Building farmers’ resilience in Peru

Smallholder farmers account for the majority of the world’s extreme poor. They are often the most exposed to and least-equipped to respond to increasingly variable climatic conditions. Marginalized from the formal economy and without access to resources and services, they are forced into short term survival tactics like illegal logging and slash-and-burn agriculture, which in turn trigger environmental degradation and increase poverty. We are supporting Root Capital’s efforts to tackle rural poverty in Peru by providing access to capital, skills and markets for 70 small but promising agricultural businesses. Supporting the growth and development of these businesses will benefit 40,000 family farmers that work with them as suppliers. These enterprises are currently considered too large to be eligible for microfinance, but too small and risky to attract commercial bank investments. Filling the gap of this “missing middle” enables small businesses and therefore the individual farmers and their communities to improve their lives and thrive.

DURATION: 2016-2019

CHALLENGE: Natural Resources Management

COUNTRY: Peru

PARTNER: Root Capital

CONTEXT
Smallholder farmers are increasingly vulnerable to the changing climate, a situation compounded by lack of resources and poor access to services. The recent coffee leaf rust crisis (“Roya” in Spanish) has affected over 2 million coffee producers in Latin America, whose crops, jobs and incomes have been devastated by this disease. Marginalized from the formal economy, smallholder farmers are profoundly affected by these disruptions. However, many examples exist of agricultural systems that maintain the quality of soils, water and ecosystems while growing rural prosperity. Climate-smart strategies such as
diversified organic production, agroforestry and conservation agriculture can enhance food security and support rural livelihoods by conserving and sustainably using the natural resources upon which agriculture depends. The challenge for smallholder farmers is to achieve the capacity and resources to adopt these climate-smart practices.

**ACTION**

This 3-year programme aims to help environmentally-sustainable businesses gain access to capital, skills and markets. Root Capital provides loans for small and growing rural enterprises that are too big for microfinance, but generally to small and risky to secure credit from conventional commercial banks, falling in the so-called “missing middle”. Financial assistance from Root Capital comes with agronomic training and financial advice on how best to use the loans, supported by critical market connections. Access to credit helps these businesses grow and strengthen their supplier base, directly impacting smallholder farmers who increase their productivity and boost their incomes, while also encouraging investment in climate-smart practices. Access to market and fair price negotiations protects them from having to sell their produce cheaply to the first available buyer. Specifically, the programme intends to:

- Provide loans and advisory training directly to 70 agricultural enterprises with sustainable environmental and gender inclusive practices. The training is designed to build the professional and leadership capacity of the employees in addition to covering core financial management topics.
- Deliver 500 days of on-site customised training and 40 centralised workshops, equipping the agricultural enterprises’ employees (and women in particular) with the knowledge, tools and skills they need to access and manage credit and grow their businesses sustainably.
- Indirectly support stable income, employment opportunities and overall prosperity for 40,000 smallholder farmers, their families and their communities. Individual farmers manage 90,000 hectares of land in Peru, producing coffee, cocoa, beans, fresh fruit and vegetables as suppliers of agricultural enterprises.

**EXPECTED RESULTS**

The programme’s overall aim is to create a virtuous cycle between farmers, the environment and the enterprises that support farmers’ livelihoods by buying their products. Its individual outcome objectives are:

- 70 agricultural enterprises, including farmer cooperatives, associations, small-scale private enterprises such as input suppliers and agro-processors increase their revenue by at least 20%.
- More than 40,000 smallholder individual farmers (25% of them women) and over 200,000 family members improve their economic prosperity by achieving higher and more stable incomes and greater resilience to climate change.
- Over 90,000 hectares of land in and around the tropical Andes are managed sustainably.
LONG-TERM STRATEGY

Peru is Root Capital's largest country portfolio in scope and size. In 2015 it lent capital to 58 agricultural enterprises, reaching 29,000 smallholder farmers working over 75,000 hectares of land in Peru. The devastating effects of Roya continue to plague Peruvian smallholder coffee farmers. Combating this, the diversification of coffee clients into cocoa is a growing trend and Root Capital is well-positioned to help clients manage this change through financial advisory services and credit products. Beyond cocoa and coffee, there are also significant opportunities to expand into quinoa, maca, canned fruits and vegetables, as well as large-scale banana, grape and avocado production, in addition to native products such as *sacha inti* and *camu camu*. 