

PROPOSAL FOR FINANCING AND TECHNICAL-COOPERATION FUNDING TO:

FUNDACIÓN SOCIAL DE UNIÓN DE BANANEROS (FSB)

(SP-98-03-06-7-CO)

EXECUTIVE SUMMARY

AMOUNT AND SOURCE:	IDB:	
	Financing:	EURO 373,716
	Nonreimbursable technical-cooperation funding:	EURO 177,960
	Fund. Social de Bananeros:	EURO 177,960
	Recycling associations:	<u>EURO 24,025</u>
	Total:	EURO 753,661

As the proceeds of the financing and the technical-cooperation funding are to come from the European Union Special Fund for the Financing of Microenterprises, the Bank will only commit and disburse funds in ECUs.

FINANCIAL	Amortization period:	15 years
TERMS AND	Grace period:	4 years
CONDITIONS:	Disbursement period:	4 years

Interest rate: Interest will accrue on the loan at a fixed-at-disbursement rate to be established annually on January 1 throughout the disbursement period on the basis of the Consumer Price Index as published by Banco de la República in Colombia. This figure will be provided by the IDB Country Office in Colombia. Interest will be payable by the FSB in Colombian pesos.

OBJECTIVES: The general objective of the project is to improve the socioeconomic situation of a group of poor women who were displaced by the serious social problems in Colombia's banana growing region. The specific objectives of the project are to: (i) create employment and income opportunities for these marginal population groups; (ii) strengthen the organization and development of microenterprises that specialize in the collection and recycling of banana waste; (iii) establish a production process from collection and treatment to marketing of recyclable material; and (iv) help improve the environment in municipalities in the banana zone, by recycling vast amounts of waste material discarded by the banana industry (mainly polyethylene and polypropylene)

which adversely affect the environment and production.

DESCRIPTION: The investment component of EURO 373,716 will be used to finance the construction, adaptation, and outfitting of warehouses to store collected material, a plant for treatment, washing and processing of recyclable material, working capital, and vehicles to collect recyclable material in the field and transport the recycled product to market for sale as well as to provide transportation to and from the plantations where the work is done.

The sum of EURO 177,960 in nonreimbursable funding will be used to finance the following activities in the technical-cooperation component: (i) a study looking specifically at potential demand for recycled material, in order to determine the optimal size of the plant and needs in terms of production inputs; (ii) institutional strengthening programs to consolidate the four recycling associations; (iii) establishment and implementation of an Investment Unit belonging to the associations, which if justified will administer the project investment component; and (iv) establishment of a child-care center for the workers.

ENVIRONMENTAL CLASSIFICATION: The Committee on Environment and Social Impact (CESI) reviewed this operation on May 22, 1998, and made recommendations on the need to provide the beneficiaries special training in the technical aspects of the operation and pollution management as well as on the need for measures to ensure the health and safety of female workers. The project team took the recommendations into account in preparing the operation.

BENEFICIARIES: The present project seeks to target 350 very low-income families, who were displaced by the critical social conditions in the country's banana growing region. The project will therefore directly benefit approximately 1,750 low-income persons, mainly children, as well as widowed heads of households, who are considered part of the economically active population.

RISKS: Three possible risks could prevent the project objectives from being fully achieved.

Risk 1: There is a possibility that effective demand for polypropylene pellets and pressed polyethylene at market prices may be less than the annual sales estimates of 4,200 metric tons and 250 metric tons,

respectively. That is why the technical-cooperation funding will be used to conduct a special study of potential demand for recyclable material, in order to determine optimum plant size and optimum level of production inputs. The consultant performing the study will also help to identify markets and to market recyclable material.

Risk 2: There is a possibility that optimum organization and strengthening of women's associations and the investment unit may not be achieved. Such an eventuality would adversely affect project management and the creation of the necessary ties and agreements with other institutions (CORPOURABA, the Social Solidarity Network, municipalities, banana plantations, etc.) to properly implement the project. To minimize this risk, the technical-cooperation funding will be used to finance institution-strengthening programs to consolidate the four recycling associations, and the process of hiring the project manager will be strictly monitored by the Bank.

Risk 3: There is concern that armed conflict and social strife in the banana growing region could interfere with project execution. Although this risk is certainly present, the government's peace initiatives are expected to minimize it. Also, during the project appraisal, it was noted that it is in the interests of most of the communities in the project area and the insurgent groups themselves that the women targeted, who are poor, be able to find employment and have sustenance.

**THE BANK'S
COUNTRY STRATEGY:**

The August 1998 country paper for Colombia proposed support for direct investment in the social sectors to alleviate poverty, raise living standards, and reduce inequality, particularly through increased support for the rural sector.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

It is recommended that, in addition to the general contractual conditions, the loan and technical-cooperation agreement contain the following special conditions:

As conditions precedent to the first disbursement of the investment funding: (i) the special market study must confirm the existence of a potential market for recyclable material; (ii) the FSB, with the Bank's assent, must have hired the project manager; (iii) the FSB must have entered into agreements with the necessary parties (FSB, banana growers, recycling associations, and municipalities to implement the

project. Amongst other things, these agreements will need to include commitments with respect to volume and conditions for harvesting the material, rates for collection services, passenger and freight transport, issues of worker safety, land use, etc; (iv) the FSB must submit an itemized list of goods with specifications, prices, suppliers, and any other documentation needed for procurement, and (v) the FSB must demonstrate, to the Bank's satisfaction, that it has possession of the land on which the recycling storage facilities are to be built (see paragraph 4.6).

As a condition precedent to the first disbursement of the technical-cooperation funding, the FSB must have agreed with the Bank on the terms of reference, and the selection of the project manager and the consultant to perform the special study of potential demand for recyclable material (see paragraph 4.8).

Two interim evaluations will be performed of the project and the FSB. The first will be conducted prior to procurement of equipment and machinery for the investment component and when the following partial results have been achieved under the technical-cooperation component: (i) the market study of demand for recyclable material has been performed and the sizing of the plant completed; (ii) the Investment Unit has been formed and is functioning or a substantiated decision has been reached demonstrating that the FSB should carry out the investment component; (iii) the project manager has been hired; and (iv) an itemized list of goods to be purchased has been submitted with specifications, prices, and potential suppliers. The second evaluation will be performed six months after start-up of the plant purchased with project resources (see paragraph 4.13).

For disbursement of the technical-cooperation funding to continue and for disbursements for the investment component to commence, it must be demonstrated, to the Bank's satisfaction, that the FSB has taken the corrective steps agreed on with the Bank on the basis of the findings of the first interim evaluation (see paragraph 4.15).

Once the conditions listed in paragraph 4.6 have been fulfilled, and in order to have the necessary cash flow to expedite the process of procuring machinery and equipment, the Bank, if so requested by the FSB, will provide an advance of up to 20% of the funds of the investment component (see paragraph 4.11).

Given the nature of the program, the technical-cooperation funding will need to be available immediately. Hence, if so requested by the FSB, the Bank will provide an advance of up to 20% of the total technical-cooperation funding (see paragraph 4.10).

Since the technical-cooperation funding will defray initial expenses relating to the project manager, the management specialist, and the child-care center only for a limited time, the FSB will assure payment of future outlays for these expenses for at least five years after the technical-cooperation funding has been fully disbursed (see paragraph 4.7).