

PROPOSED FINANCING AND TECHNICAL COOPERATION FOR
COOPERATIVA DE PRODUCCIÓN AGROPECUARIA E INDUSTRIAL
"LA NORTEÑA YCUAMANDYYU" LTDA.

EXECUTIVE SUMMARY

AMOUNT AND SOURCE: IDB:
Financing US\$500,000
Technical cooperation: US\$230,000
Total: US\$730,000

The operation will total US\$730,000 equivalent in local currency from the net income of the FSO

FINANCIAL Amortization period: 40 years
TERMS AND Grace period: 5 years
CONDITIONS: Disbursement period: 4 years
Fee: 1%

OBJECTIVES: General objective: Socioeconomic advancement of the members of the Cooperativa de Producción Agropecuaria e Industrial "La Norteña Ycuamandyyu" Ltda. (CNY) [Agricultural and Industrial Production Cooperative] located in the town of San Pedro. Specific objective: To assist the CNY in strengthening its position on the local and regional markets. The project sets out to help the CNY achieve sustained capacity to sell its members' production under competitive conditions on those markets within four years. It is therefore necessary to: (i) improve and diversify small farm production systems and the CNY's storage, processing, and marketing capacity; and (ii) strengthen the CNY's institutional and technical capacity to enable it to become financially self-sufficient.

DESCRIPTION: The funds will be used to finance: (i) a program of investments in facilities and vehicles in order to store, process, and market the agricultural products of the members of the cooperative, particularly cedron, corn, maté, and balanced feed; (ii) better technical capacity in the CNY to improve production processes, which will enable the members to deliver market-quality products; and (iii) institutional strengthening for the CNY.

ENVIRONMENTAL The Environment Committee, at its meeting of May 28,
CLASSIFICATION: 1996, approved the environmental brief and classified this as a category II operation.

POVERTY TARGETING: The program will directly benefit some 600 low-income families, of which 400 are small rural producers and 200 are urban microentrepreneurs, largely family-run businesses employing fewer than five people and working with very little capital. The beneficiaries (30% are women) live in the department of San Pedro and fall under the poverty line established by the Bank. The objectives of this operation are geared to **poverty alleviation** through financing for mechanisms that will help to boost the incomes of the end beneficiaries.

RISKS: The cooperative may fail to attain the desired levels of management, business administration, and productive capacity to ensure the sustainability of the planned investments and attainment of the goals. A further risk is failure to modernize production and to achieve the quality required to compete successfully on the market. To reduce these risks, the technical-cooperation project will strengthen production and marketing through the use of appropriate methods and by hiring specialized services.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:** The Bank's strategy for Paraguay proposes to support: (i) modernization of the productive apparatus, with special stress on microenterprises and small and medium-sized businesses; (ii) development of basic services and social programs; and (iii) institutional strengthening and modernization of the State. The proposed program is consistent with the Bank's strategy of giving priority to operations in the agriculture sector and strengthening specialized institutions that offer financial and technical services to low-income groups, such as rural and urban microenterprises and female microentrepreneurs. Further, this operation addresses Bank priorities for the agriculture sector, with regard to increasing the income of rural producers, developing new markets for existing products in campesino agriculture, and promoting commercial agriculture, including the modernization and diversification of production.

**SPECIAL
CONTRACTUAL
CONDITIONS:** In addition to the general contractual conditions, it is recommended that the following special conditions be included in the financing and technical-cooperation agreement.

Prior to the first disbursement, the intermediary agency must present to the Bank for approval the terms of reference for contracting the consulting services (see paragraph 3.15).

Within the first three months of the operation, and based on terms of reference approved by the Bank, a study will be contracted to establish specific evaluation benchmarks that will serve to prepare the CNY's annual management plans, progress reports, and mid-term project evaluations. The CNY will also report regularly on progress in making the planned investments (see paragraph 3.24).

The CNY will undergo a mid-term evaluation when 50% of the funds have been disbursed. The purpose will be to monitor compliance with the policies and evaluate progress and problems, in order to make any changes that are required to achieve the desired results (see paragraph 3.27).

I. FRAME OF REFERENCE

A. Poverty level in Paraguay

- 1.1 Two benchmark poverty lines are used in Paraguay: US\$30 per capita per month (extreme poverty, 15% to 25% of total households) and US\$60 per capita per month (poverty, 28% to 32% of total households). Although there is evidence that the poverty rate in Asunción has fallen in recent years as a result of economic growth, that growth has not benefitted the rural poor or the neediest living in marginal urban areas. 1/

B. Economic situation

- 1.2 The Paraguayan macroeconomic picture in 1996 was relatively stable although very delicate owing to serious difficulties in the financial sector and the loss of growth in GDP as a result of: (i) the weak performance of the agriculture sector which was affected by the sharp drop in cotton production; (ii) the slump in regional trade in the first half of the year; and (iii) cutbacks in public investment. Drops in cotton, rice, corn, mandioc, peanut, and bean production were not offset by the rise in soybean production. Substantial growth in soybean exports (from US\$175.9 million in 1995 to US\$333 million in 1996) and in exports of nontraditional products more than compensated for lower cotton exports, for an increase of 14% in the nominal value of recorded exports. 2/
- 1.3 Inflation was 8.2% owing to appreciation of the guaraní, lower domestic demand, and particularly to restrictive monetary policy based on the sale of *letras de regulación monetaria* [monetary regulation bills] (LRMs). This represents progress when measured against annual inflation rates of between 15% and 22% in recent years.
- 1.4 The problems in the financial sector have limited the amount of credit available to the private sector because of: (i) the insolvency of the banks over which the government has taken control; (ii) the return by the Central Bank of Paraguay (BCP) of savings to depositors in the aforementioned banks; and (iii) the restrictive monetary policy that has led to a rise in interest rates. Lending rates mirror this situation and are high. However, the rates for certain agricultural programs, such as cotton financing, are 22% a year, which causes distortions in rural credit programs. At present, active government intervention in the form of policies to subsidize small farmers through the Fondo de Desarrollo Campesino [Rural Development Fund] (FDC), by means of

1/ Country paper CP-1264 of May 9, 1997.

