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BOLIVIA

SOCIAL ENTREPRENEURSHIP PROGRAM

PROCESSING AND MARKETING CHAIN FOR AJÍ, PEANUT, AND OTHER PRODUCTS

(SP/TC-0303013-BO)

FINANCING AND TECHNICAL-COOPERATION PROPOSAL

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EXECUTIVE SUMMARY

Executing agency: Fundación Acción Cultural Loyola [Loyola Cultural Action Foundation] (ACLO)

Amount and source:

	IDB (US$)	Local (US$)	Total (US$)
Financing:	228,000	52,000	280,000
Nonreimbursable technical cooperation:	115,000	142,000	257,000
Total:	343,000	194,000	537,000

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

Financial terms and conditions:

Amortization period:	12 years
Grace period:	4 years
Disbursement of the financing component:	48 months
Execution of the financing component:	42 months
Interest rate:	2% real rate

The grace period will apply only to amortization of the principal, not the interest. The loan will be denominated in the local currency (bolivianos). Maintenance of value will be added to the interest rate and will be set on the basis of the annualized consumer price index (CPI) of the last six months, using Central Bank of Bolivia data.

Problem to be addressed: With the support of Fundación Acción Cultural Loyola (ACLO), three associations of small farmers in the Department of Chuquisaca have begun to install basic infrastructure for processing agricultural products. Although those organized groups have the potential to cultivate and process high-quality products that are in demand in the markets, using environmentally-sustainable techniques, they need to overcome the *following problems to boost their productivity, increase their share of added value, and begin to directly market their products*: (i) a drop in the yield and quality of crop varieties; (ii) heavy losses in the post-harvest phase; (iii) intermediaries who pay low prices for primary products; (iv) the lack of institutional credit for working capital, since the few financial institutions in the municipio only support individual farmers; (v) the lack of financial and administrative management capacity, due to insufficient

experience and know-how for preparing financial reports, working out production costs, accounting processing, monitoring, and human resources management; and (vi) where a market for processed products exists, the farmers' associations do not have appropriate strategic and technical marketing plans for expanding their markets and forging strategic trade partnerships.

Objectives: The *general objective* is to develop the capacity of farmers who are organized in "rural campesino enterprises" to manage the production, processing, and marketing of agricultural byproducts, in competitive conditions, thereby boosting their income.

The *specific objectives* are to: (i) improve the yield and quality of ají and peanut (maní) crops and enhance post-harvest management; (ii) boost the capacity of farmers' associations to add value to their production by processing their agricultural products; and (iii) strengthen the business management of the three farmers' associations, by building their business and administrative capacity.

Description: The project is divided into **two components**: (i) a reimbursable financing component; and (ii) a nonreimbursable technical-cooperation funding component. The reimbursable **financing** component contains funding for: (a) productive investments; and (b) working capital loans for farmers' associations. Working capital is essential, because it will enable the associations to buy quality crops produced by their members in the appropriate quantities and time frame. The nonreimbursable **technical-cooperation** funding component will increase the operation's impact on the target group and will help to strengthen technical and operational aspects of both the associations and the executing agency.

Reimbursable financing component (Bank: US$228,000; Local: US$52,000). The funds in this component will be used for investment in productive equipment (US$48,000) to make three mini processing plants in the farmers' associations operational and for working capital loans for those plants (US$180,000) to help implement the business chain.

Investment subcomponent: (Bank: U$48,000; Local: US$48,000). This subcomponent will allow for the procurement of processing equipment, such as platform scales, cookers and sealers, autoclaves, boilers, and caldrons, etc. to obtain ají and peanut byproducts. ACLO will supplement the necessary technology by contributing US$48,000 in equipment. Small processing plants will be established in the municipios of Alcalá, El Villa, and Sopachuy. Each mini-plant will have the capacity to obtain ají, peanut, and maíz culli byproducts, such as: (i) ají paste and sauce; (ii) roasted

peanut, peanut flour, peanut brittle, and candied peanuts; and (iii) api morado, api fortificado, and other corn-based drinks made with maíz culli. Most of the processing equipment needed is compatible for all three primary products.

