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I. **SUB**

The production of handicraft articles has always been a fundamental activity in the daily lives of a large proportion of the indigenous Bolivian population. Handicraft activities began with, and are still largely directed toward, efforts to satisfy pragmatic needs. More recently, however, increasing quantities of handicraft products have been produced for sale with a view to augmenting family incomes. Sales have mostly been directed to the small internal tourist market, and exports of handicraft products have never been strong.

This is unfortunately because in Bolivia, as in other developing countries, almost all handicraft artisans are poor. If the sales and profit margins of the articles they produce can be increased, a direct impact could be made on the incomes and well-being of these poor artisans. This fact has long been recognized by development agencies and charitable organizations, and efforts have been made in numerous countries to increase handicraft exports. Too often, however, past efforts have concentrated on trying to find outlets for indignously designed and fabricated articles rather than on using artesanal skills developed over decades to produce products designed to meet identified demand in overseas markets.

With this in mind, and in order to design a project which would increase artisans' incomes and promote the productive exploitation of some of Bolivia's unique raw materials, USAID/Bolivia hired marketing consultants early this year to assess the quality of Bolivian handicraft products and select the most promising products for export promotion. The product category the Mission has selected is hand-made camelid (llama and alpaca) knitwear because of the uniqueness of camelid fiber, the profitable markets for high quality knitwear available in the United States, and the well developed talents of Bolivian knitters.

Current artisan knitwear production is characterized by the use of traditional designs and Andean motifs with limited marketability, poor product consistency, limited knowledge of, and access to, export markets, and rudimentary production and commercialization practices. In order to increase exports dramatically, the approach followed by almost all Bolivian artisan knitwear organizations to date must be radically changed. Rather than continue to produce traditional, low quality knitwear for unknown markets, a market-oriented approach must be adopted under which markets are identified first, and products are designed in response to market tastes and sold through established and reliable channels. The volume of Bolivian knitwear produced will have to be increased and its quality will have to be improved. Management and commercial practices will also have to become more efficient and professional.

The proposed project aims to increase the incomes of artisan knitters and the level of non-traditional Bolivian exports. Its purpose is to provide artisan knitwear organizations with production, marketing and training services which will enable them to sell to more remunerative overseas markets. The project will establish a Foundation to provide these services to four artisan knitwear groups in the Cochabamba area.

The project's strategy call for (1) the rigorous application of a market-oriented approach in order to design and sell high quality artisanal knitwear products in the more remunerative markets in the U.S. (2) running the proposed Foundation and export sales efforts in a business-like and professional manner, (3) keeping the project as uncomplicated as possible (concentrating one product category and a few artisan organizations in the Department of Cochabamba, and limiting the size of the Foundation's staff), and (4) selecting artisan organizations to participate in the project which remunerate their knitters well.

The Foundation to be established under the project will provide artisan organizations with services in the areas of market research, product design, raw material procurement, production control and improvement, artisan training, and management training. It will act as an export sales agent for its artisan organization clients, and facilitate their access to credit and other commercial services. The Foundation will be governed by a nine-person Board of successful Bolivians who have an indirect interest in promoting artisanal knitwear exports (e.g. bankers, textile industry representatives, community leaders). It will operate on a non-profit basis, charging a commission on the sales of knitwear it arranges, which will be set to cover its cost of providing services. During the project's initial years, the Foundation will rely heavily on technical assistance to be provided by a consulting firm with extensive experience in the U.S. apparel industry and the ability to subcontract for specialized fashion industry services.

Virtually all of the beneficiaries of this project are women who reside in rural areas and knit part-time to augment personal or family income. The project's financial analysis shows that average income per artisan from knitting by the end of the project in 1989 will increase to \$142, up from a range of \$2.50 to \$20 currently earned. Annual production of hand-knitted sweaters by Foundation clients will have increased from 39,200 to 223,700. The Foundation will be completely self-financing by Year 5 of its operations and be able to continue providing services to artisan knitting organizations without AID assistance.

Summary Project Budget

TABLE 1: SUMMARY PROJECT BUDGET

(U.S. Dollars)

	<u>A I D</u>			<u>LOCAL CONTRIBUTION</u>					<u>GRAND TOTAL</u>
	<u>G R A N T</u>			<u>FOUNDATION</u>			<u>ARTIS. ORG.</u>		
	<u>FX</u>	<u>LC</u>	<u>TOTAL</u>	<u>FX</u>	<u>LC</u>	<u>TOTAL</u>	<u>LC</u>	<u>TOTAL</u>	
I. Technical Assistance	2,069,000		2,069,000						2,069,000
II. Training	45,000	17,000	62,000		14,500	14,500	50,000	64,500	126,500
III. Operating Expenses	132,200	332,600	464,800	196,800	267,100	463,900		463,900	928,700
IV. Commodities	45,000	23,200	68,200						68,200
V. Expansion of Prod. Capacity							880,000	880,000	880,000
Total Project Elements	2,291,200	372,800	2,664,000	196,800	281,600	478,400	930,000	1,408,400	4,072,400
Contingency/Inflation	202,000	134,000	336,000	22,956	32,799	55,755	112,310	168,065	504,065
<u>Total Project Cost</u>	2,493,200	506,800	3,000,000	219,756	314,399	534,155	1,042,310	1,576,465	4,576,465

USAID Project Development Committee

The USAID Project Development Committee consisted of:

Luis Ampuero, Project Manager, Private Sector Division
Gerrit Argento, Chief, Private Sector Division
Robert Asselin, Jr., Project Development Officer
Linda Garvelink, Project Manger, Private Sector Division
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Raul Pinto, Financial Analyst, Controller's Office
Pascual Sanchis, Project Manager, Private Sector Division
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The project paper was reviewed by:

- (1) Henry H. Bassford, Mission Director
- (2) David A. Cohen, Deputy Director
- (3) Joe O. Hill, Controller
- (4) Roberto León de Vivero, Program Officer

II. PROJECT RATIONALE AND DESCRIPTION

A. Problem

Bolivia, like other Latin American countries, produces artisanal items which are unique both because of the rare talents of many of its artisans and the special raw materials they employ. Such articles include hardwood carvings, traditional, hand-loomed mantas, pewter figures, and camelid fiber knitwear. As is also common elsewhere, the artisans who make these products are almost entirely from the more disadvantaged segments of society.

The production of handcraft articles has always been a fundamental activity in the daily lives of a large proportion of the indigenous Bolivian population. Handicraft activities began with, and are still largely directed toward, efforts to satisfy pragmatic needs. More recently, however, increasing quantities of handcraft products have been produced for sale with a view to augmenting family incomes, although sales have mostly been directed to the internal tourist market.

During the past year, USAID/Bolivia has investigated the possibility of developing a handcraft export project in order to increase the incomes of disadvantaged artisans and to promote the better exploitation of the unique raw materials and artisanal talents available in Bolivia. Accordingly, the Mission contracted the firm of New Ideas Limited in January 1984 to survey the Bolivian handcraft sector and assess the quality of artisanal products being produced and artisan talents. New Ideas was asked to select items for which export prospects appeared most promising.

The New Ideas team was very favorably impressed with what it discovered in Bolivia and recommended that emphasis be placed on the production and marketing of apparel products, especially alpaca and llama knitwear. Apparel products were singled out because of the potentially higher profit margins such products can command, especially at the higher end of the market. Alpaca and llama knitwear were recommended because Bolivia, along with Peru, has a monopoly on the production of these camelid fibers*. In addition, both the New Ideas consultants and those

Although alpaca garments have already been sold in the US and Europe for several years, and alpaca fiber has thus been widely accepted in quality knitwear, better llama wool is at least as fine a fiber for knitwear products. In fact, many articles currently sold as "100% alpaca" are a mixture of alpaca and llama wool. About 40% of the world's llama population is raised in Bolivia, while only 10% of the alpaca population is located in Bolivia. Given this fact, and the high quality of good llama wool, although initial emphasis will be placed on the production of alpaca garments, which already have good market acceptance overseas, as the project proceeds substantial attention will be given to the production of llama knitwear.

from the firm of Creative Associates, which was contracted during the intensive review, confirmed that the knitting ability of Bolivian knitters can be favorably compared with that of master knitters anywhere. The Creative Associates' team also surveyed the large potential knitwear markets in the U.S. and concluded that high quality Bolivian knitwear products could be readily sold if both production and marketing practices were improved.

An additional important factor to USAID in choosing to concentrate on knitwear exports is that over two-thirds of knitters nationwide, and virtually 100% of knitters in Cochabamba, where the project will be concentrated, are women. All of these women are poor, and the majority live in rural areas. The income they earn from knitting is their only source of funds for personal expenditures (clothes, etc.) and, in the case of married women, provides funds for needed purchases for their children which otherwise could not be made.* The knitting income of these women is however, currently very, very low. Most sweaters are sold locally at dollar equivalent values which have plummeted with the devaluation of the Bolivian peso. Currently, knitters belonging to artisan organizations producing better quality knitwear receive the equivalent of a dollar fifty for each sweater they knit. An average part-time hand knitter will knit thirteen sweaters per year, spending about 30 hours per sweater, and thus earns significantly below the Bolivian minimum wage (currently about \$11 per month).

Although Bolivia possesses high quality raw materials and excellent knitters, in order to tap more remunerative export markets and increase knitters' incomes, significant changes must be made in current production and marketing practices. Current artisanal knitwear production is characterized by the use of traditional designs with very limited marketability, oftentimes uncoordinated production practices, and rudimentary commercial practices, as well as limited knowledge of, and access to, export markets.

The most commonly produced sweaters in the La Paz and Cochabamba areas feature natural colors (beige, brown and black) and Andean motifs. These sweaters can be sold only within the small domestic market and to tourists. Although knitters have the talent, in terms of knowledge of stitches, to produce quality sweaters, oftentimes they lack the ability or motivation, given their low remuneration, to size or finish their products correctly. This is much more prevalent in the La Paz area where knitters are not organized and individual products are sold to middlemen for resale in retail shops in the city. In Cochabamba, many knitters are organized into groups working for cooperatives or privately owned knitwear companies, while the quality of the sweaters they produce is much better, traditional designs still dominate.

* Women belonging to knitting cooperatives are also remunerated in the form of free health services for their families and access to lower cost basic food items.

** These women are, however, among the more fortunate knitters in Bolivia. Those working individually producing lower quality sweaters earn only about 20 cents per sweater.

Commercial practices are completely ad hoc in La Paz and in many areas of the Department of Cochabamba. While production is much more organized than the knitwear organizations working in Cochabamba, accounting practices, inventory control, training activities, and sales methods will have to be significantly improved in order to meet the challenges of the international marketplace.

Bolivian knitwear export possibilities have always been very limited because of the quality of knitwear produced and poor marketing techniques. Among the organized artisanal groups in Cochabamba, only Fotrama, the oldest artisanal cooperative in Bolivia, and two or three smaller groups have exported. The smaller groups have produced traditionally designed knitwear and sold it in limited quantities through religiously affiliated handicraft outlets in Europe. Fotrama has a sales agent in the U.S. who operates twelve retail outlets through which products are sold. This agent helps Fotrama design knitwear which will sell more easily in the States. More recently, two privately owned concerns, Kay Huasy in Cochabamba and La Lana in the La Paz, have begun designing and exporting sweaters which do not use traditional Bolivian motifs and use colors more imaginatively. All in all, however, total Bolivian exports of knitwear articles has remained small.

During the last eighteen months, exports (of all kinds) have been made much more difficult with the enactment of exchange control measures. --At a time when the Bolivian peso is devaluating sharply and exports are the most promising means of reactivating national production and earning foreign exchange, the GOB has chosen the counter-productive policy of attempting to maintain an artificially low official exchange rate and force all exporters to turn in their foreign exchange earnings at the official rate. Exporters who have followed the exchange control rules have been forced to accept up to seven times less than the real value of their export earnings which at the same time losing access to the foreign exchange they need to import critical production inputs. Recently, the exchange control measures were theoretically modified to provide that exporters will have access, at the official rate, to 30% of the foreign exchange they remit, but only for needed imports of production inputs. This modification has failed to provide a meaningful incentive to export. Practically no private sector production has been taking place for export and what exports there have been, have left the country illegally. This includes the current exports of Fotrama, Kay Huasy and La Lana, who have exported products as tourist baggage through travel agencies. This practice, though technically illegal, has been tolerated by the Bolivian authorities.

Studies carried out during the intensive review, and the actual success, although limited, in exporting better designed sweaters experienced to date by Fotrama, La Lana, and Kay Huasy indicate that the potential exists to increase Bolivian artisan knitwear exports significantly. This would directly benefit the knitters by augmenting their income, as well as provide a stronger market for the alpaca and llama wool produced by Altiplano campesinos and help earn more foreign

exchange for Bolivia. In order to accomplish these objectives, however, the approach followed by most artisan knitting organizations must be radically changed. Rather than continue to produce traditional products for unknown markets, a market-oriented approach will have to be followed, under which first it is determined what markets are most promising, what is desired in terms of product design, and what marketing channels are available. Then, knitwear products and marketing strategies will need to be designed accordingly. Overseas markets are very demanding and competitive. One unfilled order can doom a supplier. Consequently, in order to compete effectively, Bolivian knitwear producers will have to take steps to increase the volume and consistency of quality of their products, and adopt more professional, "business-like" management practices.

B. Project Goal, Purpose, Outputs, Inputs

The goal of the proposed project is to increase the incomes of artisan knitters. A subsidiary goal of the project is to increase the level of non-traditional Bolivian exports.

The purpose of the project is to provide Bolivian knitwear organizations with production, marketing and training services which will enable them to sell to more remunerative overseas markets. The project will establish a foundation to provide these services, on a cost-reimbursable basis, to four artisan knitwear organizations in the Cochabamba area.

The important assumptions which link the attainment of the project's goal and purpose are: (1) that remunerative export markets exist; (2) that high quality, well-designed Bolivian knitwear articles can be produced in adequate quantities for sale to these markets; (3) that the serious barrier to legal exports represented by the GOB's current exchange controls can be overcome, at least sufficiently enough to provide for profitable exports; (4) that sufficient supplies of camelid yarn will be available to artisan knitwear groups, and (5) that the knitwear groups with whom the Foundation will work will pass on the higher profits they gain from their exports to their knitters, and that these knitters will modify the design of their knitwear and knit more articles in response to greater earnings prospects.

The main output of the project will be a well-functioning service organization established as a foundation. The Foundation's board and staff will provide marketing, design, production and training services to knitwear groups in Cochabamba. Marketing strategies will be established and carried out. Production of knitwear will be increased and improved. Export markets will be established, and the artisan organizations to which knitters belong will be employing improved management and commercial practices.

The inputs to the project will include technical assistance, training, operating cost support for the Foundation, commodities (vehicles, furniture and equipment) necessary to set up the Foundation, and investment by the Cochabamba artisan knitting organizations in expanded operations. Some of these inputs will be financed entirely by AID (TA, overseas training, commodities). Operating expenses and in-country training costs will be shared by AID and participating artisan groups (through the payment of commissions to the Foundation on export sales realized), with AID's share declining as the project proceeds. In addition to the project costs that the participating artisan organizations will finance through commissions paid to the Foundation, these groups will also finance the expansion of their own operations (staff salaries, working capital, raw materials, training and supervision costs, plant expansion, etc.).

C. Project Strategy

The project's strategy to increase artisanal knitwear exports has four components. First and most importantly, the market-oriented approach described earlier will be applied rigorously. This approach calls for producing for specifically identified markets and improving products so that they appeal to international buyers, rather than producing and worrying about marketing latter. In countries which have been successful in increasing artisanal exports, this has been the approach which has worked best. For instance, in India in the late 1970's New Ideas Ltd. was contracted by a state trading company to identify a handicraft product which could be exported to increase artisan income. The team created a new product - high quality, specially treated leather for use in fashion garments - which it knew, because of prior investigation, would have a ready market in high fashion markets. The export of leather pieces produced by Indian artisans for various types of garments increased dramatically as a result of the project New Ideas Ltd. began.

In Ecuador several years ago, a group of concerned citizens set up the Asociación Ecuatoriana de Productos Artesanales (ASEPA) and began exporting natural fiber hats. ASEPA soon realized that the design of its hats would have to be modified and their quality improved in order to sell well overseas. Designers were hired, and today, the artisan hat making industry is benefitting thousands of rural Ecuadorians.

As noted earlier, both Fotrama and La Lana Ltd. in Bolivia have had success in adopting a market-oriented strategy. The proposed project will help the Cochabamba artisan knitwear industry as a whole implement this strategy in a more comprehensive and professional manner.

The second strategy element of the proposed project is to run the project on a business-like basis. Too many handicraft export projects in the past have been run with more emphasis on social development, or strictly from a charitable point of view. Despite the praiseworthy

intentions of their promoters, more often than not, because of a lack of real business experience on the part of those involved, or sometimes a reluctance to investigate markets and modify products accordingly, sales have never really taken off. The Foundation established under this project, although it will not be profit-making itself, will operate as a business; (i.e., a seller of services). It will provide practical, results oriented services to its client artisan groups. The technical assistance the Foundation itself receives will come from an organization with "real world" garment sales experience and links to sources of specialized services in the garment industry.

The third strategy element of the project will be to avoid over-complicating it as much as possible. Rather than attempt to set up an organization to assist artisans producing several of the promising handicraft products currently produced in Bolivia, efforts will be concentrated in one product category - alpaca and llama knitwear. This will enable the Foundation to specialize, concentrate its efforts, and keep its staff lean. The project will also work with a limited number of artisan knitwear groups in Cochabamba, the region of the country where the chances for success are greatest. The four groups initially chosen to participate in the project - three cooperatives and one private business - are the largest operators in the Cochabamba area. They account for about 90% of the better knitwear production in Cochabamba, are already well established, and can begin improving their operations right away.

There are several reasons why it was decided to center project activities in Cochabamba, where it is estimated that two-thirds of artisanal knitwear is currently produced. First, in contrast to the La Paz area where the artisan knitting industry is dominated by middlemen working with many unorganized artisans, much of the Cochabamba knitting industry is composed of knitting organizations. Some of these organizations are cooperatives, while others are relatively small, privately run businesses. Knitters are organized into groups and produce for one or another of these established organizations, from whom they receive raw materials, training and supervision, and are guaranteed a market for their products. Secondly, knitting is a very wide-spread activity in the Department of Cochabamba. Practically all rural women in the region are taught to knit at an early age and knit regularly for domestic uses or to earn extra cash. This phenomenon is, in part, a result of the success of Fotrama, which began operating in 1962 under the auspices of the Maryknoll Order. Fotrama essentially established the Cochabamba knitting "industry," and the other organizations operating there now are, in one way or another, offsprings of Fotrama. Another contrast to La Paz is that the great majority of Cochabamba knitters reside in rural areas, while those in La Paz live in the city (except for some living near Lake Titicaca). The Cochabamba knitters work in groups, organized around their communities. To expand production in the past, Cochabamba knitwear organizations have simply formed whole groups of new knitters in other areas of the Department. Since virtually all rural women knit, the potential to expand the number of knitters in Cochabamba

is significant. The organizations which will work with the foundation initially currently employ 3090 knitters, and it is estimated that this number ~~can~~ be increased to about 8900 within four years*. Lastly, and very significantly, the quality of knitwear produced in Cochabamba is superior to that produced elsewhere in the country.

The fourth and final strategy element of the project is to work with artisan organizations which remunerate their knitters well so that the goal of the project - to increase the incomes of artisan knitters - can be attained. Three of the four groups with whom the Foundation will work are cooperatives (Fotrama, Amerindia and Las Imillas). The fourth is the largest privately owned knitwear concern in Cochabamba (Kay Huasy).

The origins and success of Fotrama have already been noted. It is currently the largest artisan knitting enterprise in Bolivia. Some 1850 knitters belong to the Cooperative and produce around 25,000 sweaters and other knitted articles per year. Fotrama pays its knitters standard prices per sweater knit (which basically establish the prices paid to knitters by all Cochabamba artisan organizations) and uses its profits to finance health and consumer purchase programs for its members. Amerindia operates similarly to Fotrama. It currently employs 700 knitters and pays them per piece, while also financing health and consumer purchase programs from its sales of knitwear. Las Imillas is a small "grass-roots" cooperative which currently includes 50 knitters from the region of Arani, about 100 kilometers from Cochabamba. It was established in 1979. Members are remunerated per sweater knit, and the Cooperative has purchased commodities in bulk for resale at lower prices to its knitters. Kay Huasy is a privately owned knitwear business that was established in 1982 by a former employee of Amerindia and her husband. It has grown quickly by hiring experienced knitters to produce better designed knitwear for export and paying them the "going wages" established by the Cochabamba knitting cooperatives.