2/ Recent Economic Performance and Outlook, Region 1, April 1997.

the Farm Credit Program, makes it impossible to apply credit technologies that comply with Bank guidelines.

C. The agriculture sector

- 1.5 The agriculture sector is very important for the country's economy, having contributed some 25% of GDP in the last six years. Agribusinesses account for approximately 10%. The sector provides almost all foodstuffs for domestic consumption and over half of the country's exports.
- 1.6 Growth in agriculture slumped sharply as a result of the 29% fall in cotton production which was not offset by the excellent results of soybean production. Cotton suffered from lower international prices, low yield, a reduction in the area planted, and poor pest control owing to the shortage of credit. 3/
- 1.7 Strong economic growth during the 1970s and 1980s is partly explained by good performance in the agriculture sector. However in the 1990s, the sector's share of exports fell from 80% in 1990 to 66% in 1996. Average annual growth in the sector (2.6%), in constant guaraníes, has not kept pace with population growth which is estimated to be over 3% a year. Considering agriculture alone, which occupies the vast majority of the rural population, average growth has been less than 2% from 1990 to 1996.
- 1.8 Some 48.9% of Paraguayans live in rural areas and close to 40% of the labor force works in agriculture and forestry. Land tenure in Paraguay is highly concentrated. Farms of under 20 hectares account for 81% of the total number of farms (246,616) but occupy just 6.1% of the country's farming area (1,468,746 ha), and are home to 1.2 million people. Fifty percent of this population (which is about 25% of the entire population) is living at or below the extreme poverty line. Although the number of farms rose between 1980 and 1991, 80% of this growth was in farms of under 20 ha, reflecting the fragmenting of small properties and the agricultural land settlement process.
- 1.9 In the settled regions, per capita income fell by an average of 15% between 1991 and 1994. In the border zone, per capita income has fallen on farms of under 10 ha, while income has increased on the larger farms, particularly those over 25 ha.

D. Participation by women in farm production

- 1.10 According to the 1995 household survey, women make up 48.1% of the rural population and their average age is 23.1 years. They head 17.1% of families and have received no more than five years of primary schooling on average.

3/ Recent Economic Performance and Outlook, Region 1, April 1997.

- 1.11 Rural women participate actively in farming, and have primary responsibility for garden truck and raising animals. They also earn nonfarming income from cottage industries. In addition to these tasks, they must run the household and take charge of the care and education of their children and family health, in addition to hauling water and gathering firewood. Despite the fundamental role they play, rural women do not receive technical training or adequate education, much less recognition of their contribution to productive activities and family well-being.
- 1.12 Paraguayan women have traditionally formed the migratory group in the population, moving to cities to work almost exclusively as domestics. They generally migrate in two stages - first from rural to urban areas, and then abroad, mainly to Argentina and Brazil.

E. Background of the operation

1. The request

- 1.13 In 1994, after a careful analysis of the financial requirements of small agricultural producers in Paraguay, the Bank decided to assess the applicability of the Small Projects Program to the rural sector. It hired a group of consultants specializing in rural development for that purpose. In February 1995, an evaluation was made of demand and the need for support of entities currently offering financial services for the rural sector. In June 1995, in the second stage of the study, institutions were identified with the capacity to administer Bank programs, including the Cooperativa de Producción Agropecuaria e Industrial "La Norteña Ycuamandyyu" Ltda. (CNY). In December 1996, the cooperative obtained deeds to the land where the facilities to be financed with funds from this operation will be built.

2. Statement of nonobjection

- 1.14 The Government of the Republic of Paraguay, through the Technical Secretariat for Economic and Social Development Planning, has expressed its nonobjection to Bank participation in financing the proposed project.

3. Government strategy

- 1.15 The government's economic plan, known as "Guidelines for Economic Reactivation" (October 1996), calls for transformation of the productive structure in the agriculture sector and stronger producers' organizations for production and marketing, with programs that include increases in productivity, diversification, and the processing of agricultural products for MERCOSUR.
- 1.16 The proposed project is consistent with the government's development strategy.

4. Bank strategy

- 1.17 The Bank's strategy for Paraguay proposes to support:
(i) modernization of the productive apparatus, with special stress on microenterprises and small and medium-sized businesses;
(ii) development of basic services and social programs; and
(iii) institutional strengthening and modernization of the State.
- 1.18 In view of the importance of agriculture in production and export activities and as a source of employment, the Bank's strategy attaches high priority to addressing: (i) implementation of current projects and programs and their linkage to new operations; (ii) higher incomes for rural producers; (iii) development of new markets for the existing agricultural products of campesinos; (iv) institutional rationalization of the sector; (v) solutions to environmental problems, including deforestation and erosion; and (vi) development of commercial agriculture, including modernization and diversification of production.
- 1.19 One strategy is to transform the productive structure, principally the organization of production in the primary sector, under programs that foster increases in the productivity of the agriculture sector, diversification of its production, and the processing of farm products that would make Paraguay competitive in MERCOSUR.
- 1.20 Bank operations to follow through on the strategy to assist the microentrepreneurial sector include a global credit program for microenterprises approved in 1992 for US\$10 million. The project benefitted some 6,000 microenterprises and the funds were fully disbursed in two years. The Board of Executive Directors is currently considering a second global credit program for microenterprises for US\$20 million, which would focus on Asunción and cities in the interior. Since the global loans for microenterprises tend to reach clients whose incomes are higher than the beneficiaries of the Small Projects Program, financing and implementation of the operation proposed in this document complements the above programs by: (a) funding a beneficiary agency that is unable to gain access to global credit programs owing to the conditions intermediaries are required to meet under operations of that kind; and (b) directly reaching the rural area and the poorest rural and urban end beneficiaries who have not yet been assisted under global credit programs.
- 1.21 The proposed program is consistent with the Bank's strategy for giving priority to operations targeted to the agriculture sector and to strengthening specialized institutions that offer financial and technical services to low-income groups such as rural and urban microenterprises and female microentrepreneurs.

