international market access.

Initiatives such as the Green Legacy program, which encouraged nationwide planting of coffee seedlings, are contributing to improved coffee productivity. Policy reforms, including expanded trade opportunities for farmers and exporters, have also strengthened Ethiopia's position as a global coffee powerhouse. For many smallholder farmers, these changes have meant better recognition of their work and a stronger sense of pride in contributing to the country's most iconic export. [1]

Yet, challenges remain deeply rooted in the production areas. Despite the growth, smallholder farmers—who form the backbone of Ethiopia's coffee industry—still struggle with limited access to modern farming inputs, financial services, and processing facilities, and with poor infrastructure that makes transporting coffee from rural farms to markets difficult. Inflation and foreign exchange shortages have further strained their ability to invest in better tools or expand production. Many farmers continue to earn only about 60% of the export price, well below that of their counterparts in other coffee-exporting nations.

The role of microfinance institutions in offering microloans and the type of financing needed

Microfinance institutions, with over 50 entities serving millions of clients nationwide, play a vital role in providing financial services to a large portion of the population. Coffee cooperatives, beyond the technical support and processing services they provide to farmers, also support their members with financing. However, challenges such as low repayment rates, liquidity constraints, and weak infrastructure hinder these organizations' effectiveness. Strengthening collaborations between microfinance institutions and cooperatives, alongside addressing gaps in education, finance, and infrastructure, is critical to maximizing their impact.

Furthermore, the existing financial products farmers can access are poorly suited to their needs, offering short-term loans tied to single harvest cycles and imposing strict collateral requirements. To be attractive to farmers and fit with the type of investment they need in their coffee farm, financing requires long-term commitments with terms extending beyond five years, interest rates commensurate with the level of inherent risk, as well as appropriate grace periods. Comprehensive solutions must combine loan-based and grant-based programs, leveraging blended finance to attract investments from both public and private sectors. Effective financing mechanisms should also be accompanied by support for essential inputs and capacity building.

Initiatives like the Oromia Forested Landscape Program and EU-Coffee Action for Ethiopia offer valuable lessons, but scaling these efforts will require more comprehensive and tailored financial products and partnerships across the value chain. Ethiopia's ongoing economic reforms, including new policies to attract foreign investment and foster competitive financial markets, hold promise for improving access to financing. [1]

Paving the way for increased productivity and improved livelihoods

Ethiopia's coffee sector is of critical importance, not only as a cultural heritage but also as a cornerstone of the national economy and a vital source of livelihoods. Despite its potential, the coffee production sector faces persistent challenges, including low productivity, climate change impacts, pests, and diseases affecting trees. Inadequate access to finance, insufficient access to inputs, and insufficient knowledge further exacerbate these challenges for smallholder coffee farmers. Addressing these challenges requires a comprehensive intervention to renovate and rejuvenate coffee farms, combining improved access to credit with the capacity-building of farmers to employ good agricultural practices.

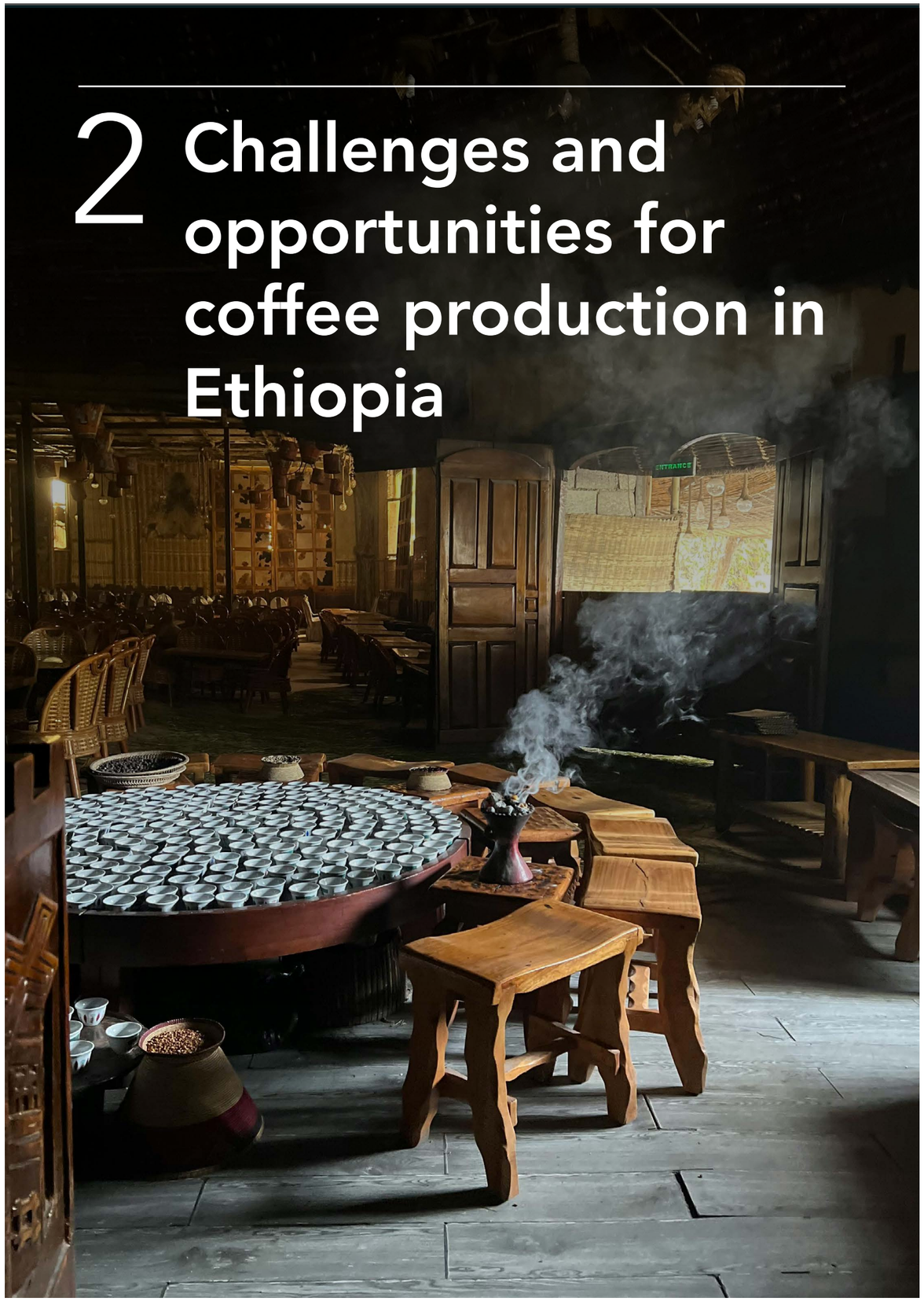
To catalyze such interventions, this study recommends exploring the establishment of a dedicated fund to support smallholder coffee farmers. This fund would provide much-needed financial support and technical assistance for the renovation and rejuvenation of coffee farms, drawing on contributions from agronomists, development partners, and national and international actors in the lower part of the value chain.

By fostering coordinated investment and innovation, the fund can unlock the sector's potential and drive long-term, sustainable growth. Further exploration and stakeholder consultation are essential to define the fund's structure, governance, and operational priorities, ensuring it effectively addresses the unique needs of Ethiopia's coffee sector.

1 iv As compared to a scenario where the farmer neither stumps nor replants trees.

1 Introduction

2 Challenges and opportunities for coffee production in Ethiopia



Coffee holds a unique and central place in Ethiopia's economy, society, and culture. As expressed by a high-level Ethiopian government representative: "Coffee (…) is the country's main source of income and an integral part of society. Investing in the sector is also supporting the country at large."

Ethiopia is considered the birthplace of Arabica coffee and is Africa's largest coffee producer. The country ranks third globally in Arabica coffee production and fifth in Arabica coffee exports, with annual export revenues of around US$1.4 billion. [2] Coffee constitutes 30-35% of Ethiopia's export earnings (ibid). More than six million smallholder farmers cultivate coffee, directly or indirectly supporting the livelihoods of up to 25% of the population (ibid). Beyond its cultural and economic significance, coffee cultivation in Ethiopia is also connected to improved food security. [3]

Despite its importance to the global coffee industry, Ethiopia's coffee sector faces critical challenges. Productivity is low mainly because of aging coffee trees and limited adoption of good agricultural practices. Smallholder farmers, who grow coffee on plots of land smaller than two hectares, harvest 95% of the coffee produced in the country. Many of these farmers live below the poverty line. Climate change, particularly rising temperatures, is affecting coffee farms in lower-altitude areas.

The Food and Land Use Coalition (FOLU) promotes sustainable food and land use systems to accelerate economic development. It observes that unsustainable agricultural practices come at a cost to nature, the climate, and people. Not only is it a key driver of deforestation, biodiversity loss, and water degradation, but current food production systems are responsible for a third of global greenhouse gas emissions, and millions remain hungry and malnourished, while millions of smallholder farmers are locked into poverty. Through its platform in Ethiopia, FOLU provides policy recommendations and actions to transform the country's food and land-use system. Focusing particularly on coffee production, it has sought to improve the productivity of the country's smallholder coffee farmers and their livelihoods. In doing so, FOLU Ethiopia also expects to contribute to the protection and restoration of forestland.

This scoping study leverages FOLU's and other stakeholders' knowledge to analyze Ethiopia's coffee sector, identify its main challenges, and assess opportunities for meaningful development.

