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SOCIAL ENTREPRENEURSHIP PROGRAM (SEP)

PRODUCTION AND MARKETING OF FRESH FRUITS AND VEGETABLES WITH SMALL PRODUCERS

(NI-S1001)

LOAN PROPOSAL AND TECHNICAL COOPERATION FUNDING

This document was prepared by the project team consisting of: Dieter Wittkowski (SDS/MSM), Project Team Leader; Marta Sarria (COF/CNI); Bernadete Buchsbaum (LEG/OPR); Cecilia Parra (LEG/OPR); Carlos Puig (consultant); and Margarita Reyes (SDS/MSM).

PRODUCTION AND MARKETING OF FRESH FRUITS AND VEGETABLES WITH SMALL PRODUCERS

(NI-S1001)

EXECUTIVE SUMMARY

Executing agency: Asociación Pueblos en Acción Comunitaria (PAC)

Amount and source:

	IDB (US$)	Local (US$)	Total (US$)
Financing:	425,000	537,000	962,000
Nonreimbursable technical cooperation:	180,000	170,000	350,000
Total:	605,000	707,000	1,312,000

The resources are drawn on the net income of the fund for special operations (FSO).

Financial terms and conditions:

Amortization period:	10 years
Grace period:	4 years
Disbursement period:	4 years
Interest rate:	4% real
Disbursement period:	42 months
Execution:	36 months

The grace period will apply solely to amortization of principal, not to interest. The financing will be denominated in local currency (Córdobas). A maintenance of value premium will be added to the interest rate, to be calculated on the basis of the annualized Consumer Price Index for the previous six months, as reported by the Central Bank of Nicaragua.

Problem to be addressed: Small producers have very limited access to high-value markets for their products, primarily because *such producers suffer the disadvantage of a weak position, which prevents them from expanding their market share consistently and efficiently*. This weak market position is related to: (i) an inability to supply **quality** products in the **quantities** needed to meet the requirements of competitive markets; and (ii) the **difficulty of establishing the marketing relationships** necessary to penetrate upscale markets. The causes of these problems include: (i) a lack of adequate

technology; (ii) low levels of organization; (iii) insufficient market knowledge and information; and (iv) the insufficient infrastructure of the post-harvest chain.

Objectives: The general objective of the project is to help increase the income of small producers in the northern region of the country through the production and marketing of fresh fruits and vegetables.

The project goal is to develop and consolidate a system for marketing fresh fruits and vegetables through the use of adequate production and organizational technologies and the necessary facilities for bringing small producers into domestic and international markets efficiently.

Description: The only way for the producers to improve their situation is by establishing and consolidating a system that adequately integrates the production and the marketing phases of their activities. Thus, the project will finance production assistance activities as well as the establishment of Regional Storage Centers (RSCs) and a Storage and Marketing Terminal (SMT) in Managua for the use of small producers. Once organized production is integrated with an adequate storage and marketing platform, small producers will have the means, the incentives, and the capacity: (i) to increase the yields of their harvests; (ii) to offer sufficient volumes of produce of consistent quality to domestic and export markets; and (iii) to establish more direct linkages with those markets. It is expected that this mechanism will allow small producers to increase their income as they benefit from the value added to their products and the margins on the products they export.

The project resources will allow the small producers and the executing agency: (i) to build and put into service the needed facilities, a logistical storage and marketing platform, and the necessary working capital; (ii) to improve productivity on the farms and product quality; (iii) using the RSCs and the SMT, to improve the organization and coordination of production so that the volumes required to fill entire large commercial orders will be available on an ongoing basis; and (iv) to participate directly in the processing and marketing of products.

The project is divided into: (i) a reimbursable financing component; and (ii) a nonreimbursable technical-cooperation funding component.

Financing component: (Bank: US$425,000; Local: US$537,000): The resources of this component will be applied to *investment in production facilities*. Five regional storage centers (RSCs) and a storage and marketing terminal (SMT) will be put into service. These

facilities will be provided with credit for working capital in order to facilitate the establishment of a marketing chain.

Productive investment subcomponent: (Bank: U$367,000; Local: US$337,000). In order to develop the organized storage and marketing of fresh fruits and vegetables, this subcomponent will provide for the construction or acquisition of facilities and equipment such as: (i) the construction of a storage and marketing terminal in Managua for the processing, packaging, distribution, and exportation of produce, as well as the construction or adaptation of five sets of facilities for regional storage centers (RSCs) for the storage, processing, and marketing of fresh fruits and vegetables, to be located in Matagalpa, Estelí, Ocotal, Palacagüina, and Jinotega. Also planned are civil works such as warehouses, loading and offloading areas, septic systems, the installation of basic services, and the structures required for the installation of needed equipment. (Bank: US$252,500, Local: US$162,000); (ii) procurement and installation of cold storage units at the SMT and RSCs (Bank: US$80,000; Local: US$125,000); (iii) procurement of quality control and measurement equipment. (Bank: US$34,500; Local: US$10,000); and (v) the procurement of refrigerated transport equipment (an eight-ton truck) (Local: US$40,000). All activities related to storage, sorting, cleaning, packaging, and dispatching activities of produce delivered by small producers will be coordinated and implemented from these facilities