5. Rural poverty in Paraguay

- 1.22 The problem of rural poverty can be traced in large measure to the crisis facing small cotton producers, a sector which was first decimated initially by a drought (1991-1992) and since 1994 by a pest (the boll weevil) and has been unable to recover from the sharp drop in productivity. It has ceased to be the engine of agricultural development. Despite the clear impact that this situation has had on the incomes of rural families, since cotton was their main source of revenue, the government has been unable to respond effectively because of its reduced institutional capacity to plan and coordinate strategies to assist this very important segment of the agriculture sector. The situation is particularly serious, given the scant alternatives for employment and income available to rural families.
- 1.23 The problem of poverty in Paraguay is chiefly a rural problem that requires a rural solution. In view of the fact that one half of Paraguayans, 70% of the poor, and 85% of people in extreme poverty live in rural areas, improving farming conditions is clearly a basic condition for attacking the poverty that prevails in the country.
- 1.24 The objectives of this operation are targeted to poverty alleviation, and it will finance mechanisms to boost the income of the end beneficiaries. The average annual family income of the members of the cooperative will increase from US\$2,540 to US\$3,200 for an average annual per capita rise from US\$433 to US\$543 according to estimates contained in a study conducted by the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) [German Agency for Technical Cooperation].

II. THE INTERMEDIARY

- 2.1 The rural institution proposed to implement the project is the Cooperativa de Producción Agropecuaria e Industrial "La Norteña Ycuamandyyu" Ltda. [Agricultural and Industrial Production Cooperative] (CNY), located in the town of San Pedro in the department of the same name. It was selected for the proposed operation since it is the cooperative with the greatest economic impact in the department.

A. Identity, origin, and objectives

- 2.2 The CNY began to operate in November 1973 as Cooperativa de Ahorro y Crédito. In September 1989 it changed its name to Cooperativa de Producción Agropecuaria e Industrial, with savings and loan, consumer, transport, and service departments. In 1992 the cooperative merged with the Cooperativa La Norteña San Agustín

Ltda., assimilating it. Today the CNY has 600 members, 30% of whom are women, who had an annual per capita income of US\$433 equivalent or US\$36 a month in 1995.

- 2.3 The CNY has a general assembly of members, a board of directors, an oversight committee, and credit, education, and marketing committees. Its administrative staff is composed of a general manager, an accountant, a chief of education, a secretary, and a number of technical employees.
- 2.4 Its main objective is to improve the socioeconomic situation of its members.

B. Activities

- 2.5 The CNY's commercial, financial, and technical assistance activities include: transport and marketing of farm produce; manufacture of balanced feed and maté; coop store; credit union; technical assistance and training; and exports of nontraditional products.
- 2.6 The CNY continues with its original activities as a credit union. In financial intermediation it has a clientele that is 80% rural and 20% urban (from the town of San Pedro). It offers savings and deposit services and different lines of credit. The main crops financed are cedron - a nontraditional crop that brings higher returns than traditional crops - corn, and maté.
- 2.7 With firm support from the GTZ, the CNY has been very dynamic in marketing products such as cotton, corn, maté, and particularly the processing of Paraguayan cedron, a crop used to produce a tea which acts as a sedative and relieves stomach problems. Two hundred of its members grow cedron, which is processed and exported by the cooperative. The cooperative's main limitation is the absence of suitable infrastructure and funds to expand the production and marketing of its members products.

C. CNY background on gender issues

- 2.8 With funds from a program operated by the Women's Secretariat, a female technician has been hired to organize women's committees with production objectives. The women have established a market association with 140 members to sell their products, particularly the surplus not consumed by their families, such as fruits and vegetables, mandioc, sesame, peanuts, squash, and barnyard animals. The cooperative also supports the women by providing them with seeds and other inputs.
- 2.9 Generally, about 50% of the people participating in the grassroots committees are women, although most of the members are men. The cooperative has a program on a local radio station which it uses to broadcast technical information and information about the

cooperative from Mondays to Fridays. Tuesdays and Thursdays are devoted particularly to topics of interest to women.

D. Support for women

- 2.10 The project will boost women's participation in family economic activities, since one of its main objectives is to improve and diversify the production of the members of the cooperative to meet the quality demanded by the market. Women will have the opportunity of increasing their income by boosting their production and selling produce from their own gardens. This operation will also benefit them through the creation of new employment opportunities and job training, which will form part of the technical-cooperation objectives (see paragraph 3.25).

E. Financial situation

- 2.11 Total assets for fiscal year 1996 were US\$667,139, an increase of 13% over the previous year. Equipment and facilities constitute 26% of assets and inventories 15%. Total debts with entities such as the GTZ and the FDC account for 34% of liabilities and net worth. Subscribed and paid in capital is US\$138,815 (an increase of 51% in the last two years). Total reserves are US\$206,300.
- 2.12 Cotton sales posted a loss of US\$6,512, while sales of alternative products (such as Paraguayan cedron) saw profits of US\$109,013, which supports the proposal presented in this document for strengthening the cooperative so that it can position itself on the market with new products under competitive conditions. Total operating costs were US\$191,789, for net profits of about US\$3,583.
- 2.13 It is expected that the higher production volumes to be achieved as a result of this operation will be sold in their entirety (see paragraph 3.5).
- 2.14 The cooperative has managed credit activities with its members efficiently. It does not charge them fees, but encourages them to save between 13% and 20% of their loans, which helps to improve liquidity and effective yield and makes it possible to cover operating costs. Interest earnings by the cooperative in 1996 accounted for 29% of total income and 8% of total assets.
- 2.15 However, active government intervention in the form of policies to subsidize small farmers through the FDC, by means of the Farm Credit Program mean that the cooperative is unable to apply credit technologies that comply with Bank guidelines. This is the main reason why the proposed operation does not support the cooperative's financial management activities and focuses instead on strengthening its institutional and technical development, which are the areas where it has the best growth potential.

F. Institutional evaluation

- 2.16 The CNY is the largest cooperative in the department of San Pedro and has the capacity to manage a Bank project. Its administration is solid and it is receiving temporary support from the GTZ, which has been strengthening the CNY's administrative and management capacity. The proposed operation complements the GTZ's activities since the investments financed with GTZ funds were chiefly intended for the purpose just mentioned, while this operation will finance mechanisms to build up the cooperative's capacity to compete in the market by expanding and consolidating the processing and export of nontraditional products and improving the systems for storing, processing, and marketing its other products.