2.1 The coffee productivity challenge in Ethiopia

With yields per hectare lagging considerably behind other leading coffee-producing nations, Ethiopia's coffee productivity is about 75% lower than Vietnam's, 56% lower than Brazil's, and 22% lower than Colombia's. [4]

Table 1. Green coffee production indicators for leading producers (2021)

Country	Action	Area	Yield (ton/Ha)
Brazil	2,993,780	1,836,741	1.6
Vietnam	1,845,033	653,192	2.8
Colombia	754,620	840,112	0.9
Indonesia	765,415	1,249,615	0.6
Ethiopia	1,200,000	685,294	0.9
Uganda	374,760	692,553	0.5
India	334,000	422,924	0.8
Honduras	400,674	336,318	1.2
Peru	365,582	454,717	0.8
Mexico	174,341	641,799	0.3

Source: [5]

A significant contributor to the relatively low productivity of Ethiopia is its old coffee trees and limited adoption of good agricultural practices, including the limited use of renovation and rejuvenation (R&R), weeding, and pesticides and nutrients. [6] [7] The high prevalence of disease in coffee trees is another primary challenge to productivity gains. [8] Between 1995 and 2017, Brazil and Vietnam benefited from advanced mechanization, selective breeding, and irrigation technologies. These factors alone resulted in yield increases of 30% and 100%, respectively.[9] During that period, Ethiopia's yield stagnated at around 0.7-0.8 tons/ha, with diseases causing potential losses of up to 57 percent.[10]

The slow adoption of improved agronomic practices is partly due to Ethiopia's coffee being grown in diverse settings: from forest coffee, grown naturally in primary forests, to garden coffee, grown on small plots of land adjacent to dwellings.[11] In addition, most of the coffee that is grown in the country relies exclusively on rainfall irrigation. [12] [13]

Farmers who produce coffee on plots of land smaller than two hectares account for 95% of the nation's total coffee production. Most of these farmers have received limited training in improved practices, and they perceive a higher risk in changing from their traditional practices. Even those who are aware of the benefits in terms of productivity and income often lack the means to acquire the necessary inputs and technologies.

This situation prompted initiatives such as the Agricultural Growth Program (AGP), implemented between 2011 and 2019, which supported the establishment of coffee nurseries and pulping stations, farmer training, and the expansion of cultivation areas. [14] However, despite these efforts, the uptake of improved coffee production practices remains relatively low in Ethiopia. The Coffee Initiative reports a 6% baseline adoption rate of Good Agricultural Practices (GAP) among Ethiopian coffee farmers, significantly lower than Kenya's 34% and Rwanda's 40%. [15]

2.2 Environmental implications of low coffee yields

Ethiopia has a long-standing tradition of cultivating coffee in environmentally mindful systems, often under the shade of indigenous trees and with minimal reliance on external inputs. These traditional methods help maintain soil fertility, preserve biodiversity, and protect watersheds.

Despite this heritage, low coffee yields – combined with factors such as climate shifts, disease outbreaks, and volatile global prices – have prompted some farmers to clear land and expand plantations into previously forested areas. As shown by a study of land-use changes in southwestern Ethiopia, small-scale agriculture, firewood collection, and charcoal production were among the major direct drivers of land-use and land-cover change between 1994 and 2021 in the region.[16] [17] This expansion has been accompanied by the adoption of alternative cash crops, such as khat, which are often more profitable, climate resilient, and less labor-intensive. [18]

Shifting away from coffee due to factors such as low productivity and low prices reduces the importance of Ethiopia's overall coffee output and reduces investments in the sector. But recent reforms in the Ethiopian coffee sector, including the promotion of cluster farming, are reversing this trend and improving coffee production and productivity. [19]

To build on the current encouraging achievements in the coffee sector, it is essential to strengthen institutional capacity, enhance production and productivity, deliver high-quality products to the global market, and expand market opportunities in alignment with the European Union due diligence regulation. This will have a significant positive impact on the livelihood of coffee farmers, the national economy, and environmental sustainability.

2.3 Renovation and rejuvenation as a key driver for improving coffee yields

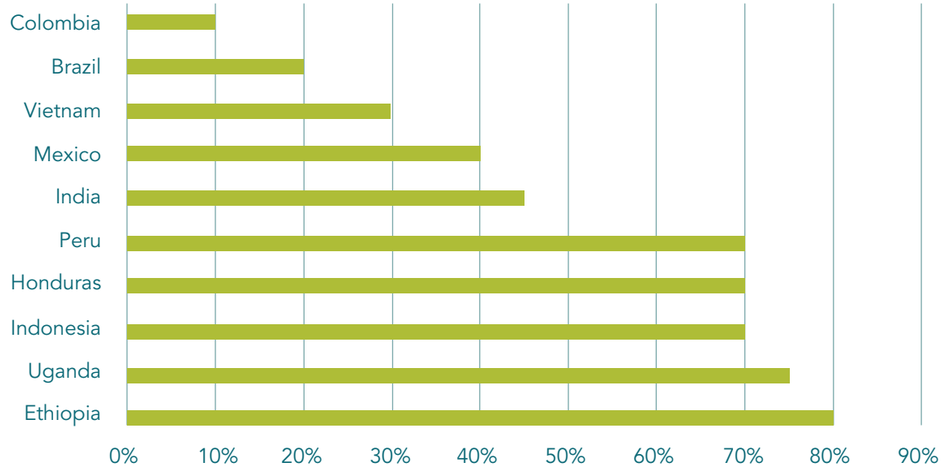
Ethiopia's generally old coffee trees and their low productivity open the prospect of Renovation and Rejuvenation (R&R). Renovation involves planting young coffee trees into the existing stand. This includes both replanting seedlings in place of aged trees and infill planting, where new plants are added within the existing stand to increase density. Rejuvenation, on the other hand, involves the stumping of existing trees. It entails cutting old coffee trees at their base for complete revitalization or strategically pruning older or less productive branches to stimulate vigorous new growth, prolong the tree's lifespan, and improve overall coffee yields.

R&R are tree maintenance practices that are integral to maintain and improve coffee yield and resilience. [20] However, these techniques need to be coupled with Good Agricultural Practices (GAP) to improve yields over a coffee tree's lifecycle. Indeed, while a coffee tree's

peak production decreases after 10-15 years, specific practices, such as rejuvenation cycles every 10 years, can drastically boost yields in the later part of a coffee tree's life. [21]

A large share of Ethiopia's existing coffee trees are aged and would benefit from renovation and rejuvenation (R&R). [22] In a comparative analysis of R&R needs among the world's ten largest coffee-producing countries, Ethiopia emerged as the nation with the greatest need for R&R (Figure 1).

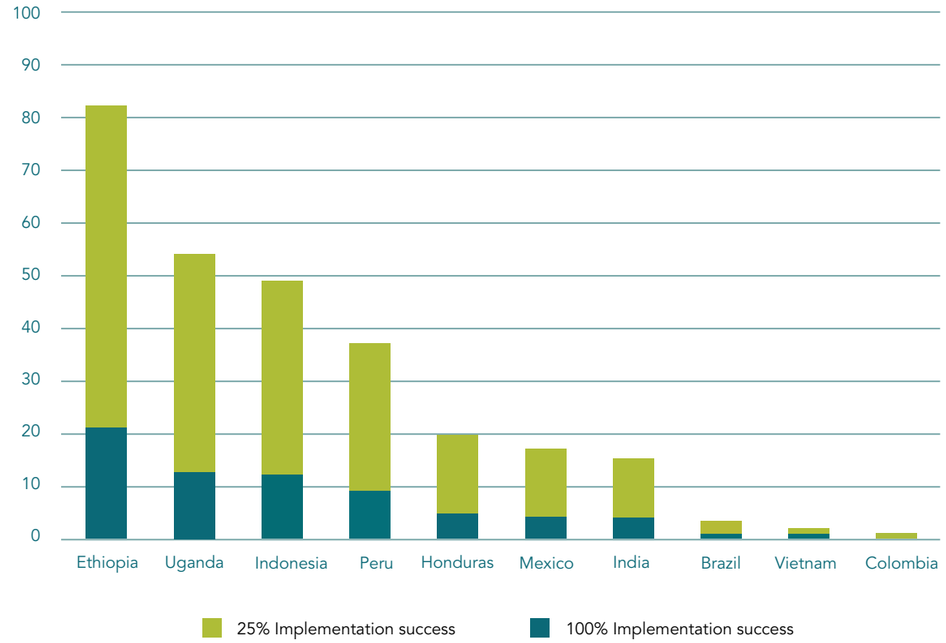
Figure 1. Percentage of coffee area in need of R&R in the top ten coffee-producing countries



Source: [23]

The maximum potential for applying R&R suggests that the total national coffee supply in Ethiopia could rise by as much as 80% if R&R and GAP are implemented together across all Smallholder Coffee Farmers' (SHCF) lands. [24] However, most programs and stakeholders recommend conducting R&R on only a fraction of the land at once: USAID's guide on R&R mentions 10-20% of the farm area. Considering the need to avoid significantly disrupting production, reducing financial risk for investors and for farmers, and focusing on trees most in need of R&R led to considering an initial intervention on 25% of the land. At the farm level, considering a 25% implementation would represent an increase of close to 25% of the total farm's yearly production.

Figure 2. Growth potential of national coffee supply with R&R investment scenarios in top coffee-producing countries



Source: [25]

2.4 The challenges of implementing R&R

Despite the clear benefits, implementing R&R is complex and costly. Direct costs (labor, tools, and inputs) range from US$3,000 to $5,000/ha in Latin America. [26] Furthermore, many programs overlook indirect costs, including financing costs and farmers' lost income during non-productive periods following tree stumping or replanting. Furthermore, the cost of technical assistance, not only training farmers to introduce GAP but also encouraging them that it is in their best interest to perform R&R, is an essential part to consider.

Experiences from other countries demonstrate that the success of R&R programs rest on providing solutions to four key challenges for SHCFs: their lack of the appropriate means to bear income losses, inadequate access to financing, insufficient access to inputs, and insufficient knowledge. [27] [28] Interviews with SHCFs in Ethiopia confirm that farmers are open to R&R if income loss compensation, financing, tools, and technical support are made available.

Means: R&R entails a production drop during the initial years after the intervention. Indeed, a stumped tree may not produce coffee for at least two years, while a recently planted seedling will likely need three years to bear fruit. Completing R&R in cycles (about 25% of the farm at a time) minimizes the effect of this initial drop, but farmers' income will still decline during this period. Since many of the SHCFs are living at sustenance level, if they are not compensated for this temporary loss, most will be unable to participate.