It is anticipated that four, additional cooperatives or privately owned knitwear enterprises will be brought into the project as it progresses, in order to augment knitwear production capacity and spread the benefits of export sales more widely. The Foundation will ensure that the remuneration policies of these entities permit their artisans to benefit from the increased sales the project will generate before they are accepted as Foundation clients. Since knitters have been known to switch from one group to another where they can earn more, the pressure on each organization to keep wages comparable is strong. Thus, if other knitwear organizations qualify technically, they should not have much difficulty meeting this project requirement.

Fotrama recently trained a group of women in the department of Oruro at USAID's suggestion. More such expansion outside of the Department of Cochabamba should also may be possible in the future.

USAID and the participating artisan organizations gave careful consideration to the type of service organization to create before deciding on a private foundation. The possibility of setting up another public sector entity to deal with artisan groups was discarded immediately given the failure of most public sector institutions in Bolivia and USAID's strategy to concentrate most of its efforts within the private sector. The GOB's Instituto Boliviano de Pequeña Industria y Artesanía (INBOPIA) was created several years ago to assist artisans; however, despite the efforts of the World Bank and USAID to work with that institution, it has never been successful.

Four alternatives to a foundation were considered: working with one strong artisan organization, like Fotrama; working with an existing private sector artisan association; creating a cooperative service organization run by existing artisan organizations; and starting a private sector trading corporation. Working with one artisan group, even one as large as Fotrama, which produces 56% of the knitwear of Cochabamba, was rejected because of the desire to assist the whole knitwear industry in Cochabamba rather than just one group, no matter how successful it had been in the past. This way, many of the knitters in the Department, and eventually in other regions, will be able to benefit from the project. In addition, it is very doubtful that one artisan organization could expand adequately to produce enough for the overseas markets the project will try to penetrate.

Over the years, a number of associations of artisan organizations and business have been created in La Paz and Cochabamba. The Asociación de Productores y Exportadores de Artesanía (AÑEPA) was established eight years ago to promote handicraft sales, but it represents only La Paz artisans and lately has suffered from members leaving to join a rival organization, the Asociación Nacional de Productores y Exportadores de Artesanías de Bolivia (ANPEXABOL). This latter organization was formed in 1983, mainly as a lobbying group. It too is centered in La Paz. A federation and a confederation of artisans also exist, but are dominated by artisan retailers and are very ineffective. The knitwear artisan organizations in Cochabamba have formed an informal caucus group within the Departmental Chamber of Exporters which, to date, has met only a few times to keep track of official knitwear exports and lament current exchange controls.

Given their histories and operating styles, none of the existing artisan associations described above are suitable for the provision of specialized services to Cochabamba knitting organizations. None of them has ever been successful, at defining their objectives or carrying them out. As is common in Bolivia, most of them have been used by their leaders mainly as vehicles to help them attain their own individual ambitions.

Consideration was also given to creating a jointly managed service organization, with a representative of each artisan organization receiving services on the Board of Directors. This option was rejected because it was judged inadvisable to try to get naturally competing organizations to cooperate in a joint venture. There already exist a certain level of distrust among Cochabamba knitwear organizations, which is understandable given the fact that they are competitors. In order for the proposed Foundation to work, these groups will have to cooperate as recipients of services (e.g., organizing joint training courses), but it will be the staff and members of the Foundation's Board who will establish its policies and operating procedures. The artisan organizations receiving services will have to be satisfied that the services for which they are paying (though sales commissions) are worthwhile, but they will not be required to make the Foundation's operational decisions on a joint basis.

The last alternative to a federation which was considered was to help establish a handicraft trading company owned by investors, other than those already running artisan knitwear enterprises, who would have an interest in trying to make money exporting artisanal goods. This option would have the advantage of helping to ensure that efforts to export artisanal knitwear were carried out on a business-like basis. The trading company would fulfill the same marketing function envisaged for the Foundation (market research, product design, etc.), but would purchase the articles it ordered from artisan organizations for resale to outlets it identified overseas. The Ecuadorian group mentioned earlier - ASEPA - was formed as a private trading company by a group of Ecuadorian investors. As noted, it began operations by purchasing hats for export. It later hired designers to improve the hats and assisted artisans to obtain their raw materials. Over the years, ASEPA has also expanded into other products.

As opposed to the other alternatives to a foundation considered, a private sector trading company is conceivable and could work well. The option of creating a foundation was selected, however, because it was felt that the artisan organizations with whom it has been decided to work would not completely trust an outside organization, controlled by profit-seeking investors, on which it would have to depend for vital marketing and production services. Given the probable atmosphere of distrust which might develop, it was concluded that it would be preferable to strengthen the operations of artisan organizations through services from a foundation, whose purpose would clearly be to assist its client groups, rather than make those groups overly dependent on another profit-oriented enterprise. Furthermore, use of a trading company could conceivably lead to a conflict with the project's goal of increasing the incomes of artisans if the trading company, despite any good intentions expressed at the start of the project, decided to increase its margins by paying the artisan organizations less for what they produce. Lastly, it was also recognized that trying to interest a group of Bolivian investors in starting a new company could be difficult given the current uncertain economic climate in Bolivia, despite the assistance the company would receive from AID.

The above considerations were those which led USAID and the Cochabamba knitwear organizations which will cooperate in the project to conclude that a private sector foundation, controlled by a board of successful citizens with indirect interests (e.g. bankers, community leaders, textile firm owners, etc.) in seeing artisanal knitwear exports increase, should be established to provide the needed marketing, production and training services.

The project strategy described in this section of the project paper conforms fully with USAID/Bolivia's current CDSS and reflects its emphasis in several ways; most specifically in the concentration of program efforts in the private sector, the application of the "demand-pull" strategy, and the fact that the project will operate within the La Paz-Cochabamba-Santa Cruz Development Corridor.

D. Project Components

The project is an integrated institution building/export development effort. For presentational purposes, this project description section is divided into three parts: organization and operation of the Foundation; delivery of services to artisan organizations; and development of markets.

1. Organization of the Foundation

The duties of the proposed Foundation will be as follow:

a) Marketing Services

- . To identify and research markets and marketing channels.
- . To develop marketing strategies for sales to the markets selected.
- . To design knitwear articles according to market demand.
- . To act as a sales agent for the artisan knitwear groups participating in the project.

b) Production Services

- . To assist in the procurement of wool and/or yarn by participating artisan organizations.
- . To coordinate production volumes and scheduling to fill overseas orders.
- . To ensure quality control in the production of knitwear for export.

c) Training Services

- . To develop and carry out training courses for artisan knitters.
- . To develop and carry out training programs in management disciplines (accounting, inventory control, personnel management, etc.) for the staff of participating knitwear organizations.

d) Commercial Services

To facilitate access to commercial services (such as credit and transportation) required by participating knitwear groups to operate their businesses.

- . To assist knitwear organizations in carrying out the GOB's exporting procedures and to lobby the government for this simplification.

The principles by which the Foundation will operate are:

- a) It will be established as a service organization rather than a trading company. It will "sell" its services, but not buy and sell merchandise itself.
- b) It will operate on a non-profit basis, charging a commission on the sales of knitwear it arranges which will be set to cover its cost of providing services.
- c) Other artisan knitwear organizations not initially participating in the project will be eligible to receive services from the Foundation as long as they are reasonably well established and their artisans benefit in direct proportion to sales.
- d) Each artisan organization receiving services from the Foundation will set its own internal policies (e.g. the way it chooses to remunerate its artisans) but must agree to abide by the operating decisions of the Foundation (e.g. design and quality standards, production quotas and schedules, organization of training courses).
- e) The participating artisan organizations will pay the Foundation a commission on all exported articles which have been designed with the Foundation's assistance, whether or not they are sold through the Foundation. It is expected that the artisan organizations will also continue to sell through their established commercial channels. They will not be allowed, however, to sell articles which the Foundation is selling on their behalf under exclusive supply contracts to special customers.
- f) During the life of the project, the Foundation will work exclusively to increase the exportation of artisan knitwear. After AID support terminates, consideration may be given by the Foundation Board to working with other handicraft products. This would require enlargement of the Foundation's staff.

The Foundation will be established initially as a "civil society" because this type of legal entity can be created quickly by its founding

members simply by registering its charter. The civil society will then be made into a non-profit Foundation under Bolivian law, a process that takes six to nine months. The Foundation will be run by a self-perpetuating Board of Directors composed of nine respected Bolivian citizens, who have had success in their chosen fields, and who have an indirect interest in promoting artisan knitwear exports, or expertise and contacts which will be of use to the Foundation. Board members will be chosen as a result of consultations (which have already begun) among participating artisan groups, potential Board members and USAID staff. The types of individuals who will be considered for the Board are businessmen in related fields (e.g. exporters, textile industry executives), bankers, artisan merchants, and community leaders with useful experience in other fields. Since the project's beneficiaries are almost all women, preference will be given to female candidates where possible.

It is important that the Board members already have had success in their own fields and not simply be well intentioned, given the business-like approach to be employed by the Foundation. Because the Foundation will be located in Cochabamba, it is expected that the majority of Board members will come from Cochabamba; however, good candidates from other regions of Bolivia will also be considered (e.g. from the textile industry, since no textile factories are located in Cochabamba).

The duties of the Board will be to establish overall operating policies (e.g. approve marketing strategies), hire Foundation staff, approve contracts with consultants, and (through the contacts individual members of the Board will have) assist Foundation clients in gaining access to needed commercial services.

The staff of the Foundation will include the following personnel:

- . Director
- . Marketing Manager
- . Production Manager
- . Assistant Marketing Manager
- . Assistant Production Manager
- . Accountant
- . Secretaries (3)
- . Chauffer/Messenger

The Foundation's staff will be in charge of providing the services outlined above to client artisanal organizations, with the help of the technical assistance to be financed initially by AID. The Foundation Director will report to the Board. His/her staff will maintain day-to-day contact with client artisan organizations. Joint meetings of representatives from all organizations with Foundation staff will be called when necessary. The Foundation's operations will be carried out openly. Any participating artisan organization will be able to have access to the Foundation's books and staff whenever it wishes.

2. Delivery of Services

The needs of each of the four artisan organizations which have been selected to participate in the project differ in degree, depending on how long they have been established and what they have accomplished, but they can generally be divided into the following categories:

- . Product design assistance
- . Marketing
- . Production and Improvement
- . Artisan training
- . Administrative staff training

The Foundation will provide services to meet these needs, initially relying heavily on the AID-financed technical assistance team. In line with the duties already outlined for the Foundation, the areas in which technical assistance will be provided under the project are:

- . Product design
- . Market analysis and strategy development
- . Sales services
- . Production improvement and artisan training
- . Quality control
- . Management training

--To provide these consulting services to the Foundation, a different type of T.A. firm than AID normally employs will have to be contracted. The project will require a consulting company with connections (perhaps as a subsidiary) to a firm or organization which has had actual apparel sales experience in the U.S., and which has the ability to subcontract for the provision of specialized fashion industry services to the Foundation (e.g., design/color trends). A firm with "hands-on", practical experience is required because this project's consultants will be assisting the Foundation to act as a sales agent for the participating Bolivian artisan organizations.

The technical assistance contractor will station two people in Cochabamba, each for three years. The team leader will be an expert in garment marketing. This person will be in charge of overseeing the development and implementation of the Foundation's marketing strategy. Through frequent visits, telephone calls, and exchanges of marketing data and samples, the team leader will work closely with marketing people in his/her home office, most likely in New York. The New York office will continually research trends in retail sales, colors and designs and be in contact with buyers and designers. At least twice a year, the New York office will send to Bolivia, either from its own staff or on contract, a top marketing expert to advise on the Foundation's annual marketing strategy. This marketing strategy will set boundaries for the recruitment of experts in design, production and training.

One of the marketing responsibilities of the team leader will be to train the Foundation's Marketing Director. This staff employee will accompany the Team Leader on marketing trips to the U.S., participate in marketing strategy sessions in the New York office and, with experience, negotiate sales contracts in the U.S.

The Foundation also will support the training of Bolivian designers. To this end, individuals will be selected to assist U.S. designers in their work and learn from them. Additionally, these individuals will be sent for short term training to U.S. fashion schools. In this manner, after a few years there will be a pool of national talent to provide design assistance to artisanal organizations in Bolivia, although such national talent will not be able to replace foreign designers completely in the foreseeable future.

The team leader will be assisted in Cochabamba by a full-time knitwear production specialist. This person will advise the Foundation and train its Staff Production Director in production sequencing, quality control, artisan training, raw material procurement, packaging and shipping. The individual holding this position will have to be an operational type of person because he/she and the production staff of the Foundation will be in permanent, day-to-day contact with the operational personnel (knitters, supervisors, administrators) of each participating artisan organization. The Production Advisor will also work closely with the Team Leader in setting up management training seminars based on his/her knowledge of the operations of each of the Foundation's clients.

Approximately 50 person-months of short-term assistance and home-office backstopping will be provided by the T.A. contractor in such areas as product design, fashion trends, pattern-making, artisan training and yarn production.* Funds will also be provided in the contract for subcontracts with firms possessing specialized fashion expertise. The TA contract will run from midway through project year 1 to midway through project year 4, by which time it is expected that the Foundation's staff will have been adequately trained to carry on by itself and the Foundation will be able to contract needed specialized services on its own.

* A small portion of the technical assistance budget is reserved to improve the quality of yarn sold to artisans. Spinning firms in La Paz will be assisted in yarn blending and the selection and dehairing of camelid fiber. Tests of camelid fiber from Bolivia spinning mills will also be carried out at laboratories in the U.S.

Training will be integral to the work of the TA team. In addition to the day-to-day expertise that will be imparted to Foundation staff, formal training will be carried out for three types of groups: artisans, the administration staff of client artisan organizations; and the Foundation staff itself. Beginning with the latter group, three Foundation staff members will be sent annually to short-term (one month) specialized courses in fashion centers in the U.S. (e.g. New York Fashion Institute). In addition, Foundation staff members will regularly accompany their consultants to the U.S. in the course of carrying out their marketing duties.

Artisanal knitters (both group leaders and production groups) will be trained in a series of two-week courses organized by the Foundation with the assistance of each client artisan organization. Such courses are already being carried out by Fotrama and Amerindia. Under the project, these courses will be intensified to improve the skills of existing knitters and to train new knitters from all participating artisan organizations. The Foundation will contract qualified master knitters from Bolivia or abroad to teach production leaders more sophisticated knitting techniques and the use of knitting tools required to produce the items identified in the market research phase. Subsequently, these leaders will teach what they learn to knitters in their respective production groups.

Finally, the administrative staff of participating artisan organizations (accountants, production supervisors, sales personnel, etc.) will be trained in management practices in seminars held jointly about three times per year. Courses will be given in financial control, inventory control, personnel management, and the like.

3. Market Development.

a. Potential Markets

According to the New Ideas and Creative Associates consulting teams, the United States should be the initial target market for the knitted goods to be produced under the project because of the impressive magnitude of consumer expenditures for clothing in that country. As Table 2 indicates, U.S. consumers devoted over 5 per cent of their expenditures to the acquisition of clothing and accessories in the period 1980-1982, which represented close to one hundred billion dollars per year.

A significant portion of U.S. consumer demand for clothing is satisfied by imports. Table 3 presents the value of apparel and textile products imported by the U.S., which in 1982 totalled over 7.5 billion dollars. Note that, in the period 1980-1982, imports of these products increased at annual rates above ten percent. It should also be observed that the proportion of imports in relation to shipments by U.S. manufacturers rose from less than 7 percent to almost 13 percent in the period between 1972 to 1982.

Table 2
States: Personal Consumption Expenditures on Clothing
(in billions of current dollars)

	1978	1979	1980	1981	1982 <u>a/</u>
All products	,346.5	1,507.2	1,667.2	1,843.2	1,952.2
Clothing and Accessories	77.6	82.7	87.3	95.4	98.7
Share of total (%)	5.8	5.5	5.2	5.2	5.1

a/ Estimated based on the first nine months of 1982.

b/ Excludes footwear

Source: U.S. Industrial Outlook, 1983

Table 3
United States Trends and Projections of International Trade
in Apparel and Other Textile Products
(in millions of dollars)

	1972	1977	1979	1980	1981	1982
Value of Shipments	27,810	40,245	43,030	45,782	49,989	51,569
Value of Exports	309.6	524.1	772.1	1,000.6	1,032.1	778.3
Value of Imports	1,982.6	3,649.7	5,015.0	5,702.8	6,756.1	7,536.4
Import/New Supply Ratio	0.067	0.083	0.104	0.111	0.119	0.128

Source: U.S. Industrial Outlook, 1983

Table 4 presents the estimated quantities of sweaters purchased and imported by the U.S. market. Note that the share of imported sweaters to total consumption was close to 70 percent in 1982 and slightly below 60 percent in 1983. In terms of value, the sweater imports of the U.S. represented close to 2 billion dollars in 1982 and over 1.3 billion dollars in 1983.

Table 4
U.S. Purchases and Imports of Sweaters (1982 and 1983)

<u>Product Category</u>	<u>Year</u>	<u>Apparent Consumption</u>		<u>I M P O R T S</u>		<u>Share of import in Apparent Consumption</u>	
		<u>Quantity</u> 000 units	<u>Value</u> (\$ 000)	<u>Quantity</u> 000 units	<u>Value a/</u> (\$ 000)	<u>Quantity</u> %	<u>Value</u> %
Men's and Boys'	1982	76,044	671.6	35,832	273.7	46.7	41.7
Sweaters	1983	77,856	697.1	36,108	291.0	47.1	40.8
Women's and Girls'	1982	323,160	2,237.8	239,484	1,698.9	63.6	64.3
Sweaters	1983	236,028	1,600	150,072	1,028.8	74.1	75.9
Totals	1982	399,204	2,909.4	275,316	1,971.9	68.9	67.7
	1983	313,884	2,297.1	186,180	1,319.8	59.4	57.4

Source: U.S. Department of Commerce, Bureau of the Census Industry Division. Current Industrial Reports, 1983. Washington, D.C., July 1984.

a/ Value at the first point of entry in the U.S.: includes cost, insurance, freight, duty and other charges to the import point.

The quality of sweaters importes varies widely, from low value acrylic knits being imported at a CIF value of \$5 or less to luxury and well designed products with CIF values of \$30 and above. Demand for high value, well designed imported sweaters appears to be increasing steadily. As pointed out by the garment marketing experts from New Ideas Ltd.

This is so because "as the post-war baby boom generation matures and enters the high median earnings age, apparel manufacturers will face a more mature market demanding better quality garments, ... and... with a given percentage of income to be spent on textile products, consumers are willing to pay higher prices for fewer goods that they believe are of a higher quality. Wool is perceived to be such a good..."*

Based on these factors, and assuming that only 10 percent (a conservative estimate) of the U.S. sweater market demand is for sweaters knit with high quality, luxury fibers, the total demand for high quality sweaters equaled 31 million units in 1983. This demand was satisfied mostly with imported products, many of which were made of luxury fibers, e.g. cashmere, mohair and alpaca.**. The high quality image of camelid fibers is well established in the U.S. market. As the fashion marketing expert from the Creative Associates team has indicated, "The American consumer has been exposed to alpaca products (primarily sweaters and some wooven goods) particularly in the higher price ranges and alpaca has gained the image of a luxury fiber with much the same position as mohair, cashmere and angora..."*** Considering the large U.S. demand for high quality sweaters elaborated with luxury fibers, the Creative Associates team estimated that Bolivia could export to the U.S. between 200,000 to 500,000 alpaca/llama knitwear articles per year. This projection assumed that the sweaters would be priced FOB Bolivia at around \$30. Obviously, the precise sales volume of llama/alpaca knitwear in this market will be highly dependent upon the quality of workmanship and design of the articles produced.

* (Di Grandi and Selvi Report for New Ideas Ltd., p.9).

** Several efforts were made to obtain sales and volume information on specific products of alpaca and llama. According to Mary Ann La Par of Donnelley Marketing in Connecticut, there is no information available on such specific categories of single fibers or single products. Likewise, Laurie Pensini, head of custom studies of Simons Market Research in New York indicated that no data is available on alpaca or llama products as a separate category.

