

ARGENTINA

PROPOSAL FOR FINANCING AND TECHNICAL-COOPERATION FUNDING FOR:

Cooperativa Agropecuaria y Artesanal Unión Quebrada
y Valles (CAUQUEVA) (SP/TC-9902047)
Cooperativa ASHCA CAYCU (SP/TC-9902045)
Cooperativa QUINE RAQUIZUAM (TC-9905043)

EXECUTIVE SUMMARY

AMOUNT AND SOURCE: IDB: Financing:

CAUQUEVA:	US\$ 500,000
ASHCA CAYCU:	<u>US\$ 500,000</u>
TOTAL:	US\$1,000,000

IDB: Nonreimbursable technical-cooperation funding:

CAUQUEVA:	US\$ 235,000
ASHCA CAYCU:	US\$ 234,000
QUINE RAQUIZUAM	<u>US\$ 250,000</u>
TOTAL:	US\$ 719,000

Local counterpart funding:

CAUQUEVA:	US\$ 186,660
ASHCA CAYCU:	US\$ 104,821
QUINE RAQUIZUAM:	<u>US\$ 57,977</u>
TOTAL:	US\$ 349,458

PROGRAM TOTAL: US\$2,068,458

The total amount of financing and the Bank's contribution will be the equivalent of US\$1,719,000, from the net income of the Fund for Special Operations (FSO) in local currency.

FINANCIAL	Amortization period:	20 years
TERMS AND	Grace period:	5 years
CONDITIONS:	Disbursement period:	4 years
	Credit fee:	1%

OBJECTIVES: CAUQUEVA (US\$735,000)

General objective: To contribute to the socioeconomic betterment of small-scale vegetable farmers in Valle de la Quebrada de Humahuaca and the surrounding communities of Tumbaya and Tilcara.

Specific objectives: To improve the management of the small farms and the storage and marketing system of vegetable production, to incorporate irrigation technology that is modern and appropriate for the region, to make small investments in infrastructure

and strengthen the management of the cooperative so that it can eventually become financially self-sufficient.

The project will reach 250 small-scale farming families in four years (1,400 direct beneficiaries), most of whom are indigenous.

ASHCA CAYCU: (US\$734,000)

General objective: To contribute to the socioeconomic betterment of low-income rural families that produce cotton in the Chaco Santiagueño region.

Specific objectives: To improve the productivity of small-scale cotton farms, to support the process of consolidation and/or generation of employment in viable activities linked to diversification of small-farm production, to make small-scale investments so that greater volumes of production can be stored and marketed, and to strengthen the management of the cooperative so that it can eventually become financially self-sufficient.

The project will reach 300 cotton-producing families (1,800 direct beneficiaries) in four years.

QUINE RAQUIZUAM: (US\$250,000)

General objective: To contribute to the social and productive development of the poor indigenous families in marginal areas of the Andean region in the province of Neuquén.

Specific objectives: To provide Cooperativa QUINE RAQUIZUAM with a fund for analysis and launching of alternatives to the current production and marketing system, based on the extensive sheep-farming. In addition, training and technical assistance will be provided to promote the adoption of sustainable production techniques and the protection of the environment, directly linked to the production system of indigenous families, now in serious decline.

DESCRIPTION:

CAUQUEVA: The region called Quebrada de Humahuaca has historically been considered from a social policy perspective instead of an economic-productive approach that would take advantage of its comparative advantages. However, 50% of the families in the region live off of agricultural production. Farming thus constitutes the primary source of genuine income generation and employment. Through this project, the Bank will support the efforts of the cooperative by: (a) creating a revolving credit fund to finance

vegetable crops and make improvements in the water distribution and use system for irrigation of small farms; (b) building a vegetable processing plant to add value to the crops, and providing equipment to optimize the commercial distribution of production; (c) strengthening the financial, commercial, managerial, and technical capacities of the cooperative and implementing an adequate lending methodology to execute and supervise the credit component; (d) providing training and technical assistance to the end-beneficiaries in order to help increase productivity on the small farms and promote the use of appropriate technologies.

ASHCA CAYCU: The structure of cotton marketing in the project area is in the hands of middlemen known as *bolicheros*, whose practice is to provide advances in kind to producers and later retain their crops at unilaterally fixed prices that are much lower than market prices. This profiteering mechanism is one of the factors behind the heavy flow of migration of the rural families to the outskirts of cities. Through this project, the Bank will support the efforts of the cooperative by: (a) creating a revolving credit fund to finance the cotton harvest and inputs for the diversification of production by small farms; (b) making small investments to improve the storage and marketing system, so that higher profits can be made thanks to a better bargaining position; (c) strengthening the financial, commercial, managerial, and technical capacities of the cooperative and implementing an adequate methodology to execute and supervise the credit component; (d) providing training and technical assistance to the end-beneficiaries in order to help increase productivity on the small farms and launch new, viable activities.

QUINE RAQUIZUAM: The cooperative works in indigenous Mapuche communities in five departments of Neuquén province, located in the highlands and foothills of the Andes. These indigenous families do not have genuine prospects for short-term development; their traditional productive system, based on the production of wool, appears to be seriously threatened by the lack of markets and the growing desertification associated with the unsustainable use of natural resources, especially the soil. Through this project, the Bank will support the strengthening of the cooperative and the Mapuche communities in order to: (a) build consensus on the introduction of technology and technical assistance for natural resource management especially water and

pastures; (b) possibly expand the current agroforestry plan, which includes productive diversification at the family level; (c) improve the operational and technical capacity of the cooperative, providing funds for the procurement of administrative equipment and a basic stock of inputs to initiate a plan to finance sheep-shearing; and (d) include equipment for the transportation and distribution of inputs.

