

VENEZUELA

SMALL CACAO PRODUCERS ON THE PARIA PENINSULA

(TC-99-12-01-9-VE)

EXECUTIVE SUMMARY

Executing agency: Fundación Proyecto Paria [Paria Project Foundation] (FPP)

Amount and source:	US\$*	Euros (€)
IDB: (nonreim. tech.-coop.)	250,000	295,508
Local counterpart:	<u>240,000</u>	<u>283,688</u>
Total:	490,000	579,196

The resources will be drawn on the European Special Fund for the Financing of Small Productive Projects.

*Exchange rate: €1=US\$0.846 (as of 21 November 2000)

Terms:

Disbursement period:	42 months
Execution period	36 months

Issue to be addressed: Some 40% of the state of Sucre is used for cacao cultivation. About 4,000 small cacao producers live in Arismendi, Benítez, Mariño, and Valdez, the municipios into which the Paria peninsula is divided. Many of these producers are subsistence farmers with three hectares of land or less; they produce only a fraction of their potential yield and market unprocessed cacao of varying quality through small local intermediaries at less than the international price.

Small cacao producers in Paria are not capitalizing on the comparative advantages offered by "criollo" cacao or on the use of technology to raise their income. As a result of this situation, there are no financial services to meet their investment needs.

To improve the profitability of these small operations, it will be necessary: (i) to raise productivity per hectare, which is presently well below international standards; (ii) to enhance the quality of the bean, making the most of the comparative advantages of the local cacao plant; and (iii) to increase the added value obtained from processing and marketing cacao, using the fermentation process in order to command higher prices.

Objectives:

The purpose of the project is to bring about a sustainable increase in the income of residents in small cacao-producing communities in the Paria peninsula through the dissemination of productive cacao-growing practices. This means applying modern business methods and criteria to increase the productivity, quality and added value of the end product.

The specific objectives are: (i) to raise the income of 480 small cacao producers through the dissemination of agricultural technology to improve productivity and cacao quality and of processing technology to increase the added value of the end product; (ii) to open up new business opportunities for 600 members of small producer associations through the adoption of the fermentation process and linkage to export networks; (iii) to prevent the growing degradation of the local environment through the transfer of proper methods for cacao cultivation on 480 hectares of land, one for each producer; and (iv) to improve access by small cacao producers to financing for their activities through either the FPP or other institutions.

Description:

The nonreimbursable technical-cooperation funding (US\$250,000) will be used for the following activities:

- a) Strengthening of producer associations;
- b) Individualized technical assistance in technology upgrading and rehabilitation of cacao plantations: pruning, grafting, cleaning, shade management, biodiversity, and plantation density;
- c) Technical assistance – through the associations – in post-harvest processing and cacao marketing methods;
- d) Legal assistance for establishing bank guarantees, regularizing land titling;
- e) Membership of small cacao producers in a cacao processing and marketing company; and
- f) Strengthening of the credit program as an area separate from technical assistance.

Local counterpart (US\$240,000)

The FPP will contribute US\$240,000 for establishing and starting up a cacao processing and marketing company.

In addition, FPP will provide US\$400,000 for its credit program. These funds will be available in parallel with the technical-cooperation funding for a period of five years from commencement of the project.

Environmental and social review:

The Committee on Environment and Social Impact reviewed this operation on 28 July 2000 and made recommendations on environmental practices for crops and irrigation systems. It was further recommended that a simple environmental management plan be included. These recommendations were taken into consideration in preparing the present document.

Beneficiaries:

Approximately 600 cacao producing families in the municipios of Arismendi, Benítez, Mariño, and Valdez, located on the Paria peninsula in the state of Sucre, will benefit directly from this project, through the upgrading and rehabilitation of at least one hectare per family.

In addition to its direct benefits, the project will encourage the dissemination of productive cacao-growing practices among many of the 4,000 small-scale cacao producers on the Paria peninsula by making available cacao processing and marketing services such as those to be offered by the cacao company, and by bringing producer associations into the project.

