

**COLOMBIA**  
**PRODUCTION AND MARKETING ALTERNATIVES FOR**  
**FARMERS AND INDIGENOUS COMMUNITIES IN TUNÍA**

(TC/SP-99-12-0-21-CO)

**EXECUTIVE SUMMARY**

**Executing agency:** Corporación para el Desarrollo de Tunía (CORPOTUNÍA)

<b>Amount and source:</b>	<b>US\$*</b>	<b>Euros (€)</b>
IDB:		
Financing:	240,000	283,688
Technical cooperation	145,000	171,395
Local contribution:	<u>50,000</u>	<u>59,102</u>
Total:	435,000	514,184

The resources for the financing component will be drawn on the European Commission's Special Fund for the Financing of Microenterprises (EM) and the technical-cooperation resources will be drawn on the European Special Fund for the Financing of Small Productive Projects (EP). For accounting purposes, the commitment of these resources by the Bank will be recorded in euros.

\* Exchange rate: €1 = US\$0.846 (21 November 2000)

<b>Terms and conditions:</b>	Amortization period:	10 years
	Grace period:	5 years
	Disbursement period:	42 months
	Execution period:	36 months
	Interest rate:	0%

The grace period will apply only to repayment of the principal. The financing will be subject to maintenance of value in Colombian pesos, based on the annualized consumer price index for the previous six months, using Central Bank data.

**Issue to be addressed:** The municipios of Piendamó, Silvia, Caldono, and Morales in the department of Cauca have a population of roughly 100,000 inhabitants, many of them members of the Guambiana and Paez indigenous groups.

The use of alternative synthetic fabrics has triggered a significant decline in demand and prices for the sisal-like fiber crop *fique*, which has traditionally been one of the area's agricultural mainstays. Despite this trend, many *fique* farmers have not moved to alternative crops and continue to grow *fique* under disadvantageous conditions.

Some members of the group, many of them women, have a long tradition of growing aromatic, medicinal, and seasoning plants for domestic use or for sale on local markets.

CORPOTUNÍA's successful efforts to provide indigenous women with techniques for growing these plants coupled with the findings of a study on demand indicate that production of such plants at the microentrepreneurial level could provide a viable and sustainable alternative to *fique* growing and supply an underserved market in Cali and other Colombian cities.

**Objectives:**

The project seeks to bring about a sustainable increase in revenue among small farmers who are members of indigenous and rural communities in four municipios of Cauca department: Piendamó, Silvia, Caldonó, and Morales. This increase will be generated by investing in the production, processing, and marketing of farm products, especially aromatic, medical, and seasoning plants as well as other crops.

Specifically, the project will: (i) raise the revenue levels of local mestizo and indigenous farmers by introducing and financing the cultivation of these and other marketable plants to replace the traditional cultivation of *fique*; (ii) foster profitable production of these crops through a processing and marketing agribusiness in which CORPOTUNÍA and the farmers are participants; and (iii) promote investment in the adoption of new techniques and crops validated by CORPOTUNÍA by disseminating technical assistance and conducting individual feasibility studies.

**Description:**

**The financing component (US\$240,000) will fund a:**

- a. *Credit program (US\$240,000). Through a trust fund administered by a local financial institution, farmers will receive financing for working capital and fixed assets in the form of individual or group loans for the production, processing, and marketing of aromatic, medicinal, and seasoning plants, dried, fruits, brown sugar (panela), and other crops.*

The **nonreimbursable technical-cooperation component** (US\$145,000) will fund the following activities:

- a. Conduct an in-depth market study to identify and quantify demand for dried plants and other crops, as well as ways of establishing links with markets for these products.
- b. Certify and register extension agents to work with the project, both those employed by CORPOTUNÍA and others.
- c. Transfer technology for the cultivation, processing, and marketing of aromatic, medicinal, and seasoning plants to small-scale farmers by means of the certified, registered extension agents, who will also disseminate new agricultural products validated by CORPOTUNÍA.
- d. Foster productive investment on the basis of viability studies to be conducted among farmers who have received technical assistance in project-targeted crops.
- e. Establish a legally organized producers association for these products and an agribusiness in which the association could be a member.
- f. Invest in equipment and working capital for an agribusiness to dry and market aromatic, medicinal, and seasoning plants.
- g. Operate a laboratory to certify that project-targeted crops are contaminant-free, promote the use of preventive health measures for growing these crops, and identify the need for remedial measures as necessary.