G. GTZ contribution

- 2.17 The GTZ has been supporting the cooperative over the last 10 years with 12 million deutsche marks (approximately US\$7 million equivalent in May 1997 dollars) provided by the German government and is implementing the project in cooperation with the Paraguayan Ministry of Agriculture as the national counterpart.
- 2.18 The GTZ's grants to the cooperative have been used as follows:
- Rehabilitation of the building where its offices are located.
 - Furniture and equipment for the offices.
 - Construction of the existing shed and equipment comprising a hydraulic press to process the cedron for export. The press and its accessories will be transferred to the new facilities to be built with loan proceeds.
 - A seven-year old van that should be retired from use owing to high maintenance costs.
 - A three-year old truck.
 - Establishment of a revolving fund to finance farm inputs and seeds. The fund was initially established with US\$120,000 and has now risen to about US\$145,000 with the capitalization of recoveries.
- 2.19 No breakdown is available of spending on each item, since the GTZ donates the goods, which continue to belong to it and not to the cooperative, except for rehabilitation of the building. Further, the GTZ continues to control the fund and could either withdraw it or donate it permanently.
- 2.20 The GTZ is carrying out its last cooperation plan from April 1996 to March 1998, for a total of 360,000 deutsche marks intended to cover the costs of the GTZ-hired expert to advise the cooperative, operating costs, and training activities.

H. Lessons learned

- 2.21 The main lessons learned by the cooperative over the last 10 years of work with support from the GTZ are: (i) systematic training and ongoing assistance have been essential for providing the institution with suitable human resources on all levels; (ii) the difficulty of working with credit in an unfavorable financial context caused by the paternalistic actions of the government, which has been granting loans for agricultural development at subsidized rates; and (iii) the need to ensure the institution's financial soundness by boosting the capacity to produce products with value added, by diversifying production, and by positioning itself in the marketplace.

III. THE PROGRAM

A. Objectives

- 3.1 General objective: Socioeconomic advancement of the members of the Cooperativa de Producción Agropecuaria e Industrial "La Norteña Ycuamandyyu" Ltda. [Agricultural and Industrial Production Cooperative] (CNY) located in the town of San Pedro. Specific objective: To assist the CNY in strengthening its position on the local and regional markets. The project sets out to help the CNY achieve sustained capacity to sell its members' production under competitive conditions on those markets within four years. It is therefore necessary to: (i) improve and diversify small farm production systems and the CNY's storage, processing, and marketing capacity; and (ii) strengthen the CNY's institutional and technical capacity to enable it to become financially self-sufficient.

B. Project description

- 3.2 The program's funds will be used to finance: (i) a program of investments in facilities and vehicles for bulking, processing, and marketing of the agricultural products of the members of the cooperative, particularly cedron, corn, maté, and balanced feed; (ii) better technical capacity in the CNY to improve production processes, which will enable the members to deliver market-quality products; and (iii) institutional strengthening for the CNY.

1. Investments

- 3.3 The reimbursable program funds will be used to establish a line of credit of US\$312,000 equivalent for investments to build an agroindustrial complex in a highly agricultural zone.
- 3.4 The facilities will include construction of a 20 x 30 meter shed with a concrete floor, where trucks can unload the produce they

collect from the cooperative's members. In the case of corn, it will be transported by elevator to the grain cleaner and then to the dryer and then stored in silos. The operation will finance the facilities, machinery, and two metal silos, each with a capacity of 300 tons. (The breakdown of amounts for buildings, machinery, and equipment appears in Annex III-1.)

- 3.5 The size of the facilities was based on the absorption capacity of the local, regional, and export markets. For corn, the market study involved consultations with livestock farmers on their concentrated feed requirements for animals; traders were consulted regarding maté; and for cedron, contacts were made with current German importers of the product. It was estimated that with the project, current corn production of 250,000 tons could rise to 600,000, current maté production of 35,000 tons could rise to 60,000, and current cedron production could rise from 25,000 tons to 70,000. Another factor taken into account in determining the scale of the complex is that the members' current production capacity is underused because of shortcomings in storage and marketing facilities. Further, the storage modules currently manufactured domestically have a minimum capacity of 300 tons. Buying two 300-ton silos offers comparative advantages over buying one 600-ton silo, since in the case of corn, for example, the cooperative works with two types: "tupí" which is a red corn for animal consumption, and "chipá" which is a white corn for human consumption. With two silos, the two types can be stored at the same time.
- 3.6 The complex will be located on a property that covers approximately two hectares, and the facilities will occupy some 5,000 m². The land belongs to the CNY and has electricity service and running water. The location permits easy access to producers and lies on the outskirts of the town, where basic public and private services are available.
- 3.7 The investments include the purchase of a truck which is required to carry products from the farms to the cooperative and to market after processing. Although the cooperative is making heavy use of a three-year-old truck provided by the GTZ, last year it spent about US\$45,000 in freight charges, and therefore it would be economical to purchase a second truck. Further, the equivalent of US\$4,000 will be earned from freight services from the farms to the silos during harvest, not counting other services that the truck could provide during the rest of the year.
- 3.8 A comparison of cost alternatives indicates that purchase of the truck is justified. Furthermore it is indispensable if the push to market the farm products handled by the cooperative, which is one of the most important aspects of this operation, is to be successful. Purchase of this vehicle will not only save freight costs, but will improve the reliability and continuity of services for the cooperative and small producers. Also, the maintenance

costs for a new unit that can operate on bad roads without great difficulty will be low. These and other considerations suggest that purchase of the vehicle represents significant value added for good execution of the operation.

- 3.9 The proposed operation supports marketing because, in addition to ensuring the sale of increased production, it is an incentive for production, use of new technology, and investment. Marketing is also one of the best instruments for increasing rural income, thus helping to alleviate poverty in a sustained fashion.
- 3.10 Apart from the physical investments, initial capital of US\$150,000 will be provided to start up the processing plant. A breakdown of the use of these funds is given in Annex III-1.

