

Case study

Investment of Oikocredit: Coffee farming in Nicaragua

Funding from public sources and non-profit donors is nowhere near enough to stop deforestation and conserve ecosystems. The mobilization of private capital is often seen as a possible means of financing nature conservation. "Impact Investment", a concept which has been widely promoted internationally, aims to combine positive social and ecological impacts with earning a financial return.

Against this background, OroVerde - Tropical Forest Foundation and Global Nature Fund carried out an analysis of the structure of Impact Investment schemes and their contribution to the conservation of biodiversity.

For this purpose, local case studies were conducted of five existing Impact Investment schemes in Latin America. The social and ecological impact was analyzed against a set of criteria developed in collaboration with experts.



This publication is the résumé of one of five case studies. The results are based on an on-site visit in April 2016, interviews, observations and a review of documents.

Detailed information about the project is available on the internet at:

www.ooverde.de

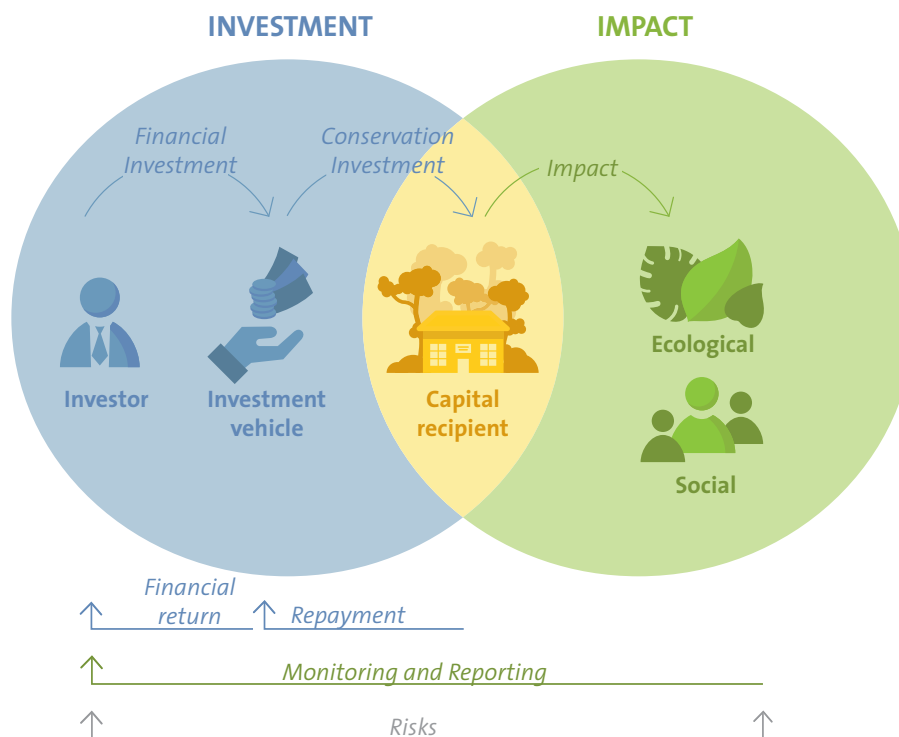
www.globalnature.org



Federal Ministry for the
Environment, Nature Conservation,
Building and Nuclear Safety



WHAT ARE IMPACT INVESTMENTS?



INVESTMENT ANALYSIS

Investor

Structure of investors

Private and public non-governmental investors

Investors

Public

619 church bodies (parishes, dioceses, regional churches), 312 non-profit organisations (associations, charities, foundations)

Private

51,000 private persons, enterprises (Annual Report 2015)

Investment period

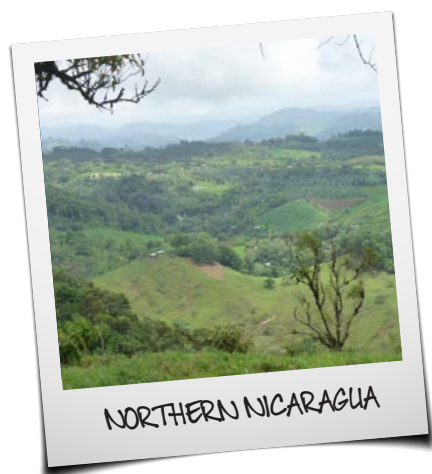
The cooperative is designed for long-term investments. Members can sell their shares at any time so long as Oikocredit is able to redeem the shares. In case of liquidity problems it may temporarily not be possible to sell shares.

