

COMPETITIVENESS OF SMALL-SCALE INDIGENOUS FARMERS

(SP/TC-00-10-50-2-GU)

EXECUTIVE SUMMARY

Executing agency: Centro Municipal para el Desarrollo Agroindustrial de Sumpango [Municipal Services Center for the Agro-industrial Development of Sumpango] (CEMUSDA)

Amount and source:

IDB:	
Loan	US\$240,000
Nonreimbursable technical cooperation	US\$110,000
Local counterpart (CEMUSDA):	<u>US\$ 57,000</u>
Total:	US\$407,000

Resources will be drawn from the net income of the Fund for Special Operations (FSO) in foreign exchange.

Terms and conditions:

Amortization period:	12 years
Grace period:	3 years
Execution period:	30 months
Disbursement period:	36 months
Interest rate:	2% in real terms

The grace period will apply to amortization only, but not to interest payments. A maintenance-of-value charge will be added to the 2% interest rate, based on the consumer price index over the previous 12 months, using data from the Instituto Nacional de Estadísticas [National Statistics Institute].

Problem to be solved: Small-scale farmers in Guatemala mainly grow traditional crops on a monoculture and subsistence farming basis, and maintain poverty indexes below the national average.

Small-scale producers in the Chimaltenango and Sacatepéquez region have started to modernize their farming operations by installing rudimentary irrigation systems, and introducing new crop varieties such as mini-zucchini, mini-pumpkin, snow pea and green bean. Despite the significant demand for mini-vegetables in export markets, small farmers have been unable to expand and market their produce, mainly for the following reasons: (i) deficient technical management of production owing to a lack of specialized technical support; (ii) lack of

access to financing for working capital and investment; and (iii) absence of an organization to ensure quality control, processing and marketing of their produce with higher profit margins.

CEMUSDA has been set up to help small-scale farmers overcome these problems. There is great demand for its production, financing and marketing services from farmers in the area, who see it as offering the support they need to achieve better living standards. The proposed project is designed to help CEMUSDA meet this demand by: (i) increasing its fund for financing; (ii) improving its capacity to provide technical services to small-scale producers; (iii) modernizing facilities for bulking, quality control, processing and conservation of production; and (iv) strengthening its managerial and administrative capacity.

Objectives:

The **general objective** of the project is to improve the socioeconomic conditions of small-scale farmers in the Chimaltenango and Sacatepéquez regions, by enhancing the production of nontraditional crops, promoting value-added activities, and ensuring farmers have access to adequate financing to produce and market their products.

The project's **specific objectives** are as follows: (i) to give small-scale farmers greater access to financing for the production and marketing of nontraditional crops; (ii) to improve quality and productivity in the cultivation of nontraditional crops; (iii) to increase value added by introducing improvements in bulking, post-harvest processing and marketing systems; and (iv) to strengthen institutional capacity and sustainability in CEMUSDA to provide efficient services to producers.

Description:

The project will be implemented through the following two components:

1. Financing component (IDB: US\$240,000; counterpart: US\$37,000)

The proceeds of this component will be used to finance: (i) a credit program to meet the working capital financing requirements of small-scale farmers; (ii) a CEMUSDA working capital fund aimed at financing the marketing and export activities of small-scale farmers in the region; and (iii) investments to facilitate marketing logistics and provide CEMUSDA with the infrastructure needed for the preexport processing and storage of crops purchased from the farmers.

- a. Credit program for small-scale farmers (PCPA)** (IDB: US\$38,000). Resources will be used to meet the financing needs of small-scale farmers producing nontraditional crops. Credit will be granted mainly for working capital and

small productive investments, including the purchase of seed and inputs for production.

