

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

DOMINICAN REPUBLIC

**COMPETITIVE INTEGRATION OF SMALL AND MEDIUM-SIZED
AGROFORESTRY ENTERPRISES**

(DR-M1009)

DONORS MEMORANDUM

This document was prepared by the project team consisting of: Maria Teresa Villanueva (SDS/MSM), Project Team Leader; Daniel Shepherd (MIF); Miguel Coronado (LEG/OPR); Antonio Gaspar (MIF/EDU); Armando Chamorro (COF/CDR); Ramiro Carrasco (consultant); and Maria Raquel Trigo (SDS/MSM).

CONTENTS

I.	EXECUTIVE SUMMARY	1
II.	BACKGROUND.....	2
III.	PROJECT OBJECTIVES AND COMPONENTS.....	5
	A. Objectives	5
	B. Components and activities.....	5
IV.	COST AND FINANCING	8
V.	EXECUTING AGENCY AND EXECUTION MECHANISM	8
VI.	MONITORING AND EVALUATIONS	10
VII.	BENEFITS AND RISKS.....	11
VIII.	ENVIRONMENTAL AND SOCIAL IMPACTS	12

ANNEXES

Annex I	Logical framework
Annex II	Itemized budget

APPENDIX

Proposed resolution

INFORMATION AVAILABLE IN THE SDS/MSM TECHNICAL FILES

Operating Regulations

Terms of reference for project staff

Interinstitutional cooperation agreement between UAFAM and ASODEFOS

Figure illustrating the players involved in the value chain for the project's forest product and byproducts

CESI minutes

Project abstract

UAFAM bylaws and financial statements

ASODEFOS bylaws

Draft agreement between ASODEFOS and UAFAM

Letter of commitment from UAFAM for the counterpart contribution

Environment and Natural Resources Act (Law 64-00)

Forestry technical management standards

Decree establishing UAFAM

ABBREVIATIONS

ASODEFOS	Asociación para el Desarrollo Forestal Sostenible en la Cordillera Central [Association for Sustainable Forestry Development in the Central Cordillera]
CESI	Committee on Environment and Social Impact
CFD	Cámara Forestal Dominicana [Dominican Forestry Chamber]
FMP	Forest management plan
GTZ	Gemeinschaft für Technische Zusammenarbeit [German Agency for Technical Cooperation]
IDB	Inter-American Development Bank
MIF	Multilateral Investment Fund
PCR	Project completion report
PROCARYN	Upper Yaque del Norte River Basin Project
SEMAREN	Department of Environment and Natural Resources
SEP	Social Entrepreneurship Program
SMEs	Small and medium-sized enterprises
UAFAM	Universidad Agroforestal Fernando Arturo de Meriño

**COMPETITIVE INTEGRATION OF SMALL AND MEDIUM-SIZED
AGROFORESTRY ENTERPRISES
(DR-M1009)**

I. EXECUTIVE SUMMARY

Beneficiary country:	Dominican Republic	
Executing agency:	Universidad Agroforestal Fernando Arturo de Meriño (UAFAM)	
Beneficiaries:	Project activities and resources will directly benefit at least 180 small and medium-sized enterprises (SMEs) and 220 service providers involved in the production, processing, and marketing of forest products and byproducts in the project area, and will indirectly benefit home builders and makers of wood furniture and accessories, who will enjoy a reliable source of raw materials of competitive quality, at a better price, and in a range of sizes to fit their needs.	
Amount and source:	MIF (Window III-A)	US\$ 615,000 (67%)
	Counterpart funds:	<u>US\$ 305,000 (33%)</u>
	TOTAL:	US\$ 920,000 (100%)
Objective:	The overall objective of the project is to make small and medium-sized enterprises in the Central Cordillera more competitive and sustainable. The purpose is to establish a business association model that will enable SMEs in the forest production and processing chain to generate economies of scale and add value to their production and processing of forest products and byproducts.	
Terms:	Execution period:	48 months
	Disbursement period:	54 months
Special contractual clauses:	Special conditions precedent to the first disbursement are: (i) entry into force of the Operating Regulations; (ii) creation of the project advisory council; and (iii) approval of the annual work plan.	
Exceptions to Bank policy:	None	

Social and environmental review:	The Committee on Environment and Social Impact (CESI) reviewed the project abstract on 22 June 2006 (meeting 25-06) and issued no recommendations.
Coordination with other development institutions:	The activities of the present project complement and will be coordinated with the Upper Yaque del Norte River Basin Project (PROCARYN) sponsored by the German Development Bank (KfW), the German Development Service (DED), and the German Agency for Technical Cooperation (GTZ).