Finance: Access to affordable, long-term credit is critical. Currently, when microfinance institutions agree to lend to an SHCF, the loan is for at most one year. While this can help farmers meet immediate needs, it is incompatible with making productivity-enhancing investments on coffee farms. Such investments typically require four to five years to break even.

Inputs: An intervention requires seedlings, compost and manure, tools, and sometimes hired labor. Established seedling distribution channels and relationships to cooperatives are therefore crucial. Some existing programs, like the Oromia Forested Landscape Program [29], couple stumping promotions with the provision of tools.

Technical assistance: is not only necessary to teach targeted agronomic practices, but it is also needed to make SHCFs aware of the benefits of R&R and encourage them to participate in the program. It can also be used to support farmers through the financing processes as well as support other stakeholders, such as service providers, cooperatives, and local banks.

2.5 Financial implications for a typical farm performing R&R in Ethiopia

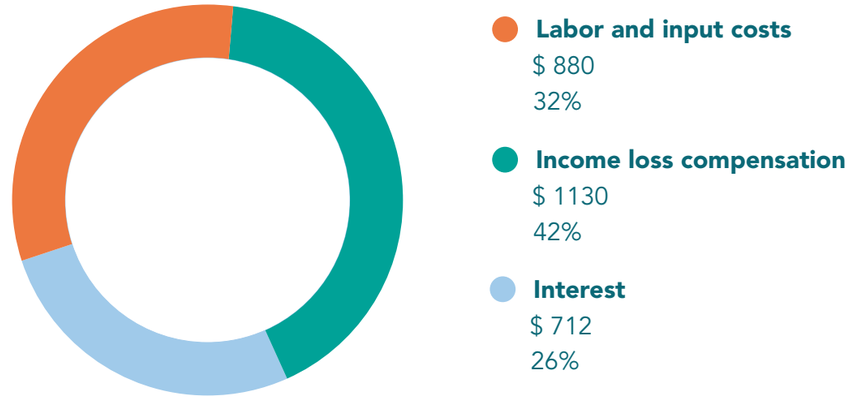
Making R&R investments represents a critical effort at the farm level[30], and it is important to ensure that the return on investment in Ethiopia is not only positive but also sufficiently attractive to farmers. This section estimates the costs and benefits of R&R at the farm level, using an archetypal farm as an example. In doing so, it also estimates the financing requirements of the R&R investment for that farm. The assumptions used are based on survey data from different woredas (administrative units), and the data coherence was confirmed through literature reviews and interviews.

The archetypal Ethiopian coffee farm used for this example is 1 hectare in size, with trees more than 20 years old and yield just below the national average. Implementing R&R assumes that an initial intervention is carried out on 25% of that parcel, with a mix of trees being replanted and others being stumped, in line with lessons learned from other programs to limit risks. Renovating an entire farm at once disrupts operations and increases the risks for both farmers and financiers. Performing R&R on a quarter of the farm allows all stakeholders involved to learn from the process. Although subsequent interventions can be expected to extend that within the same plot, this section will focus on one initial cycle of R&R.

At the farm level, the costs considered include purchasing tools, nutrients, and seedlings, as well as paying for hired labor. Additionally, the non-productive period following the stumping or planting of trees represents an opportunity cost for farmers. This period includes the two to three years following their investment, during which the trees planted or stumped do not bear fruit. This represents a loss for farmers, which they will need to finance to make the investment; it is referred to as "income loss compensation." Finally, financing this investment will also bear a cost, the interest on the loan[1], which is included in the estimation below. Incorporating the initial investment cost, the loss of income, and financing, we estimate the total costs to perform R&R on 25% of the archetypal coffee farm of 1 hectare at approximately US$ 2,750.

1 The calculations assume a 10% loan that is disbursed progressively over the initial grace period of 3 years, and is fully repaid in year 5.

Figure 3. Estimated costs incurred at farm level to perform R&R on 25% of an archetype Ethiopian coffee farm of 1 Ha

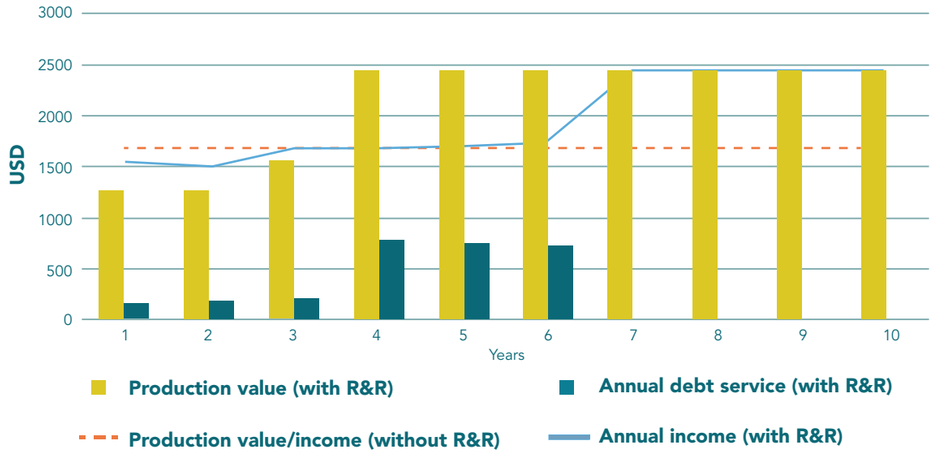


Source: analysis of modelled archetype Ethiopian coffee farm of 1 Ha

On the benefits side, smallholder farmers can anticipate substantial increases in yields and profits. Using differentiated projections for replanted and stumped trees, the archetypal farm is expected to grow its production progressively from year three onwards. Having renovated 25% of its coffee area, this farm can expect its production per harvest to increase by 46% in year four, compared to its pre-intervention level. In a 10-year timeframe from the time the R&R intervention is made, this represents a cumulative difference in the farm's production value of US$ 5,550, compared to the farm not engaging in R&R.

Figure 4 below compares the projected yearly production value of the archetypal farm undertaking R&R on 25% of its land with a baseline scenario (i.e., without R&R) of constant production. It also illustrates the anticipated debt service – both principal and interest – that the farmer will need to pay if they borrow funds to cover upfront costs and offset the temporary loss of income of the initial years. Finally, it presents the expected effect on farmers' income from year four onwards.

Figure 4. Estimated production value, debt service, and income at farm-gateonce R&R is performed on 25% of an archetype coffee farm of 1 Ha



Source: analysis of modelled archetype Ethiopian coffee farm of 1 Ha

Comparing the estimated benefits with the estimated costs for making and financing the investments, R&R appears a profitable investment at farm-gate: investing US$ 2,750 yields at least US$ 5,550 on 25% of an archetype coffee farm of 1 Ha, representing a return on investment of more than 100% over the 10-year period.

3 Socio-Economic Context, Coffee Value chain, and Financing Challenges in Ethiopia

3.1 A complex macroeconomic context

The Ethiopian socio-economic landscape presents its own set of challenges affecting the development of financial mechanisms suitable for SHCFs and R&R. In recent years, the economic situation has been marked by increasing fiscal challenges and macroeconomic distortions, sustained inflation of around 30% per year, foreign exchange shortages, and fiscal imbalances. The government's revenues have not kept pace with growth in expenditures, especially given the significant public investments made over the last two decades. This disparity has raised concerns about debt sustainability, particularly regarding dollar-denominated debt, limiting the government's ability to secure international financing. Consequently, Ethiopia has relied more on domestic borrowing, which resulted in the expansion of the money supply, increasing inflation.[31]

The lack of foreign exchange is a critical issue and can discourage foreign investors. Despite the government's initiatives, such as the Homegrown Economic Reform Program, and its policies to attract foreign direct investment (FDI), challenges persist. The economy has experienced a slowdown in export growth, a critical source of foreign currency, relative to GDP expansion, falling short of the objectives outlined in the government's Growth and Transformation Plan.

Liquidity concerns have also had significant implications for the economy, limiting business activities and government operations, especially in international trade, foreign investments, and financial transactions.[32] For instance, the challenges have put pressure on the banking sector, which is now facing a liquidity crisis, mainly due to political instability and sustained high inflation, which have led to higher credit demand and a rise in loan default rates. [33] Moreover, this situation is exacerbated by a progressive decline in loan repayment rates, especially in microfinance services.

Ethiopia's coffee sector is deeply intertwined with the country's broader macroeconomic conditions, making it highly susceptible to financial constraints and instability. By representing the top exported commodity, the coffee sector is particularly affected by currency regulations (including convertibility and repatriation). Also, liquidity concerns make credit less available for stakeholders of the coffee value chain to finance their working capital requirements, thereby threatening operations. Finally, foreign investors, who could bring much-needed capital, technical know- how, and infrastructure to the coffee sector, may be deterred by Ethiopia's challenging foreign exchange environment and frequent policy shifts.

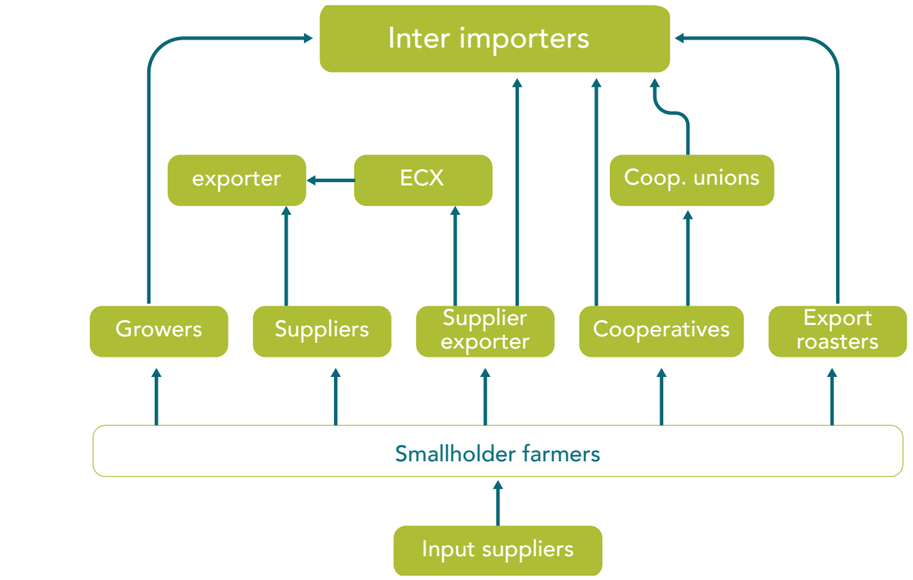
The coffee sector must also contend with high price volatility. These fluctuations are influenced not only by international coffee prices but also exacerbated in Ethiopia by challenges in the foreign exchange market. In recent years, a notable decrease in the average price at which coffee was sold year-on-year — dropping from 65- 105 Ethiopian Birr (ETB; free on-board pricing at farm gate for red cherries per kilogram) in 2022 to just 25-40 ETB in 2023.[34] In 2024, the international price of coffee surged by as much as 73%. Such market instability affects farmers' incomes, while production costs tend to rise steadily with inflation.

