

**TECHNICAL COOPERATION PROPOSAL:**  
**IMPROVING THE COMPETITIVENESS OF MICROENTERPRISES**  
**IN THE WOOD INDUSTRY**

**CÁMARA NACIONAL FORESTAL (CNF)**

**(TC-98-11-71-3-PE)**

**EXECUTIVE SUMMARY**

**EXECUTING AGENCY:** Cámara Nacional Forestal [National Forestry Association] (CNF)

<b>AMOUNT AND SOURCE:</b>	IDB:	US\$	EUROS*
	Nonreimbursable technical cooperation:	250,000	231,975
	CNF:	<u>134,000</u>	<u>124,339</u>
	Total:	384,000	356,314

The resources for the technical cooperation operation will come from the European Economic Community Special Fund for the Financing of Microenterprises. The commitment of these resources by the Bank will be recorded in euros, and disbursements will be made in local currency.

\* Exchange rate: US\$1.00 = 0.9279 euros

<b>FINANCIAL</b>	Modality:	nonreimbursable
<b>TERMS AND</b>	Execution period:	24 months
<b>CONDITIONS:</b>	Disbursement period:	30 months

**OBJECTIVES:** The general objective of this pilot project is to make microenterprises and small businesses in the wood subsector more competitive and improve their revenue, while promoting efficient extraction and manufacture of wood products. The specific objectives are to: (i) improve the efficiency of the wood product extraction, processing, and marketing chain through a strategic alliance among producers of raw material and carpenters; (ii) transfer technology, promote innovation, and improve processing methods through training and technical and business advisory services; (iii) improve the flow of subsector trade information to producer groups and the latter's use thereof; and (iv) strengthen the operating capacity of the CNF and two sector trade associations to offer services to member microentrepreneurs.

The great importance of the wood and forestry sector in the Peruvian economy is obvious as is its potential for generating jobs and revenues for low-income groups. This, together with the remediable limitations and constraints faced by microentrepreneurs and small-scale producers represent a unique opportunity to introduce sustainable improvements that may have a significant impact.

The Bank's involvement through the activities in this pilot project would allow the microentrepreneurs to acquire greater knowledge and skills, apply improved technologies, and use expanded trade information to gain access to new markets and generate additional economic benefits. In addition, by strengthening two trade associations that group together microentrepreneurs and organize their activities and the establishment of a strategic alliance between them will allow them to lay the foundation for a sector-wide network that takes advantage of collective activity and economies of scale on a sustainable basis.

**DESCRIPTION:**

Through the CNF, the Bank's resources will support the following activities: (i) formation of an alliance between the Asociación de Extractores Madereros y Reforestadores de Ucayali [Ucayali Association of Wood Extractors and Reforesters] (AEMRU) (producers) and the Asociación de Industrias de la Madera de Villa El Salvador [Association of Wood Industries of Villa El Salvador] (ASIMVES) (carpenters); (ii) training of 150 workers in 50 microenterprises from each association; (iii) on-site technical and business advisory services for 50 microenterprises from each association; and (iv) startup of three windows for technical and commercial support for microentrepreneurs.

The training and technical advisory services will have a direct impact on improving product quality, making the production processes more efficient, decreasing costs, improving the management of the microenterprises, and making more rational and sustainable use of the natural resources from the environmental standpoint. As a result, the producers on both sides of the productive chain will become more competitive and their sales and revenues will therefore increase.

In addition, the activities of the windows in the area of outward-oriented marketing will be crucial to fulfilling the project's potential, by completing the

production-processing-marketing chain. Using the supply and demand analyses, and the marketing plan prepared under the project (see Annex I), the windows and the clearinghouse (see paragraph 2.25) will help the associations and the strategic alliance to put into practice a growth-oriented business plan in accordance with the alliance's productive system. The clearinghouse will also help channel and use commercial information on bid procedures, the possibility of subcontracting production, market trends, designs, qualities, and technological innovations that will strengthen the alliance's capacity to gain access to new markets and meet the requirements of a competitive market, thereby increasing sales.

