

SUPPORT FOR BEEKEEPING ACTIVITIES AMONG DAIRY-FARMING FAMILIES

(TC-99-11-18-7-UR)

EXECUTIVE SUMMARY

Executing agency: Asociación Nacional de Productores de Leche [National Dairy Producers Association] (ANPL)

Amount and source of financing:	US\$	Euros
Financing:	475,000	543,353
Technical-coop. funding:	125,000	142,988
Local contribution:	<u>155,000</u>	<u>177,305</u>
Total:	755,000	863,646

The funding will be drawn on the European Economic Community Special Fund for Financing of Microenterprises (EM). The IDB funding will be disbursed in local currency but, for accounting purposes, commitments will be recorded in euros.

* Exchange rate: US\$1 = 1.1439 euros (as of 5 October 2000)

Terms and conditions:	Amortization period:	15 years
	Grace period:	5 years
	Execution period:	36 months
	Disbursement period	42 months
	Interest rate:	5% local currency
	Currency:	Uruguayan pesos

The grace period will apply to amortization of principal only, not to interest. The interest rate charged will include a percentage for maintenance of value, to be computed on the basis of the annualized change in the consumer price index for the most recent six-month period, as published by the Central Bank or other official source.

Objectives: The objective of this pilot project is to raise the socioeconomic status of small-scale dairy producers in the departments of San José and Flores by promoting activities that offer comparative advantages in terms of production and marketing.

The specific objectives of the project are: (i) to help young people and women from low-income milk-producing families to become involved in beekeeping; and (ii) to supplement milk production with beekeeping, a new and profitable activity.

Description:

The project has a financing component to support beekeeping as well as a technical-cooperation component to provide the technical assistance that is needed to guarantee the success of this new activity.

The proceeds of the **financing component** will be used to set up a *credit program*, whereby financing will be provided for the acquisition of beehives, colonies, and equipment for gradual introduction of this new activity.

The financing of a number of beehives to ensure proper growth and sustainability calls for an ambitious credit program, which would be cofinanced by the producers themselves, a financial institution (Cooperativa Nacional de Ahorro y Crédito, COFAC), and the Bank.

ANPL does not have any direct experience in credit management. Whenever it has requested services of this kind for its members, it has sought to establish partnerships with financial institutions that could provide such services. Accordingly, this component will be administered by a financial institution (COFAC), that has a number of advantages in this area; in particular: (i) it has entered into financial arrangements with ANPL; (ii) it has an extensive network of branches across the country; (iii) it has an active portfolio in the agricultural sector; and (iv) it is prepared to invest part of its portfolio in credit assistance for project beneficiaries.

Also, an agreement will be entered into with Central Apícola Cooperativa (CAC), an organization that markets most of the honey produced in Uruguay, under an arrangement whereby it receives honey, credits the amount against the credit installment, and transfers the corresponding amount to ANPL's account with COFAC.

The proceeds of the nonreimbursable **technical-cooperation component** will provide technical assistance and training for: (i) strengthening ANPL through technical support for the project executing unit; and (ii) offering project beneficiaries basic training for starting up and specializing in beekeeping.

Calls for tenders will be issued to contract training and technical assistance services, based on the most attractive bid in terms of quality and price. Firms listed as suppliers of such services with the Farm Development and Restructuring Program (PREDEG) of the Ministry of Livestock, Agriculture, and Fisheries will be invited to take part in

the bidding. The basic objective will be to train small farmers engaged mainly in deciduous fruit growing, market gardening, grapes and wine production, livestock-raising, and beekeeping. The program has countrywide coverage, with a membership of 2,411 producers. It offers specialized technical, advisory, and support services in all of the areas mentioned.

**Environmental
and social
review:**

The project was reviewed by the Committee on Environment and Social Impact on 5 May 2000. The Committee's recommendations are reflected in the project design.

Beneficiaries:

The project seeks to assist 150 small producers in introducing beekeeping by providing them with the necessary credit financing for the initial investment so that they can gradually purchase up to 75 beehives, the basic equipment, and drums for collecting honey.

The project beneficiaries will be mainly young people and women from rural families with gross annual incomes of under US\$2,500.

