



Quarterly Report

January – March 2015



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ACRONYMS

ACOPAGRO	<i>Cooperativa Agraria Cacaotera ACOPAGRO</i>
ALHUA	<i>Cooperativa Agraria Cacaotera Alto Huayabamba</i>
APDF	<i>Asociación Perú Desarrollo Financiero</i>
APROBAP	<i>Asociación de Productores de Banano Orgánico de Pendencia</i>
ASAPROT	<i>Asociación de Agricultores y Productores de Tabalosos</i>
CACSA	<i>Cooperativa Agraria Cacaoteros San Alejandro</i>
CAF	<i>Corporación Andina de Fomento</i>
CAP	<i>Cacao Agroforestal Perú</i>
CCCP	<i>Central Café Cacao de Perú</i>
COOPALGSA	<i>Cooperativa Agraria El Gran Saposoa</i>
COPRODELI	<i>Asociación Comunción, Promoción, Desarrollo y Liberación</i>
FONDAM	<i>Fondo de las Américas del Perú</i>
FONDOEMPLEO	<i>Fondo Nacional de Capacitación Laboral y Promoción del Empleo</i>
HA	Hectare(s)
IAF	Integrated Agro-Forestry
IDB/MIF	Inter-American Development Bank Group's Multilateral Investment Fund
MFI	Micro-Finance Institutions
MT	Metric Ton
USAID	U.S. Agency for International Development

EXECUTIVE SUMMARY

The Peru Cocoa Alliance is an innovative partnership that is creating significant opportunities for small farmers in former coca-growing zones. Funded by the U.S. Agency for International Development (USAID) and private, non-profit and governmental partners, the Alliance is:

- **Putting Peru on the map** as a producer of the fine-flavor, traceable cocoa in demand in today’s markets,
- **Providing pathways out of poverty** for small farmers by stimulating long-term, commercial relationships with cocoa buyers,
- **Catalyzing farmer co-investment** through access to a high-quality technical package and affordable financing to increase both yields and areas under cultivation,
- **Improving resilience to climate change and supporting biodiversity**, and
- **Developing a sustainable platform** to continue to provide agricultural services to small farms after USAID funding ends.

The Alliance model, depicted on the following page, facilitates significant, sustainable opportunities for small farmers by helping them intensify and expand their farms while integrating them in more inclusive value chains. This report describes our progress this quarter towards achieving transformative performance measures.

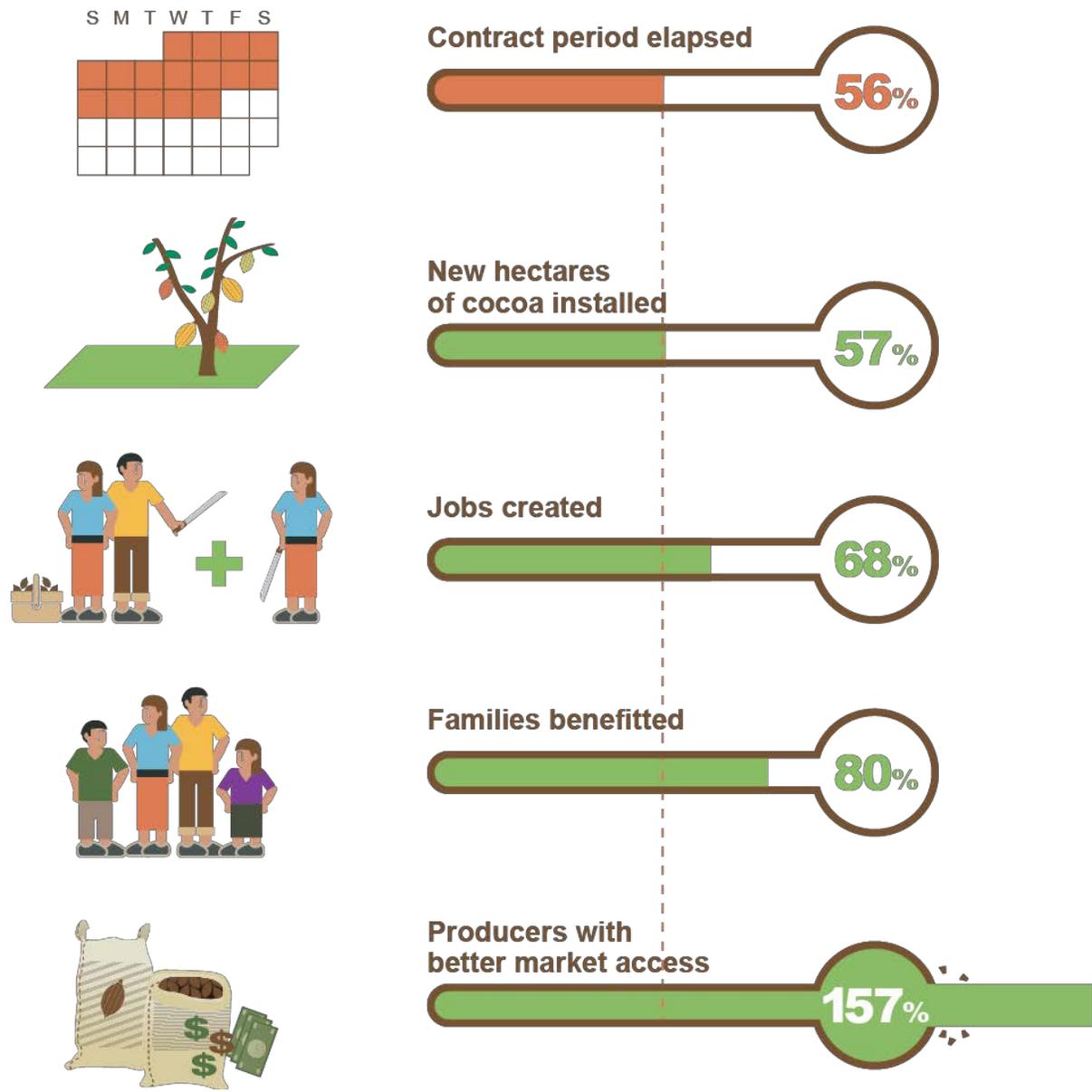
PERFORMANCE MEASURES	PROGRESS THIS QUARTER
<i>1. Farmers’ commercial relationships</i>	Facilitated US\$ 4.4 million in cocoa sales; Facilitated baby banana exports to Italy; Continued to develop direct buyer relationships
<i>2. Producer associations</i>	Facilitated creation of 2 new associations serving 1,550 producers
<i>3. Area under cultivation</i>	Installed 2,557 hectares of cocoa, 142% of the quarterly target
<i>4. Cocoa in the agro-forestry system</i>	Installed 194 hardwood nurseries to supply permanent shade for 8,552 hectares of cocoa
<i>5. Cocoa quality</i>	Expanded regional budwood production and distribution network
<i>6. Cocoa workforce</i>	Developed Fine Flavor Cocoa Technician training curricula and trained high school teachers
<i>7. Post-harvest handling</i>	Improved cocoa drying for 2 producer groups and baby banana handling for export to Italy
<i>8. Co-investment across the value chain</i>	Signed 8 MOUs with municipalities to provide 710,000 hardwood seedlings
<i>9. Environmental protection</i>	Distributed 54 metric tons of organic fertilizer from leverage partners; Coordinated with DEVIDA on environmental protection priorities
<i>10. Finance and sustainability</i>	Structuring 2 investments totaling US\$16 million; Negotiating with 10 investors and 6 chocolate companies

