

COMPREHENSIVE AGRICULTURAL DEVELOPMENT OF THE NUEVO HORIZONTE COMMUNITY OF FORMER COMBATANTS

(SP/TC-01-02-01-8-GU)

EXECUTIVE SUMMARY

Executing agency:	Cooperativa Nuevo Horizonte (CNH)	
Amount and source:	IDB:	
	Nonreimbursable financing	US\$ 70,000
	Nonreimbursable technical cooperation	US\$180,000
	Local (CNH):	<u>US\$ 25,000</u>
	Total:	<u>US\$275,000</u>
	Resources will be drawn from the Bank's Fund for Special Operations (FSO) in foreign exchange.	
Terms:	Execution period:	30 Months
	Disbursement period:	36 Months
Problem to be solved:	<p>Rural poverty in Guatemala is associated with the following, among other factors: (i) lack of access to technology and financial services; (ii) inefficient technical assistance and extension systems; (iii) absence of linkage between small-scale farmers and the agribusiness sector; (iv) inefficient marketing systems; and (v) a deteriorating natural resource base.</p> <p>The Peace Accords signed between the Government and the Guatemalan National Revolutionary Union (URNG), included resettlement of populations uprooted by the armed struggle, with a view their reintegration into the country's civil society and economy. The Cooperativa Nuevo Horizonte (CNH), consisting of former combatants, was set up and established in the municipio of Santa Ana in Petén after the Peace Accords were signed.</p> <p>The CNH performs a number of productive activities in the rural area of the Santa Ana municipio, mainly involving livestock breeding and crop growing. Given the background of young people connected to the guerrilla movement, CNH members lack managerial and technical know-how to manage their productive resources adequately. This has resulted in weak reintegration of the</p>	

group into economic activity, despite the ample productive potential of its land and the capacity for work and organization demonstrated by its members.

Secondly, lack of access to technical support in managing productive resources, and to financing, both for working capital and for investment, have resulted in poor exploitation of resources, low productivity and an inability to generate production surpluses that would enable them to raise their depressed income levels. Lastly, The CNH needs to diversify its production and explore alternative income sources for its members, in order to develop a solid production base.

This project is intended to help CNH members mainstream into the country's economic development process, by turning the cooperative into an entity with a business outlook and the managerial and technical capacity needed to manage its productive resources, which could serve as a model for other groups in similar circumstances. The project is expected to generate valuable lessons and will have a significant demonstration effect for communities of former combatants mainstreamed back into civil society, in Guatemala as well as in other countries with this type of population.

Objectives: The project's **general objective** is to help improve the socioeconomic conditions of the CNH population and help them reintegrate into the country's economic development, by transforming their subsistence production into sustainable business activities.

The **specific objectives** are as follows: (i) to strengthen the institutional capacity of the CNH to manage its productive activities and provide sustainable services to its members; (ii) to optimize management of the cooperative's productive resources, by extending technical assistance, training and appropriate technologies to its members; (iii) to promote the generation of income sources for small-scale CNH producers; and (iv) to foster productive diversification in the cooperative, through demonstration activities relating to family-based livestock and crop-farming production and fish farming.

Description: The project has two components:

1. Nonreimbursable technical-cooperation funding (US\$180,000), through which:
 - a. **CNH administrative and managerial capacity will be strengthened** by financing: (i) the organization, equipment, and operation of a management unit in the CNH; (ii) the design and

implementation of administrative and management control systems for the CNH; (iii) the development of procedures and controls for administration of the pilot credit program and the project's financial resources; (iv) the drafting of a strategic plan prepared on the basis of a participatory methodology; (v) the preparation and implementation of a business plan to guide the cooperative's business activities; (vi) training workshops for CNH members, staff and executives in the use of the systems and procedures developed and in key aspects of the cooperative's planning and operations; and (vii) legal assistance to regularize land titling for CNH members.

- b. **CNH access to technical and technological inputs** will be improved, with a view to optimizing management of its productive resources. The following activities will be funded: (i) development of management plans for the cooperative's livestock, agricultural and fish-farming resources; (ii) provision of training and specialized technical assistance to CNH members to support and implement those management plans, to include advisory services in: (a) livestock production; (b) small-scale crop growing on individual allotments; and (c) a pilot fish farming project; and (iii) technical assistance to the CNH in the commercialization and marketing of their products, with a view to establishing new markets and bolstering its commercial management. The purchase of a vehicle will be financed which will help members of the cooperative—particularly the women—bring the production of their family farms to area markets.
 - c. **A midterm evaluation, a final evaluation, and an external audit** of the project's financial statements will be financed.
2. Nonreimbursable financing (US\$70,000) to support the following:
- a. Investment in **pilot units for productive diversification** for the cooperative:
 - (i) Test plots for family-individual agricultural production, to encourage farming on individual crop production plots. Funding will be provided to extend the irrigation system to allow adequate irrigation of the area in which the plots are located.
 - (ii) Pilot fish farming program: Support will be provided for development of fish farming in the CNH pond, with funding for the following activities: (i) procurement and

preparation of cages for fish farming; (ii) purchase of initial stock of fingerlings; and (iii) purchase of food concentrate to nourish the fingerlings during their growth phase.

