

CASE STUDY

Café Selva Norte: Coffee Agroforestry in Peru

PROJECT OVERVIEW

At a glance

Implementing partner: [ECOTIERRA](#)

Location: Cajamarca and Amazonas departments (Peru)

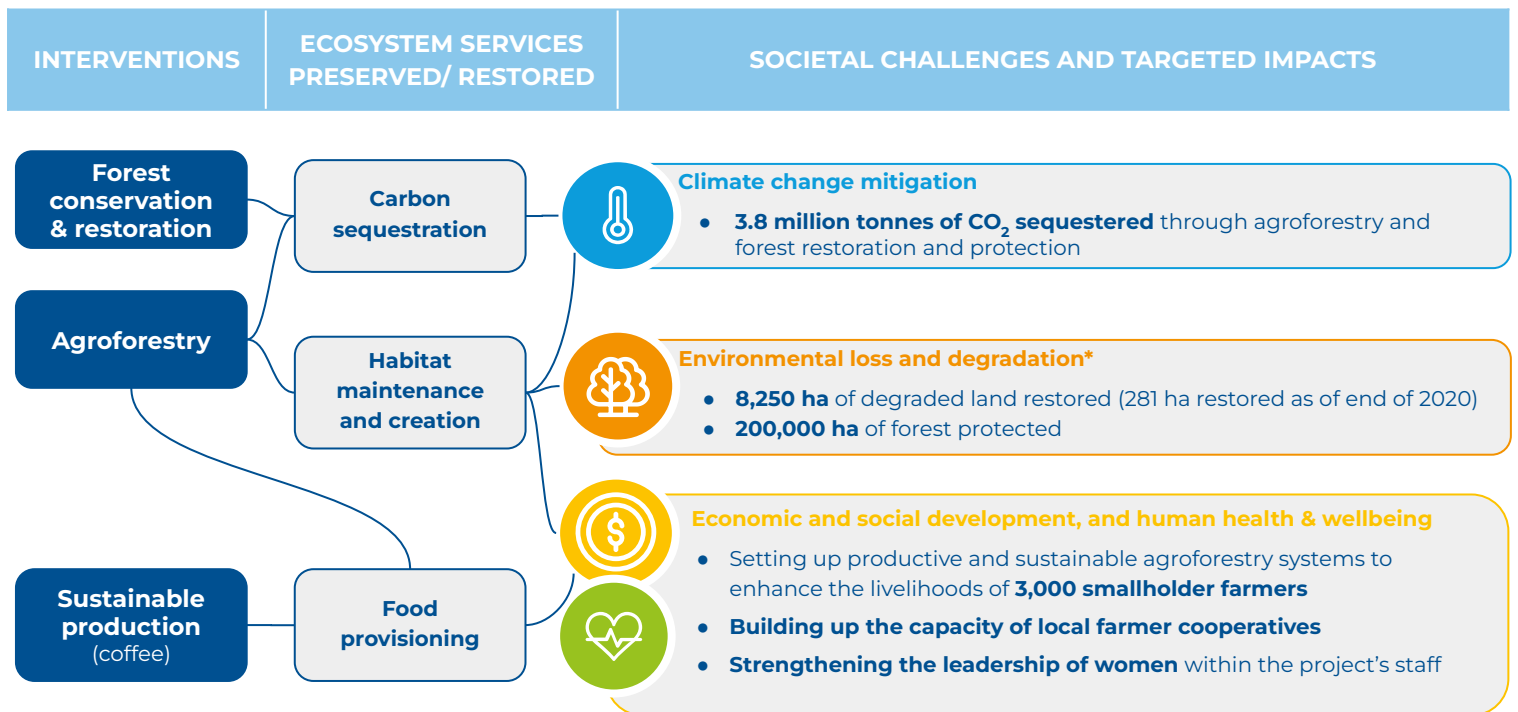
Timeline:

- 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.