***L. Van Hovnik, 1984.

Marketing Approach

The marketing approach to be followed by the Foundation will follow certain predetermined steps, which will be elaborated in full detail in the marketing plan to be prepared by the consultants contracted for the project. These steps are:

- . Identification of market segments and marketing channels to reach them based on extensive market research.
- . Identification of the types and designs of knitwear the markets identified require.
- . Elaboration of a marketing strategy to sell to the markets identified. Based on the information gathered during the research stage, the consultants contracted by the Foundation will prepare a marketing strategy which specifies the target markets selected, the product mix and positioning, the selected trade channels and use of labels, and the marketing mixes to be employed in each target market. In addition to this strategy, the consultants will provide: a detailed statement of sales targets and specific price levels for each one of the items in the product mix; a total marketing budget, indicating the funds to be allocated for the various marketing mix tools to be employed, such as advertising, sales promotion and personal selling; and a production and delivery schedule to meet the various sales targets.

Design of new knitwear articles. These designs will include new colors, yarn mixtures, and stitches. Two design approaches have been considered: (1) investigating market segments and deciding on new articles to be designed and produced exclusively by the Foundation's clients for the market segments, and identified and then marketing under a unique Foundation label; or (2) going to manufacturers who market under their own labels (e.g. Pierre Cardin, Ralph Lauren) and designing products in response to their specification. The Creative Associates consulting team recommended that the latter approach be used; that is, producing to manufacturers' specifications (in terms of color, size, style, weight, etc.) and putting their label on the products. The CA team considered that the establishment and use of a foundation label would be much more difficult. The technical assistance team to be hired under the project will make final recommendations for the Foundation's consideration regarding which approach to follow.

Preparation of samples.

Carrying out sales promotion and production preparation efforts. No matter which design approach is adopted, the samples developed will be taken to the U.S. and shown to potential buyers whose reactions, ideas, and suggestions will be used to make adjustments in the products. Once new prototypes are produced, these will be shown to the same group of potential buyers in order to obtain their final approval and possibly some orders. As a result of these contacts, the wholesale prices and sale volumes for different articles will also be determined. The Foundation will act as a sales agent for its client knitwear organizations. It will sign contracts which commit its clients, as a group, to deliver specified knitwear products according to specific delivery schedules.* Concurrent, with sales efforts, the Foundation will begin to assist participating artisan organizations in preparing for the production phase. In this respect, activities are planned in the areas of raw materials procurement, training of knitters, and management training.

Setting production schedules and producing knitwear. The Foundation will provide supervision and coordination services (e.g. quota assignments, delivery schedules) to participating artisan organizations during the production phase. Supervision activities will be directed to assuring that production plans are met in terms of quality and quantity.

Shipping goods produced. As the different organizations complete their production quotas, their sweaters will be delivered to a central warehouse managed by the Foundation. Here, orders will be prepared for shipment to the United States. The Foundation will also carry out the necessary actions to export the products; that is, obtaining all the necessary registrations, permits and the like.

The marketing strategy adapted by the Foundation will be revised at least yearly to take account of new fashion trends and market developments. This will require that the Foundation and its consultants be in constant touch with knitwear fashion and garment trend experts and knitwear buyers.

*Given the nature of the Foundation, it will not buy knitwear articles from its client organization for resale to U.S. customers.

Since sales under the comprehensive marketing plan discussed above will not take place until 1986, it has also been decided to begin marketing assistance activities in 1985 after the arrival of the technical assistance team in May, from which participating artisan organizations will be able to benefit right away. Consequently, the technical assistance firm contracted will also be asked to send immediate short-term design assistance to improve knitwear products currently being produced and to increase sales of these articles in the U.S.

Best Available Document

III. COST ESTIMATE AND FINANCIAL PLAN.

A. Cost Estimate and Disbursement Plan

The following tables show the estimated cost of the project, broken down into technical assistance, training, operating expenses, and commodity cost components, and divided into portions to be financed by AID, the Foundation (through commissions) and the participating artisan organizations. Also included is an estimate of the additional investment to be made by the participating artisan organizations in working capital, inventories and fixed assets necessary to expand their operations. This investment will be financed by the artisan organizations themselves through loans to be refinanced from other AID projects (either the Title III Program or Agribusiness and Artisanry resources channelled through commercial banks).

AID will finance all technical assistance and commodities purchased for the Foundation, plus a declining portion of the operating expenses of the Foundation and training expenses (100% in year 1 and about three fourths in years 2, one-third in year 3 and one sixth in year 4.

TABLE 5.: COST ESTIMATE AND FINANCIAL PLAN

(U . S . D O L L A R S)

	A I D			LOCAL CONTRIBUTION					GRAND TOTAL
	G R A N T			FOUNDATION			Artis.Org.	TOTAL	
	FX	LC	TOTAL	FX	LC	TOTAL	LC		
I. <u>Technical Assistance</u>									
Contract Advisors	987,000		987,000						987,000
Sub-contracts	450,000		450,000						450,000
Contracts overhead	592,000		592,000						592,000
Evaluations	40,000		40,000						40,000
II. <u>Training</u>									
Short-term in U.S.	45,000		45,000						45,000
In-country		17,000	17,000		14,500	14,500		14,500	31,500
Training materials and other.							50,000	50,000	50,000
III. <u>Operating Expenses</u>									
Salaries		246,800	246,800		191,000	191,000		191,000	437,800
Other	132,200	85,800	218,000	196,800	76,100	272,900		272,900	490,900
IV. <u>Commodities</u>									
Vehicles	45,000		45,000						45,000
Office furnit.& Equip.		23,200	23,200						23,200
V. <u>Expansion of Prod.Capacity</u>							880,000	880,000	880,000
Sub Total	2,291,200	372,800	2,664,000	196,800	281,600	478,400	930,000	1,408,400	4,072,400
Contingency inflation	202,000	134,000	336,000	22,956	32,799	55,755	112,310	168,065	504,065
TOTAL PROJECT	2,493,200	506,800	3,000,000	219,756	314,399	534,155	1,042,310	1,576,465	4,576,465

Percentage

66%

12%

22%

34%

100%

**TABLE 6. - DISBURSEMENT SCHEDULE
(U.S. DOLLARS)**

	YEAR 1		YEAR 2		YEAR 3		YEAR 4		TOTAL	
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC
A. A. I. D.										
I. TECHNICAL ASSISTANCE										
1. Contract Advisors										
Long-term (2 x 36 man-months)	102,000		204,000		204,000		102,000		612,000	
Short-term (50 man-months)	135,000		135,000		105,000		--		375,000	
2. Sub-contracts										
Technical services	75,000		150,000		150,000		75,000		450,000	
3. Evaluations			20,000				20,000		40,000	
	312,000		509,000		459,000		197,000		1,477,000	
Contract Overhead 100% of salaries	142,000		204,000		185,000		61,000		592,000	
	454,000		713,000		644,000		258,000		2,069,000	
II. TRAINING										
1. Short-term in U.S. (9 months)	15,000		15,000		15,000				45,000	
2. In-country		4,760		7,600		3,800		840		17,000
	15,000	4,760	15,000	7,600	15,000	3,800		840	45,000	17,000

TABLE 6 - DISBURSEMENT SCHEDULE (Cont'd)
(U.S. DOLLARS)

	YEAR 1		YEAR 2		YEAR 3		YEAR 4		TOTAL	
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC
III. OPERATING EXPENSES										
1. Salaries		93,000		82,560		45,800		25,440		246,800
2. Other	49,000	36,000	47,200	24,400	24,000	15,600	12,000	9,800	132,200	85,800
	49,000	129,000	47,200	106,960	24,000	61,400	12,000	35,240	132,200	332,600
IV. COMMODITIES										
4 Wheel-drive vehicles (3)	45,000								45,000	
Office furniture		12,200								12,200
Office equipment		11,000								11,000
	45,000	23,200							45,000	23,200
Sub-total	563,000	156,960	775,200	114,560	683,000	65,200	270,000	36,080	2,291,200	372,800
Contingency/Inflation	50,500	56,280	66,660	41,540	60,600	22,780	24,240	13,400	202,000	134,000
TOTAL A.I.D.	613,500	213,240	841,860	156,100	743,600	87,980	294,240	49,480	2,493,200	506,800
B. FOUNDATION										
I. TRAINING										
2. In-country				1,900		5,700		6,900		14,500
				1,900		5,700		6,900		14,500

TABLE 6: DISBURSEMENT SCHEDULE (Cont'd)
(U. S. DOLLARS)

	YEAR 1		YEAR 2		YEAR 3		YEAR 4		TOTAL	
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC
II. OPERATING EXPENSES										
1. Salaries				20,640		68,700		101,660		191,000
2. Other			27,800	8,100	66,000	24,900	103,000	43,100	196,800	76,100
			27,800	28,740	66,000	93,600	103,000	144,760	196,800	267,100
Sub-total			27,800	30,640	66,000	99,300	103,000	151,660	196,800	281,600
Contingency/Inflation			3,336	3,677	7,260	10,923	12,360	18,199	22,956	32,799
<u>Total Foundation</u>			31,136	34,317	73,260	110,223	115,360	169,859	219,756	314,399
C. ARTISAN ORGANIZATIONS										
I. TRAINING										
1. Training materials		8,000		8,000		6,000		6,000		28,000
2. Local instructors		6,000		6,000		5,000		5,000		22,000
		14,000		14,000		11,000		11,000		50,000
II. EXPANSION OF PRODUCTION CAPACITY										
		100,000		220,000		260,000		300,000		880,000
		100,000		220,000		260,000		300,000		880,000
Sub-Total		114,000		234,000		271,000		311,000		930,000
Contingency/Inflation		17,100		28,080		29,810		37,320		112,310
Total Artisan Organization		131,100		262,080		800,810		348,320		1,042,310
<u>TOTAL PROJECT</u>	613,500	344,340	872,996	452,497	816,860	499,013	409,600	567,659	2,712,956	1,863,509

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TABLE 7 : OPERATING EXPENSES SCHEDULE

	YEAR 1		YEAR 2		YEAR 3		YEAR 4		TOTAL	
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC
1. Salaries										
Executive Director		21,000		23,100		25,400		27,900		97,400
Senior Managers (2)		30,000		33,000		36,300		39,900		139,200
Assistant Managers (2)		24,000		26,400		29,000		31,900		111,300
Accountant		6,000		6,900		7,900		9,100		29,900
Secretaries (3)		9,000		10,300		11,900		13,700		44,900
Chauffeur/Messenger		3,000		3,500		4,000		4,600		15,100
2. Other										
Office supplies		5,000		5,000		7,000		8,000		25,000
Office rent		6,000		6,000		7,000		7,000		26,000
Telephone line		1,500								1,500
Utilities		6,000		6,000		8,000		8,000		28,000
Vehicle maint. & gasoline		4,500		4,500		6,000		6,000		21,000
Travel and per-diem		4,000		6,000		7,500		8,900		26,400
Marketing expenses	15,000		30,000		40,000		55,000		140,000	
Overseas trips	34,000		45,000		50,000		60,000		189,000	
Audit								10,000		10,000
Miscellaneous (legal fees, etc.)		9,000		5,000		5,000		5,000		24,000
T O T A L	49,000	129,000	75,000	135,700	90,000	155,000	115,000	180,000	329,000	599,700

C O S T S H A R I N G

	<u>YEAR 1</u>		<u>YEAR 2</u>		<u>YEAR 3</u>		<u>YEAR 4</u>		<u>TOTAL</u>	
	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>
	100%		73%		35%		16%			
<u>A.I.D.</u>										
1. Salaries		93,000		82,560		45,800		25,440		246,800
2. Other	49,000	36,000	47,200	24,400	24,400	15,600	12,000	9,800	132,200	85,800
Sub-total	49,000	129,000	47,200	106,960	24,000	61,400	12,000	35,240	132,200	332,600
<u>FOUNDATION</u>										
1. Salaries	-----	----		20,640		68,700		101,660		191,000
2. Other	-----	----	27,800	8,100	66,000	24,900	103,000	43,100	196,800	76,100
Sub-total			27,800	28,740	66,000	93,600	103,000	144,760	196,800	267,100
T O T A L	49,000	129,000	75,000	135,700	90,000	155,000	115,000	180,000	329,000	599,700

B. Implementation and Financing Procedures

AID funds for the project will be channeled as indicated in Table 8.

Table 8

Methods of Implementation and Financing for AID Resources

<u>Major Element</u>	<u>Method of Implementation</u>	<u>Methods of Financing</u>	<u>Approximate Amount</u>
Technical Assistance	Institutional Contract	Direct Payment	\$2,029,000
Evaluations	Personal Service Contract	Direct Payment	40,000
Overseas Training	Direct Placement	Direct Payment	45,000
Local Training	Administration Unit (Foundation)	Direct Payment	17,000
Operating Costs	Administration Unit	Direct Payment Direct Reimbursement	464,800
Commodities	AID Procurement	Direct Payment	45,000
Commodities	Administ.Unit Procurement	Direct Reimbursement	23,200
			<u>\$2,664,000</u>
	Contingency/Inflation		336,000
		Total	<u>\$3,000,000</u>

C. Project Accounting and Disbursement System

The disbursement system includes measures to ensure the systematic and timely flow of project funds. The system will provide for advances of AID local currency funds, and local contribution funds as they are generated, to be deposited into special project bank accounts to be maintained by the Foundation. The Foundation will be responsible for disbursing funds from the special accounts in accordance with quarterly project financing approvals by USAID. USAID/Bolivia dollar payments for technical assistance, training, and some commodity procurement will be made directly by AID. In order to implement the disbursement system, USAID and the Bolivian counterpart representatives will agree on a detailed budget for local contributions.

IV. IMPLEMENTATION PLAN

A. Responsibilities

The duties of the Foundation and the technical assistance team have already been outlined above.

The four artisan organizations participating in the project will be responsible for procuring raw materials, meeting the production schedules and quality standards set by the Foundation, helping organize training sessions, forming new knitting groups, and expanding their operations as required to meet export sales targets. This will require the investment of additional funds in inventories of raw materials and finished products, working capital, and possibly expanded facilities. The funds for such expansion will come from loans financed under other AID projects and profits as the project progresses.

USAID's Private Sector Office will monitor the project. An experienced Bolivian national has been assigned as Project Manager. USAID will also contract directly for the limited quantity of project commodities to be purchased for the Foundation and for the technical assistance to be provided.

B. Evaluations

Two evaluations will be scheduled; one at the end of year 2 of the project to evaluate progress in setting up the Foundation and implementing the marketing strategy, and a final evaluation toward the end of the project to measure its impact on artisan knitters and assess the potential for expanding to other artisanal products.

C. Schedule of Events

AID/W is expected to approve the project in December 1984. Due to the time needed to hire Foundation staff and place contract technicians in Cochabamba, the project will begin operating too late to take full advantage of the 1985 U.S. fall and winter sweater market. This is an unfortunate disadvantage of project timing.

Therefore, during this first year, the marketing strategy will target overseas customers already known to the four producer groups with limited expansion via direct sales to new customers. Technical assistance in design and production will be directed to raise the quality, volume and sales prices of products sold to these customers.

The marketing strategy for the second year will target new markets in the U.S. During this second round, there will be enough time to add new colors and stitches to the knitwear articles and train a large number of artisans in their production. During the third and fourth years, with the market well known, and training, raw material procurement, and production systems solidly established, large increases in sales are forecasted.

The related schedule of project activities is as follows:

- 1984 Dec. AID/W approves project.
USAID approves Foundation (civil society) statutes.
Project Agreement signed.
- 1985 Jan. RFP approved and sent to potential contractors.
Foundation staff candidates identified and interviewed.
Foundation commodities ordered.
- Feb. Foundation staff hired.
- March Foundation office opened
TA proposals received.
Raw material contracts arranged.
Intensified efforts to improve existing products begin.
- Apr.15 TA contract signed.
- May 1 Contractor personnel arrive in Bolivia.
- July 1 Initial marketing strategy adopted. This will include a
detailed marketing and production schedule.
- July - Sept Sweater designs modified.
- Oct. - Dec. Product samples shown in U.S. and orders taken.
Artisan training begins.
- 1986 Jan. - Sweater production allocations.
Feb. - June Sweaters produced.
May - July Sweaters delivered.
July Year 2 marketing strategy adopted.

From this point forward, the same production and marketing cycle is followed.

V. PROJECT ANALYSES

Technical Analysis

Since the project's strategy emphasizes marketing, this technical analysis begins in that area. Later, the capacity to produce for overseas markets and raw material supply issues are analyzed.

1. Market Analysis

In Section II.D.3 of this paper, the U.S. clothing and sweater market was described by market segment, expected sales volumes were estimated, and possible distribution channels were indicated. Studies by New Ideas and Creative Associates concluded strongly that Bolivia has the skills and raw materials to serve the markets identified. What is needed is a more professional and organized approach to export marketing and concomitant improvements in knitwear design and production.

a. Existing Marketing Channels

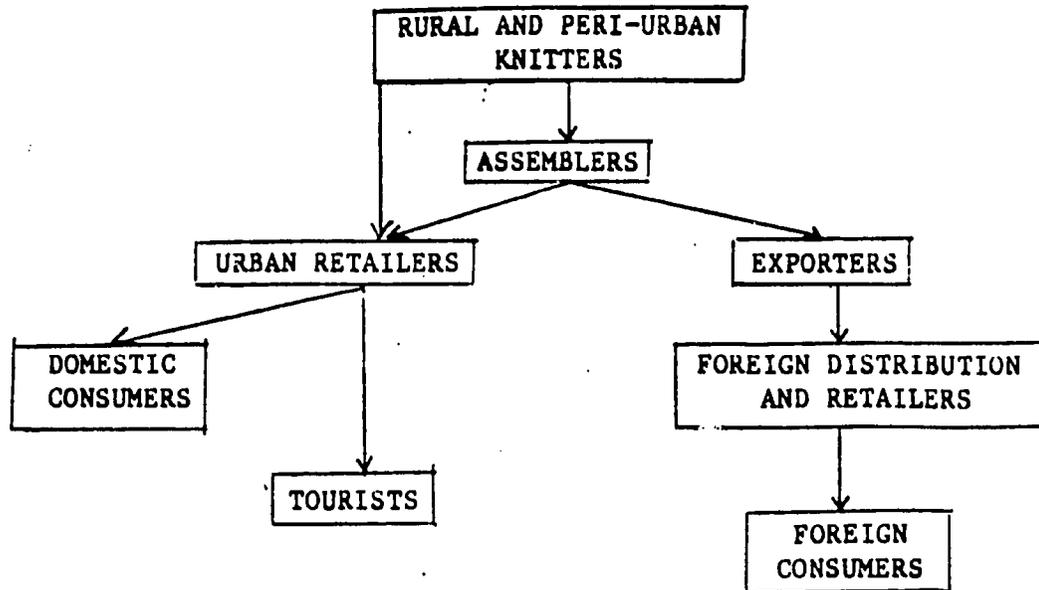
There currently exist in Bolivia two well differentiated marketing systems for knitted products, a traditional system and an improved system. The characteristics of each are explained below:

i. The Traditional System. The traditional marketing system for knitted products is characterized by the use of low quality hand-spun yarn, inadequately trained labor, lack of technical assistance and supervision, and individualistic behavior from the procurement of wool to the marketing of final products. The majority of artisans in the country (estimated 250,000 people) belong to this system, and, because of the low quality of their products, they receive the lowest remunerations in the trade.

The marketing channels for the goods produced by these artisans are indicated in Figure 1. One of the key elements in the system is the assembler, who occasionally operates in the countryside but generally carries out the bulk of his activity in rural and urban fairs. Assemblers perform a series of functions, such as quality control, finishing, mending, washing, transportation and delivery to retailers and exporters in the cities of La Paz and Cochabamba. Assembling costs are high in as much as textile craft production is extremely atomized and there is a need to spend much time and effort negotiating with numerous knitters.

Figure 1.

Traditional Marketing Channels for Textile Crafts.



Another key agent in the traditional marketing system is the exporter, who buys from the assemblers and ships the merchandise out of the country. These exporters are individuals who have good contacts with foreign buyers (foreign distributors and retailers). These exporters are usually Bolivians, but, in the recent past, many foreigners have also entered the trade, operating disguised as tourists.

Finally, there is the domestic retailer who buys knitted goods principally from assemblers and sells to the local tourist trade. These retailers, as most marketing agents in Bolivia, operate small businesses and carry narrow product lines.

Table 9 presents a set of typical marketing costs and margins in the traditional system. Note the relatively larger margins being obtained by exporters, which are more than double those corresponding to domestic retailers, and the fact that assemblers obtain gross margins that are slightly larger than the net earnings accruing to knitters. As can be also observed, the artisan does not attach any positive cost figure to the time devoted to raw material procurement and processing (hand spinning). This is so because the artisan will purchase wool in a nearby fair which she/he attends to perform other activities, and will spin it while carrying out a variety of household/farm tasks. The net earnings accruing to the artisan are extremely low and represent a marginal income which is mostly used to satisfy basic food consumption needs. A knitter who is able to produce 20 sweaters per year would obtain an annual gross income of about \$4.00.