Subcomponent of working capital credit for marketing: (Bank: US$58,000; Local: US$200,000). So that small producers do not need to sell their entire production to other intermediaries at low prices, the RSCs and the SMT will require ongoing working capital for marketing (WCM). These resources will be indispensable to the functioning of the marketing system of the centers and the 500 producers supplying them. Resources for working capital will facilitate the development of the marketing component throughout its product storage, processing, and marketing phases. It is vital that the RSCs and the SMT have sufficient liquidity from the beginning of the process for the storage of produce and immediate payment of producers, so that the Centers and the Terminal can compete with other intermediaries, plants, and storage and marketing enterprises. The Bank will disburse resources for these credits to PAC, which will have full responsibility for their repayment to the Bank. PAC will, in turn, on-lend these resources to the RSCs and the SMT depending on their working capital needs.

Technical-cooperation component (Bank: US$180,000; PAC: US$170,000). The technical-cooperation (TC) operation will target the following subcomponents: (a) the design and preparation of the

Regional Storage Centers (RSCs) and the Storage and Marketing Terminal (SMT); (b) the strengthening of the storage, processing, and marketing process for the fresh fruits and vegetables of small producers; (c) technical assistance and training for producers and plant personnel in the areas of production, post-harvest product management, and marketing; (d) environmental monitoring; and (e) evaluations and audits.

Environmental and social review: In its meeting of 17 July 2003, the Committee on Environment and Social Impact (CESI), reviewed this operation and recommended that the project's social and environmental strategy include the design and establishment of a monitoring and evaluation system. The Committee further recommended that monitoring be conducted on the basis of established indicators and that an independent evaluation be conducted periodically. Technical-cooperation funding will include resources to comply with this recommendation.

Beneficiaries: The direct beneficiaries of the project are about 500 rural families that produce fruits and vegetables in communities within the municipalities of Quilalí, Ocotal, Jinotega, Palacagüina, and Matagalpa. The families to be served by the project each have about six or seven members. Given that entire farm families will feel the economic impact of the project, not less than 3,000 people are expected to benefit from it. The annual *per capita* income of the project beneficiaries is approximately US$272.

The productive units (farms) of project beneficiaries: (i) are between 0.25 and 10 *manzanas* in size (80% of the farms are between .25 and 5 *manzanas*); (ii) have low or very low levels of capitalization; (iii) have inadequate market information and knowledge; (iv) lack the infrastructure and facilities to market their products; and (v) have experience in fruit and vegetable production and the potential to generate produce of the necessary quality for domestic, regional, and export markets.

Risks: The four potential *principal risks* associated with this project are: (i) the RSCs and the SMT do not successfully integrate the small producers as project beneficiaries; (ii) the RSCs and the SMT do not administer their lines of credit correctly, diverting resources to activities other than production; (iii) goals established for marketing in terms of sales volume and/or prices are not met; and (iv) natural risks (drought, floods, hurricanes, etc.) adversely affect agricultural activities in the project area.

To mitigate these risks, the following measures will be taken: *Risks (i) and (ii):* PAC will evaluate, on an ongoing basis, the development of the RSCs and the SMT, as well as their activities and results. The

accounting and inventory management systems will be integrated into a computer network shared by PAC, the RSCs, and the SMT. PAC will be able to verify the origin of products delivered to each RSC and to the SMT and to demand that the RSCs and the SMT meet their commitment to purchase the production of the target producers. If this commitment is not met, the management of the centers will be replaced. *Risk (iii):* While PAC has established the project's marketing goals based on its previous experience, market research, negotiations with potential buyers, and conservative projections, this risk will be mitigated through the establishment of strategic partnerships with domestic and international businesses that need to purchase large volumes of fresh products throughout the year. The ability of PAC to conclude new sales contracts with technical-cooperation resources will be strengthened. With these resources, PAC will contract the professional services of an expert in fruit and vegetable marketing. This expert will help to identify new market opportunities for PAC, contact new buyers, design a domestic and export marketing strategy, and make specific recommendations for the development of product marketing and the establishment of new and advantageous markets. *Risk (iv):* While natural risks are unlikely to be mitigated, the project will help to diversify agricultural production through the cultivation of annual and perennial, traditional and non-traditional crops for marketing and for their own needs. This will reduce the risk of total crop and income loss in the event of a natural disaster.

Role of the project in the Bank's country and sector strategy:

The Bank's new country strategy with Nicaragua, developed in document CP-2455 (28 August 2002), rests on three main pillars. Two of these are: (i) economic growth through increased production and competitiveness; and (ii) the productivity of the poorest groups. Top priority is given to social and productive investments that promote exports, benefit the poorest groups through job creation and higher incomes, and have a positive short-term impact. Through its direct impact on the productivity of the rural family beneficiaries and their ability to generate income, the present proposal is compatible with the Bank's country strategy with Nicaragua.