II. BACKGROUND

- 2.1 **The agroforestry industry in the Dominican Republic.** While over 70% of the Dominican Republic's land area is suitable for agroforestry production and development, the industry is most prominent in the **Central Cordillera**, where the country's main watersheds lie. Before the General Environment and Natural Resources Act (Law 64-00) was passed in 2000, the country had many restrictions limiting the sustainable use of forest resources, leading companies involved in wood processing to import almost all locally consumed forest products, as local supply is limited and of inferior quality. Current annual imports are approximately 275 million dollars, or 623,000 cubic meters of wood. Over the last 14 years, wood imports have risen at an average annual rate of 11.4%.
- 2.2 **Actors in the agroforestry production and processing chain in the Central Cordillera:** The area covers some 75,000 hectares, of which 11,200 hectares are planted with pine with potential for agroforestry development activities. The Jarabacoa area has some 204 registered small and medium-sized enterprises (SMEs) involved in agroforestry activities.¹ This group is composed of small and medium-sized agroforestry producers, sawmills, processors, distributors, and forest utilization service providers, among others. Although this area probably has the capacity to sustainably produce approximately 350,000 cubic meters of lumber, estimated production is currently only one half that amount. After minimal processing, this lumber is sold mainly through hardware merchants in Santo Domingo and Santiago, and is used in the construction of homes, furniture, floors, windows, doors, posts, etc.
- 2.3 **Problems faced by SMEs in agroforestry production:** Agroforestry SMEs have low productivity levels due to the high costs entailed in logging *individually*, to the lack of technical capacities and know-how for implementing sustainable forestry management plans (FMPs), and to the absence of a medium-term vision for the forest resources management. To operate legally, SMEs need large investments to

¹ Small and medium-sized agroforestry producers have from 10 to 100 hectares of natural or plantation forest, own the land they log, and generally engage in other farming activities as well.

prepare the FMPs, obtain forestry certification, take the steps to obtain logging rights, pay the forest regents,² and cover other costs that SMEs cannot bear individually. Furthermore, the country does not currently have enough foresters with the training and experience to prepare the FMPs or serve as forest regents. All this prevents SMEs from growing sustainably in the forestry business, and poses a potential threat to their business relationships with the forest products processing companies.

- 2.4 **Problems faced by processing and marketing SMEs in the forestry industry,** The SMEs operating in the project area include some 15 providers of forest utilization services, 15 lumber mills, and approximately 300 artisans who require raw material. The lack of technology and insufficient technical know-how for enhancing value added to forest products considerably limits market opportunities. The sector's competitiveness is hampered by a limited processing capacity, poor quality and substandard cutting processes, inexact dimensions, drying problems and other problems related to the poor post-harvest handling of the lumber. The lumber mill SMEs use portable sawmills and bandmills and produce only rough lumber, and are unable to add further value to the product to make it more competitive, i.e. through classification, drying, impregnation, or utilization of forest plantation byproducts that are traditionally considered industry waste. These weaknesses are compounded by the lack of skills needed for the effective administrative, financial, and business management.
- 2.5 Currently, SMEs have no direct access to distribution channels for their wood—most of this region's lumber is sold through middlemen, and through a system that only favors the buyer. Rough lumber is sold by the piece and through informal channels. This does not allow for the volumes that would yield better sales prices.
- 2.6 **Strategic response for the upper Yaque del Norte river basin.** The regulatory restrictions in place over the last decade limited the development of the Dominican forestry sector, particularly the SME sector, which is why most lumber processing companies have had to import their raw material, despite their preference for the quality of local wood. The passage of Law 64-00 presents an opportunity to boost the consumption of locally produced lumber. Local forestry SMEs, however, need help to be able to develop partnerships, produce economies of scale, and offer marketable products. Such partnerships would enable them to implement and apply effective techniques and technologies to more efficiently tap forest resources and place them on the national market at competitive prices. This project would establish a business association model of rural development involving SMEs in this area that participate in the forestry production, processing, and marketing chain. The project should enable them to produce and process native wood³ that meets

² FMPs are overseen by specialized foresters called forest regents, who are licensed by SEMAREN.

³ Studies show that furniture makers prefer native wood over imported wood, but management and processing conditions need to be improved, allowing for an increase in current prices of 25% to 30%. José de Moya.

quality standards at competitive prices so they can mainly supply local makers of furniture, doors, windows, floors, and tourist cabins. For the purposes of this project, increased output should be easily absorbed by the local market. In the next few years, as the commodities sector matures, there may be export opportunities for this sector.

- 2.7 The Universidad Agroforestal Fernando Arturo de Meriño (UAFAM) has, since its founding, been supporting small and medium-sized agroforestry producers through programs on the management and utilization of forest products, implemented in coordination with the CFD, the Department of Environment and Natural Resources (SEMAREN), and the Upper Yaque del Norte River Basin Project (PROCARYN),⁴ the main entities supporting the sector. The Association for Sustainable Forest Development in the Central Cordillera (ASODEFOS) was created in 2004 with the help of PROCARYN. The mission of this association, currently comprising 35 SMEs involved in the agroforestry chain, is to provide technical assistance services for the production, processing, and marketing of forest products and byproducts and to represent the interests of the area's producers. Although ASODEFOS has the potential to sustainably provide services to its members, its current institutional, management, and operating capacity is still developing. The project therefore proposes that UAFAM, owing to its institutional capacity, be the project executing agency; the hope is that upon completion of the project, ASODEFOS can fulfill the role of a business association that provides production, processing, and marketing services to SMEs in the project area.
- 2.8 **Project rationale and additionality.** The **additionality** of this project lies in that it will establish a business association development model to enable the SMEs in the forestry chain to enhance their business and technical management. Working with ASODEFOS, as this project proposes, instead of merely serving SMEs individually, will generate economies of scale that will help boost the competitiveness and sustainability of the various productive units in the area's forestry chain.
- 2.9 **Relationship with other initiatives.** The project is consistent with the Bank's strategy with the country (document GN-2379-1), as it aims to make the sector more competitive. Similarly, the project will complement other efforts the Bank is making to benefit organizations of small producers near the project area, including the MIF project to increase the competitiveness of micro, small, and medium-sized enterprises in Santiago de los Caballeros⁵ (ATN/ME-8456-DR) and the SEP program to support cottage industry workshops in the Sierra Region (SP/SF-04-31-DR and ATN/SF-8961-DR). Both projects involve the participation of wood

⁴ The objective of this project, which ends in late 2007, is to better living conditions for communities in this area through the sustainable management of natural resources, and one of its five components deals with forestry. The project was executed over a 10-year period for a total of 10 million euros from Germany's GTZ.