3.2 The Ethiopian coffee value chain

The Ethiopian coffee value chain is shaped by its unique market structure and a fragmented value chain (Figure 5). Previously, coffee producers were often compelled to sell their harvest at the farm gate, limiting their access to higher-value markets. Following recent reforms in the coffee sector, farmers can now obtain export licenses and sell their coffee directly to international buyers. To facilitate this shift, the Ethiopian Coffee and Tea Authority has been issuing export certificates to qualified producers, enabling them to access global markets without intermediaries. This reform is expected to significantly enhance rural incomes and strengthen the overall competitiveness of Ethiopian coffee.

The implementation of this policy, especially vertical integration, has created opportunities for buyers to obtain quality products continuously, while allowing producers to sell their products at the most cost-effective and profitable prices, quantities, and times, and has significantly increased their bargaining power by expanding market access. It also eliminates elements that do not add value and that interfere in the middle, trying to reduce the farmer's income.

Figure 5. Schematic of Ethiopia's Coffee Export Value Chain Centered on Smallholder Farmers



Source: ECTA [35]

If the farmer is unable to export the coffee directly, there is an opportunity to negotiate a price and deliver it to the supplier without the middlemen's interference. Instead of just buying coffee from the farmer and delivering it to the exporter, the supplier can engage in the coffee sector and become a producer and exporter. This option allows the supplier to become both a Grower and a direct exporter.

More than 70 percent of actors in the coffee value chain are women. Encouraging women to directly export also has another marketing option. [36] [37] [38] Therefore, the 'Women in Coffee' marketing option has been set up. So that women can produce coffee and sell to women exporters. Then, women exporters in the supply chain directly sell to the international market. [39] [40]

Under the previous policy, coffee roasters were required to purchase coffee exclusively through the Ethiopian Commodity Exchange (ECX). According to some coffee value chain actors, the coffee sourced from ECX was of relatively low quality. Under the current policy framework, roasters can now purchase coffee not only from ECX but also directly from producers or suppliers, thereby significantly broadening their sourcing options. [41] [42] [43]

3.3 Access to finance, the role of micro-finance institutions and cooperatives

Over the past decade, the number of financial institutions (e.g., banks, microfinance institutions, insurance companies) in Ethiopia has grown consistently with the expansion of the national economy, as has their geographic and demographic reach.

However, Ethiopia's SHCFs and agricultural enterprises face significant challenges in accessing resources and financial support, including for R&R efforts. Among them, there is often a lack of aggregation points for distributing funds and inputs.[44] Key intermediaries, including cooperatives, micro, small, and medium enterprises (MSMEs), coffee plantations, exporters, and NGOs, play a critical role in addressing this gap.

Compared to Ethiopia's commercial banks, microfinance institutions, and rural savings and credit cooperatives, microfinance institutions and rural savings and credit cooperatives have a higher presence in rural areas. However, they still struggle with limited financial and technical capacity to secure capital to meet this financing demand from rural customers and to offer innovative products.

Although some project and public funding have been provided and R&R-targeted programs have been in place, these initiatives have not been comprehensive enough in scope and large enough in scale to significantly affect the coffee sector. Existing programs typically provide grants, tools, and training, but none have focused on giving farmers access to long-term finance for investments such as coffee R&R.

Microfinance Institutions (MFIs) are integral to extending financial services to SHCFs, with over 56 institutions and a total of 1,138 branches operating in Ethiopia serving 4.5 million clients as of June 2024, holding a combined capital of $60 billion Ethiopian Birr (ETB).[45] These MFIs provide savings, loans, micro-leasing, insurance, and money transfer services. Additionally, over 21,000 Savings and Credit Cooperatives (SACCOs) in Ethiopia cater to 5.4 million members, collectively managing US$426 million in capital.[46] SACCOs specialize in short-term agricultural loans, essential for SHCFs seeking financial solutions between one harvest and the next.

Overall, the existing MFI network offers potential to bridge the financial gap for SHCFs. However, declining repayment rates and liquidity constraints have strained this sector. Collaborations between MFIs and cooperatives could provide a more comprehensive approach to rural finance, enhancing economic resilience and growth, while also tailoring the loans to the needs of farmers.

Ethiopia's cooperative sector, reinvigorated by market liberalization and government support, has grown significantly in recent decades. In 2021, there were over 93,000 multipurpose primary cooperatives in the country, serving over 21 million members.[47]Cooperatives like Oromia Coffee Farmers' Cooperative Union (OCFCU) and Sidama Coffee Farmers' Cooperative Union (SCFCU) have improved asset ownership and market access for SHCFs. Cooperatives also take part in the MFI sector, already

performing lending activities and supporting SHCFs through collective bargaining and market integration.[48]

Despite their growth, cooperatives face challenges, including limited financial services, inadequate infrastructure, and weak organizational capacity. Rapid expansion has strained primary cooperatives, which often lack financial resources and support structures. Commercial banks hesitate to lend to cooperatives due to perceived risks, favoring private traders and exporters instead.[49]

Studies show that cooperative membership enhances market access, bargaining power, and income for SHCFs, though benefits vary by education, farm size, and tenure.[50] [51] These institutions, alongside MFIs, are critical to loan-based mechanisms towards R&R, leveraging established infrastructure and community reach to support Ethiopia's coffee sector. However, addressing existing gaps in education, finance, and infrastructure remains essential for maximizing their impact.[52] [53]

3.4 Towards enabling access to finance for SHCFs and R&R in Ethiopia

Financial cooperatives and microfinance institutions are the two major sources of rural finance in Ethiopia. Comprehensive national-level data on smallholder farmers' access to credit in Ethiopia is limited. However, different sampling studies found that a third of smallholder farmers had access to credit (36.5% in part of the South Ethiopian Region). [54] [55] The Ethiopian National Financial Inclusion Strategy (2014-2020) [56] and II (2021-25) [57] recognized that access to credit in agriculture remains limited. Consequently, the last iteration of the strategy developed programs to drive financial inclusion for underserved areas and expand access to credit.

Access to finance is a critical obstacle for Ethiopian SHCFs. This challenge reflects broader agricultural financing issues

stemming from the remote location of farms, unpredictable yields and prices, and volatile cash flows that financial institutions perceive as high risk. Strict collateral requirements and limited agricultural financing expertise within Ethiopia's financial sector exacerbate these challenges. [58]

Currently available financial products do not meet the unique requirements of SHCFs for R&R. Standardized loan structures do not align with SHCF needs (including terms, amounts, grace periods, and reasonable interest rates). Existing schemes disproportionately benefit wealthier farmers by applying the same legislative requirements to large- and small-scale farmers alike, leaving many SHCFs unable to meet collateral requirements.

Banks have the capacity to provide more tailored financial products but currently focus on short-term agricultural loans, typically tied to a single harvest cycle and covering less than one year. Loans extending to five years or more, which are necessary for R&R investments, are rare. This gap underscores the need for restructured financial products that support SHCFs' long-term goals.

Table 2. Some of Coffee R&R financing modalities

Table 2 provides examples of financing modalities based on existing or past R&R programs, both within Ethiopia and in other major coffee producers. These fall in two main categories: loan-based programs and grant-based programs.

Solution	Pros	Cons	Examples
Loan-Based Financing	Market-driven financing, lower-risk investments are made first, scalability	Possible exclusion of poorest farmers, unattractive terms for SHCFs and intermediaries, financial challenges in repayment.	• Colombia – FINAGRO, Fondo Nacional del Café and the Colombian Government – Permanency Sustainability and Future (PSF) program (2008-2014, US$ 600 million) • Honduras, Nicaragua, Peru, Mexico (Root Capital, USAID, Keurig, Starbucks) – Coffee Farmer Resilience Initiative (2014-2016, US$ 17.5 million)
Grant-Based Financing	Maximizes accessibility, no repayment obligation, strategic long-term investment	High dependency of poorest, lack of financial discipline, limited scalability, may have limited effect on capacity building	• Ethiopia –- TechnoServe's stumping programme within the World Bank's BioCarbon Fund Initiative for Sustainable Forest Landscapes (ISFL)-Oromia Forested Landscape Program (OFLP) – (2020-2025, US$ 25 million) • Mexico, El Salvador, Guatemala – Starbucks, ECOM and Conservation International - One Tree for Every Bag Commitment Program (1T1B) – (2015-2017, US$ 19.5 million)

Source: Authors' own elaboration based on USAID [59] as well as program-specific reports

Ethiopia is undertaking significant reforms to attract private-sector investment and liberalize its financial markets. For example, the National Bank of Ethiopia (NBE) has issued a directive which allows foreign direct investment (FDI) projects to operate offshore accounts and guarantees foreign currency convertibility. This directive primarily targets infrastructure but has potential applications in coffee-sector investments. Similarly, the recent legislation to allow foreign banks to operate in Ethiopia will increase competition and improve access to finance, opening avenues for tailored lending products to SHCFs. [60]

3.5 Existing initiatives and emerging opportunities for transforming Ethiopia's coffee sector

While Ethiopia has explored initiatives to enhance coffee farm yields (see Table 2), no program to date has comprehensively addressed R&R through a scalable loan-based mechanism. The Ethiopian Coffee and Tea Authority (ECTA) oversees a stumping program, though its reach is limited. Other initiatives include the Oromia Forested Landscape Program (OFLP), financed by the World Bank's BioCarbon Fund, and the European Union's EU-Coffee Action for Ethiopia (EU-CAFE), which have improved awareness and provided tools and resources for smallholders. However, despite having achieved localized successes, these efforts have yet to make a substantial impact on reducing the age of coffee trees or improving productivity.

