

## NEW ORGANIC FRUIT AND VEGETABLE MICROENTERPRISES

(TC-98-07-19-5)

### EXECUTIVE SUMMARY

**EXECUTING AGENCIES:** Sociedad Cooperativa de Productores y Exportadores del Salvador de R. L. (PROEXSAL) and Cooperative League of the United States of America of El Salvador (CLUSA).

**OBJECTIVES:** The overall objective of the program is to improve competitiveness and promote the development of businesses by groups of small farmers. Its specific objectives are to: (i) provide small farmers with access to new markets; (ii) provide groups of producers with tools, technology and management skills; and (iii) promote the creation of new companies. Through the development of organic farming, the program also seeks to preserve natural resources and use them sustainably.

**DESCRIPTION:** The program is based on establishing a new value added chain in which small farmers will participate actively. Through the technical assistance and business development services offered by CLUSA, groups of farmers learn how to grow organic fruits and vegetables and some other nontraditional products. PROEXSAL sells the products on the domestic and international markets. PROEXSAL also acts as a business incubator, helping producers to establish new companies linked to the new value added chain, such as packing centers and nurseries for organic plants.

**FINANCING:**

MIF (Window III):	US\$1.3 million
(CLUSA:	US\$700,000,
PROEXSAL:	US\$600,000)
Beneficiary:	US\$500,000
(CLUSA:	US\$300,000
PROEXSAL:	US\$200,000)
Total:	US\$1.8 million

**EXECUTION SCHEDULE:**

Execution period:	36 months
Disbursement period:	42 months

**SPECIAL CONTRACTUAL CONDITIONS:** Prior to the first disbursement of the nonreimbursable funding, CLUSA and PROEXSAL will submit the following to the Bank's satisfaction:

(i) a joint work plan; and (ii) an agreement stipulating their respective commitments and the execution mechanism to be used in the event that one of the two organizations should decide to withdraw from the project or fail to fulfill its commitments.

Prior to the first disbursement, PROXSAL will submit to the Bank's satisfaction, a detailed plan for the operation of the marketing fund and the legal and financial aspects of transferring the packing centers to producers.

During the program, the executing agencies will present annual reports on progress in the previous year, comparing achievements with a established goals and indicators. They will also present a strategic plan for the following year.

PROXSAL's members are required to increase the cooperative's capital by 100% by project completion.

Two evaluations will be presented during the project: one 15 months after the first disbursement and the other upon completion.

## I. COUNTRY ELIGIBILITY

- 1.1 The Donors Committee of the Multilateral Investment Fund (MIF) declared the Republic of El Salvador eligible on December 3, 1993.

## II. FRAME OF REFERENCE

### A. Background

- 2.1 Although El Salvador has achieved positive economic and employment growth rates since 1990, the country continues to have serious problems with poverty, particularly in rural areas. Annual per capita income in 1996 (US\$1,247) was higher than in other Central American countries, 1/ but owing to poor income distribution, close to one half of the country's population lives below the poverty line or in extreme poverty.
- 2.2 It has been difficult for the country's small farmers to reap the benefits of the economic recovery in the 1990s. This is due to several factors: (i) the cost of inputs (agricultural chemicals, etc.) is rising faster than the prices paid for agricultural products; (ii) small farmers are often located in zones where access is difficult, with poor roads that hamper the arrival of new production techniques and business advisory services; and (iii) their isolation means that small farmers do not have information on market preferences and are therefore used by the middlemen who buy their products.