⁵ Approved in October 2003, execution has been satisfactory and over 50% of resources have been disbursed.

furniture makers who could benefit from access to raw material at competitive prices. During preparation of this project, the first meeting was held to coordinate the three initiatives, and Component II includes activities that seek to strengthen business linkages with these potential buyers of the wood processed under this project.

III. PROJECT OBJECTIVES AND COMPONENTS

A. Objectives

- 3.1 The general objective of the project is to make small and medium-sized enterprises in the Central Cordillera more competitive and sustainable. The purpose is to establish a business association model that will enable SMEs in the forest production and processing chain to generate economies of scale and add value to their production and processing of forest products and byproducts.
- 3.2 The outcomes expected upon project completion are: (i) SMEs will have boosted their income by at least 25% over current levels in real terms; (ii) the quality of native wood will have improved, translating into a price increase over current levels of at least 20% in real terms; (iii) locally produced wood will have upped its market share by 10% compared with the volume of current imports; and (iv) a business association will exist that covers its costs and provides services, enabling the SMEs to sell their products at competitive prices.

B. Components and activities

- 3.3 **Component 1. Strengthening of forest management (MIF US\$249,750; counterpart funds US\$150,750).** The objectives of this component are to: (i) enhance and build local capacity for preparation and monitoring of forest management plans (FMPs), for forestry regents, and for forest service providers, allowing for higher productivity and improved quality of services offered to agroforestry SMEs; (ii) strengthen sustainable forest management by implementing a program to help SMEs with FMP preparation and forest regent services; and (iii) determine the volume of wood in the project area and its real production and sales potential, which will serve as an essential tool in planning the FMPs and in ascertaining the potential that the areas have for changing land use and developing future FMPs.
- 3.4 The following activities will be financed under this component: (i) training of foresters to prepare and monitor FMPs, serve as forest regents, and be forest management providers; (ii) technical assistance in preparing and reactivating FMPs for selected SMEs; (iii) technical assistance to help SMEs with active FMPs to obtain forest regent services; (iv) consulting services to prepare an inventory of the area's forestry potential. This component calls for a promotional campaign to identify, analyze, and select the SMEs with natural or plantation forests that are interested in reactivating or preparing a FMP. The selection criteria for the beneficiary SMEs and the foresters that may access training services are described

in section 2 of the Operating Regulations, which are in the project technical files. MIF financing to SMEs for developing and implementing FMPs and for forest regent services will be phased out over the life of the project.

- 3.5 The expected outcomes of this component by project's end are: (i) at least 10 consultants will have been trained in preparation and monitoring of FMPs; (ii) at least 10 new consultants will specialize in preparing FMPs; (iii) at least 45 regents will be licensed by SEMAREN in sustainable forest regency pursuant to Law 64-00; (iv) at least 80 forest technology service providers will have improved their bucking, sizing, cutting, and skidding activities, as reflected in a 20% decrease in the amount of rejections and waste; (v) forest regency services will be in place for at least 90 FMPs in their implementation phase, of which 40 will be new plans supported by the project and 50 will be reactivated plans; (vi) beneficiary SMEs will be paying at least 50% of the costs of FMP management and regency services; and (vii) there will be an updated inventory of forestry potential.
- 3.6 **Component 2: Strengthening forestry processing and marketing (MIF US\$186,425; counterpart funds US\$37,375).** The objectives of this component are to: (i) support the development of a business association to provide services that foster the efficient utilization of forest products and add greater value to forest products and byproducts; (ii) enhance the management and operational capacities of SMEs in the forestry chain; (iii) increase the processing capacity of sawmills in the project area; and (iv) establish linkages with potential buyers and partners of forest products and byproducts.
- 3.7 *Strengthening of ASODEFOS.* This component will finance the following activities to permit the development of a business partnership through ASODEFOS in order to: (i) develop mechanisms for administration and operational management; (ii) establish a management information system that meets its administrative, financial, and operational control needs; (iii) strengthen governance, leadership, and business associations; (iv) enhance capacities for project formulation and execution; (v) establish effective communication and dissemination mechanisms to attract new members; and (vi) develop a market intelligence program.
- 3.8 This component will also finance training activities for SMEs in the project area in basic processing, marketing, administration, accounting, and finance, providing UAFAM with the minimum equipment (computer, datashow projector, chain saw, and digital camera) to conduct these activities. This component will also finance: (i) five market studies for the development of at least five forestry byproducts; (ii) the design and development of samples, with their respective cost-benefit analysis; and (iii) product testing, with market penetration and placement activities for at least three of the identified byproducts.
- 3.9 The project will provide ASODEFOS with the minimum equipment to provide wood drying, planing, and decorating services to add value to forest products and byproducts. These services will be managed under a business association management model and will be available to all SMEs in the region that are willing

to pay for them. Before this equipment is installed, ASODEFOS must show that: (i) it has a sawmill with the right infrastructure for the equipment to be installed (ii) it has developed a business plan;⁶ and (iii) it has had training in basic aspects of technical administration and management. Ownership of this equipment may not be transferred to ASODEFOS until the final project evaluation has verified that it has the technical, administrative, and management capacity to provide services to the SMEs and to ensure the maintenance, management, and sustainability of the equipment.