Critical Transformations



In its third year of operation, the Alliance is meeting and exceeding many of its aggressive goals and implementing plans to meet all remaining targets on-time and on-budget. As depicted in the graphic below, the Alliance has already achieved 157% of our goal of helping producers access better markets through agreements with buyers. We are ahead of schedule in assuring that families benefit from value chains and in creating jobs. With just over half of the project period of performance elapsed, we are slightly ahead of schedule in hectares of new cocoa installed. Annex 1 presents a comprehensive summary of Alliance results.

Target Achievement



TRANSFORMING VALUE CHAINS TO ENHANCE OPPORTUNITIES FOR SMALL FARMERS

The Alliance has several overarching goals: ensuring the consolidation of licit alternatives to coca by significantly increasing household incomes from cocoa-based agro-forestry and introducing systemic changes in value chains, and supporting the ecosystem such that farm households have sustainable access to affordable finance, technical support, and inputs beyond USAID funding. This report summarizes progress toward each of the program elements that contribute to achieving these goals. In addition, it highlights Alliance management accomplishments this quarter and finishes with a look at what's to come next quarter.

Key programmatic elements are described below.

① Establish Direct, Long-Term Commercial Relationships

In the traditional approach to commercializing cocoa, trading companies send buying agents into the “bush” to purchase beans from farmers in return for cash. Only a minority of farmers, usually members of a farmers’ organization, bring their wet beans to a fermentation and drying module. While farmers are maximizing the cash price of their small volume of product, this approach has negative consequences for access to finance, differentiation of pricing based on quality, incentives to expand and improve quality, traceability, and buyer incentives to invest in post-harvest handling. For short-cycle products like plantain or maize, farmers are on their own to sell surplus into the local market.

One of the strategic objectives of the Alliance has been to strengthen direct market linkages between end buyers (chocolate manufacturers, plantain processors or exporters, etc.) and groups of producers with only a transparent aggregator (farm organization and/or commercial trading company) providing intermediary services. Creating a direct, long-term relationship encourages investment throughout the chain, allows for marketing of differentiated, traceable products, and ultimately better prices for producers and their aggregator partners.

The Alliance is facilitating these long-term commercial relationships between small producers and end buyers for both cocoa and short-term crops that provide immediate income, such as plantains. This quarter, the Alliance facilitated sales of 1,905 metric tons (MT) of cocoa from small producers, totaling US\$4.4 million. We introduced CACAONET, a leading German cocoa buyer, to *Cooperativa Agraria Cacaotera ACOPAGRO*, which will sell 200 MT of cocoa to CACAONET in 2015. We also introduced farmers from the *Asociación de Productores de Banano Orgánico de Pendencia* (APROBAP) in Tingo Maria, Huánuco to Altro Mercato, an Italian agricultural products buyer, and

supported their baby banana trial exports to Italy. Exports are expected to grow over time to reach 4 MT per month and subsequently 4 MT per week (see Export Market Linkages Transform Peruvian Countryside). Furthermore, the Alliance continues to develop relationships with other cocoa, chocolate, and plantain buyers, such as Dole and Agronegocios Los Angeles, in order to develop additional long-term buying agreements in the near future.

EXPORT MARKET LINKAGES TRANSFORM PERUVIAN COUNTRYSIDE

The Alliance assisted the entrepreneurial *Asociación de Productores de Banano Orgánico de Pendencia* (APROBAP) to approach Altro Mercato, an Italian agricultural products importer, through its local partner REDESIGN, to buy the association's baby bananas (*plátano moquicho*). The bananas were produced with Alliance support to provide temporary shade to cocoa as part of the Integrated Afro-Forestry (IAF) system. This quarter, the Association shipped its first baby banana samples to Italy. Thanks to expert technical assistance, the products met the most stringent quality standards, and were warmly received by the buyer. Once the Association receives its organic certification, which the Alliance is facilitating, it will enter into sales contracts to provide 4 MT of baby bananas to Italy per week. The weekly sales are expected to top US\$3,500 and will double small farmer incomes.



The Guerrero family produces baby banana and will invest their earnings in expanding their fine flavor cocoa farm. Tingo María, Huánuco. March 2015. Photo: Peru Cocoa Alliance.

② Strengthen Producer Associations

Associativity brings many benefits to small farmers. In groups, they can cost-effectively access technical assistance, technology, and finance, and aggregate their product to negotiate better prices. The Alliance is facilitating a variety of new forms of associativity; we contributed significantly to empowering the creation of the 50-member *Cooperativa Agroindustrial Monte Alegre-Neshuya*, as well as the *Consortio de Cooperativas y Asociaciones Productoras de Cacao de Ucayali y la Provincia de Puerto Inca*, which has reached 1,500 members in this first phase of operations. Alliance partner *Central Café Cacao de Perú* (CCCP) offered three training modules this quarter to 25 local leaders, honing their skills in management, cooperatives, and administration of social enterprises, and paving the way to the creation of the two new groups. The Alliance introduced the *Neshuya* cooperative to the Peruvian office of Italian chocolate maker ICAM Peru, which agreed to purchase 200 MT of cocoa.

