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PROJECT IDENTIFICATION DOCUMENT (PID)

Food Delivery Systems Loan

I. Summary of the Problem to Be Addressed and the Proposed Response

Based on a number of recent studies of income distribution and food expenditures we estimate that some 20-25% of the urban population in Colombia, or about three million people, exist on per capita incomes of less than \$150 per year. Well over half of that income is spent for a nutritionally deficient diet. Since the family is normally squeezed into an urban dwelling, often in multi-family quarters, there is no possibility of home gardens or other food perquisites.

In addition, an estimated six million rural inhabitants have per capita incomes less than \$150 per year. While land owners or renters have access to land along with the opportunity to produce their own food, the fact is that most specialize in the production of one or two commodities for sale in the market, with two to four other products for home consumption and occasional sales when supplies, price relationships and labor availability permit. These rural consumers must also spend a relatively high proportion (50% or more) of their cash incomes for food. And even then, GOC sources estimate that 60% of the rural population suffers from malnutrition.

The vast majority of Colombians must therefore purchase a high percentage of their food in the market. A number of agricultural marketing studies have been completed in several parts of the country (the first of which was financed by AID while others received USAID financed technical

assistance). By and large those studies have revealed that traditional marketing channels are characterized by high costs and margins, high marketing losses, unstable and rapidly fluctuating prices and little innovation. While more efficient channels of distribution are beginning to emerge, the beneficiaries are primarily commercial farmers and upper and middle income consumers.

Under existing government agricultural and marketing policies the poor farmer receives the lowest prices and the low-income consumer pays the highest food prices. A recent study compared the current food marketing situation in the Bogota region with benchmark data from a 1971 study. The authors (Silva and Suarez) concluded that given present conditions and apparent trends, the low-income consumer will continue to pay high food prices unless government efforts are forthcoming to bring about efficiency by promoting structural and institutional changes among retailers and wholesalers serving low-income consumers. The study strongly recommends that the Colombian government provide credit and technical assistance to encourage the organization of integrated retail-wholesale food distribution chains. While the study has just recently become available, the GOC on the strength of its own preliminary evaluation had already arrived at a similar conclusion in its National Food and Nutrition Plan.

The proposed loan would make credit and technical assistance available to several public, mixed government-private, or private institutions which would promote the development of four types of retail-wholesale chains:

1. Retailer-owned cooperative wholesaling operations. Corabastos has already helped establish one such cooperative whereby several small independent retailers from low-income areas join together to purchase a broad line of products in quantity for orderly deliveries to cooperating retailers. The group has been quite successful. The recent study by Silva and Suarez concluded that their costs and margins were lower than traditional retailers and wholesalers.

2. Vertically integrated private chains. Under this model a single entrepreneur provides wholesale procurement for a number of his own retail outlets for a relatively broad line of products.

3. Federation of consumer cooperatives for purposes of procurement. Several such federations already exist on paper. But, in some cases, a lack of knowledge on how to operate an integrated retail-wholesale chain has kept them from implementing the concept. In a few cases (notably the Caja de Compensación Familiar) the chain concept is being implemented with great success.

4. Voluntary retailer affiliation to a broad line-wholesaler for regular product supplies. Under this arrangement, a wholesaler organizes a group of independent retailers into a loose chain which he regularly supplies through his warehouse at wholesale margins competitive with other types of chains. The exclusive supply arrangement with affiliated retailers permits the wholesaler to buy in large quantities, to routinize procurement, handling,

and order processing arrangements thereby reducing procurement prices, costs and risks.

Financing would be provided for a credit fund to be used exclusively in the development of integrated retail wholesale food chains serving low-income urban and rural families. The loan agreement would require the lending agency to work with special promotional teams from regional marketing institutions covering the entire country. The promotional teams would be assisted by one or more resident food distribution experts (paid through a supporting grant) and would be responsible for helping prepare loan requests and providing technical assistance in the organization of the wholesale-retail chains specified in each of the regions. AID would receive regular reports from each of the promotional teams and closely monitor the loans to assure satisfactory completion of project objectives.

Impacted Stores and Consumers

	<u>No. of Chains</u>	<u>Stores</u>	<u>Consumers Benefitted (Millions)</u>
Major cities	10	1,300	1.5
Secondary cities	10	1,000	1.0
Small towns	<u>10</u>	<u>900</u>	<u>.9</u>
<u>Total</u>	30	3,200	3.4

II. Financial Requirements and Plan

The estimated cost of the project is \$8 million of which AID would supply \$4 million in loan funds to be disbursed over three years. The

project would also be supported by a grant providing a minimal amount of specialized technical assistance and research resources.

### III. Development of the Project

Plans are being made to obtain a more detailed analysis of the potential benefits of such a project. One of the authors of the recent Bogota region marketing study is being asked to prepare a national study based on his research and other existing studies. That information is expected to be available in August 1975.

Based on that analysis, a retail-wholesale chain operational specialist may be needed for two months during the PRP and PP preparation stage to help design the project, formulate realistic targets, determine credit needs per chain and expected economic benefits. One man-month of TDY loan officer assistance may also be required.

The PRP is to be submitted in late September 1975 and the PP in March 1976.

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