

**DEVELOPMENT OF COMPETITIVE CAPACITY IN NONTRADITIONAL  
AGRICULTURAL EXPORTS**

(TC-97-02-42-5)

**EXECUTIVE SUMMARY**

**EXECUTING AGENCY:** Asociación Gremial de Exportadores de Productos no Tradicionales (AGEXPRONT) [Association of Exporters of Nontraditional Products]

**FINANCING:** Modality: Nonreimbursable technical-cooperation funding from the Multilateral Investment Fund (MIF) (Window III-A)

MIF:	US\$1,500,000	60%
Local contribution:	<u>US\$1,000,000</u>	<u>40%</u>
Total:	US\$2,500,000	100%

**OBJECTIVES:** The objective of the project is to support the competitive capacity of small and medium-sized Guatemalan farmers by providing services to help find comprehensive solutions to the problems they encounter in nontraditional agricultural exports. The outcome will be increased exports by these farmers, who will supply the market with high-quality products through their use of commercial information on new products, thereby improving family income.

**DESCRIPTION:** The project is designed to remedy three crucial problems encountered by small and medium-sized farmers who grow nontraditional produce for export: (a) the lack of commercial information; (b) the need for new technologies and quality control; and (c) the lack of protocols with importing countries. The specific services to be financed under the project are divided into four components: (a) information on and promotion of existing opportunities; (b) technology development and a program for agricultural and environmental protection; (c) development of protocols and quality assurance for new products; and (d) coordination, monitoring, evaluation, and administrative support.

AGEXPRONT, the agency selected to implement the project, is a trade association with extensive and recognized experience. It was established in 1982 as a not-for-profit association to promote and develop nontraditional exports. Among other activities, it provides services for exporters and represents its

members before national and foreign public and private agencies involved in its area of interest.

**POVERTY TARGETING  
AND SOCIAL  
ASPECTS:**

The project will serve an estimated 4,780 small farmers and 730 medium-sized farmers who export, or have the potential to export, nontraditional agricultural products.

**RISKS:**

The main risk is that packing plants could capture an unfair share of the profits obtained from exports of new products. To reduce the risk, the project focuses on the complete agri-food chain, starting with technology for promising crops adapted to the production systems of small and mid-sized farmers. Groups of farmers with the capacity to enter the international market will be oriented and given the opportunity to meet directly with foreign buyers. A further risk would be plant health or biological problems. To mitigate it, the project includes quality control, supplemented with a variety of new products that allows for flexible operations. In addition, new production areas can be incorporated and adjustments made to the project on the basis of the mid-term evaluation.

**CONTRACTUAL  
CONDITIONS:**

**Precedent to the first disbursement:** (i) selection of the coordinator (paragraph 4.8); (ii) approval of the Operating Regulations (paragraph 4.11); (iii) presentation of the annual plan of operations for the first semester (paragraph 4.15); (iv) presentation of the chart of accounts (paragraph 4.16); and (v) selection of external auditing services (paragraph 4.17).

**EXECUTION PERIOD:**

The project will be executed in 36 months and the disbursement period will be 48 months.

**ENVIRONMENTAL  
AND SOCIAL REVIEW:**

The document was approved by the Committee on Environment and Social Impact (CESI), which pointed out the importance of agricultural practices and the use of agricultural chemicals, pest management (paragraph 3.11), and the dissemination of technical material in native languages (paragraph 3.14).

**PROCUREMENT OF  
GOODS AND  
SERVICES:**

Bank-MIF procedures will be followed for the hiring of the consulting firm specializing in marketing, the individual consultants, and the technical services, and for the procurement of inputs.

**EXCEPTIONS TO  
BANK POLICY:**

None.

## I. COUNTRY ELIGIBILITY

- 1.1 Guatemala was declared eligible for Multilateral Investment Fund resources by the Donors Committee at its meeting on March 30, 1995.

## II. NONTRADITIONAL EXPORT SUBSECTOR

### A. Importance of nontraditional agricultural exports

- 2.1 Nontraditional agricultural exports are one of Guatemala's best options for making competitive use of its productive resources. Totaling US\$292 million in 1996, they accounted for 14% of the country's total exports and 30% of all nontraditional exports.
- 2.2 The United States, Guatemala's largest trading partner, is the main market for the country's nontraditional agricultural exports, followed by El Salvador and Honduras, given the freer trade and better transportation infrastructure in the region. Germany and the Netherlands are its main European markets. The types of crops grown by small and medium-sized farmers in the high plateau (see map) of interest to this project include fresh fruits, processed fruits, vegetables, and flowers and ornamental plants. These categories have grown considerably over the last 10 years, at high annual rates. Exports of fresh and processed fruits were higher, with US\$80 million, followed by vegetables at US\$62 million, and flowers and ornamental plants at US\$46 million.
- 2.3 Nontraditional agricultural products for export are significant in terms of their impact on rural employment, the family incomes of small and medium-sized farmers, and jobs outside of rural areas. Remarkably, much of these perishable products for export is grown on very small farms (*minifundios*). Some 100,000 farmers grow these crops, providing 23 million days of seasonal employment or the equivalent of 85,000 full-time jobs annually. In 1994 it was estimated that nontraditional export crops were grown on 175,000 hectares, with 40,000 ha of them under irrigation.
- 2.4 The increase in the amount of nontraditional farm exports is a response to favorable macroeconomic measures. Special mention should be made of two factors in the short term. One is appreciation of the quetzal in reaction to capital flows and earnings from coffee exports, which has created import incentives. The other is the cost of capital, with high real interest rates that reduce investments and encourage speculation.

