

LAKE TITICACA TROUT-RAISING MICROENTERPRISES

(TC-98-11-68-0-PE)

EXECUTIVE SUMMARY

Requester: Asociación de Productores de Trucha (APT)

Executing agency: Asociación de Productores de Trucha (APT)

Financing:		EUROS
	IDB (technical cooperation): US\$245,756	270,000
	Local contribution (APT): <u>US\$ 27,306</u>	<u>30,000</u>
	Total: <u>US\$273,062</u>	<u>300,000</u>

The funding will be provided by the Special Fund for the Financing of Microenterprises of the European Economic Community. Bank commitments against these resources will be calculated in euros, and disbursements will be made in local currency.

*Exchange rate: US\$1 = 1.09865 euros (as at 11 May 2000)

Terms:	Execution period:	36 months
	Disbursement period	42 months

Objectives: The **general objective** is to boost the income and employment levels of families living on the shores of Lake Titicaca by enhancing the productivity and competitiveness of trout-raising in floating cages.

The **specific objectives** are to (i) raise the volume and quality of production among 33 trout-raising microenterprises that are members of Asociación de Productores de Trucha (APT), in response to the recent increase in demand; and (ii) build APT's management capacity with a view to linking members' output to new markets and fostering continuous and sustainable development of the sector.

Description: The operation has two core components: an investment component aimed at supporting APT-member production and marketing activities and a technical-assistance component aimed at enhancing product competitiveness and marketing capacity. The project's strategy will pursue two lines of action. The first line will be the development of three pilot production and demonstration centers ("demonstration farms") in the three main

regions of APT's sphere of influence: Capachica, Juli, and Chuicuito. The centers will serve as vehicles for the transfer of improved technologies, training, and demonstration activities for 33 APT-affiliated microenterprises as well as individual producers in the three regions. The centers are also intended to provide quality infrastructure and a production methodology based on improved inputs and modern trout-raising practices. They will be owned by APT and run as profit centers. Sales will generate revenue for APT, which will then be ploughed back into activities for members.

The second line of action will be the establishment of a commercial enterprise to open new markets for trout, channel members' output to those markets, and consolidate existing marketing arrangements. APT will receive direct support to set up a legally established company in pursuit of economic benefits for trout producers.

To be eligible to take part in the project, APT members must meet the following requirements: (i) be paid up in their membership fees; (ii) not be delinquent in any loan payments; (iii) sign an agreement whereby they will pay, at the time of sale, a commission equivalent to 3% of their total output marketed through the company; and (iv) agree to respect market requirements in terms of quality and timeliness of delivery.

The **investment component** will be geared towards the production and marketing activities of APT and its members. APT will use these funds to: (i) purchase productive infrastructure and equipment, including improved cages for the three demonstration farms; (ii) provide working capital for the three farms; and (iii) provide working capital for the company's marketing activities.

The **technical-assistance component** will be geared towards building the technical, productive, and management capacity of member microenterprises as well as consolidating APT's business and management capacity as the formal representative and coordinator of its members' productive and business activities. To this end, support will be provided for: (i) professional services to coordinate the management and financial/accounting aspects of the project; (ii) training and advisory services for member microenterprises in modern technologies for trout-raising in floating cages (roe and fingerling management, handling of cages, nutrition, health, environmental considerations, etc.) and improving quality so as to meet national and international market requirements; (iii) consulting services

for the preparation of APT's business plan and the establishment and management of a trout-marketing company; (iv) consulting services for trout health and feeding; (v) procurement of computers and training; (vi) participation in international trade fairs and exchanges with other trout-raising programs; and (vii) dissemination of outcomes and lessons learned.

Environmental and social review:

At its 28 January 2000 meeting, the Committee on Environment and Social Impact reviewed this operation and made recommendations with regard to the production cycle, waste management, and coordination with local organizations. These recommendations are reflected in the present plan of operations.

Beneficiaries:

The project will directly benefit 182 APT-member families, for a total of over 1,150 people, 51% of whom are women. The beneficiaries are very low-income members of rural indigenous communities whose main livelihood is trout-raising and crop-raising at the subsistence level, given the limited size of their landholdings.