### B. Market for business development services for small farmers in El Salvador

- 2.3 CLUSA, a nongovernmental organization (NGO) which specializes in advisory services and training for the agricultural sector, and PROXSAL, a cooperative marketing company, have jointly developed a special methodology for providing business development services to improve conditions for small producers. In general, the model uses the following steps: (i) identification of crops suitable for certain areas for which there is market demand; (ii) identification of a group of small farmers who have banded together in a cooperative or a formal or informal association; (iii) technical assistance for the farmers and business development services for the managers of the cooperative or association; (iv) through PROXSAL, establishment of a packing center and a distribution chain, with the goals of capturing value added for producers and

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1/ Country paper, IDB, 1997.

maintaining a flow of information on market preferences; 2/ (v) transfer of the packing center by PROEXSAL to the farmers, starting with operating and management costs and ending with the conveyance of legal ownership; and (vi) the creation of other new businesses based on the private initiative of the producers and other members of the community, in response to the needs of the new value added chain.

- 2.4 Demand for the services of CLUSA and PROEXSAL is based on market demand for organic produce. In 1997, El Salvador imported 7 million kilograms of fruits and vegetables (US\$6.6 million). 3/ Organic fruits and vegetables are sold to middle- and high-income consumers, for example first-class hotels and restaurants and supermarkets in affluent areas. Once producers understand the potential earnings that can be made by targeting this market segment, they become motivated and demand the services provided by CLUSA and PROEXSAL. The success of CLUSA's methodology is that it can show positive results in the very short term, which keeps producers interested. The geographic dispersal and isolation of producers means that they do not have information on the supply of business development services or on their benefits. Furthermore, CLUSA/PROEXSAL's methodology generates economies of scale. Accordingly, support for the supply of such services is justified.
- 2.5 There are several suppliers of advisory services for rural business development in El Salvador, although none specializes in organic crops. The CLUSA/PROEXSAL combination of technical services and market access, feedback in the form of information on demand, and motivation for the establishment of new businesses is unique in the country. That being so, other entities should be given access to the lessons learned by CLUSA/PROEXSAL through workshops and the option of participating in business meetings with producers' groups.

C. Bank strategy in El Salvador

- 2.6 The Bank's strategy in El Salvador (document GN-1981 of 1997) includes support for microenterprises as a priority, through measures to promote conditions conducive to the development of efficient financial services markets and other measures to assist the sector. Success in that endeavor will permit businesses with potential to grow and will encourage the establishment of new businesses.

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2/ Certification of organic produce is one of the services offered by PROEXSAL.

3/ It is not known what percentage of these imports were organic. However, purchasers of these products are a potential market for organic fruits and vegetables.

### III. OBJECTIVES AND ACTIVITIES

#### A. Objectives

- 3.1 The overall objective of the program is to improve competitiveness and promote the development of businesses by groups of small farmers. Its specific objectives are to: (i) provide small farmers with access to new markets; (ii) provide groups of producers with tools, technology and management skills; and (iii) promote the creation of new companies. Through the development of organic farming, the program also seeks to preserve natural resources and use them sustainably.

#### B. Program activities

- 3.2 The program's components are described below.

1. Technical assistance and training services (CLUSA)

a. Business advisory services (US\$271,000)

CLUSA will offer business management and marketing services to between eight and 10 groups of small farmers. It will advise these groups during the establishment of the new packing centers and will work with from one to three additional groups on establishing their own businesses linked to the value added chain for organic crops.

b. Technical advisory services (US\$236,000)

CLUSA will establish demonstration plots for organic crops at between five and eight sites and will offer technical advice on growing these crops to between eight and 10 groups of small farmers.

c. Training (US\$63,000)

CLUSA will offer training for producers in organic farming and business management. The training services will include events at which local producers can exchange experiences and short courses on technical aspects not covered by individualized assistance.

d. Strengthening of the cooperatives and dissemination of the model (US\$50,000)

CLUSA will provide consulting services to strengthen the cooperatives participating in the project. The services will focus on the handling of management information and setting goals for the cooperatives' production volumes and

costs. CLUSA will also organize two workshops and arrange field visits for national and international NGOs and other groups interested in emulating the model developed by CLUSA.

