

## BOLIVIA

### FINANCING AND TECHNICAL COOPERATION PROPOSAL PROJECT IN SUPPORT OF BEAN PRODUCTION AND MARKETING

(SP/TC-99-02-04-8)

#### EXECUTIVE SUMMARY

**Executing agency:** National Association of Bean Producers (ASOPROF)

<b>Amount and Financing:</b>	IDB:	US\$	Euros (*)
	Financing:	400,000	417,144
	Technical cooperation	111,200	115,966 (nonreimbursable)
	ASOPROF:	<u>200,000</u>	<u>208,572</u>
	<b>Total:</b>	<b>711,200</b>	<b>741,682</b>

(\*) Exchange rate: US\$1=Euros 1.04286

The program financing resources will be drawn from the European Community Special Fund for Microenterprises.

<b>Terms:</b>	Execution period:	36 months
	Amortization period:	10 years
	Grace period:	4 years (**)
	Disbursement period:	42 months
	Interest:	4%

(\*\*) The grace period applies only to the principal.

The currency of disbursement will be U.S. dollars. Calculations to maintain the value of the financing resources will be based on that currency.

**Objectives:** The main objective of the program is to expand and consolidate bean cultivation on a sustainable basis, increase the volume of beans suitable for export, and thus make beans a viable alternative crop for small producers. This would be accomplished by increasing the area under cultivation, improving production techniques, raising productivity levels, and marketing new bean varieties on the international market.

The specific objectives are to: (i) raise the income of approximately 500 producers by increasing exportable bean production through direct intervention at the *minifundio* [small farm] level; (ii) promote organized partnership by helping to consolidate a veritable socio-productive system at the grassroots level; and (iii) strengthen the commercial role played by ASOPROF by improving its finances and managerial capacity.

**Description:** The program consists of two components: (i) a financing component for the purpose of establishing a *marketing fund*; and (ii) a technical cooperation component for ASOPROF, to build on its strengths, correct its administrative and technical weaknesses, and improve the organization of producers.

#### **(a) Financing component**

ASOPROF requires a *marketing fund* to provide the working capital necessary to purchase production from the beneficiaries and arrange for its exportation. The fund would be capitalized with the income generated by such exports. The *marketing fund*, to be set up by ASOPROF with contributions from the IDB, could be used to finance a winter crop and a summer crop (in two different regions), and would thus revolve twice a year. The essential purpose of the Bank financing component of this program would be to enable ASOPROF to leverage and reinforce its marketing role by providing it with the liquidity necessary to adequately capitalize its assets.

The *marketing fund* would not function as a credit program per se, but rather as working capital for ASOPROF to facilitate and increase bean purchase and sale transactions. Producers are therefore not charged interest or fees. There are no set amounts or limits as under a credit policy, since this will depend on the production volume of each *minifundio*, which on average has about five hectares suitable for bean cultivation.

#### **(b) Technical cooperation component**

The technical cooperation component will be carried out simultaneously with the financing component. The technical cooperation is designed to provide intensive support to ASOPROF and bean producers in developing their capacity for financial and business management, increasing their product sales, and developing a well coordinated socio-productive-marketing system. The technical cooperation components, which are described in detail in the Plan of Operations, include: (i) technical support to improve producer productivity through better crop management (planting, harvesting, and storage) and the introduction of two new varieties of bean suitable

for export; (ii) training and technical assistance for ASOPROF personnel and management; (iii) trade missions; (iv) technical assistance for producers in constructing a well coordinated socio-productive system; and (v) support for the training, organization, and production processes.

**Environmental and social review:**

On August 4, 1999, the CBO Environmental Specialist reviewed the profile for this operation and made a number of minor recommendations, which are now reflected in the financing proposal.

**Beneficiaries:**

Approximately 500 bean producers, members of poor families in the valleys and plains of the departments of Chuquisaca, Santa Cruz, and Cochabamba (Bolivia), will benefit from the program. These are small-scale producers with 30 to 50 hectares of land, 5 to 15 of which may be suitable for farming.

**Risks:**

There are three main risks in this program: (i) ASOPROF's management is weakened by the excessive and multi-functional workload placed on its current manager; (ii) although the market potential of the "Eastern Red" variety of bean is promising, a dynamic global economy could produce surprises; since more than 50% of ASOPROF's finances depend on exports of that variety, it would be advisable to try other profitable varieties in new markets, such as the "Castilla" used in Spain; and (iii) climate change poses a risk for much of the hemisphere; this is a risk inherent in all agricultural production, but in this case represents a highly unpredictable unknown quantity.

