

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

GUATEMALA

**SOCIAL ENTREPRENEURSHIP PROGRAM
QUALITY AND PRODUCTIVITY OF SMALL-SCALE BEEKEEPERS
ENGAGED IN FAIR TRADE**

(GU-S1001)

FINANCING AND TECHNICAL COOPERATION PROPOSAL

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EXECUTIVE SUMMARY

Executing agency: Cooperativa de Producción Integral “Apicultores del Suroccidente” R.L. (“Copiasuro integrated production cooperative”)

| Amount and source: | <u>IMD</u> | <u>Local</u> | <u>Total</u> |
|----------------------------------------|--------------------|---------------------|---------------------|
| Financing: | US\$258,000 | US\$ 57,000 | US\$315,000 |
| Nonreimbursable technical cooperation: | <u>US\$117,000</u> | <u>US\$ 48,000</u> | <u>US\$165,000</u> |
| Total: | US\$375,000 | US\$105,000 | US\$480,000 |

The resources will be provided by the Italian Trust for Microenterprise Development (IMD).

Terms and conditions:

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| Amortization period: | 10 years |
| Grace period: | 5 years |
| Execution period: | 48 months |
| Disbursement period: | 52 months |
| Interest rate: | 3% |

The grace period will apply solely to amortization of principal, not interest. The loan will be disbursed and denominated in U.S. dollars.

Problem to be addressed: The Guatemalan economy has historically relied on exports of traditional farm crops such as coffee, sugar, and bananas, which account for 31.6% of total exports. Yet the crisis of recent years in these sectors has increased emphasis on strategies to diversify and promote nontraditional products such as honey. Beekeeping’s export potential makes it an attractive diversification option for small-scale farmers.

Some small-scale beekeepers already engage in this activity, but must overcome the following shortcomings if they are to raise their income competitively: (i) First, small-scale beekeepers have low productivity and insufficient output due to a lack of (a) access to

credit, which prevents them from investing in new hives, and (b) technical skills to make the most of their resources through effective control of output, or to make their hives more productive. (ii) Second, suboptimal quality makes the beekeepers' products less competitive, a shortcoming they can address by (a) lowering their operating and production costs through optimal production practices and properly managing economies of scale before, during, and after harvest; (b) developing and maintaining the conditions for quality along the entire production line, based on good production practices and good manufacturing practices at collection centers; and (c) seeking to add value to the primary product. (iii) Third, small-scale beekeepers face problems in marketing and in penetrating new markets, because of their lack of working capital and failure to develop marketing strategies to diversify their products and make business contacts with new customers.

Objectives:

The project's **general objective** is to help the small bee producers of the southwestern region raise their income through improvements in production, generation of added value, and marketing of honey.

The project's **specific objectives** are: (i) to improve beekeepers' access to financing with which to produce and market their products; (ii) to raise honey output by increasing the number of hives in production and enhancing productivity; (iii) to improve quality and add value to the honey, to meet market needs; (iv) to enhance beekeepers' ability to efficiently market their products in high-value markets; and (v) to build Copiasuro's business management capacity, so that it can deliver better production and marketing support services for small-scale beekeepers.

Description:

The project has two components: (i) a reimbursable financing component; and (ii) a nonreimbursable technical cooperation component.

1. Reimbursable financing component (IDB: US\$258,000; Copiasuro: US\$57,000)

Resources from this component will finance three subcomponents: (i) a beekeeper credit facility; (ii) investments by Copiasuro in equipment to process honey and increase its value added; and (iii) working capital from Copiasuro to market the honey.

- a. **Beekeeper credit facility.** These funds will be used to facilitate beekeepers' access to credit and to finance capital deepening and working capital needs for beekeeping production. The proceeds will be channeled

to some 175 beekeepers who are either already, or about to become, members of the cooperative. The beekeeper credit facility resources will be applied to two lines of financing: (i) **Capital deepening**, which will establish a loan fund for the purchase of (a) 4,000 new hives, to increase the average size of the apiaries; (b) beekeeping tools, extraction equipment, and stainless-steel vats to raise quality and facilitate compliance with international health standards in honey processing; (c) tents for honey extraction in environments with controlled sanitary conditions; and (d) for stationary apiaries close to beekeepers' farms, financing the construction of extraction chambers with solid materials. (ii) Beekeepers' **working capital** will be financed for hive management and maintenance (purchase of winter feed, stamped wax, appropriate pharmaceuticals, etc.).