The Alliance also facilitated grant-writing training, a critical need, for 4 groups: *Asociación de Agricultores y Productores de Tabalosos* (ASAPROT), *Cooperativa Agraria El Gran Saposoa* (COOPALGSA), *Cooperativa Agraria Cacaotera Alto Huayabamba* (ALHUA) and *Cooperativa Agraria Cacaoteros San Alejandro* (CACSA). Partner CCCP is assisting the groups to prepare proposals for the Ministry of Agriculture's *AGROIDEAS* to install fine flavor cocoa, helping the groups to shape their requests, develop counterpart funds, and establish and comply with a detailed timetable for application completion.

③ Facilitate Growth of Area under Cultivation

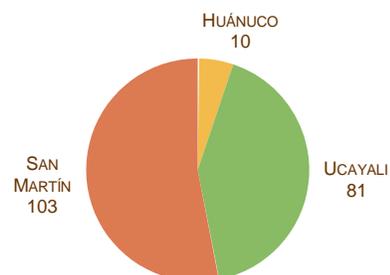
A key Alliance insight is that farmers must increase area under cultivation in order to achieve income levels that ensure no need to return to coca growing, offer a pathway out of poverty, and provide a promising future for entrepreneurial youth. The Alliance helps farmers with some cocoa production expand their cultivated area while also introducing new farmers to the crop, especially in Huánuco. This quarter the Alliance facilitated the installation of 2,557 hectares of cocoa, 142% of the quarterly target. We reached a cumulative total of 16,014 hectares since project inception, including 5,605 hectares within a completed Integrated Agro-Forestry (IAF) system and 6,356 hectares incorporated into a traceability system. Installation of hectares with the full IAF and traceability will accelerate in coming months.

The Alliance also developed cocoa installation plans for the remainder of the project. These month-by-month estimates will facilitate planning and budgeting, while monitoring will provide us with early alerts of potential problems. We will utilize three models to continue facilitating cocoa installation: (1) utilizing current Alliance resources; (2) making use of new public co-investment with groups such as CCCP, *Fondo Nacional de Capacitación Laboral y Promoción del Empleo* (FONDOEMPLEO), and *Fondo de las Américas del Perú* (FONDAM); and (3) using new private co-investment with private capital and developers. To this end, the Alliance plans to install 1,200 ha with FONDOEMPLEO starting in May, and has assisted FONDAM to develop a public solicitation for 1,400 ha. We are also providing private developers with guidance on land acquisition and IAF.

4 Facilitate Cocoa Installation in the Agro-Forestry System

Cocoa grown in an IAF system with permanent shade has higher yields, increases income for farmers, and captures carbon, thus providing long-term environmental benefits. The Alliance facilitated the installation of 194 hardwood nurseries this quarter that will supply seedlings to provide permanent shade for 8,552 hectares of cocoa. Weather, always a factor in agriculture, affected our plans, as heavy rains slowed seedling growth this quarter. Nonetheless, the Alliance successfully facilitated 46 new hectares of cocoa installed under IAF this quarter, reaching 5,605 hectares since program inception. Most importantly, farmers such as Juanjuí's Don Julio Castrejón are co-investing in cocoa utilizing the IAF model because they see the benefits of diverse, resilient income streams from crops such as plantains, and permanent hardwood trees that boost cocoa quality and yield. (See success story "Farmers Co-Invest in Integrated Agro-Forestry System.")

FIGURE 1. HARDWOOD NURSERIES INSTALLED THIS QUARTER, BY REGION



5 Enhance Cocoa Quality

Long-term commercial relationships through the Alliance provide small farmers with information on buyer standards and requirements, a price hike for quality (which incentivizes investment), and access to inputs and credit. Led by our buyers, the Alliance has conducted an educational campaign to help producers understand that cocoa buyers of today and tomorrow are demanding fine flavor. The campaign is universally credited with turning opinion throughout the region in support of fine flavor cocoa as opposed to conventional CCN51. In addition to facilitating access to high-quality planting material, the Alliance provides technical assistance and training on plot layouts that yield highly productive cocoa, and uses a traceability system that enables the final buyer to determine the product's origin.

A core accomplishment this quarter is the development of a region-wide system of fine flavor budwood production, packaging, and distribution to make fine flavor grafting possible on a massive scale. Until now the Alliance has relied on budwood from San Martín, which resulted in high transport costs to distant regions. To set the stage for a successful 2015 grafting program at lower cost, as depicted in the following chart, the Alliance identified owners of some 80,000 highly productive fine flavor cocoa trees, enough to provide budwood for grafting 11,188 hectares of fine flavor cocoa. The Alliance evaluated the quality of their land holdings; weeded and fertilized; arranged pruning for sanitation and field conditioning; dipped the budwood in wax at both ends to ensure freshness and packaged in bundles of 4,000 sticks, with each bundle including the correct number of each clonal variety to assure successful cross-pollination of a one-hectare plot; and distributed it within 24-48 hours to farms for grafting.