2. Marketing and sales services (PROXSAL)

a. Commercial information service (US\$125,000)

PROXSAL will offer the participating farmers a commercial information service including information on prices and production and sales volumes for organic and nontraditional farm produce and quality standards for domestic and foreign markets. PROXSAL will also arrange for direct meetings between large buyers of fruit and vegetables and small producers at the packing centers, to permit the producers to develop marketing and negotiating skills and know-how.

b. Startup of the packing centers and expansion of markets (US\$270,000)

PROXSAL will hire consultants to work on expanding the markets for its products and to start up two or three additional packing centers to receive, wash, pack and market organic and nontraditional produce, in areas where production volumes and market demand make this justifiable.

c. Marketing fund (US\$100,000)

A trust will be created to set up a marketing fund to be administered by PROXSAL. The fund's resources will be used for investments in the new packing centers (fixed assets and construction) and to ensure liquidity. The centers will be established with contributions from the fund and from the producers and will belong to PROXSAL until they perform adequately, at which point they will be transferred to the producers. Repayments to the fund will be used in the future to establish new packing centers or similar companies which will also be transferred to producers. PROXSAL will charge a fee for administering the fund. The exact amount of the fee and the mechanism for collecting it will be spelled out in the operating plan for the marketing fund that PROXSAL will submit to the Bank as a condition precedent to the first disbursement. The plan will include a mechanism to encourage PROXSAL to transfer the packing centers to the producers within a relatively short time.

#### IV. EXECUTING AGENCY AND BENEFICIARIES

##### A. Executing agencies

- 4.1 CLUSA will be responsible for executing the technical assistance and training component. A producers' association, CLUSA or the Cooperative League of the United States of America, is a Salvadorian NGO founded in April 1998, which has 10 years' experience, since its current team has worked in the country since 1988 as part of the National Cooperative Business Association (NCBA) of the United States. CLUSA is the name of the NGO that was previously affiliated with the NCBA. NCBA/CLUSA is recognized in El Salvador for its successful execution of organic farming projects. CLUSA's annual budget in recent years has been approximately US\$1 million, which it has used to support a wide variety of activities. The activities it will support under the present project are those in which it has had greatest success in the past.
- 4.2 PROEXSAL will be responsible for the marketing and sales services component. PROEXSAL is a cooperative established in 1994 with the objective of acting as a marketing agent for small producers. It is owned by the producers themselves, and now generates sufficient income to cover its operating costs, through the fee it charges for its services. It therefore promises to be a permanent source of marketing services for small producers.
- 4.3 PROEXSAL has generated between US\$418,000 and US\$680,000 in annual sales in the last three years. At the end of 1997, it had US\$261,184 in assets and US\$25,000 in net worth. Its administrative costs are high for a company of this kind and its level of capitalization needs to be increased. As a contractual condition, the members of PROEXSAL will be required to make contributions to increase its capital by 100% by project completion.

##### B. Execution mechanism

- 4.4 The project will be executed by CLUSA and PROEXSAL, and the Bank will sign a separate agreement with each of these institutions.
- 4.5 CLUSA has worked in very close cooperation with PROEXSAL since 1994. However, it will be necessary for the two institutions to sign a legal agreement setting forth their respective commitments and establishing an execution mechanism in the event that one of the two organizations should decide to withdraw from the project or fail to fulfill its commitments. CLUSA and PROEXSAL have also been asked to submit a joint work plan, setting out the areas of a responsibility of each institution, the coordination mechanisms to

be used, the sequence of interventions and the names of the producers' groups with which they will work.

C. Status of program preparation

- 4.6 The program's activities have already been defined and the producers' groups have been preidentified. As soon as the joint work plan and the plan for operating the marketing fund are submitted, the institutions can begin to implement the project. They are both in a position to begin the process of selecting and hiring the coordinators as soon as the funds are made available.

D. Execution and disbursement periods

- 4.7 The project will be executed in 36 months and disbursements will be made over 42 months. A revolving fund for disbursements will be established in an amount to be determined by the Bank's Country Office in El Salvador.

E. Procurement of goods and services

- 4.8 The executing agencies will be responsible for awarding contracts for services and procuring equipment under the program. They will reach agreement with the Bank on the competitive bidding procedures to be used in accordance with Bank rules and policies.