- b. **Investments in processing equipment.** Copiasuro's investments in equipment for separating and packaging honey for retail sale will be financed. This will allow for the development of markets other than the export market, by targeting different segments of the domestic market.
- c. **Entrepreneurial working capital.** Copiasuro's working-capital needs will be financed to market and export honey purchased from small-scale beekeepers, so that they may immediately receive payment for the product, thereby increasing their liquidity and facilitating the financing of their production operations.

2. **Nonreimbursable technical cooperation component**
(IDB: US\$117,000; Copiasuro: US\$48,000)

These resources will be used to enhance small-scale beekeepers' honey production (in terms of productivity, output, and quality), support adoption by them and Copiasuro of processes and practices to increase value added and make the beekeeping system more competitive, develop and implement a marketing plan for greater access to high-value markets, and build Copiasuro's business management capacity to provide beekeepers with production and marketing support services. To this end, the following activities will be financed: (i) hiring experts and technical specialists in production, business, and management to provide technical assistance and training, both at the apiaries and at the cooperative; (ii) developing teaching materials and holding training events; (iii) developing business promotion activities and opening new markets; and

(iv) purchasing software and office equipment. The working capital will also finance a workshop for the project launch, two evaluations (midterm and final), external audits of the project, and support for fulfillment with the project's conditions precedent. Project management and administration expenses will be financed with counterpart resources.

Beneficiaries:

The project is expected to directly benefit some 175 working beekeepers, all small-scale producers, including 115 current members of Copiasuro. The remaining 60 beekeepers will join the cooperative over the course of the project. They want to join and hope that Copiasuro will have the capacity to meet their needs. All these beekeepers will receive technical support as well as financial services for investment in hives or equipment, for working capital, or for both. A large percentage of the beekeepers depend on apiculture as their main source of income. The project will indirectly benefit 1,050 beekeeper household members (six members per household).

Environmental and social review:

The Committee on Environmental and Social Impact (CESI) at meeting 13/04 of 2 April 2004. The project has virtually no adverse impact on the *environment*, given its focus on optimization of environmentally friendly beekeeping methods and sustainable development of natural resources. With project financing, producers will purchase special hive management equipment. The project will encourage good production and manufacturing practices through training and technical assistance, thereby promoting production methods focused on food safety. The beekeeping expert and technical specialists will coordinate activities with the Copiasuro project with Mexico's Colegio de la Frontera Sur (ECOSUR) for genetic enhancement of the bees to make them less aggressive. All project components, including the financing, will encourage greater *participation of women*, especially in the industrial activity that will take place in the miniplant for honey separation and packaging.

The Bank's country strategy:

The Bank's country strategy with Guatemala consists of helping the Government meet the challenges of attaining sustainable economic development with a priority on fighting poverty. The strategy is based on three broad core areas: (i) economic growth, stability and competitiveness; (ii) equity, social protection, and human capital development; and (iii) modernization of the State and governance (Country Paper GN-2149-1, June 2001). The proposed project falls under points (i) and (ii) of this strategy. The operation is also consistent with the Social Entrepreneurship Program, because its final beneficiaries are small-scale farmers with beekeeping experience in

economically depressed rural areas. The project will help raise their income through an alternative to traditional single-crop farming.

**Coordination
with other
donors:**

No initiatives in the beekeeping sector are known to be directly supported by any another multilateral or bilateral cooperation agency. The Bank remained in contact with the leading cooperation agencies in Guatemala during the identification stage of the proposal.

In conjunction with Copiasuro, Mexico's Colegio de la Frontera Sur (ECOSUR) and the Centro Universitario San Marcos will coexecute a genetic enhancement program at a cost of US\$25,000, cofinanced by the Ministry of Agriculture through its Competitive Technological Development Fund for Food and Agriculture (AGROCYT). Moreover, Fair Trade Assistance will finance a demonstration apiary with 50 hives in Tajumulco, San Marcos, at a cost of US\$10,000. Such activities complement this project.