FARMERS CO-INVEST IN INTEGRATED AGRO-FORESTRY SYSTEM

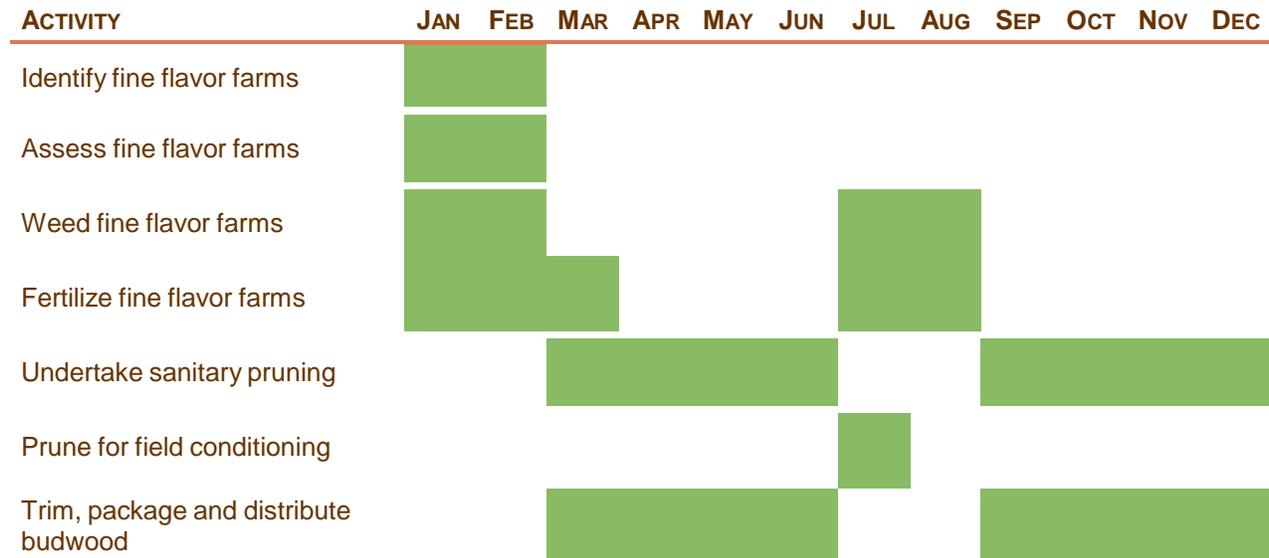
The Alliance approached Don Julio Castrejón of Campanilla, Juanjuí in the region of San Martín, to discuss the importance of differentiating his product in national and international markets. Intrigued by this idea, Don Julio, who had previously planted 7 hectares of conventional cocoa, became an Alliance partner in late 2013. Through the Alliance, he expanded his plot by 1.5 hectares to produce fine flavor cocoa under the IAF model by growing plantain and hardwood trees to provide temporary and permanent shade: “The best decision I made was to learn to cultivate cocoa the way the Alliance showed me. Now I harvest plantain that I sell for S/.2.50; if I sell all 900 bunches I’ll have in my next harvest, that’s S/.2,250 from just one hectare. It’s a real business!” Don Julio uses the income from his plantain sales to purchase tools and fertilizers for his cocoa trees, and hopes to add an additional hectare of fine flavor cocoa. “My plot looks good, I have cocoa and plantain, but most importantly, I’ve secured my future and that of my five children, who are studying to become great professionals. Being an ACOPAGRO and Alliance partner has taught me the importance of maintaining a clean and healthy production plot.”



Julio Castrejón, Alliance and ACOPAGRO partner and producer, cultivates fine flavor cocoa under an IAF system in Campanilla. Juanjuí, San Martín. February 2015. Photo: Peru Cocoa Alliance

During this quarter, the Alliance team made notable improvements by arranging for more budwood distribution sites, improving the delivery times, and enhancing the quality of the budwood through careful preparation and handling. At the same time, periodic strikes called by *cocaleros*, particularly in Ucayali, meant that roads were effectively closed, resulting in a delay in the distribution of budwood destined for 100 hectares, which will resume next quarter.

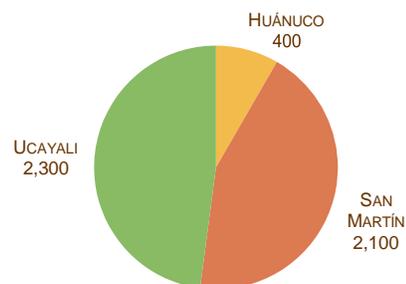
FIGURE 2. FINE FLAVOR GRAFTING PROGRAM FOR 2015



⑥ Prepare and Certify the Cocoa Workforce – Creating Opportunities for Youth in Cocoa

The Alliance is playing a crucial role in preparing its team to provide world-class, market-led technical support for fine flavor cocoa, and inculcating best practices in producers. The Alliance provided training this quarter to 95 Alliance staffers and 4,800 producers and partners. We provided training on topics including: good agricultural practices; good environmental practices; mapping cocoa farms; installing hardwood nurseries; plantain cultivation and handling; waste handling and composting; fertilization; grafting; and pruning. (No participants were registered in the TraiNet system this quarter as training offered was short-term.)

FIGURE 3. PEOPLE TRAINED THIS QUARTER, BY REGION



The Alliance supported partner *Asociación Comunción, Promoción, Desarrollo y Liberación* (COPRODELI) to develop a Fine Flavor Cocoa Technician course to use in its network of 8 high schools in San Martín. The initiative is sustainable beyond USAID funding, as COPRODELI integrated the training into the high school curricula. The Alliance also completed training for 5 teachers who will offer the course. COPRODELI uses its 20-hectare teaching farm equipped with drip irrigation to provide hands-on opportunities for teachers and students in the course. The

opportunity to develop a profitable small business with 3-5 hectares of fine flavor cocoa offers qualified youth the option of remaining in their community instead of going to urban areas that often offer limited jobs, and addresses the problem of the high average age of farmers. Initial Alliance data analysis suggests that youth farmers (ages 18-29) are early adopters of new technology and systems compared to older farmers, and thus a force for accelerating the pace of change in rural communities. Through an MOU with the *Municipalidad Distrital de José Crespo y Castillo*, the Alliance is exploring the development of a training program for grafting, which will prepare the workforce as well as create new jobs.

⑦ Improve Post-Harvest Handling

Improving and standardizing cocoa, banana, and plantain handling will improve quality and price, so the Alliance is empowering participating farmers with best practices. This quarter, *Cooperativa Puerto Inca* members participating in an ECOM Group began using an electric dryer with a capacity of 1/4 MT/hour, purchased in part through a loan from ECOM Trading, a founding member of the Alliance and one of the world's largest cocoa buyers. The Alliance trained producers in proper dryer usage and post-harvest handling, including fermentation and drying. The *Asociación de Productores de Nueva Ucayali* began a program of improved cocoa bean drying in line with Alliance guidance, with a weekly drying capacity of 1 MT. In Aguaytia, the Alliance is assisting *ATM Agroindustrias*, a regional company currently installing a processing plant to produce chocolate products and plantain chips, to access sufficient, high-quality suppliers from the region. In Pendencia, we provided training to 63 producers on post-harvest handling for baby bananas to support exports to Italy that the Alliance facilitated.

⑧ Coordinate Co-Investments across the Cocoa Value Chain

By working across the cocoa value chain, the Alliance is an innovative mechanism for coordinating co-investments to ensure the whole is greater than the sum of the parts. Economic development thought leaders and practitioners across both developed and developing countries have struggled for decades with the “economic calculation problem.” Simply stated, no centralized actor, such as a donor or government agency, can possibly have more knowledge than the market as a whole regarding investment and income-generating opportunities for communities, families, and small and even large businesses. The Alliance provides a coordinating framework to capture, analyze, and share the insights of the market and equitably distribute the benefits of the value created.