BENEFICIARIES:

CAUQUEVA:

The project will reach 250 small fruit- and vegetable-farming families, most of whom are of indigenous descent, and of whom 130 are cooperative members. The families each have five to six members and all work on the farms. The direct beneficiaries would thus total 1,400 individuals.

ASHCA CAYCU:

The project will reach 300 small-scale cotton and goat-farming families, which each have five to six members who all work on the farms. The direct beneficiaries would total 1,800.

QUINE RAQUIZUAM:

The cooperative has 338 members. They are sheep-farming families from indigenous communities of Mapuche origin, and they can be classified as "structural poor". Each family consists of six members.

RISKS:

The risk in these operations would be that the cooperatives may not reach the market scale and desired level of capitalization and management to ensure the sustainability of the planned investments and the proposed objectives. In order to reduce these risks, resources from the technical-cooperation funding have been earmarked for use in strengthening the managerial and technical capacity of the cooperatives through the hiring of consultants who specialize in the marketing of regional products and the transfer of appropriate technologies for credit, production, and resource management. Moreover, it was agreed with the cooperatives that they would charge market rates for the subloans (see special contractual conditions), but that would be lower than usury rates. This policy, along with the terms and conditions established for the Bank financing, will help the cooperatives achieve the degree of capitalization necessary to maintain the revolving credit fund, and make debt service payments with the genuine income from normal business activities.

Another risk for all three cooperatives is the natural and climatic risk, which cannot be measured.

**THE BANK'S
COUNTRY STRATEGY:**

The Bank's strategy in Argentina focuses on three basic areas: (a) deepen and consolidate modernization of the State; (b) reduce poverty and increase the standard of living of the population through actions to provide sources of productive employment; and (c) increase the productivity and competitiveness of the tradable goods sectors. The proposed operation is consistent with the policies and procedures for the Social Entrepreneurship Program set forth in document GP-75-9 of November 23, 1998. The program is also consonant with the Bank's strategy to assign priority to operations in the agricultural sector and to strengthen specialized institutions providing financial and technical services to low-income, marginal groups such as rural microentrepreneurs. Moreover, the operation is in line with the priorities established under the Bank's agricultural strategy, which seeks to improve income for low-income small farmers, develop new markets for current production by small-scale farmers, and develop commercial agriculture, including mechanization and diversification of production.

**GOVERNMENT
NONOBJECTION:**

The Government of Argentina indicated its nonobjection to the financing of this operation in note DNPOIC No. 403 dated May 28, 1999, from the National Office for Projects with International Financial Institutions.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

It is recommended that the agreements include the following special conditions, in addition to the general contractual conditions:

FOR ALL THREE COOPERATIVES:

Mid-term evaluation:

A mid-term evaluation of all three cooperatives will be conducted once 60% of the financing has been committed to assess the goals achieved and the efficiency of the procedures followed for project execution. The evaluation will be conducted by outside consultants. If the Bank deems the findings of the evaluation satisfactory, it may make the remaining disbursement or disbursements. Otherwise, it will agree with the intermediary on the measures the intermediary must take before the Bank will authorize commitments to resume.

Special conditions precedent to the first disbursement:

Project coordinator: The cooperatives must submit to the Bank a short list of candidates tentatively selected for the position of project coordinator, in accordance with the Bank's rules and procedures.

FOR CAUQUEVA AND ASHCA CAYCU:

Special conditions precedent to the first disbursement:

Credit Regulations: Prior to the first disbursement of the financing, the cooperatives must submit to the Bank evidence that the Credit Regulations agreed upon with the Bank have entered into force. The Regulations may not be amended without prior approval by the Bank.

Investment schedule:

Prior to disbursement of the funds earmarked for investments, the cooperatives must submit an updated investment schedule to the Bank.

Lending rate:

As set forth in document GP-75-9, the interest rate charged for the subloans must be positive in real terms, and must include a spread that covers the operating costs of the cooperative plus the costs of credit risk analysis, according to the following methodology: in addition to the fee charged by the Bank, the borrowing rate for 180-day fixed-term deposits, representing the reference rate for market borrowings, will be charged. The spread on the subloans must be used to capitalize the revolving credit fund. In addition, the cooperative must add the points necessary to cover the operating costs of administering the line of credit and establishing a loan loss reserve.

During the project execution period, the Bank and the cooperative will review the lending rate semiannually to ensure that it is consistent with the applicable Bank policies and with the structure of short-, medium-, and long-term lending rates on the local market.

Portfolio delinquency:

During the project execution period, the cooperative agrees to maintain the delinquency rate in its portfolio of subloans financed with Bank resources at no more than 10% of the total. Should it fail to do so, the Bank reserves the right to defer

disbursements, and will agree with the cooperative on the measures the cooperative must take before the Bank will authorize commitments to resume, taking into account any circumstances that may justify a temporary increase in delinquency. To this end, the cooperative will report to the Bank semiannually on the status of the portfolio financed with the revolving credit fund.