Beyond the coffee sector, other financing programs indirectly support SHCFs. The Rural Financial Intermediation Programme (RUFIP) III, led by the Development Bank of Ethiopia and supported by the International Fund for Agricultural Development (IFAD), provides financial services to rural communities through MFIs and rural savings and credit cooperatives (RUSACCOs). Additionally, the Input Voucher Sales System (IVS) offers loans or vouchers to farmers for essential inputs, reducing upfront costs. USAID's CATALYZE Market Systems for Growth (MS4G) program facilitated, amongst its broader support to small and medium-sized enterprises, in Ethiopia's coffee sector and beyond, access to nutrients via a blended finance approach.

Blended finance has emerged as a promising tool for bridging social and economic goals. Ethiopia's Ministry of Finance, in collaboration with Convergence, is working on a regulatory framework to attract investment through blended finance facilities.

Furthermore, Ethiopia has prior experience with innovative funding mechanisms, such as the Climate-Resilient Green Economy facility (CRGE), established in 2013 to mobilize international financial support for a carbon-neutral agenda. The facility uses climate-finance mechanisms to complement existing investments in the areas of food security, energy, infrastructure development, and natural resources management. While the CRGE encountered operational challenges, it demonstrated the feasibility of attracting diverse funding sources for national initiatives. [61] [62]

A transformative path forward for R&R lies in leveraging blended finance, fostering partnerships between public and private sectors, and incorporating lessons from successful small-scale programs.

4 Conclusion

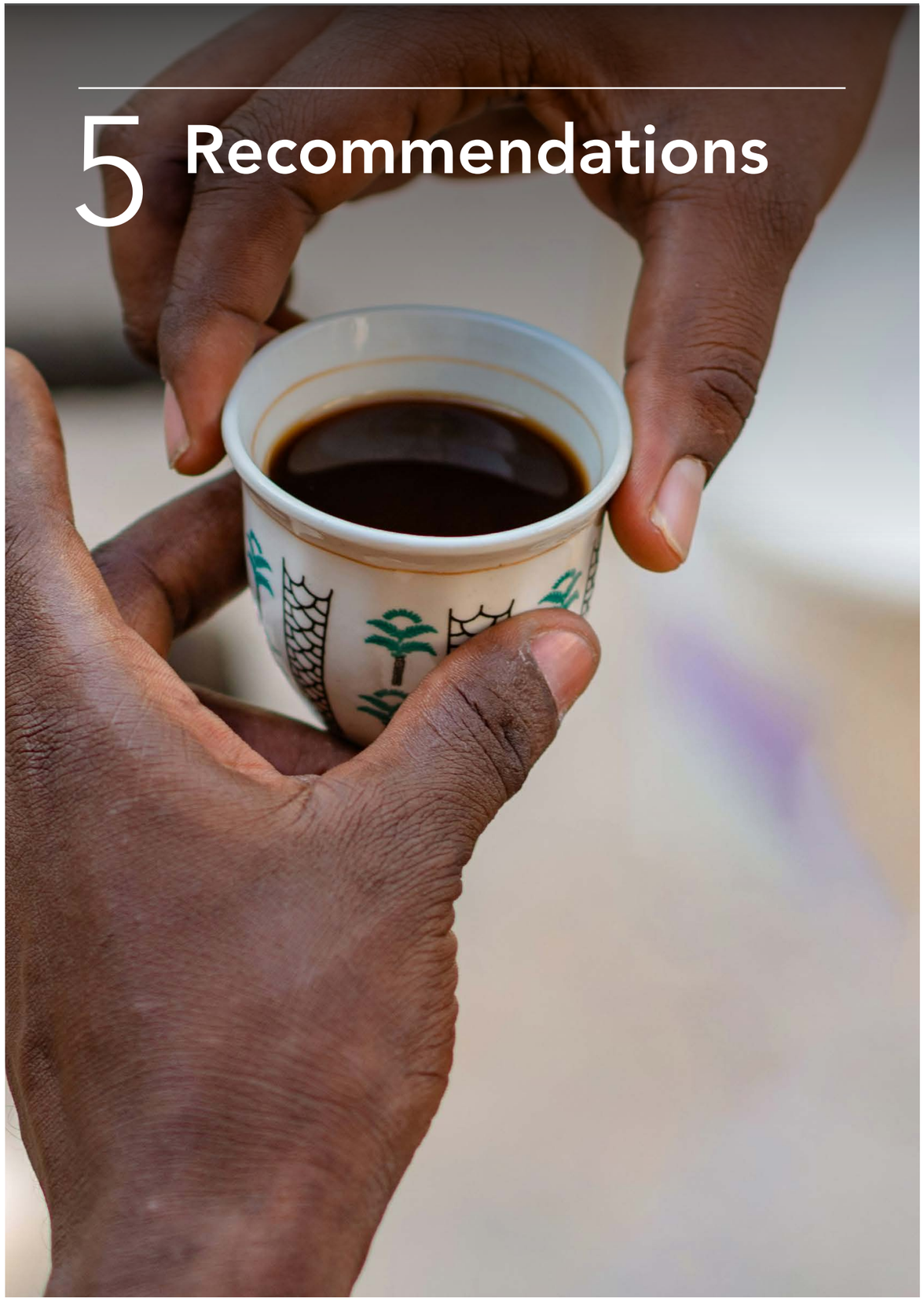
Conclusion

Ethiopia's coffee sector is at a pivotal crossroads, offering immense potential to enhance productivity, livelihoods, and environmental sustainability while confronting significant challenges. With its historical and cultural roots in coffee production, Ethiopia holds a critical position in the global coffee market. However, the sector's low productivity, reliance on traditional farming practices, and vulnerability to climate change and market volatility hinder its growth.

R&R presents a transformative opportunity to address these challenges, revitalizing aged coffee farms, increasing yields, and improving the resilience of coffee production – hedging against agricultural risks such as disease, climate change effects, as well as market risks such as price volatility and market shocks. The analysis underscores the critical role of financing mechanisms tailored to SHCFs, such as blended finance, long-term loans, and market-driven solutions that leverage existing stakeholder networks. These measures, combined with technical assistance and policy reforms, can bridge the gap between productivity potential and current realities.

Strategic investments in R&R, complemented by comprehensive support systems, could double yields and unlock substantial economic benefits, directly impacting millions of smallholder farmers and their livelihoods. This approach aligns with broader goals of sustainable development, environmental conservation, and economic transformation. While obstacles persist, Ethiopia's commitment to innovation, partnerships, and inclusive financing mechanisms can propel its coffee sector into a new era of prosperity and sustainability.

The journey ahead requires a coordinated effort across government, the private sector, and international stakeholders. By fostering collaboration and implementing both targeted and comprehensive interventions, Ethiopia can cement its status as a global leader in coffee production while improving the well-being of its communities and ecosystems.



5 Recommendations

The R&R process is essential to restoring productivity, increasing SHCF income, improving coffee farm resilience, and ultimately maintaining Ethiopia's status as a global coffee leader. However, implementing R&R poses a challenge, particularly for smallholder farmers who typically lack the technical and financial means to perform it on their farms.

1. Structure a dedicated financing mechanism to provide SHCFs with access to finance that meets the needs of R&R

To address this challenge, a dedicated financing mechanism is required, one that meets the unique needs of farmers and enables the comprehensive implementation of R&R, while also being market-based to ensure the long-term sustainability and scalability of the financing. First and foremost, financing must provide long-term loans with repayment structures that align with the lifecycle of coffee trees. They should cover not only the labor, tools, and input costs, but also the income losses, recognizing that new plantings or rejuvenated trees will not yield productive harvests for at least two to three years. Additionally, these loans should be accessible to smallholder farmers in remote areas, many of whom lack the collateral or financial infrastructure to secure traditional bank loans.

2. Upskill farmers and other coffee value chain stakeholders on R&R techniques

Beyond financing, there is a need to complement financial solutions with capacity-building initiatives. Farmers require technical assistance, including training on GAP and R&R techniques, to maximize the effectiveness of investments in new coffee stock. Partnerships with various stakeholders across the coffee value chain—such as tree nurseries, cooperatives, and business support services—are crucial for ensuring farmers have access to the necessary inputs and market opportunities.

3. Establish a fund to manage financial flows and support activities

Given these requirements, Ethiopia should consider establishing a national financing platform dedicated to the renovation of coffee trees. This new fund would serve as a centralized platform for mobilizing public and private resources, combining loans with favorable terms for smallholder farmers with incentives for the different stakeholders in the coffee value chain, ensuring the broader support necessary for successful R&R implementation. Such a fund could also serve as a tool to enhance collaboration across the coffee value chain, helping to ensure that financing, technical assistance, and market access work in tandem to support the long-term sustainability and growth of Ethiopia's coffee industry.

Part Two

Concept Proposal

For Ethiopian Coffee Rehabilitation Fund

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 nationwide.

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 in implementing R&R, the ECRF seeks to boost national coffee production while also improving farmers' incomes, building their capacity, and strengthening collaboration among all actors in the ecosystem. Boosting production on existing coffee farms also reduces pressure to expand agricultural 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 in the coffee value chain and build the ecosystem's capacity 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, and 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, maximizes impact, lowers risk for commercial investors, and catalyzes action.

Technical assistance and support: Comprehensive support will be implemented alongside investments to support farmers, cooperatives, and microfinance institutions, including 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 facility's administration. 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 low-productivity coffee trees and aging coffee trees 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.