2. Nonreimbursable technical cooperation

- 3.11 Nonreimbursable funds in the amount of US\$230,000 equivalent will cover: (i) strengthening the cooperative's technical capacity to improve its production and marketing processes and obtain market-quality products from the members; and (ii) institutional strengthening of the CNY.
- 3.12 Consulting services and training will be provided in the following areas: (i) computer programs; and (ii) improvements in production and marketing which will include training in management of the new facilities. The technical-cooperation component will also bolster the training and technical assistance provided to beneficiary small farmers, with particular emphasis on women (see technical-cooperation Plan of Operations, Annex III).

C. Cost and financing

- 3.13 The total cost of the program, including the nonreimbursable technical-cooperation funding, has been estimated at US\$730,000 equivalent, as follows:

Table I. Program cost
(US\$ equivalent)

A.	Investments		
I.	Agroindustrial complex		312,000
	Buildings	75,000	
	Three-phase line installation, 500 m of cables, posts and transformer <u>4/</u>	12,000	
	Internal and access roads	25,000	
	Machinery and equipment	100,000	
	Office furniture and equipment	10,000	
	Truck <u>5/</u>	90,000	
II.	Initial operating capital		150,000
III.	Contingencies		38,000
	Subtotal		500,000
B.	Technical cooperation		230,000
	Total		730,000

3.14 The investments and initial operating capital items are broken down in Annex III-1; the breakdown of the technical-cooperation operation is given in Annex III, Plan of Operations.

D. Program execution

1. Responsibility

3.15 The CNY will be responsible for administering and carrying out the project. The activities will be performed by existing staff, which will be strengthened under the nonreimbursable technical-

4/ The cooperative's current industrial facilities are located in a small shed on rented land inside the urban area. The new facilities will be located on the outskirts of the town, and therefore it is necessary to extend the existing power line by some 500 meters, with the necessary posts and transformer.

5/ The vehicle will be a chassis truck, six-cylinder diesel engine, with a payload of 9.4 tons. The CIF price Asunción is US\$50,000 plus unloading, storage, customs fees, dispatching, import tariffs, transfer, registration, license, and tonnage costs, for a total of about US\$90,000.

cooperation component. The intermediary is required to present the terms of reference for contracting each of the consulting services to the Bank for approval prior to the first disbursement.

- 3.16 The CNY will sign the loan and technical-cooperation agreement with the Bank and will carry out the project as described in this document and the annexes. The funds to finance the production investments will be disbursed in accordance with the proposed investment schedule. The CNY will be responsible for repaying the Bank loan.

2. Training and technical assistance for producers

- 3.17 Training and technical assistance for microentrepreneurs will be provided by the CNY. Special attention will be paid to the design and implementation of short courses on productive activities. Preferably, the courses will be carried out on the farms themselves, and planned around seasonal farming activities.
- 3.18 The CNY will prepare the training plan based on demand by producers. Topics will include: (i) planning and management for farms and microenterprises; (ii) training in environmental protection; (iii) specialized technical assistance for income-earning crops; and (iv) administrative and financial training for managers, group leaders, etc., taking into account, in the design of the courses, timetables and venues that will facilitate active participation by women.
- 3.19 The consulting firms and/or individual experts hired under the technical-cooperation component will be contracted in accordance with Bank procedures and the provisions of the Plan of Operations (Annex III) and the terms of reference.

3. Disbursement period

- 3.20 The loan will be disbursed within 48 months after the date on which the agreement is signed. The technical-cooperation funds will also be disbursed within 48 months after the respective agreement becomes effective.

4. Advance of funds

- 3.21 The program requires cash funds to begin the consulting services for institutional and technical strengthening of the CNY. Therefore, an advance will be provided of up to 10% of the loan and the technical-cooperation funding.

5. External auditing

- 3.22 As a condition precedent to the first disbursement, the CNY is required to present to the Bank's satisfaction the chart of accounts for recording accounting activity under the program. The

auditor or firm of auditors that will prepare the reports mentioned in the following paragraph will also be agreed upon with the Bank.

- 3.23 For four years, starting in the year in which disbursements begin, and within 120 days after the end of each calendar year, the CNY will present its financial statements and those of the program, certified by an independent auditor or a firm of independent public accountants acceptable to the Bank.

6. Evaluation - benchmarks

- 3.24 Based on terms of reference previously approved by the Bank, within the first three months of the project the CNY will contract, with technical-cooperation funding, for a study establishing specific evaluation benchmarks that are both relevant and verifiable, with a clear indication of the sources and methods of obtaining the information to be used to evaluate the CNY's performance and achievements of desired results. The indicators should chiefly cover production, marketing, management, and gender issues.
- 3.25 The evaluation benchmarks will be used to prepare annual management plans for the cooperative as tools for project administration, for preparation of the semiannual progress reports and the mid-term evaluation, and for measuring efforts under the program to encourage greater participation by women.

7. Progress reports

- 3.26 During program execution, within 60 days following the end of each six-month period, the CNY will present a progress report on the program to the Bank. The last of these reports will constitute the final report and should contain a summary of the results in relation to the original program objectives. Based on the achievements attained, the report will describe improvements in the institutional capacity of the CNY, particularly with regard to financial self-sufficiency, improved earnings and capitalization, job creation, and improvements in the business capacity and income of the beneficiaries.

8. Mid-term evaluation

- 3.27 A mid-term evaluation of the CNY will be performed when 50% of the funds have been disbursed. The purpose will be to track compliance with the rules and to evaluate progress and problems in order to make any adjustments necessary to attain the objectives. The terms of reference for the evaluation will also state that the consultant is to evaluate the technical-cooperation component and its impact on strengthening the cooperative, and to determine the CNY's capacity to absorb the consultants contracted for 36 and 24 months. The Bank will review the results and recommendations of the evaluation which will be performed by external consultants to be hired directly by the Bank with funds from the parallel technical-

cooperation program. If the results of the evaluation are unsatisfactory, the Bank will not authorize further commitments of funds until steps have been taken to address the problems encountered.

9. Environmental aspects

- 3.28 This program is not expected to have a significant environmental impact, and therefore the Environment Committee, at its meeting of May 29, 1996, classified it as a category II operation. The CNY is highly aware of environmental protection, as reflected in its courses and educational materials and expressed by the producers themselves and in the CNY's leadership in regional activities to promote environmental awareness and protection.