Internal rate of return

2% dividend in 2015

Risks for the investors

The investment risks are associated with the overall business development of Oikocredit, and hence depend on their management skills, the economic performance of their project partners, currency and market trends, and climate change risks. A total loss of the investment is theoretically possible if Oikocredit were to become insolvent.





VULNERABLE ECOSYSTEMS

Investment vehicle

Issuer of the investment

Oikocredit, Ecumenical Development Cooperative Society U.A.

Short description

Oikocredit is a church-based cooperative society and dedicated to enhancing livelihoods and the social situation, and sustainable development in countries of the Global South through ethical investment in social enterprises and financial intermediaries such as microcredit institutes. The organisation consists of a decentralized network of 30 support organisations and national and regional offices in more than 30 countries with headquarters in Amersfoort, Netherlands.

Investment vehicle

Oikocredit is a cooperative. Oikocredit itself lends to microfinance institutions and provides loans to fair trade organizations, cooperatives and small and medium-sized enterprises, and has a growing portfolio of equity investments.

Start of the investment

1979

Investment volume

2014: EUR 735 million/ 2015: EUR 900 million

Min - Max total lending

Direct investments between EUR 2 million and EUR 10 million. Average minimum loan size EUR 200,000. Maximum loan size EUR 10 million.

Risk protection

The risk is minimized by diversification of business types and regions, and exclusion of high-risk start ups. Oikocredit also places reserve funds in ethical bonds and in an internal equalisation fund to balance currency fluctuations, as loans are often credited in the local currency of the borrower. In fact, the redemption rate of Oikocredit project partners was about 98-99 percent during recent years.

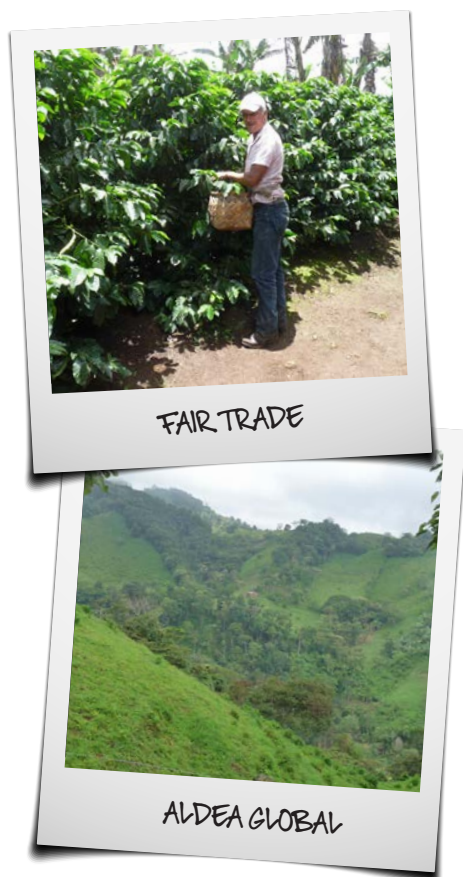
Due Diligence

Potential capital and debt recipients are selected after an intense screening process evaluating compliance with Oikocredit's social and environmental standards. Eligibility criteria and their weighting for the final decision are listed in Oikocredit's environmental, social and governance (ESG) scorecards for social enterprises and financial intermediaries. The ESG Scorecard focuses mainly on social aspects such as contribution to local communities, capacity building, and job creation. Environmental criteria, such as environmental certification and education as well as proximity to highly vulnerable ecosystems, are included with a proportion of 25 percent in the assessment of social enterprises and only 5 percent in the assessment of financial intermediaries.

This due diligence process is safeguarded by regional Oikocredit branches and project stakeholders.

Monitoring

Project partners have to submit quarterly monitoring reports to their regional Oikocredit offices. Standardized templates contain indicators and base data relating to: 1. Financial performance, 2. Social Impact, 3. Production and sales records and 4. Price history. There is no special monitoring of ecological parameters. The project partners also publish an annual business report. Each regional Oikocredit branch employs a monitoring officer.



FAIR TRADE

ALDEA GLOBAL



Capital recipient

Aldea Global Association, Jinotega, Nicaragua

Interest rate on loans

8 % for current credit line.

Payment conditions

During recent years, annually renewed credit lines have been approved by Oikocredit's regional office in Managua. The volume of the last credit line amounted to USD 500,000. Loans from this credit line could be taken up by Aldea Global according to their current needs. Aldea Global's security for the mortgage includes coffee contracts and its assets including offices, a collection point for coffee, vehicles and equipment.