- 3.10 *In terms of the area's sawmills and business linkages*, financing will be provided for the following activities: (i) training for forest sawmill operators in areas such as: cutting, sizing, worker health and safety, equipment operation and maintenance, controls and administration, social and environmental issues, marketing, and sales (the selection criteria for the beneficiary sawmills are listed in section 2 of the Operating Regulations); (ii) sound waste management and pollution prevention of water sources; and (iii) visits, meetings, information sharing, seminars, field visits, and participation in fairs allowing linkages to be established with potential buyers.
- 3.11 The expected outcomes of this component by project's end are: (i) a business association management model will be in place for ASODEFOS to provide production, processing, and marketing services; (ii) at least 180 SMEs in the forestry chain will have been trained in operations, management, and processing and marketing of forest products and byproducts; (iii) at least five new forest byproducts will have been developed, and three of them placed on the market; (iv) at least 10 sawmills will have raised their operational and administrative productivity and efficiency in comparison with the baseline; (v) 100% of beneficiary farms and sawmills will be managed using standard quality criteria and will recycle waste to make byproducts; (vi) at least 15 linkages will have been established with wood buyers in the country; (vii) ASODEFOS will have the capacity to process and give a quality finish to the wood of its members and other area producers, making it easier to obtain byproducts that maximize production value; and (viii) ASODEFOS will have grown by at least 40 new members.
- 3.12 **Component III: Monitoring, dissemination, and sharing of outcomes (MIF US\$38,800).** The aim of this component is to systematize the methodologies, contents, outcomes, and lessons learned from the project and disseminate them to other organizations of small-scale agroforestry producers across the country. This component will also identify other programs and donor agencies that are working on rural development issues and conduct information-sharing activities.
- 3.13 This component will finance the following activities: (i) consulting services to prepare case studies to compile and disseminate the lessons learned during implementation of the project components; and (ii) national and international sharing of experiences, which will enable beneficiary SMEs to gain access to information and new techniques to help improve their processes for producing,

⁶ The PROCARYN project is helping ASODEFOS to prepare a business plan.

processing, and marketing wood products and byproducts. The topics to be covered include: (i) experience with the business association and management model used; (ii) outcomes in terms of productivity and market expansion; (iii) outcomes in terms of the value added facilitated by the project; and (iv) competitiveness of native wood in comparison with wood imported for local use.

IV. COST AND FINANCING

- 4.1 The total project cost is estimated at US\$920,000, of which US\$615,00 (67%) will come from the MIF's Small Enterprise Facility (III-A) and the remaining US\$305,000 (33%) from counterpart resources contributed by the UAFAM, of which at least 50% must be in cash.

Components	MIF	Local	Total	%
Strengthening of forest management	249,750	150,750	400,500	44%
Strengthening of forestry processing and marketing	186,425	37,375	223,800	24%
Dissemination and sharing of outcomes	38,800	0	38,800	4%
Project management unit	24,000	115,200	139,200	15%
Monitoring & evaluation	75,000	0	75,000	8%
Audits	20,000	0	20,000	2%
Contingencies	21,025	1,675	22,700	2%
Total	615,000	305,000	920,000	100%
	67%	33%	100%	

- 4.2 **Sustainability.** The main challenge agroforestry SMEs face in terms of competitiveness and sustainability has to do with the high costs of carrying out their activities individually. The creation of a business partnership will enable beneficiary SMEs to sustainably receive production, processing, and marketing services. The project calls for decreasing subsidization of technical assistance and training services, the expectation being that the SMEs will acquire the capacity and take on the responsibility of collectively assuming the costs of the technical support needed to effectively carry out their activities. Moreover, these SMEs engage in forestry activities in addition to their other productive activities, so by boosting the competitiveness of forestry activities this project will also help enable the beneficiary SMEs to diversify their income.

V. EXECUTING AGENCY AND EXECUTION MECHANISM

- 5.1 **Executing agency.** The executing agency will be UAFAM through its Research and Projects Department. UAFAM is the only higher education institution in the Dominican Republic that specializes in agroforestry. UAFAM's core objective is to carry out programs designed to enhance the conservation, protection, and sustainable use of natural resources. Its mission includes the academic training of

human resources, focusing on the areas of agroforestry, mountain tourism, and agricultural science. UAFAM has multidisciplinary technical and professional staff with the capacity to implement, evaluate, and systematize projects and support producer organizations' agribusiness and agroindustrial initiatives. Its board of directors includes private entrepreneurs who have sizable investments in ecotourism in Jarabacoa and, hence, have an interest in financially backing projects that contribute to the sustainable use of natural resources.

