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ARGENTINA

POVERTY REDUCTION FOR MICROPRODUCERS IN TUCUMÁN

(SP/TC-99-11-18-5-AR)

TECHNICAL COOPERATION AND FINANCING PROPOSAL

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EXECUTIVE SUMMARY

Executing agency: Cooperativa Agropecuaria de Provisión, Transformación, Comercialización y Consumo IBATIN Ltda. [IBATIN Agricultural Cooperative for the Provisioning, Processing, Marketing and Consumption]

Amount and source:	IDB	US\$	EUROS
Nonreimbursable financing:	250,000	250,000	278,393
Technical cooperation:	130,000	130,000	144,764
Total:	380,000	380,000	423,157

Resources come from the European Union Special Fund for Financing of Microenterprises. The commitment by the Bank of these resources will be accounted for in euros and disbursements will be made in local currency.

*Exchange rate: US\$1.00 = 1.113572 euros (at 3/19/02)

Issue: Throughout its history, sugar production in Argentina has evolved as a controversial activity associated with problems of under-production, costs, prices and regulations. In recent years, while large-scale sugar cane producers have been able to find economic alternatives for restructuring by growing lemon crops, small-scale producers have not been able to implement this process, since they face major structural problems, such as: (i) a population that is culturally dependent on a single crop; and (ii) because of their hand-to-mouth economic situation, such producers have difficulty accessing the financial and technical resources to enable them to gradually convert their sugar cane production to other crops. This project therefore attempts to support sugar cane microproducers in the province of Tucumán, whose annual income barely exceeds US\$1,500, to raise their income by diversifying their production activities.

The sugar production sector has not been untouched by the difficult economic situation that gripped the country, with the onset of a recession in late 1998 which, by the end of 2001, had generated a 16%

drop in per capita gross domestic product (GDP). External difficulties added to fiscal problems hindered the recovery of productive activities, and investment fell by 43%, coupled throughout by a steep decline in demand. More than 4.5 million persons were unable to find work, and real wages fell, resulting in a wider disparity of income distribution, which deepened poverty levels. Lastly, the government's inability to access external funds, and the loss of confidence in the financial sector and in monetary and fiscal policies, finally led to the declaration of suspension of external debt payments and the devaluation of the peso, which has fallen 178% in two months, going from the exchange equivalent of one Argentine peso to one U.S. dollar, to currently about 2.78 Argentine pesos to one U.S. dollar.

Objectives: The project's general objective is to support the reduction of poverty of approximately 120 single-crop sugar cane producers in the department of Monteros, province of Tucumán.

The specific objective is to support marginal activities of productive diversification through the small-scale production of country eggs and raw sugar. Given the socioeconomic, land tenure and creditworthiness aspects, about 105 restructuring projects for country egg production and about 15 raw sugar production projects will be considered.

Description: The project consists of support for about 120 microproducers and single-crop growers of sugar cane through resources for financing and technical assistance, in order to generate additional income, which also helps to create a culture of non-dependence on a single crop.

To that end, the Cooperative will have access to resources for the financing of working capital and fixed assets necessary for the beneficiaries to implement a process of agricultural restructuring.

Likewise, technical cooperation resources are provided to promote the strengthening of the executing agency and to provide the means for implementing demonstration modules, training in the basic aspects of the production of country eggs and raw sugar, and general and specific advisory services to be provided on the farm of each small-scale producer.

Environmental and social review: The project was reviewed by the Committee on Environment and Social Impact (CESI) on 20 October 2000, which did not identify any special actions to be taken, given that the project will positively impact the environment since the activity of small-scale sugar production will be carried out without the burning of sugar cane or the use of bagasse as a fuel for the cooking process.

From the gender perspective, women play a fundamental role in the economy of the family and in culture transfer. To improve women's economic and social situation, this project creates new work opportunities for women, in particular, the country egg initiative, which will be carried out primarily by women.

The project will be executed with a sensitivity to gender issues. It will take into account as-needed training to improve knowledge and skills, and to dovetail aptitudes and areas of expertise to project needs. Those being trained will have to face a different set of problems, for which the need to earmark resources for such training must be taken into account. The integration of women will be considered in all project dissemination and publicizing processes (pamphlets, radio program schedules, etc.).