### B. Summary of the main problems affecting nontraditional exports

- 2.5 **Lack of commercial information on existing opportunities.** The process of opening up the Latin American economies has led to new

export potential, with successful cases of Latin American exports penetrating international markets. To maintain competitiveness, the conditions for introducing new nontraditional agricultural products on international markets must be identified. In general these market niches are small and demand high quality. As in the industrial sector, farmers need very good market intelligence and production and post-harvest technology to meet demand during cycles of growth and contraction. The best profits are made by innovative farmers.

- 2.6 **The need for new technology and agricultural and environmental health.** Modern technology is necessary to promote nontraditional farm production. However, since production is identified with biological conditions, technology must be specifically adapted to the production area. Also, sanitary standards must be complied with, particularly in the use of agricultural chemicals and, in some cases, with respect to water quality. Ignorance of the sanitary rules or failure by farmers to comply with them creates problems and leads to product rejection. Small and medium-sized farmers need training in these areas. Ties between farmers and packing plants are becoming much closer. To enter and remain in the international market, strict standards for product handling and processing quality must be established.
- 2.7 **The absence of formal protocols with importing countries and quality assurance.** Certain products do not have formal protocols or bilateral technical agreements establishing conditions for admission to foreign markets. The lists awaiting settlement with the United States Department of Agriculture (USDA) have become a restriction on gaining broader access to the market of Guatemala's top trading partner. Introduction of new nontraditional crops on the international market therefore means that information must be obtained from importing companies on commercial and legal requirements and standards. For example, Guatemala required assistance in establishing technical specifications for the pitahaya fruit. Participants will thus receive information on conditions for admission and plant health and toxicological requisites to ensure that their products meet quality standards.

### III. THE PROJECT

#### A. Project objectives

- 3.1 The objective of the project is to support the competitive capacity of small and medium-sized Guatemalan farmers by providing services to help find comprehensive solutions to three of the main problems affecting nontraditional agricultural exports. The outcome will be a larger volume of exports produced by small and medium-sized farms. Greater participation in international markets with

competitive, high-quality products will boost family income. The logical framework for the project is presented in annex III-1.

B. Project description

- 3.2 The project is designed to offer services to small and mid-sized Guatemalan farmers throughout the country. For efficiency's sake the beneficiaries will be members of associations, cooperatives, committees or groups. By banding together, small farmers are able to achieve the production volumes required on the external market and legally-established groups can enter into contracts with packing plants. The project is expected to serve an estimated 4,780 small farmers and 730 medium-sized farmers, organized into about four formal groups, in three mini-irrigation projects, two microclimate areas, and two informal groups such as returning refugees.
- 3.3 The project is intended to remedy three key problems for small and medium-sized farms in the export subsector: (a) the lack of commercial information on existing opportunities; (b) the need for new technology, which is the core of the project, and substantial assistance in maintaining quality; and (c) the absence of formal protocols with importing countries.
- 3.4 The project has been designed to allow flexibility in the sequence of activities in order to respond to product features, commercial conditions on the markets, and the capacity of the organized groups to increase the volume of production with the quality standards required. Accordingly, the sizing and budget are indicative and the new products are expected to penetrate international markets as soon as the respective conditions can be met.
- 3.5 Guatemala's Department of Planning has recognized the importance of the measures proposed to address these problems and in December 1997 it indicated its nonobjection to the present technical-assistance operation so that project preparation and approval could proceed. The project services are divided into the following four components.
  1. Component for commercial information and promotion of existing opportunities (US\$559,650)
- 3.6 This component consists of identifying and disseminating commercial information on new products with which small and medium-sized farmers have competitive capacity to gain access to international markets. The main activity will consist of selecting products with the best competitive potential from among the available options. The selection will be flexible to ensure that the products are suited to the project beneficiaries and reflect market demand. The goal is to select approximately three products in year one and seven in year two.

- 3.7 MIF funds will be used to hire the services of a consulting firm, for US\$268,000, to identify the agricultural products with the best international marketing potential based on Guatemala's competitive advantages over other suppliers, and analyze market trends for products that the country can export. The need for one expert each in international marketing, post-harvest management and agroindustrial processing, and farm production has been identified. The three international experts will be hired for total of 20 months. The national counterpart of 20 consultant-months has been calculated, with AGEXPRONT contributing 25% of that cost. The terms of reference can be consulted in the project files.
- 3.8 The areas to be studied by the firm include on-farm production, post-harvest management, agroindustrial processing, transportation, and all market factors until the products reach end consumers. The firm will prepare **practical crop-growing guides** for the selected products, containing all the necessary information on the agri-food chain.
- 3.9 Once the prospective crops are selected the project will support their promotion, for US\$133,000. This activity will permit groups of small and medium-sized farmers to participate in trade missions to international markets. Support will also be provided for the development of alliances between farmers and exporters, with representatives of farmers' groups attending trade fairs and meetings with supermarket managers. These activities will strengthen ties between producers and buyers in order to boost direct sales.