Project area

The department of Jinotega is located in the mountainous northern region of Nicaragua, famous for the production of vegetables and high quality coffee. Recently there has also been some development of ecotourism. Much of the land is under patchy cultivation with scattered areas of native and secondary forest. Aldea Global is a legal association of smallholders who produce coffee and vegetables with headquarters in the city of Jinotega and four regional offices in the countryside. The association was founded in 1992 and is now the 6th biggest coffee producer in Nicaragua and the 2nd largest organisation of small farmers, representing more than 5,000 associates. The majority of Aldea Global associates are independent owners of small or medium-sized farms, who cultivate their own land. For the case study nine member families of Aldea Global who are producing coffee were visited in Jinotega.

Return generation

Aldea Global provides financial services such as microcredits and loans to Aldea Global associates. Oikocredit therefore classifies Aldea Global as a „financial intermediary“. Additionally, Aldea Global comprises the merchandising and export of high quality raw coffee to direct buyers in North America and Europe. Processing and marketing of vegetables is of minor importance in terms of overall profit generation.



COFFEE CULTIVATION



MEMBER FAMILY



FINCA



Ecological

Management of the project area

Aldea Global does not implement conservation projects. Environmentally friendly practices are encouraged and implemented at all farms.

The productive area of the nine fincas ranges from 0,175 ha to 14 ha. Only four farms have natural or semi-natural forest that accounts for 2-20 percent of the farm area. An average of 75 percent of the farm area is used for the cultivation of coffee. The remaining area is utilized for infrastructure, natural forest or the cultivation of vegetables and livestock farming.

Coffee producers are encouraged to establish or regenerate their plantations as agroforestry systems where coffee plants grow under shade trees. Such producers (8 producers) can access privileged microcredits („Ecoforestal“ credit) with lower than average interest rates. Farmers under this credit scheme are obliged to plant a mixture of fruit trees and native forest species.

Moreover, Aldea Global supports their producers in becoming certified under internationally recognized labels such as Fair Trade, Rainforest Alliance, or Organic Coffee. Although these certifications differ to some extent in terms of environmental strength, they all require minimum standards regarding the use of pesticides, the conservation of natural forest within farms, waste management, and measures to prevent erosion. 43 percent of the coffee sales of Aldea Global are now certified under at least one international standard. Such certification is effectively encouraged by Aldea Global through guaranteed minimum prices and a 2-3 percent lower interest rate on microcredits. Producers without an external certification can join the Aldea Global internal certification, „Aldea-Cert“. These financial incentives are backed by Aldea Global through consultations, capacity building, and microcredits for investment in eco-friendly farm infrastructure.

Nearly all of the farms visited comply with the requirements of certification. Of the farms visited during the field study six are certified by at least one third party certification, such as Fair Trade or Rainforest Alliance. One farm is currently trying to achieve Fair Trade certification and two farms are not certified.

Conservation measures and practices

The main positive impact of coffee production under agroforestry schemes is an increase in – or at least the maintenance of – the tree coverage in agricultural zones. Thus, agroforestry helps to protect water catchments, mitigate wind and soil erosion, stabilize the microclimate, and enhance carbon sequestration. Furthermore, commitments in accordance with Aldea Global's credit policies and/or certification schemes prohibit farmers from using highly toxic pesticides (red and yellow band), and require the installation of filters for waste water from the washing of raw coffee beans, the safe storage and disposal of bottles for chemicals, the planting of natural windbreaks, and the installation of water run-off barriers on their farms.

In addition, Aldea Global promotes environmental awareness and eco-friendly farm management through consultations and capacity building.

Monitoring and risk assessment

Environmental monitoring of land-use changes, forest cover, biodiversity, and other ecological parameters is not undertaken by Aldea Global. Frequent on-site visits by Aldea Global staff only serve to monitor the general compliance of associates with their obligations arising from microcredits (such as „Ecoforestal“) or internal or external certification. Baseline data is usually lacking for any monitoring of land use.



“[...] agro-forestry helps to protect water catchments, to mitigate wind and soil erosion, to stabilize the microclimate and enhance carbon sequestration.”





Social

Local Development

The most distinct benefit for Aldea Global associates and in particular for very small producers is their exclusive access to fair and low-risk microcredit. The credit is tailor-made for poor farmers who would not normally have any opportunity to obtain credit on the free market. In 2015, for example, 93 percent of the Aldea Global credit users had an annual per capita income below the Nicaraguan average.

Interest rates range from 15 percent to 27 percent depending on the type of credit, the certification status of the debtor, and his (or her) credit history. Credits are usually used for capital investment, to pay labour for the renovation and maintenance of coffee fields, for land purchase and farm infrastructure, and also to cover temporary peak expenses for additional workers during harvest, for example. In 2015 the average amount of credit was about USD 900.