Subcomponent for working capital loans: (Bank: US$180,000; Local: US$4,000). To prevent small farmers from having to sell all of their output to intermediaries at low prices, the farmers' associations need working capital for marketing. Those funds will boost production and are essential for energizing the entire trading system of their 400 members. The working capital for marketing will enable the associations to buy at least part of their members' production at prices that are fairer to the farmers, thereby strengthening and encouraging the association system. The Bank will disburse the loan funds to ACLO, which will be fully responsible for repaying the loan. ACLO, in turn, will lend those funds to the three farmers' associations, based on the working capital needs of their respective mini processing plants. To this end, the Bank will provide a loan of US$180,000, and the associations will make a counterpart contribution of US$4,000 to establish the fund.

Technical-cooperation component (Bank: US$115,000; Local: US$142,000). The total cost of the nonreimbursable technical-cooperation component is estimated at US$257,000, which would finance the following activities: (i) hiring production, administrative, and business experts and specialists to provide technical assistance to the farmers and the associations; (ii) advertising; (iii) contributing to experimentation, testing, and adaptation of crop varieties; and (iv) procuring small equipment. The technical-cooperation funding will also cover the cost of a midterm and a final evaluation, a final audit, and a small line item for contingencies.

Environmental and social review: The Committee on Environment and Social Impact (CESI) reviewed the operation at meeting 13-03 of 11 April 2003 and approved it, as it appeared in the project profile. The technical-cooperation component includes funding for the executing agency to monitor project-related environmental considerations.

Beneficiaries: The final project beneficiaries are the families of the more than 400 small farmers in 37 communities who have between 0.5 and 2.5 effective hectares of ají, peanut, and other products. These families in the municipios of Alcalá, El Villar, and Sopachuy in the Department of Chuquisaca have average annual income of approximately US$700.

Risks:

There are three main risks with this project: (i) that member farmers do not adequately assimilate the know-how to sustain and develop the production and business innovations in their organizations; (ii) that ACLO's marketing activities do not successfully develop sufficient trade channels and mechanisms to market its members' processed products; and (iii) that the turbulent economic, social, and political situation in rural Bolivia and the resulting uncertainty could hinder the efforts that ACLO and the farmers' associations make to effectively implement their plan to boost productivity and enhance product marketing.

To mitigate the first risk, the project will strengthen ACLO's capacity to provide ongoing technical assistance to farms, to ensure proper implementation of the productive management technologies and the crop varieties tested. To mitigate the second risk, the project will enhance the marketing activities ACLO has already begun, which will make it possible to craft and execute a strategic marketing plan tailored to the associations' products. Although it would be very difficult for the project to completely mitigate the third risk, ACLO's lengthy experience supporting productive and organizational processes in the target group and the trust it has generated through its work with campesino associations enable it to lay a sufficiently solid and dynamic foundation for maintaining and consolidating the partnerships formed and overcoming potential conflicts that could affect the areas where the project is being executed.

The Bank's country and sector strategy:

One of the four strategic components of the new Bolivian Poverty Reduction Strategy (EBRP), approved by the Bank in June 2001, which is now serving as the basis for updating the Bank's country strategy is to: *expand job and income-generating opportunities*, by fostering productive capacity; promoting rural development through increased investment in productive and marketing infrastructure, supporting technological assistance; supporting microenterprise and small business; and developing microfinance.

The EBRP's work plan proposes several strategic actions to expand the poor population's job and income-generating opportunities. The **activities in rural areas** include: (i) expanding *productive infrastructure*; (ii) *processing and marketing* activities for small-scale agricultural production; (iii) strengthening the ability of specialized public and private organizations to support the sector, and promoting *strategic partnerships* between those organizations and international cooperation agencies; (iv) developing *financial services* for the rural sector; and (v) implementing *technology transfer* services. Therefore, this operation is consistent with the strategies of the Government of Bolivia and the Bank.

Coordination with other official development institutions: The proposed project was prepared taking into account the different activities and programs of multilateral organizations and bilateral donors working to support small farmers in Bolivia. During project execution, the executing agency will seek complementarity with those programs, in order to coordinate interventions and foster synergies and partnerships to achieve a greater impact.

