

## PROJECT SUMMARY

### INNOVATIVE MODELS FOR PROVIDING LONG-TERM FINANCING TO COFFEE PRODUCERS IN NICARAGUA

(NI-M1038)

The most recent outbreak of coffee leaf rust<sup>1</sup> has had a severe impact on coffee growers in Central America. Losses during the 2012-2013 crop year were estimated at US\$499.4 million in the region,<sup>2</sup> where some 50% of the total land area planted in coffee was affected by this fungus. The incidence rate varies by country, but in Nicaragua and Honduras alone it is estimated at between 20% and 40%.<sup>3</sup>

Coffee leaf rust is causing a decline in the incomes of coffee growers and of all the families that depend on the crop for their source of employment, as the fungus reduces production yields. While there are already some public-private efforts under way at the regional level to address the technical aspects of coffee leaf rust in the field, it is clear that if the sector is to emerge from the crisis it will also be necessary to mount a broad program of financing for renovating coffee plantations or establishing new ones. In this respect, the responses have not been as strong. Given the risks inherent in the sector, the fragile nature of small-scale family farming, and the instability of coffee prices, neither the banks nor the governments themselves have come up with a plan for coffee financing in a strategic manner. With annual renovation costs estimated at US\$5,000 per hectare during the first three years and an average of US\$1,200 per hectare in maintenance costs,<sup>4</sup> and an interval of three to four years before the new coffee plants begin to produce cherries, there is an urgent need to provide a complete solution that incorporates long-term financing, something that the financial sector is not doing at this time.

Coffee experts and leading firms such as Starbucks and Mondelez agree that to address the current situation in Central America will require more than just a technical or agronomic fix. As indicated in a recent study,<sup>5</sup> 89% of producers surveyed in Nicaragua were relying on short-term credit to pay their workers and to purchase inputs during the season prior to harvest and during the harvest. Nevertheless, only 11% had access to medium-term credit for coffee growers, and only one producer had access to long-term credit for renovation.

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<sup>1</sup> *Roya*, or coffee leaf rust, is an orange-colored fungus that grows on coffee trees, limiting the source of nutrition for the coffee cherries, causing the leaves to fall, and reducing the quantity and quality of the coffee harvest.

<sup>2</sup> Based on the 13 May 2014 report of the International Coffee Organization (ICO) <http://dev.ico.org/documents/cy2012-13/ed-2157e-report-clr.pdf>.

<sup>3</sup> Ibid.

<sup>4</sup> IFC/IDB estimates, depending on the size of the farm and the incidence of the fungus. Producer standards in Nicaragua (small-scale producer, less than 12 hectares; medium-sized producer, 12 to 50 hectares; large-scale producer, more than 50 hectares).

<sup>5</sup> Performed by IFC as part of the due diligence mission, jointly with the IDB's SCF.

This project takes an innovative approach that will offer flexible financing alternatives for small and medium-sized producers (SMPs) of coffee, through a specialized private export agent, ECOM, a solid operator that has been in the coffee business for decades, negotiates directly with producers, and provides short-term loans on flexible terms designed to fit with the seasonal nature of the business. In contrast with the majority of private firms, ECOM has established a technical and financial structure through which it maintains close relations with coffee growers. Both the World Bank's International Financial Corporation and the IDB's Structured and Corporate Financing Department (SCF) are in the process of guaranteeing a loan operation of up to US\$12 million each, as part of a US\$30 million line of credit for developing a long-term financing framework for coffee producers in the ECOM supply chain through its subsidiary in Nicaragua, Exportadora Atlantic. This line of credit will offer producers the long-term financing they need to replace their coffee plants with leaf-rust-resistant coffee plants.

The objective of this MIF project is to provide strategic technical assistance so that long-term financing for producers can be sustainable over time and profitable, while incorporating best practices in a branch of agriculture that is sensitive to climate change. Specifically, the MIF funds are expected to improve the credit processing capacities of Exportadora Atlantic<sup>6</sup> and to strengthen information technology tools, technical tools for crop monitoring, and risk control within the firm. Atlantic's financing is expected to comprise long-term loans of up to eight years, with a grace period of three years. These conditions are necessary to allow producers to phase in the partial replacement of their coffee plantations over time. MIF support will complement the IFC/SCF loans in four areas: creating capacity for long-term loans; evaluating climate risk and monitoring its impact; empowering women coffee growers; and generating and disseminating knowledge. With this project, the MIF will be joining with other actors committed to providing a comprehensive solution to the coffee leaf rust infestation by testing an innovative financing model that could be replicated in other value chains in order to increase access to financing for SMPs throughout the region. This is a pilot project for ECOM in Nicaragua, which has plans to replicate it in other countries where it operates, including Costa Rica, Honduras, Guatemala, and Mexico, by transferring the newly developed capacities to other countries of the region. The IDB loan is planned as a line of credit that is based on the outcomes in Nicaragua, and that can extend financing with similar conditions for other countries.

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<sup>6</sup> The loan and the technical assistance will be channeled through Exportadora Atlantic Ltda., ECOM's subsidiary in Nicaragua. A detailed description can be found in the section on the executing agency