Table 9

Marketing Costs and Margins in the Traditional System (November 1984)

Concept	AMOUNT (\$US per knitted sweater)
1. FOB Price to foreign retailer or distributor	7.90
<u>Minus: Exporter's gross margin</u> -----	<u>5.40</u> -----
<u>OR</u>	
2. Price to domestic consumer	2.50
<u>Minus: Domestic Retailer's gross margin</u> -----	<u>- 1.00</u> -----
3. Price to Exporter or domestic retailer	1.50
<u>Minus: Assembler gross margin to cover finishing, transportation and financing costs, and operating profit</u> -----	<u>0.30</u> -----
4. Price to assembler	1.20
<u>Minus: Costs of procuring raw materials</u>	<u>0.00</u>
Raw wool costs (500 grams)	1.00
<u>Spinning costs (1 1/2 days)</u> -----	<u>- 0.00</u> -----
5. Knitter's net earnings (30 hours)	- 0.20

ii. The Improved System. The improved marketing system of textile crafts can be observed in the city of Cochabamba. In this system, there exists identifiable central artisan organizations (a

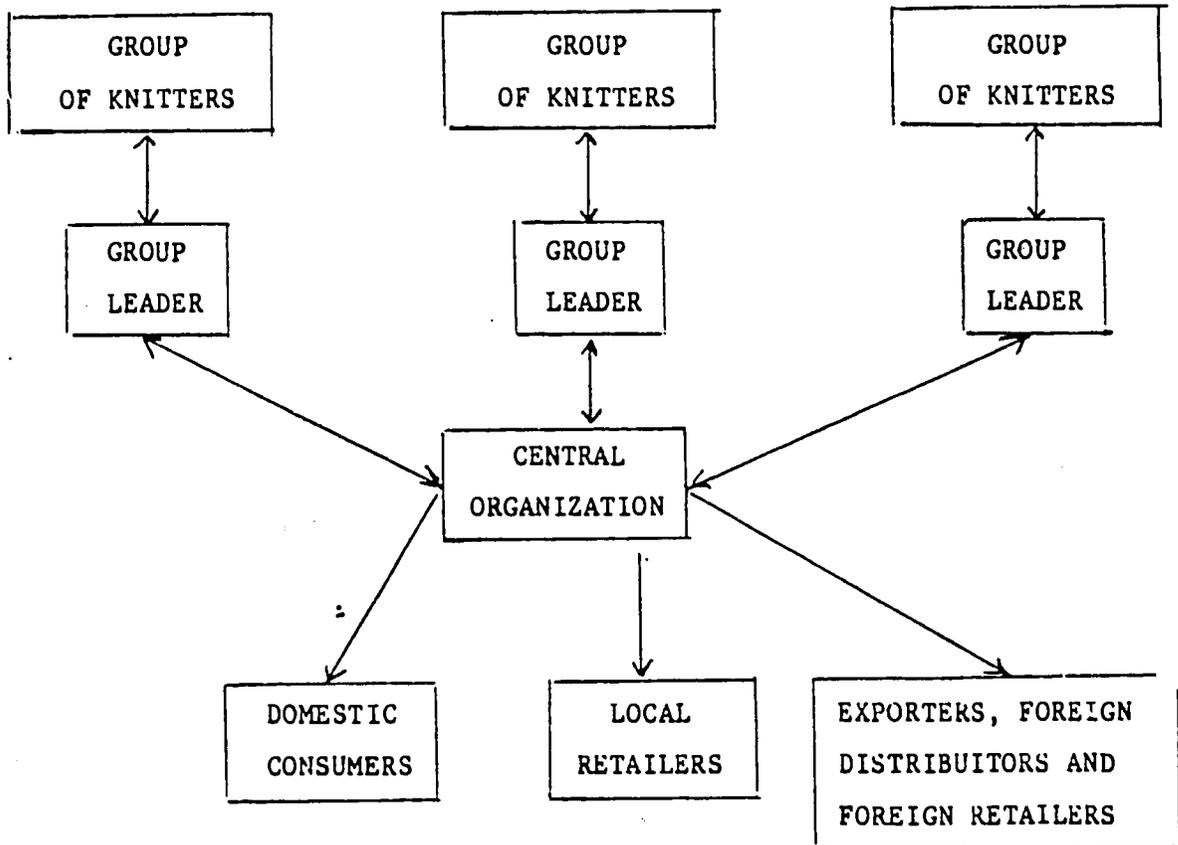
cooperative, an association, or a private firm) which perform all, or part of, the following functions: acquiring and processing raw wool or acquiring yarn; distributing wool or yarn; providing training, supervision, and quality control services; and collecting and merchandising the final products.

Some of the best developed improved marketing systems are managed by the artisan organizations chosen to participate in this project (i.e. Fotrama, Amerindia, Kay Huasy, and Las Imillas). In these organizations, knitting activities are carried out in groups composed of 50 to 70 individuals, residing in a given area. Each group has one leader who serves as the link with the central organization, and who performs the essential functions of raw material distribution, production supervision, quality control, final product collection, delivery, and (sometimes) payment of knitting services.

Figure 2 depicts the marketing channels in this system. As can be observed, in this case the group leaders substitute for the assembler in the traditional marketing system, while the central organization substitutes for the domestic retailer and/or the exporter.

Figure 2

Improved Marketing Channels for Textile Crafts.



Marketing costs and margins in this system are radically different to those corresponding to the traditional system, as should be expected given the better quality of the sweaters produced. As can be observed in Table 10, piecework payments accruing to knitters in the improved marketing system are about eight times larger than those corresponding to knitters in the traditional system. In this improved system, a knitter producing twenty sweaters per year can obtain an annual gross income of \$30. In practice, however, due to poor current marketing practices and the fact that the sweaters are not as well designed as they should be, the artisan association can only purchase about 13 sweaters per year from each of their knitters, who thus earn only about \$20 per year.

Table 10

Marketing Costs and Margins in the Improved System (November 1984).

CONCEPT	A M O U N T (\$US per knitted sweater)
1. Price to domestic consumer	15.34
Minus: Domestic retailer's	
Gross margin	2.00
<hr style="border-top: 1px dashed black;"/>	
2. Price to domestic retailer or exporter	13.34
Minus: yarn costs Administrative	9.67
costs Financial costs	1.33
Operating profits	0.60
	0.24
<hr style="border-top: 1px dashed black;"/>	
3. Knitter's net receipts	1.50

The information presented in Table 10 indicates that artisanal incomes are significantly improved through cooperation in a central organization. It should be clearly understood, however, that even though the improved marketing system is far superior to the traditional one, it is far from the ideal. All entities operating in the improved marketing system are confronting a series of problems related primarily to yarn procurement, fashion styling, and merchandising of final products. Accordingly, they currently are able to offer only very limited workloads to their knitters.

The depressed sales of knitwear goods experienced by even the best developed artisan organization in Bolivia is a result of the inability of each entity to adopt an integrated marketing strategy. At present, not even the larger organizations have sufficient resources or the capacity to contract proper assistance in product design, be well informed of changing color and style trends in knitwear fashion, develop innovative yarn blends and combinations of materials (e.g. llama yarn and goat suede), produce in sufficiently large volumes, or establish solid relationships with foreign buyers.

The income levels of significant numbers of knitters working for Cochabamba knitting organizations can be greatly increased by providing a set of essential services, such as market research and product design, training, good quality raw materials, adequate supervision and quality control, and final product collection and merchandising, which will significantly increase sales of higher quality and more expensive hand-knitted products made in Bolivia. These services will permit each knitter to earn higher wages per unit produced and to produce larger quantities of garments. One of the best arguments to support this assertion can be found in the existing improved marketing system, in which central organizations providing a degree of such services have permitted knitters to earn much higher wages. The fact that this improved system only benefits about 5,000 knitters presently provides a measure of the challenge facing the Bolivian textile craft sector.

Table 11 demonstrates how this opportunity can be seized using the production techniques pioneered by the Cochabamba producer groups with improved product quality and marketing to the U.S. market.

In this table, the U.S. retail price per sweater has been estimated to range between \$65 and \$84 considering that there exist several possible retailing alternatives (which have different mark-up policies) and that the specific ones to be used will not be determined until the market research phase is completed. Production costs have been estimated jointly with Fotrama staff, taking account of Fotrama's current cost structure and the expected changes to be brought about by the project.

Table 11

Marketing Costs and Margins for Sweaters
to be Produced for Sale through Foundation

<u>Concept</u>	<u>Amount</u> <u>(\$US per knitted sweater)</u>
1. U.S. Retail Price (rounded)	65.00 83.50
Minus:	
Retailer's gross margin .	
(40 - 80%)	18.56 37.12
2. Importer/distributor's price	46.40
Minus:	
Importer/distributor's	
gross margin	9.27
Entry charges:	
By weight (\$.25/lb)	0.28
By value (19.5% of FOB price)	5.85
Freight and insurance (\$1.91/kg)	<u>1.00</u>
3. FOB Price	30.00
Minus: Foundation commission (9%)	2.70
Retained earnings/profit	2.30 *
Payments on loans for	
investment in expansion	2.00
Administrative costs	5.00
Collection, packaging, and	
delivery to airport	0.50
Cost of yarn (500 grams)	12.50
4. Knitters net receipt	5.00

* In the case of the cooperative clients of the Foundation, their retained earnings/profit are mostly used to finance services for their members (e.g. health and basic foods) and for investments in expanded operations. Thus, the knitters belonging to cooperatives receive more "income" per sweater than the \$5 wage paid.

b. Export Barriers

Even though it is clear that a more remunerative exporting strategy can be implemented under the project to assist artisan knitwear organizations, it must be recognized that significant artificial barriers to increasing exports will have to be overcome for the project to be successful. These involve current GOB exchange controls, Bolivia's isolated geographic location, overly bureaucratic export procedures, and relatively high U.S. tariffs.

Exchange controls are the most serious export barrier. The artisan organizations which do export now are technically doing so illegally. One of the project's basic assumptions is that the GOB's exchange control policy will be modified at least enough to provide for profitable knitwear exports. It is certain that the Government's economic policies, including its exchange control policies, must change for the country to begin to recover from its current economic crisis. One of the principle focuses of A.I.D.'s current program is to encourage the GOB to take rational economic measures. Accordingly, the Mission has conditioned new assistance totalling \$121 million (\$20 million Title I, a \$26 million agroindustrial import program, and a new \$75 million Title III Program) on the GOB's taking a comprehensive series of measures to improve the current economic situation. In addition, A.I.D. has set up an Economic Policy Analysis Unit to assist the members of the GOB Economic Cabinet in analyzing the issues with which they must deal. During the week of November 19, the GOB announced that collection would be moved up one year, to 1985, and took another series of partial economic measures which represented a helpful start in stabilizing the economy. More key measures need to be taken, but this start provides some basis for optimism.

The project's financial analysis confirms that with the increased margins available from high quality export markets in the U.S., artisan knitters would be able to profit handsomely if exchange controls were lifted. Although complete foreign exchange liberalization would be logical, it is unlikely to be adopted by the GOB. A much more likely revised policy will be a compromise to let exporters keep a significant portion of foreign exchange earned and turn in the rest at an official rate which, over time, because of other economic measures, will not deviate as widely as it has in the past from the real, parallel rate. To assess the worst case, a financial analysis was prepared assuming that artisans would turn in 70% of their foreign exchange at the official rate as is currently required. It shows that artisans could still make an acceptable profit.

Significant exports to new overseas markets through the Foundation will not begin until 1986. Given this long lead time, during which it is expected that new economic measures will bring about an improved economic situation, including a relaxation of current exchange controls, and the fact that artisans will be able to make a good profit

even if they must continue to remit a large part of their foreign exchange earnings to the Central Bank, it has been concluded that the initiation of the project should not be delayed.

With regard to Bolivia's isolated geographic location, and the difficulty of transporting finished products out of the country, it is planned to continue exporting by air. This practice has already been adopted by the artisan organizations and merchants which continue to export. The knitwear to be exported by the Foundation will have a high value relative to the cost of air transportation because of its relatively light weight. Thus, as has already been proven by those who are exporting, it can be flown to the U.S. and sold at a CIF price which is still very competitive for a high quality garment.

Bolivian exporters presently face a long and cumbersome series of procedures. They require several types of registration (with the Ministry of Industry, Commerce and Tourism, the National Tax Bureau, the local municipality, the National Chamber of Commerce, the National Chamber of Industries, and the National Chamber of Exporters). In addition to these registrations, they are required to process numerous documents (e.g. commercial and consular invoices, certificates of origin and quality, cargo manifests, bills of lading, and export permits and licences). Lastly, a final series of actions is necessary to claim any applicable "export incentives" (e.g. tax credits).

Because all these procedures need to be carried out in a series of offices involving different government entities and individuals, one export operation can require several months to complete. This situation will not change overnight, but this project will provide the Foundation and USAID the opportunity to begin lobbying with the GOB to simplify its exporting procedures. Centralizing the export process in the Foundation is expected to facilitate the work which would be required if each artisan organization were to have to continue handling its own export procedures. Furthermore, the Foundation staff will become intimately familiar with the exporting procedures required and be able to suggest ways in which the system can be improved, which USAID can pursue with the GOB directly and through the work of the Policy Analysis Unit.

To import sweaters into the U.S., the Foundation will pay a 19.5 percent ad valorem tariff plus 25c per pound of wool. This tariff is affordable in terms of the higher price markets the project will try to penetrate. Given the fact that American manufacturers cannot produce alpaca and llama knitwear very easily and that Bolivian exports, although significant for the artisans involved, will not be large relative to the US market, it is not expected that pressure will arise to restrict Bolivian knitwear imports into the U.S.

2. Production Analysis

The fact that fashion experts from New Ideas Ltd. and Creative Associates concluded that quality raw materials and knitting talent

located in Bolivia to produce fine quality knitwear for sale in the U.S. has already been mentioned. This section focuses on the principal problems that inhibit the production of high quality knitted goods which will have to be resolved by the Foundation, and explains the plan to increase production volume.

a. Production Problems

The knitwear production problems currently being faced by Cochabamba knitting organizations include relatively low production capacity, insufficient attention to product design, lack of knowledge of certain knitting techniques and quality control, insufficient access to credit, and raw material procurement.

i. Production Capacity. One of the principal problems affecting artisan organizations is their lack of sufficient production capacity to fill relatively large orders. U.S. knitwear orders range from 25 to 500 dozen. With the limited exception of Fotrama, none of the artisan organizations is large enough to produce in the quantities necessary to service high quality clients. The Foundation will undertake training programs to (a) increase the numbers of knitting groups working for each participating artisan organization, (b) improve the productivity of each knitter, and (c) incorporate new knitting organizations into the project. The plan to increase the production capacity of Foundation clients is described in Section V.A.2.b.

ii. Knitwear Design. A major production constraint faced by artisan organizations in Bolivia is the lack of adequate design and styling assistance. Most of their artisans at present rely on traditional and repetitive motifs; only rarely will they venture on their own to experiment with changes in fashion styles (in which colors, textures, material combinations and line are all factors subject to variation). Design assistance is not available in Bolivia, and the few organizations that pay attention to design limit themselves to copying models from international fashion magazines and distributors catalogs. This practice limits the competitiveness of Bolivian knitted goods abroad, for in the best of cases they are one step behind international fashion and color trends.

To remedy this basic deficiency, the marketing and design plan outlined earlier will be undertaken by the Foundation with the assistance of its consultants. The implementation of a professional marketing approach to product design and sale is the most important element of the project.

iii. Knitting Techniques. Intimately associated with the stagnated design of Bolivian knitwear is the relatively limited range of knitting techniques used by Bolivian knitters. Although it was agreed by both teams of experts which visited Bolivia that the knitters they saw were highly talented in terms of the stitches they knew, the facility

with which they worked, and the speed with which they learned new stitches, all concurred that the knitters needed to be taught new stitches for the production of different styles and types of sweaters and that they should use a variety of gauged knitting needles. Training in these areas will be provided under the auspices of the Foundation.

vi. Quality Control. The control over production exerted by knitting group leaders is generally adequate for the knitwear articles currently produced. As new designs are introduced, however, these leaders will have to receive additional training to ensure consistent quality control. In addition, Foundation staff will assist client knitting organizations in setting up better quality control and inspection systems, and will periodically inspect their activities as the project proceeds.

v. Credit. Limited access to bank financing for investment and operating capital is another factor that hinders the expansion of artisan organizations in Bolivia. In one survey recently conducted by Mission staff, it was found that 55 percent of the 28 artisanal entities interviewed had never used formal credit. The principal reasons explaining this situation included: lack of information about available financing lines; lack of sufficient collateral; and fear that bureaucratic procedures would require significant out-of-pocket expenses and delays. It is noteworthy that not even some of the larger and better established knitting organizations have well developed linkages with the commercial banks.

This constraint to expansion need not exist. AID lines of credit to refinance commercial bank loans are available under both the Agribusiness and Artisanry (A and A) Project and the Title III Program. Due to the lack of funds available for productive loans for both agriculture and small business use in Bolivia, USAID recently agreed to set up trust funds in several commercial banks with Title III Program resources. Several such trust funds are already operating. In addition, the Mission's new Productive Credit Guarantee Program, to be managed by the commercial banking system itself, will be available to guarantee loans refinanced by commercial banks through the A and A or Title III programs.

The artisan organizations participating in the project will be able to apply to their commercial banks for loans to finance expansion of their operations (e.g. to finance inventories of raw materials and final products, working capital requirements and expansion of physical facilities) which will be refinanced under either AID program. The Foundation will assist its client organizations as necessary to prepare the necessary documentation to obtain refinanced credits. In addition, it is anticipated that the presence of bankers on the Foundation's Board will facilitate positive responses from their banks to credit requests.

A full analysis of raw material constraints is given in Section V.A.3 below.

b. Plan to Increase Production Volume

In order to increase the limited production capacity of its client organizations, the Foundation will help train new knitting groups for each participating artisan organization as well as work to increase the production levels per knitter and train knitters from new artisan groups as the project progresses. Beginning with the numbers of knitters that the client organization have at present (year 0 of the project), increases are projected in both membership and output per worker as shown in Table 12.

Table 12

Projected Growth of Client Organizations:
Numbers of Knitters, and Outputs per Knitter

	Y E A R					
	0	1	2	3	4	5
<u>Number of knitters</u>						
Fotrama	1,850	2,220	2,664	3,463	4,502	5,863
Amerindia	700	840	1,008	1,310	1,704	2,215
Kay-Huasy	490	588	706	917	1,192	1,550
Las Imillas	50	60	72	94	122	158
Org.No.5			200	260	388	439
Org.No.6			200	260	338	439
Org.No.7				250	350	455
Org.No.8				250	350	455
TOTAL	3,090	3,708	4,850	6,804	8,896	11,565
Increase over previous year (%)		20	31	40	31	30
<u>Output per Knitter</u> (Sweaters per year)						
Fotrama	14	18	21	24	26	32
Amerindia	10	14	17	24	26	32
Kay Huasy	12	16	19	24	26	32
Las Imillas	24	26	28	30	32	32
Org.No.5	-	-	14	16	24	28
Org.No.6	-	-	14	16	24	28
Org.No.7	-	-	-	14	16	20
Org.No.8	-	-	-	14	16	20

The largest relative increases in membership of each group takes place after year 2. Note that two new organizations are to be incorporated into the project in year 2 and two more in year 3. These new organizations will be selected from some one hundred existing rural and peri-urban knitters' associations in the departments of Cochabamba, La Paz, Oruro.

The projected annual sweater output rates per knitter will increase gradually through year 5. Knitters in the larger artisan organizations are expected to attain a maximum output of 32 sweaters per year by year 5.

Based on the numbers of knitters and production rates indicated in Table 1, output rates can be obtained for each client organization for each year of the project as is shown in Table 13. Finally, Table 14 shows the percentages of total output that will be marketed through the Foundation, considering that each client organization has its established markets to which it will continue to sell during the life of the project.

