

SOCIAL ENTREPRENEURSHIP PROGRAM (SEP)

PROJECT SUMMARY

1. **Country:** Peru
2. **Project Number:** PE-S1013
3. **Project Name:** Amazonian Energy: Building Climate Resilience through the Diversification of Agroforestry Systems with Smallholder Producers of Guayusa
4. **Borrower:** Runa LLC
TC Executing Agency: Runa Foundation, subsidiary Peru
5. **IDB Unit:** Multilateral Investment Fund (MIF)
6. **Financing Amounts**

	<u>IDB US\$</u>	<u>LOCAL US\$</u>	<u>Total US\$</u>
Reimbursable Financing:	1.000.000	600.000	1.600.000
Technical Cooperation:	<u>250.000</u>	<u>125.000</u>	<u>375.000</u>
Total:	1.250.000	725.000	1.975.000

7. Project Impact and Results:

The expected impact of the project is to contribute to increase the productive assets and future incomes of smallholder farmers and rural employment in the San Martín region through the establishment of a new value chain based on guayusa. The expected result is to develop the first value chain for the production and processing of guayusa in Peru.

The project will support this pilot venture of Runa Exportadora Peru SAC (the Runa LLC subsidiary in Peru) to build a plant on their land, and acquire and install the needed machinery, equipment and biological assets to start guayusa production and processing operation in San Martín, as well as working capital to purchase guayusa from local smallholder farmers. Runa Exportadora Peru will have its own plantation of guayusa of an estimated 20 hectares, and will also purchase guayusa that will be produced by an estimated 250 smallholder farmers during the project execution period. The project will also support the efforts of Runa Foundation in Peru¹, which will work in parallel with Runa Exportadora Peru, to establish the capacity of an estimated 250 smallholder farmers to produce organic, Fair Trade guayusa in agroforestry systems, manage the guayusa supply chain as providers of raw material to the Runa Exportadora plant, and to improve the agroforestry management of their production systems in general.

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Runa Foundation has been active in Peru since 2012, under the auspices of the Runa Foundation office in the United States. However, the Foundation is in the process of establishing the legal status of a Peruvian subsidiary of the Foundation (Fundación Runa Perú) and expects that it will be completed by June 2016. The foundation has the technical, financial and administrative capacity to implement the Technical Cooperation component of the project. A detailed analysis of its experience, capacity and governance is found in DOC 2 "Institutional Analysis" of the project's technical files.

8. Project Components:

To achieve these objectives, the project will finance two components: a reimbursable component (Loan) of up to US\$1,600,000 (IDB: US\$1,000,000 and Runa Exportadora Peru: US\$600,000) and a non-reimbursable technical cooperation component for US\$375,000 (IDB: US\$250,000; and Runa Foundation Peru: US\$125,000). The borrower of record will be Runa LLC (the mother company based in the United States), given that it is the company with a track record and sufficient revenues to service the loan, and Runa Exportadora Peru is a start-up. However, the loan resources will be used exclusively in Peru for Runa Exportadora Peru. The technical cooperation component will be executed by the Peruvian subsidiary of Runa Foundation, based in Lima, Peru. Together, both arms share the same mission to create new value for tropical forests that benefit local people and the forest ecosystem. Runa LLC, the for-profit company, serves as the economic engine that generates economic impact for smallholder farmers by purchasing and transforming the raw material (guayusa) into the final products that are sold nationally and internationally. Runa Foundation, the non-profit arm with extensive experience in technical assistance, research and implementing projects funded by international cooperation, works to ensure that this new value truly benefits local people and forest ecosystem. These two related, yet independent organizations, will coordinate all project activities in order to ensure optimum outcomes.

• *Reimbursable Financing*

The **Loan Component** will be utilized exclusively in Peru to finance the installation of the first phase of the production and processing capacity of Runa Exportadora Peru in San Martin. Based on the lessons learned from Runa's production and processing plant in Ecuador (Runatarpuna SAC), the company has designed a collection and processing facility that will serve as the base of operations of Runa Exportadora Peru, and from which the company will purchase guayusa from smallholder farmers in the region as well as have their own production plot. Runa Exportadora is in the process of purchasing the land on which the plant will be constructed, and evidence of the legal documents of the land purchase is a prior condition to disbursement of the loan. The loan will be used for the following items: (i) construction of the factory building; (ii) furniture, tools and computers for the factory; (iii) drying machinery; (iv) ovens; (v) conveyor belts; (vi) leaf mill and other small equipment; (vii) agricultural machinery; (viii) truck and pick-up; (ix) biological assets (guayusa plants) for its own plantation and for the smallholder farmers; and (x) working capital. The counterpart resources will be used to purchase the land (an estimated 30 hectares), acquire additional biological assets and for working capital.