The second crucial benefit for coffee farmers associated with Aldea Global is the guaranteed purchase of their green coffee harvest by Aldea Global. The collective marketing of Aldea Global coffee along with long term contracts to overseas wholesalers prevents price dumping at local and international levels. Certified producers usually realise higher prices than the market average. In this way, Aldea Global's promotion of and support for certification translates directly into higher and more secure farm incomes in the long term.

Aldea Global acts as an intermediary and ensures that small farmers have access to international markets and coffee exchanges. Aldea Global also invests in infrastructure that can be used by non-members.

Working conditions

The minimum wage in Nicaragua is 135 C\$ (approx. USD 5). All farmers comply with the minimum legal requirements. Four farmers provide food in addition. And two farmers have assigned permanent employees land for their own use. Harvest workers are paid per "lata", the local unit of measurement for the harvest. The minimum price that is paid in Nicaragua is 27 C\$ per lata (approx. USD 0.99). The harvest workers at the analysed farms were paid between 30 and 35 C\$ per lata.

Aldea Global promotes and supports female entrepreneurship. One tool is the sale of „Tierra Madre“ coffee which is produced exclusively by women and sold for higher than average prices. Another tool is specific microcredits for „Women Solidarity Groups“ supporting small enterprises run exclusively by women. Gender equality is an institutional value within Aldea Global and this is reflected in their staffing policy. More than half of all employees and four out of seven board members are women. And almost half of the management positions are occupied by women. Furthermore, almost half of the delegates of the general assembly are women.

An important factor in Aldea Global's social performance is their „Fondo Social“, an internal fund which offers non-refundable subsidies to poor families for medical treatment, school fees and stipends, and other social costs.

Capacity building

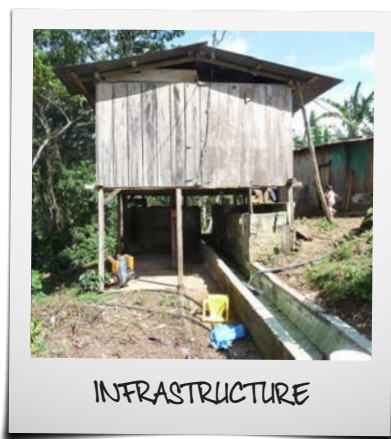
Aldea Global provides capacity training for delegates of the assembly. Farmers are trained in conservation measures and social aspects in preparation for certification. Six of the nine producers that were visited have attended at least one training.



CONCLUSION



„[...]micro credits are tailor-made for marginalized groups such as small farmers, indigenous groups, and women who would not otherwise have access to any loans on the free market.“



Investment vehicle

Oikocredit reinvests these funds in social enterprises and financial intermediaries either as a direct project shareholder or as a credit provider. Potential project partners are selected after an intensive due diligence process which examines a set of social, economic and ecological criteria. Social criteria and good governance have by far the highest weighting among all eligibility criteria. Oikocredit monitors the social and economic performance on a quarterly basis through its regional offices and repeats its due diligence screening annually. Oikocredit invests in existing projects, but does not implement projects of its own. The investment is returned to the investor as annual dividend which amounted to about 2 percent during the past few years. The risk for investors is quite low as Oikocredit has a broad project portfolio. This is reflected in high redemption rates of about 98 percent during the past few years. Oikocredit manages liquidity risks by placing financial reserves in ethical bonds. The trade-off for the low risk is the relatively low investment return compared with other investment options. Thus, it can be assumed that Oikocredit appeals to long-term and charity-oriented investors rather than purely profit-oriented ones.