The Plan of Operations includes the following technical cooperation measures to mitigate risks (i) and (ii): (i) a business administration specialist will be hired to help strengthen the managerial structure, providing the support needed to address the first risk; and (ii) an agronomist will be hired to assist in the introduction of new varieties and help increase the production and productivity of current crops.

**The Bank's country and sector strategy:**

This operation is consistent with the priorities of the Bank and the Government of Bolivia. Among other documents, the country paper for Bolivia (GN-2036, of May 24, 1999) assigns high strategic priority to economic growth, the creation of employment opportunities in the private sector, and increased labor productivity. Services for rural and microenterprise development are key elements of this course of action. The program is also consistent with the Bank's general strategic goals in the area of microenterprise development (GN-1938-3), promoting access to financial and non-financial services for low-income population segments and supporting efforts to strengthen institutions that provide such services.

**Justification:** The proposed program is justified for the following reasons: (i) the producers can sell their goods to other companies and even to smugglers, but ASOPROF is the only institution specifically dedicated to systematic promotion of the target sector, with an entrepreneurial vision and a commercial structure; (ii) the program would provide income and employment opportunities to one of the poorest rural sectors of Bolivia; (iii) bean production is one of the country's productive activities with greatest export potential; (iv) the program will have a positive impact on the environment through improvements in rational land use; (v) the program will better enable ASOPROF to perform its role of catalyst for microentrepreneurial activity in the agricultural sector; and (vi) the program will serve as a pilot project for the replication of association-building activities, by demonstrating their viability as an *alternative means* for small-scale producers to compete in a globalized economy.

**Disbursements:** The execution period for the program would be 36 months, and the disbursement period 42 months. The Bank technical cooperation financing would be disbursed according to a timetable of activities to be presented to the Bank by ASOPROF. The Bank reserves the right to establish benchmarks or conditions for the disbursements, such as: (i) contracts for the purchase of beans for export; and (ii) progress relative to the benchmarks described in paragraph 4.15 of the main document.

The Bank will establish revolving funds to cover 40% of the financing and 30% of the technical cooperation. For the financing, the percentage was based on a price of US\$308 per metric ton of beans (the purchase of 520 metric tons, i.e. roughly 25% of projected total sales during the first year of the program, would thus cost approximately US\$160,000, i.e. 40% of the financing). For the technical cooperation, the 30% figure represents the amount needed to cover consultant fees (3 consultants) for six months and to start up the trade mission activities.

**Special contractual clauses:** In addition to the general contractual conditions, it is recommended that the financing and technical cooperation agreement include the following special conditions:

Prior to the first disbursement of the financing resources, ASOPROF must submit to the Bank: (i) operating regulations for administering the *marketing fund* established with Bank resources and the working capital established with counterpart resources for the purchase of seeds; (ii) an up-to-date report on sales the previous year; (iii) a work plan for bean production and marketing during the first year of the program, including semiannual performance benchmarks and the

assumptions on which they are based, as well as the finalization of export agreements for execution; (iv) a progress report on financial adjustment measures taken by ASOPROF, such as: the elimination of unproductive assets, the incorporation of processing infrastructure and technology, cost reductions, etc.; and (v) the terms of reference for the field experts and business administration specialist.

Prior to the first disbursement of the technical cooperation resources, ASOPROF must provide the Bank with terms of reference for the business administration consultant and a description of the selection process.

### **Reports**

Throughout program execution, within 60 calendar days following the close of each semiannual period, ASOPROF will provide the Bank with a semiannual progress report and an updated work plan for the next twelve months.

Throughout program execution, within 120 days following the close of each fiscal year, beginning with the fiscal year in which the disbursements are initiated, ASOPROF will submit audited financial statements on its own operations and on the financing, including certification by independent auditors of the amount of ASOPROF's counterpart contribution. Ninety days after the final technical cooperation disbursement, ASOPROF must provide the Bank with an independently audited financial report showing how the Bank's contribution was used.

### **Evaluations**

Two evaluations will be conducted: an interim evaluation 18 months after program startup and a final evaluation 36 months after startup. The evaluations will be conducted taking into account paragraphs 4.14 and 4.15 of the financing proposal.