PRODUCTION AND MARKETING OF TUBER AND ROOT CROPS FOR SMALL PRODUCERS IN NUEVA GUINEA

(SP/TC-0209016-NI)

EXECUTIVE SUMMARY

Executing agency: National Union of Farmers and Cattle Breeders (*Unión Nacional de Agricultores y Ganaderos*) (UNAG)

Amount and source:

	IDB (US$)	Local (US$)	Total (US$)
Financing:	400,000	150,000	550,000
Nonreimbursable technical-cooperation funding:	180,000	50,000	230,000
Total:	**580,000**	**200,000**	**780,000**

The resources will come from the Fund for Special Operations (FSO) in foreign currency.

Financial terms and conditions:

Financing:

Amortization period:	15 years
Grace period:	5 years
Disbursement period:	36 months
Interest rate:	2% (real rate)

Technical-cooperation funding:

Execution period:	48 months
Disbursement period:	54 months

The grace period will apply solely to amortization of principal, not interest. The credit will be denominated in the local currency (córdobas). A supplement will be added to the interest rate to ensure maintenance of value, to be based on the annualized consumer price index (CPI) for the most recent six month period, as reported by the Central Bank of Nicaragua.

Problem to be addressed: The production and marketing of tuber and root crops by small-scale producers in Nueva Guinea is hindered by a series of constraints resulting in low productivity, suboptimal quality of the final product, farms that are not managed along business-oriented lines, and hence

low sale prices for their products. These factors lead to low income for producers, little or no bargaining power, and minimal use of potential value added to their crops. The main constraints are as follows: (i) **access to financing is very limited,** because of the small supply of credit in the area for agricultural activities; (ii) **producers use very rudimentary labor practices,** based exclusively on their empirical knowledge; (iii) there is **no business vision and organization for managing their productive activities;** and (iv) **small-scale producers are at the mercy of the intermediaries who purchase** the product, wash it, and pack it for exportation and keep most of the profits. Even though part of the crops produced by these campesino families is being exported through private marketing companies, the current chain of intermediaries *enables them to earn only a minimal portion of the final sale price*, because: (i) the different links involved in production and exportation reduce the margins paid to producers; and (ii) the companies that buy the crops do not have any incentive to benefit producers by paying them the best possible price; instead they seek to pay the lowest possible price.

Objectives: The general objective of the project is to boost the income of small-scale producers of tuber and root crops in Nueva Guinea by strengthening the integral production/business chain for their products.

The specific objectives are to: (i) *expand financing for the different phases of the production process,* so that producers can enhance productivity with increasingly higher quality; (ii) *help consolidate a production system* with sufficient volume and quality to directly meet market needs; and (iii) *give producers the infrastructure and resources they need to directly market their crops*, shortening the chain of intermediaries and enabling them to keep the profits from brokering their own products.

Description: The project has a reimbursable financing component and a nonreimbursable technical-cooperation component. Resources from the **financing component** (Bank: US$400,000; Local: US$150,000) will be used for: (i) the creation of a microcredit program (US$200,000) to finance the agricultural production of small producers; (ii) investment in infrastructure for collecting, processing, and marketing tuber and root crops (Bank: US$35,000, Local: US$50,000) that will support the organization and implementation of a storage, processing, and marketing company; and (iii) working capital for collecting and marketing the products (Bank: US$165,000; Local: US$100,000) that will facilitate implementation of the business chain.

The **credit program** will grant financing to roughly 200 small producers through individual credits for the purchase of inputs and materials (improved seed, fertilizers, other inputs) for planting roughly 300 *manzanas*[1] of *quequisque*, 100 of yucca, and 20 of yams. A microfinance institution will administer the credit program as a trust.

The **productive investments** will be applied to: (i) remodeling the building that will house the collection, processing, and marketing company; (ii) building the infrastructure for product processing and packing, to consist mainly of sinks for washing the crops; (iii) procuring the minimum equipment needed to process the product; (iv) upgrading the facilities in accordance with HACCP standards governing the sanitary, bromatological, and environmental aspects of processing plants; (v) sufficient power and water supply; and (vi) industrial waste treatment facilities.

The **working capital** funds will facilitate implementation of the business component in the phase of collecting and marketing the output of small producers. At the outset, it is essential for the marketing company to have sufficient liquidity to guarantee collection and marketing of the crops and ensure immediate payment of producers to enable them to compete with other collection and marketing plants and companies.

The **technical-cooperation component** (Bank: US$180,000; UNAG: US$50,000) will focus on activities that have an impact on: (i) transferring technology and know-how to enhance the productive and organizational management of small farms; (ii) enhancing the quality of *quequisque*, yucca, and yam crops to increase the proportion that is of export quality and to raise producers' income; (iii) allowing for optimal integral management of the collection and processing phase, as well as product packing; and (iv) promoting the most appropriate product marketing in terms of quality, volume, and price.