**Environmental and social review:**

The Committee on Environment and Social Impact reviewed this operation at its 28 July 2000 meeting and made recommendations with regard to environmental practices associated with the crops and irrigation systems. It was also recommended that a simple environmental management plan be included. These recommendations are reflected in the project's plan of operations.

**Beneficiaries:**

The direct beneficiaries will be the Guambiana and Paez indigenous communities and mestizo farmers in the municipios of Piendamó, Silvia, Caldon, and Morales.

Some 2,000 subsistence farmers in the area also stand to benefit from this project.

**Risks:**

The key risk associated with this project is CORPOTUNÍA's limited experience with managing a microcredit fund. To mitigate this risk, the fund will be set up as a trust overseen by a local financial institution.

A second risk would be the possible conflict of interest between CORPOTUNÍA and the producers association in the management of the plant drying and marketing company. To mitigate this risk, the company will be set up as a legal entity and its board of directors will include representatives of both the association and CORPOTUNÍA.

A third risk is that poor harvest or low prices could jeopardize the paying back of loans. To mitigate this risk, the CORPOTUNÍA specialists who will be offering training and technical assistance will only disseminate technologies and crops that have already been validated by CORPOTUNÍA and will promote diversification of sources of revenue. At the same time, the credit committee of the financial institution selected to administer the credit program will assess the existence of alternative income sources to ensure repayment in the event a specific heading is affected by poor harvests or prices.

**Strategy of the Bank and the government:**

The Colombia country paper (document GN-2052-1) of 20 July 1999 proposes supporting investment for rural microenterprise as a way to mitigate poverty and raise the population's standard of living. The Bank would also support a restructuring of agricultural production by promoting the replacement of crops with those that present local competitive advantages.

Since the project will benefit small-scale farmers (many of whom are members of indigenous communities), it will be supporting one of the Bank's priority sectors in its efforts to combat poverty.

**Rationale:**

The project is justified in that it taps the institutional strengths of CORPOTUNÍA and producer associations to build partnerships that will raise the income levels of the area's rural and indigenous populations.

**Special contractual clauses:**

As conditions precedent to disbursement of the reimbursable financing component, CORPOTUNÍA is to present the following items to the Bank's satisfaction: (i) an agreement signed by CORPOTUNÍA and the financial institution selected to administer the credit program, and (ii) the findings of an initial situation assessment of the beneficiaries and of a control group that will not receive benefits under the project, including such elements as means of production, assets, level of unmet basic needs, and income levels.

As conditions precedent to disbursement of up to 60% of the technical-cooperation funding, CORPOTUNÍA is to present the following items to the Bank's satisfaction: (i) terms of reference for the marketing study; (ii) evidence of legal title to the land on which the agribusiness is to be built; (iii) detailed business plan for project activities; and (iv) proposals from three financial or microcredit

institutions to administer the credit program; if it is not possible to obtain three proposals, the Bank must first be consulted prior to making a decision.

As a condition precedent to disbursement of the rest of the technical-cooperation funds, CORPOTUNÍA is to have begun disbursing the reimbursable financing.

**Reports and evaluations:**

CORPOTUNÍA is to submit progress reports to the Country Office within the 60 days following the close of each six-month period and a final report within the 60 days following disbursement in full.

The reports are to include an analysis of compliance with performance indicators as well as progress made with the business plan, specifically: (i) number of loans and interest rates set by the trust administrator; (ii) performance indicators of CORPOTUNÍA, including output and marketing by the agribusiness and the microcredit trustee; (iii) information on the number of beneficiaries; and (iv) audited financial statements, including CORPOTUNÍA's contribution to the budget headings.

Once 50% of the reimbursable financing component has been disbursed, a midterm evaluation will be conducted to measure: (i) progress with adoption of techniques and crops vis-à-vis performance indicators; (ii) use made of credits; (iii) financial performance indicators of the credit program; (iv) progress with the adoption of CORPOTUNÍA-validated crops and techniques; (v) processing and sales volume of the agribusiness to dry and market project-targeted crops; and (vi) lessons learned and recommendations for improving the project.

Once 100% of the financing component has been disbursed, a final project evaluation will be conducted to measure and document: (i) the project's impact on the groups analyzed in the initial evaluation; (ii) the outcomes in terms of reaching the project's objectives; and (iii) lessons learned.