Risks:

One risk is that the technical assistance may not achieve the expected results, and in particular that hectare productivity will not rise to the anticipated levels by the time the principal needs to be repaid. To attenuate this risk, the FPP will have the support of experienced staff which has been successful in upgrading and rehabilitating local cacao plantations employing technologies similar to those used by the FPP and a private company.

A second risk is that the FPP's credit area might not monitor and control the credits properly, thus leading to suboptimal use of credit resources, which could produce a situation of arrearages. To minimize this risk, the FPP will perform monitoring assessments before each of the five disbursements of credits.

A third risk is that international cacao prices may decline substantially, an event that would reduce the profits of the cacao processing and marketing company, and consequently the earnings of

the FPP and the producers as strategic partners. To mitigate this risk, the fermentation company will concentrate on selecting, mixing, and fermenting cacao in order to market it as a high-grade cacao, thus adding a premium to each ton produced and offset this decline in prices.

The Bank's strategy:

The adoption by the Paria producers of advanced cacao upgrading and rehabilitation technology and their access to world markets are processes that fit in with the Bank's strategic objectives for Venezuela: increased productivity and competitiveness of nonoil resources, poverty reduction, and regional development.

Rationale:

The operation fits in with the policy of the Social Entrepreneurship Program since it will benefit groups with scant economic resources that now lack opportunities for maximizing their economic potential.

The project is also justified because it will provide small cacao producing associations with ways of adopting productive cacao-growing practices based on business marketing strategies and technologies, so that they can increase their incomes and capitalize on Venezuela's comparative advantages as a producer of high-grade cacao.

From the preceding analysis, it can be seen that the program is viable on the terms and conditions proposed in this document, and it is therefore recommended that the operation be approved.

Special contractual clauses:

Prior to the disbursement of 25% of the technical-cooperation funding, the FPP shall submit, to the Bank's satisfaction: (i) commitments from the entities that they will contribute at least US\$200,000 over a period of five years from commencement of the project for the small cacao producer credit program; (ii) a detailed project timetable, making it possible to monitor and supervise the progress of the operation and the performance indicators; (iii) a separate business plan for the cacao processing and marketing company, including strategies for the purchase, processing, and marketing of cacao, revised projections, an organizational chart, and a plan of operations; (iv) a draft agreement establishing the initial share holdings of the partners and the conditions for partial transfer of the benefits from, and ownership of, the processing and marketing company to producers so that the latter are able to increase their stake in the company to at least 40% by the end of the three-year project; and (v) information on the target group and on another group not receiving project benefits, prior to startup of activities, so that the differences in income between the two groups can subsequently be compared.

Before the remainder of the technical-cooperation funding is disbursed, the FPP shall submit, to the Bank's satisfaction: (i) the agreement signed between the producer associations, the cacao advisory company, and the FPP on the establishment and operation of the cacao processing and marketing company; (ii) additional commitments to increase the lending resources to a total of US\$400,000 over five years from commencement of the project; and (iii) evidence that credit program operations are separate, including the credit program operating manual, and that the corresponding decision has been taken by the FPP's board of directors.

The contract will stipulate that the performance indicators must be met and that any departure by more than 20% below the targets set for three or more indicators will be grounds for suspending disbursements.

The Bank shall be entitled to evaluate compliance with the performance indicators for the cacao credit program after completion of the three-year program in order to determine whether the FPP continues to be eligible for reimbursable financing from the Bank.

**Evaluations
and reports:**

When 50% of the Bank financing has been disbursed, a midterm evaluation to be commissioned by the Bank will be performed to gauge: (i) the progress made in attaining the performance indicators; (ii) the increase in productivity and cacao revenue; (iii) financial performance indicators of the credit program; (iv) performance of the cacao marketing and fermentation plant; and (v) lessons learned and recommendations for improving the project.

When 90% of the budget has been disbursed, the Bank will use the proceeds of the technical-cooperation funding to hire consultants to perform a final evaluation. The evaluation will be used to measure the impact of the project on the groups studied in the initial evaluation and the extent to which the objectives have been fulfilled as well as to document the lessons learned.

Also, the FPP will submit progress reports to the Country Office within 60 days after the close of each six-month period and a final report within 60 days after the deadline for the final disbursement. These reports will include an update of the performance indicator table and a follow-up on the project execution plan.