F. Beneficiaries

- 4.9 The project's beneficiaries will be small farmers. According to studies conducted by CLUSA, they range in age from 20 to 40, and their annual incomes in 1996 averaged approximately US\$751. Twenty-five percent are women and 75% are men. About 60% know how to read while the rest are illiterate. Those who did attend school did not generally go beyond the third grade.

G. Women's participation

- 4.10 Women have participated actively in the work of CLUSA and PROEXSAL with very good results. Women farmers have adopted new organic techniques and have also played a leadership role at the packing centers. Two women who had risen to managerial positions at one packing center were sent by CLUSA and PROEXSAL to other cooperatives to provide training. CLUSA and PROEXSAL intend to continue working in this way.

## V. COST AND FINANCING

- 5.1 The project will cost an estimated US\$1.8 million. The MIF will provide US\$1.3 million, with the executing agencies contributing US\$500,000 in total.
- 5.2 The CLUSA component will cost an estimated US\$1 million. The MIF will provide US\$700,000 and CLUSA will provide US\$300,000, half of which will be in kind (see table 1). The total cost of the PROEXSAL component has been estimated as US\$800,000, with the MIF contributing US\$600,000 and PROEXSAL US\$200,000, with 70% in cash (see table 2).

Table 1. CLUSA budget

	MIF	CLUSA	TOTAL	%
Project management and administration	100,000	175,000	275,000	29
Advisory services	427,000	80,000	507,000	51
Training services	48,000	15,000	63,000	6
Strengthening of the cooperatives and dissemination of the model	40,000	10,000	50,000	5
Subtotal	615,000	280,000	895,000	
1. Evaluation	25,000	-	25,000	9
2. External auditing	20,000	-	20,000	
3. Contingencies	40,000	20,000	60,000	
Total	700,000	300,000	1,000,000	100

Table 2. PROEXSAL budget

	MIF	PROEXSAL	TOTAL	%
Project management and administration	130,000	90,000	220,000	26
Information services	85,000	40,000	125,000	16
Startup of the packing centers and market expansion	220,000	50,000	270,000	34
Marketing fund	100,000		100,000	12
Subtotal	535,000	180,000	715,000	
1. Evaluation	25,000	-	25,000	12
2. External auditing	20,000	-	20,000	
3. Contingencies	20,000	20,000	40,000	
Total	600,000	200,000	800,000	100

### A. Sustainability strategy

- 5.3 The following three factors should be taken into account with regard to sustainability: (i) the continuity of project

activities, i.e. the organization of producers' groups and the creation of new companies; (ii) the institutional sustainability of PROEXSAL; and (iii) the institutional sustainability of CLUSA.

- 5.4 Continuity of project activities is assured through the permanent presence on the market of PROEXSAL, which is continually seeking new market opportunities. To increase its sales volumes and develop new products, it needs to incorporate new groups of producers into its distribution system and encourage the creation of new companies to complement its activities. As a company, its efficiency and profitability are crucial if it is to continue offering marketing services for small producers in El Salvador. Therefore, a series of financial indicators will be used to evaluate its performance and encourage improvements in its financial situation. PROEXSAL's participation in the process of organizing and/or including new groups of producers into its activities will also be evaluated.
- 5.5 The services offered by CLUSA are considered temporary and will initially need to be heavily subsidized. They will decrease in intensity over time until they disappear completely in the long term, since producers will eventually reach the point where they do not need them. Past experience demonstrates that CLUSA's former students have begun to sell technical assistance services to their neighbors.
- 5.6 A fee schedule for the services to be offered by CLUSA has been established, including innovative mechanisms to recover costs, such as charging a percentage when the farmers sell their produce to PROEXSAL, blanket payments by the cooperatives for training their producers, and others. Even with this effort, no more than 41% of the direct costs of these services will be covered by year three and if the indirect costs are included, the figure drops to 20%. The fees charged are necessary not for CLUSA's institutional sustainability (which is not an objective of this project) but to avoid market distortions caused by subsidizing the supply of the services. It is also important to establish a mechanism to enable producers to signal their demand for services. The increase in the cost-recovery rate over time is largely due to a drop in the costs of the services owing to a gradual decline in their intensity.