This quarter, the Alliance signed MOUs with 8 municipalities, Juanjuí, Huicungo, Campanilla, Huallaga, Bellavista, El Dorado, San Martín de Alao, and José Crespo y Castillo, granting access to nurseries providing 710,000 hardwood seedlings for use in the IAF system. For example, San Martín de Alao donated 3,500 seedlings including *capirona*, *bolaina*, *paliperro* and *huayruro* for Alliance producers. Similarly, the Alliance negotiated a letter of collaboration with Odebrecht, the operator of the *Bello Horizonte* hydroelectric plant, to co-invest in improving services to producers in several Alliance communities as part of its social responsibility program. In the past, social responsibility programs often operated in a silo based on isolated community economic empowerment plans; the Alliance integrates investments for maximum impact.

⑨ Protect the Environment and Promote Biodiversity

The IAF system focuses intensive intercropping on several high-yield, high-revenue hectares, reducing pressure to deforest. Giving producers alternatives to the monoculture of CCN51 with the 8 clonal varieties with which the Alliance is working increases biodiversity and builds resilience to pests and disease.

This quarter the Alliance signed an MOU with the *Cerveceria San Juan (Backus)*, providing the project with 54 MT of organic fertilizer produced by the brewery, as well as access to their ECOPARQUE facilities to offer agroforestry training to Alliance partners. During March, the Alliance distributed 27 MT of the organic fertilizer to 41 families for its application in 62 hectares of cocoa in Macuya, Campo Verde, Nueva Requena and Curimana. The Alliance will assess the impact on yield and disseminate the results, contributing to the knowledge base of good agricultural and environmental practices.

Also this quarter, Alliance regional directors participated in the Second Technical Meeting on Environmental Follow-up organized by DEVIDA on March 11-12, 2015. The consensus of the discussion was a need for additional training and monitoring across alternative development projects in four areas: recycling and solid waste management; safe pesticide use; fertilization; and composting.

FACILITATING SUSTAINABLE MODELS FOR SMALL FARMERS TO ACCESS FINANCE

Access to finance is critical to success in the cocoa value chain. Short-term working capital is needed to finance fertilizer and good agricultural practices while affordable long-term capital helps accelerate expansion. Facilitating working capital, especially through micro-finance institutions (MFIs), was the focus during the first two years of the Alliance. This approach was highly successful, not only assisting 9,477 farmers obtain a line of credit, but showing MFIs that farmers represent an attractive market segment, especially when linked to buyers and technical assistance. These MFIs continue to lend to farmers without Alliance support.

The Alliance hypothesis was that improved yields on existing plots, together with market off-takers for short-cycle crops from expansion areas, would provide farmers with sufficient cash flow to finance steady expansion. While Alliance farmers are cultivating additional land with cocoa, the rate of expansion is in many cases one hectare every one or two years, assuming continued subsidies for planting material and extension. In order for more farmers to reach the 5 hectare minimum of highly productive cocoa considered necessary to escape poverty—and provide a viable option to cocoa-innovative approaches for channeling long-term finance will be required.

A first step in this direction was taken in previous quarters by helping Romex Trading obtain a US\$8 million, seven-year loan from impact fund ResponsAbility, which in turn benefits from a DCA guarantee. However, Romex planned to use it for providing fertilizers as a form of short-term financing, with only modest interest from farmers. Partner ECOM provides some working capital to groups of producers and their associations, and has also sought to bundle larger loans from sources such as Root Capital. The Alliance had brought both commercial partners together with Moringa Fund to discuss how to structure an approach for facilitating longer-term finance in expanding small farms, but neither has followed through on the opportunity.

This quarter the Alliance submitted a detailed proposal for an innovative strategy that addresses the long-term finance challenge and comes up with an organizational model that ensures continued services to small farmers, such as technical assistance and discounted inputs, in ways that both the farmers and investors are confident of recouping their investments. By channeling finance to small farmers through anchor aggregators and buyers, the Alliance is able to focus lending squarely on cocoa expansion while also introducing commercially sustainable organizational models.

Through the new strategy, the Alliance is structuring deals with impact and equity funds, as well as private investors, to provide longer-term finance for cocoa expansion. The new approach involves a transition from USAID subsidies of planting material and extension services to financing these as part of the investment. This will allow for investment and expansion to continue and benefit

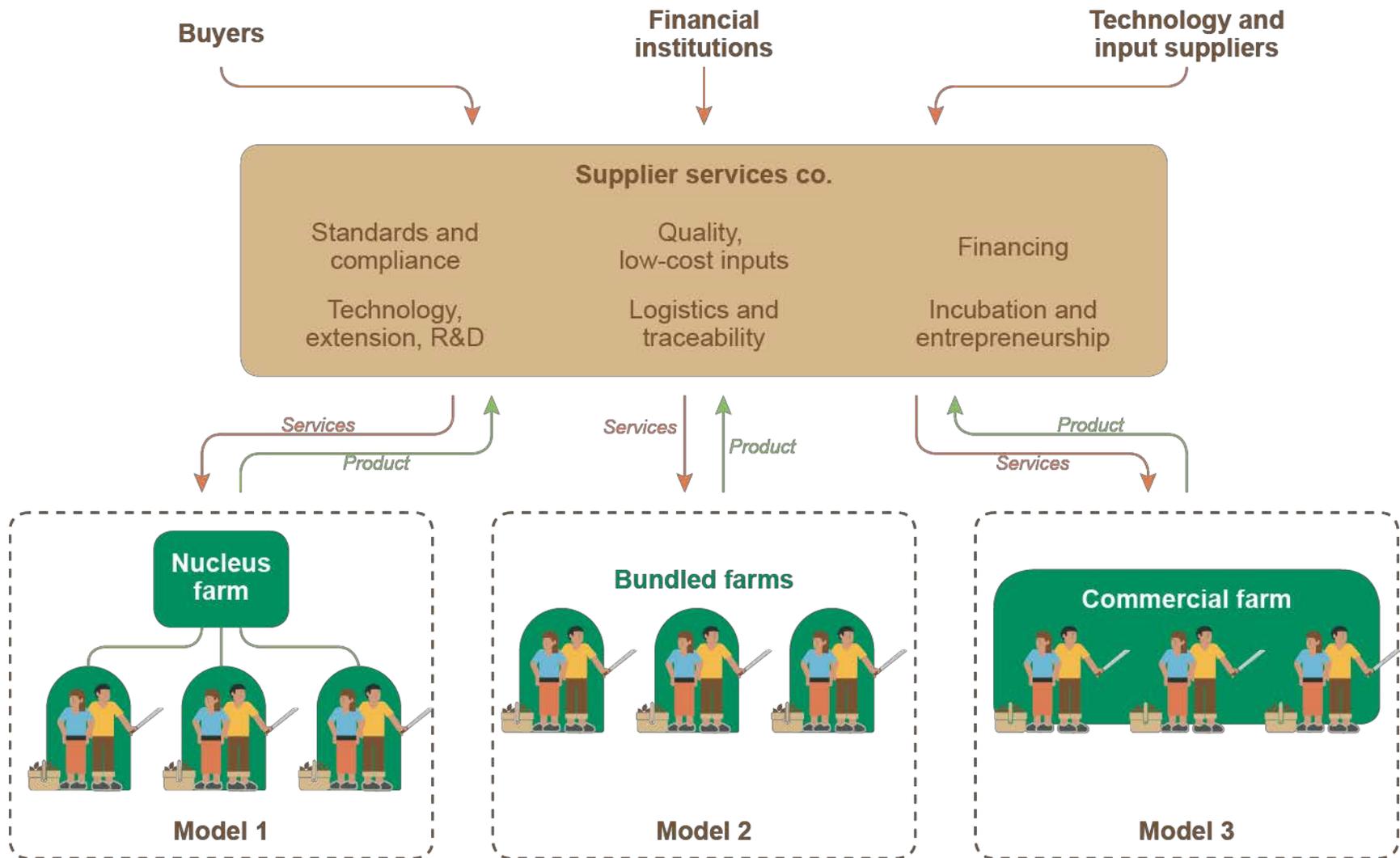
thousands of farmers after the end of USAID support for the Alliance, thus also consolidating the goals of alternative development.