- b. Marketing and export support fund (FEX)** (IDB US\$118,000). Resources will be used to meet the working capital needs of CEMUSDA to finance the marketing of nontraditional agricultural products for export and allow small-scale farmers to obtain immediate payment for their output, thereby increasing their liquidity and providing financing for their productive operations.
 - c. Investments** (IDB US\$48,000; counterpart: US\$37,000): These resources will be used to finance the following: (i) installation and equipping of a *mini-vegetable processing, packing and storage plant*, for CEMUSDA to carry out post-harvest quality control and processing, which will include: (a) a cold-storage chamber, consisting of a demountable room with equipment so that it can be moved and still be fully functional; and (b) equipment for processing and packing agricultural produce prior to sale; and (ii) equipment for transporting produce from the area of cultivation to the bulking plant. CEMUSDA will finance the rental of a suitable new site for the current plant, and also provide the smaller equipment already in existence.
- 2. Technical cooperation component** (IDB: US\$110,000; counterpart: US\$20,000)

The technical-cooperation funding will be used to improve agricultural production and strengthen CEMUSDA in its administrative and managerial capacity. The following activities will be financed: (i) technical assistance for CEMUSDA staff and management; (ii) technical assistance and training for producers in the field; (iii) design or procurement of appropriate software to maintain CEMUSDA accounting records and manage the marketing fund, also including a database of useful managerial information; and (iv) computer and communications equipment. Several specialists will be hired to strengthen CEMUSDA internal management capacity and provide technical assistance services in the field.

Social and environmental review:	At its meeting on 11 January 2002, the Committee on Environment and Social Impact (CESI) made a number of suggestions that have been incorporated into the document. The technical cooperation component includes advisory services and training for small-scale farmers on topics such as: (i) the handling of agrochemicals; (ii) pest control and plant health; and (iii) worker health.
Beneficiaries:	The project is expected to provide a variety of direct benefits to 550 small-scale farmers in Chimaltenango and Sacatepéquez, a largely indigenous region. Some 63% of the beneficiaries will receive financial services, and 100% will receive training and technical assistance in the field. Access to credit will enable some 230 producers to set up irrigation systems on plots with springs. CEMUSDA has 312 members located in four municipalities, and thanks to the project activities it may gain another 200 small-scale producers who want to become partners and are waiting for CEMUSDA to have the capacity to attend to their needs. Considering the size of the average family unit, the project will reach about 3,600 people in rural areas.
Risks:	There are three main risks in this project, as follows: (i) <i>Risk</i> : a suitable organization and management system to adequately control operations may not be achieved, leading to management functions being concentrated in few hands. <i>Mitigating factor</i> : the technical cooperation component calls for hiring specialists in the following areas: (a) business administration and organization; (b) institutional development; and (c) community organizations, for the purpose of strengthening CEMUSDA's organization and decision-making mechanisms at different levels, and enable its management system to implement the project. (ii) <i>Risk</i> : demand for the region's crops and market behavior, which could entail falls in volumes and selling prices; <i>Mitigating factor</i> : by providing provide technical assistance and training for small-scale farmers, the project will help improve productivity and diversify mini-vegetable production, thereby avoiding concentration in a single main product. Higher productivity and better quality will also help make crops more competitive and better able to withstand price fluctuations. (iii) <i>Risk</i> : natural hazards may damage production and erode the producers' ability to make loan repayments (e.g. weather phenomena or pests). <i>Mitigating factor</i> : to partially counteract natural hazards, CEMUSDA will provide technical assistance and training in crop-farming methods to minimize the possible adverse impact of pests and soil erosion.
The Bank's strategy:	The Bank's strategy in Guatemala is to support the government in meeting the challenges of achieving sustainable economic development while assigning priority to the fight against poverty. This strategy is based on three major pillars: (i) economic growth, stability and

competitiveness, with special support for the competitiveness of productive sectors; (ii) equity, social protection and human capital development, including actions targeting displaced populations such as indigenous groups; (iii) modernization of the State and governance (country paper, document GN-2149-1, June 2001). The proposed project addresses points (i) and (ii) of this strategy.