Table 13
Aggregate Output Levels:
(Nos. of Sweaters)

Name of the Organization	Y E A R					
	0	1	2	3	4	5
Fotrama	25,000	39,960	55,944	83,117	117,056	187,290
Amerindia	7,000	11,760	17,136	31,450	44,292	70,866
Kay-Huasy	6,000	9,408	13,406	22,015	31,004	49,607
Las Imillas	1,200	1,560	2,016	2,820	3,904	5,062
Org.No.5			2,800	4,160	8,112	12,303
Org.No.6			2,800	4,160	8,112	12,303
Org.No.7				3,500	5,600	9,100
Org.No.8				3,500	5,600	9,100
TOTAL	39,200	62,688	94,102	153,574	222,199	355,631

Table 14
Output Marketed through the Foundation
(Nos. of Sweaters)

Name of the Organization	Y E A R					
	0	1	2	3	4	5
Fotrama	-	17,982	33,566	70,649	105,351	168,561
Amerindia	-	5,292	10,282	26,732	39,862	63,780
Kay-Huasy	-	4,234	8,044	18,713	27,904	44,646
Las Imillas	-	702	1,210	2,397	3,514	4,556
Org.No.5	-		2,800	4,160	8,112	12,303
Org.No.6	-		2,800	4,160	8,112	12,303
Org.No.7	-			3,500	5,600	9,100
Org.No.8	-			3,500	5,600	9,100
TOTAL	-	28,210	58,702	132,835	202,721	324,349
Share of total output(%)		45	60	85	90	91

3. Raw Material Supply

Bolivia produces more than enough camelid wool to produce all the industrially spun yarn needed for the better quality sweaters Bolivian artisans currently knit; however, Bolivian artisans presently face a shortage of both camelid wool and yarn for two reasons: the higher prices being paid for camelid wool export to Peru (between 20 and 50 per cent higher) which induce many growers and middlemen to sell to Peruvian buyers; and the insufficient quantities of camelid yarn being industrially spun in Bolivia.

Much of the camelid wool being produced in Bolivia is being exported to Peru because it is used to produce higher priced articles which enable Peruvian producers to pay more for raw wool. In order to stem this flow of wool, Bolivian yarn processing companies must pay at least as much as Peruvian customers are paying for the wool. Currently there exist only three yarn processing companies in Bolivia: INFOL, a state-owned firm which produces and sells yarn in a very unreliable manner for a variety of reasons having to do with the fact that it is state-owned.* FORNO, one of the oldest textile companies in Bolivia, which only processes camelid wool sporadically at the direct request of one or another of the artisan knitting organizations; and FOTRAMA, which produces its own yarn for some of its sweater production. INFOL does not pay the going rate (Peruvian price) for raw wool and cannot obtain enough raw material for yarn production. FORNO only processes wool purchased and delivered to it by artisan organizations and has not yet active taken an interest in the camelid yarn business. FOTRAMA does well with its old equipment but can produce enough yarn to meet only part of its own needs.

As a result of the above inadequate yarn supply, the artisan organizations with whom the Foundation will work have resorted to purchasing some of their yarn from Peru and to hand-spinning it, in addition to purchasing as much yarn as possible from INFOL and FORNO. Obviously this situation cannot continue if Foundation clients are to be able to increase their production of high quality knitwear for export.

a. Project Demand for Yarn

Table 15 presents the estimate of the amount of yarn to be demanded during the life of the project. It includes the yarn needed by the Foundation's clients, both to knit sweaters for sale through the

This entity, sells its products in an arbitrary way. Its retail shops located in the principal cities do not open on a regular schedule, sell in small quantities to individual knitters, force customers to buy yarn in pre-specified color proportions, and are usually out of stock. People in the industry claim that INFOL employees siphon the yarn to their own knitting operations or export it at a profit.

Foundation and for their current markets. Additionally this is the volume of industrially spun yarn required by other artisan organizations and knitters not involved with the Foundation and the yarn Bolivia's industrial yarn processors will want to use to produce camelid fiber cloth for sale to other markets.

Table 15

Current and Projected Demand for Industrially Produced Camelid Yarn
(MT) a/

Year	Cloth-makers	Independent Organizations b/	Client organizations		Total
			Non-Foundation Sales c/	Foundation Sales c/	
1984	--	27	17	--	44
1985	--	28	18	14	60
1986	30	31	18	30	109
1987	40	34	11	67	152
1988	50	38	14	102	204
1989	60	42	16	162	280

a/ Quantities correspond to output projections in the financial analysis, assuming that each sweater requires 1/2 Kg. of yarn.

b/ Assuming an annual rate of growth of 5 per cent for the period 1984-1985 and 10 per cent per year for the period 1985-1989.

c/ Considering that industrially processed yarn is used in 100 percent of the production of Fotrama, Kai-Huasy, and Las Imillas, and 28.5 per cent of the production of Amerindia.

Two issues are examined below: (1) will Bolivia possess adequate industrial spinning capacity to produce the camelid yarn demanded during the project; and (2) can enough camelid wool be obtained in Bolivia to meet the demand of industrial yarn processors?

b. Bolivian Yarn Spinning Capacity

Industrial capacity in Bolivia for the production of camelid yarn is currently small 118,200 kgs/yr, although it is not yet being fully utilized. FORNO can presently produce up to 7000 kgs. of

yarn per month. INFOL produces 2350 kgs. per month, and Fotrama 500 kgs. Although several other private textile firms exist, they currently concentrate on cotton and acrylic fiber processing; so the total annual industrial production capacity for camelid yarn currently stands at 118,200 kgs.

Plans are currently being made to increase this production capacity significantly. Fotrama has expressed the intention to quadruple its production capacity by adding washing and combing machines, and repairing some currently idle equipment. It is elaborating a feasibility study to obtain a loan from existing refinancing lines being channeled through the Bolivian Central Bank. Universaltex, one of the most modern and efficient firms in the Bolivian textile industry, is developing a feasibility study to expand its plant to process alpaca and llama wool. This study is expected to be completed by early 1985 and presented to a private bank for refinancing under an AID line of credit. Finally, Hilbo, a textile firm that has expanded its processing capacity significantly in recent years, is also elaborating a feasibility study to establish a camelid wool processing plant. This study is expected to be presented for financing in 1985 also.

This interest in expansion has been generated as a result of USAID's support for the proposed project and the Missions willingness to consider the refinancing of credits for such expansion under its current lines of credit. While Fotrama is interested in expanding to serve its own knitters and utilize its existing yarn production facilities more efficiently, Hilbo and Universaltex foresee a chance to compete with Peruvian firms in the production of alpaca yarn and cloth and, significantly, to start producing llama yarn and cloth to expand the market for camelid fiber textiles. Their plans fit nicely with the intention of participating artisan organizations to produce knitwear from alpaca-llama mixtures and pure llama for sale through the Foundation. The marketing plans currently being finalized as part of the feasibility studies being prepared by these two companies contemplate very significant sales to Foundation clients.**

Table 16 shows the current and projected camelid yarn production capacity in Bolivia. As can be seen, the installed capacity increases dramatically in 1986, when the Hilbo and Universaltex plants will open. The last column shows the percentage of total installed capacity that will be used to produce the camelid yarn demand shown in

* This compares with the current estimated demand for industrially spun yarn of 44,100 kgs. shown in Table 15.

** The commitment to sell yarn to Foundation clients at prevailing prices will be a requirement for AID financing.

Table 15. From that column, it can be seen that Bolivia will have enough spinning capacity to meet projected yarn demand. The capacity not used to produce camelid yarn while demand is growing will be used to produce yarn made from sheeps wool, which is available in plentiful supply in Bolivia.

Table 16

Current and Project Camelid Yarn Production Capacities (MT)

Year	INFOL	FORNO	FOIRAMA	HILBO	UNIVERSALTEX	Total	Capacity Devoted to Camelid Yarn %
1984	28	84	6	-	-	118	37
1985	28	84	25	-	-	137	44
1986	28	84	25	80	120	337	32
1987	28	84	25	80	120	337	45
1988	28	84	25	80	120	337	60
1989	28	84	25	80	120	337	83

Even though the installed capacity in 1985 will be adequate to meet projected demand for industrially processed yarn, in order to get FORNO to produce more yarn it will be necessary to offer its management a steady contract at a higher price, and possibly assist in the procurement of wool. The Foundation will broker such a contract with FORNO to supply its knitting organizations with yarn in 1985.

c. Wool Supply

As noted earlier, experts have commented on the superior softness of llama wool in comparison with alpaca wool once the coarser hairs included in the wool sheared from llama are removed. This, combined with the fact that Creative Associates recommended that alpaca and llama wool be blended with other fibers, such as cotton or acrylic, for style and strength reasons, and the fact that Bolivia is the source of 40% of the world's llama production, has led to the conclusion that a variety of mixed camelid yarn should be produced to make knitwear and cloth for export; i.e. 100% alpaca or llama, alpaca-llama mixtures, and blends of each with cotton or acrylic.

Table 17 shows the average composition of camelid yarn to be produced during the project. As can be seen, given current export market preference for alpaca (Llama products are unknown outside the Andean region), the proportion of alpaca wool used at the start of the project is high and declines as the project progresses, while the use of llama wool, which is currently blended in small quantities with alpaca grows, especially after de-hairing machines are installed in Universaltex, Hilbo and Potrama. The use of non-camelid fibers in small amounts begins in 1987.

Table 17 also shows the "fleece equivalent" of the alpaca and llama needed to produce the tonnage of yarn indicated. The long (3 to 4 inch) fine fiber sheared from the animal upper parts, from which yarn is made is referred to as "fleece" here. About 30% of fleece is lost in yarn production; hence the 1.42 conversion factor to obtain to the amount of alpaca fleece needed to produce a given quantity of alpaca yarn. The hairs in llama fleece account for an additional 25% loss; hence the 1.9 conversion factor for llama yarn. The "fleece equivalents" shown in Table 17 equal the amount of camelid fleece industrial spinners will need to purchase each year to meet the yarn demand shown in Table 15.

Table 17
Current and Projected Composition of Industrially
Produced Camelid Yarn

Year	Composition by						Total Yarn <u>a</u> , MT	Fleece Equivalent	
	Type of Fiber							Alpaca <u>b</u> / MT	Llama <u>c</u> / MT
	Alpaca		Llama		Other				
MT	%	MT	%	MT	%				
1984	37	85	7	15	-	0	44	53	14
1985	51	85	9	15	-	0	60	73	18
1986	76	70	28	25	5	5	109	108	53
1987	76	50	61	40	15	10	152	108	117
1988	82	40	102	50	20	10	204	117	194
1989	84	30	165	60	28	10	280	120	320

a/ From Table 15

b/ Assuming a 1.42 conversion factor to convert yarn into fleece.

c/ Assuming a 1.90 conversion factor to convert yarn into fleece.

Table 18 shows the current and projected volumes of camelid fleece to be produce in Bolivia and its uses. The camelid fleece production projections are based on very low estimates of herd growth and no yeild improvements; thus they are conservative.* Because Bolivian textile mills will be paying "top dollar" (at least as much as Peruvian buyers) for camelid fleece, it is not anticipated that they will have any difficulty obtaining all the fleece they need in Bolivia. The amount of fleece to be purchased by industrial users and other buyers is shown in Table 18. It is assumed that industrial firms will pay enough to stem to flow of Bolivian alpaca to Peru. Llama fleece exports also decline, but continue at a lower level. Handicraft spinners of llama fleece are assumed to use less fleece as time goes on because they will begin using sheepswool which will be less expensive.

It is possible, in fact, that camelid wool yields may improve. In order to improve camelid growing conditions, the Bolivian Government has attempted in the past to establish a system for delivering technical assistance. One of these efforts has been centered in the Patacamaya Experiment Station, which is the leading camelid research entity in the country. After more than a decade of work, an impressive herd of llamas and alpacas has been raised at this station; however, practically no improvements have been transmitted to farmers. This has been so mainly because of the chronic lack of resources faced by the Bolivian Institute of Agricultural Technology (IBTA) which is in charge of the station. In addition to these efforts, the IDB has recently funded a \$500,000 program to assist camelid growers in the areas of animal management and wool marketing. Centered around the Integral Association of Camelid Growers of the High Altiplano (AIGACAA), the program is expected to benefit some 2,000 peasants who presently produce 60,000 kgs of llama/alpaca wool per year. Moreover, the Departamental Development Corporations of Oruro, Cochabamba, and Potosi are expanding their programs to assist camelid growers.

Table 18

Current and Projected Supplies and Uses of Alpaca
and Llama Fleece (MT)

Year		National Output	Indus- trial Demand	Export to Peru	Hand Spinners	Market- ing Losses	Aggregate Demand
1984	Alpaca <u>a/</u>	118	53	50	13	2	118
	Llama <u>b/</u>	524	14	200	300	10	524
1985	Alpaca	120	73	40	5	2	120
	Llama	532	18	200	304	10	532
1986	Alpaca	122	108	9	3	2	122
	Llama	541	53	180	298	10	-
1987	Alpaca	124	108	8	6	2	124
	Llama	550	117	150	272	11	550
1988	Alpaca	126	117	1	6	2	126
	Llama	559	194	110	244	11	559
1989	Alpaca	128	120	-	6	2	128
	Llama	569	320	80	157	12	569

a/ Assuming that 30 per cent of the alpaca population is sheared annually, that each animal yields 1.8 kgs of wool per shearing and that 64.1 percent of this wool is fleece.

b/ Assuming that 30 percent of the llama population is sheared annually, that each animal yields 1.2 kgs. of wool per shearing, and that 66.7 percent of this wool is fleece.

To sum up, it is concluded that Foundation clients and other purchasers of industrially processed camelid yarn will be able to purchase the yarn they require from Bolivian textile mills and that the textile mills will be able to purchase the camelid fleece they require in Bolivia.

B. Institutional Analysis

This section discusses questions concerning the proposed Foundation and describes the four artisan organizations which will initially participate in the project.

1. The Foundation

In Section II.D.3., an explanation of the Foundation's objectives, duties and staffing was given. Section II.C. also outlined the alternative institutional structures considered to provide services to artisan knitting organizations. None of these alternative structures was judged feasible; whereas it was concluded that a foundation organized to provide services on a business-like basis was most appropriate in the Bolivian context.

The first question which arises is whether such an entity can, in fact, be set up legally. There must also be assurance that the type of Board which is envisaged for the Foundation can be assembled. Lastly, the issue of whether a foundation can operate efficiently providing business-oriented services should be examined.

On the legal issue, the Mission has already been assured by its Bolivian Legal Counsel and the RLA that "civil societies" can be legally constituted with a minimum of red tape (i.e. only the registration of statutes). Civil societies can sign grant agreements with AID, receive funds, and hire contractors and staff. The Mission briefly considered the possibility of setting up a civil society for its Self-Financing Primary Health Care Project. This would have been possible legally, but the option was rejected for programmatic reasons. USAID has also discussed the possibility of setting up a civil society among the members of the Union of Bolivian Banks to manage a new loan guarantee program and been advised by both its own legal counsel and that of the Union that there would be no trouble doing so.

The Mission's Bolivian legal counsel has advised that setting up a civil society for this project as an interim measure before constituting a foundation under Bolivian law would be the most practical means of proceeding. The legal steps to set up a foundation are more cumbersome and will require six to eight months. Therefore a civil society will be set up first, which will later be transformed into a foundation.

Since the proposal to establish a foundation was made, Board member candidates have been suggested by artisan organizations and individuals who would like to see the project succeed. Many more candidates have been suggested than the number of Board seats available. USAID has discussed Board membership with several of the best candidates proposed who expressed serious interest in participating on the Board. A list of the most prominent candidates from whom the nine Board members

will be chosen . . . included in Annex 3. USAID will make the final selection of Board members after AID/W approval of the project in consultation with the four participating artisan organizations and the candidates themselves.

The Foundation will be able to provide services efficiently because of its purposely narrow focus and the business-like manner in which it will operate. It will be working with one product category - knitwear, one production technology - hand knitting, only four artisan organizations, all located in one city, and will focus only on providing services and not becoming involved in financial transactions (lend money or take a position in raw materials or finished products).

The Foundation will be in the position of having to "sell" its services to participating artisan organizations. If any of them become dissatisfied with the Foundation's performance, it will be free to drop out of the project. Thus, the Foundation will have to operate effectively and efficiently if it is to succeed. Some of the ways in which it will use business-like working procedures in its operations are: a) by operating with a small but adequate staff; b) by instituting a bonus system for Foundation staff; tied to sales levels achieved ; c) by contracting with established, business-oriented fashion industry experts for IA; d) by taking advantage of the practical business experience and contacts of its Board members; e) by monitoring costs carefully; and f) by making production and marketing decisions on the basis of technical and commercial considerations rather than on political or social grounds.

2. Artisan Organizations

The Mission contacted 27 artisan organizations in the course of developing the project. Out of these, it was decided to work initially with four organizations in Cochabamba which currently employ 3090 artisans. These organizations were selected for the following reasons:

- . They are leaders in producing better quality products.
- . They have the administrative capability to use technical assistance effectively, train artisans, set production levels, control quality, procure raw materials, manage money and expand output.
- . They regularly pay artisans equitable prices regularly.
- . They are enthusiastic about the project.
- . They employ enough artisans to make a quick impact on the welfare of significant portions of the rural population in Cochabamba.

The intention of this highly selective winnowing from 27 groups to four was to ensure discipline, quality, and enthusiasm when project activities begin. These organizations are the four main artisan enterprises in Cochabamba, and they each bring unique strengths to the project.

at Fotrama. The Maryknoll Order founded the organized knitting industry in the Cochabamba Valley with the establishment of Fotrama in the early 1960s. Today, Fotrama employs 60 people full time, provides work for 1,800 artisans organized into 16 groups at separate production centers, and accounts for slightly over one-half of commercial knitwear production in Cochabamba and one-third of that in Bolivia. In 1983, it produced 25,000 units of camelid wool products (sweaters, scarfs, vests, hats, ponchos, rugs, etc.) for sale in Cochabamba and La Paz and for export to the U.S. and Germany.

Fotrama is run by an administrative council composed of the leaders from its 16 production centers. The council supervises departments of sales, spinning, accounting, raw material procurement, and the cooperative's treasury. The Manager is a former center leader and the Treasurer is an American Maryknoll priest who normally represents the cooperative with outsiders and still plays a prime role in its management.

Fotrama produces about half the yarn it uses with antiquated carding-spinning equipment donated from the U.S. It buys the remainder from INFOL, when possible, and from Peruvian manufacturers. Fotrama provides yarn plus designs to artisans through its production center leaders and pays for sweaters produced in cash. Its members also have the right to discounted commodities and free medical services financed from sales profits.

Fotrama pioneered the use of production centers, which has been adopted by Amerindia, Kay Huasy and Las Imillas and represents the key to each's success and to achieving the objectives of this project. Artisans who otherwise would work as individuals are grouped together near their homes in centers where they receive yarn, designs, and training, and can sell what they knit. Without these channels, the project would be unable to deliver services to Bolivian artisans.

The Fotrama centers are located in owned or rented buildings in villages in the Cochabamba Valley. Center leaders are nominated by each center's artisans and appointed by Fotrama for their knitting/weaving skills, training abilities, integrity and knowledge of simple business practices. Each leader receives yarn and designs from Fotrama's headquarters in Cochabamba, teaches the women how to make newly designed articles, trains new recruits, controls quality, pays artisans, keeps the books, and delivers products on schedule. The center leaders are full-time paid employees.

Fotrama's main problems currently are access to yarn, difficulties exporting, and its antiquated equipment.

b. Amerindia. This cooperative was founded in 1969 to provide work and social benefits to rural women by an entity entitled DESEC (Desarrollo Social y Económico) which was established by the Catholic Church. It is managed by a woman with years of experience in the largely female Cochabamba artisanal community. It has a nine-person full-time

staff and maintains twelve production centers, each with an average of 46 artisans working under the supervision of a paid knitting leader. Amerindia provides work for an additional 679 women in the Cochabamba Valley and the Altiplano who supply Bolivia's best hand spun yarn to the production centers. Amerindia is currently producing about 7000 sweaters per year. It sells them to third world shops in Europe and through its own retail store in Cochabamba.

Like Fotrama, Amerindia provides discounted commodities and medical services to its artisans, champions the values of cooperation, self help and productive labor, has the managerial and training resources to incorporate more artisans, and, given its social purpose, is eager to recruit and train new members whenever economic conditions permit. Unlike Fotrama, it gives its production leaders some leeway in setting prices paid to artisans based on the leaders' judgement of the value of the articles and the loyalty and professionalism of the artisans. Amerindia's main problems currently are access to wool, lack of new designs, and exporting difficulties.

c. Kay Huasy. A former employee of Amerindia established this privately owned artisan business in 1982. She shares management responsibilities with her German husband. In addition to this husband and wife team, the full-time staff in Cochabamba includes an accountant and five other quality control/administrative employees.

Kay Huasy employs of 540 artisans in six production centers in the Cochabamba Valley. In comparison to Fotrama and Amerindia, it gives its center leaders more control over recruitment, training and prices paid. Its center leaders recruit experienced artisans and confine training to the mastering of new designs rather than the learning of basic skills. It remunerates its employees by the piece produced, and, because of competition from other Cochabamba knitting organizations, must pay the going market rate. It is noteworthy that students, who do not consider themselves artisans or plan to stay in artisanry, are found among the 200 women at Kay Hausy's production center in Arani. Apparently, they can master knitting techniques quickly and are drawn by the opportunity to earn attractive wages without detracting from their regular activities.