2. Component for technology development and agricultural health and environmental protection (US\$1,257,200)

- 3.10 **Technology development subcomponent.** This subcomponent is the main project activity (US\$991,700) and consists of meeting the demand for research on the part of groups of small and medium-sized farmers and validating the potential of the crops identified under component 1. The executing agency will be the Technology Development Division of AGEXPRONT, under the **Agricultural Research Fund (ARF)** program. The activities include selecting suitable geographical regions for the crops to be promoted, defining terms of reference for the research, and hiring technical services to carry it out.
- 3.11 Under this subcomponent, the ARF will select groups of small and medium-sized farmers and will chose leaders in each group to establish trial plots. The exportable crops already being grown by the farmers will also receive support, with approximately three trial plots in years one and two, and four in year three. Five replications will be made of each new crop trial and two for crops already being grown. The subcomponent will require research services costing US\$540,000 to be funded by the MIF, and AGEXPRONT

will provide counterpart funds for inputs, transportation, living allowances, and technical bulletins in the amount of US\$443,000. The farmers will provide land, water and labor for the research and trial plots and agree to follow instructions. The instructions will include the use of agricultural chemicals according to the quality control standards established and pest management, to reduce the impact of infestation that may affect end-consumers.

- 3.12 To cushion farmers from the risks inherent in the research, the agreements to be signed under this component provide for compensation in the event that the experimental crops bring in less income than regular crops. The compensation will be calculated in proportion to the income from regular crops in the area.
- 3.13 Multiplication of propagation materials and special research may be performed, when deemed necessary, in secure places where execution can be monitored, such as Agricultural Science and Technology Institute (ICTA) stations or even on farms belonging to farmers who are not project beneficiaries. AGEXPRONT will include measures in the research agreement to ensure that the results will be transferred to the direct beneficiaries.
- 3.14 If the results of the research are positive, the technology will be transferred to groups of farmers by promoting the crops on trial plots and holding field days for information purposes. A minimum of five field days will be necessary during the growing season, attended by an average of 30 farmers, spaced from the planting of the trial plots to harvesting and evaluation of the results. The cost of refreshments and information brochures for participating farmers will be financed. To ensure widespread dissemination and broad-based service to all farmers, native languages or simple diagrams may be used.
- 3.15 During the crop development and expansion stage, farmers' groups will require assistance in resolving any problems that may arise concerning new or existing export crops. Packing plants may also request assistance in resolving quality or production problems that originate at the farm level.
- 3.16 **Agricultural and environmental protection.** Protection of agricultural and environmental quality along the entire agri-food chain is a condition for gaining market access for new products. Support will be provided for AGEXPRONT's **Comprehensive Agricultural Environment Protection Program (PIPAA)**, through activities including advisory services for process quality control and risk control measures (US\$205,600).
- 3.17 The need to establish quality assurance systems has led AGEXPRONT to introduce programs for the certification of exporting companies under ISO 9000. Exporters of new produce will need to use quality guarantees as strategies to convince importers of their comparative

advantages, such as higher caliber and reliability in trade relations. Five international consultants will be hired for a total of 9.5 months, at a cost of US\$146,600 to be financed by the MIF contribution, for quality control systems, **hazard analysis and critical control points (HACCP)**, advisory services and audits for these systems and risk analysis, good manufacturing and/or management practices (GMP), quality control systems (ISO 9000), and advisory services and audits for quality control (ISO 9000). The work will be supplemented by two national consultants to provide advisory services and conduct audits in quality control and HACCP and in quality assurance.

- 3.18 AGEXPRONT will conduct seminars to demonstrate quality control parameters and the problems that arise from lack of quality. It will also increase exporter awareness of the importance of HACCP, which is compatible with other quality guarantee systems. National professionals will be trained in advisory services and systems audits. The consulting services are expected to provide AGEXPRONT with instructors trained in the new systems. Training and technical assistance will be provided in particular for small and medium-sized producers and the packing plants that handle their products, since experience confirms the need to step up controls on small farms. The sanitary quality control systems will be established during the first two years of the project.

3. Component for the development of protocols and quality assurance for new produce (US\$402,157)

- 3.19 Formal protocols will be prepared for admissibility and plant health. Two professionals with experience in plant health import regulations in the main countries will be hired for five days each to give two workshops in the second year of the project. The workshops will distribute information materials to participants.
- 3.20 The component has been scaled to prepare and formalize admission and plant health protocols and develop risk analysis. Fifty percent of the total cost of US\$351,600 will be borne by AGEXPRONT. The result will be new admissibility and plant health lists, mainly for the United States market, including protocols for the new products selected during the first two years. Farmers will be informed of the work through training and international technical assistance will be provided to implement the quality control systems.