If successful, the project will help to: (i) improve the living standards of small milk-producing families; (ii) bring women into farming activities; and (iii) offer young people the opportunity to start up a new productive activity.

Risks:

There are four main risks that could adversely affect the viability of the project: (i) the credit beneficiaries may not take the obligation to repay the credit seriously, mainly by marketing the honey through channels other than those established under the agreement; (ii) beneficiaries may drop out of the project; (iii) factors that could adversely affect the profitability of the project, such as fluctuations in the price of honey; and (iv) natural disasters.

To mitigate these risks, COFAC, an institution specializing in microentrepreneur credit management, will administer the financing component, at least during the first few years, and an interagency cooperation agreement has been entered into by ANPL, COFAC, and CAC as marketing agency. Also, the technical assistance and training supplied by the specialized institutions is expected to help minimize the technical risks and the likelihood of beneficiaries dropping out of the project. Lastly, there is nothing the beneficiary microproducers can do to mitigate the risks of price fluctuations and natural disasters. However, with respect to the price of honey, the projections were based on conservative estimates that do not include the value added by organic production of honey, since—in terms of financial viability for the producer—this risk is expected to have been taken fully into account.

The Bank's strategy for the country/region and sector:

The Bank's strategy in Uruguay rests on: (i) support for initiatives to boost competitiveness and private investment including in particular support for microenterprise development and competitiveness; (ii) support for the process of State reform and reducing its influence on the economy; and (iii) support for initiatives to increase equity and bring the most vulnerable groups into the development process. The present proposal fits in with points (i) and (iii) of this strategy.

The proposal is also in keeping with the general objective of the Bank's microenterprise development strategy (document GN-1938-3), which seeks to expand economic opportunities in Latin America and the Caribbean through the sustainable and dynamic development of microenterprise.

Special contractual clauses:

As conditions precedent to the first disbursement of the financing component: (i) the Credit Regulations must be updated to bring them into line with the contractual conditions of the funds administration agreement signed with COFAC and CAC; (ii) the letter of agreement must be signed between ANPL, COFAC, and CAC establishing the terms of their agreement and the responsibilities and obligations of each party in implementing the project; (iii) it must be demonstrated that the credit beneficiaries are taking part in the beekeeping training program; and (iv) the baseline data for the first 50 producers must have been duly documented.

As a condition precedent to the first disbursement of the technical-cooperation component, the following documentation must have been submitted to the Bank: (i) the conditions for the bidding in which PREDEG-registered firms specializing in beekeeping will be invited to take part; and (ii) a timetable outlining the activities to be carried out by the consultants.

Although project execution was set for 36 months, the assistance model proposed in this pilot project will not be fully validated for five years. The commitment of ANPL and COFAC to continue contributing the necessary resources so that the 150 producers are eventually able to have 75 beehives will be a contractual condition.

The type of projections made for the financing and the technical-cooperation components are based on funding being made available immediately for this project. Accordingly, the Bank will set up a revolving fund of up to 20% of the amount of each component.

Evaluations and reports:

For the first three years after the first disbursement of the financing component, ANPL will submit annual reports within 30 days after the close of the financial year describing the status of the project and the benefits achieved, which must conform to the logical framework

matrix and the performance indicators set out therein. Any variations of more than 15% in the results will be grounds for suspending further disbursements until such time as the situation is corrected.

A midterm evaluation will be performed by a consultant—to be hired by the Bank out of the technical-cooperation funding—when 50% of the financing component has been disbursed or after month 18, whichever occurs first. Presentation of this report, to the Bank's satisfaction, will be a condition for all subsequent disbursements. This evaluation will review all aspects of the project components, comparing the incomes of milk-producing families before and after the project, the use of project funds, the local counterpart contributions, the number of credits granted, the number of beneficiaries, and the number of beehives financed. Lastly, it will describe how all aspects of the technical-cooperation component have evolved.

This report should indicate any corrective action that is needed in order to ensure project execution and make recommendations on suspending disbursements if structural shortcomings are found to exist in execution. Disbursements will be resumed once the executing agency demonstrates that it has taken the necessary steps to correct any anomalies that have occurred.

The Bank will use funds from the final disbursement to hire a consultant to perform a final evaluation of the project.