Beneficiaries:

This project is intended to support a productive restructuring process for about 120 small-scale sugar cane producers, members of the IBATIN Cooperative, the executing agency, located in the department of Monteros, province of Tucumán, a region reflecting extreme poverty rates: it has 50% more households and inhabitants with unmet basic needs (UBN); it exceeds by 130% the national average of households with improper housing; the unemployment rate is double the national average and is the highest in the country; the department exceeds the national average of heads of household who have not completed primary education and are illiterate; and it has a population with a high percentage of aging population, caused by the migration that began with the closing of a number of mills. Moreover, 93% of the small producers in the department engage in single-crop farming of sugar cane and 80% of them have fewer than five hectares for farming.

The yields they obtain are low, giving them, at best, an annual income equivalent to US\$1,575 (US\$350/hectare/year with an average of 4.5 hectares per beneficiary).

Risks:

The project faces five risks to its implementation: (i) resistance to agricultural diversification; (ii) possibility of electing ineffective marketing channels; (iii) resistance to institutional and generational change by the directors of the Cooperative; (iv) Argentina's general economic situation; and (v) the natural risks that affect agricultural activities.

The resistance to diversification owing to the effect of adverse macroeconomic conditions (e.g., prices of new products) on the competitiveness of micro and small agricultural enterprises, favorable

sugar market conditions that do not encourage productive diversification, or cultural issues, constitutes a risk that is mitigated by educating farmers on the long-term benefits of diversification, and on the increase in income as a result of marketing activities.

The possibility that the beneficiaries might opt for ineffective marketing channels for their new products, impairing the Cooperative's creditworthiness, is a risk that is lessened by taking into account that this is a broad-based community cooperative in which all the members have access to information. Furthermore, the project design calls for the signing of agreements between the Cooperative and its beneficiary members, setting forth the obligations of the parties, with the beneficiaries having the obligation to market their production through the Cooperative, and the Cooperative's obligation to deliver to its members the markup derived from the individual transactions and from the annual distribution of the Cooperative's surplus.

It is possible that the current directors of the Cooperative might resent what they could consider a discredit of their work and commitment, and not accept a new member joining management, who, moreover, would have a higher salary than the fees they receive. To reduce this risk, the project calls for the hiring of special advisory services to train the directors in business strategy, delegation of functions and, in general, the role of directors in production and credit entities.

Obviously, the Argentine recession has depressed demand. Nevertheless, the products covered in the project are in ample demand in sectors with a marginal propensity for consumption of natural products and, according to studies done by the Instituto Nacional de Tecnología Agropecuaria [National Agriculture Technology Institute] (INTA), they reflect an inelasticity of demand to revenue. This is the market targeted for the production of the IBATIN Cooperative members, and thus, it is not expected that the country's crisis will significantly affect the attainment of the proposed objectives.

Lastly, the project does not contemplate actions for mitigating the possible effects of adverse climate conditions, which undoubtedly would affect the objectives mentioned. However, the Cooperative will receive the Guide to Microfinance Portfolio Management in Natural Disaster Conditions, which will be published in 2002 by the Micro, Small and Medium Enterprise Division, which contains elements that support the development and implementation of contingency plans for such cases.

The Bank's country and sector strategy:

The Bank's strategy in Argentina, described in the country paper (document GN-2140-2) of 6 March 2001, focuses on four strategic areas: (i) sustainable growth of productive sectors and increased productivity; (ii) reduction of poverty and improvement of the population's living standards; (iii) reform of the State and fiscal balance; and (iv) deepening of regional integration. The proposed project is compatible with the Bank's strategy by giving priority to operations directed at economic revitalization and job creation. The project is also consistent with the Bank's strategy of giving priority to operations aimed at: (i) the agricultural sector, in terms of increasing the income of the campesino farmer, and promoting production technification and diversification, and (ii) the strengthening of institutions specializing in technical or financial services to low-income and marginalized groups.