## VI. JUSTIFICATION AND RISKS

- 6.1 This project will strengthen and facilitate the replication of a new rural development model, where market demand (in this case for organic produce) is used to encourage small producers to improve their farming techniques and to learn about and respond to more demanding quality standards than apply on the local market. If

this model works in El Salvador, it could be replicated in other countries in the region.

A. Risks

- 6.2 The main risk of this operation is that CLUSA may fail to act entrepreneurially. The project and the performance indicators to be used in evaluating it represent a change in institutional culture for CLUSA. The organization began its work in El Salvador during and after the conflict, in a context of urgency and paternalism on the part of international donors. CLUSA became accustomed to delivering services to low-income producers at no charge and to charge only when it considered that its clients were able to pay for the service. Today, CLUSA needs to develop a more entrepreneurial culture, in which the services it offers have their own market value and are always charged for, even though the rate may be lower for low-income clients.

VII. MONITORING, PERFORMANCE INDICATORS AND EVALUATION

- 7.1 Monitoring and evaluation of this operation will be based on the joint work plan that the executing agencies will present prior to the first disbursement. The plan will contain a timetable for the work of each agency and mechanisms for interagency coordination. At the start of each year, they will present a report on the results for the previous year and a work plan for the coming year. The Bank will review progress in the project and if the agencies are not meeting the goals established, it may withhold disbursements until the problems identified have been resolved.
- 7.2 The performance indicators for CLUSA include goals for service coverage, income and coverage of direct and indirect costs through the special fee charged when products are sold. For PROXSAL, they include efficiency indicators, such as the percentage that should be spent on administrative costs and productivity per sales agent. Last, performance indicators are included for the new companies, as well as other indicators for project activities. The goals have been based on a detailed analysis of the recent performance of CLUSA and PROXSAL and the sustainability of the project under consideration (see Annex I).
- 7.3 Two evaluations of the project will be conducted. The first will be performed 15 months after the first disbursement and will focus on progress as compared with the indicators, updating the data on producers' incomes and the performance of the new companies. It will also review cooperation between the two institutions. The second evaluation will be performed upon project completion and will attempt to make a rough estimate of its impact. It will look at data on the income of the participating producers and the

performance of the new companies, comparing them with the baseline scenario, updated during the first evaluation.

#### VIII. SPECIAL CONDITIONS

- 8.1 As conditions precedent to the first disbursement: (i) CLUSA and PROEXSAL will submit a joint work plan to the Bank's satisfaction specifying the schedule of activities for each agency and coordination mechanisms; and (ii) PROEXSAL will submit to the Bank's satisfaction a plan for the operation of the marketing fund, setting forth the fees it will charge, the contributions to be required from producers for investments in the packing centers, and legal and financial aspects of transferring ownership of the centers to producers.
- 8.2 During the program the executing agencies will present annual reports on the work done in the previous year and the strategic plan for the following year.
- 8.3 Another condition is that PROEXSAL's members will make contributions to increase its capital by 100% by project completion.
- 8.4 Two evaluations will be presented: one 15 months after the first disbursement and the other upon project completion.