As an example of their aggressiveness and imagination, the owners of Kay Huasy have tried several approaches to ensure their supply of high quality wool, e.g.:

- . Purchases from Mitchell Bros. in Perú
- . Purchase from INFOL
- . Contracts with Bolivian spinning mills
- . Purchases of hand-spun yarn
- . Purchases of raw wool for delivery to Fotrama for conversion to combed fiber to be hand spun on consignment

Kay Huasy currently sells about 6,000 sweaters per year. Most are exported, however, the firm also maintains a retail outlet in Cochabamba. Given its modern marketing viewpoint and operating procedures, Kay Huasy could adjust rapidly to a larger market and higher production. Its main problems currently are raw material procurement, better design assistance, and export marketing.

d. Las Imillas. This small cooperative began in 1979 in the village of Arani, about 90 minutes drive from Cochabamba, when 25 Fotrama knitters decided to pool their money, buy yarn, and sell sweaters on their own under the leadership of two sisters. Today, Las Imillas has 50 members and is training 25 more with the expectation of increased sales. This is the only artisanal group among the four participating in the project that has had no trouble, apart from having to travel to La Paz, in buying yarn from the mismanaged state spinning company, INFOL. Apparently this is because it purchases less than 50 kilos at a time and its leaders are persuasive and persistent. The sweaters knitted from this yarn are traditional in style but well made. Las Imillas knitters are among the most productive in Cochabamba, knitting 24 sweaters per year. These sweaters are sold to shops and individuals in Cochabamba. Last year, Las Imillas sold about 1200 sweaters.

Unlike the three entities described above, Las Imillas operates as one large production group. Its two leaders are in charge of production supervision, accounting and sales. All the members of the cooperative, however, are well aware of its operations and share equally in its profits. The deficiencies in Las Imillas' formal institutional capability are compensated by its determination, cohesion, and trust among cooperative members. The main difficulties being experienced by Las Imillas are the need to better organize itself as it grows, its poor physical facilities, and the need for design assistance and more professional marketing efforts.

These four artisan organizations combine the strengths of the artisan movement in Bolivia and provide the basis for a successful project: Fotrama, the industry leader and pioneer of the artisan knitting industry, whose absence would hobble any artisan knitwear expert project; Amerindia, a solidly established enterprise with social conscience, and a large pool of artisans which is capable of expansion; Kay Huasy, an aggressive profit-minded firm with a history of innovation and a practical outlook; and Las Imillas, a grassroots organization in the heart of the Cochabamba artisan knitting community with proven success based on the hard work and enthusiasm of its members. In addition to the four organizations, there are approximately 100 other knitting cooperatives in Cochabamba, La Paz and Oruro similar to Las Imillas although not as well developed, and a campesino-based organization in Cochabamba called Kochalita which coordinated the work of several knitting groups and sold sweaters in Europe until exchange controls were imposed. As the project progresses, it is planned to have the Foundation choose four additional artisan organizations to participate in the project from the many others also already in existence so as to widen the project's impact.

C. Social Analysis

The project's intended beneficiaries are the knitters belonging to the artisan organizations which will receive assistance from the Foundation. These knitters are female members of rural households in the Cochabamba Valley and environs, both single and married in about equal proportion, who currently number 3090. The number of knitters participating in the project is intended to reach 11,565 by 1989.

These women are Quechua speaking Indian peasants whose lifestyle is somewhat removed from that of the mainstream (though minority) of Bolivian life which emphasizes speaking Spanish and western values. However, most of the women belong to households which do participate in Bolivian commercial life. The main source of income of their households is farming, and most of the farms produce for sale within the Cochabamba Valley. In addition, most of the project's beneficiaries live in communities from which it is possible to travel to the city of Cochabamba to make purchases and sell produce fairly easily.

The women spend much of their time on domestic chores and also have to assist other family members during peak farming activity seasons. As part of their domestic activity, they also engage in handicraft production for practical, household needs and, in the case of knitting, primarily to earn outside income. The knitting they do can be accomplished in their homes during the afternoon and evening when domestic chores, aside from preparing dinner, have already been completed. Thus, this activity can be fitted easily in their daily routine, and even carried out concurrently with such chores as babysitting.

The formation of knitting groups by the artisan organizations which will participate in the project, in order to training knitters and organize production, has worked well within the social context of the lives of rural female knitters. By working in groups, the knitters are able to receive instruction near their homes in a manner which does not distract from their daily chores and provides an opportunity for socializing. Furthermore, the knitters do not have to worry about yarn procurement and selling their sweaters, so they can dedicate their knitting time exclusively to knitting.

The knitters participating in the project will benefit from the increased income they receive from the higher value articles they knit. This will come in two forms; higher payment per sweater knitted and the provision of health services and lower cost consumables (if the knitter belongs to a cooperative). Knitters use their payments for knitting to purchase clothing and other personal articles which they would otherwise not be able to buy and, in the case of mothers, to purchase things for their children and the household.

Two questions regarding the social feasibility of the project were examined during the intensive review: the willingness of knitters to learn and apply new designs and spend more time knitting in return for potentially higher remuneration; and the willingness of the leaders of artisan organizations to cooperate as co-recipients of assistance from the Foundation.

On the first issue, in discussions with knitters themselves it was learned that the income they earn from knitting is the only discretionary income available to them. The expenditure of all other household income is determined by the head of the household. Thus, the knitters place a high value on their knitting activities. Even at the current time, when the income they earn is losing value rapidly because of inflation, they make sure to set aside time to knit. Unanimously, the knitters questioned responded that they would work longer and produce more sweaters to earn more money. Currently, the most productive knitters work in the Las Imillas Cooperative. They knit an average of 24 sweaters per year, spending about as much time each day knitting as their domestic and farming chores allow. The project's production plan assumes that by the end of year 5 these and other well trained knitters will be able to knit 32 sweaters per year in about the same amount of time now devoted by Las Imillas knitters. This will not require that knitters change their current lifestyles. Thus, it should be feasible socially.

In addition, when it has been necessary in the past to learn new stitches or designs, knitters have always been willing to do so. They will knit what their artisan organizations will buy. The reason they do not resist design changes being imposed upon them is that, strictly speaking, they are not "artisans" in the sense of being artists devoted to the aesthetic beauty of their works. They are simply knitting to earn money.

With regard to the issue concerning participation of artisan organization leaders in the Foundation's activities, it should be reiterated that the artisan organizations will not co-manage the Foundation. This option was discarded as not feasible given the competitive nature of the relationships among the organizations. Instead, they must simply be satisfied enough with the services they receive to continue to abide by the decisions of the Foundation's staff and Board and continue to cooperate in the Foundation's assistance and training efforts. Conversely, they will not have to live with any outside interference in their own internal operations by the Foundation's staff or leaders of other artisan organizations, and will continue managing their own operations themselves (presumably better with the Foundation's assistance).

In extensive discussions with the leaders of the four organizations concerning the operational modality of the Foundation and the responsibilities this project structure implied for them, the willingness to participate was clear. They realize that their situations are not getting any better and that with the assistance to be provided by AID under the project their sales and the welfare of their knitters are likely to grow significantly. Thus, they are willing to accept the

advantage of the opportunities offered by the project.

D. Financial Analysis

The financial analysis carried out for this project considered three issues: (1) will the Foundation be financially viable by the PACD; (2) how much will artisans benefit from the project; and (3) to the financial returns of the project justify the investments to be made by AID and participating artisan organizations?

1. Foundation Viability

A financial analysis was done to determine if reasonable assumptions about production, sales, FOB export prices and cost of operation and technical assistance would result in the financial viability of the Foundation by the end of the fourth year. One important objective of this analysis was to determine if a commission of 6 to 9 percent on the value of exports made through the Foundation would cover the costs of the Foundation.

The analysis (see Table 19) shows that even if the Central Bank converts 70 percent of dollar export earnings to pesos at the official exchange rate, the Foundation can cover its costs while greatly increasing both the payments made to artisans and the number of artisans employed. This is the result of selling higher priced garments to a larger market. The assumptions and results of this analysis are described below.

Producer Groups. In Year 1, the project starts with the four Cochabamba producer groups previously described in this paper, adds two new groups of 200 members each in Year 2 and two more groups each of 250 in Year 3. Candidates for these four new groups were identified when the list of twenty five potential member groups was cut to the four Cochabamba groups.

Number of Artisans. The project starts with the 3,090 artisans in the four producer groups. During the first year, these groups increase their membership by 20 percent. In year two, with the addition of two new producer groups and the expansion of the original groups, 1,142 artisans are added to the project. By Year 4, higher piece work payments and access to a larger market have attracted 5,806 new artisans to the project. Given that there are at least 250,000 artisans in the country, this projection is reasonable.

Production. Before the project starts, the 3,090 artisans in the four Cochabamba groups produce 39,200 units, mainly sweaters. During the first year of the project, these groups recruit 618 new members and the average output per artisan rises from 13 to 17 units per year resulting in production of 62,688 units. As artisans join the project and artisanal productivity increases to 31 pieces per year, production rises to 355,631 units in Year 6.

Productivity. Productivity growth has been estimated very conservatively. Output per artisan rises to 17 sweaters in Year 1, 19 in Year 2, 23 in Year 3, 25 in Year 4, 31 in Years 5 through 8. Average productivity for all groups is assumed to stabilize in Year 5 at 31 units per artisan per Year. This is equivalent to about one sweater per week, for eight months of the year with four months traditionally required for planting and harvesting obligations.

FOB Price. The FOB price starts at \$30 per unit. As mentioned elsewhere in this paper, three artisanal producers (La Lana, Fotrama and Kay Huasy), with rudimentary design and marketing inputs, are already selling all or part of their production at this price. Due to mild inflation in the export markets and increasing confidence in the Foundation's ability to deliver fine products, this price rises to \$36 in Year four and \$38 in Year five.

Foundation Commission. To cover its costs, the Foundation collects a commission on FOB sales varying from 6 to 9 per cent depending on whether dollar export proceeds are converted at the real or official exchange rate. For example the scenario A commission starts at 7% in Year 1 and 2 and declines to 6% in Year 3 as overhead is spread over a larger sales volume. The scenario B commission stays at 9% throughout the project. These commissions cover Foundation costs after Year four.

Exchange Rate - Scenarios A and B. Current regulations for non-traditional exports require that exporters receive 30 per cent of their earnings in dollars and 70 per cent in pesos converted at the official exchange rate. After recent devaluations the official exchange rate has usually been 60-80 percent of the free rate. Over time, inflation erodes the dollar value of the peso so that just before the next devaluation the free peso will be trading at 20-50 percent of the official peso. It is assumed that the Bolivian economy will gradually stabilize over time and that the official peso should, on the average, will be worth one half the value of the free peso. This two to one assumption is built into Scenario B. Scenario B assumes that export penalizing regulations continue and the Foundation receives 70 per cent of its FOB dollar revenues in pesos worth one half their real dollar value. Scenario A assumes that by the time substantial project production begins, this historically unique period of handicraft export penalization will have ended and the Foundation will receive the real value of exports from which it will deduct its commission. However, even with the exchange rate burden in scenario B, the Foundation can attain a \$349,315 surplus in Year five after the withdrawal of USAID support.

Costs and USAID Support. Table 19 shows costs for Foundation operating expenses, technical assistance, training, Foundation commodities and contingency. The USAID grant pays for all Technical Assistance through Year 4. USAID's contribution to operating expenses declines rapidly from 100 per cent in Year one, to 73 per cent in Year two, 35 per cent in Year three, 16 per cent in Year four and zero in Year five. Beginning in Year five, all costs are charged by the Foundation.

Accrued Net Income. Each Year after costs are deducted from income, which includes USAID grants through Year 4, a surplus, small in relation to sales, results. This surplus is added to net proceeds in each succeeding Year to maintain a reserve for the Foundation. If, in later project Years, this reserve is not needed by the Foundation, it can be distributed to members in proportion to their sales or the commission can be reduced.

2. Artisan Benefit Analysis:

To calculate the artisanal benefits produced by the project (Table 20) the net income assumed for artisans in the absence of the project is subtracted from the income these artisans would receive under the project. Briefly, with the project artisan organizations sell sweaters at \$30.00/unit and \$13.34/unit for which artisans will net \$5/unit and \$1.50/unit, respectively, in Year 1. These piecework payments to artisans rise as sweater prices rise. Without the project, artisan organizations sell sweaters at \$13.34/unit and \$7.90/unit for which they net \$1.50/unit and \$20/unit, respectively, in Year 1, with some increases for inflation thereafter.

Based on these assumptions, an average artisan receives about 10 times more income with the project, on a present value basis. For example, in Year 4, income with the project is \$141.59 and without the project, \$11.75.

3. Project Financial Analysis

A final analysis was performed to determine if income generated by the project justifies investments by USAID and the producer groups in it. Project income is defined on a net basis, or gross income minus opportunity cost, i.e. the revenue earned from export and traditional sales by producers affiliated with the Foundation minus the revenue these producers would have earned in the absence of the project. Costs are all those shown in the budget tables necessary to produce this incremental income. When these incremental revenue and cost streams are discounted at 12 percent, the resulting benefit cost ratio is a very attractive 2.5.

The assumptions underlying the analysis are explained in more detail below.

Local Market Sales Price. Over the Years, the four Cochabamba groups have built up Bolivian and foreign markets from which they will very gradually withdraw as an increasing portion of their production is marketed through the Foundation. The average FOB unit price of these traditional market sales will rise slowly from the current \$13.34 as design and production capacities are improved by the project and inflation takes effect.

Foreign Market Sales Price. The bulk of project income will come from new sweater designs exported through the Foundation to new markets in the U.S. These sales are made at an FOB price of \$30 in Year 1, rising with inflation and improved design, production and marketing capabilities to \$36 in Year 4. By volume, these sales grow from 28,210 units in Year 1 to 204,045 in Year 4.

Without Project Sales. Without the project, the eight producer groups would produce and sell garments in two price categories. The four Cochabamba groups would continue to sell sweaters to their traditional Bolivian and foreign markets starting at \$13.34/unit and rising gradually with inflation and minor improvements in design and marketing. The 5,806 artesans to be added to the project during Years 1 through 4 are assumed to sell lower quality \$7.90/unit sweaters without the project. These two sales streams at \$13.34/unit and \$7.90/unit with their respective numbers of artisans and productivity rates represent the income project participants would have without the project. Note that without the project and its inputs of training and management productivity rate are lower. For example, in Year 3, output per artisan with the project is 23 units/Year and without the project 14 units/Year.

Performance of New Groups. The new producer groups added in Years 2 and 3 market all their production through the Foundation unlike the four starting groups which gradually relinquish their traditional markets. It is assumed that the new groups are selling \$7.90/unit sweaters to middlemen and Bolivian retailers before they enter the project. These are shifting undependable markets which will be readily abandoned in favor of the larger, higher priced markets the Foundation can offer. Once a new group is admitted to the project, after at most six weeks of training, each of its members should be able to knit 14 good quality sweaters during the balance of the year.

FINANCIAL TABLE: PRODUCTION PRODUCTIVITY- FOUNDATION INCOME STATEMENT.

Name of Organization	YEAR 0					YEAR 1					YEAR 2					YEAR 3				
	No. MEMB.	A.OUTPUT	D./WORKER	M.MEMB.	T.MEMB.	MARKET	T.OUTPUT	D./WORKER	M.MEMB.	T.MEMB.	MARKET	T.OUTPUT	D./WORKER	M.MEMB.	T.MEMB.	MARKET	T.OUTPUT	D./WORKER		
FDTRAMA	1850	25000	14	370	2220	17982	39960	18	444	2664	33546	55944	21	799	3463	70649	33117	23		
AMERINDIA	700	7090	10	140	840	5292	11760	14	168	1008	10282	17136	17	302	1310	26732	31450	24		
KAI-HIASI	490	6000	12	98	588	4234	9408	16	118	706	8044	13406	19	212	917	18713	22015	24		
LAS MILLAS	50	1200	24	10	60	762	1560	26	12	72	1210	2016	28	22	94	2387	2808	30		
ORG. No. 5									200	200	2800	2800	14	60	260	4160	4160	16		
ORG. No. 6									200	200	2800	2800	14	60	260	4160	4160	16		
ORG. No. 7														250	250	3500	3500	14		
ORG. No. 8														250	250	3500	3500	14		
TOTALS	3090	39200	13	618	3708	28210	62688	17	1142	4850	58701	94102	19	1955	6804	133801	154709	23		
INCREASE (%)				0.2	0.20		0.60	0.33	0.31	0.31	1.08	0.50	0.15	0.40	0.40	1.28	0.64	0.17		

	SALES REVENUE YEAR 1	SALES REVENUE YEAR 2	SALES REVENUE YEAR 3
PRICE PER UNIT. IN US\$	30	32	34
WHOLESALE VALUE IN US\$	846288	1078446	4549226

FOUND. COMMISSION IN US\$	SCENARIO A	SCENARIO B
100% FREE MARKET	59240	131491
30% FREE MARKET	22850	50718
70% OFFICIAL RATE	23696	59171
GROSS REVENUE	46546	109889

MINUS COSTS	SCENARIO A	SCENARIO B
OPERATING EXPENSES	178000	210700
TECHNICAL ASSISTANCE	454000	713000
TRAINING	19760	24500
COMMODITIES	68200	0
CONTINGENCY	106780	115213
TOTAL COSTS	826740	1063412

NET INCOME BEFORE GRANT	SCENARIO A	SCENARIO B
SCENARIO A	-767500	-931922
SCENARIO B	-780194	-953524

PLUS AID GRANT TO FOUND.	SCENARIO A	SCENARIO B
OPERATING EXPENSES	178000	178000
TECHNICAL ASS.	454000	454000
TRAINING	19760	19760
COMMODITIES	68200	68200
CONTINGENCY	106780	106780
TOTAL AID GRANTS	826740	826740

NET INCOME AFTER GRANT	SCENARIO A	SCENARIO B
SCENARIO A	59240	66038
SCENARIO B	46546	44436

ACCRUED NET INCOME	SCENARIO A	SCENARIO B
SCENARIO A	59240	125279
SCENARIO B	46546	90982

Name of Organization	Y E A R 4				Y E A R 5				Y E A R 6						
	N.MEMB.	T.MEMB.	MARKET	T.OUTPUT Q/WORKER	N.MEMB.	T.MEMB.	MARKET	T.OUTPUT Q/WORKER	N.MEMB.	T.MEMB.	MARKET	T.OUTPUT Q/WORKER			
FOTRAMA	1039	4502	105351	117056	26	1351	5853	168561	187290	32	0	5853	168561	187290	32
AMERINDIA	393	1704	39862	44292	26	511	2215	63780	70866	32	0	2215	63780	70866	32
KAI-HUASI	275	1192	27904	31004	26	358	1550	44646	49607	32	0	1550	44646	49607	32
LAS HILLAS	28	122	3504	3894	32	37	158	4556	5062	32	0	158	4556	5062	32
ORG. No. 5	78	338	8112	8112	24	101	439	12303	12303	28	0	439	12303	12303	28
ORG. No. 6	78	338	8112	8112	24	101	439	12303	12303	28	0	439	12303	12303	28
ORG. No. 7	100	350	5600	5600	16	105	455	9100	9100	20	0	455	9100	9100	20
ORG. No. 8	100	350	5600	5600	16	105	455	9100	9100	20	0	455	9100	9100	20
TOTALS	2091	8896	204045	223670	25	2669	11565	324349	355631	31	0	11565	324349	355631	31
INCREASE (2)	0.31	0.31	0.52	0.45	0.11	0.30	0.30	0.59	0.59	0.22	0.00	0.00	0.00	0.00	0.00

	SALES REVENUES YEAR 4		SALES REVENUES YEAR 5		SALES REVENUES YEAR 6	
PRICE PER UNIT, IN US\$		36		38		38
WHOLESALE VALUE IN US\$		7345618		12325247		12325247
FOUND. COMMISSION IN US\$						
SCENARIO A						
100% FREE MARKET		440737		739515		739515
SCENARIO B						
30% FREE MARKET		198332		332782		332782
70% OFFICIAL RATE		192822		409814		388245
GROSS REVENUE		391154		742596		721027
MINUS COSTS						
OPERATING EXPENSES		295000		335000		335000
TECHNICAL ASSISTANCE		258000		256000		250000
TRAINING		7740		7740		7740
COMMODITIES		0		0		0
CONTINGENCY		68199		86105		71129
TOTAL COSTS		628939		672845		663869