It should also be pointed out that the proposal is consistent with the general goal of the Bank's microenterprise development strategy (document GN-1938-3), consisting of the expansion of economic opportunities in Latin America and the Caribbean through the sustainable and active development of the microenterprise.

Special contractual clauses:

Given the need to support the IBATIN Cooperative in project planning and management—in particular, in the fulfillment of the special conditions for disbursement of the technical cooperation funds—the Bank will authorize the disbursement of up to US\$2,400 for the hiring of the project coordinator for an initial period of three months. This disbursement may be made once the Cooperative complies with the general provisions of the technical cooperation agreement.

The conditions precedent to the first disbursement of the nonreimbursable financing component require IBATIN to submit the following: (i) a work plan for the Cooperative that will include: (a) the manner in which the credit program will be implemented; (b) schedule of activities; (c) number targets of credit users; and (d) human, physical and economic resources to be allocated to each activity necessary to implement the credit program (paragraph 4.1); and (ii) the updating of the Credit Regulations formally adopted by the Board of Directors of the Cooperative (paragraph 4.2).

Prerequisites for the remainder of the technical cooperation funds, to be fulfilled to the Bank's satisfaction, are: (i) evidence that the project coordinator has been hired; (ii) submission of the other final terms of reference for consultants to be hired with technical cooperation funds; and (iii) a work plan for the first year of the project. This work plan

should include, among other things, the following: (a) annual targets of completion for each activity; (b) compilation of updated information on the target population prior to the start of the project activities, to permit comparison of the population's income and dependence on a single crop with the expected benefits of the project; and (c) human, physical and economic resources allocated to each activity.

**Evaluations
and reports:**

The IBATIN Cooperative will submit to the Bank six-monthly reports with financial and descriptive information, within 60 days following the close of each fiscal year, beginning with the six-month period in which the disbursements begin. **With respect to the financing component**, such reports should include at least the following: (i) information on the number of approved loans, current portfolio and arrears indicators; (ii) demonstration of capitalization of interest charged to the farmers after deduction of the allowance for administrative expenditures and bad debt; and (iii) disbursement schedule and portfolio recovery plan for the following six-month period. With reference to the **technical cooperation component**, the reports will contain at least the following: (i) information on the execution all the components of the technical cooperation (procurement, hirings and training); (ii) statistical reports on the total cost of investments in poultry sheds and micro sugar mills, which clearly show the counterpart contribution; (iii) report on the progress and goals attained by the project, measured as increased income obtained by the beneficiaries, in comparing their current situation with the initial profile and; qualitatively, through opinion polls conducted with respect to diversification; and (iv) a six-monthly operating plan updated for the next 12 months, with its respective schedule and budget. The last of these reports would constitute the final report and must contain a summary of the goals attained in terms of the project's general objectives.

The Bank will review the findings of these reports. If there are any major shortcomings in project execution, the Bank will not authorize additional disbursements until IBATIN takes adequate measures to correct them.

Within 120 days following the close of each fiscal year during the project, IBATIN will submit audited financial statements to the Bank. In addition, within 60 days following the period for the last disbursement of the nonreimbursable technical cooperation funds, it will submit a financial report audited by independent authorities indicating the manner in which the Bank's contribution was used.

To ensure satisfactory project execution, the Bank will use nonreimbursable technical cooperation funds to contract the services of consultants necessary to conduct a midterm evaluation. This evaluation will be conducted when 50% of the contribution for the credit fund has been disbursed or 18 months into the project, whichever occurs first. The evaluation will measure: (i) the progress attained in the restructuring process; (ii) changes in the income levels of the beneficiary families before and after the project; (iii) application of resources; (iv) counterpart contributions; (v) number of loans issued and short- and long-term balances; (vi) number of beneficiaries, classified by gender; (vii) the Cooperative's marketing activities; and (viii) details of all activities of the technical cooperation project, emphasizing the goals attained in relation to the institutional strengthening of the Cooperative. The compilation of initial data concerning the beneficiaries will serve as a basis for measuring the income obtained by the beneficiaries as a result of the project.

**Exceptions to
Bank policy:**

None.