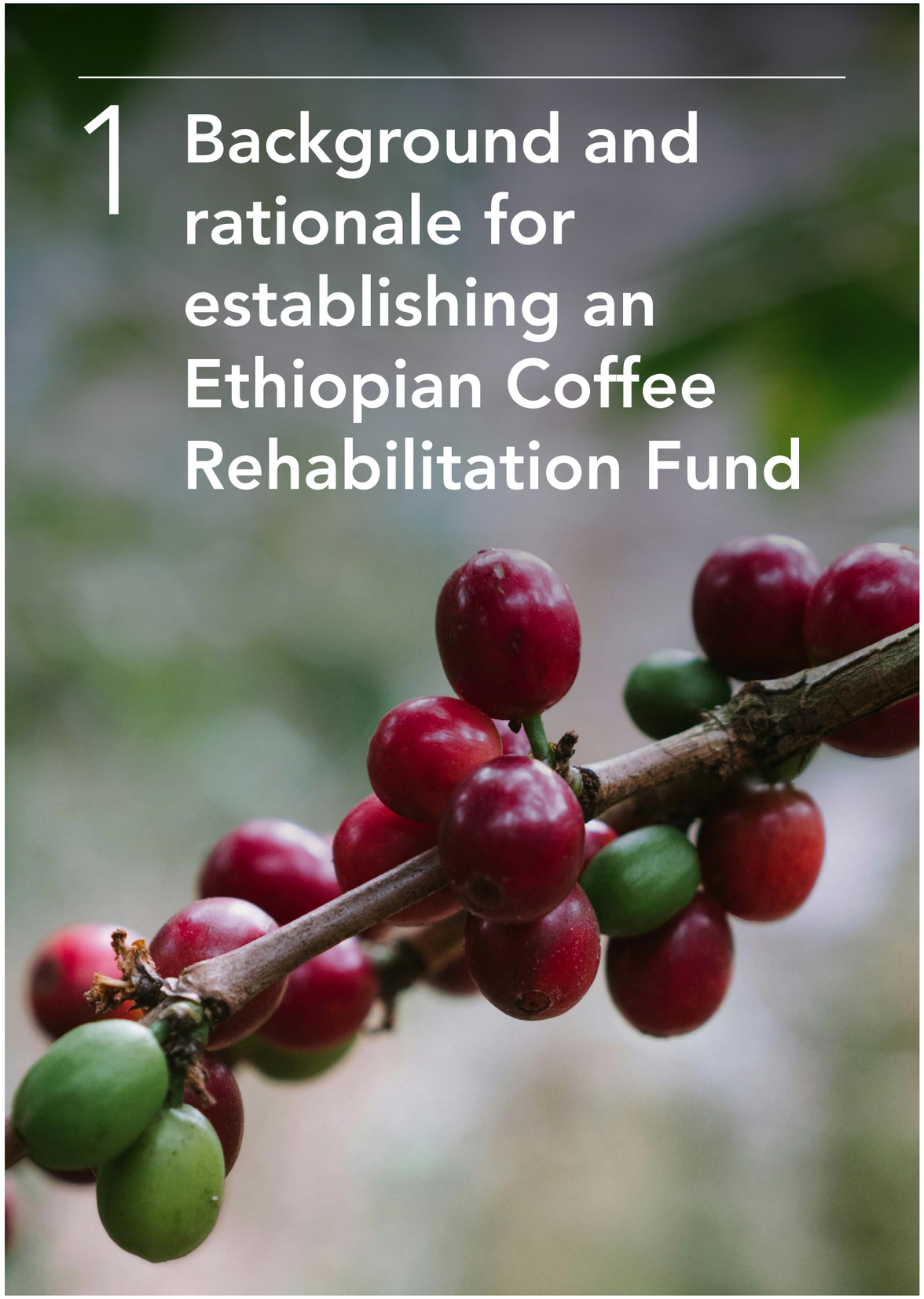
Action plan and scalability

An eight-step action plan outlines the establishment of the ECRF, including stakeholder engagement, legal formalization, pilot testing, and resource mobilization. Starting with a pilot project, the ECRF will adapt and scale its operations nationwide, promoting R&R across 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. A significant proportion 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.

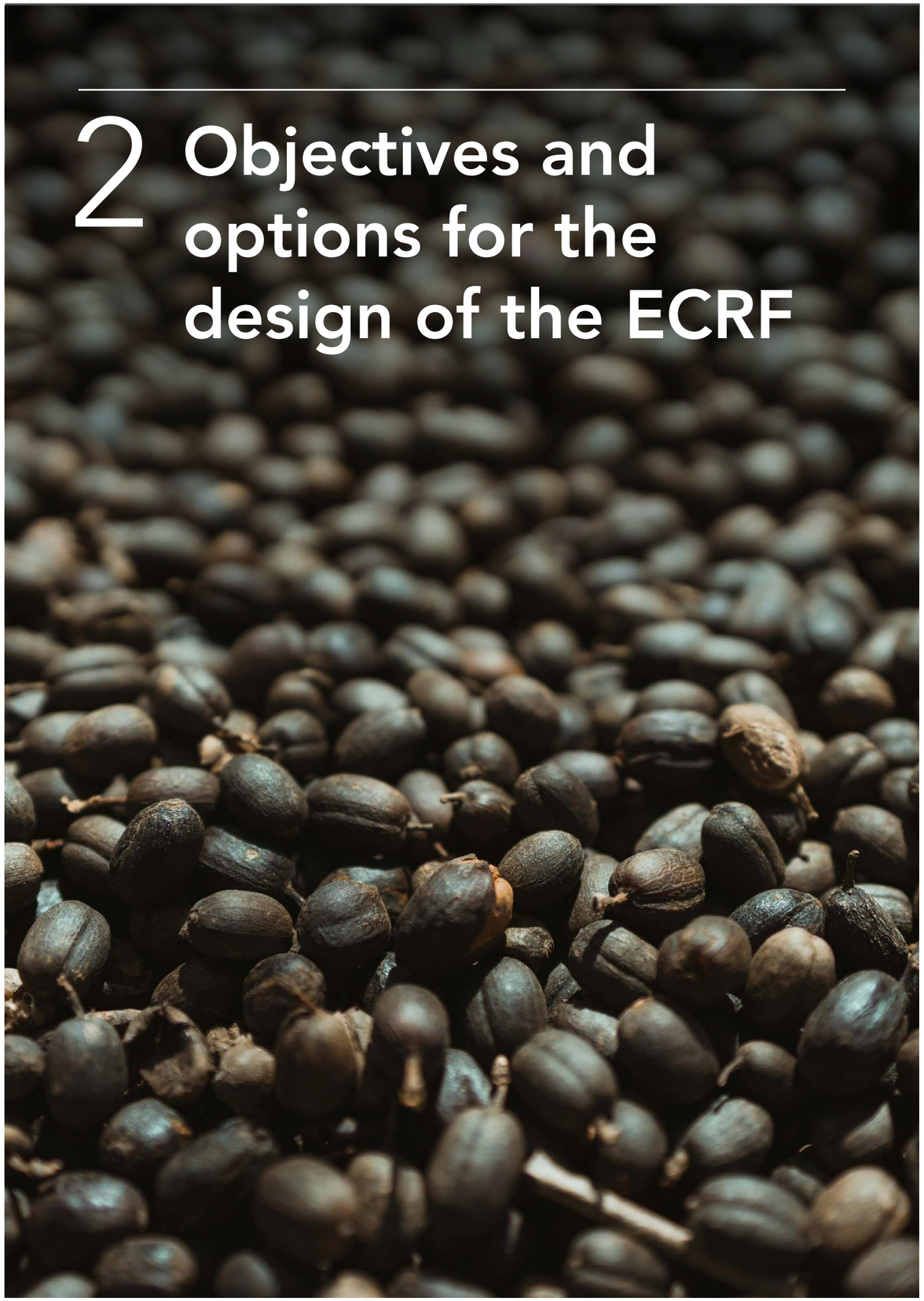
This proposal is the result of numerous meetings with key stakeholders, including smallholder coffee farmers, cooperatives, government institutions, coffee roasters and exporters, coffee associations, development agencies, and financial institutions. It advocates for the creation of an Ethiopian Coffee Rehabilitation Fund (ECRF) to improve farmers' access to long-term financing, which will be used to implement R&R and the 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 channel resources to smallholder coffee farmers, enabling them to make adequate investments in 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 replacing aged or unproductive coffee trees through seedling planting and infill strategies, replenishing tree stock and enhancing productivity over time. Rejuvenation, on the other hand, focuses on revitalizing existing coffee trees through practices such as stumping and pruning, aiming to improve 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 to foster transformative change in Ethiopia's coffee sector and unlock 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 to rehabilitate 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 farmers' capacity to adopt GAP, implement R&R investments, and improve farm management going forward.
- Enhance capacity and collaboration among actors in the ecosystem: SHCFs, cooperatives, traders, agronomists, and financiers.
- Improve the resilience of coffee production: resistance to pests and diseases, and adaptation to climate change.
- Promote compliance with EUDR and other anti-deforestation trade policies by creating additional 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 income loss in the early years of R&R have failed to implement R&R at scale on small farms.
2. **Blended finance instrument:** The ECRF should be designed as a blended finance mechanism that combines concessional funds from development actors with commercial capital from investors, striking an appropriate balance. This catalytic model helps pool sufficient resources to target most of the land in the country that needs R&R. 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 partially de-risk investments and limit loan costs, thereby bridging the gap between commercial investors and SHCFs.
3. **Technical assistance:** Knowledge of the financial implications of loans, GAP, and specific techniques for planting, stumping, and pruning coffee trees should be provided to SHCFs and other actors in the financing and agriculture value chains. This assistance will be crucial for the success of R&R investments and will 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) play a pivotal role 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 needed for farm renovation. Local non-financial micro and small enterprises should also, through the ECRF, gain access to financing. Specialized Entities should also support the intervention by providing 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 regarding the regulatory framework and policy alignment), and supporting the implementation of activities (including data collection and outcome measurement). Aligning with the 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 of demonstrating (not only to investors but also 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 for gradually building investor confidence, 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 (MFIs) and cooperatives, are expected to raise matching funds from investors.

