

ECOM Agroindustrial Corporation Ltd.

COMPANY BACKGROUND

Ecom Agroindustrial Corporation Ltd. (ECOM) is a global commodity trading and processing company specializing in coffee, cotton, cocoa, and sugar in major producing and consuming countries, with ancillary agricultural operations in oilseeds. ECOM is one of the world's top three merchants in coffee, one of the largest coffee millers in the world, and among the top five merchants in both cotton and cocoa. The company is an integrated commodity originator, processor, and merchandiser, and it sells its products to branded product manufacturers, including household names such as Nestlé Group, Starbucks, Hershey, Mars, Sara Lee, Kraft, and Folgers. Now incorporated and headquartered in Switzerland, ECOM and its subsidiaries operate in 30 countries. The company employs approximately 6,000 people worldwide and had 2011 sales of \$5.1 billion.

Country: Worldwide

Sector: Agribusiness

IFC's Investment: \$154 million in debt and quasi equity financing

ECOM's coffee business is global, with more than 20 offices on five continents. In recent years, as much as 20% of ECOM's total coffee trade was in certified varieties and the company's long-term vision is to increase this percentage significantly.

DRIVERS FOR ECOM'S INCLUSIVE BUSINESS MODEL

- Need to ensure stability and security of coffee supplies
- Market demand for high-quality, certified coffees and related sales premiums
- Company vision to scale up its certified coffee trade

Given the nature of global coffee farming, ECOM must do business with smallholder farmers. With the rise of the quality coffee market, ECOM has learned that it must also invest proactively in development of those farmers: their performance is critical to ECOM's ability to provide high quality coffee and solutions to its clients.

Farmer competitiveness is also critical to ECOM's access to premium coffee markets. Demand for high-quality, certified coffee is increasing, with roasters, retailers, and consumers looking for various combinations of high quality, environmental sustainability, traceability, and social standards.

Depending on market conditions, premiums paid for certified coffee can be significant to the growers. As of 2012, roughly 20% of ECOM's coffee was sold as certified. The company aims to increase this figure significantly over time, although the demand for certified coffee will be the key determinant of the pace of growth. To meet this demand, the number of farmers ECOM works with will need to grow and additional resources will be needed to train farmers and provide them with financing.

ECOM'S INCLUSIVE BUSINESS MODEL

Across the world, coffee is predominantly grown by smallholder farmers at the base of the economic pyramid. ECOM engages with coffee growers to support farm productivity and promote certification.

The model includes technical assistance to increase yields, improve quality, and become certified under the various labels ECOM markets (among others Rainforest Alliance, Starbucks, 4C, Utz, or Nespresso AAA), and in some cases, seasonal and selective medium term financing to farmers for inputs and capital improvements.

On the technical assistance side, ECOM employs qualified agronomists who work with local and international NGOs to train farmers on sustainability and productivity. Under a partnership with IFC, ECOM aims to improve farmer productivity, sustainability, and eligibility for certification. Farmers are encouraged to improve their operations through better documentation of production processes, management of fertilizer, improved labor conditions, and other measures. Improvement programs vary in duration depending on the nature of the improvements needed, with topics like soil conservation and biodiversity protection

typically taking longer to address. ECOM staff receive regular training from experts, and share this knowledge with farmers through workshops. They also conduct follow-up visits to monitor progress and resolve implementation issues that arise as farmers work toward their production and certification goals. Successfully implemented, these improvement programs can enable farms to increase productivity or meet the eligibility requirements of certification programs.

ECOM's improvement programs can enable farms to increase productivity or meet the eligibility requirements of certification programs



On the financing side, ECOM provides seasonal credits to its suppliers in a number of countries, such as in Mexico, Guatemala, Nicaragua, Honduras and Costa Rica in Central America. These advances against later deliveries of coffee finance the farmer throughout the production cycle, supporting the purchase of inputs like fertilizer, the maintenance of the coffee plants, and harvesting. Before extending credit, the agronomists and credit officers of



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ECOM's local operating companies visit farms to determine their production capacity for the coming year. Based upon this assessment, the local credit officers determine the size of the loan, typically under \$1,000, and manage the financing process – from credit approval to monitoring to servicing the loans.

In addition to the combination of financing and technical assistance described above, the participation of discerning quality coffee buyers (e.g. Nestlé Group's Nespresso, Starbucks) is important to ECOM's inclusive business model. This participation sometimes includes money to co-finance the field work. It also sends a strong signal to farmers about the company's intention to purchase high-quality, sustainable coffee at premium prices and allows ECOM to work with its farmers to plan in advance the quantities that are required. This signaling is important as farmers decide whether or not to invest in the improvement programs they need to meet the strict quality and sustainability criteria.

RESULTS OF ECOM'S INCLUSIVE BUSINESS MODEL

- Increased productivity for farmers reached, in some programs by more than 40%
- 81,817 metric tons of certified coffee purchased, representing \$14.7 million in additional income for coffee farmers (2007-2012)
- Increased farmer loyalty to ECOM and more stable supply chain
- Increased trade volumes of certified coffee

The business and development results of ECOM's inclusive business model are intimately linked. As smallholder farmers are reached with financing and technical assistance, they enjoy greater productivity, security, and earning potential. Meanwhile, ECOM strengthens and secures its supply chain, expands its access to high-quality, certified coffees, and shares in the premiums they bring.

By 2012, ECOM had purchased more than 81,000 metric tons of certified coffee in the six years since the model was established, representing a premium of close to \$15 million paid to smallholder farmers. This has been made possible through seasonal financing and technical assistance that has enabled the work toward certification and quality standards.

Farmers have also been able to improve their productivity through training in management, pruning techniques, and other best practices.

These results are encouraging and point to a greater impact potential as ECOM rolls out its programs to more of its supplier farmers.

IFC'S ROLE AND VALUE-ADD

IFC's Investment: \$154 million in debt and quasi equity financing

Investment Year: 2006 to 2012

- Provided \$154 million in debt and quasi-equity financing to the company for global operations
- Following an initial investment of \$25 million and an advisory project in Central America, IFC's additional financing and advisory services have supported ECOM's operations globally and its sustainability initiatives in Asia (Indonesia, Vietnam, Papua New Guinea) and Africa (Kenya, Tanzania, Uganda)

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For more information, visit ifc.org/inclusivebusiness and ecomtrading.com