Rationale: The proposed project is justified for the following reasons: (i) ACLO is the only institution specifically devoted to promoting business-driven self-management processes in these agricultural communities; (ii) it offers income-generating and job opportunities to one of the poorest rural sectors in Bolivia; (iii) production of peanut and ají, primarily, to be processed into diversified byproducts is one of the few options these communities have to participate in more competitive markets that offer greater income potential; (iv) it will have a positive impact on the environment through improvements in rational land use; and (v) it will strengthen three farmers' associations, equipping them to manage their own production-processing-marketing activities and will build up their capital assets through sustainable business activities.

Special contractual clauses: As a condition precedent to the first disbursement of technical-cooperation resources, ACLO will present the following to the Bank's satisfaction: (i) the terms of reference of the agricultural field experts to be hired with technical-cooperation funds; (ii) the terms of reference of the marketing expert; (iii) a production and marketing plan for ají and peanut for the first year of the project, supported by an up-to-date list of clients who intend to buy the products; and (iv) an implementation plan that includes annual targets for fulfilling project objectives and outputs and a timeline for achieving the indicators in the logical framework, which will be used to monitor and supervise project progress.

As a condition precedent to the first disbursement of reimbursable financing resources, ACLO will present to the Bank's satisfaction the final Credit Regulations for administering the funds that ACLO will lend to the farmers' associations, approved by the Director General of ACLO.

As a condition precedent to the first disbursement of resources in the financing subcomponent for working capital for marketing, ACLO will present the following to the Bank's satisfaction: (i) the final strategic business plan prepared by the expert hired with technical-cooperation funds, approved by the Manager of ACLO Chuquisaca and validated by the Boards of the three farmers' associations; (ii) the Regulations establishing the mechanisms for allocating the working

capital for marketing among the farmers' associations, validated by the associations and approved by the Manager of ACLO Chuquisaca; those Regulations must also include a mechanism for creating a surplus reserve to capitalize the farmers' associations once the debt to ACLO has been amortized; and (iii) a report on the progress made in: (a) installing and starting up the equipment and machinery bought with financing resources; and (b) the training and technical assistance activities for farmers on issues directly related to the investments and the associations' use of the working capital for marketing.

In order to disburse to ACLO more than 75% of the technical-cooperation funds, ACLO must have disbursed 40% of the resources in the financing subcomponent for working capital for marketing to the farmers' associations.

The Bank will establish a revolving fund with up to 30% of the total funds for the two project components, to provide the necessary liquidity for the investments, working capital, and hiring key experts and technicians to start up the project.

Reports, audits, and evaluations:

Reports: ACLO will submit to the Bank, within 60 days following the end of each six-month period, reports on project progress and the use of Bank funds. Those reports will include: (i) a description of the progress made in implementing the project execution plan and in the performance indicators, as well as a list of the main achievements and difficulties the project encountered in achieving its targets and objectives; (ii) an updated project execution plan for the following 12 months, including steps for overcoming obstacles identified; (iii) information on the economic, training, and technical assistance benefits that small farmers received on production and marketing issues; (iv) information on the strengthening of the associations; (v) information on changes in the prices that the associations have paid farmers for their primary products; (vi) information on the interest rates that ACLO charges the associations; (vii) information on the growth of the reserve created in each farmers' association; and (viii) a status report on the use of Bank resources and the counterpart contributions.

The first project report will compile pre-project socioeconomic data on the target group, to measure changes in the productivity and income of the beneficiaries. The last such report will serve as the final report and will contain a summary of the progress made in achieving the original objectives.

Audited annual financial reports for the financing component. During execution of the financing component, within 120 days following the close of each fiscal year, starting with the fiscal year in which

disbursements of the financing commenced, ACLO will present to the Bank its financial statements audited by independent auditors. In addition, within 90 days following the end of the period for the last disbursement of technical-cooperation funds, ACLO will present an audited financial report showing how the Bank and local counterpart contributions were used.

Evaluations: The Bank will use technical-cooperation resources to commission a midterm and a final evaluation of the project. The midterm evaluation will be performed by a consultant selected and hired by the Bank with technical-cooperation funds, when 50% of the Bank's contribution has been disbursed or 18 months into project execution, whichever occurs first. Presentation of that report to the Bank's satisfaction is a condition for subsequent disbursements.

The final evaluation will be conducted when 100% of the financing component has been disbursed. It will measure and document: (a) the results in terms of fulfilling the objectives; and (b) the lessons learned from the project.

Exceptions to Bank policy: None.