IV. BENEFICIARIES

- 4.1 The proposed program will directly benefit some 600 low-income families, 400 of which are small rural producers and 200 are urban microentrepreneurs who live in the department of San Pedro. Thirty percent of them are women. Their annual per capita income is below the poverty level established by the Bank, from largely family-run businesses employing fewer than five people and having very little capital. In general the beneficiaries have not received more than five years of primary schooling, the families have an average of six members, and speak Guarani primarily.

V. PROJECT FEASIBILITY, JUSTIFICATION, AND RISKS

A. Socioeconomic feasibility

- 5.1 The agriculture sector makes a very significant contribution to the Paraguayan economy. However the difficult socioeconomic conditions faced by small producers mean that migration to urban centers is on the rise and that the private sector is unable to create sufficient jobs.
- 5.2 The proposed program will have an impact on improving the region's economy, since it will enhance production and marketing processes, adding value to raw materials. Crop diversification, higher productivity, and better marketing will have a positive impact on production value and will increase the supply of jobs, which will make for higher family income and more jobs for people in the zone.
- 5.3 The proposed project will make a substantial contribution to the efforts of private agencies and the national government to develop

programs to benefit the poorest rural sectors, taking particular account of participation by women.

B. Institutional feasibility

- 5.4 The CNY is a private, nonprofit entity, with legal capacity to enter into contracts for operations with the Bank. It has personnel, facilities, and experience in training, credit, and advisory programs. With support from the technical-cooperation component, the CNY will have the institutional conditions required for adequate management of the proposed project.

C. Financial feasibility

- 5.5 The project will generate sufficient funds to cover service on the Bank's loan, capitalization of the CNY, and growth in its net worth.

D. Risks

- 5.6 The cooperative may fail to attain the desired levels of commercial management and productive capacity to ensure the sustainability of the planned investments and attainment of the goals. A further risk is that production is not modernized and fails to achieve the quality required to compete successfully on the market. To reduce these risks, the technical-cooperation program will strengthen production and marketing through the use of appropriate methods and by hiring specialized services.

E. Justification and recommendation

- 5.7 The proposed project meets the eligibility criteria of the Small Projects Program established in documents GP-75-7 and GN-1238-2 and is consistent with the Bank's policy on women in development established in document GP-114-3 and with the strategy for microenterprise development (MICRO 2001) approved by the Board of Executive Directors in February 1997. The project will directly benefit marginalized groups, create job opportunities, encourage the use of appropriate technologies, and protect the environment.
- 5.8 The foregoing analysis indicates that the project is feasible. Accordingly, the Management of the Bank recommends the Board of Executive Directors approve the financing and hereby submits for its consideration the corresponding resolution for financing and nonreimbursable technical-cooperation funding.

COOPERATIVA "LA NORTEÑA YCUAMANDYU" LTDA.
BALANCE SHEET
(US\$)
As of June 30

	1994	1995	1996
Total assets	455,862.34	590,751.86	667,139.14
Cash and banks	37,721.41	84,911.66	104,451.21
Loans receivable (- reserves)	95,138.27	144,697.15	226,917.36
Other accounts receivable	30,878.96	38,169.80	27,956.55
Inventories	89,782.30	101,016.94	103,347.66
Investments	60,569.03	8,188.13	2,991.24
Buildings, machinery and equipment (net)	119,684.90	185,368.84	172,393.14
Land	8,104.87	10,913.20	24,467.56
Other assets	13,982.60	17,486.13	4,614.42
Total liabilities and net worth	455,862.34	590,751.86	667,139.14
Liabilities	213,172.60	255,001.18	318,440.86
Savings deposits	15,740.48	31,183.21	82,045.63
Financial debts	168,055.40	194,312.84	227,547.20
Other debts	27,155.74	29,356.66	6,614.68
Reserves	2,220.97	148.48	2,233.36
Net worth	242,689.75	335,750.68	348,698.28
Paid-in capital	92,160.37	120,357.00	138,814.98
Reserves	134,685.99	214,400.41	206,300.29
Surplus	15,843.38	993.26	3,583.01

INCOME STATEMENT
(US\$)
From July to June

	1994	1995	1996
Income	99,878.77	148,826.23	195,371.59
Cotton sales	381,358.97	495,017.68	151,269.02
Cost of Sales	(365,453.94)	(473,129.48)	(157,781.44)
Livestock sales	2,853.79	14,656.80	-
Cost of sales	(2,722.45)	(11,392.44)	-
Merchandise sales	205,581.29	197,540.79	219,449.28
Cost of sales	(183,754.42)	(175,065.60)	(200,188.51)
Processed product sales	70,240.81	68,793.41	71,071.86
Cost of sales	(63,581.32)	(62,001.52)	(66,362.61)
Alternative product sales	-	25,866.67	177,605.51
Cost of sales	-	(9,310.03)	(68,592.70)
Other agricultural product sales	-	4,638.99	29,829.74
Cost of sales	-	(3,713.51)	(20,519.72)
Other sales	11,985.20	280.79	316.79
Financial income	33,949.98	70,544.47	57,884.53
Net income for services and other	9,420.87	6,099.22	1,389.85
Total costs	84,035.39	147,832.97	191,788.57
Administrative costs	47,226.18	59,445.01	93,529.67
Operating costs	21,021.42	27,974.12	46,066.85
Financial costs	13,238.57	57,977.22	52,192.05
Other costs and losses	2,549.23	2,436.61	-
Surplus	15,843.38	993.26	3,583.01
Dollar exchange rate	1,915	1,972	2,055

PLAN OF OPERATIONS

TECHNICAL-COOPERATION OPERATION FOR INSTITUTIONAL STRENGTHENING OF COOPERATIVA DE PRODUCCIÓN AGROPECUARIA E INDUSTRIAL "LA NORTEÑA YCUAMANDYYU" LTDA.

I. BACKGROUND

- 1.1 To complement the request for financing submitted to the Bank by the Cooperativa de Producción Agropecuaria e Industrial "La Norteña Ycuamandyyu" Ltda. [Agricultural and Industrial Production Cooperative] (CNY), nonreimbursable technical-cooperation funding has also been requested to support implementation of the proposed investment program.