- b. **Productive investments:** investments in the cooperative will be financed to expand livestock production. These resources will be used primarily to purchase livestock for breeding and/or fattening, to install paddocks, and cover other related investments.
- c. **A pilot credit program** to be administered by the CNH, which will allow the cooperative's members to finance working capital needs for family-individual farm production.

Environmental and social review:

At its meeting of 14 September 2001, the Committee on Environment and Social Impact (CESI) considered this operation and recommended including application of national labor health standards in the training and technical assistance components. These recommendations were taken into account in drafting this financing and technical-cooperation proposal.

Beneficiaries:

The project's beneficiaries are 110 members the Cooperativa Nuevo Horizonte, together with their families, totaling about 415 individuals. The beneficiaries are demobilized former combatants from the armed conflict, who have reintegrated into the civil and economic life of Guatemala in the framework of the Peace Accords.

Risks:

The following risks have been identified:

- a. Ideological barriers within the cooperative could emerge and provoke resistance to change by some of its members, thereby compromising smooth execution of the project. The project will mitigate this risk by: (i) using participatory methodologies in the strategic planning phase; (ii) holding training events to address this issue; and (iii) hiring the services of a sociologist to give the executing agency and project consultants guidance in dealing effectively with this problem.
- b. The CNH may fail to obtain financing to expand its productive activities once the institutional and technical strengthening process has begun. Lack of funding could diminish the impact of the training and technical assistance provided to the CNH. The livestock activity seems to be most sensitive to this variable. The project will mitigate this risk by (i) allocating nonreimbursable financing resources; and (ii) earmarking resources to support the CNH in its search for alternative funding sources.

- c. A significant risk of the operation relates to the situation faced by the CNH and other repatriated groups and demobilized former combatants, in relation to legalizing land titling, and conditions that the Land Fund may impose in negotiations for the payment of CNH obligations. The Executive Branch in Guatemala is preparing a comprehensive plan to renegotiate obligations involving the farms of uprooted groups. The comprehensive solution to this matter will therefore be identified at the highest levels of the Guatemalan government. The operation provides for contracting a legal specialist to advise the CNH on this issue.

The Bank's strategy:

The Bank's strategy in Guatemala is set in the framework of the Peace Accords, and consists of helping the Government meet the challenges of sustainable economic development, with the fight against poverty as its overarching principle. The strategy is based on three major pillars: (i) promoting economic growth, with special emphasis on improving the competitiveness of productive sectors; (ii) supporting equity, social protection and human capital development, including actions targeted on displaced populations such as indigenous groups; (iii) strengthening State modernization and governance (Country Paper GN-2149-1, June 2001). The proposed project speaks to points (i) and (ii) of this strategy.

Special contractual clauses:

After the agreement is signed and to help the CNH meet the special conditions precedent to disbursement of the technical cooperation funds, the Bank will authorize disbursement of US\$20,000 to hire consultants and to purchase computer equipment and accountancy software for the executing unit.

As a condition precedent to the subsequent disbursement, the CNH will present the following to the Bank's satisfaction: (i) the conditions for administration of the project funds, as evidenced by: (a) a functions manual; (b) a manual of accounting policies; and (c) the procurement of equipment and the operation of the accounting system; (ii) a CNH strategic plan approved by the Management Council; (iii) a CNH business plan; and (iv) the regulations for the pilot credit program.

As a condition precedent to disbursement of resources under the pilot credit program: (i) the CNH must set up a credit committee to the Bank's satisfaction; (ii) installation works for the water tank and irrigation system for the individual production plots will have been handed over and be operational, as evidenced by a report from the civil engineer advising the CNH on the construction; and (iii) the CNH will have set up a separate bank account ("capitalization

account”) in which it will deposit recoveries of principal and interest under the program. The resources of the “capitalization account” may not be disposed of or used as a guarantee for financing operations involving third parties, unless the Bank has given its approval.

Prior to disbursement of the resources for the productive investments subcomponent, the CNH’s Management Council must have approved the management plans for the livestock, crop farming, and fish farming sectors.

Reports:

The CNH will prepare and present to the Bank, within 30 days of the end of each six-month period, reports on progress and on the use of the Bank’s resources. These reports will include: (i) a description of the activities carried out during the period covered by the report and information on the progress achieved towards execution of the business plan and related indicators; (ii) a description of the major achievements and difficulties encountered by the project in terms of fulfilling its targets and objectives; (iii) information on execution of the environmental activities included in the technical-cooperation component and the respective actions carried out in the context of the management plans; (iv) a statement on the use of Bank resources and contributions made by the counterpart; (v) a description of the updated business plan for the next six months, including measures to overcome any obstacles identified; and (vi) a capitalization account statement. The first of these reports will include baseline indicators concerning the cooperative’s production and marketing situation and the income of its members, which will be prepared by the consulting firm and the business management specialist.

The Bank will review the content, results, and recommendations in these reports. If significant deficiencies in project execution are found, the Bank may suspend disbursements until such time as the CNH has taken satisfactory steps to correct such deficiencies.

Evaluations:

In order to evaluate project progress and take corrective measures where necessary, a midterm evaluation will be performed when 40% of the project funds have been committed. A final evaluation will be conducted when 100% of the financing component has been disbursed.

The Bank’s Country Office in Guatemala will directly hire the services of an independent consultant to carry out this evaluation, which will be charged against the proceeds of the technical cooperation.

**Exceptions to
Bank policy:** None.