Under the modified strategy, the Alliance will incorporate a new leverage partner, *Cacao Agroforestal Perú* (CAP), which has been established as a portfolio management company to raise and channel finance for cocoa expansion and services applying one of three distinct models depicted in the graphic on the following page.

- ***Nucleus farms with outgrowers.*** In this model, which the Alliance has brought to cocoa from other agricultural commodities, a commercial (nucleus) farm is developed with sufficient scale to provide planting materials, TA, training, inputs, and financing to support the expansion and improvement of neighboring small farms on a long-term contractual basis.
- ***Bundling of small-scale farms.*** This model enables long-term financing and more rapid expansion. Entrepreneurial farmers put 5 or more hectares into a single project that can be financed with long-term money (7-12 years). Farmers receive salaries and profit-sharing until the financing is paid off. At the end, they have a modern, profitable SME farm with a much higher valuation.
- ***Commercial-scale farms.*** Some land owners or developers, who choose not to work with outgrowers, nonetheless contribute to a thriving sector because they support the scale needed for Peru to be a serious market for chocolate companies and input/technology firms. Building up the value chain and related infrastructure and services is valuable to all participants.

This quarter, the Alliance made significant progress structuring several potential investments. One of these involves reworking the US\$8 million seven-year loan to Romex Trading by ResponsAbility, supported by a USAID DCA, to implement the bundled farm model and help small farmers to expand by at least 5 hectares each. ACOPAGRO, a founding partner in the Alliance, is also leading a bundled farm approach with its members, in which it would become a co-investor and operator. Proposals to funding sources are being prepared. Several other investment projects are at various stages of development, but given the sensitivity of the potential transactions, names of developers and investors are not included here.

Financing Small-Scale Farmers



BUILDING SUSTAINABLE CAPACITY

This quarter, the Alliance made substantial progress regarding how to achieve sustainable capacity to support the ongoing transformation of the value chains to enhance opportunities for small farmers once USAID funding ceases. From the outset, the Alliance has been created to be an ongoing program supported by the farmers; the national and international cocoa/chocolate industry; financial institutions; Peruvian municipal, regional and national governmental entities; and other donors.

Sustainable agriculture has three dimensions. First, sustainable agriculture requires sustainable farmers; farmer income must be increased enough to provide farm families with pathways out of poverty so they can continue to invest profitably. Second, sustainable agriculture requires access to a technology package that advances the efficient use of resources (land, water, and inputs) and climate resilience. Third, sustainable agriculture requires the continued provision of technical services and access to finance to participating farmers through project integrators prepared to stay engaged beyond the end of donor funds. All three dimensions require significant long-term finance.

This quarter, CARANA engaged in discussions with USAID regarding continued expansion of the Alliance to include additional investors and services providers, including the new leverage partner, *Cacao Agroforestal Perú (CAP)*, a portfolio management company that will raise and channel finance for cocoa expansion and services. In addition, the Alliance made significant progress toward building the local capacity of a nonprofit platform to support ongoing Alliance activities through initiating a sub-award process, further described in the following section. The sub-awardee will expand the installation of cocoa hectares under IAF systems, support the maintenance and grafting of hectares previously installed, and promote good agricultural and environmental practices. The sub-awardee will also develop and implement a sustainability strategy to continue to provide these services, cost-effectively, with other sources of funding once USAID funding ceases. The Alliance will strengthen the sub-awardee by providing institutional, financial, technical, and administrative support for sustainable service delivery.

Finally, as discussed in greater detail in the previous section on access to finance, the Alliance focused this quarter on identifying and developing joint long-term funding proposals with potential Alliance partners. These critical efforts serve two fundamental purposes: seek and capture additional resources to fund farm services, and strengthen within the Alliance ecosystem the capacities to serve as funding platforms for farm services.

It is only by cost-effectively meeting market needs, and building proven capacities in both non-profit and commercial partners to raise funding to continue to do so, that the Alliance can continue beyond USAID funding. Through this sustainability plan, the Alliance will build on its initial goals in order to truly transform the target regions in Peru in the long term, facilitating the significant co-investment needed to support former coca farmers to develop licit livelihoods and leave poverty behind.

MANAGING THE ALLIANCE

The Alliance facilitates the transformation of cocoa and related value chains across the three target regions by aligning and managing diverse partner interests and designing, adapting, and executing a cost-effective implementation approach. Technical management, monitoring and evaluation, communications, and personnel management all contribute to achieving success. Gender empowerment is a key cross-cutting theme at the heart of the Alliance approach.