The activities to be funded with the technical-cooperation funding will include: (i) technical assistance and training for producers, to guarantee improved production methods and obtain better yields and higher quality production; (ii) training experts to optimize their specific field training in agricultural production technologies, particularly for tubers and root crops; (iii) training for staff at the collection and marketing company in product handling in the processing and packing phase; (iv) advisory assistance on the

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[1] 1 manzana (mz.) = 0.7 hectares (ha.)

marketing of tubers and root crops to enhance product placement efficiency; (v) technical assistance for managing HACCP standards; (vi) preparing a business plan for the marketing company; (vii) business promotion activities for the products; (viii) hiring an advisor to establish a project baseline that will be used as a benchmark for measuring project impact and achievements; and (ix) hiring external auditors and providing financing to conduct the corresponding evaluations. UNAG's contribution to the technical cooperation component will cover staff operating costs for project coordination and support, the fees in the third year for the extension workers and the specialist/coordinator, mobilization and maintenance expenses over the three years of project implementation, and the external audit that will be performed in the third year.

Environmental and social review: The Committee on Environment and Social Impact (CESI) reviewed this operation at its 11 October 2002 meeting. The few recommendations made at that meeting were incorporated into this document.

Beneficiaries: The project directly benefits about 200 rural families who produce basic grains, tubers, and root crops in the Municipio of Nueva Guinea in the *Región Autónoma del Atlántico Sur* (RAAS). The producers will participate in the project through the 12 cooperatives being formed in each district. Since the economic impact on farms touches the entire family, project benefits are estimated to reach at least 1,000 persons.

The productive units (farms) benefiting from the project have the following traits: (i) they have a maximum land area of 50 *manzanas*; (ii) they have low or very low levels of training; (iii) they do not hire permanent labor; (iv) they do not have a business plan for managing their productive resources; (v) they have little or no access to financial services for agricultural production; (vi) they have low levels of administrative and technical training; and (vii) they have experience in producing tubers and root crops and the potential to produce them with sufficient quality for exportation.

Risks: The four main risks the project could face are that: (i) the marketing company does not fulfill its function of transferring the profits to the producers; (ii) the company promotes incentives that force the beneficiaries to sell it their crops, even if there are more advantageous sales options; (iii) the producers improperly manage their credits, diverting them to activities other than production that do not produce the expected increase in productivity and income; and (iv) marketing targets for sales volume and/or expected prices are not met.

To mitigate these risks, the project plans to take the following measures: (i) producers will be involved in decision making at the

marketing company through their participation on its Board, in keeping with their capital contributions to the company; (ii) the producers can receive the technical assistance and training without being required to sell their crops exclusively to the marketing company; on the contrary, the company will have to offer them incentives so that they see the advantages of selling their crops to it; (iii) UNAG will hire a microfinance institution with experience in agricultural lending that will apply the most appropriate practices for issuing and administering the credit; that institution, together with UNAG, will strictly monitor use of the credits. Moreover, partial disbursements will be made, and each one must be preceded by confirmation of appropriate use of previous disbursements; and (iv) the marketing company AGRONEGSA will be actively involved from the outset of the project, applying its experience in marketing agricultural products to promote, market, and sell the crops in this project. In addition, with technical-cooperation funds, UNAG will hire an expert in marketing tubers and root crops, who will help to identify and open markets, contact buyers, prepare a national and export marketing strategy, and make concrete recommendations to develop product marketing and establish new, more profitable markets.

Bank and government strategy: The Bank's new strategy for Nicaragua, developed in document CP-2455 (of August 28, 2002), includes as two of its three main pillars: (i) economic growth, by enhancing competitiveness and increasing production; and (ii) productivity in the poorest groups. Those approaches assign top priority to social and productive investments that promote exports and benefit the very poor with a view to generating income and employment, and that have a positive impact in the short term. The proposed project, which will have a direct impact on productivity and generating income for the rural families targeted, is consistent with the Bank's strategy for the country.

Coordination with other official development agencies: The proposed project was prepared bearing in mind the activities pursued by the multilateral and bilateral donor organizations in support of small producers in Nicaragua. During project execution, every effort will be made to seek complementarity with other programs of such organizations.

Rationale: The project is justified because: (i) tubers and root crops are a profitable production option that is resistant to climate factors and with which small producers already have several years of experience; (ii) production of tubers and root crops very adequately complements agricultural production for consumption by the producers with a profitable market crop; (iii) it helps to correct the serious problem of marketing the aforementioned products, which has a quantitative and

qualitative impact on production of these items in the area; and (iv) the executing agency, UNAG, is an organization made up for the most part of small-scale producers with vast experience in promoting and managing productive projects, and it has the capacity to carry out the proposed project activities.

