

CASE STUDY 4 | Loan and grant based renovation in Colombia

A strong government commitment and well-organized coffee institutions in Colombia enabled a successful national renovation program



Permanency Sustainability and Future (PSF) – FNC and Colombian Gov.

R&R type	Loan-based / grant-based renovation
Country	Colombia
Cost	Approx. USD 600 million
Dates	2008 - 2014
Project context	<ul style="list-style-type: none"> In 1998, the government implemented the Competitiveness Program (CP), with the objective of maintaining competitiveness in densely cultivated coffee growing areas. Between 2008 and 2009, coffee production in Colombia decreased by 32% due to ageing trees and disease.
Objectives, activities, and results	<ul style="list-style-type: none"> In 2007/08, the National Federation of Coffee Producers (FNC) and the Government of Colombia implemented the PSF to enable access to credit for SHFs for coffee renovation. Objective: renovate 300,000 hectares in 5 years under the PSF and the Competitiveness programs. Between 2008 and 2014, the PSF provided 216,312 loans to SHFs, enabling the renovation of 184,000 hectares. Value creation: increased yields of least productive SHFs and improved livelihoods Value capture: FNC increases coffee exports, and Fondo Nacional del Café (FoNC)¹ increase revenues

Borrowers	SHFs with land between 0.2 - 1.5 ha
Currency	COP (Colombian Pesos)
Tenor	7 years
Grace period	2 years (interest paid by the FoNC ¹)
Interest rate	Av. 10%
Guarantee³	100% guarantee
Grant	Grant covering 40% of the principal

Figure 1: Financial structure of the PSF project

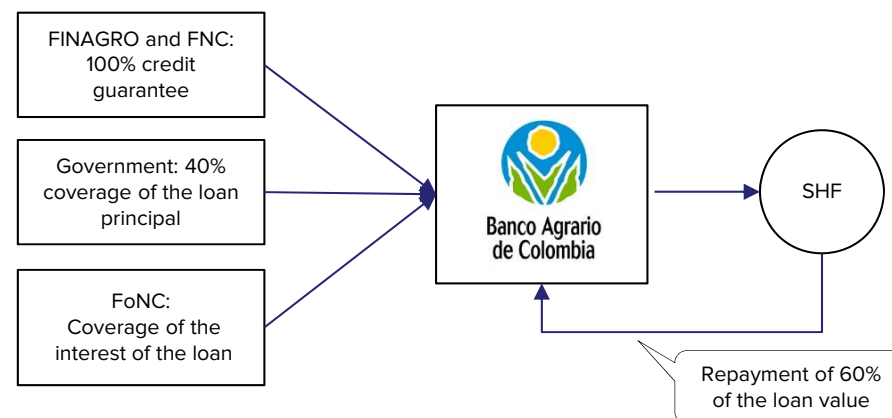
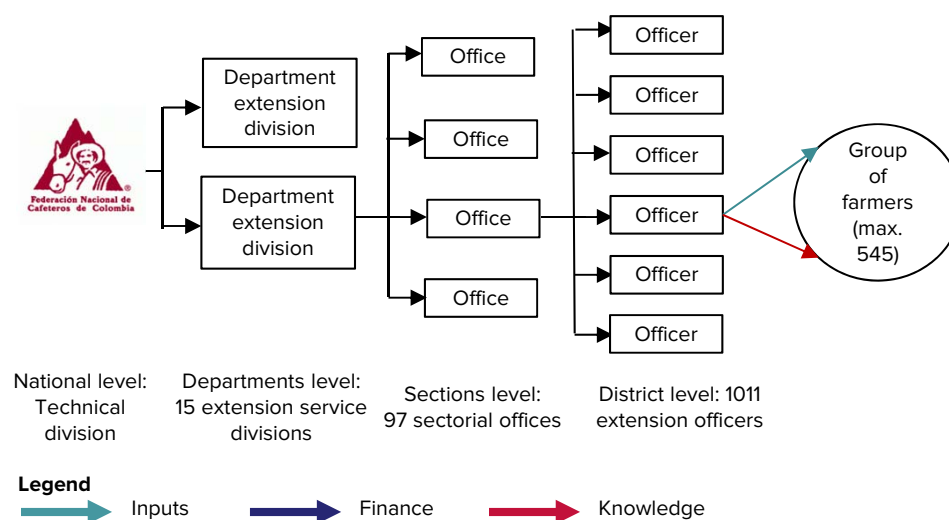