II. OBJECTIVES

- 2.1 The objectives of the proposed technical-cooperation operation are: to strengthen the cooperative's institutional and technical capacity by promoting the use of appropriate methodologies to improve the production processes of its members, and expanding and upgrading its bulking and marketing systems so that it will become financially sustainable and self-sufficient; and to offer assistance in providing better and more efficient services to support small farmers in its sphere of influence.

III. PROGRAM DESCRIPTION

- 3.1 An institutional and operational analysis of the cooperative has detected the need to focus technical-cooperation activities on improvements in the production processes of small farmers through the provision of technical advisory services, and to upgrade the cooperative's processing and marketing methods.
- 3.2 To attain the proposed objectives the cooperative will require technical-cooperation funding to contract the following specialized services:
 - a. A general technical coordinator who is a marketing specialist, for 36 months, who will be responsible for coordinating the other consultants and ensuring that the objectives of the technical-cooperation component are attained. The coordinator will also be responsible for ensuring that female heads of

households are given special consideration when new job opportunities are created with funds under this operation.

- b. A technical coordinator who is an agricultural expert with experience in extension and marketing services, for 24 months, who will design the production plans in cooperation with the expert in marketing and with small farmers. This coordinator will also train the agricultural technicians and supervise their work.
 - c. A crop specialist, for 24 months who, in addition to advising the cooperative, will be responsible for technical training for farmers, ensuring that their technical crop management is good and that the quality of their produce improves.
 - d. A soil expert, for 24 months, who will coordinate with the other experts and, together with the crop specialist, will work on improving production processes, pest control, crop rotation, fertility, yield and efficiency in land use, ensuring that the soil does not deteriorate and that farming practices contribute to environmental conservation.
 - e. A systems analyst, for three months, who will design a system to monitor the cooperative's marketing activities effectively. The system will be compatible with the cooperative's accounting systems, and will also compile data broken down by gender and age, in order to produce reports containing indicators that quantify the increase in participation by women in the cooperative's economic activities, and improvements in their income after this operation gets under way.
 - f. An industrial expert, for 24 months, who will advise on the installation of the equipment and machinery to be used in the cooperative, and train local personnel in its use and maintenance.
 - g. An expert in evaluation, for two months, to prepare: (i) the study that will establish the specific evaluation benchmarks to serve as the baseline for evaluating the CNY's performance and achievement of desired results; and (ii) the mid-term review of the program.
- 3.3 A total of 137 professional/months of specialized advisory services will be required.
- 3.4 The technical-cooperation operation includes procurement of computer equipment, vehicles, funds for teaching materials, local transportation, and training courses. The cost of the equipment and materials to be procured with technical-cooperation funds will be less than 30% of the Bank's contribution to the cooperative.

- 3.5 The technical-cooperation funding will also be used to provide training and technical assistance for small-scale farmers. The training events will involve field days for technical demonstrations on farms, to which neighboring farmers will be invited. The technical assistance will be provided through regular, systematic visits to farms, where farmers will be given advice on the most appropriate soil management practices. Follow-up will be provided on the skills and technologies acquired during the training events. These activities justify the purchase of an all-terrain vehicle to carry materials and small demonstration equipment, and motorcycles to be used by the technical experts for field visits. (It should be noted that most of the roads are not graveled which makes them difficult to travel during the rainy season.)
- 3.6 As a complement to these activities, the operation also provides for the preparation of information booklets (based on simple drawings and texts in Guarani), which are intended to support the training activities. Tools will be procured to permit the technical experts to conduct field demonstrations.
- 3.7 The technical-cooperation component will also set aside US\$10,000 of the funding to cover the transportation and meal costs to enable farmers who live at a distance to attend technical courses and on-farm demonstrations during the field days. These seminars and training events will provide technical support to improve the production, yield, and quality of farm produce to be sold commercially, and will involve sustainable land-use technologies.

IV. COST AND FINANCING

- 4.1 The total cost of the nonreimbursable technical-cooperation operation to be financed by the Bank is US\$230,000 equivalent, broken down as follows:

Nonreimbursable technical cooperation (in US\$)			
	US\$/month	Consultant/ months	Total
2. Individual consultants			
2.1 Fees			
• General technical coordinator (marketing specialist)	1,200	36	43,200
• Technical coordinator (agricultural expert)	1,200	24	28,800
• Crop specialist	1,000	24	24,000
• Soil specialist	1,000	24	24,000
• Systems analyst	3,100	3	9,300
• Industrial technician	700	24	16,800
26. General support			
6.3.1 Purchase of equipment			5,100
6.3.2 Purchase of vehicles			36,200 <u>1/</u>
6.3.3 Teaching materials and demonstrations			12,600 <u>2/</u>
8. Evaluations	10,000	2	20,000
8.2 Fees (project review)			
3.2 Training meetings	10,000		10,000 <u>3/</u>
Total		137	230,000

1/ See paragraph 3.5

2/ See paragraph 3.6

3/ See paragraph 3.7

Note: The cooperative has hired two agricultural technical high school graduates to work together with the team of specialists.

V. PROGRAM IMPLEMENTATION

- 5.1 The technical-cooperation program will be conducted in parallel with the investment program to be approved simultaneously. The cooperative will sign a technical-cooperation agreement with the Bank and will be responsible for implementing the operation.
- 5.2 The cooperative will hire the consultants, who must have recognized experience in their specialties. Prior to hiring them, the cooperative will present terms of reference to the Bank's satisfaction and the names and professional histories of the consultants. Contracting will be carried out in accordance with the terms of reference and with the applicable Bank procedures, rules, and policies.
- 5.3 The cooperative will be responsible for procuring the equipment and other goods required to attain the program's objectives, which will

be done in accordance with the applicable Bank procedures, rules, and policies.