	SCENAR. A SCENAR. B		SCENAR. A SCENAR. B		SCENAR. A SCENAR. B	
NET INCOME BEFORE GRANT						
SCENARIO A		-188202		66670		75646
SCENARIO B		-237785		69751		57158
PLUS AID GRANT TO FOUNDT.						
OPERATING EXPENSES		47240	47240	0	0	0
TECHNICAL ASS.		258000	258000	0	0	0
TRAINING		840	840	0	0	0
COMMODITIES		0	0	0	0	0
CONTINGENCY		37640	37640	0	0	0
TOTAL AID GRANTS		343720	343720	0	0	0
NET INCOME AFTER GRANT						
SCENARIO A		155518		66670		75646
SCENARIO B		105935		69751		57158
ACCUMULATED NET INCOME						
SCENARIO A		370267		436937		512583
SCENARIO B		279564		349315		406473

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Name of Organization	Y E A R 7					Y E A R 8				
	N.MEMB.	T.MEMB.	MARKET	T.OUTPUT	O/WORKER	N.MEMB.	T.MEMB.	MARKET	T.OUTPUT	O/WORKER
FOTRAMA	0	5853	168561	187290	32	0	5853	168561	187290	32
AMERINDIA	0	2215	63780	70866	32	0	2215	63780	70866	32
KAI-HUASI	0	1550	44646	49607	32	0	1550	44646	49607	32
LAS THILLAS	0	158	4556	5062	32	0	158	4556	5062	32
ORG. No. 5	0	439	12303	12303	28	0	439	12303	12303	28
ORG. No. 6	0	439	12303	12303	28	0	439	12303	12303	28
ORG. No. 7	0	455	9100	9100	20	0	455	9100	9100	20
ORG. No. 8	0	455	9100	9100	20	0	455	9100	9100	20
TOTALS	0	11565	324349	355631	31	0	11565	324349	355631	31
INCREASE (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

	SALES REVENUES YEAR 7	SALES REVENUES YEAR 8
PRICE PER UNIT, IN US\$	38	38
WHOLESALE VALUE IN US\$	12325247	12325247

FOUND. COMMISSION IN US\$	SCENARIO A	SCENARIO B
100% FREE MARKET	739515	739515
30% FREE MARKET 70% OFFICIAL RATE	332782 388245	332782 388245
GROSS REVENUE	721027	721027

MINUS COSTS	SCENARIO A	SCENARIO B
OPERATING EXPENSES	335000	335000
TECHNICAL ASSISTANCE	250000	250000
TRAINING	0	0
COMMODITIES	0	0
CONTINGENCY	70200	70200
TOTAL COSTS	655200	655200

NET INCOME BEFORE GRANT	SCENARIO A	SCENARIO B
SCENARIO A	84315	84315
SCENARIO B	65827	65827

PLUS AID GRANT TO FOUND.	SCENARIO A	SCENARIO B
OPERATING EXPENSES	0	0
TECHNICAL ASS.	0	0
TRAINING	0	0
COMMODITIES	0	0
CONTINGENCY	0	0
TOTAL AID GRANTS	0	0

NET INCOME AFTER GRANT	SCENARIO A	SCENARIO B
SCENARIO A	84315	84315
SCENARIO B	65827	65827

ACCRUED NET INCOME	SCENARIO A	SCENARIO B
SCENARIO A	596898	681213
SCENARIO B	472300	538127

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TABLE 20

ARTISAN BENEFIT TABLE.

YEAR 1 YEAR 2 YEAR 3 YEAR 4 YEAR 5 YEAR 6 YEAR 7 YEAR 8 TOTAL

BENEFIT TO ARTISAN WITH THE PROJECT.

NUMBER OF UNITS SOLD THRU FOUNDATION	28210	5071	133801	204045	324349	324349	324349	324349	1721523
NUMBER OF UNITS SOLD, LOCAL-BETTER QUALITY	34478	35401	20908	19625	31282	31282	31282	31282	235540
INCOME PER UNIT-THRU FOUNDATION-TO THE ARTISAN	5.00	5.33	5.67	6.00	6.33	6.33	6.33	6.33	
INCOME PER UNIT-BETTER QUALITY-TO THE ARTISAN	1.5	1.6	1.7	1.8	1.9	1.9	1.9	1.9	
NUMBER OF ARTISANS	3708	4850	6804	8896	11565	11565	11565	11565	11565
TOTAL INCOME TO THE ARTISAN	192767	366354	793749	1259595	2113646	2113646	2113646	2113646	11067049
TOTAL INCOME PER ARTISAN	51.99	75.54	116.66	141.59	182.76	182.76	182.76	182.76	1116.82

WITHOUT THE PROJECT.

NUMBER OF UNITS SOLD, LOCAL-BETTER QUALITY	40170	42179	44287	46502	48827	48827	48827	48827	368445
NUMBER OF UNITS SOLD, LOCAL-LOWER QUALITY	8034	24024	53231	87375	133918	133918	133918	133918	708330
INCOME PER UNIT-BETTER QUALITY-TO THE ARTISAN	1.50	1.58	1.65	1.74	1.82	1.82	1.82	1.82	
INCOME PER UNIT-LOWER QUALITY-TO THE ARTISAN	0.20	0.21	0.22	0.23	0.24	0.26	0.27	0.28	
NUMBER OF ARTISANS	3708	4850	6804	8896	11565	11565	11565	11565	11565
TOTAL INCOME TO THE ARTISAN	61862	71476	84978	100977	121580	123208	124917	126711	815708
TOTAL INCOME PER ARTISAN	16.68	14.74	12.49	11.35	10.51	10.65	10.65	10.96	98.18

NET PRESENT VALUE

TOTAL INCOME WITH PROJECT.	632
TOTAL INCOME WITHOUT PROJECT.	63
RATIO INCOME WITH/WITHOUT PROJECT.	9.971999
RATE UTILIZED	0.12

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Name of Organization	PROJECT YEAR 0			BENEFIT YEAR 1			TABLE YEAR 2			YEAR 3			
	No. MEMB.	A. OUTPUT	O./WORKER	N. MEMB.	T. MEMB.	MARKET	T. OUTPUT	O./WORKER	N. MEMB.	T. MEMB.	MARKET	T. OUTPUT	O./WORKER
FOTRANA	1850	25000	14	370	2220	17982	39960	18	444	2664	33566	55944	21
AMERINDIA	700	7000	10	140	840	5292	11760	14	168	1008	10282	17156	17
KAI-AJASI	490	6000	12	98	588	4234	9408	16	118	706	8044	13406	19
LAS MILLAS	50	1200	24	10	60	702	1566	26	12	72	1210	2016	28
ORG. No. 5									200	200	2800	2800	14
ORG. No. 6									200	200	2800	2800	14
ORG. No. 7													
ORG. No. 8													

TOTALS	3090	39200	13	618	3708	28210	62688	17	1142	4850	58701	94102	19
INCREASE (%)				0.2	0.20		0.60	0.33	0.31	0.31	1.08	0.50	0.15

NO. UNITS SALES LOCAL MARKET W/P (1)	34478												
UNIT PRICE US\$												35401	
TOTAL INCOME LOCAL MARKET												14.67	20908
												519474	16.14
													337490

NO. UNITS SALES FOREIGN MARKET W/P (2)	28210												
TOTAL INCOME FOREIGN MARKET													58701
													107846
													133861
													4549226

GROSS INCOME LOCAL & FOREIGN MARKET W/P.	1306230												
													2397920
													4886716

MINUS GROSS INCOME WITHOUT PROJECT (3)													
BETTER QUALITY-OUTPUT	40170												
PRICE PER UNIT-BETTER QUALITY	13.34												44287
WORSE QUALITY-OUTPUT	8034												14.71
PRICE PER UNIT-WORSE QUALITY	7.90												53231
OUTPUT PER WORKER	13												8.71
TOTAL GROSS INCOME WITHOUT PROJECT.	599336												14
													796073
													1114979

INCREMENTAL INCOME DUE TO PROJECT.	706893												
													1607846
													3771737

INCREMENTAL INVESTMENT & EXPENSES.

AID INVESTMENT & EXPENSES-GRANT													
OPERATING EXPENSES	178000												
TECHNICAL ASSISTANCE	454000												154160
TRAINING	19760												85400
COMMODITIES	68200												713000
CONTINGENCY	106780												644000
TOTAL AID GRANT	826740												22600
													18380
													0
													108200
													83380
													997960
													831160

ORGANIZATION INVESTMENT & EXPENSES.													
O. EXPENSES NON-COVERED BY AID	0												
TRAINING	14000												56540
EXPANSION CAPACITY	100000												15900
TECHNICAL ASSISTANCE	0												16700
CONTINGENCY	17100												220000
TOTAL ORGANIZATION	131100												0
													47993
													484293
TOTAL AID/G+ORGANIZ. INVESTMENT & EXP.	957840												1325493
													1315453

NET PRESENT VALUE INCOME (12Z)	5920196												
NET PRESENT VALUE INVESTMENT & EXP. (12Z)	2224567												
RATIO BENEFIT/COST	2.526422												
RATE UTILIZED TO CALCULATE NPV	0.12												

NOTES: 1) TOTAL OUTPUT MINUS PRODUCTION MARKETED THRU THE FOUNDATION SELLS AT US\$13.34 IN THE LOCAL MARKET. INCREASE OF THIS PRICE IN 10% PER YEAR, DUE TO IMPROVED DESIGNS AND KNITTING SKILLS.
 2) TOTAL UNIT SOLD THRU THE FOUNDATION WHOLESALE, PRICE GOES UP FROM US\$30 IN YEAR 1ST., TO US\$33 IN YEAR 5 (SEE RELATED TABLE).
 3) BEGINNING WITH THEIR OWN PRODUCTION YEAR 0, FORECAST WITHOUT PROJECT INCREMENT OF 3% PER YEAR IN PRICE AND VOLUME, STARTING PRICE US\$13.34 FOR BETTER QUALITY, US\$7.9 FOR LOWER QUALITY.
 4) W.P.=WITH PROJECT. 5) AID/G+ AID GRANT

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Name of Organization	Y E A R 4					Y E A R 5					Y E A R 6				
	N.MEMB.	T.MEMP.	MARKET	T.OUTPUT	O/WORKER	N.MEMB.	T.MEMP.	MARKET	T.OUTPUT	O/WORKER	N.MEMB.	T.MEMP.	MARKET	T.OUTPUT	O/WORKER
FOTRAMA	1039	4502	103351	117056	26	1351	5853	168561	187290	32	0	5853	168561	187290	32
AMERINDIA	393	1704	39862	44292	26	511	2215	63780	70866	32	0	2215	63780	70866	32
KAI-MIASI	275	1192	27904	31004	26	358	1550	44646	49607	32	0	1550	44646	49607	32
LAS MILLAS	28	122	3504	3894	32	37	158	4556	5062	32	0	158	4556	5062	32
ORG. No. 5	78	338	8112	8112	24	101	439	12303	12303	28	0	439	12303	12303	28
ORG. No. 6	78	338	8112	8112	24	101	439	12303	12303	28	0	439	12303	12303	28
ORG. No. 7	100	350	5600	5600	16	105	455	9100	9100	20	0	455	9100	9100	20
ORG. No. 8	100	350	5600	5600	16	105	455	9100	9100	20	0	455	9100	9100	20
TOTALS	2091	8896	204045	223670	25	2669	11565	324349	355631	31	0	11565	324349	355631	31
INCREASE (2)	0.31	0.31	0.52	0.45	0.11	0.30	0.30	0.59	0.59	0.22	0.00	0.00	0.00	0.00	0.00
NO. UNITS SALES LOCAL MARKET, W/P (1)			19625					31282					31282		
UNIT PRICE US\$			17.76					19.53					19.53		
TOTAL INCOME LOCAL MARKET			348444					610981					610981		
NO. UNITS SALES FOREIGN MARKET, W/P (2)			204045					324349					324349		
TOTAL INCOME FOREIGN MARKET			7345618					12325247					12325247		
GROSS INCOME LOCAL & FOREIGN MARKET, W/P.			7694063					12936228					12936228		
MINUS GROSS INCOME WITHOUT PROJECT. (3)															
BETTER QUALITY-OUTPUT			46562					48827					48827		
PRICE PER UNIT-BETTER QUALITY			15.44					16.21					16.21		
LOWER QUALITY- OUTPUT			87375					133918					133918		
PRICE PER UNIT-LOWER QUALITY			9.15					9.60					9.60		
OUTPUT PER WORKER			15					16					16		
TOTAL GROSS INCOME WITHOUT PROJECT.			1517181					2077672					2077672		
INCREMENTAL INCOME DUE TO PROJECT.			6176882					10858556					10858556		
INCREMENTAL INVESTMENT & EXPENSES.															
AID INVESTMENT & EXPENSES-GRANT															
OPERATING EXPENSES			47240					0					0		
TECHNICAL ASSISTANCE			258000					0					0		
TRAINING			840					0					0		
COMMODITIES			0					0					0		
CONTINGENCY			37640					0					0		
TOTAL AID GRANT			306080					0					0		
ORGANIZATION INVESTMENT & EXPENSES.															
O. EXPENSES NON-COVERED BY AID			247760					335000					335000		
TRAINING			17900					17740					17740		
EXPANSION CAPACITY			300060					365000					0		
TECHNICAL ASSISTANCE			0					250000					250000		
CONTINGENCY			67879					116129					72329		
TOTAL ORGANIZATION			633539					1083869					675069		
TOTAL AID/6+ORGANIZ. INVESTMENT & EXP.			939619					1083869					675069		

Name of Organization	Y E A R 7					Y E A R 8				
	N.MEMB.	T.MEMB.	MARKET	T.OUTPUT	O/MORKER	N.MEMB.	T.MEMB.	MARKET	T.OUTPUT	O/MORKER
FOTRAMA	0	5853	168561	187290	32	0	5853	168561	187290	32
AMERINDIA	0	2215	63780	70866	32	0	2215	63780	70866	32
KAI-HJASI	0	1550	44646	49607	32	0	1550	44646	49607	32
LAS IMILLAS	0	158	4556	5062	32	0	158	4556	5062	32
ORG. No. 5	0	439	12303	12303	28	0	439	12303	12303	28
ORG. No. 6	0	439	12303	12303	28	0	439	12303	12303	28
ORG. No. 7	0	455	9100	9100	20	0	455	9100	9100	20
ORG. No. 8	0	455	9100	9100	20	0	455	9100	9100	20
TOTALS	0	11565	324349	355631	31	0	11565	324349	355631	31
INCREASE (2)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

NO. UNITS SALES LOCAL MARKET. W/P (1)	31282	31282
UNIT PRICE US\$	19.53	19.53
TOTAL INCOME LOCAL MARKET	610981	610981

NO. UNITS SALES FOREIGN MARKET. W/P. (2)	324349	324349
TOTAL INCOME FOREIGN MARKET	12325247	12325247

GROSS INCOME LOCAL & FOREIGN MARKET W/P.	12936228	12936228
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MINUS GROSS INCOME WITHOUT PROJECT. (3)		
BETTER QUALITY-OUTPUT	48827	48827
PRICE PER UNIT-BETTER QUALITY	16.21	16.21
LOWER QUALITY-OUTPUT	133918	133918
PRICE PER UNIT-LOWER QUALITY	9.60	9.60
OUTPUT PER WORKER	16	16
TOTAL GROSS INCOME WITHOUT PROJECT.	2077672	2077672

INCREMENTAL INCOME DUE TO PROJECT.	10858555	10858555
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INCREMENTAL INVESTMENT & EXPENSES.

AID INVESTMENT & EXPENSES-GRANT

OPERATING EXPENSES	0	0
TECHNICAL ASSISTANCE	0	0
TRAINING	0	0
COMMODITIES	0	0
CONTINGENCY	0	0
TOTAL AID GRANT	0	0

ORGANIZATION INVESTMENT & EXPENSES.

O. EXPENSES NON-COVERED BY AID	335000	335000
TRAINING	0	0
EXPANSION CAPACITY	0	0
TECHNICAL ASSISTANCE	250000	250000
CONTINGENCY	70200	70200
TOTAL ORGANIZATION	655200	655200
TOTAL AID/ORGANIZ. INVESTMENT & EXP.	655200	655200

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

ANNEX 1

Life of Project: _____
From FY 85 to FY 88
Total U.S. Funds \$2.3 million
Date Prepared: _____

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

PAGE 1

Project Title & Number: Handicraft Export Development 511-0583

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p>To increase the incomes of artisan knitters and the level of non-traditional Bolivian exports.</p>	<p>Measures of Goal Achievement:</p> <p>Increased incomes of artisans participating in the project.</p> <p>Larger non-traditional exports.</p>	<p>Project evaluations.</p> <p>Artisan Organization records.</p> <p>Trade records</p>	<p>Assumptions for achieving goal targets:</p> <p>A highly remunerative export market exists for Bolivian artisan products.</p> <p>Artisans can be economically motivated to increase their production and modify designs.</p> <p>Artisan organizations will remunerate their artisans well and fairly.</p>

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project: _____
From FY 85 to FY 89
Total U.S. Funds _____ million
Date Prepared: _____

Project Title & Number: Handicraft Export Development 511-0583

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Purpose:</p> <p>To provide Bolivian knitwear organizations with production, marketing and training services which will enable them to sell to more remunerative overseas markets.</p>	<p>Conditions that will indicate purpose has been achieved: End of project status.</p> <p>Production and Sales Targets reached.</p> <p>Artisan organizations strengthened.</p> <p>Marketing strategies elaborated and implemented.</p> <p>Improved products designed.</p>	<p>Foundation records.</p>	<p>Assumptions for achieving purpose:</p> <p>That artisan organizations will be able to procure raw materials.</p> <p>Bolivian materials and artisanry talents can be adapted to producing for the export markets established by the project.</p> <p>Government of Bolivia export policies will not impede penetration of foreign markets.</p>

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project: _____
From FY 85 _____
Total U.S. Funds _____ million
Date Prepared: _____

Project Title & Number: Handicraft Export Development 511-0583

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Outputs:</p> <ol style="list-style-type: none"> 1. Foundation established and functioning. 2. Marketing channels established. 3. Improved production systems. 4. New knitwear designs. 5. Training courses held. 6. Knitwear sold. 	<p>Magnitude of Outputs:</p> <ol style="list-style-type: none"> 1. One Foundation. 2 - 5 According to marketing/production strategy designed by TA team. 6. 355,631 	<p>Quarterly implementation plans. Project Manager reports and surveys. Periodic Evaluations Foundation and artisan organization.</p>	<p>Assumptions for achieving outputs:</p> <p>Inputs provided in a timely manner. Qualified technical assistance available in a timely fashion. Credit available from other programs, for artisan production requirements. Training available in a timely fashion.</p>

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 85: ~~1985-1989~~ 1985-1989
Total U.S. Funds: ~~5.0 million~~ 5 million
Date Prepared: ~~10/1/84~~

Project Title & Number: Handicraft Export Development 511-0583

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Inputs:	Implementation Target (Type and Quantity)		Assumptions for providing inputs:
<ul style="list-style-type: none"> 1. Technical Assistance 2. Training 3. Operating Expenses Foundation 4. Commodities 5. Inflation/Contingency 	<ul style="list-style-type: none"> \$2,069,000 62,000 464,800 68,200 336,000 	<ul style="list-style-type: none"> Project Accounts 	<ul style="list-style-type: none"> TA contract signed. AID funds provided.
<u>Foundation/Artisan Organizations</u>			
<ul style="list-style-type: none"> 1. Training 2. Operating Expenses Foundation 3. Expansion of Productive Capacity 4. Contingencies/Inflation 	<ul style="list-style-type: none"> \$ 64,500 471,900 880,000 168,065 		

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5 C (1) - CHECKLIST

Listed below are substantive criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. (481). Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?
2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?
3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities?
What steps are being taken to ensure that its obligations toward such citizens or entities?

Bolivia has been strengthening the effectiveness of its narcotics control program, and last year signed a series of agreements with the United States Government to reduce the illegal production of coca and control narcotics trafficking. Further, just recently the GOB sent special task forces to coca-processing areas in an effort to reduce narcotics trafficking.