Figure 2: Extension service and inputs delivery model: decentralized model



Notes: (1) The FoNC is financed through a tax of USD 0.6 / lb coffee exported. (2) In 2012, the Fondo Nacional del Café (FoNC) stopped covering loan interest. (3) Guarantees are provided by the National Guarantee Fund (managed by FINAGRO) and the National Coffee Guarantee Fund (managed by the FNC). (4) Rural Capitalization Incentive (ICR). Sources: *Evaluación de impacto de los programas de renovación de cafetales 2007-2011*, Santiago Silva Restrepo; *Renovation and Rehabilitation of crop trees in cocoa, coffee, palm oil*, Rabo Bank – Risk and Finance in the Coffee Sector, The World Bank, February 2015.

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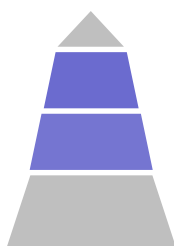
Project context

Coffee viability



- **Viability:** The 32% drop in production in 2009 reveals a potential for production uplift by applying targeted renovation.
- **Willingness:** Farmers in Colombia are often conscious of the benefits of renovation, and many undertook renovation without any program support. In 2011, 40% of farm renovations were private farmer initiatives.

Farmer segmentation



- **Country situation:** There are more than 560,000 coffee farmers in Colombia, of which over 95% are SHFs. The FNC has a network of 34 coops and 530 trading stations that enables an access to market for most of the farmers.
- **Program segmentation:** The program targets farmers with land between 0.2-1.5 ha, connected to the market by at least a trading station.

R&R need



- **Country need:** The FNC estimated in 2007 that 300,000 ha of land should be renovated over a period of 5 years (60,000 ha/year).
- **Program objectives:** Part of this objective is achieved through the PSF (184,000 ha renovated in 5 years, close to 25% of the total coffee land harvested).

Management of the three R&R components

Inputs

- **Providers:** FNC is in charge of providing seedlings to farmers.
- **Challenges faced:** Planting unverified seedlings may lead to high mortality rates of the trees.
- **Solution:** FNC provides a full R&R package to SHFs, including planting material (certified seeds and seedlings) and agronomic advice on how to plant them.

Finance

- **Providers:** The program was funded by public sources and local financial institutions¹.
- **Challenges faced:** Farmers face a negative cash flow period after replanting ('valley of death').
- **Solution:** Farmers received loans with grant component funded by the government (ICR²) that allowed them to bridge the 'valley of death' and to overcome prolonged periods of lower revenues. As a result of this successful financial design, only 7-8% of the loans are in arrears.

Knowledge

- **Providers:** The FNC provided agronomic and business advice to farmers, mostly government-funded³.
- **Challenges faced:** The large numbers of farmers targeted are geographically spread and belong to loose value chains.
- **Solution:** The FNC implemented a decentralized model to provide TA. It relied on 15 extension divisions at department level and on 97 sectorial offices and a total of 1011 extension officers at district level, who delivered over 6 million of groups or individual interventions between 2010 and 2014.

Lessons learned

- **Long-term political commitment and coordination is crucial to the success of large scale renovation programs:** The PSF program required a long-term commitment and level of coordination between the government, coffee institutions and financial institutions. This model could hardly be replicated in countries with a less organized coffee sector.
- **An important presence in the field is required:** Each extension officer had a maximum of 550 farmers under his supervision, allowing for groups or individual interventions, especially at early stages of the program, and thus increasing adoption of best practices and survival rates of plants.
- **The grace period and the loan component are critical to increase farmer willingness and ability to undertake renovation:** As farmers were provided grants funded by the government, they were willing to undertake renovation of their land and mostly able to reimburse their loans after the grace period (60% of the loan to pay back).

Notes: (1) Funders include the Colombian Ministry of Agriculture, Finagro, Banco Agrario, Banco de Bogotá, Banco Divivienda, the National Coffee Fund (FoNC) and Cundinamarca and Cauca Governors. (2) *Incentivo a la Capitalización Rural*. Between 2010 and 2014, the government disbursed USD 359 million in grant funding. 3: The Colombian Government spent USD 97 million for extension services between 2010 and 2014. Source: FNC, *Sostenibilidad en Acción*, 2013; *Risk and Finance in the Coffee Sector*, The World Bank, February 2015, Rabo Bank and ISH, *Rehabilitation & Renovation of crop trees in cocoa, coffee, palm oil*, 2015.