The model's strength lies in its market-driven approach, which requires investments from other actors to complement those 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-financers 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 depends on other actors – including the World Bank and the African Development Bank – mobilizing as much as US$ 492 million.

Recommended approach

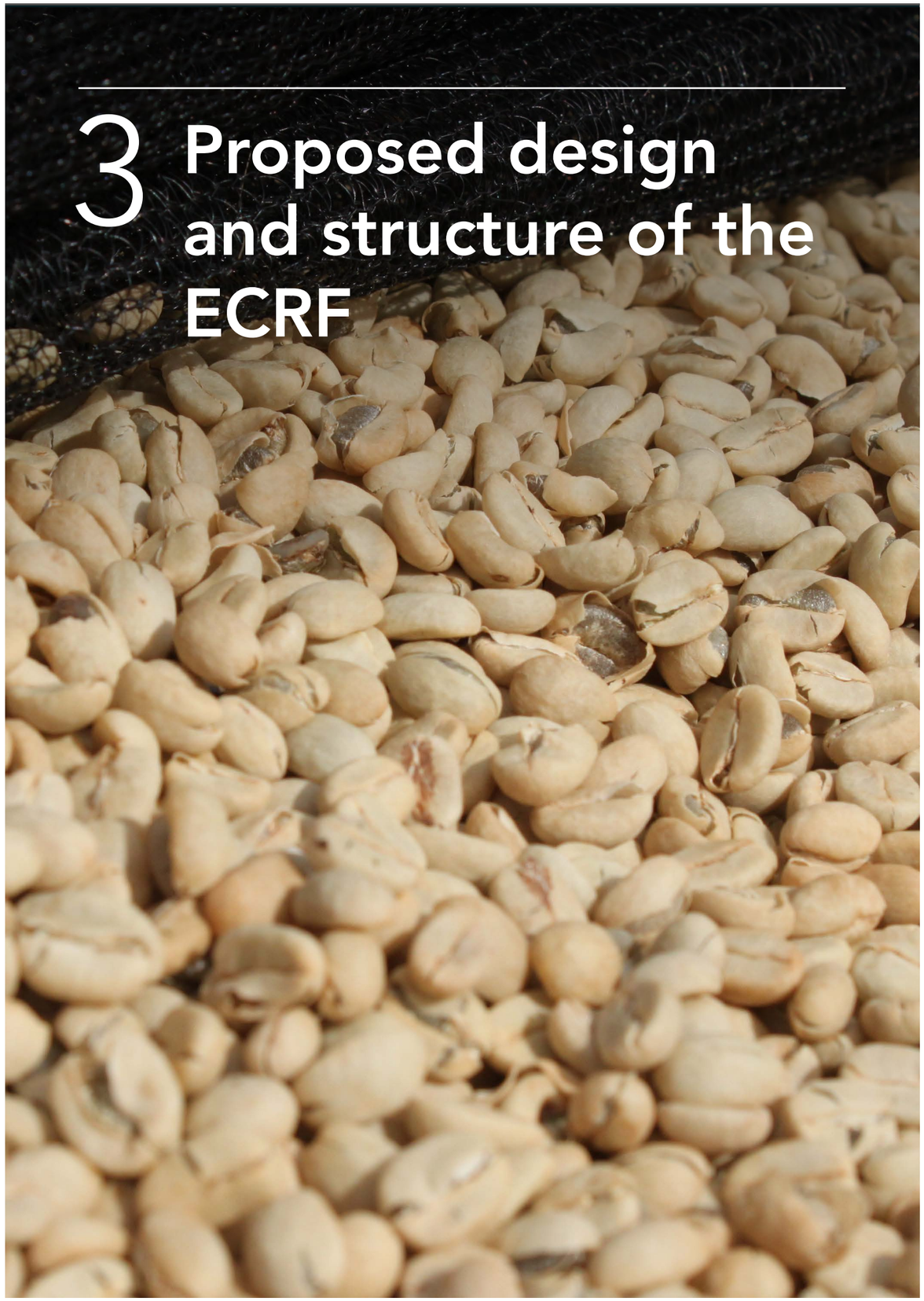
Given the urgency of addressing Ethiopia's aging coffee plantations and the need for sustainable, long- term investments, the third scenario (comprehensive approach) is the most suitable structure for the ECRF. It aligns stakeholders with complementary expertise and interests, ensures a coordinated response to systemic challenges, and leverages both market-driven interventions. It offers significant advantages, including streamlined operations, enhanced stakeholder collaboration, and controlled risk monitoring and outcome tracking. However, it requires substantial upfront engagement from government, development partners, and private sector actors, as well as a sophisticated management structure.

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 moving to a national-scale program, remains consistent with this approach.

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

Colombia's Permanency, Sustainability, and Future program illustrates this approach in many ways: implemented between 2008 and 2014, it provided coffee farmers with an R&R package comprising agronomic and business assistance, inputs, and customized financial arrangements and incentives. development and commercial funding to drive R&R at scale and in an innovative way. While the approach demands substantial initial coordination and partnership-building, it offers the best prospects for achieving the fund's objectives effectively and sustainably.

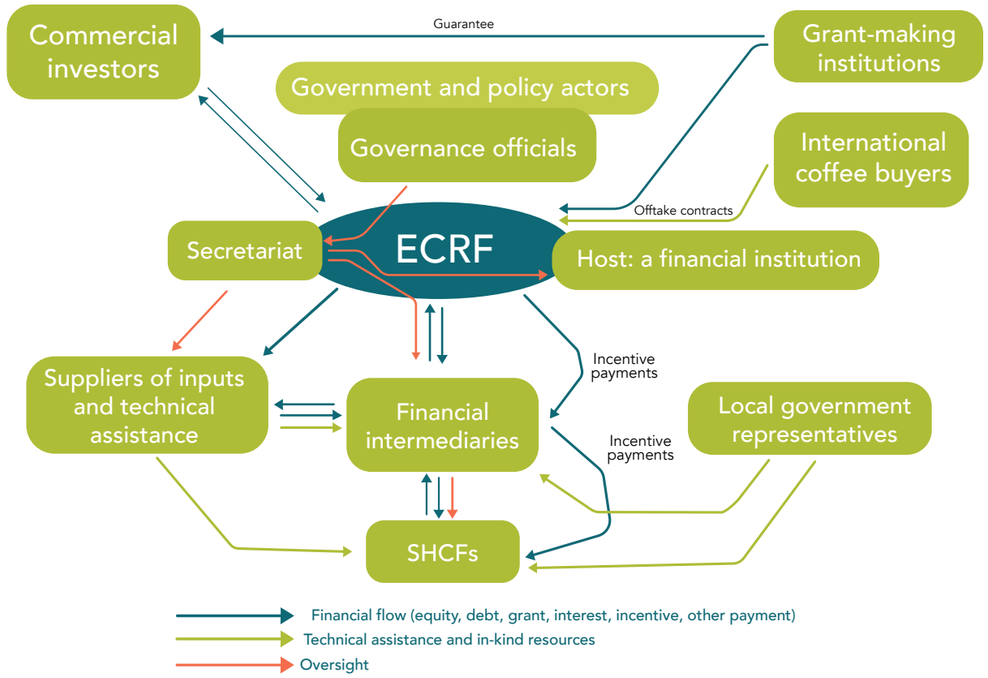


3 Proposed design and structure of the ECRF

3.1 The overall design

In line with the recommendations in the previous section, the 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 interactions among the stakeholders involved in the ECRF.

Figure 1: ECRF structure and partner 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 designed to build the capacity of SHCFs and other stakeholders, as well as 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 to FIs and, finally, to SHCFs, allowing them to finance the R&R efforts on their farms.

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.

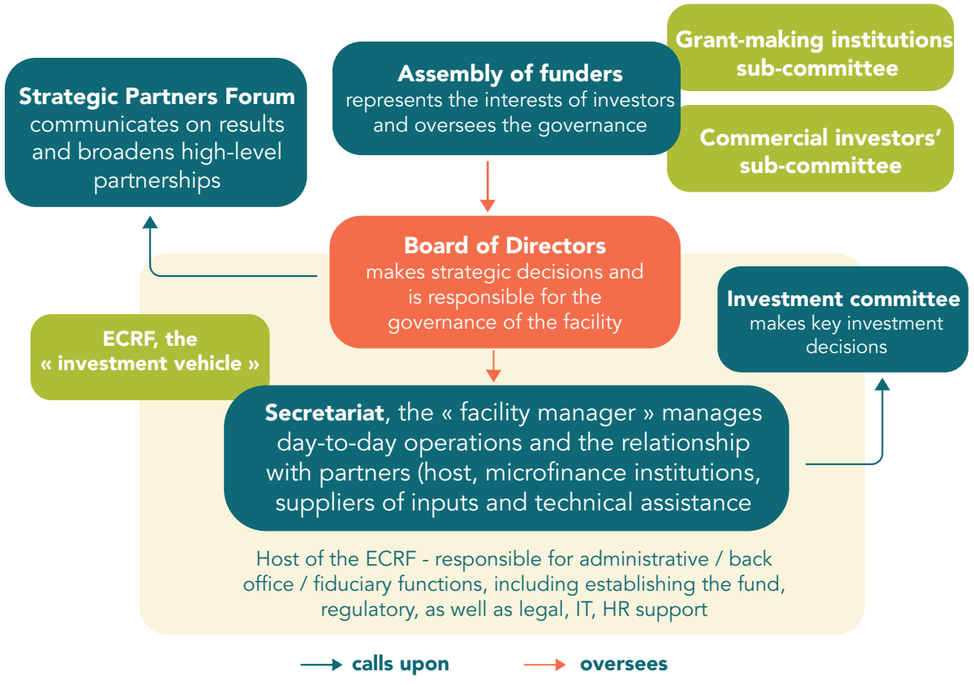
Key external partners include local banks hosting the ECRF, FIs structuring and offering microloans, cooperatives facilitating outreach to SHCFs, and stakeholders across the coffee value chain supplying essential inputs like equipment and seedlings. Technical assistance providers, including agronomists 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 its 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 and 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 the 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 that will manage back-office functions, including 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 to bring 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 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 rate) over the term of the loans and repayment defaults by 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 off-take 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 the ECRF expects 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 must first demonstrate that the institution meets the eligibility criteria. 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 are 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, select those able to borrow from the fund, and determine the precise terms and conditions of each loan. 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. Farmers whose revenues are loosely correlated with the international price of coffee should be protected from the typically higher consumer prices 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 the facility's financial viability, making it attractive to commercial investors and sustainable over the long term.
Term	5 to 6 years, depending on the projected cash flows 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 (paid over the course of the loan, though 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 assumes that 10% of all SHCFs in Ethiopia whose land requires R&R will participate in the program's initial cycle. 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 raising 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).[1] Additionally, grants totaling US$ 50 million are needed to cover the costs of performance incentives, technical assistance, and the operational management of the ECRF during one program cycle.[2] This combined funding[3] 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 enable incentive payments but also allow the secretariat to build a dashboard, enabling continuous tracking of the operations and performance of transactions with FIs and 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:

1 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.