- 5.4 Based on terms of reference previously approved by the Bank, within the first three months of the project the CNY will contract, with technical-cooperation funding, for a study establishing specific evaluation benchmarks that are both relevant and verifiable, clearly stating the sources and methods of obtaining the information to be used to evaluate the CNY's performance and achievement of desired results. The indicators should chiefly cover production, marketing, management, and gender issues.
- 5.5 The evaluation benchmarks will be used in preparing annual management plans for the cooperative as tools for project administration, for preparing the semiannual progress reports and the mid-term evaluation, and for measuring efforts under the program to encourage more participation by women.
- 5.6 A mid-term evaluation of the CNY will be performed when 50% of the funds have been disbursed. The purpose will be to track compliance with the rules and to evaluate progress and problems in order to make any adjustments necessary to attain the objectives. The terms of reference for the evaluation will also state that the consultant is to evaluate the technical-cooperation component and its impact on strengthening the cooperative, and to determine the CNY's capacity to absorb the consultants contracted for 36 and 24 months. The Bank will review the results and recommendations of the evaluation which will be performed by external consultants to be hired directly by the Bank with funds from the parallel technical-cooperation operation. If the results of the evaluation are unsatisfactory, the Bank will not authorize further commitments of funds until steps have been taken to address the problems encountered.
- 5.7 The cooperative will be responsible for providing the necessary counterpart personnel, facilities, and support services and materials.
- 5.8 The technical-cooperation operation will be carried out over 36 months starting from the effective date of the loan and technical-cooperation agreements.

VI. DISBURSEMENTS AND ADVANCES OF FUNDS

- 6.1 Disbursements will be made over 48 months after the date on which the agreement is signed. At the cooperative's request, an advance of up to 10% of the technical-cooperation funds may be made to ensure the liquidity necessary to carry out the program.

VII. REPORTS

- 7.1 Within 60 days following the end of each six-month calendar period, the consultants will present progress reports to the cooperative, with copies to the Bank, showing the headway made in their activities. They are also required to present final reports within 30 days after the end of their contracts, describing the results achieved and making recommendations for future actions.
- 7.2 The cooperative will present the Bank with an evaluation of the reports and of the work performed by each consultant within 60 days after receiving the reports.
- 7.3 The cooperative will present the Bank with a financial report showing how the nonreimbursable contribution from the Bank was used, certified by independent auditors acceptable to the Bank, within 120 days after the end of the calendar year in which the final disbursement is made.

VIII. SUPERVISION AND RESPONSIBILITY

- 8.1 The cooperative will be responsible for supervising the consultants' activities. The Bank, through its Country Office in Paraguay, will supervise the technical-cooperation program.
- 8.2 The Country Office will bear technical and basic responsibility for the proposed operation.

IX. EVALUATION CRITERIA

- 9.1 A mid-term evaluation will be performed of the technical-cooperation program simultaneously with the evaluation of the loan program, when 50% of the funds have been disbursed. Fulfillment of the objectives, as described in paragraph 2.1 of this annex, will be examined in the report. The Bank will review the results and recommendations of the mid-term evaluation, which will be performed by external consultants to be hired directly by the Bank with technical-cooperation funding. If the results of the evaluation are unsatisfactory, the Bank will not authorize further commitments of funds until steps have been taken to address the problems encountered.

X. JUSTIFICATION AND RECOMMENDATION

- 10.1 The proposed technical-cooperation program satisfies the requirements established by the Bank for granting nonreimbursable technical-cooperation funding, since it is intended to strengthen and technically consolidate an institution devoted to the economic and social development of low-income small farmers.
- 10.2 The cooperative does not have the funds required to finance the activities planned under the proposed technical-cooperation program. The activities will contribute directly to good execution of the loan program and attainment of its objectives. It is necessary to reinforce the cooperative's operating and technical underpinnings.
- 10.3 The technical assistance will provide the cooperative with procedures and tools to improve its services and coverage for microentrepreneurs. Agricultural technical assistance is important for rural microproducers, who lack the necessary training to boost their production, reduce risks, and protect the environment.
- 10.4 For the above reasons, the Management of the Bank recommends that the Board of Executive Directors approve the nonreimbursable technical-cooperation program proposed in this plan of operations.

Cooperativa La Norteña Ycuamandyyu
INVESTMENTS AND OPERATING CAPITAL

Description of the main investments

Buildings:	US\$
Roofed receiving area (6 x 7 meters)	5,000
Foundation for two 300-ton capacity silos	34,000
Foundations for the drying and pre-cleaning machine	1,500
Elevator shaft	1,500
Foundations to anchor the elevator cables	1,500
Exterior lighting	4,000
20 x 30 meter shed with concrete floor	27,500
Total	75,000

Internal and access roads	US\$
Perimeter fence (600 meters) and entrance gate	6,000
Excavation, filling, compacting, gravel for the access and internal roads (500 m ²)	19,000
Total	25,000

Machinery and equipment	US\$
2 300-ton metal silos	40,000
3 grain elevators	10,000
1 grain cleaner	6,000
Miscellaneous accessories	4,000
1 grain dryer	20,000
Assembly of installations and construction of an oven for the dryer	10,000
Equipment to move cargo, miscellaneous tools	10,000
Total	100,000

Initial operating capital	US\$
Purchase of products:	
Corn (600 tons)	45,000
Maté (60 tons)	34,000
Cedron (15 tons)	21,000
Raw materials for production of concentrated feed (bone meal, minerals, vitamins, antibiotics, soybean pellets)	50,000
Total	150,000

PROPOSED RESOLUTION

PARAGUAY. FINANCING AND TECHNICAL COOPERATION TO THE COOPERATIVA DE PRODUCCION AGROPECUARIA E INDUSTRIAL LA NORTEÑA YCUAMANDYYU LIMITADA
WITHIN THE PROGRAM FOR FINANCING SMALL PROJECTS

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreement or agreements as may be necessary with the Cooperativa de Producción Agropecuaria e Industrial La Norteña Ycuamandyyú Limitada of the República del Paraguay, to grant it, within the Program for Financing Small Projects, approved by Resolutions DE-85/78 and DE-147/79: (a) reimbursable financing for the execution of the program referred to in Document PR- ; and (b) nonreimbursable technical cooperation for the execution of the program, in accordance with Annex I of said document.

2. That up to the equivalent of US\$500,000 in guaraníes, is authorized for the purposes indicated in paragraph 1(a), and up to the equivalent of US\$230,000 in guaraníes, for the purposes indicated in paragraph 1(b), both chargeable to the net income of the Fund for Special Operations.