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

**CASE STUDY 1 | Long term lending in Nicaragua**

**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 traders 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; 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

**Notes**
1. IFC mobilized project partners IDB, Starbucks, and Exportadora Atlantic to design and set up the program.
2. ECOM, Mercon, and OLAM trade 90% of Nicaragua’s coffee.
3. In parallel with IFC’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 Atlantic and Starbucks to help Nicaraguan farmers combat coffee rust disease’, Press release 06/24/14; Dalberg interviews.
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<th>Project context</th>
<th>Management of the three R&amp;R components</th>
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<td><strong>Viability</strong></td>
<td><strong>Inputs</strong></td>
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<td>• Viability: Productivity is low: potential for a 64% yield improvement if GAP, rehabilitation, and renovation are applied¹.</td>
<td>• 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</td>
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<td>• 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</td>
<td>• Challenges faced: The choice of appropriate varieties is key to the success of the program, but registering new varieties (e.g. Marsellesa) took time.</td>
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<td><strong>Farmer segmentation</strong></td>
<td><strong>Finance</strong></td>
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<td>• 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).</td>
<td>• Providers: IFC, IDB, ECOM and Starbucks</td>
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<td>• Program segmentation: Loans were first given to larger farmers, then to smaller farmers (&lt;12ha). All farmers have a strong credit history with ECOM.</td>
<td>• Challenges faced:</td>
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<td><strong>R&amp;R need</strong></td>
<td>• Solutions:</td>
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<td>• 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</td>
<td>o 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</td>
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<td>• 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.</td>
<td>o Involvement of larger farmers de-risked the portfolio of loans</td>
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<td><strong>Lessons learned</strong></td>
<td>o The investors set up a trust, which while time consuming, has protected them from exposure if loans do default</td>
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- **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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Note: (1) Figures from GCP and Technoserve, *Economic viability of coffee farming*, 2017. (2) The French agricultural research and international cooperation organization working for the sustainable development of tropical and Mediterranean regions. Source: IDB, ‘IDB partners with IFC, Exportadora Atlantic and Starbucks to help Nicaraguan farmers combat coffee rust disease’, Press release 06/24/14; Dalberg interviews.