Risks:

The project faces risks in the areas of *production*, *marketing*, and *institutional capacity*. The *production* risks are (i) disease or pests that could affect output; and (ii) overestimating the potential for raising current production levels. To mitigate the first of these risks, experts will be hired to oversee production aspects and laboratory equipment will be available for water quality analysis. The second risk will be mitigated by means of work plans for the fishery experts that will be hired; the key outputs will be higher yield levels. APT has demonstrated that it is able to gather and convey production-related knowledge to its membership.

The main *marketing* risk lies in potential demand not materializing. Despite current demand for trout, APT needs to identify niches where it can be competitive, and it needs to ensure that its output is up to market standards and priced competitively. The findings of the market study will enable APT to identify the most feasible sales channels. Technical assistance to improve product quality will ensure its competitiveness.

The *institutional* risk stems from APT's very limited management experience. This risk will be mitigated by (i) hiring consultants – with technical-cooperation funding – to assist APT in preparing its business plan, adopting procedures, controls, and systems to manage its operations, and hiring staff of proper caliber to implement the project; and (ii) technical and management support for APT through cooperation with other

agencies that support trout-raising and marketing activities in the area.

The Bank's strategy:

The Peru country paper (document CP-1279 of 10 April 1998) underscores the importance of (i) promoting private-sector investment in productive infrastructure; (ii) supporting private-sector efforts to boost factor productivity and enhance the international competitiveness of domestic output; (iii) support microenterprise and small business by improving their productivity; and (iv) reducing poverty, especially among the poorest of the poor in highland and jungle areas. Accordingly, this operation falls within the Bank's strategy for Peru.

Rationale:

This project is justified to the extent that (i) it broadens income and employment opportunities for the country's most disenfranchised groups who hold special potential for improving their living conditions by means of productive and foreign-exchange-generating activities; (ii) the fisheries sector – freshwater fishing in particular – holds special export potential for this region; and (iii) APT is the only organization that represents the interests of dozens of microenterprises involved in trout-raising in Lake Titicaca, seeking to boost and market their output and to link commercial interests of a grassroots group with the international market for a nontraditional product.

Special contractual clauses:

Prior to the first disbursement, APT is to present to the Bank's satisfaction the terms of reference and the agreement to be signed with the specialist that APT will hire – using technical-cooperation funds – to assist it in the specific activities outlined below.

Prior to the following disbursement, APT is to present the following documents to the Bank's satisfaction: (i) a business plan for the first year of the project (for APT and for the company that is to be established), including annual targets for output, sales, and returns; (ii) a copy of the articles of incorporation of the new company; (iii) the credit regulations of the working-capital fund for demonstration farms and the company; (iv) the terms of reference for other consultants to be hired with technical-cooperation funds; and (v) APT's initial financial statements.

Since funds need to be available immediately – given the type of activity to be carried out – the Bank could set up a revolving fund equivalent to up to 30% of the total amount of technical-cooperation funding.

APT will prepare monthly financial and operations reports for the demonstration farms and the marketing firm. APT will present to the Bank annual consolidated reports of financial and narrative information within the 60 days following the close of each fiscal year beginning with the fiscal year in which the first disbursement is made. The report is to include the following information as a minimum: (i) information on the demonstration farms and their output increases; (ii) information on the transfer and adaptation of technology through advice and training to microproducers, including gender-disaggregated data on which producers received training and in what areas; (iii) a summary of APT's cash contributions broken down by budgetary heading; (iv) information on the status of achievement of set targets; and (v) an annual work plan updated for the following 12 months. The last such report will serve as the final report and should contain a summary of achievements attained in light of the original objectives.

To ensure proper implementation, the Bank will use project funds to conduct a midterm evaluation and will hire the necessary consulting services directly. The evaluation will be conducted upon completion of the eighteenth month of implementation.

To ensure that resources under the investment component maintain their value, APT will proceed as follows during project implementation: (i) contributions from the technical-cooperation operation to the working capital of the demonstration farms and the marketing firm will be treated – from an accounting standpoint – as the latter's capital; (ii) APT will pay into a separate bank account (capitalization account) interest of 10% per annum (in nominal terms and in local currency) on amounts disbursed for working capital; and (iii) APT will include in the financial reports presented to the Bank information on the performance of the capital stock and the capitalization account. Upon project completion, the Bank will determine – in consultation with APT – the conditions for disposing of the resources accumulated in the capitalization account.