

CASE STUDY 1 | Long term lending in Nicaragua

ECOM's close relationship with Nicaraguan farmers has been used to setup a direct and innovative renovation financing mechanism

ECOM – IFC – IDB – Starbucks facility

R&R type	Loan-based renovation
Country	Nicaragua
Cost	USD 30 million
Dates	2011 – 2025

Project context

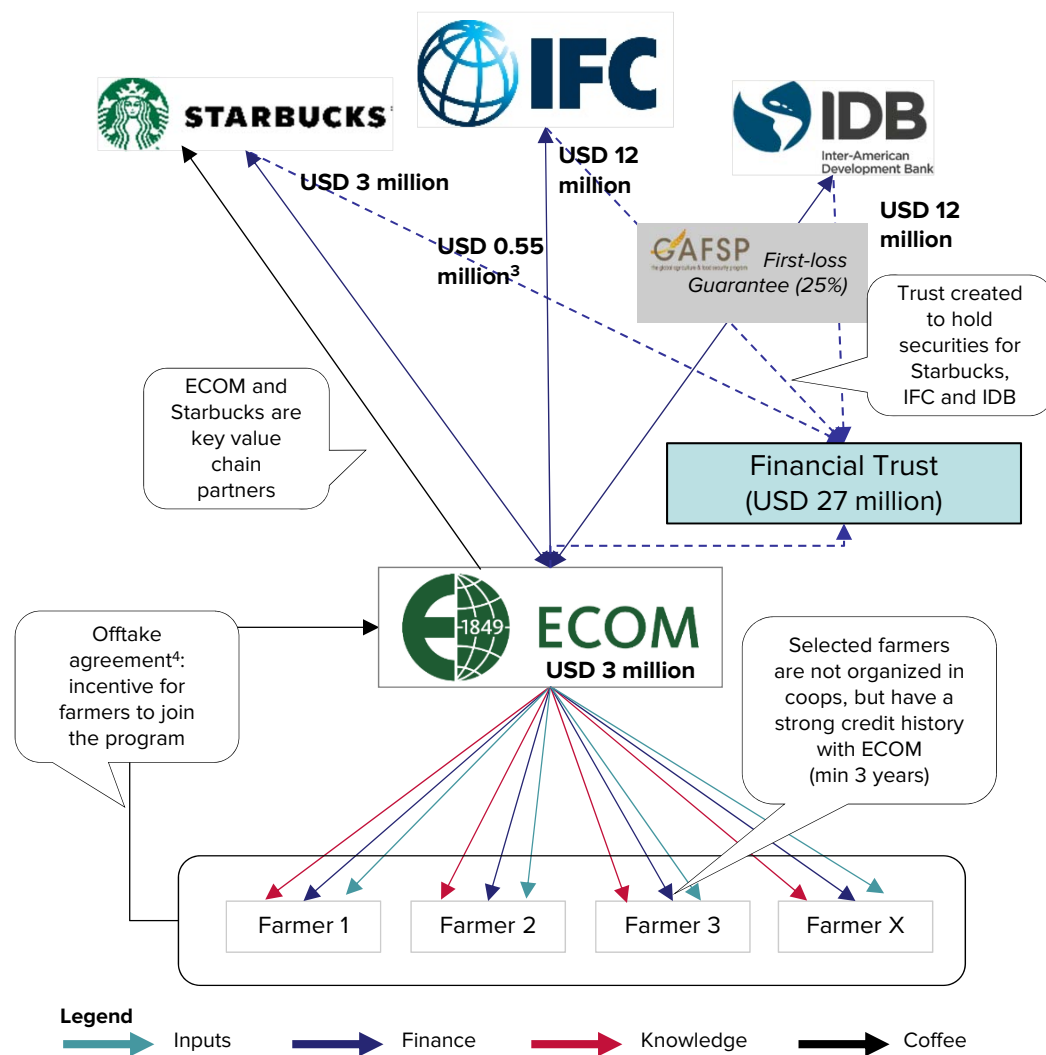
- In 2013, *La Roya* affected 40% of coffee plantations in Nicaragua creating the need for a large renovation program.
- The coffee sector is loosely regulated. Private traders² have a strong presence in the country and have tight relations with farmers in their supply chain.

