

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

NICARAGUA

HIGHLY DIVERSIFIED AGROFORESTRY MODEL FOR COFFEE IN NICARAGUA

(NI-T1231, NI-L1142)

DONORS MEMORANDUM

This document was prepared by the project team consisting of Griselda Soto (MIF/CNI); Alejandro Escobar and Fernanda López (MIF/MIF); Marion Le Pommelec (RND/CNI); Osmin Mondragón (FMP/CNI), Walkiria Soto (MIF/CNI); and Pablo Murray and Dolores Franco (LEG).

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PROJECT SUMMARY
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Climate change will no doubt be one of the main factors impacting world coffee production in the future, primarily affecting small and medium-sized producers. In Nicaragua, the combined effects of climate change (droughts), the incidence of coffee rust disease, and volatile international prices contributed to an 11% reduction in Nicaragua's coffee production between 2012 and 2014. Coffee growing in Nicaragua must therefore be transformed, and small and medium-sized producers pose the greatest challenges and limitations in terms of achieving that transformation.

In an attempt to improve their incomes, small producers convert mixed forests into low-shade coffee plantations, using the soil haphazardly and intensively. Even in cases where basic agroforestry systems are implemented, the low utilization of resilient practices, limited farm investment, and the lack of a commercial approach to crop diversification result in low levels of income for coffee-growing families and changes in ecosystems of vital importance to the country such, as the Lake Apanás watershed (part of the Mesoamerican Biological Corridor), characterized by its diversity, carbon content, and water resources.

The project will leverage Asociación Proyecto Aldea Global Jinotega's (Aldea Global) position on international markets to implement and finance agroforestry systems that will incorporate fruit trees and timber species in a structured way, with potential to increase the sales of 2,000 coffee producers (30% women). A partnership with the International Center for Tropical Agriculture (CIAT) will facilitate the development of a climate monitoring and early warning system for the design, implementation, and management of agroforestry systems, improving productivity and mitigating the risk of climate-related losses. The project will also pilot payments for ecosystem services (PES) for water, by forming partnerships to benefit from an initiative of the State-owned electricity company (ENEL) in the watershed of Lakes Apanás and Asturias.

The project represents the first comprehensive support experience (financing and technical assistance) for the transition to an agroforestry-based coffee production system in Nicaragua with a high degree of diversification and value. The MIF's financing includes a US\$1 million credit line to implement the agroforestry-based coffee system and US\$1 million to strengthen Aldea Global's productive capacity by building and equipping a modular processing plant. The MIF will also contribute US\$1.1 million in nonreimbursable funds for the specialized technical assistance necessary to support Aldea Global and 2,000 of its producers in overhauling their business strategy. The work of refining and disseminating that model will be supported by the platform of the Association of Small Coffee Producer Cooperatives of Nicaragua (CAFENICA)—a network of 11 Nicaraguan coffee producer organizations—and the MIF's Sustainable Agriculture, Food, and Environment (SAFE) platform, a partnership that brings together the worlds' leading coffee marketers.

EXECUTIVE SUMMARY

HIGHLY DIVERSIFIED AGROFORESTRY MODEL FOR COFFEE IN NICARAGUA (NI-T1231; NI-L1142)

Country and geographic location:	Nicaragua, department of Jinotega, municipios of Jinotega, Pantasma, and San Rafael		
Executing agency:	Asociación Proyecto Aldea Global Jinotega		
Focus area:	Climate-smart agriculture		
Coordination with other donors/Bank operations:	<p>The International Center for Tropical Agriculture (CIAT) and CAFENICA, a network of 11 coffee-growing organizations, are participating in the project.</p> <p>The project will also coordinate actions with the Sustainable Agriculture, Food, and Environment (SAFE) platform (RG-M1269) and the IDB project “Integrated Watershed Management in Lakes Apanás and Asturias” (Global Environment Facility/IDB NI-X1005/NI-T1111).</p>		
Project beneficiaries:	<p>Direct: 2,000 small and medium-sized coffee producer members of Aldea Global (30% women)</p> <p>Indirect: More than 3,000 Aldea Global producer members</p>		
Financing:	Technical cooperation funding:	US\$1,100,000	18%
	Investment:		
	Loan:	US\$2,000,000	34%
	Other:		
	Total MIF contribution:	US\$3,100,000	52%
	Counterpart:	US\$2,839,990	48%
	Co-financing		
	Total project budget:	US\$5,939,990	100%
Execution and disbursement period:	<p>Processing plant loan: term of six years, with a grace period of two years on principal only</p> <p>Credit line: term of eight years, with a grace period of two years.</p> <p>Technical cooperation: 48 months for execution and 56 months for disbursements.</p>		
Special contractual conditions:	<p>The following will be conditions precedent for the first disbursement: Loan: (i) plan of operations/lending to producers; (ii) MIF approval of the final proposal for the establishment of the trust; and (iii) approval by the appropriate authority of the environmental impact study for the processing plant.</p>		

Technical cooperation funding: (i) project execution agreement signed between CIAT and Aldea Global; and (ii) project coordinator selected.

**Environmental
and social
impact review:**

This operation was preevaluated on 26 September 2016 and classified according to the requirements of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703). Since its impacts and risks are limited, the project is proposed as a category "C" operation.

**Unit with
disbursement
responsibility:**

Country Office in Nicaragua (MIF/CNI).