**ENVIRONMENTAL  
CLASSIFICATION:**

At its meetings of May 14, and July 27, 1999, the Committee on Environment and Social Impact reviewed the project profile. The Committee's recommendations were incorporated into the design of the operation.

**BENEFICIARIES:**

The direct beneficiaries will be some 400 producers involved in 100 microenterprises in Pucallpa and Villa el Salvador (Lima). These microenterprises employ from one to seven people and generate monthly profits ranging from US\$200 to US\$400 each. To the extent that the project activities show positive results, it is hoped that more producers will join the associations and benefit from the activities.

**RISKS:**

The main risk is that the associations will not achieve the desired level of institutional administration and productive capacity in the end beneficiaries to ensure sustainability of the scheduled investments and proposed objectives. To offset this risk, the technical cooperation operation will strengthen mechanisms of institutional organization, technology transfer, and training with producers. The CNF's leadership capacity in terms of the change that the project intends to make in the target sector will thereby be strengthened. The risks inherent in greater administrative activity in both associations will be offset by hiring a coordinator for the projects and the operators of the windows will be trained by experts the hiring of which is provided for under the project.

**THE BANK'S  
COUNTRY STRATEGY:**

Support for small businesses and microenterprises is one of the priorities of the Bank's strategy for Peru (GN-1992-1). The strategy of supporting the development of an institutional framework and of policies that will ensure the rational management of

natural resources, including forest resources, is also mentioned.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

The first disbursement will be subject to the presentation of the following documentation to the Bank's satisfaction:

(i) A plan of operations for the first year that includes the final terms of reference for the planned consulting services, a schedule of activities, monthly training targets, technical advisory services, and commercial agreements, and performance indicators regarding the economic benefits to be achieved by the producers in both associations.

(ii) A formal agreement between the two associations and the CNF setting out mutual commitments, particularly those that the associations will have to assume to mobilize their members, that provide an appropriate framework for the formation of the strategic alliance.

(iii) A report from each association, authenticated by a professional accountant, showing that their respective members are active and up to date, and providing details of regular economic contributions (association fee).

**DISBURSEMENTS:**

An advance of funds of up to 25% of the total amount of the resources from the Bank may be provided. After the first disbursement and once the CNF has organized the project activities, purchased equipment, hired experts, and clearly visualized the sequence of the most appropriate actions, it will present a proposed disbursement schedule to the Bank. While 55% of the funds could then be disbursed, disbursement of the remaining 20% would be subject to the results of the midterm evaluation to be conducted 12 months after the start of the project.

**MIDTERM  
EVALUATION:**

A midterm evaluation will be conducted 12 months after project execution begins. The objective of this evaluation will be to review the accomplishments of project execution and perform an analysis of the environmental and social aspects of the project (see paragraphs 4.9 to 4.12). The result of the midterm evaluation will determine future disbursements under the program.

**RATIONALE:**

The project is justified because: (i) it will generate direct economic benefits of US\$193,000 for the participating microentrepreneurs during the first 15 months of operation, with prospects for continuing

increases in the future; (ii) it will develop a network of subsector microentrepreneurs who will be technically more qualified and will have acquired a more entrepreneurial vision, through 3,820 hours of training and 2,200 hours of on-site technical advisory services to 100 sector microentrepreneurs; (iii) it will act as a catalyst for the reactivation of ASIMVES and AEMRU to offer sustainable services of use to their members; (iv) it will have a positive impact on the environment through improvements in the rational use of forestry resources; and (v) it will serve as a pilot experience to demonstrate the CNF's capacity to replicate similar initiatives on a larger scale.

This project is expected to serve as a model of a strategic alliance that could be replicated on a larger scale both by the CNF and its other members in the wood sector, as well as by other sectors of the economy.