Special contractual conditions:

As a condition precedent to the first disbursement of resources for the **credit program** in the *financing* component, UNAG will present the following to the Bank's satisfaction: (i) the signed agreement between UNAG and the microfinance institution selected to manage the credit program; it will include performance indicators, the obligations of the parties, and the cost of administering the resources; (ii) an initial work plan for the first year of the project tailored to operating conditions in Nicaragua and in the target sector as of the time the project is approved; and (iii) the final Credit Regulations and proof that they have taken effect.

As a condition precedent to the first disbursement of resources for **productive investments** in the *financing* component, UNAG will present to the Bank's satisfaction the interagency agreement signed with AGRONEGSA for coordinating efforts in collecting, processing, and export activities during the year one of the project; that agreement must include, *inter alia*, the obligations of the parties, the permitted uses of the funds, the control mechanisms, and specification of the terms for transferring funds for productive investments from UNAG to the marketing company.

As a condition precedent to the first disbursement of **working capital** funds under the *financing* component, UNAG will present to the Bank's satisfaction the interagency agreement signed with AGRONEGSA for use and control of the funds, including specification of the terms for transferring funds from UNAG to AGRONEGSA. For disbursement of over 35% of the funds for **working capital** in the financing component, UNAG will present to the Bank's satisfaction a work plan for the actions to be conducted until the *Empresa de Comercialización Agrícola S.A.* (ECASA) [Agricultural Marketing Corporation] is created and officially incorporated, within one year, with full capacity to begin operations. That work plan must specify the terms for transferring working capital funds from UNAG to the marketing company. The Bank will disburse this part of the financing to UNAG as contributions are received from the other parties envisaged as partners in the marketing company (*pari passu*).

Before transferring in the books funds from the Bank (either for productive investments or for working capital) to the marketing company ECASA, UNAG must present to the Bank's satisfaction the Statute of said company. Any subsequent changes to the company's

Statute must receive the Bank's nonobjection.

As conditions precedent to disbursement of the *technical- cooperation* resources, UNAG will present to the Bank's satisfaction: (i) the terms of reference for the consulting and advisory services to be financed with technical cooperation funds during the first year of the project; and (ii) the signed inter-agency agreement between UNAG and the Training Center for the planned training activities.

For disbursement of over 40% of the technical-cooperation resources, the institution selected to administer the credit program must have begun to disburse funds from the reimbursable financing to the producers identified in the project. Moreover, for disbursement of over 70% of the financing resources, UNAG must have delivered to the Bank the report on the first phase of the consulting services of the specialist in marketing tubers and root, breaking down the marketing plan for the products and the sales outlets established.

Reports and evaluations:

Reports: UNAG will submit *progress reports* to the Country Office within 60 days of the end of each six-month period, as well as a final report within 60 days of completion of the final disbursement period. Those reports will include an analysis of fulfillment of the performance indicators and of the progress made in executing the work plan, including: (i) the number of loans and the interest rates given to producers; (ii) performance indicators for the microcredit trust; (iii) implementation of the training and technical assistance programs; (iv) the operation of the marketing company in terms of collection and sales; (v) the extent to which the project has incorporated technology, increased productivity, and improved quality; (vi) the percentage of products sold by ECASA that were supplied by producers who received technical assistance and training through the project; (vii) the percentage of producers who received technical assistance and training, but did not sell their crops through AGRONEGSA/ECASA; and (viii) a summary of the contribution in cash and in kind made by UNAG, AGRONEGSA, the cooperatives, and individual producers, as of each report period. The first semiannual report must include the results of the baseline study compiling socio-economic and productive information on the project beneficiaries at the start of the project.

Evaluations: The Bank will use technical cooperation funds to contract a midterm and final project evaluation. When 60% of funds in the financing component have been disbursed, the midterm evaluation of the project, contracted by the Bank, will be performed. It will measure: (i) the progress made on farms in adopting better agricultural techniques; (ii) the use and number of credits granted for production of tubers and root crops; (iii) financial performance

indicators for the microcredit program; (iv) the status of the training activities for producers; (v) the status of the technical cooperation activities; and (v) the progress made in marketing the crops. To measure these elements, the evaluations will use the indicators presented in the logical framework, the table of performance indicators for the project, and the socio-economic and productive data compiled in the baseline study.

Furthermore, when 100% of resources in the financing component have been disbursed, the final evaluation will be performed. It will measure and document: (i) fulfillment of the objectives; (ii) the operation and results of the agricultural credit program; (iii) the marketing and sale of the products, including volumes, quality, and prices; (iv) economic and social indicators for the target families; and (v) the lessons learned from the project. The compilation of initial data on the beneficiaries (the baseline study) will serve as the basis for measuring changes in the indicators of productivity, product quality, and income earned by the beneficiaries as a result of the project. To measure these, the indicators presented in the logical framework and in the table of performance indicators will be used.

Exceptions to Bank policy: None.