- 5.2 UAFAM is the right institution to carry out the project because it: (i) is characterized by having a specialized, practical teaching and learning focus on the utilization of forest resources; (ii) is known for its leadership in the sector and the search for entrepreneurial solutions to agroforestry problems; (iii) is familiar with the group of beneficiaries and their needs; (iv) has experience in implementing donor agency projects; and (v) has the institutional capacity and the financial support to be able to execute a project with the MIF.
- 5.3 **Execution mechanism.** Project management will be the responsibility of UAFAM, specifically of the Research and Projects Department, which will serve as the executing unit and will be responsible for coordinating and monitoring all the activities related to implementing the project and accomplishing targets and objectives. During project execution, UAFAM will strengthen and transfer its know-how and skills to the Association for Sustainable Forest Development in the Central Cordillera (ASODEFOS) so that when the project ends, ASODEFOS will be able to continue to provide support services to area SMEs in the forestry chain. UAFAM and ASODEFOS have signed an interinstitutional cooperation agreement establishing the terms and conditions for strengthening the latter and transferring the equipment at the end of the project.
- 5.4 **The executing unit** will consist of: a project coordinator, an administrative assistant, and a technical advisor for the technical and field supervision of the project. This unit will be in charge of hiring specialists to implement the components, submit disbursements requests, and prepare progress reports. The executing unit as a whole will be responsible for: (i) preparing and implementing annual work plans each year, with consultant support; (ii) coordinating project activities; (iii) contracting in accordance with Bank policy and overseeing the procurement of goods and services, (iv) processing disbursement requests; (v) sending semiannual management reports, financial statements, and the revolving fund report to the Bank; (vi) monitoring the performance indicators set out in the logical framework; and (vii) commissioning annual project audits.
- 5.5 The project will coordinate activities with other entities that have a presence and carry out activities in the project area. A project advisory council will be created for this purpose and will involve the participation of a representative from the PROCARYN project, the CFD, SEMAREN, GTZ, and ASODEFOS. This council will coordinate and complement activities, share outcomes, and provide advisory assistance on implementation of the various project components. The creation of

this council will be a condition precedent to the first disbursement of project resources.

- 5.6 **Project readiness.** The project's draft Operating Regulations, the terms of reference for hiring the main project team, and a draft of the agreement establishing the advisory council, have now been prepared. Also, the Chancellor's Office and board of directors have the designation of the project coordinator on their agendas. The project coordinator's salary will be paid from the counterpart contribution, and it is a requirement that the UAFAM appoint someone from the Research and Projects Department. This allows the individual to immediately delve into coordinating activities and meeting the conditions precedent to the first disbursement and, hence, that the project can begin quickly once approved. As for the counterpart funds, the letters of commitment signed by UAFAM's board of directors have already been received.
- 5.7 **Execution period and disbursements.** The project will be implemented over a period of 48 months and the MIF resources will be disbursed over 54 months. A revolving fund will be made up of 10% of the MIF resources.
- 5.8 **Procurement of goods and services.** Goods and services (other than consulting services) will be procured as specified in document GN-2349-7 and consultants as specified in document GN-2350-7.

VI. MONITORING AND EVALUATIONS

- 6.1 **Monitoring reports.** UAFAM will submit all project progress reports to the Bank's Country Office in the Dominican Republic within 30 days after the end of each six-month period, and a final report within 60 days after the last disbursement. These reports, which will follow a format previously agreed to by the Bank, will include: (i) a work plan and disbursements timetable for the next six-month period; (ii) all project activities and financing carried out to date; (iii) outcomes achieved, as measured by the indicators in the project's logical framework (Annex I); and (iv) a review of the FMPs with regard to monitoring compliance, outcomes achieved through their implementation, and their impact on the sustainability of forests. The first semiannual report should contain the findings of the baseline survey and of the inventory to determine the project area's current and future forestry potential.
- 6.2 **Evaluations.** The Bank will use project funds to hire two outside consultants for the midterm and final evaluations. The midterm evaluation will be conducted 18 months after the first disbursement or when 50% of the committed resources have been disbursed, whichever happens first. The final evaluation will be conducted 90 days before the last disbursement. Both evaluations will analyze the progress and overall performance of the project, with particular emphasis on the indicators in the logical framework, the rate of advance of technical and financial project execution, and the institutional capacity of the stakeholders. Furthermore, both evaluations will verify: (i) that the beneficiaries' forests are being managed

sustainably, (ii) that water sources are being adequately protected; (iii) that the sawmills benefiting under the project are properly disposing of forestry waste; and (iv) the measures that the project is implementing to verify sound forest management. The midterm evaluation is expected to recommend any changes that may be necessary to the logical framework, components and/or budget. The Bank may suspend disbursements if any irregularity is found that might jeopardize the sustainable management of forest resources.

- 6.3 The final evaluation will further analyze: (i) the extent to which the purposes and specific objectives of the project have been met, primarily the success in training and transferring appropriate technologies in terms of the baseline indicators and meeting the targets in the logical framework; (ii) the impact on beneficiaries' income with respect to the findings of the midterm evaluation and the baseline sample; (iii) the level of satisfaction among forestry SMEs, producers, and professionals benefiting from the different components, particularly the level of satisfaction of the SMEs with the services offered by ASODEFOS; and (iv) how sustainable the actions promoted under the project will be once the MIF contribution has been fully disbursed. The final evaluation will also need to verify the technical, administrative, and management capacity of ASODEFOS for providing services to the SMEs and for equipment maintenance, management, and sustainability; this verification will be a condition for the project to transfer ownership of the drying, planing, and decorating equipment to said entity. Lastly, both evaluations should spell out lessons learned, recommendations, and possible mechanisms for replicating the rural development model in the Dominican Republic and in other countries.
- 6.4 **Audits.** A report detailing the financial execution of the project will be submitted 90 days after the end of each year of project execution. There will be annual external audits and a final audit when the last project disbursement has been made. These audits will be performed by an independent firm or auditor acceptable to the Bank and will be commissioned by the Bank and financed with Bank resources.

