SOCIAL ENTEPRENEURSHIP PROGRAM

PROJECT SYTHESIS

1. **Country:** Ecuador
2. **Project Number:** EC-S1025
3. **Project Name:** Boosting Productivity in Border Areas
4. **Executing Agency:** ILE C.A. (Industria Lojana de Especerías, C.A.)
5. **IDB Unit**: Multilateral Investment Fund (MIF)
6. **Financing Amount and Source:**

	IDB	Local	Total
Reimbursable financing:	US$1,000,000	US$720,000	US$1,720,000
Technichal Cooperation:	US$250,000	US$257,000	US$507,000
Total:	US$1,250,000	US$977,000	US$2,227,000

7. **Goal and Purpose:**

The expected impact of the project is to help improve the incomes of small-scale onion producers in Zapotillo. The outcome of the project is to strengthen the links in the value chain of the condiments and fresh onions industry. The model includes providing technical assistance and reimbursable credit to small-scale producers to raise their productivity by introducing agricultural best practices and gaining access to quality inputs, thereby lowering their production costs and raising their incomes.

In addition, reimbursable credit will be provided to ILE for upgrading an onion drying and storage plant (the only one in the inter-Andean zone). This will indirectly benefit some 10,000 farmers in the target area,[20] who will also have a nearby market for other farm produce such as corn and rice. The plant is expected to reduce the presence of informal intermediaries and provide additional services to the rural community. The IDB will provide ILE with reimbursable financing and technical cooperation for this purpose.

8. **Description:**

The project will finance two components: a reimbursable financing component in the amount of US$1,720,000 (IDB: US$1,000,000; ILE: US$720,000) and a nonreimbursable technical cooperation component in the amount of US$507,000 (IDB: US$250,000; ILE: US$257,000). The borrower and the executing agency for both the reimbursable financing and the nonreimbursable technical cooperation will be ILE C.A.

- ***Reimbursable financing component***

The financing required is US$1,720,000, of which the IDB will contribute US$1,000,000, and ILE US$720,000. Part of the reimbursable financing will be used to establish a revolving credit fund of US$500,000, to be managed by ILE. This reimbursable fund will target **350 small-scale onion farmers** to finance working capital and, to a lesser extent, the installation of field irrigation systems. This credit fund will finance production inputs such as high-quality seed, disinfectants, fertilizers and disease control products, and will also finance the labor required for soil preparation, sowing, application of inputs, and harvest and post-harvest activities. Three credit products are planned: (i) financing for working capital (inputs and labor) in the amount of US$5,000, to be repaid at the end of the harvest (six-month tenor) at an annual interest rate of 12%; (ii) financing for working capital in the amount of US$2,000 (partial inputs), also to be repaid at the end of the harvest, at a rate of 12%. The beneficiaries of this second credit will be farmers who have effectively introduced the technology package and have partially capitalized themselves with profits from the previous crop year, creating an incentive to productivity and savings; and (iii) financing for field irrigation infrastructure in the amount of US$2,000, with a two-year tenor at a 12% interest rate. This type of credit will be channeled primarily to producers who face the greatest constraints in accessing water. Having the ILE manage the credit will allow more precise selection of beneficiaries, better technical follow-up, monitoring of the effectiveness of the technology introduced, withholding of payments against delivery of the harvest, and consequently lower arrears rates. In contrast to ILE, the other credit providers
do not have knowledge of, or access to, these potential customers, nor do they have the technical resources or the experience to monitor their operations effectively.

Another portion of the reimbursable financing will pay for the fixtures and equipment of an onion drying and storage plant owned by ILE, in the amount of US$500,000 from the IDB and US$720,000 from ILE. As a planned part of this investment, 10 hectares of cropland will be set up as a technological demonstration and application plot, which will also be used to grow onion seedlings. The plant will have the capacity to receive and dry 30 MT of onions daily. The equipment to be installed consists of a drying system using clean energy, a cleaning and sorting system, and a packing system. In addition, it will have facilities for training farmers, bulking various farm products from the area, providing medical services, and storing agricultural inputs and basic commodities. Initially the plant will have a personnel headcount of 15, including laborers and administrative staff. The plant's infrastructure, valued at US$1,120,000, will be financed locally, including US$720,000 from the local contribution to this project. ILE has invested $400,000 in construction of the drying and storage plant, but this amount cannot not be recognized since the investment was made prior to the project eligibility date.

The following criteria will be used in selecting the farmers to be direct beneficiaries of this project: (i) preferably women, to raise their visibility in the program; (ii) dependent on farming for their incomes; (iii) having access to water sources; (iv) living in the Canton of Zapotillo; (v) farming an area of up to 5 hectares; and (vi) no family relationship with any employee of ILE C.A.