4. Coordination, monitoring, evaluation, and administrative support component (US\$280,926)

- 3.21 This component is designed to support the three other components discussed above. It includes the cost of a project coordinator for three years which will be paid on a declining scale from MIF funds (falling from 90% in the first year to 20% in year three). It also



includes the cost of promoting the project's services through simple publications. The two activities involving monitoring and impact evaluation will be performed by consulting firms. Auditing services and the procurement of office equipment for AGEXPRONT have also been included. The concurrent cost of AGEXPRONT's contribution will be US\$90,600 over three years.

C. Total project cost

- 3.22 The total cost of the project is US\$2.5 million, with a MIF contribution of US\$1.5 million and US\$1 million from AGEXPRONT. An exchange rate of US\$1/Q6 and contingencies at 5% were used during project preparation. The following table gives a summary of cost categories, highlighting the funding provided by AGEXPRONT, which accounts for more than 50% of its cash contribution.

Total project cost by category of expenditure (US\$ thousands)						
	MIF		AGEXPRONT		Total	
1. Investments		1,428		861		2,289
1.1 Administration and monitoring	110		65		175	
1.2 Inputs	30		6		36	
1.3 Technical assistance	748		347		1,095	
1.4 Research fund	540		443		983	
2. Concurrent costs	0	0	91	91	91	91
3. Contingencies	72	72	48	48	120	120
<b>Total</b>		<b>1,500</b>		<b>1,000</b>		<b>2,500</b>

#### IV. PROJECT EXECUTION

A. Executing agency

- 4.1 AGEXPRONT, the executing agency, is a not-for-profit trade association established in 1982 to promote and develop nontraditional exports. Under its articles of incorporation, its purpose is to promote and develop exports, provide services for exporters, and represent its members before national and foreign public and private institutions involved in its area of interest.
- 4.2 The general assembly of all active members is AGEXPRONT's senior body. The powers of the assembly include electing and removing the members of the board of directors, approving the budget and general balance sheet, and formulating the institution's policies.

- 4.3 As of December 31, 1997, AGEXPRONT had 650 members, including 253 from the agricultural sector (126 small enterprises and 89 medium-sized businesses). The association has an active membership recruiting program but it is not necessary to be a member to have access to its services. The membership fee is Q 150 and, for groups, it can be split among the individual associates. Information on the operational organization of AGEXPRONT is available for consultation in the project files.
- 4.4 AGEXPRONT's legal representative is the chairman of the board of directors. The board is composed of eight members, a delegate from the General Farmers' Association, one from the Chamber of Commerce, and one from the Chamber of Industry. It is authorized to present the annual report and financial statements to the assembly, approve and evaluate work plans, appoint committees, designate advisors, name managers, and approve staff appointments.
- 4.5 AGEXPRONT's main operational units are the export committees, which group members according to common interests. Each committee elects its own officers to represent it and is responsible for preparing work plans under the guidance of an executive coordinator who receives requests for services and transmits them to the association's departments for action. There are currently six committees: agriculture, garments and textiles, furniture and wood manufactures, manufacturing, hydrobiological resources, and crafts.
- 4.6 The agriculture committee deals with the specific interests of its members and establishes subcommittees as required. It currently has the following eight subcommittees: flowers, plants, ornamentals, fruits, vegetables, frozen foods, spices, and medicinal plants.

B. Supervision and coordination

- 4.7 The project will be executed under AGEXPRONT's current operating structure, without creating any new units or procedures. Project activities will be supervised and coordinated by the agriculture committee's executive coordinator.
- 4.8 A project coordinator will be appointed to facilitate supervision and coordination, and will report to the executive coordinator. The project coordinator's duties include monitoring all project activities; selecting, hiring, and supervising the consultants; coordinating the subcomponents involving the ARF and PIPAA with the respective directors; acting as liaison with the Bank's Country Office for preparing all the necessary reports and contractual arrangements; and supervising AGEXPRONT's administrative support services. Selection of the coordinator will be a condition precedent to the first disbursement.