VII. BENEFITS AND RISKS

- 7.1 **Beneficiaries and benefits.** The direct beneficiaries of the project activities and resources will be at least 180 small and medium-sized enterprises (SMEs) involved in producing and processing forest products and byproducts in the project area, which will strengthen their business and technical skills and gain better access to processing, marketing, and sales channels. In addition, ASODEFOS will be strengthened as an institution and will provide services, collectively, to the SMEs in the forestry chain in the project area. Also benefiting from the project will be at least 220 forestry service providers, who will enhance their technical and professional capacities so they can competitively offer their services nationally. Finally, the project will also indirectly benefit home builders and makers of wood furniture and accessories, who will enjoy a reliable source of raw materials of competitive quality, at a better price, and in a range of sizes to fit their needs.

- 7.2 **Risks.** While the permits that project beneficiaries must obtain for utilization of forest resources increase the certainty that those resources will be used sustainably, a risk during project execution is that forest resources could possibly be misused and mismanaged by some of the parties involved in the production, processing, and marketing chain. To help mitigate this risk, the project includes resources for field supervision and monitoring, for which the executing unit will hire a full-time technical supervisor. The project also includes additional resources for the midterm and final evaluations to verify that forest resources are being produced, processed, and marketed taking measures to ensure the sustainable use of resources and minimize potential impacts on the environment. A second risk is that the SMEs could refuse to pay for the services received, which would jeopardize the sustainability of the planned activities. This risk will be mitigated by: (i) an interinstitutional agreement to be signed by UAFAM and the other agencies participating in forestry activities to preclude systems of subsidies for services that would pose a disincentive to paying for those services from being implemented in the area; (ii) the requirement that the beneficiaries contribute counterpart resources starting from the first year of the project; and (iii) UAFAM's prestige in the area, given its involvement in implementing several projects targeting beneficiaries with a profile similar to those under this project.

VIII. ENVIRONMENTAL AND SOCIAL IMPACTS

- 8.1 Execution of the project should have no negative environmental impacts; on the contrary, one of the objectives is to develop a forestry industry that improves people's standard of living and contributes to environmental conservation and protection of the watersheds that give rise to the principal rivers that provide a source of drinking water and are dammed for irrigation and for electric power production. The executing agency has worked in the area on hill farming and ecotourism projects for several years. The negative environmental impact associated with felling and skidding trees will be mitigated by the replanting of stands that were logged (reforestation). Also, through preparation of FMPs, measures including reforestation will be implemented to mitigate negative environmental impacts.

COMPETITIVE INTEGRATION OF SMALL AND MEDIUM-SIZED AGROFORESTRY ENTERPRISES (DR-M1009)

LOGICAL FRAMEWORK

Narrative Summary	Indicators	Means of Verification	Assumptions
Goal			
To make small and medium-sized enterprises (SMEs) in the Central Cordillera more competitive and sustainable.	Two years after project completion: <ul style="list-style-type: none"> At least 50% of the SMEs in the forestry chain that were project beneficiaries have increased their income by at least 15% over average income at the end of the project. A business association exists that covers its costs and provides support services for production, processing, and marketing, enabling the SMEs in the region's forestry chain to offer their products at competitive prices. 	<ul style="list-style-type: none"> End-of-project baseline Final evaluation and PCR Monitoring system of the Association for Sustainable Forestry Development in the Central Cordillera (ASODEFOS) 	<ul style="list-style-type: none"> The country's macroeconomic conditions and exchange rate remain relatively stable. The demand for native wood steadily grows owing to the price and quality of the wood being supplied. Natural and weather phenomena do not adversely impact the plantations cultivated under the project.
Purpose			
To establish a business association partnership model of rural development that will enable SMEs in the forest production and processing chain to generate economies of scale and add value to their production and processing of forest products and byproducts.	By project completion: <ul style="list-style-type: none"> The beneficiary SMEs will have increased their annual sales by at least 25% in real terms (baseline: volume of current annual sales US\$1.6 million). The quality of native lumber has improved, with a price increase of at least 20% over the current price (baseline: US\$0.70 per board foot). Imports of wood and forest products and/or byproducts have been reduced by 10% from current levels (baseline: current volume of imports US\$250 million). At least 80% of the SMEs benefiting directly from the project report a positive satisfaction level with regard to project-promoted services. 100% of the SMEs and technical staff in the forestry chain that benefited from the project apply environmental and worker safety practices, in accordance with the country's laws. 	<ul style="list-style-type: none"> Semiannual and final reports from the executing unit Midterm and final project evaluations (including satisfaction survey of SMEs regarding the quality of ASODEFOS' services) Reports and activities by ASODEFOS PCR 	<ul style="list-style-type: none"> The behavior of the Department of Environment and Natural Resources (SEMAREN) and actions by the central government generate confidence in forestry and forest conservation issues. The SMEs remain interested in participating in the project.