Objectives, activities, and results

- The program aims to renovate up to 5,000 hectares (~5% of total coffee area in Nicaragua) via loans to ~550 farmers.
- The target is to renovate 1/3 of farmers' land.
- It is still too early to estimate final yield uplifts, but preliminary results look promising.
- Value creation: Improved planting material with certified plants that are tolerant to rust and improved quality attributes and improved livelihoods
- Value capture: ECOM and Starbucks secure supply; SHFs through increased incomes

Loan details	
Borrowers	Farmers with an ECOM credit history
Currency	USD
Tenor	Up to 8 years
Grace period	3 years (interest only)
Interest rate	Affordable in the one to two digit range and depending on the credit profile of the farmer

Figure 1: Structure of the project



Notes 1) IFC mobilized project partners IDB, Starbucks and ECOM to design and set up the program, (2) ECOM, Mercon, and OLAM trade 90% of Nicaragua's coffee; (3) In parallel with IDB's loan for this project, a grant from the IDB's Multilateral Investment Fund (MIF) is planned as part of a technical assistance package totaling USD 546,305. The package aims at supporting the management of ECOM's portfolio of credits to small producers. (4) Starbucks committed to buy coffee guaranteeing a minimum price providing protection to farmers. Source: IDB, 'IDB partners with IFC, Exportadora Atlantica and Starbucks to help Nicaraguan farmers combat coffee rust disease', Press release 06/24/14; Dalberg interviews.

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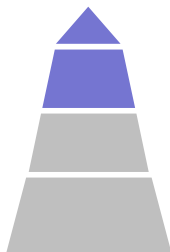
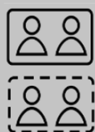
Project context

Viability



- **Viability:** Productivity is low: potential for a 64% yield improvement if GAP, rehabilitation, and renovation are applied¹.
- **Willingness:** ECOM knows individual farmers and is able to evaluate their willingness to invest in certified plants, adopt improved practices, and ability to repay loans

Farmer segmentation



- **Country situation:** 95% of farmers in Nicaragua are SHFs. Farmers are typically not organized into coops, but private traders have strong relations with farmers (tight value chain).
- **Program segmentation:** Loans were first given to larger farmers, then to smaller farmers (<12ha). All farmers have a strong credit history with ECOM.

R&R need



- **Country need:** 60% of trees are estimated to be over 20 years old in Nicaragua, and 40% of trees were affected by *La Roya* in 2011
- **Program objectives:** The program aims to renovate 5,000 hectares. This is a pilot program that could be replicated in other countries (Mexico, Costa Rica and Colombia) if a suitable partnership structure can be found.

Management of the three R&R components

Inputs

- **Providers:** Nicaragua has good local capacity in seed production. In 2011, CIRAD² was developing a pilot project to select rust tolerant coffee varieties with high cup quality characteristics
- **Challenges faced:** The choice of appropriate varieties is key to the success of the program, but registering new varieties (e.g. *Marsellesa*) took time.
- **Solution:** Build up local capacity to produce certified plants

Finance

- **Providers:** IFC, IDB, ECOM and Starbucks
- **Challenges faced:**
 - Understanding risk
 - Diversifying risk
 - Protecting investors
- **Solutions:**
 - ECOM data supported underwriting, but loans to date had been for 3-5yr working capital, not long term infrastructure loans, so there was high uncertainty
 - Involvement of larger farmers de-risked the portfolio of loans
 - The investors set up a trust, which while time consuming, has protected them from exposure if loans do default

Knowledge

- **Providers:** ECOM and IFC
- **Challenges faced:** Improved planting varieties require use of inputs and adoption of GAP
- **Solution:** IFC will work with ECOM's field agronomists to standardize skills and knowledge of improved practices which will help to increase adoption rates from participating farmers

Lessons learned

- **Farmer segmentation is crucial to success:** Larger farmers were used to diversify the portfolio of loans, and deliver return expectations that met the investors' needs, whilst also ensuring some SHFs can renovate their farms.
- **Close links between traders and farmers mean you can do renovation without a cooperative:** Although Nicaraguan farmers are typically not organized in strong cooperatives, ECOM was able to select appropriate farmers and deliver training because of their close relationships with farmers.
- **Transaction costs for pioneers can be very high:** The coalition of partners faced significant time costs in developing the programme, and delays in negotiating new trust law in Nicaragua.

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