Technical Management

To assure cost-effective service delivery and build local institutional capacity for ongoing Alliance activities, the Alliance issued a Request for Applications (RFA) to identify a local institution to strengthen through institutional, financial, technical, and administrative support. With Alliance support, the sub-awardee will expand the installation of cocoa hectares under IAF systems, provide technical support for the maintenance and grafting of hectares previously installed, and promote the use of good agricultural practices to both protect the environment and achieve increased quality and productivity sustainably. The local institution will also generate additional grant and financial support from partners that prefer to work through a non-profit platform. In addition, this institution will manage programmatic initiatives that are co-financed by entities such as FONDOEMPLEO and FONDAM, which will last beyond the end of USAID assistance.

The initial Expression of Interest, disseminated in early February, was met with great enthusiasm. A total of 51 local organizations sent in responses, and 13 entities responded to the Alliance's follow-up request for technical and institutional qualifications. Of these, two organizations, Bidder A and B, were pre-selected by an internal evaluation committee and invited to meet with the Alliance and submit proposals to the RFA disseminated in early March. The evaluation committee, composed by Chief of Party José Iturrios, Deputy Chief of Party José Gamarra, and Agribusiness Manager Hugo Palma, carefully reviewed both bids against the established selection criteria. Maria Martinkov, CARANA Sr. Vice President of Global Operations, compiled the evaluations and submitted a sub-award request to USAID for review and approval.

This quarter, the management team facilitated the shift in the Access to Finance strategy by closing out the sub-award to *Asociación Perú Desarrollo Financiero* (APDF), which had played an appropriate role in facilitating rural finance, to focus on financing through aggregators and anchor firms as discussed above.

Monitoring and Evaluation

The Monitoring and Evaluation team assures the accuracy and validity of Alliance results, and supports a variety of producer engagement efforts. This quarter, the team visited 96 farms to verify cocoa plantings, in accordance with its data quality plan. In addition, the team coordinated with the Communications team to develop a messaging platform to reach producers cost-effectively with targeted messages on good agricultural practices.

Communications

Communications play an ever-more critical role in the Alliance as the pace of activities continues to ramp up, additional partners join business plans, and the Alliance focuses on sustainability once USAID funding ends. Six targeted communications initiatives from this quarter represent the breadth of activities that generate engagement in the Alliance, effective communication of core Alliance education and positioning messages, and dissemination of the Alliance model.

Engage. The Alliance organized an investment promotion visit of cooperatives and research facilities in San Martín for CAMPOSOL CEO Javier Morales on February 11-12 to encourage co-investment in fine flavor cocoa production.

Educate. The team harnessed the technology and reach of the USAID CEDRO Digital Inclusion Program to very cost-effectively train 300 producers across three sites simultaneously. The Alliance transmitted three *CacaoTICs*, interactive teleconferences, from San Martín to sites in Ucayali and Huánuco to present information and answer questions on installing cocoa in temporary shade, fertilization, and good agricultural and environmental practices in an IAF model. In addition, the Alliance used instant messaging technology to send four time-sensitive messages to each of 1,500 producers advising them on land preparation, grafting, fertilizing, and good environmental practices.

Disseminate. The communications team orchestrated a high-level visit to Ucayali by Ms. Elizabeth Hogan, USAID's Senior Deputy Assistant Administrator for Latin America and the Caribbean, and Mr. Lawrence Gumbiner, Deputy Chief of Mission at the US Embassy in Peru on January 22. The visits provided opportunities for US officials to witness first-hand the transformations the Alliance is catalyzing at the household and value chain level and share their findings with other partners, nations, and the US Congress and taxpayers through subsequent testimony and reports. Similarly, the team organized a March 10 press conference in Tingo María on Alliance-catalyzed baby banana (*moquicho*) exports to Italy. The event generated 2 radio interviews, 4 television stories, and 5 digital press pieces, which serve to stimulate additional interest in participating in the Alliance and highlight the effectiveness of the Alliance's market-driven partnership approach. To provide just one example of the Alliance communicating its environmental benefits, a February 25 press conference on the environmental benefits of the Alliance model was held in San Martín, one of the most deforested areas in the country. Significant press coverage included 2 radio interviews, 2 television stories and 3 digital media pieces.

Personnel Management

The Alliance welcomed Ana María Andrade Navarro as the San Martín Regional Director in place of Darwin del Aguila. In addition to bringing 14 years of experience in facilitating inclusive agricultural value chains through co-investment with business, Ms. Navarro demonstrates the Alliance's commitment to incorporating women in leadership positions throughout the value chain. The Alliance also contracted with 83 extension agents to provide technical assistance in grafting, pruning, shade requirements, traceability, and monitoring to increase area under cocoa cultivation. By integrating the extension agents into the business plans and assuring that the technical assistance they provide reflects the specific buyer standards and requirements, the Alliance is building a cohort of highly trained, market-oriented cocoa agricultural extension specialists to support the value chain going forward.

Gender Empowerment

Gender empowerment is at the heart of the Alliance approach. The Alliance is empowering women throughout the cocoa value chain, and increasing the visibility of their roles, through an inclusive approach across all outreach and engagement activities. For example, this quarter the M&E team began a data-driven review of Alliance gender empowerment impacts to date to inform future planning. The communications team reviewed all communications materials to ensure use of gender inclusive language encouraging the full participation of women and men, and made modifications as needed. The “Women Benefit from Visibility in Cocoa Value Chain” success story on the following page provides one example of the results of the Alliance's integrated gender empowerment approach.

WOMEN BENEFIT FROM VISIBILITY IN COCOA VALUE CHAIN

Elena Huanakaque exemplifies the heightened visibility of women's significant roles in the cocoa value chain that the Alliance facilitates. Elena is growing 2 hectares of fine flavor cocoa with support from the Alliance, and with our assistance secured a 3,000 *nuevo sol* loan (approximately US\$1,000) that she invested in inputs for grafting, pruning, and fertilizing. The Alliance also geo-referenced Elena's farm so end buyers can trace the origin of the cocoa she grows. Elena, like many women, is an early adopter of fine flavor cocoa and cultivation techniques she learns from Alliance agricultural technicians, applying them to her conventional cocoa as well. Elena reaches out to her neighbors, sharing her experience with fine flavor cocoa in both formal training and technical assistance sessions organized by the Alliance, but also informally in her day-to-day interactions. She also makes a special effort to hire other women, particularly poor women, to work on her farm. Elena explains, "I attend community events and I ask women to come out of their homes and work in the field with me. It's not too difficult, and they can truly help their families improve their standard of living. Everything is possible." By showcasing throughout the community the significant roles that women play in the value chain, the Alliance paves the way for more women to become fully integrated in cocoa cultivation and marketing.



