

## MULTILATERAL INVESTMENT FUND

### PROJECT SYNTHESIS

1. **Country:** Haiti
2. **Project Number:** HA-L1129
3. **Project Name:** BUILDING A RESILIENT VETIVER VALUE CHAIN
4. **Executing Agency:** Les Essences NIDO
5. **IDB Unit:** Multilateral Investment Fund (MIF)
6. **Financing Amount and Source:**

	<u>IDB</u>	<u>Local</u>	<u>Total</u>
Reimbursable financing:	US\$500,000	US\$200,000	US\$700,000
Technical Cooperation:	US\$263,823	US\$364,410	US\$628,233
Total:	US\$763,823	US\$564,410	US\$1,328,233

### 7. Goal and Purpose:

Haiti is the world's leader in the production of vetiver oil, an aromatic essential oil used in the manufacture of high-end perfumes, soaps and cosmetics. The current worldwide production of vetiver oil is approximately 250 tons per year, of which Haiti produces more than half. In 2013, Haiti's essential oil exports totaled US\$12.7 million, representing more than half of the country's agricultural exports. Key buyers for Haiti's vetiver oil include multinational corporations such as Unilever, and leading fragrance and flavor companies, such as Firmenich, L'Oréal, and Estée Lauder.

Les Essences NIDO, a new player in the essential oil industry, is a family owned company founded in 2008. It currently exports amyris oil to the United States, Europe, India, and United Arab Emirates. However, the increasing scarcity of amyris wood in Haiti and the Dominican Republic, poses a significant threat to the long-term growth of the business. To manage this risk, NIDO needs to expand its operations into vetiver, an aromatic oil that has higher margins, a shorter growing cycle, and a sustainable local supply throughout Southern Haiti.

The objective of the project is to increase the supply of sustainably grown vetiver by strengthening the linkage between growers, distillers, and Les Essence NIDO in a win-win strategy. The project seeks to create a supply chain model for responsible sourcing by establishing direct purchasing between Les Essence NIDO, up to seven cooperatives, and three small distillers.

The project will address the specific challenges in the supply chain by: (i) providing affordable investment capital for NIDO to expand its operations; (ii) providing working capital to cooperatives and distilleries in NIDO's supply chain to purchase and process mature vetiver

roots; (iii) improving organization of the supply chain by working directly with cooperatives and selected small distillers; and (iv) achieving certifications and implementing a system of traceable production to comply with buyer guidelines and improve prices for planters.

## **8. Description:**

Two components will be financed to achieve the objectives: reimbursable financing in the amount of US\$700,000 (IDB: US\$500,000 and NIDO: US\$200,000) and non-reimbursable technical-cooperation funding in the amount of US\$628,233 (IDB: US\$263,823 and NIDO: US\$364,410). Les Essence NIDO will be the borrower and executing agency for the non-reimbursable technical-cooperation component.

- ***Component 1: Reimbursable financing component***

Under this component, the MIF will extend to Les Essence NIDO a loan of US\$500,000. The loan will be used to: a) purchase new equipment for the company's distillation plant in Port-au-Prince; and b) provide working capital funds to producer cooperatives and small distillers in NIDOs supply chain.

Sub-Component 1(a): Approximately US\$300,000 of the MIF funds, will be allocated to improve NIDOs distillation plant. NIDO will use the proceeds of the loan to make improvements to its plant. These improvements will expand production capacity, ensure quality, and improve efficiency of the plant allowing the company to take advantage of economies of scale and meet the growing demand for its products.

Sub-Component 1(b): The remaining US\$200,000 of the MIF loan will be used by NIDO to on-lend to its suppliers of vetiver as working capital. The objective of this lending program is to provide affordable and timely financing to cooperatives and distillers to source raw material from planters and process roots into oil. The advances will be managed through purchase orders for which NIDO will provide a no-interest cash advance. All advances will be made in local currency.