- 4.9 The consulting firm to prepare commercial information under component 1 will be hired through international competitive bidding. This is a key activity that should begin in the first month of the project. The terms of reference have been reviewed and can be consulted in the project files. The 20 national consultant/months planned for component 1 are intended to provide support and continuity for the work of the international consultants (see Annex IV-1, "Procurement plan").
- 4.10 The technology development subcomponent will be carried out by the Agricultural Research Fund (ARF). The fund was organized in 1990 to provide technological support in response to demand from members to combat the infestation of mangos by the Mediterranean fruit fly, which prevented their export to the United States. The ARF program is directed by an advisory board composed of four entrepreneurs appointed by AGEXPONT's agriculture committee, the general manager of the Agricultural Science and Technology Institute (ICTA), the dean of the Agronomy Faculty of the University of San Carlos (FAUSAC), a representative of Universidad del Valle de Guatemala (UVG), and the United States Agency for International Development (USAID).
- 4.11 ARF's advisory board will be in charge of reviewing each of the research projects to be financed with MIF funds. No project will be carried out unless it has been declared eligible by the board, in accordance with the Operating Regulations. The eligibility review will ensure that the selection criteria are complied with and that the research is adequately designed, confirm the profiles of the beneficiaries, and indicate the duration of the research and the expected results. A version of the Operating Regulations reviewed by AGEXPONT can be consulted in the project files. **Approval of the Operating Regulations by the Bank will be a condition precedent to the first disbursement of the operation.**
- 4.12 Applications for experimental projects that have been approved by ARF's advisory board will be formalized through agreements with the individuals or groups requesting them. The agreements will establish the commitments of the parties involved. ARF will award contracts for the research, under a competitive system, to Guatemalan or foreign individuals or enterprises or, under a cooperation agreement, to a nonprofit agency such as ICTA or the agronomy faculties of FAUSAC or the UVG.
- 4.13 The subcomponent for agricultural environmental protection and the formalization of protocols will be the responsibility of AGEXPONT's PIPAA program. PIPAA was established as an alliance between users' organizations and the Ministry of Agriculture and Food (MAGA) under a 1991 ministerial resolution to introduce the standards and plant health regulations established at the Uruguayan Round and to comply with the regulations of importing countries under agreements with the World Trade Organization (WTO).

- 4.14 PIPAA is directed by an advisory board composed of a manager and two entrepreneurs appointed by AGEXPRONT's agriculture committee, two representatives of the agricultural chemical industry (AGREQUIMA), and the director of the MAGA's Plant Health Technical Directorate (DTSV). Other experts may be invited to participate when deemed necessary.
- 4.15 To facilitate project monitoring, AGEXPRONT will present an annual plan of operations at the start of each year. **Presentation of the plan of operations will be the responsibility of the agriculture committee's executive coordinator and submittal of the plan for the first semester will be a condition precedent to the first disbursement.**
- 4.16 AGEXPRONT's accounting services will keep the project's accounts separately to facilitate the management of MIF funds, tracking, and auditing. **Accordingly, submittal of a chart of accounts has been included as a contractual condition precedent to the first disbursement.**
- 4.17 AGEXPRONT will hire auditing services satisfactory to the Bank. Annual audited statements will be prepared on the MIF contribution and the local counterpart. **Selection of the auditing services will be a condition precedent to the first disbursement.**

C. Financial aspects

- 4.18 **Income from service charges.** AGEXPRONT's current cost-sharing system will be used in charging for the services provided. Under the technology development subcomponent, experimental projects can be financed jointly by AGEXPRONT, the exporter, and interested parties, particularly MAGA. MAGA assists when it is necessary to subsidize low-income participants and when the proposed research is in the public interest, as substantiated in the research proposal. Another mechanism used by AGEXPRONT is reaching agreements with exporters who pay a fee based on the value of their exports. Regardless of the mechanism used, AGEXPRONT is required to place the proceeds in the research fund to ensure its sustainability.
- 4.19 The technology development subcomponent will be managed as a research fund. Research costs will be recovered using the shared costs system. Prior to starting a research project on a new product, AGEXPRONT will discuss information on market impact with MAGA and packing plants to identify interest in developing the product and sharing the research costs. All funds recovered by AGEXPRONT will be used for research purposes.
- 4.20 AGEXPRONT will charge a variable fee for the training courses offered under components 2 and 3. Courses in quality control will cost US\$125 per person, but the fee will be subsidized for representatives of groups of small and medium-sized farmers.

- 4.21 **AGEXPRONT's financial situation.** The association's financial statements indicate that the institution is solid. Its capital account grew from Q 9.6 million in June 1994 to Q 16 million in June 1996. Over that period, income from membership fees rose from Q 1.2 million to Q 1.5 million, and total income has hovered around Q 5.3 million, while operating costs averaged Q 3.2 million. As a result, AGEXPRONT has been able to capitalize the net surplus in its capital account with an annual average of Q 2.1 million. AGEXPRONT is expected to be in a position to make contributions over the three-year project execution period, as discussed in the following section.

D. Disbursements

- 4.22 The following table presents an estimate of disbursements during the three-year life of the project. A disbursement period of 48 months will be required in order to allow for the impact evaluation study to be conducted 12 months after project completion.

Disbursements (US\$ thousands)					
	Year 1	Year 2	Year 3	Year 4	Total
MIF	570	654	256	20	1,500
AGEXPRONT	218	422	360	0	1,000
Total	788	1,076	616	20	2,500

V. FEASIBILITY AND RISKS

- 5.1 **Technical feasibility.** The technical feasibility of the commercial information component will be assured by selecting an international firm with the capacity to analyze the data available and propose a viable program to AGEXPRONT. The results will influence the technology development subcomponent, particularly with respect to promoting participation in research along the entire agri-food chain.
- 5.2 AGEXPRONT has the technical capacity to organize and evaluate research projects for the validation of new products and for research on established ones. Guatemala has recognized technical capacity that will facilitate contracting the research. Many small and medium-sized farmers practice modern agriculture and have a technological base that will allow them to switch over to new crops satisfactorily. They are very adaptable to change, but they need information on new technology and risk reduction.