ILE C.A. has experience in providing technical assistance and in purchasing agricultural commodities from small-scale producers. It has not previously been involved in managing loans to small-scale farmers, but, because it has detailed knowledge of small-scale farming as well as crop bulking logistics and market intelligence, it will be able to effectively monitor use of the credit and properly manage repayment. Moreover, the technical cooperation resources are expected to strengthen credit management through the preparation and implementation of Credit Regulations that will define procedures and automate

processes. Furthermore, since ILE C.A. will be the buyer of the produce delivered by the farmers, it has the advantage of being able to deduct loan principal and interest installments from the payments it makes to producers for their produce delivered.

- ***Non-reinbursable Technical Cooperation component***

The amount of this component will be US$507,000, with an IDB contribution of US$250,000 used to cofinance technical assistance activities to improve agricultural practices, do away with traditional sowing practices that make inefficient use of water, develop an effective mechanism of charging for water use that promotes rational use and equitable access, improve harvest and post-harvest quality, provide training to farmers in the use of irrigation systems, etc. The technical cooperation activities will also focus on strengthening business management and partnering activity on the part of beneficiaries. The local counterpart contribution from ILE is valued at US$257,000, and will be used for project management, institution-strengthening to improve the firm's relationship with small-scale farmers, improvement of supply logistics, and credit management. A portion of these resources will be used for documentation and dissemination of project outcomes and knowledge. The technical cooperation plan of operations in the project technical file, describes this support in greater detail.

The project draws on previous IDB/MIF experience in working with anchor firms for the development of small-scale farmers. Under project EC-S1014, the IDB made a loan of US$500,000 to Floralp, a specialized producer and seller of aged cheeses, along with US$200,000 in technical cooperation funding, to boost the productivity of micro, small, and medium-sized milk producers through access to financing for working capital and infrastructure. The technical cooperation component strengthened technical and partnering capabilities to better integrate these producers into the Floralp value chain. The outcomes of that initiative include the following: (i) the farmers' incomes improved by 70%; (ii) the initial credit fund of US$717,000 was leveraged into a portfolio of US$1.2 million; (iii) the arrears rate was less than 1%. The most important lessons learned from this initiative, which will be applied in this project, have to do with the effectiveness of transferring technologies in demand by the market and reducing the credit risk by establishing a solid business relationship based on trust.

9. Beneficiaries:

This project will benefit **350** small- and medium-scale onion producers (25% of them women) in the parishes of Limones (UBN 95.8%) and Garza Real (UBN 98.3%) in the Canton of Zapotillo, who will be gradually brought into the project. According to the baseline prepared by ILE in 2012, the beneficiaries have individual farms of 3 hectares, of which 1 hectare is devoted to onions. 76% of the beneficiaries have a primary school education, and 20% have no schooling at all. The average family size is five members.

10. Expected results and benefits:

Small-scale farmers are expected to increase their productivity in growing onions from 31.81 to 40.9 MT/hectare through the introduction of an efficient technology package that promotes the use of high-quality seeds and the production of seedlings, and adoption of best practices in terms of agronomic, harvest, and post-harvest management. In addition, the project will finance

irrigation systems that will allow the harvesting of two onion crops during the year, targeted in particular to those growers most willing to adopt technology in their farming. It is expected that small-scale farmers will be able to lower their production costs from US$317 to US$167 per metric ton, primarily through better practices, efficient water use, economies of scale, market security, and access to lower-cost formal financing. This will have a direct, positive impact on the net incomes of producers. The specific expected benefits to producers are: (i) a 33% productivity increase; (ii) a 50% reduction in production costs per metric ton; (iii) a reduction in post-harvest on-farm losses to a level of 10%; (iv) access to quality inputs for 350 onion producers; and (v) higher incomes to producers from onion sales, rising from approximately US$2,000 to more than US$4,000 per crop cycle.

The company is expected to reap the following benefits: (i) a new post-harvest processing plant, using at least 70% of its installed capacity; (ii) a 15% annual production increase for its line of condiments; (iii) supply of 2,800 MT/year of onions for processing into condiments; (iv) a new product line, pre-dried and humidity controlled packaged onions, with expected sales of 6,000 MT per year through its commercial network;[21] and (v) 15 direct jobs created.

As an outcome of this intervention, other food industries are expected to be able to replicate this model of productive promotion and environmentally sustainable practices, making productive resources available to a wider segment of society and participating as key market players.