**CLUSA/PROXSAL  
NEW ORGANIC FRUIT AND VEGETABLE MICROENTERPRISES**

(TC-98-07-195)

**LOGICAL FRAMEWORK**

Objectives	Indicators	Means of verification	Assumptions
<p>10 small farmers in El Salvador produce traditional crops, including organic and agroecological, through an innovative and entrepreneurial approach.</p>	<p>Sustained increase in farmers' income.</p> <p>Adoption of new technology and production of new crops.</p>	<p>Baseline indicators</p> <p>Evaluations and progress reports</p>	<p>Favorable political and social context are maintained, permitting the project to proceed.</p> <p>Good weather</p> <p>Favorable exchange rate</p>
<p>The project's strategy and package of services is designed to improve the business capacity and income of eight to 10 groups of small farmers participating in the program have access to domestic and international markets. New businesses are created and existing ones are strengthened.</p>	<ol style="list-style-type: none"> <li>Producers increase their profit margins (reduction in crop losses and rejects for quality reasons).</li> <li>Diversification with new demand-driven crops.</li> <li>15% increase in domestic and international sales volumes.</li> <li>Two new businesses are established in 14 months, which reach the break-even point at the end of year one.</li> <li>Maintenance of the positive performance of existing companies.</li> </ol>	<p>Production and sales records kept by CLUSA and PROXSAL</p> <p>Financial statements of PROXSAL and the companies</p>	<p>The project's strategies and methodologies are suitable for achieving the objectives. The new market is a viable alternative over the long term for small farmers.</p> <p>The technical and entrepreneurial services are of good quality and the tools needed to comply with quality standards are transferred to producers.</p>

Objectives	Indicators	Means of verification	Assumptions
<p>business management advisory</p> <p>management and marketing</p> <p>services for the institutional</p> <p>of the cooperatives in the program</p> <p>and sales information services</p> <p>fixed assets and a working capital</p> <p>PROXSAL</p> <p>ces for the establishment of new</p> <p>workshops</p>	<ol style="list-style-type: none"> <li>1. Establishment of six to eight demonstration plots and advisory services for eight to 10 groups of producers.</li> <li>2. Eighteen events of each type plus six local and three international business trips for producers.</li> <li>3. Purchase and sale of products by PROXSAL, meetings between buyers and producers, database installed and used at the request of producers. Opening up of new markets.</li> <li>4. Better company efficiency and returns.</li> <li>5. Consulting services on the management of the new packing centers and startup of the new companies.</li> <li>6. Organization of two workshops and meetings with incoming international visitors to disseminate the CLUSA/PROXSAL model.</li> </ol>	<ol style="list-style-type: none"> <li>1. Progress reports, evaluations, field visits</li> <li>2. Progress reports, evaluations, field visits</li> <li>3. PROXSAL's financial statements, progress reports, evaluations</li> <li>4. PROXSAL's financial statements</li> <li>5. Progress reports, evaluations, visits to the companies</li> <li>6. Progress reports, publicity for the events</li> </ol>	<p>The results of the first demonstration crops are positive.</p> <p>Producers are motivated and</p> <p>The two agencies select and experienced staff to provide services.</p>
<p>required to coordinate the program and</p> <p>in services</p> <p>fixed assets by PROXSAL</p> <p>t of a commercial information</p> <p>PROXSAL</p>	Budget	Disbursements, progress reports	Experts are available to work program.

**PROPOSED RESOLUTION**

**EL SALVADOR. NON-REIMBURSABLE TECHNICAL COOPERATION FOR THE NEW  
ORGANIC FRUIT AND VEGETABLE MICROENTERPRISES**

The Donors Committee of the Multilateral Investment Fund

**RESOLVES:**

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Asociación para el Desarrollo Clusa de El Salvador, and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT-\_\_\_\_\_ with respect to a technical cooperation project to the new organic fruit and vegetable microenterprises.

2. That up to the amount of US\$700.000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.

**PROPOSED RESOLUTION**

**EL SALVADOR. NON-REIMBURSABLE TECHNICAL COOPERATION FOR THE NEW  
ORGANIC FRUIT AND VEGETABLE MICROENTERPRISES**

The Donors Committee of the Multilateral Investment Fund

**RESOLVES:**

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Sociedad Cooperativa de Productores y Exportadores de El Salvador, Proexal de R.L., and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT-\_\_\_\_\_ with respect to a technical cooperation project to the new organic fruit and vegetable microenterprises.

2. That up to the amount of US\$600.000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.