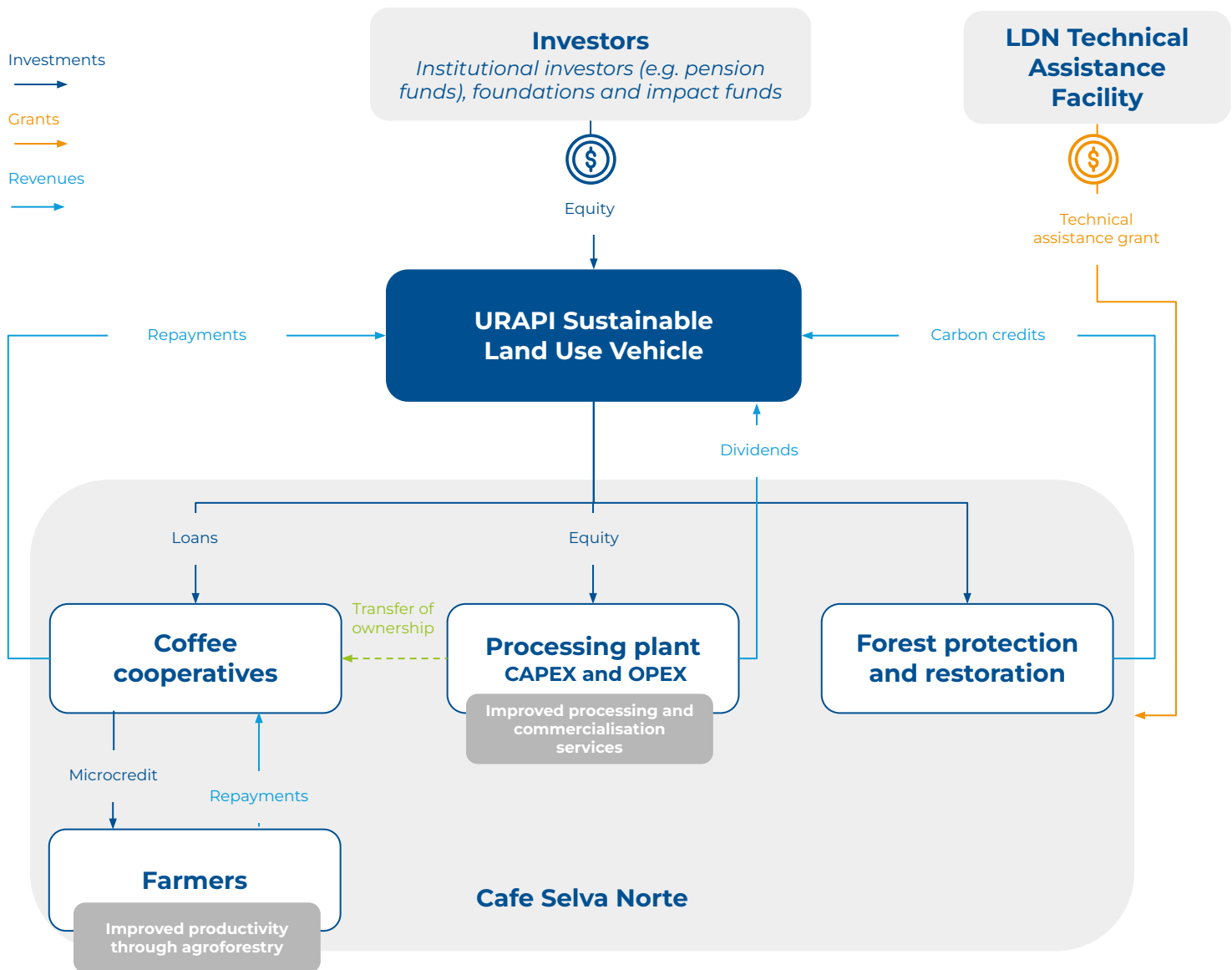
**Metrics linked to biodiversity are under development*

Primary beneficiaries	Other stakeholders
<ul style="list-style-type: none"> • 3,000 smallholder coffee producers • Eight local farmer cooperatives <p>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.</p>	<ul style="list-style-type: none"> • Investor: URAPI Sustainable Land Use Fund • Implementation partners: ECOTIERRA and coffee cooperatives (on-lending to farmers)

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INVESTMENT MODEL



How it works: The Café 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 Café 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%

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KEY SUCCESS FACTORS

The most important success factors are indicated with 

SET-UP & DESIGN

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.

FEASIBILITY & PILOTING

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.

STRUCTURING INVESTMENTS

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.

REVENUE & IMPACT