Elena Huaynakaque proudly shows the cocoa paste she produces from her own cocoa farm. Pumahuasi, Huánuco. February 2015. Photo: Peru Cocoa Alliance.

WHAT'S COMING NEXT QUARTER

Transforming the Value Chains

- The Alliance will catalyze long-term commercial arrangements between end buyers and farmers by providing partners with nonexclusive, nontransferable information on independent farmers to encourage them to enter into and co-invest in business plans to strengthen the value chains.
- APROBAP will increase baby banana (*moquisho*) sales and exports with Alliance support through a combination of additional market linkages such as with supermarkets in Lima and the Italian Fair Trade market through Altro Mercato, and technical assistance to increase production. We will develop and sign additional agreements with buyers by completing on-going negotiations with groups such as Procesadora Trópica (plantains).
- The Alliance will intensify training to farmers, including training to improve plantain cultivation. Farmers have planted at least 1,000 plantain plants/ha on 9,000 Alliance hectares and it is a significant revenue source.

Facilitating Sustainable Models to Access Finance

- The Alliance will present cocoa financing opportunities to IDB/MIF and CAF for their consideration.

Building Sustainable Capacity

- Cacao Agroforestal Perú, Romex Trading, Palmas de Espino and Camposol will visit Brazil to explore successful cocoa plantations using drip irrigation and a variety of post-harvest technologies as they explore expansion plans with Pinhaelense and Netafim, a drip irrigation manufacturer.

Managing the Alliance

- The Alliance will finalize integrating a Transition and Sustainability Communications plan into its ongoing communications plan to develop and disseminate key legacy messages that will inform continuing Alliance activities once USAID funding ceases.
- CARANA's CEO Eduardo Tugendhat will make the first formal presentation on the Alliance to USAID/Washington in an April meeting organized by Peru Desk Officer Mike Karbeling.
- In April, the communications team will orchestrate a "Conversation on Women and the Environment in the Cocoa Value Chain" increasing the visibility of the many roles women play in

the Alliance, including as leading producers, entrepreneurs, and marketers. The Alliance will prepare video testimonials from the “Conversation” for rebroadcast. Informed by the event and an M&E-led assessment of Alliance gender impacts to date, Alliance senior management and the CARANA home office will lead a review of the Alliance’s Gender Empowerment Plan to identify any additional needed activities to address any gaps in performance.

ANNEX 1: ALLIANCE RESULTS

RESULT	LOP TARGET*	BASE -LINE	EXPECTED RESULTS Q2-Y3	ACTUAL RESULTS Q2-Y3	VARIANCE	PERCENTAGE RESULTS ACHIEVED Q2-Y3	EXPECTED CUMULATIVE RESULTS TO DATE**	ACTUAL CUMULATIVE RESULTS TO DATE	CUMULATIVE VARIANCE COMPARED TO EXPECTED CUMULATIVE RESULTS	PERCENTAGE CUMULATIVE LOP RESULTS ACHIEVED	REPORTING FREQUENCY
<i>Farm Income (US\$/ha)</i>	1,235	950	-	-	-	-	-	-	-	-	Annual
<i>Families that benefit from value chains and/or access to finance</i>	23,000	0	0	731	731	-	18,000	18,387	387	80%	Annual
<i>Employment generated</i>	18,000	0	-	-	-	-	12,300	12,312	12	68%	Annual
<i>New hectares cacao installed</i>	28,000	0	1,800	2,557	757	142%	16,564	16,014	-550	57%	Quarterly
<i>Producers that access better markets through agreements included in business plans.</i>	10,000	0	400	918	518	230%	10,900	15,671	4,771	157%	Quarterly
<i>Hectares installed under agroforestry systems</i>	16,800	0	1,300	46	-1,254	4%	11,180	5,605	-5,575	33%	Quarterly
<i>Hectares incorporated into a traceability system</i>	23,000	0	-	1,038	-	-	16,500	6,356	-10,144	28%	Annual
<i>Increased capacity to process post-harvest systems (metric tons)</i>	6,000	0	-	-	-	-	2,000	902	-1,098	15%	Annual
<i>Market-led value chains that link strategic buyers with organizations, producers, financing and other services</i>	5	0	-	-	-	-	3	1	-2	20%	Annual
<i>Leverage private funds (cash or in-kind) (US\$)</i>	43,280,706	0	0	5,917,347	5,917,347	-	31,930,706	33,273,836	1,343,130	77%	Annual

RESULT	LOP TARGET*	BASE -LINE	EXPECTED RESULTS Q2-Y3	ACTUAL RESULTS Q2-Y3	VARIANCE	PERCENTAGE RESULTS ACHIEVED Q2-Y3	EXPECTED CUMULATIVE RESULTS TO DATE**	ACTUAL CUMULATIVE RESULTS TO DATE	CUMULATIVE VARIANCE COMPARED TO EXPECTED CUMULATIVE RESULTS	PERCENTAGE CUMULATIVE LOP RESULTS ACHIEVED	REPORTING FREQUENCY
Leverage public funds (cash or in-kind) (US\$)	6,436,441	0	0	46,104	46,104	-	4,036,441	2,394,646	-1,641,795	37%	Annual
Organizations trained in business and financial management	10	0	-	-	-	-	3	6	3	60%	Annual
Placements made by financial institutions or investment funds to maximize results in alternative development areas (US\$)	44,000,000	0	3,700,000	0	-3,700,000	-	26,000,000	20,226,259	-5,773,741	46%	Quarterly
Families that access financial services	10,000	0	1,475	0	-1,475	-	4,775	4,434	-341	44%	Quarterly
Financial institutions with more competitive financing services	1	0	-	-	-	-	1	1	0	100%	Annual
Qualified financial institutions.	4	0	-	-	-	-	4	4	0	100%	Annual

*LOP targets reflect indicators proposed in the latest modification request, submitted on April 13, 2015.

**Expected cumulative results for results reported annually are as of the end of Year