Impact

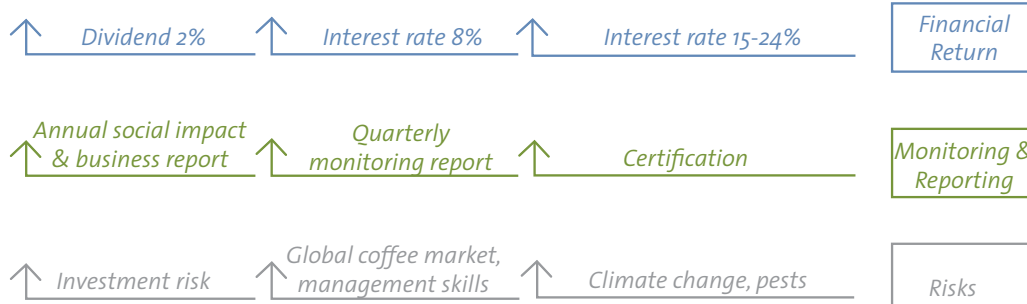
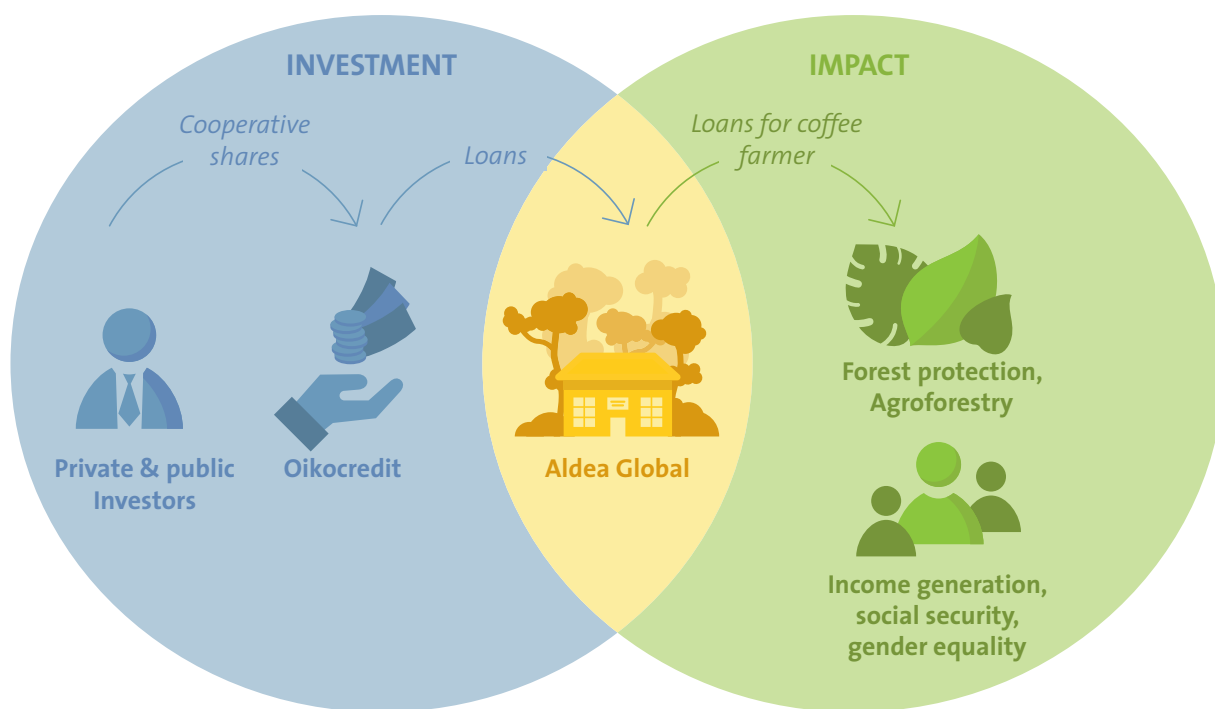
Oikocredit gives loans to Aldea Global which passes these funds on to associated coffee producers in the form of microcredits. Such microcredits are tailor-made for marginalized groups such as small farmers, indigenous groups, and women who would not otherwise have access to loans on the free market. These credits are used to invest in coffee production under certain social and ecological standards. Compliance with such standards is part of Aldea Global's policies and already half of the associated farms operate in accordance with one or more certification schemes such as Fair Trade (43 percent of exports), Rainforest Alliance (13 percent of exports) and Organic farming (3 percent of exports). Positive ecological impacts are accomplished through a combination of favourable microcredits for the conversion of coffee production to agroforestry and the maintenance of existing agroforestry and additional good practice in relation to waste management, forest conservation, and restrictions on the use of agrochemicals, etc. Oikocredit itself does not actively interfere in Aldea Global's business practices but defines minimum standards (ESG Scorecard) and provides support through consultations. Unfortunately, it is not clear what influence the ESG Scorecard rating has on the investment decision of Oikocredit.

Aldea Global's policies give greater emphasis to social and economic rather than environmental benefits, but this coincides very well with Oikocredit's primary constitutional orientation towards social development.

Despite the indisputable positive social and ecological impacts of Aldea Global, it is unclear whether Oikocredit's involvement with Aldea Global really generates additional benefits or simply consolidates an existing example of good practice.



CONCLUSION



Disclaimer

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Since the case study has been carried out, changes may have been occurred which could not be taken into consideration in the final publications.

For the sake of readability we have avoided the use of both masculine and feminine pronouns. We consider the use of the masculine pronoun to be gender-neutral and intend it to be inclusive of both genders.



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