- 5.3 **Financial feasibility.** The financial feasibility of the technology development subcomponent to validate new products is based on the recovery of costs, which are expected to be relatively low. If exporters are interested in the produce selected under the commercial information component, they will clearly be willing to share in the research costs. Moreover, MAGA has indicated its willingness to help pay for new product development costs, which ensures financial feasibility and investment recovery.
- 5.4 **Institutional feasibility.** AGEXPRONT has recognized experience in all project areas. It carries out an appreciable number of activities and has the capacity for expansion and consolidation. It has been able to diversify exports, support the generation of technology, organize quality control, and formalize protocols with health control agencies in importing countries.
- 5.5 The purpose of the project is to tap this institutional capacity and channel the benefits to small and medium-sized producers. As part of its institutional strategy, AGEXPRONT has begun to establish closer ties with groups of beneficiaries resembling those targeted under the proposed project. Its decision is consistent with Guatemala's agricultural production structure, in which small and medium-sized farmers are crucial for boosting exports.
- 5.6 **Economic feasibility.** Project returns will be assured under an open market process with competitive prices which will guarantee that profitable items are selected. To ensure the economic feasibility of the new products, the Operating Regulations include sales margins and adequate returns as selection criteria for them.
- 5.7 **Environmental feasibility.** The project will have a positive environmental impact. It will create a new opportunity for introducing good farming practices, including recommended chemicals, comprehensive pest control, and tolerance limits in their use. Farmers will grow crops that are better adapted to agroecological conditions. The project will help to reduce unsuitable farming practices, such as planting on slopes or soil subject to erosion.
- 5.8 By transferring suitable technologies, the project will promote the use of agricultural chemicals that are less harmful to the environment and human health. Quality control systems, GMP, HACCP, and ISO standards will be introduced.
- 5.9 Importers are making greater demands for environmental protection and those demands may, in the future, become international requirements. Accordingly, the project will promote a program for the collection and treatment of agrochemical waste. Workshops will train farmers and entrepreneurs in pesticide use and management, triple washing, and container collection. The auditing manuals

will include measures for waste treatment, safety, worker health and protection, and the introduction of ISO 14000 standards.

- 5.10 **Risks.** The main risk is that packing plants could capture an excessive share of the profits obtained from exports of new products. To reduce the risk, the project focuses on the complete agri-food chain, starting with technology for promising crops adapted to the production systems of small and mid-sized farmers. Groups of farmers with the capacity to enter the international market will be oriented and given the opportunity to meet directly with foreign buyers.
- 5.11 To mitigate this risk, during project preparation, visits were paid to groups of potential beneficiaries to confirm the existence of viable institutions. One example is Cuatro Pinos, a cooperative affiliated with AGEXPRONT, which began operating 19 years ago and whose members number some 2,800 small and medium-sized farmers. Another institution visited was the Guatemalan Center for Comprehensive Development (CEDIG). It is a not-for-profit agency that began operating in 1990. It is active in eight of the country's departments and consists of 58 small farmers' groups, with close to 2,400 families involved. Another typical organization whose members could potentially benefit is the Chimalteca Association for Comprehensive Rural Development (APSIR), legally founded in 1990 as a private, nonprofit institution. Its purpose is to foster rural development in the municipality of Patzún, Chimaltenango.
- 5.12 A further risk would be plant health or biological problems. To mitigate it, the project includes research and quality control, supplemented with a variety of products that allows for flexible operations. In addition, new production areas can be incorporated and adjustments made to the project on the basis of the mid-term evaluation.
- 5.13 The difficulty of motivating small and medium-sized farmers to enter international markets whose quality demands are high is another risk. The project contains an innovative solution in the form of services to reduce the risk that the crops they grow for export might pose hazards to the health of end consumers.

## **VI. COMPATIBILITY WITH THE BANK'S COUNTRY PROGRAM**

- 6.1 The Bank's country strategy has four objectives, and the project is linked directly to the first two and indirectly to the last two: (i) integration of an important segment of the lowest-income groups, including indigenous and rural populations, into the development process; (ii) development of private productive

sectors; (iii) improvement and expansion of social services; and (iv) modernization and reform of the State.

- 6.2 The Bank's activities in the agri-food sector will focus on a category A investment program in 1998 (GU-0070). The program will provide support for new trade policy instruments, restructuring of MAGA, market information, organization of a national funding system for technology, and modernization of plant and animal health services. It will also include reorganization and privatization of the irrigation infrastructure.
- 6.3 The Bank is supporting the agricultural sector with other technical-cooperation projects. They include financing from the Swedish Trust Fund to promote exports of fruits and vegetables from Guatemala to Sweden. Another operation planned for 1998 would also use MIF funds to organize instruments for the private market.
- 6.4 The technical-cooperation project described in this memorandum is intended to support AGEXPRONT's services, as the best institutional option for turning small and medium-sized farmers into key private-sector players in agricultural exports. It will assist rural groups from the private sector that need strengthening and organization to join the broader sector programs on a national scale and participate actively in areas such as the competitive technology fund.

