**PROJECT OVERVIEW**

**At a glance**
- **Implementing partner:** ECOTIERRA
- **Location:** Cajamarca and Amazonas departments (Peru)
- **Timeline:**
  - Design phase (2016-2019)
  - Implementation phase (2019-ongoing)

**Project description**
Smallholder coffee production in Peru faces a number of challenges: these includes degraded and aging plantations with low yields and limited infrastructure for improving coffee quality and traceability. The Café Selva Norte is working towards the sustainable development of the coffee value chain in Peru. It invests in forest protection and restoration activities, supports coffee cooperatives and their smallholder producers by providing micro-credit and technical assistance, and invests equity in a processing plant to improve infrastructure and ensure sustainable and efficient production processes. The project generates revenue from coffee and timber sales, the processing plant’s services and carbon credits.

**INTERVENTIONS**

<table>
<thead>
<tr>
<th>ECOSYSTEM SERVICES PRESERVED/ RESTORED</th>
<th>SOCIETAL CHALLENGES AND TARGETED IMPACTS</th>
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<tr>
<td>Forest conservation &amp; restoration</td>
<td>Climate change mitigation</td>
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<td>● 3.8 million tonnes of CO₂ sequestered through agroforestry and forest restoration and protection</td>
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<tr>
<td>Agroforestry</td>
<td>Environmental loss and degradation*</td>
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<td>● 8,250 ha of degraded land restored (281 ha restored as of end of 2020)</td>
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<td>● 200,000 ha of forest protected</td>
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<td>Sustainable production (coffee)</td>
<td>Economic and social development, and human health &amp; wellbeing</td>
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<td>● Setting up productive and sustainable agroforestry systems to enhance the livelihoods of 3,000 smallholder farmers</td>
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<td>● Building up the capacity of local farmer cooperatives</td>
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<td>● Strengthening the leadership of women within the project’s staff</td>
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*Metrics linked to biodiversity are under development

**Primary beneficiaries**
- 3,000 smallholder coffee producers
- Eight local farmer cooperatives

**Other stakeholders**
- **Investor:** URAPI Sustainable Land Use Fund
- **Implementation partners:** ECOTIERRA and coffee cooperatives (on-lending to farmers)

ECOTIERRA developed the project to be as inclusive as possible, making sure that every producer would be able to take part. ECOTIERRA is working to exceed expectations that are linked to the standards in the sector, such as the Verified Carbon Standard (VCS) methodology.
CASE STUDY
Café Selva Norte: Coffee Agroforestry in Peru

INVESTMENT MODEL

Investors
Institutional investors (e.g. pension funds), foundations and impact funds

Investments

Grants

Revenues

URAPI Sustainable Land Use Vehicle

Equity

URAPI Sustainable Land Use Vehicle

Loans

Equity

Processing plant CAPEX and OPEX

Improved processing and commercialisation services

Forest protection and restoration

Dividends

Carbon credits

Repayments

Coffee cooperatives

Transfer of ownership

Microcredit

Repayments

Farmers

Improved productivity through agroforestry

Café Selva Norte

How it works: The Cafe Selva Norte project is financed by the URAPI fund, which is managed by Canadian company ECOTIERRA. The URAPI fund received USD 50 million in equity investments from a range of institutional investors and foundations, as well as from the Land Degradation Neutrality Fund.

URAPI invests in Cafe Selva Norte in several ways: it provides loans to coffee cooperatives, which then on-lend to smallholder coffee farmers for them to renovate ageing farms and develop agroforestry on them. It also invests equity in a coffee processing mill to improve coffee quality and traceability, and in VCS-certified forest protection and restoration projects which generate revenues from carbon credits.

Asset classes: Equity investment in the URAPI fund, which invests in projects through both loans and equity
Investment raised: USD 15 million. 70% of the funding has been disbursed
Investment term: 15 years
Revenue streams:
- Sustainable commodities (certified coffee, timber)
- Carbon credits
Overall expected rate of return: 12%
CASE STUDY
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KEY SUCCESS FACTORS

Project partners’ expertise
ECOTIERRA’s strong implementation record in financing coffee cooperatives, in carbon project management and in coffee sales has been built by its co-founders over a 20-year period. These foundations were essential to securing commercial finance for the Café Selva Norte project. Long-term relationships with local cooperatives were also important. ECOTIERRA targeted certified cooperatives with existing infrastructure and clear governance structures, as well as farmers with best performance, which contributed to risk mitigation and enabled investments.

Aggregation
As the costs associated with the structure of URAPI, legal fees, ESG compliance and monitoring are high, ECOTIERRA worked with additional cooperatives to scale activities and reach a minimum viable size, which they estimate at approximately USD 5-6 million.

Capacity building & technical assistance grants
The Café Selva Norte project secured a technical assistance grant at the end of 2019 from the Land Degradation Neutrality Technical Assistance Facility (LDN TAF). While the grant provided support for ECOTIERRA to carry out the project to a high technical standard and to decrease risk, commercial investments had already been secured at the time. The project receives additional technical assistance grants focused on training for farmers and governance.

Securing guarantees
Although ECOTIERRA explored the option of securing guarantees, the significant costs and lengthy process made this proposition unattractive to the first investors and the project proceeded without them.

Combining asset classes and investment terms
Investors in the URAPI Fund are all under the same Limited Partnership Agreement. However, URAPI uses different investment mechanisms for the Café Selva Norte project, including debt financing (typically 15-year loans), equity and grants.

Combining revenue streams
The key success factor for securing commercial finance for the Café Selva Norte project was the combination of revenue streams originating from carbon services, coffee and timber, as well as commercialisation services. The strategy for attracting investors was to reduce the risks by diversifying revenue streams, especially in light of the price volatility in some of the markets considered.

Securing a market
The project does not rely on long-term offtake agreements for coffee, as these are not always in farmers’ best interest. However, ECOTIERRA puts a lot of focus on marketing to secure sales, including through the MINKA tool (see below). Offtakes will be considered for carbon credits.

Measuring impact
MINKA is a database which includes data on coffee farms, including maps, coffee varieties, historical production and tree density. While it was established to help manage relationships with co-ops, MINKA now includes monitoring tools for VCS projects. It is also used for microfinance processes.