Risks:

The project carries three main risks: (i) First, China's re-entry into the international market may lead to falling export prices for honey, which, along with producers' apparently high operating costs, could make honey less profitable in the region where Copiasuro markets its products. To minimize this risk: (a) economies of scale will be sought by lowering the costs of beekeeping inputs, equipment, and tools by negotiating better prices based on volume; (b) production management will be improved to achieve acceptable levels of varroa and raise the yield per hive, which will be reinforced by the genetic enhancement project begun in 2004 by Copiasuro with ECOSUR-AGROCYT support; and (c) value will be added to the primary product to make it more profitable in such ways as packaging honey for the domestic market. (ii) Second, although Copiasuro's engagement in fair trade is a strength, it could also turn into a risk due to exclusive reliance on such a highly protected market, which does not create the competitive capabilities normally seen in a free market. To mitigate this risk, a business strategy of market diversification will be developed. Niches will be explored in the domestic market. (iii) Third, natural risks of product damage could affect the repayment of loans. Though this risk cannot be controlled, Copiasuro will deliver technical assistance and training to minimize the chances of negative effects from pests and blight.

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| Rationale: | <p>The case for the proposed project is as follows: (i) beekeeping is a valid product diversification alternative and, although there are important global exporters such as China, Argentina, and Mexico, there is room in the market for competitive products; (ii) all project participants are working beekeepers, who, while they may operate on different scales, all have the option to engage in this activity as an important source of family income; (iii) beekeeping is a profitable business that, while slow to generate returns, may well increase in scale to become a principal activity once a productive base is established in the third or fourth year; (iv) synergy with other organizations will enhance the project's impact; (v) the proposed project targets a sector in need of opportunities and comprehensive strategies for economic and productive development.</p> |
| Revolving Fund: | <p>The Bank will establish revolving funds for up to 20% of the total amount of the financing component, to ensure fast and timely provision of funds to meet Copiasuro's expected needs for resources, and 10% of the technical cooperation component.</p> |
| Special contractual clauses: | <p>The following special conditions are set forth for the disbursements of the financing component: Copiasuro must deliver, to the Bank's satisfaction:</p> <ol style="list-style-type: none">a. As a condition precedent to the first disbursement: (i) Credit regulations for the beekeeper credit facility, approved by its management committee; and (ii) the facility's 2003-2004 financial statements, audited by a professional auditor, which must include notes on the makeup and status of the loan portfolio.b. To disburse above 20% of the resources under this component: (i) a report from the business administration and organization specialist certifying that the computerized accounting and portfolio system is operating and meets the requirements for project accounting and portfolio management; the report must also indicate that Copiasuro's management capacity is up to the task of managing the volume of financing foreseen for the project; (ii) a baseline study and the design of a system of monitoring indicators; and (iii) evidence that it has hired the administrative assistant who will support the project managers of the operation.c. As a condition precedent to the disbursement of entrepreneurial working capital resources: the regulations governing entrepreneurial working capital. |

Once the general conditions precedent have been fulfilled, an advance payment of up to US\$2,400 from the technical cooperation resources will be authorized for hiring a consultant to support Copiasuro in: (i) fulfilling the special conditions precedent and preparing a detailed project execution plan; (ii) developing a baseline; and (iii) conducting a project launch workshop.

As condition precedent to the disbursement of **technical cooperation** resources in excess of US\$2,400, Copiasuro must deliver, to the Bank's satisfaction, (i) the terms of reference for the expert in cooperative management and organization, the information technology expert, the beekeeping production expert, and the beekeeping technical specialist; and (ii) a project execution plan, including annual targets for achieving the project's objectives and outcomes. For the disbursement of resources under this component in excess of 25%, Copiasuro must have begun disbursing resources under the financing component.

Copiasuro will submit the proposed benchmarks and monitoring indicators to the Bank's Country Office in Guatemala for approval **within three months after project launch**. Once agreed upon, these benchmarks and indicators, along with those contained in the logical framework, will become the basis for monitoring project performance. Copiasuro and the Bank will use the monitoring system and indicators to supervise and evaluate the project. These indicators will be considered in the progress reports as well as in the midterm and final evaluations.

**Reports and
evaluations:**

Baseline: At the beginning of the project, Copiasuro will hire a consultant to establish a baseline and design a system of indicators to monitor and evaluate project activities and performance and complement or update those established in the logical framework.