**Special
contractual
conditions:**

As a condition precedent to disbursement of the technical cooperation resources, CEMUSDA will present the following, to the Bank's satisfaction: (i) evidence that a project director has been appointed; (ii) the terms of reference for consultants specializing in business administration and organization, information technology, and community organizations and for the agricultural engineer; and (iii) an execution plan, with annual targets for fulfillment of project objectives and results, including: (a) a schedule for achieving the performance indicators established for the project; (b) a compilation of socioeconomic data on the target group prior to the start of project activities, to make it possible to assess changes in project beneficiaries' incomes; and (c) initial indicators on CEMUSDA intermediation margins.

For disbursement beyond 50% of the technical cooperation resources, CEMUSDA must have begun to disburse resources from the financing component.

As a condition precedent to the first disbursement of the financing component, CEMUSDA will present, to the Bank's satisfaction: (i) a report by the consultant specializing in business administration and organization certifying that the organization's information system is in operation and meets the requirements for managing the project's accounting tasks and administration of the PCPA and FEX; (ii) the PCPA's credit regulations approved by its Board of Directors; (iii) the FEX's operations regulations, approved by its Board of Directors; (iv) a rental contract, for at least three years, for the site where the mini-vegetable processing, packaging and storage plant will be located, and where the cold chamber and other equipment procured with Bank funds will be installed; and (v) a plant installation plan.

**Reports and
evaluations:**

CEMUSDA will submit progress reports to the Bank on project execution and use of the Bank resources, no later than 60 days after the end of each six-month period. These reports will include: (i) a description of the progress achieved in the implementation of the project's execution plan and its indicators, as well as a description of the main achievements and difficulties encountered by the project in fulfilling its targets and objectives and in relation to the current execution plan; (ii) an update of the performance indicators and project execution plan for the following 12 months, including measures to overcome obstacles identified; (iii) information on the benefits

transferred to small-scale farmers in economic terms and training and technical assistance on production and marketing; (iv) information on the execution of environmental and gender-related activities; (v) a statement on the use of Bank resources and the counterpart contributions made; and (vi) statistical and financial information on CEMUSDA's economic performance, including: (a) changes in the commercial intermediation margins; and (b) developments in CEMUSDA's capitalization. The last of these reports, which will constitute the final report, should contain a summary of the results achieved in comparison with the original objectives.

The Bank will review the content, results, and recommendations arising from these reports. If there are significant deficiencies in project execution, the Bank may suspend disbursements until CEMUSDA has taken satisfactory measures to correct the deficiencies.

Within 120 days of the last disbursement under the operation, CEMUSDA will present a financial report, audited by an independent auditor acceptable to the Bank, describing how the Bank's contribution was used.

This project is significant in terms of the development of production, trade, and associations. In order to evaluate project progress and take any necessary corrective measures, a *midterm* evaluation will be conducted once 40% of project funds have been committed. The evaluation will measure fulfillment of the proposed objectives and the degree of fulfillment of the project indicators. Among other things, the following will be evaluated: (i) the effect of the project on: (a) the mini-vegetable production and marketing capacity of small-scale farmers (in terms of volume, yield, and quality); and (b) the socioeconomic situation of the members of the cooperative; (ii) the performance of the credit program and access thereto on the part of the beneficiaries; (iii) performance of the FEX; (iv) performance of the bulking, post-harvest processing, and marketing systems; (v) CEMUSDA's institutional capacity and sustainability of the activities; and (vi) the environmental impact of activities undertaken.

In order to document the experience and measure achievements, a *final* project evaluation will be carried out once execution has been completed. The final evaluation will focus on an analysis and didactic documentation of the process carried out by CEMUSDA, paying special attention to the following: (i) marketing structure and identification of new markets; (ii) the type of association developed with producers and its scope; (iii) the value added to primary production; (iv) organizational modes that develop leadership and representation schemes as empowerment mechanisms, taking into account local diversity; and (v) economic and financial indicators on institutions and producers.

The Bank's Country Office in Guatemala will directly hire independent consultants to perform these evaluations, which will be charged against the technical cooperation funding earmarked for this purpose.

**Exceptions to
Bank policy:**

None.