Coordination with other official development institutions

During the analysis and design of the project, the project team consulted with various international cooperation agencies that are actively involved in assisting the rural productive sector in the country in order to coordinate efforts and seek complementarity between the project and the operations of these other agencies. In meetings with the World Bank, the United States Agency for International Development (USAID), and International Cooperation of the Kingdom of the Netherlands, it was confirmed that the infrastructure and logistical platform needed to be improved in order to promote the marketing of fresh products and to advance activities

intended to establish links between producers and markets. It was agreed with these institutions that the Bank and the PAC would seek to coordinate project activities with the activities of other international agencies during the period of project execution.

Justification: The project is justified because: (i) it will contribute to a 25% increase in the net income of a group of about 500 low-income small producers; (ii) it will promote better quality produce marketed by small producers so that about 60% of their harvest will be sold as "highest quality" and will therefore command higher prices; (iii) it will establish closer and longer-lasting links between organized small producers and high-value markets, with projected total sales of up to US$970,000 in the third year of the project; (iv) it will improve the organized diversification of production in response to market demands; and (v) the executing agency, PAC, is an organization that primarily assists small producers, with broad experience in promoting and administering productive projects, and that has the ability to implement the activities described in the project proposal.

Special contractual clauses: As a condition precedent to the first disbursement of resources for the productive investment subcomponent (reimbursable financing), PAC must demonstrate, to the Bank's satisfaction that: (i) the municipal government of Managua has approved the construction plans for the Storage and Marketing Terminal (SMT); and (ii) it has legal possession, easements or other property rights to the land and the buildings where the SMT is to be built, and that it has the licenses and authorizations required to begin construction, issued by the appropriate authorities as required by national legislation.

As a condition precedent to disbursement of resources for the working capital subcomponent (reimbursable financing), PAC must present, to the Bank's satisfaction: (i) the definitive credit regulations for management of working capital resources; and (ii) the guarantees and agreements with the selected RSCs and the SMT administrators that specify the conditions for fund utilization transfers.

As a condition precedent to disbursement of the *technical-cooperation* resources, PAC will present, to the Bank's satisfaction: (i) the terms of reference for the consulting and technical advisory services to be financed with technical-cooperation funding during the first year of the project; (ii) evidence that a business development consultant has been selected for fresh produce storage and merchandising; and (iii) a project execution plan that includes annual targets for project objectives and outcomes. The project execution plan will need to include a timetable for fulfillment of performance

indicators established for the project, which will permit appropriate oversight and supervision of the operation as it progresses.

As a condition precedent to disbursement of more than 50% of the *technical-cooperation* resources, PAC must demonstrate to the Bank that the five RSCs and the SMT are functioning, each with its respective cold storage facilities, quality control mechanisms, working capital, and information and accounting systems in place.

Given the need for liquidity in order to contract the experts and technicians that are essential for project startup, the Bank will establish a revolving fund in an amount up to 30% of the total technical-cooperation component resources.

Reports, auditing, and evaluation:

Reports: PAC will submit *progress reports to* the Bank's Country Office 60 days after the end of each six-month period, with a final report 60 days after the deadline for the last disbursement. These reports will analyze the extent to which the performance indicators have been fulfilled and the progress made toward the full implementation of the work plan, including data on: (i) the number of loans to the RSCs and the SMT and the lending rates charged; (ii) the development of training and technical assistance programs; (iii) the operation of the RSCs and the SMT in terms of storage, sales, and the participation of small producers; (iv) the project's performance in incorporating technology, increasing productivity, and improving product quality; (v) the percentage of produce sold by the RSCs and the SMT that was provided by producers who had received project technical assistance and training; (vi) the percentage of producers who received project technical assistance and training and who did not sell their produce through the RSCs and the SMT, together with the reasons; (vii) information on the procurement process and selection of RSC and the SMT administrators; (viii) information on the monitoring of the project's environmental indicators; (ix) the evolution of prices and margins (as percentages of final sale price) that producers received for the products marketed through the project; and (x) a summary of contributions in cash and in kind made by PAC at the time of each report. Socioeconomic information on the target group should be compiled before project activities begin and should be presented in the first project report in order to provide a basis against which to measure changes in productivity and income of project beneficiaries. The last of these reports will be the final project report and should include a summary of the project's achievements with respect to its original objectives.

Annual audited financial reports of the financing component: Within 120 days after the close of each financial year, beginning with the

year that corresponds to the fiscal year in which the first project disbursement is made and continuing throughout the project execution period, PAC will present to the Bank audited financial statements of its accounts, including a financial report containing an opinion by independent authorities, indicating how the Bank's resources were utilized.

Evaluations: The Bank will utilize the technical-cooperation resources to commission a midterm and a final project evaluation. When 60% of the financing component has been disbursed, or 18 months into the project, whichever occurs first, a midterm evaluation of the project will be commissioned by the Bank In addition, a final evaluation will be conducted 36 months after the project begins. Project results will be measured taking into account the indicators presented in the logical framework and the table of project performance indicators.

Exceptions to Bank policy: None.