July 7th, 2017

The Block Farm- and the CPC-Model
Comparison of Two Responsible Investment Approaches

The Block Farm-Model

Under the Block Farm-Model the Investor leases "Blocks" of (A.) forested land or (B.) old, overgrown cocoa plantations for a period of 20 years (with the option of renewal for an additional 20 years) and cultivates such Blocks under a crop-sharing arrangement with (1.) trained Youth Groups, (2.) the respective Land Use Rights-holders, (3.) Community Representatives and (4.) the Land Owning Families according to common "Agro-Forestry Principles". All Blocks together constitute the "Block Farm". While each Block is managed independently by a group, the Investor provides trainings and technical advice to the group heads. The shared-value proposition of the Block Farm-Model makes provision for a revenue-share after the first harvest. While the Investor provides in-kind work compensation to the Youth Groups until the first harvest, from then onwards the revenue-share covers the Youth Groups' and Land Use Rights-Holders/Land Owners' entitlement to labor and lease payments. The Investor collects the cocoa harvested from the Blocks, processes the produce in community-owned processing centers and exports the goods to the international market. The Block Farm is governed by a set of agreements including (1.) a Farm Management Contract with the Land Use Rights-holders and/or Land Owners, (2.) a Memorandum of Understanding (MoU) with the Youth Groups, as well as (3.) a Land Lease Agreement with the Chiefdom Council and respective Government Authorities.

The Cocoa Production Cluster (CPC) Model

Under the CPC-Model a trust is set-up which holds land tenure rights to agricultural land. The trust deed stipulates a two phase-approach to the administration of the trust:

1) In Phase 1 the Trustee (i.e. the Investor) establishes a cocoa plantation (the "CPC") on the trust's land and organizes vulnerable community members (the "Beneficiaries") into Farmer Groups who cultivate the CPC under his overall supervision. The Investor manages the CPC, provides all necessary farm-inputs, pays for labor and lease, markets the produce and carries the risk of the investment. A revenue sharing-arrangement ensures that the trust's stakeholders (i.e. the Settlor, the Trustee, and the Beneficiaries) benefit appropriately from the proceeds of the CPC. Phase 1 has a duration of 19 years (i.e. a pre-harvesting period of four years + 15 years).
2) In Phase 2 the Investor withdraws from active management of the CPC and, in consultation with all trust stakeholders, divides the CPC into Small Scale Commercial Farming Divisions (the "SSCFDs") of similar pre-defined characteristics and size and transparently allocates such SSCFDs to selected Beneficiaries (the "Production Unit Chairmen") who henceforth take over the Investor's role as Trustees and manage the SSCFDs according to the principles of the CPC-Model for the benefit of the remaining Beneficiaries. The Investor integrates the SSCFDs into his supply chain and buys and markets the produce (under a Contract Farming-Model). Phase 2 has a duration of 15 years. After 34 years the trust is dissolved and the land restituted to the Land Owners.

The Block Farm- and the CPC-Model
Key Characteristics

	Block Farm Model	CPC Model
1. Land Tenure Arrangement		
Lifecycle	The Block Farm-Model runs over a period of 40 years (20+20 years).	The CPC-Model runs over a period of 30 years.
Leaseholder(s)	The Investor holds the land lease over the entire lifecycle.	A trust holds the land lease over the entire lifecycle.
Tenure Arrangement	Communities form Youth Groups headed by Mgmt. Committees which <u>independently</u> cultivate the Farm Blocks under a share-cropping arrangement with the Investor. There is no transition in the arrangement. After 40 years the land is restituted to the land owners.	The Investor selects and groups Beneficiaries and appoints Production Unit Chairmen who oversee and manage the Beneficiary Groups under his overall supervision. After 15 years the tenure arrangement transitions from a Plantation to an Out-grower Scheme whereby the Production Unit Chairmen take over the Investor's role as Trustees. After 30 years the trust is dissolved and the land restituted to the land owners.
Land Acquisition Process		**In line with the VGGTs. ESIA?**
2. Production Arrangement		
Production Area	A Block Farm consists of several Farm Blocks of varying sizes. Every Farm Block is essentially managed as an own estate.	A CPC is one large production site which is divided into several management units (the "CPUs") of varying sizes. All CPUs are managed together in an integrated approach.
Labour	The Farm Blocks are cultivated by Youth Groups. These groups comprise ordinary Community Members (70%) and representatives of Land Owning Families (30%). The communities form the groups at their discretion. The groups appoint their own leader.	The Investor uses the Vulnerability and Capacities Index (the "VCI") to identify the most vulnerable households in his target communities. Each of these households then appoints a Beneficiary who - as member of a Beneficiary Group - cultivates the CPU. The Investor guides the selection of Production Unit Chairmen who manage the Beneficiary Groups.
Contractual Set-up	The Block Farm is governed by: A) A Farm Management Contract with the Land Use Rights-Holders/Land Owners; B) A Memorandum of Understanding (MoU) with the Youth Groups; and C) A Land Lease Agreement with the Chiefdom Council and government authorities. All agreements include a moratorium-period of 6 - 12 months during which the signatories can withdraw without consequences.	The CPC is governed by: A) A Trust Deed
Operational Structure	The Youth Groups operate independently and out of the Investor's jurisdiction. They report to a District Coordinator who reports to the Investor. Monitoring Officers verify the District Coordinators' reports. Monitoring Officers are employees.	The Beneficiary Groups are managed by Production Unit Chairmen (PUCs) who report to the CPC-Manager. The CPC-Manager reports to the Investor. Monitoring Officers verify the CPC-Manager's reports. PUCs, CPC-Manager and Monitoring Officers are employees.

3. Investment Arrangement		
Investment Risk	The required capital investment is low as labour and lease payments are covered by the revenue-sharing arrangement. Until the first harvest Youth Groups receive in-kind contributions for their work. The overall risk for the Investor is low. Productivity of the Block Farm is on similar levels as that of an average smallholding.	The required capital investment is higher than in the Block Farm-Model as more control over production requires stronger supervisory structures. Fixed Lease Payments further increase the risk. The overall risk for the Investor, however, is moderate. Productivity of the CPC exceeds the productivity of an average smallholding.
Investment Security	The Investor is the sole lease holder of the production area. This makes him vulnerable to accusations of land grabbing and the seizure of land by government. The indirect management-approach increases the risk of failure. The overall investment security is high.	The Investor holds the lease in trust; his investment is protected by the trust deed. The direct management-approach of the CPC-model enhances the chances of success. The overall investment security is very high.
Benefit Sharing-Concept	The Benefit Sharing-Concept of the Block Farm-Model is based on a variable Revenue-Share: Investor (40%), Youth Groups (20%), Trad. Authorities (20%), Land Owners (20%) There are no additional benefit elements.	The Benefit Sharing-Concept of the CPC-Model incorporates three elements: A) Fixed Lease-Payments B) Fixed Labour Payments C) A variable Revenue-Share: Investor (40%), Beneficiaries (t.b.d.)