## VII. PROJECT ELIGIBILITY CRITERIA

- 7.1 The project is consistent with the general objectives of the MIF to strengthen and expand the private sector through: (i) improvements in the competitive capacity of small and medium-farmers in nontraditional crops grown with appropriate technologies; (ii) increased exports with better quality control; and (iii) support for business management by small and medium-sized farmers.

## VIII. EVALUATION

- 8.1 A mid-term evaluation of the project will be performed by external consultants hired by AGEXPRONT on the basis of terms of reference approved by the Bank. The cost of the contract has been included in the project and the consultants will begin work in month 18.
- 8.2 The mid-term evaluation will include a strategic analysis of the financial options available to AGEXPRONT to ensure sustainability. The options will include contributions from government agencies, Bank financing, or funds from bilateral sources. The analysis will



be used in deciding whether to continue financial support for AGEXPRONT.

- 8.3 During the mid-term evaluation, the firm hired will pay particular attention to participation by small and medium-sized farmers and the results obtained with the products selected. It will confirm that the Operating Regulations are being applied, review the results of the research and the impact of technology transfers, cost recovery, and changes in quality control systems. This information will allow for flexible project management and the introduction of any necessary adjustments.
- 8.4 An impact evaluation has also been included, which will be performed 12 months after project completion, by a firm hired by AGEXPRONT on the basis of terms of reference approved by the Bank. The evaluation will cover the areas reviewed in the mid-term report, but will also include Bank of Guatemala and MACA statistics to confirm project impact.

**LOGICAL FRAMEWORK**  
**DEVELOPMENT OF COMPETITIVE CAPACITY IN NONTRADITIONAL AGRICULTURAL EXPORTS**

Objectives	Indicators	Means of verification	Assumptions
<b>OBJECTIVE:</b>  To expand exportable products produced by small and medium-sized farmers in Guatemala and ensure that their new nontraditional exports are competitive on world markets and are of high quality	The supply of competitive nontraditional products produced by small and medium-sized farmers grows by an average of 10% a year between 2000 and 2005.	Reports on foreign exchange earnings from nontraditional farm exports by the Bank of Guatemala and MAGA statistics	Public investments in infrastructure increase; macroeconomic policy is favorable; the exchange rate is not overvalued; and access to investment capital is financially feasible.
<b>PURPOSE:</b>  To remedy the problems of a lack of information on trade, technology, and health and the absence of admissibility and plant health protocols that will ensure quality on the international markets.	The number of farmers organized in groups that export directly and indirectly grows to 4,780 small farmers and 730 medium-sized farmers by the year 2003.	AGEXPRONT's data bank, reports by the Bank of Guatemala, and MAGA statistics	Groups of small and medium-sized farmers receive price incentives to increase their nontraditional crops for the export market, reflected in higher family income.
<b>COMPONENTS:</b>  1. Dissemination of information on new crops with export potential  2 (a) Validation of technology for the new agricultural products and production of propagation materials to expand the area under cultivation by small and medium-sized farmers  2 (b) Dissemination of information on quality control systems, quality assurance, and risk analysis; control over the production and export process along the entire chain  3. Admissibility in terms of quality and health standards of new products to priority markets confirmed	1. Approximately three new crops bring high returns, are accepted by farmers, and have a consolidated position on the world market in year one of the project and seven in year two.  2 (a) Technology is adapted with high yields for three new crops in year one and seven in year two.  2 (b) Packing plants can document all their quality control activities with formal records for every step set forth for application of the HACCP and ISO 9000.  3. Ten protocols are formalized to facilitate exports of the new products in year three or before, if possible.	1. AGEXPRONT's annual reports and technical reports by the consulting firm  2 (a) Annual reports on the ARF program, research reports, and list of AGEXPRONT's associates and groups participating  2 (b) Audit reports by the experts of the supervisory firms  3. List of products admissible on the target markets	1. Demand for new export crops is real and there are no unmanageable plant health or biological problems.  2 (a) Financing terms at the farm level are an incentive for investing and permit small and medium-sized farmers to improve their family incomes.  2 (b) Farmers and exporters are motivated to act in coordination to solve quality problems and provide mutual support, and are flexible in finding markets for the new products.  3. Tariff and nontariff barriers are lowered and transparent.

