

COMPANY NAME

Cafetalera NicaFrance
www.lacumplida.com

**INDUSTRY / SECTOR**

Agroforestry

LOCATION(S)

Nicaragua

DESCRIPTION

Cafetalera NicaFrance is a Nicaraguan agroforestry company, specialized in the production of high quality shade-grown coffee and timber for high-end applications. The company manages a 1,500 hectare farm – La Cumplida – which has 660 hectares of coffee trees, 115 hectares of timber production and 500 hectares of protected natural forest. Located in Nicaragua's Matagalpa region, La Cumplida is one of a small number of farms that combine coffee plantations with forestry operations.

INVESTOR PROFILE

Founded in 2012, Moringa is a Luxembourg-based investment vehicle that targets larger scale agroforestry projects with high environmental and social impact located in Latin America and sub-Saharan Africa. Moringa seeks projects that combine several sources of revenue, including agricultural, forestry and sale of carbon credits. Moringa was initiated by the Edmond de Rothschild Group and ONF International. The fund has partnerships with well-known research institutions, including the World Agroforestry Centre, the French agricultural research and international cooperation organization (CIRAD) and France's Institute of Development Research (IRD). Moringa is an impact investor and backs projects with a measurable social and/or environmental benefits.

DATE(S) OF INVESTMENT

JANUARY 2015

AMOUNT US\$13.3 MILLION

STAKE NOT DISCLOSED

**FUND NAME**

Moringa Fund

FUND SIZE

US\$90 million

TOTAL AUM

US\$90 million

OPPORTUNITY

NicaFrance was founded in 1992 by Clément Marie Ponçon, a leading advocate of agroforestry and coffee production in Nicaragua. Moringa saw potential to expand NicaFrance's model by transferring state-of-the-art technology to small and medium-scale properties close to La Cumplida. Because many of these farms have limited access to capital, equipment and advanced coffee varieties, Moringa and NicaFrance – together with CIRAD – saw the opportunity to create a coffee cluster to provide high-quality coffees to consumers in Europe, the US, and Asia. Genetic improvements of coffee varieties became essential following the increase in incidents of the rust disease and climate-related problems for the Nicaraguan coffee industry, which saw a 40% decline in production in the 2012/13 harvest season alone. This decline in production took a heavy toll on the country's economy and in some extreme cases, led to the abandonment of coffee plantations by farmers.

Introducing timber production offers an additional source of income to coffee farmers and reduces dependency on the coffee crop, which is naturally subject to swings in production and vulnerable to global price shifts. By improving farming techniques and due to the benefits of growing coffee under tree shade, there is a marked improvement in yields and coffee quality at these farms.

EXECUTION

NicaFrance already owned La Cumplida, the largest independent coffee farm in Nicaragua, covering over 1,800 hectares. In addition to providing capital to speed the execution of improvements on La Cumplida, Moringa's investment aimed to transfer production techniques used by NicaFrance to neighboring properties. To move ahead with the strategy, it was essential to bring the owners of small and medium properties together and convince them of the benefits of adopting new technologies and introducing new products. Many of these farmers have been facing significant losses from rust and have seen their livelihoods threatened. Convincing the local farmers to abandon their traditional coffee farming techniques was an initial challenge, but as farmers saw the result on test farms, they became more interested in joining the project. The process was facilitated by the partnership with CIRAD, which has developed rust-resistant coffee varieties. With the creation of this cluster of producers that use new varieties and farming techniques, NicaFrance will eventually be able to provide an estimated 5,000 tons of high-quality, certified coffee to roasters in Europe, the US, and Asia. These farms are also beginning to produce mahogany and other varieties of high-quality timber, which can be sold to furniture manufacturers and to the growing number of eco-lodges which are under construction in the region. Moringa also developed a model to finance small farms. The hiring of a CFO will also improve financial reporting and compliance, further strengthening the core business.

OUTCOME

Following the positive impact of introducing new coffee varieties and agricultural techniques on the La Cumplida plantation, there has been a greater willingness by small farmers to sign onto the program. The introduction of these new varieties will contribute to reducing the vulnerabilities of farmers to drought and disease by creating more of a robust cluster of productive farms in the region. These producers are also benefitting from an extensive research program to develop highly productive disease-resistant coffee varieties which are of superior quality, allowing producers to receive premium prices. Coffee is one of the few edible commodities that can be stockpiled over longer periods without major degradation in quality, opening up potential for farmers to earn better returns for future deliveries instead of being forced to dispose of their beans on the spot market.

ESG IN FOCUS

Moringa's investment in NicaFrance has strong environmental and social elements. On the environmental side, the investment will result in the transformation of roughly 1,700 hectares of degraded land into an agroforestry-based coffee plantation. This project alone will contribute to an estimate 500,000 tons of CO₂ sequestration that would otherwise be released into the atmosphere, mitigating global warming impact. The project has also received certification from relevant players, including the Rainforest Alliance, Forest Stewardship Council (FSC) and UTZ, which is the largest sustainability program for coffee, cocoa and tea in the world.

Because these investments are significant—up to US\$4,000/hectare – and production from the new varieties of coffee trees and timber does not begin until year four or five, NicaFrance guarantees revenues during the coffee plant maturation period. Eventually, the project will provide higher incomes to growers, reducing poverty in the region. In the future, many of these small farmers, who were the most vulnerable to losses from disease, will have access to better genetic material. Likewise, the program will create up to 6,000 permanent and seasonal jobs. Moringa is also supporting the Matrice Project, an agroforestry technical assistance program which builds on NicaFrance's platform and involves major development and research institutes. The ultimate goal is to replicate this project in other regions that are suffering from issues such as the rust disease and climate change and to expand to other agroforestry systems, such as cocoa and cattle.