Narrative Summary	Indicators	Means of Verification	Assumptions
COMPONENTS:			
<p>Component I: Strengthening of forest management</p> <p>Outcomes: Forests are managed sustainably by applying appropriate techniques that help boost productivity and the quality of the products or services of the SMEs in the forestry industry's production, processing, and marketing chain.</p>	<p>By project completion:</p> <ul style="list-style-type: none"> At least 80 foresters are capable of preparing and monitoring forest management plans (FMPs), acting as regents, supervising SEMAREN actions, and/or providing forest utilization technology services. At least 80 producers establish and maintain forest plantations according to the FMPs implemented under the project. Beneficiary SMEs are paying for at least 50% of the FMP, forest regency, and/or forest utilization technology services. The inventory of the area's forestry potential makes it possible to determine the volume of wood in the project area and its real production and sales potential. At least 80 providers of forest utilization technology services have improved their bucking, sizing, cutting, and skidding activities, as reflected in a 20% reduction in the amount of rejections and waste. <p>Midterm targets:</p> <p>24 months into project execution</p> <ul style="list-style-type: none"> At least 40 foresters are capable of preparing and monitoring FMPs, acting as regents, supervising SEMAREN actions, and/or providing forest utilization technology services. At least 40 producers establish and maintain forest plantations according to the FMPs implemented under the project... Beneficiary SMEs are paying for at least 25% of the FMP, forest regency, and/or forest utilization technology services. Inventory of the area's forestry potential is kept up-to-date. 	<ul style="list-style-type: none"> Baseline Technical monitoring reports prepared by forestry consultants Training attendance lists List of names of trained technicians Training materials and methodology Semiannual and final reports from the executing unit 	<ul style="list-style-type: none"> Governmental authorities take no actions that discourage forestry production. Producers will be willing to implement the technology packages and pay for the services received.

Narrative Summary	Indicators	Means of Verification	Assumptions
<p>Component II: Strengthening of forestry processing and marketing</p> <p><u>Expected outcomes:</u> Establishment of a cooperative enterprise to provide services that foster the efficient utilization of forest products and add greater value to forest products and byproducts which can be placed on the national market at competitive prices</p>	<p>By project completion:</p> <ul style="list-style-type: none"> At least 180 SMEs in the forestry chain are trained in operations, management, and processing and marketing of forest products and byproducts. At least five new forestry byproducts have been developed, and three of them placed on the market. At least 10 sawmills have raised their operational and administrative productivity and efficiency in comparison with the baseline. 100% of beneficiary farms and sawmills are managed using standard quality criteria and recycle waste to make byproducts. At least 15 linkages have been established with wood buyers in the country. ASODEFOS has the capacity to process and give a quality finish to the wood of its members and other area producers, making it easier to obtain byproducts that maximize production value. ASODEFOS has grown by at least 40 new members. <p>Midterm targets: 24 months into execution</p> <ul style="list-style-type: none"> Business association model for ASODEFOS to provide production, processing, and marketing services is developed. System of wood drying, planing, and decorating up and running at ASODEFOS. At least eight sawmills have received technical assistance services to improve operation and administration. The five forestry byproducts to be developed and implemented under the project have been identified and the corresponding market studies have been done. At least five effective business linkages have been established. 	<ul style="list-style-type: none"> Baseline at start of project Midterm and final evaluations Workshop attendance list Training materials and methodology Semiannual and final reports from the executing unit 	<ul style="list-style-type: none"> The local market will remain interested in purchasing native lumber and byproducts. The entry into force of the free trade agreement between Central America and the Dominican Republic will not impact the price of native lumber and byproducts.

Narrative Summary	Indicators	Means of Verification	Assumptions
Component III. Dissemination and sharing of outcomes	By project's end: <ul style="list-style-type: none"> At least five case studies have been disseminated and become known nationally and internationally. Two regional seminars for dissemination and sharing of experiences have been held. At least one request has been received from an organization of agroforestry SMEs to replicate the model in another part of the country. 12 months into execution: <ul style="list-style-type: none"> The management control and project monitoring system is up and running. The baselines set out in the logical framework have been reviewed and defined with the support of the consultants who prepared the baseline and the inventory of forestry potential. 	<ul style="list-style-type: none"> Documents produced and events held Semiannual and final reports from the executing unit Initial, midterm, and final evaluations 	<ul style="list-style-type: none"> Other areas of the country with forestry potential show interest in replicating the business association model implemented under this project.
ACTIVITIES			
1.1 Develop and implement a training and technical assistance program for: <ul style="list-style-type: none"> Local consultants to prepare and monitor FMPs; Forestry regents; Foresters for SEMAREN; Providers of forest utilization services 	See itemized budget	<ul style="list-style-type: none"> Courses and workshops held Aide-memoire of courses and workshops; Supporting materials and methodology used in the activities List of attendance at activities; 	
1.2 Prepare and implement FMPs and evaluate existing plans, reactivating management plans that are not in operation	See itemized budget	<ul style="list-style-type: none"> Approved and reactivated work plans implemented Regents' reports Supervision reports by the expert from the executing unit. Baseline 	