Objectives	Indicators	Means of verification	Assumptions
<b>ACTIVITIES</b>			
1. Proposal by the consulting firm, with the support of three national consultants, of at least three new competitive crops in year one and seven in year two, and provision of market information and growing guides	1. The consulting firm is hired for US\$268,000 in year one and three national consultants consultants hired for US\$107,000, and at least three crop guides are produced in year one (US\$7,500) and seven in year two.	1. Final report by the consulting firm	1. Small and medium-sized farmers accept the proposed technology and are able to produce exportable volumes.
2 (a) Selection of regions for promoting the 10 new crops, approval of research agreements, and contracting of technical services	2 (a) Three technology development agreements are signed in year one for US\$295,000, seven in year two for US\$500,700, and five in year three for US\$186,700 to work with the 11 groups of farmers selected.	2 (a) Annual reports of AGEXPRONT's agriculture committee	2 (a) The geographic regions selected are suitable for the new crops.
2 (b) Selection of groups of small and medium-sized farmers and identification of leaders to conduct the experiments	2 (b) Three groups of farmers sign cooperation agreements with AGEXPRONT in year one, seven in year two, and one in year three.	2 (b) Review of the agreements and production statistics of AGEXPRONT's committees	2 (b) The agricultural leaders selected participate actively in disseminating the results.
2 (c) Research for propagation materials carried out at ICTA stations or at other institutions	2(c) Review of formalized agreements	2 (c) Review of the agreements and production statistics of AGEXPRONT's agricultural subcommittees	2 (c) Satisfactory distribution of propagation materials to farmers

Objectives		Indicators	Means of verification	Assumptions
2.1	Preparation of manuals on quality requirements	2.1 Manuals are published and available to entrepreneurs and farmers, for US\$2,000.	2.1 AGEXPRONT's annual reports	2.1 Small and medium-sized farmers recognize the advantages of the proposed crops and adopt and practice the technical recommendations.
2.2	Promotion of groups of small and medium-sized farmers	2.2 Some 4,780 small farmers and 730 medium-sized farmers are expected to be organized into a total of 11 groups divided into three mini-irrigation districts, four formal groups, two microclimate regions, and two special groups such as returning refugees.	2.2 AGEXPRONT's annual reports	2.2 The participants in the agri-food chain react with enthusiasm.
2.3	Training in food quality and safety	2.3 Five consultants are hired for US\$205,600 and workshops are held for US\$9,000.	2.3 PIPAA program reports	2.3 General willingness exists to apply the quality control recommendations.
2.4	Technical advisory services on control and security systems	2.4 Professionals are hired for US\$50,000 and advisory services are provided on the 10 new crops before year three.	2.4 List of farmers' groups with systems in operation	2.4 Technical recommendations are voluntarily accepted.
2.5	Sanitary inspections	2.5 The 10 new crops are inspected in year three.	2.5 List of crops inspected	2.5 AGEXPRONT supports the inspections.
3.1	Formalization of admissibility protocols with plant health authorities in importing countries	3.1 At least five admissibility protocols are formalized in year two, for US\$87,000, and five protocols in year three, for US\$87,900.	3.1 AGEXPRONT's annual reports and copies of the protocols	3.1 The new products produced by small and medium-sized farmers can be exported to purchasing countries.
3.2	Formalization of plant health protocols with plant health authorities in importing countries	3.2 Five plant health protocols are formalized in year two and five protocols in year three, for US\$87,900.	3.2 AGEXPRONT's annual reports	3.2 The health authorities of importing countries do not reject the new products for health reasons.

**GUATEMALA**  
**MIF-AGEXPRONT PROJECT FOR THE DEVELOPMENT OF COMPETITIVE CAPACITY IN NONTRADITIONAL AGRICULTURAL EXPORTS**

**PROCUREMENT PLAN**

Main goods and services to be procured (US\$ thousands)	Source of funds (%)		Method	Prequalification	Estimated date of publication in the SPN (quarter and year)
	MIF	AGEXPRONT			
A. <u>Procurement of goods</u>  Purchase of inputs. One lot in year one for US\$22.5, in year two for US\$42.5, and in year three for US\$10.	83%	17%	LPS	NO	-
B. <u>Consulting services</u>  Consulting firm to select crops with the best potential on the international market (US\$268)	100%		ICB	YES	Year I month 1
1. Five individual consultants to carry out the PIPAA training program (US\$147)	100%		LB	NO	-
2. Three national consultants to help prepare the market analysis (US\$107)	72%	28%	LB	NO	-
3. Technical services for the technology development subcomponent (US\$1,060) (up to four contracts a year and US\$50 per contract)	55%	45%	LB	NO	-
C. <u>Auditing</u> (US\$25)	100%		LB	NO	-
D. <u>Preparation of 10 admissibility and plant health protocols</u> (US\$351)	50%	50%	LB	NO	-
E. <u>Mid-term evaluation</u> (US\$11)	100%		LB	NO	-
F. <u>Impact evaluation</u> (US\$20)	100%		LB	NO	-

Notes:

ICB = International competitive bidding  
LB = Limited bidding  
LPS = Local price shopping

**PROPOSED RESOLUTION**

**GUATEMALA. NON-REIMBURSABLE TECHNICAL COOPERATION FOR THE  
DEVELOPMENT OF THE COMPETITIVE CAPACITY FOR EXPORT  
OF NON-TRADITIONAL AGRICULTURAL PRODUCTS**

**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 Gremial de Exportadores de Productos No Tradicionales (AGEXPRONT) 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 support the development of the competitive capacity for export of non-traditional agricultural products.

2. That up to the amount of US\$1,500,000, 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.