

SOCIAL ENTREPRENEURSHIP PROGRAM

PROJECT SYNTHESIS

1. **Country:** Colombia
2. **Project Number:** CO-S1008
3. **Project Name:** Restructuring the Livestock Sector to Achieve Sustainability for Dairy Producers in Caquetá
4. **Executing Agency:** Nestlé Colombia
5. **IDB Unit:** Multilateral Investment Fund (MIF)

6. **Financing Amount and Source:**

	<u>IDB</u>	<u>Local</u>	<u>Total</u>
Reimbursable financing:	US\$1,000,000	US\$0.0	US\$1,000,000
Technical Cooperation:	US\$250,000	US\$500,000	US\$750,000
Total:	US\$1,250,000	US\$500,000	US\$1,750,000

7. **Goal and Purpose:**

This project's expected impact is to improve the incomes of small-scale dairy producers in Caquetá, Colombia by improving their productivity through the implementation of the silvopasture system. The outcome of the project will be to provide producers with loans and technical cooperation funding to enable them to implement that system. The project will achieve its objectives by providing loan proceeds to Nestlé, which will channel them to producers so that they can make the investments needed to adopt the silvopasture system. The project will also provide technical cooperation funds to enhance the productivity and competitiveness of these small farmers.

8. **Description:**

To achieve the project's objectives, the Bank will finance two components, both to be executed by Nestlé Colombia: a reimbursable financing component in the amount of US\$1,000,000 (IDB: US\$1,000,000 and Nestlé US\$0) and a nonreimbursable technical-cooperation component in the amount of US\$750,000 (IDB/MIF: US\$250,000 and counterpart: US\$500,000). Both components will be financed with special resources of the Bank's Ordinary Capital for the Social Entrepreneurship Program (SEP).

- ***Reimbursable financing component***

Under this component, the IDB/MIF will extend Nestlé Colombia a loan of US\$1,000,000. Nestlé Colombia will be responsible for administering the loan proceeds, repaying the loan,

and assuming full responsibility vis-à-vis the Bank. The loan component will be used to provide long-term financing to 100 small-scale milk producers who are part of the scaling up and improvement of the silvopasture system that Nestlé is implementing in Caquetá. As a result, 100 small scale farmers and rural entrepreneurs will have increased access to longer term loans for their dairy businesses and agricultural activities, currently not available in the local market. The loan will give the small producers access to loans in Colombian pesos each equivalent to about US\$10,000, with a term of up to five to seven years and a grace period of up to three years, and an interest rate of 9%, in order to finance the capital cost of converting their farms to silvopasture systems. Nestlé will assume the risk of the loans to the farmers and will absorb all administrative costs related to managing those loans. Nestlé will be able to discount the loan interest and principal payments from the regular payments that Nestlé makes to the farmers in exchange for the milk delivered. The Bank's loan to Nestlé will carry an annual interest rate of 9%, on balances in Colombian pesos, a seven-year term, and a grace period of 36 months.

- ***Non-reimbursable Technical Cooperation component***

The project will also include a technical cooperation grant of up to US\$250,000, and counterpart funds of at least US\$500,000 from Nestlé and copayments from the farmers for the technical assistance received. This nonreimbursable component will be used to provide technical assistance on the proper implementation of the silvopasture system. It will focus on farm maintenance and sustainable land, soil, and water use. Lastly, the grant funds will be used to coordinate, audit and evaluate the project implementation, as well as conduct a baseline study. Technical cooperation activities will include: (i) dissemination of information on the project and selection of beneficiary producers who will take part in the upgrading project; (ii) implementation of record keeping in farms.; collection and systematization of information (including the baseline survey); (iii) implementation of livestock management software, for both production and loan repayment purposes; (iv) design of an Action Plan for each producer; (v) assistance with implementation of the Action Plan; (vi) specialized consulting services on livestock management; and (vii) project coordination and audit. A breakdown of the activities to be financed with technical cooperation funds and their itemized budget is provided in Document 2, in the project's technical annexes.

The technical assistance package will be implemented by Nestlé's Agriculture Development Service based at the precondensation plant in Florencia, with the support of Centro para la Investigación en Sistemas Sostenibles de Producción Agropecuaria [Center for Research on Sustainable Agricultural Production Systems] (CIPAV), which has been working closely with Nestlé in the initial phase of the program. The partnership between CIPAV and Nestlé has been successful during the initial phase, and Nestlé wants to continue taking advantage of the support that CIPAV can provide to the program.

9. Beneficiaries:

Nestlé has a precondensation plant in Florencia area supplied by more than 2,000 small-scale livestock farmers, with whom it has worked for many years. With this project and using the silvopasture system, Nestlé hopes to enhance environmental management by livestock producers, while increasing productivity, and raising the incomes of producers, with a view to supporting to the development of Caquetá and ensuring that it will have a growing supply of quality milk in the future.

The average family identified as a beneficiary of this project consists of five people, including an average of three children. Usually the farmer hires two people per farm. With the silvopasture system, the number of people employed will increase, especially during the implementation phase.

10. Expected results and benefits:

By the end of the project, it is expected that: (i) at least 100 small dairy enterprises (farms) will receive long-term loans; (ii) 100 farms will be partially converted to a silvopasture system; (iii) an increase in milk production of 20% per hectare as of year 3 and of nearly 50% by year 5; (iv) an increase in net producer income of 10% (after taking loan repayments into account) by year 3, and of up to 50% by year 5. A baseline study will be conducted at the start of the project to facilitate a more accurate assessment of the project's outcomes and impacts. The other project indicators to be monitored can be found in the logical framework, included in the technical files. In addition, more than 100 small livestock farmers are expected to benefit from training. The benefits of the Bank's financing will be felt directly by producers, given that Nestlé will not add operating and provisioning costs to the Bank's interest rate and will grant the loans on the same terms as those that the Bank will apply to Nestlé.