- ***Component II : Non-reimbursable Technical Cooperation component***

The MIF loan will be supported by a technical cooperation program which aims to strengthen the company's supply chain and create sustainable partnerships with cooperatives and small-scale distillers in the South and South East departments. The technical assistance component will be implemented by NIDO in partnership with a local implementer, The Business Support and Services Centre for Local and International Enterprises (CASELI – in French), a local NGO with a mission to strengthen rural enterprises and invest in businesses that build sustainable livelihoods.

Sub-Component II(a): Promoting a sustainable production model adapted to the needs of smallholder farmers. The objective of this component is to promote a planting and harvesting system for vetiver that is environmentally sustainable and responds to the needs of the small-scale producer. To promote cost effective and timely access to inputs, the project will establish nurseries and a system for seedling production to be managed by cooperatives participating in the project. Planting and harvesting will be synchronized to align with the 12-18 month maturity period for high quality roots. To address the livelihoods aspects of production, the project will encourage the production of complementary crops such as beans, key lime, sorghum, and poultry which are

compatible with vetiver production and will provide farmers with additional income streams to cover short term expenses.

**Sub-Component II(b):: Enhancing the Business Capacity of Cooperatives.** The objective of this component is to strengthen the business and managerial capacity of the cooperatives in NIDOs supply chain. By promoting aggregation through cooperatives and farmer groups, the project will reduce the need for intermediaries and allow planters to capture a higher share of prices based on bargaining power, quality, certifications, traceability and economies of scale. This component will focus on the formation and formal incorporation of up to seven cooperatives. These cooperatives will receive intensive and hands-on technical assistance to strengthen cooperative governance, strategic planning, financial management, and to establish internal controls and operational systems for traceability.

**Component II(c): Implementing Standards for Sustainability and Transparency along the Supply Chain.** The objective of this component is to establish and implement standards along the supply chain to improve quality and transparency. First, purchase contracts will be established with cooperatives and distillers to formalize sourcing. These purchase contracts will lay out the volume of vetiver to be supplied, the quality, the timeframe, terms of zero interest cash advances, and repayment periods. To support the contract system, a pricing policy will be developed for the participating cooperatives to clearly communicate to planters how roots will be priced. This will also include a quality protocol which will explain the condition of the roots required

## **9. Beneficiaries:**

The project will be implemented in the South and Southwest Departments of Haiti. It will directly benefit up to seven cooperatives, comprising 500 small-scale vetiver planters in the areas of Les Cayes, La Valle de Jacmel, Cavaillon, and Port Salut. These planters rely on vetiver as their main source of income and the proceeds are often used as a form of household savings to cover school fees, home repairs and other major investments or expenses. The typical vetiver planter cultivates multiple small plots, each planted with different crops and spread out geographically. Growing other cash crops such as peas, beans, lime and livestock allows farmers to supplement their income.

The project will also benefit three small distilleries in NIDOs supply chain. These distilleries are owned and operated by entrepreneurs and have the capacity to process between two to five drums (400 - 1000kg) of oil per month. These traditional distilleries operate at a lower technical capacity and do not have the scale or sophistication to export or engage with international buyers.

## **10. Expected results and benefits:**

The project will consolidate NIDOs supply chain for vetiver by creating win-win partnerships with cooperatives and distillers.

The following table lists the main indicators to be measured over the life of the project that contribute to the MIF's Corporate Results Framework (CRF), as well as the target values that will be achieved at the end of the project.

CRF Code	Indicator	Target
330600	Average annual sales to export markets by NIDO	US\$4.0 million
230200	Number of enterprises with new strategic business partners	10
230600	Number of enterprises that adopt sustainable production practices (i.e. certifications)	10
230500	Number of enterprises that gain access to credit products	10
n.a.	Volume of working capital deployed to cooperatives and distillers	US\$900,000

By 2020, NIDO will be purchasing approximately 120 metric tons of roots from farmer cooperatives annually. This volume of purchase translates into a cash flow of US\$1.0 million to farmers and cooperatives during each harvest season. In addition, NIDO will purchase up 7,000 kg of oil (35 drums) from small distillers, generating US\$1.7 million in purchases from MSMEs.