2 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.

3 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).

- 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. loans 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, and 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 that has certifications.
- Status of investments made by SHCFs: these can be checked by comparing the number of trees replanted to date vs. target, the number of trees stumped to date vs. target, the percentage of R&R area harvested, yields during the period vs. target, and the amount of incentive paid.
- Prices per kg of green-coffee-bean equivalent at the 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 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 for and access funding efficiently via phone applications, 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

Establishing an innovative facility like the ECRF requires building 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 stakeholder validation and careful partner identification will be critical to addressing these hurdles effectively.

ii. Engaging with farmers

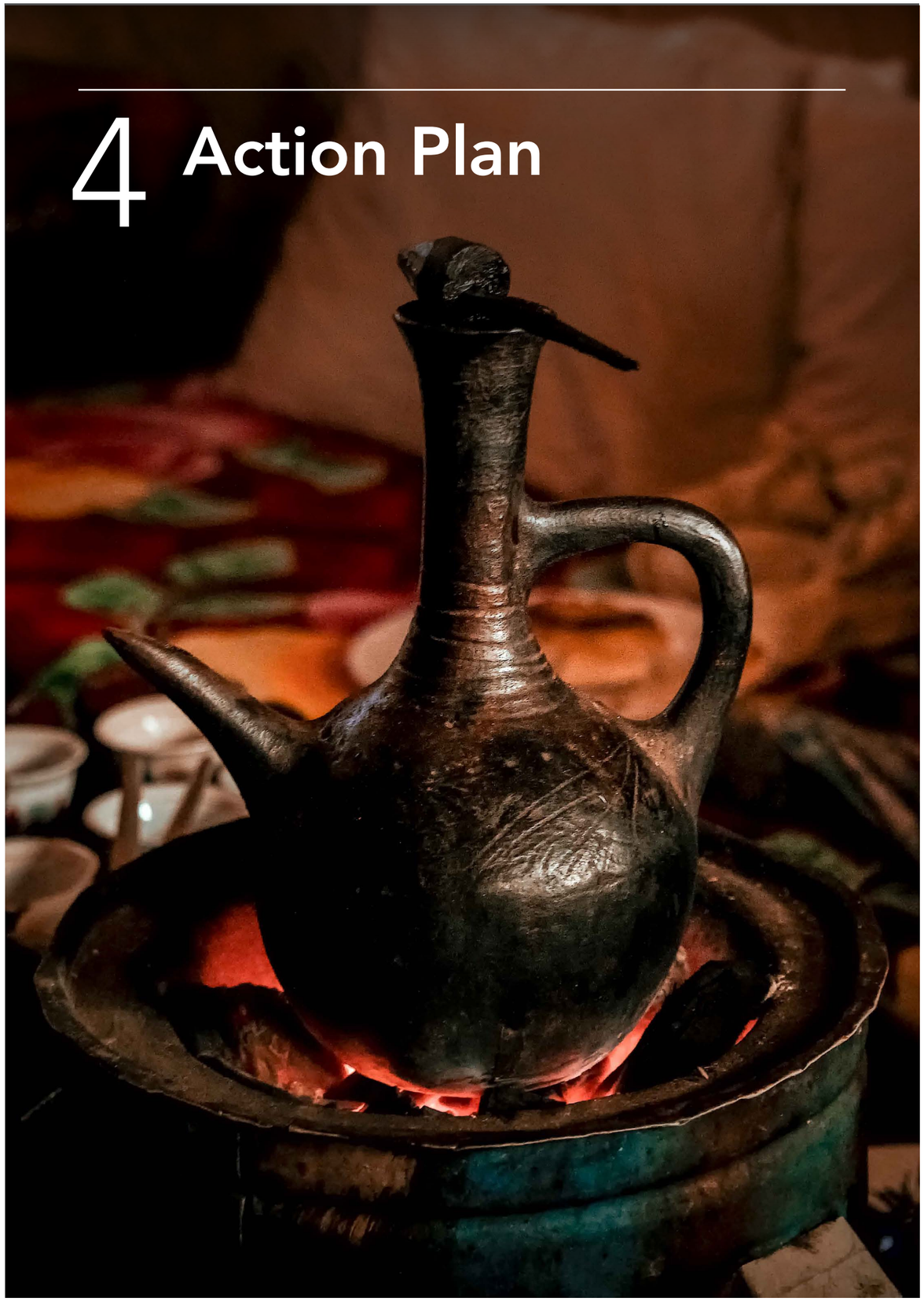
One of the most significant risks is SHCFs' reluctance to participate in R&R investments, particularly during the initial phases. This can be mitigated by showcasing the benefits of R&R through demonstration plots, robust outreach by microfinance institutions and cooperatives, and tailored technical 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 block, a list of actions is established, with a timeframe and 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	Leading actor
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.

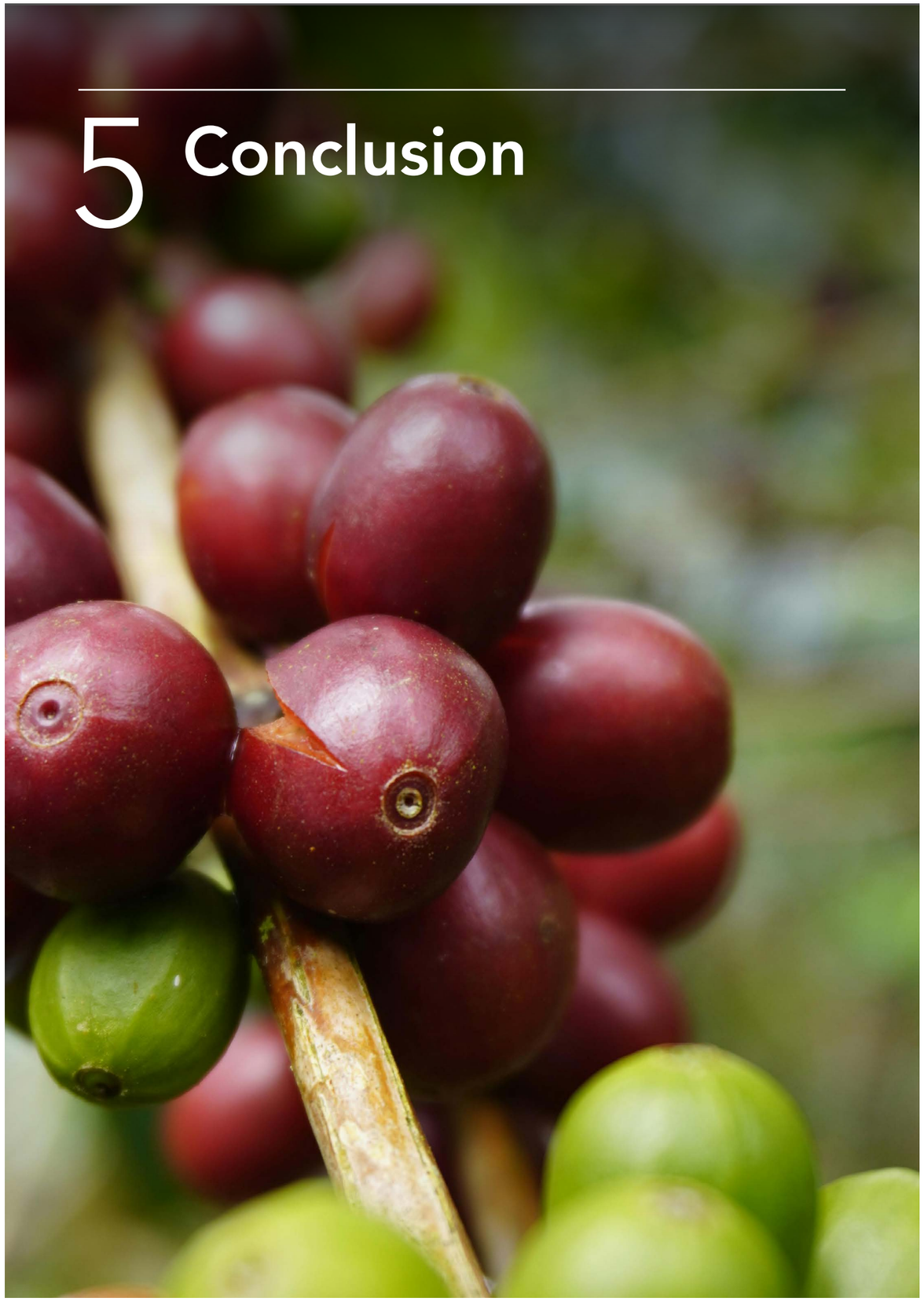
#	Action	Timeframe	Leading actor
7.1	Identification and selection of relevant impact measurement tools and service providers.	Immediate	ECTA
7.2	Definition of KPIs linked to strategic objectives and implement technology solutions for data analysis.	Short-term	Secretariat
7.3	Establishment a robust monitoring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



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 collaboration among 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, cooperatives, 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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