N/A

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4. FAA Sec. 622(b), 621
622 (c), 6202; FY 1982
Appropriation Act Secs.
512 and 517. Is recipient
country a communist country?
Will assistance be provided to
Angola, Cambodia, Cuba, Laos,
Vietnam, Syria, Libya, Iraq, or
South Yemen? Will assistance
be provided to Afghanistan or
Mozambique without a waiver?
No.
5. ISDCA of 1981 Secs. 724, 727
and 730. For specific restric-
tions on assistance to Nicaragua,
see Sec. 724 of the ISDCA of
1981. For specific restrictions
on assistance to El Salvador, see
Secs. 727 and 730 of the ISDCA
of 1981.
N/A
6. FAA Sec. 620(f). Has the country
permitted, or failed to take ade-
quate measures to prevent, the
damage or destruction by mob
action of U.S. property?
No.
7. FAA Sec. 620(l). Has the country
failed to enter into an agreement
with OPIC?
Yes. Bolivia is a member of
the Andean Pact
8. FAA Sec. 620(o); Fishermen's
Protective Act of 1967, as amended,
Sec. 5. (a. Has the country
seized, or imposed any penalty or
sanction against, any U.S. fishing
activities in international waters?
No.

(b) If so, has any deduction
required by the Fishermen's Pro-
tection Act been made?
9. FAA Sec. 620r(c); FY 1982 Appropria-
tion Act. Sec. 517, (a) Has the
government of the recipient country
been in default for more than six
months on interest or principal of
any AID loan to the country?
Not currently. No funds will
be obligated if this condition
changes.

Best Available Document

(b) Has the country been in default for more than one year on interest or principal on any U.S. loan, under a program for which the appropriation is appropriated funds?

Not currently.

10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

Yes.

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No.

12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

No arrearages.

13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or

No.

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group which has committed a war crime?

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No.

15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or re-processing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA SEC.620E permits a special waiver of Sec. 669 for Pakistan.) No.

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)
Bolivia was represented at the Meeting of Ministers by the Torrelío Government. It did not formally disassociate itself from the communique issued.

17. ISDCA of 1981 Sec. 721. See special requirements for assistance to Haiti. N/A

V. FINDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

a. FAA Sec. 666. Has the

Department of State determined that ~~this~~ government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

No

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

N/A

b. ISDCA of 1981, Sec. 725(b). If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interest of the U.S.?

N/A

c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President certified that 1) the Govt. of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Govt. of Chile is not aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier?

N/A

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STANDARD ITEM CHECKLIST

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small businesses to participate equitably in the furnishing of commodities and services financed? Yes.

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? Yes.

3. FAA Sec. 604 (d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? Bolivia does not so discriminate.

4. FAA Sec. 604 (e); ISDEA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there a provision against such procurement, when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? N/A

6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in Section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percentum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. No.

- 7. FAA Sec. 621. If technical assistance is financed, ~~will~~ such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal Agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? Yes.

- 8. International Air Transport. Fair Competitive Practices. Act. 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? Yes.

- 9. FY 1982 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? Yes.

B. Construction

- 1. FAA Sec. 601(d). If capital (e.g. construction) project, will U.S. engineering and professional services be used? N/A

- 2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A

- 3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CR)? N/A

C. Other Restrictions

- 1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per N/A

- 2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A

- 3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of Communist-block countries? Yes.

- 4. Will arrangements preclude use of financing?
 - a. FAA Sec. 104(e); FY 1982 Appropriation Act. Sec. 525: (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for involuntary sterilization as method of family planning, or coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or in part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion? Yes.

 - b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes.

 - c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes.

 - d. FAA Sec. 662. For CI activities? Yes.

 - e. FAA Sec. 636(i). For purchases, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes.

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- f. FY 1982 Appropriation Act. Sec. 503.
To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? Yes.
- g. FY 1982 Appropriation Act. Sec. 505
To pay U.S. assessments, arrearages or dues? Yes.
- h. FY 1982 Appropriation Act, Sec. 506.
To carry out provisions of FAA Section 209(d) (Transfer of FAA funds to multilateral organizations for lending? Yes.
- i. FY 1982 Appropriation Act. Sec. 510.
To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? Yes.
- j. FY 1982 Appropriation Act, Sec. 511.
Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the United States Declaration of Human Rights? No.
- k. FY 1982 Appropriation Act. Sec. 515.
To be used for publicity or propaganda purposes within U.S. not authorized by Congress? Yes.

PROJECT CHECKLIST

A. General Criteria for Project

1. FY 1982 Appropriation Act, Sec. 523
FPA Sec. 634A; Sec. 653(b).
 (a) Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project; By CN.
 (b) Is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that amount)? Yes

2. FPA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance? Yes.
Yes.

3. FPA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectations that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? N/A

4. FPA Sec. 611(b); FY 1981 Appropriation Act, Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See AID Handbook 3 for new guidelines.) N/A

5. FPA Sec. 611(e). If project is capital assistance (e.g. construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to manage and utilize the project? N/A

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6. FAA Sec. 609. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not executed? Information and conclusion whether assistance will encourage regional development programs.
No

7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.
Project will encourage efforts in all of the noted areas, but (f).

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
Private U.S. consultants, suppliers will sell goods and services to project clients.

9. FAA Sec. 612(b). 636(h); FY 1982 Appropriation Act, Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.
Bolivia will provide more than 25% total project costs. There are no U.S. owned local currencies.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
No.

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?
Yes.

12. FA 1982 Appropriation Act, Sec. 521.

If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? No.

13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16? Does the project or program take into consideration the problem of the destruction of tropical forests? Yes. N/A

14. FAA 121 (d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditures of project funds (dollars or local currency generated therefrom)? N/A

B. Funding Criteria for Project

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing

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countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

Project will have a direct impact in all these items with the exception of "e".

- b. FAA Sec.103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used? Yes.

- c. FAA Sec.107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? Yes.

- d. FAA Sec.110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? Yes.

- e. FAA Sec.110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction", expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000, including related advisory managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character. N/A

- f. FAA Sec.122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? Yes.

- g. FAA Sec.281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development, and supports civil education and training in skills required for effective participation in governmental processes essential to self-government. It does not include civil education.

2. Development Assistance Project Criteria
(Loans Only)

- a. FAA Sec.122 (b). Information and conclusions on capacity of the country to repay the loan, at a reasonable rate of interest. N/A

- b. FAA Sec.620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? N/A

- c. ISDCA of 1981, Sec.724(c) and (d). If for Nicaragua, does the loan agreement require that the funds be used to the maximum extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624(g)? N/A

3. Economic Support Fund Project Criteria

- a. FAA Sec.531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102? N/A

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- b. FAA Sec. 531(c). Will assistance under this Chapter be used for military, or paramilitary activities? N/A

- c. FAA Sec. 534. Will ESP funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to non-proliferation objectives? N/A

- d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

FOUNDATION BOARD CANDIDATES

<u>NAME</u>	<u>ORGANIZATION</u>	<u>RECOMMENDED BY</u>	<u>ADDITIONAL INFORMATION AND COMMENTS</u>
Juan Marcus (37)	Interface Computer Center	Fotrama Amerindia	- Civil Engineer - Computer expert - Member of a socially sensitive family - Well known person in Cochabamba
Vladimir Khek	Tommy Tannery	Fotrama and Cochabamba Chamber of Industries	- Owner of the largest and most modern tannery in Bolivia - Owner of a cocodrile farm for the production of skins in the Chapare. - Well know businessmen and industrialist. - Active in the American Calvert School of Cochabamba
Katherine Asbun (36)		Kai Huasy	- Professional nurse - American citizen resident of Bolivia - Wife of the general manager and one of the principal owners of the Taquiña Brewery - Active in social programs
Pablo Regalsky (32)	Centro Cultural y Pedagógico Portales	Amerindia	- Civil engineer - Expert in appropriate technology - Organizer of cultural activities in Cochabamba
Carmen Saravia (40)		Amerindia Kai Huasy	- Designer and artist - Wife of one of Bolivia's better known painters - Socially concerned individual - Member of well known family in Cochabamba

Fernando P...
(36)

Banco de Cochabamba - Kai Huasy

- Manager of Banco de Cochabamba agency in Cochabamba
- Economist
- Active individual with experience in the financing of artisan projects

Jorge Saitis
(40)

Banco de la Unión Fotrama

- Manager of Banco de la Unión agency in Cochabamba
- Auditor
- Promoter of the "Cochabamba Garden City" program in which private industry in the city undertakes urban renewal actions

Steban Jacobovitz
(60)

Ferretería "Unión" Fotrama

- Merchant and industrialist
- Partner of V. Khek and E. Happ
- Extremely effective community leader
- Experience during many years in international trade

Tomon Saba
(60)

Taquiña Amerindia

- Export manager of Taquiña
- Economist

Signor Genaro
(60)

Bolivian Catholic Church Fotrama Amerindia

- Archbishop of Cochabamba
- Extremely entrepreneurial person, with notable ability to raise funds
- Founder of the Bolivian Catholic University

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... (65)

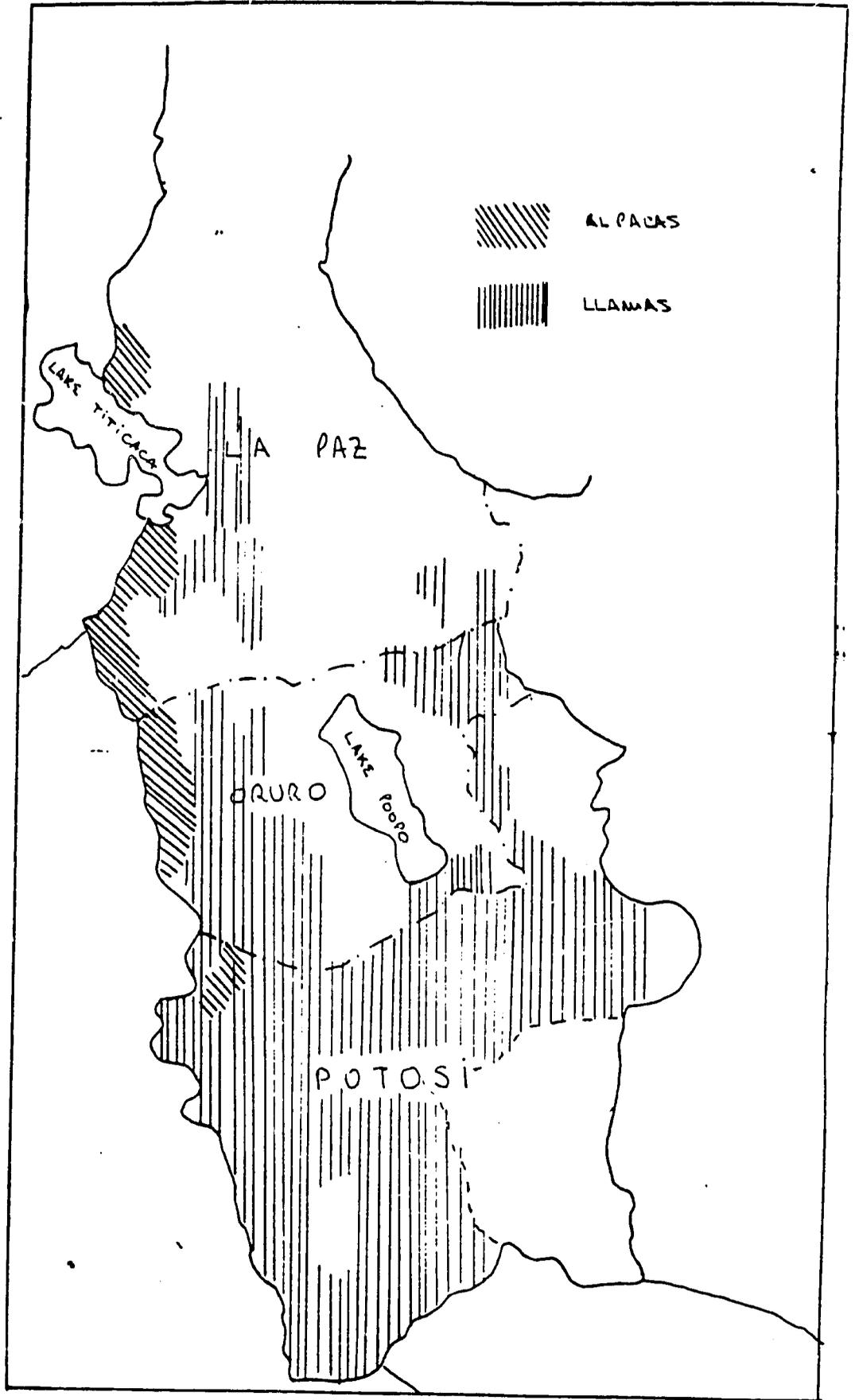
Industrias "El Cuerito" FOTRAMA

- Owner of oldest and most prestigious tannery in La Paz
- Extremely active and socially minded individual
- Member of the Rotary Club Center in La Paz

Fernando Morales (58)	Comercializadora "Morales"	Cámara Nacio- nal de Comercio	<ul style="list-style-type: none"> - Merchant & industrialist. - Currently exports some 15 different types of products - In the past was heavily involved in the exportation of llama wool
Carlos Iturralde (52)	Banco Industrial S.A.	Confederación de Empresarios Privados de Bolivia	<ul style="list-style-type: none"> - Banker and mining industrialist - Very well known in the banking community - Extremely interested in the promotion of handicrafts activities
Gastón Jáuregui (60)	Empresa Agrope- cuaria "Copacabana"	Cámara Nacio- nal de Industrias	<ul style="list-style-type: none"> - Economist and industrialist - Much experience in project development - Experience in inter- national trade
Guiller Crooker	Bosques del Norte Ltda.	Cámara Nacio- nal de Exportadores	<ul style="list-style-type: none"> - Industrialist and exporter - Member of the Bolivia-Utah Alliance - Socially minded entrepreneur

DISTRIBUTION OF ALPACA AND LLAMA IN THE BOLIVIAN ALTIPLANO

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THE CANTON BOMBO EXPERIENCE

This annex presents the background information, results and implications of the activities carried out by USAID/Bolivia with women of the Canton Bombo Community*.

Background

In January 1984, the Sindicato Agrario de Mujeres Pucara Chica - Canton Bombo, of the Dalence Province, Department of Oruro sent a letter to USAID/Bolivia requesting assistance in the production of textile crafts, including the provision of knitting machines, looms, operating capital for the purchase of wool, and training in knitting and weaving.**

The request noted that the assistance to be provided would benefit some 400 women in Canton Bombo, residing in ten different rural communities (Punti Pata, Pata Huanuni, Kehua Huni, Pucara Grande, Pucara Chica, Kalapaya, Bombo, Alcamariri, Vilacollo, and Villa Apacheta). All of these communities are located from 15 to 25 kilometers north of the Huanuni mining town. However, people in Canton Bombo are almost exclusively involved in farming and artisanal production, both on non-commercial basis.***

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- * The term Canton Bombo refers to a geopolitical unit equivalent to a county in the U.S.
 - ** USAID/Bolivia receives a large number of similar requests from rural communities and peri-urban women associations throughout the country.
 - *** Even though the communities are so close to the Huanuni minefields - the most important in the country - only a handful of individuals in Canton Bombo find work outside of their subsistence farms. This due to the fact that in Huanuni, as in all state owned and managed mines, there are already thousands of surplus workers, who are employed mostly for political reasons.

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AID's response

Already involved in the formulation of a Handicrafts Development Project, USAID/Bolivia saw the Canton Bombo request as an ideal opportunity to obtain direct contacts with rural knitters and, test their skills and learning capacities. Because of this, Mission staff visited the headquarters of the Sindicato, located in the community of Bombo, in the month of March.

The AID visitors were extremely impressed by the harsh living conditions of people in Bombo. They lack all basic social services (e.g. schools, hospitals, etc.) and infrastructure (e.g. electricity and potable water). The community does not have a road connection, being located at about 1 1/2 and 1/4 hours walking distance to the closest road and railroad track, respectively (both of which link the mining towns of Huanuni and Llallagua). Furthermore, the high altitude and rugged nature of the mountainous landscape, the lack of irrigation and small farm sizes; and the absence of work opportunities outside the communities, all result in very low family income levels (estimated at about \$150 per year).

Mission visitors were also highly impressed with the possibilities of improving the quality of knitted goods being produced by artisans in Canton Bombo (The artisanal display arranged by the communities was first class and demonstrated a variety of items with development potential) and by the organization, cohesiveness, and commitment shown by the communities and their leaders.

Linkages with FOTRAMA

As a result of contacts made in the process of formulating the Handicrafts Development Project, USAID/Bolivia had established viable relationships with FOTRAMA - the largest knitters' organization in Bolivia. It was considered that this would be the ideal entity to provide technical assistance to the women in Canton Bombo.

When presented with the possibility of providing a short course in knitting to the Canton Bombo women, both Fr. Gerardo Ziegenzeist and Mrs. E. de Arispe - Director and President of FOTRAMA, respectively - were extremely pleased to provide their support. In this manner, a two-month knitting course was programmed to be held in the city of Cochabamba during the months of July and August 1984* for six women to be selected from the Canton Bombo communities. This course was to be funded as a Special Development Activities Project.

* The timing of the course was selected so as to conduct it during a period of inactivity in agriculture, before the planting season in Canton Bombo which begins in October.

The Knitting Course

The women selected by the Canton Bombo people, each representing one different community, arrived to Cochabamba on July 6, 1984 to initiate their course. Each of them had agreed to teach all knitting techniques learned in the course to ten women in their respective communities, once they returned to Canton Bombo.

During the first week of the course the women were taught fundamental techniques of camelid wool classification, washing and hand-spinning, and knitting. They expressed at this point that they had never done any wool classification (except by color) nor washing. Several classes were held to teach them about body proportions and sizes, and the application of new knitting techniques and tools. At this point it was evident that all the six women knew only the most simple and basic knitting techniques, using only one kind of loop and one type of needles. However, all of them did show a remarkable capacity to learn the new knitting techniques and loops being taught as well as the use of various different needles and gauges.

In this manner, the knitters began to knit sweaters which were to be their property as gifts for completing the course. These sweaters were the most difficult to knit. After several days of hard work, the six women completed their sweaters and all of them were extremely impressed by the beauty of their creations. One of the women - Silvia Cerrogrande, the Sindicato's President - reported later that she presented her first sweater as a gift to her brother, who was passing by Cochabamba. She indicated that he did not believe that she had knit it, and took it with him thinking that she had robbed it. Another woman expressed: "I couldn't believe my hands could create such a beautiful thing."

The remaining weeks were devoted to knitting different sizes and models of sweaters, using natural colored yarns. At the end of the two month course, the women had each knit between 6 to 8 high quality sweaters, which FOTRAMA retained for export.* The women were paid \$1 to \$1.50 for each completed sweater between; so that they returned home with some \$8 to \$ 10 in cash, which represented an unexpected income in a period of agricultural inactivity.

* Two handicrafts marketing experts - members of the Creative Associates Consulting team that assisted in the intensive review period of the Handicrafts Development Project - that were invited to the Act of graduation and display of the sweaters knit in the course, were asked by USAID/Bolivia Mission Director if these garments would sell in the U.S. Both experts responded affirmatively.

During the course, the women were taken on three occasions to rural areas in the vicinity of Cochabamba to visit FOTRAMA work centers, talk with production leaders, and learn about the entity's organization. Much attention was placed in having them understand the importance of quality control and timely delivery of orders. As a result of these visits, the Canton Bombo women became determined to organize in their communities work units along the organizational model established by FOTRAMA.

After the Course

The course was completed on August 31, 1984. All of the women were happy to have completed the course and learned a variety of knitting techniques. They indicated that it was the first time that the people from Canton Bombo had received a positive help from anybody.

Then came the need to establish a mechanism for allowing the women to continue practicing and improving their knitting skills. The danger was that if left alone the women would stop knitting and would gradually revert to their traditional techniques. Fortunately, the FOTRAMA managers were most cooperative and indicated that they would provide them with 15 Kgs. of alpaca yarn to knit 30 sweaters which they would buy when completed. In this manner, a link with Fotrama was established and the women returned to their communities with new skills, yarn, and a quantity of sweaters to knit.

The Mission is planning to sponsor a one-month knitting course to be held in the Bombo Community, in which 30 additional women will be trained. FOTRAMA is also extremely interested in cooperating with AID to carry out this activity, having already assigned two teachers to direct the course. This because FOTRAMA has indicated its willingness in establishing a work center in Canton Bombo.

Conclusions

The Canton Bombo experience provides several important lessons that reinforce the production and marketing strategy being adopted under this project to benefit Bolivian knitters. These lessons are:

- Poor rural women have a remarkable desire to learn new knitting techniques and to perform remunerative work during slack work periods .
- These women, even though they currently knit in a rudimentary way, have the capacity to learn new knitting techniques rapidly and show no difficulty in adapting to frequently changing knitwear styles and designs.
- Fotrama, and the other leading artisan organization in the project being planned show a desire to expand and have the institutional capability to train large numbers of knitters, if sufficiently ample sales of sweaters are generated.

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