• *Non Reimbursable Technical Cooperation*

Through the **Technical Cooperation Component**, the Runa Foundation in Peru (currently being incorporated under Peruvian laws as a Foundation) will carry out a series of interrelated activities that will help to establish and consolidate the capacity of the smallholder farmers in the Oro Verde Cooperative to introduce the sustainable production of guayusa into their production systems, applying principles of agroforestry and climate-smart agricultural strategies, and to manage the guayusa supply chain to the Runa Exportadora plant as well as other potential buyers of guayusa. The key activities to be financed under this component include: (i) the transfer of guayusa production, maintenance and harvest techniques from Ecuador to Peru, and the training of the Peruvian smallholder farmers in all aspects of organic guayusa production, with the support of Runatarpuna technical personnel,

two field agronomists, and local agricultural promoters; (ii) the installation of various guayusa propagation techniques and demonstration plots as a means of ensuring an adequate supply of plants to interested farmers and for training farmers in propagation techniques; (iii) activities to ensure the selection of the most ecologically appropriate areas to develop guayusa-based agroforestry systems and to promote the active participation of women in all aspects of the project; and (iv) the preparation of a good practices manual for guayusa production in Peru and a case study on the results and lessons learned from the project. This component will also finance a full-time technical field coordinator based in San Martin, as well as other costs related to the project coordination, monitoring, evaluations and audits.

9. **Project Beneficiaries** The direct beneficiaries during the project execution period will be: (i) 250 low-income smallholder farmers in the San Martin region who will diversify from coffee and cacao into guayusa as an additional income crop with a secure and growing market; and (ii) approximately 24 new employees of the guayusa collection and processing facility to be established in San Martin. These numbers could increase as the demand for the product grows and more production and processing are needed, both from Runa as well as from other buyers. The guayusa provided to Runa alone will become the ingredient to fuel sales of the final product in the United States, Canada and Europe that are expected to reach \$100 million in the next several years
10. **Expected Results and capture of benefits:** The direct benefit from the Bank's resources will be captured by an estimated 250 smallholder farmers in San Martin who will diversify into guayusa during the project execution period, allowing them to have another stable source of income, as well as the benefit of improved resilience by planting guayusa in agroforestry systems that improve soil and water management and reduce the climate risks they face. These farmers are expected to establish and manage the guayusa supply chain to the new Runa production plant that will be established through this project. The number of participating farmers may increase after the project execution period, or these farmers could increase the size of their plantations, depending on the demand of the product generated from sales growth of Runa LLC products in North America and Europe. While increases in income to these farmers are relatively small during the project period (because the plants begin to yield more leaves during the last year of the project), incomes in the fourth year and thereafter are projected to be significantly higher, reaching an estimated US\$942 annually in year 5 for producers that have 1,000 trees in their plantation . In addition, at least 24 full-time equivalent jobs will be created in the processing plant of Runa Exportadora Peru, in an area of San Martin in which full-time jobs are very difficult to obtain. The number of jobs will also likely increase as the plant grows after the project period. Direct benefits will also accrue to the Oro Verde Cooperative, as the production and supply chain of guayusa will represent an additional line of business to complement the current lines of cacao and coffee, allowing them to generate additional income and a more diversified product range. In terms of results and impact, it is expected that the project will allow smallholder farmers in the Runa value chain to: (i) increase their productive assets through the installation of over 200,000 guayusa trees, which will allow them to generate additional incomes of over US\$900/year by year 5; (ii) be linked to a strategic business (Runa LLC) as part of a value chain; (iii) have adopted sustainable agricultural practices as measured by the certifications they acquire; and (iv) improve their climatic resilience and reduce vulnerability to changing climatic conditions through the guayusa plantations planted in agroforestry systems.

Additionally, at the end of the three year project period, Runa Exportadora Peru, which will be a certified organic, Fair Trade B-Corporation, will have installed and begun to operate the first guayusa value chain in Peru. The operation of this new company will generate new

rural employment, pump additional agricultural income into the rural areas of San Martin, generate foreign currency for Peru, and provide incentives for disseminating climate smart agriculture production techniques in the region.