Reports. As a condition precedent to the first disbursement under the technical cooperation component, Copiasuro must submit a project execution plan, including annual targets for achieving the project's objectives and outcomes. The project execution plan must include a timetable for fulfilling the performance indicators, to be used to monitor progress. The indicators in the project execution plan will be updated using the results of the baseline study.

Within 30 days after the end of each six-month period, Copiasuro will deliver to the Bank reports on project progress and the use of Bank resources. Such reports will include: (i) a description of progress on project execution and indicators, based on the project execution plan

and timetable, as well as a list of the project's major achievements and setbacks in meeting its targets and objectives; (ii) an update of the project performance indicators and execution plan for the following 12 months, including measures to overcome the obstacles identified; (iii) information on the benefits that have been transferred to the beekeepers in economic terms and in terms of training and technical assistance in production and management; (iv) information on the approval, status, and execution of the institution's strategic plan, production plan, and marketing plan; as well as information on implementation and operation of the management and management information system; (v) information on strengthening Copiasuro and its achievements; (vi) a statement on how Bank resources and counterpart contributions have been employed; (vii) a list of financing received by Copiasuro from other sources, showing that Bank resources are not supplanting other financing that Copiasuro relies on; (viii) information on loan portfolio performance (including the number of loans granted to beekeepers, the terms and interest rates applied, and the rate of arrears); (ix) information on the use, during the reporting period, of the spread on the beekeeper credit facility, and information on the status and balances of the reserve established from the entrepreneurial working capital surplus; (x) information on the execution of environmental and gender activities; and (xi) as annexes, the reports of the experts and technical specialists hired under the technical cooperation component during the reporting period.

The *final report* will summarize the issues covered in the progress report, particularly the following: (i) information on the benefits transferred to producers in economic terms (net income) and in terms of training and technical assistance; (ii) statistical and financial information on the project's economic outcomes; (iii) strengths acquired by Copiasuro in terms of finances, capital base, organization, business, and cooperative partnering; and (iv) lessons learned during project execution.

The Bank will review the contents and findings of these reports. In the event of material shortfalls in project execution, the Bank may suspend disbursements until such time as the executing agency has taken satisfactory corrective action.

Audited annual financial reports: During project execution, within 120 days after the close of each fiscal year, starting in the fiscal year in which the disbursement of the financing begins, Copiasuro will deliver to the Bank a report with the financial statements of each of the two project components and special account transactions, issued by an independent auditor acceptable to the Bank. Funding has been earmarked in the budget for such purpose. Copiasuro will also deliver

its annual financial statements, signed by a qualified public accountant.

Evaluations. The Bank will use technical cooperation resources to contract a midterm review and a final evaluation of the project. The Bank, through its Country Office in Guatemala, will conduct a *midterm review* 24 months after the first disbursement, to measure: (i) progress in raising small-scale beekeepers' income; (ii) improvements in beekeepers' access to financing with which to produce and market their products; (iii) higher volumes of honey production from an increase in the number of hives in production and productivity gains; (iv) improvements in product quality; (v) the value added in honey production to meet market needs; (vi) improvements in beekeepers' ability to efficiently sell their products in more suitable markets; (vii) strengths in Copiasuro's business management that improve its production and marketing support services to its members; (viii) the project's environmental impact; and (ix) achievements in encouraging women's participation in the cooperative's activities. The evaluation report will make recommendations on corrective action to be taken in project activities.

A *final evaluation* will be conducted four years after project start, once execution of all technical cooperation funding is complete. The evaluation will review and document the following: (i) the impact of beekeeping as a diversification option, including the number of small-scale beekeepers served by the project and how they have benefited; (ii) the marketing structure developed, and new markets identified, under the project; (iii) value added to primary production; (iv) the impact in terms of productivity gains in beekeeping; (v) economic and financial indicators for the institution and producers; and (vi) the extent to which the project objectives have been met.

The Bank will review the findings and recommendations of the progress and evaluation reports. Copiasuro and the Bank's Country Office in Guatemala will hold project monitoring meetings twice a year to discuss the semiannual report, progress on performance indicators, and the work plan. The findings of the semiannual reports and meeting outcomes will provide the basis for determining whether future disbursements are to be made under this operation. In the event of material shortfalls in project execution, the Bank will take such action as it may deem appropriate and may, if necessary, suspend disbursement.

**Exceptions to
Bank policy:**

None.