Narrative Summary	Indicators	Means of Verification	Assumptions
1.3 Forest reGENCY services for the FMPs being implemented	See itemized budget	<ul style="list-style-type: none"> o List of beneficiary producers o Regents' reports o Receipts showing producers were charged for the services received 	
1.4 Consulting services to prepare the inventory of the area's forestry potential	See itemized budget	<ul style="list-style-type: none"> o Inventory of the area's forestry potential 	
2.1 Institution strengthening for ASODEFOS	See itemized budget	<ul style="list-style-type: none"> o Baseline o Midterm and final evaluations o Financial statements o Minutes from member meetings o Evidence of director turnover o List of new members 	
2.2 Strengthen the beneficiary SMEs in management, operational, and administrative matters	See itemized budget	<ul style="list-style-type: none"> o Baseline at start of project o Workshop attendance list o Consultants' reports o Project monitoring system 	
2.2 Set up and develop ASODEFOS into a business association to provide wood drying, planing, and decorating services	See itemized budget	<ul style="list-style-type: none"> o Material from consultants on the trainings and technical assistance provided o Lists with names of beneficiaries o Sawmill production record o Installation of equipment o Sawmill accounting records and sales contracts 	
2.3 Train sawmill operators to enhance their technical, administrative, environmental, and work capacities	See itemized budget	<ul style="list-style-type: none"> o Baseline at start of project o Midterm and final evaluations o Workshop attendance list o Training materials and methodology o Consultants report 	
2.3 Establish linkages and partnerships with current and potential customers	See itemized budget	<ul style="list-style-type: none"> o Signed cooperation agreements o Sales contract 	

Narrative Summary	Indicators	Means of Verification	Assumptions
2.4 Develop new forestry byproducts	See itemized budget	<ul style="list-style-type: none"> o Documents relating to the developed products o Product samples o Sales invoices o Report on acceptance from customers who purchased the products 	
3.1 Prepare and disseminate case studies based on project outcomes	See itemized budget	<ul style="list-style-type: none"> o Printed case studies o List of seminar participants o List of institutions invited to seminars 	
3.2 Share experiences	See itemized budget	<ul style="list-style-type: none"> o List of interns o Activity attendance reports o Innovations achieved after the internships 	

COMPETITIVE INTEGRATION OF SMALL AND MEDIUM-SIZED AGROFORESTRY ENTERPRISES (DR-M1009)

ITEMIZED BUDGET

CATEGORY	TOTAL (US\$)			
	MIF	Local Contribution		Total
		IN CASH	IN KIND	Total
Component 1: Strengthening of forest management	249,750	74,096	76,654	400,500
Activity 1.1.1: Train local consultants for FMPs	2,500	0	0	2,500
Activity 1.1.2: Train forest regents	15,900	2,250	2,250	20,400
Activity 1.1.3: Train foresters	3,000	750	250	4,000
Activity 1.1.4: Train providers of forest utilization services	48,000	14,250	14,250	76,500
Activity 1.2: Technical assistance for SMEs in preparing and implementing FMPs	67,550	33,950	0	101,500
Activity 1.3: Technical assistance for SMEs to obtain forest reGENCY services	31,200	16,896	59,904	108,000
Activity 1.4: Consulting services to prepare an inventory of the project area's forestry potential	24,000	6,000	0	30,000
Activity 1.5: Long-term consulting services for technical project supervision	57,600	0	0	57,600
Component II: Strengthening of forestry processing and marketing	186,425	31,775	5,600	223,800
Activity 2.1: Institution strengthening for ASODEFOS	22,075	3,175	1,500	26,750
Activity 2.2: Strengthen beneficiary SMEs in management, operational, and administrative matters	20,100	1,850	1,850	23,800
Activity 2.3: Set up and develop ASODEFOS into a business association to provide wood drying, planing, and decorating services	67,900	22,500	1,500	91,900
Activity 2.4: Develop new byproducts	44,500	750	750	46,000
Activity 2.5: Train and advise sawmill operators	28,100	2,250	0	30,350
Activity 2.6: Establish linkages with potential buyers and partners	3,750	1,250	0	5,000
Component III: Dissemination and sharing of outcomes	38,800	0	0	38,800
Activity 3.1: Prepare case studies	26,000	0	0	26,000
Activity 3.2: Share experiences	10,800	0	0	10,800
Activity 3.3: Kick-off and launch workshops	2,000	0	0	2,000
Project management	24,000	72,000	43,200	139,200
Staff	24,000	72,000	0	96,000
Other expenses	0	0	43,200	43,200
Evaluations	75,000	0	0	75,000
Development of baseline and information and monitoring system	15,000	0	0	15,000
Midterm and final evaluations	60,000	0	0	60,000
Financial audits	20,000	0	0	20,000
Contingencies	21,025	1,675	0	22,700
TOTAL	615,000	179,546	125,454	920,000
	67%	19%	14%	100%

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PROPOSED RESOLUTION MIF/DE-___/06

Dominican Republic. Nonreimbursable Technical Cooperation ATN/ME-_____-DR
Competitive Integration of Small and Medium-sized Agroforestry Enterprises

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Universidad Agroforestal Fernando Arturo de Meriño (UAFAM), and to take such additional measures as may be pertinent for the execution of the project proposal contained in document MIF/AT-___ with respect to a technical cooperation for competitive integration of small and medium-sized agroforestry enterprises.

2. That up to the amount of US\$615,000, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the resources from the Small Enterprise Development Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.

(Adopted on _____ 2006)

LEG/OPR/RGII/IDBDOCS#821456
DR-M1009