PD-ABM-314
97558

UNCLASSIFIED

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

BOLIVIA

PROJECT PAPER

HANDICRAFT EXPORT DEVELOPMENT

Amendment No. 1

AID/LAC/P-530
CR P-254

Project Number: 511-0583

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number 1

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Bolivia

3. PROJECT NUMBER: 511-0583

4. BUREAU/OFFICE: LAC — 05

5. PROJECT TITLE (maximum 40 characters): Handicraft Export Development

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 08 DD 31 YY 91

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 88 B. Quarter 4 C. Final FY 91

8. COSTS ($000 OR EQUIVALENT $1 = 1,000)

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
All Appropriated Total			1,000			4,000
(Grant)	( )	( )	(1,000)	( )	( )	(4,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						300
Host Country						2,401
Other Donor(s)						6,701
TOTALS						

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1)	840	840		3,000		1,000		4,000	
(2)									
(3)									
(4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 079, 140, 150

11. SECONDARY PURPOSE CODE: 150

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BU	BR					
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

To provide Bolivian artisan knitwear organizations with production, marketing and training services which will enable them to sell to more remunerative overseas markets.

14. SCHEDULED EVALUATIONS
Interim MM YY MM YY Final MM YY

15. SOURCE/ORIGIN OF GOODS AND SERVICES
[X] 000 [ ] 941 [ ] Local [ ] Other (Specify) _____

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

The USAID Controller has reviewed this Project Paper Amendment and concurs with the contents described herein.

John R. Davison
Controller

17. APPROVED BY
Signature: G. Reginald van Raalte
Title: G. Reginald van Raalte, Mission Director
Date Signed: MM 09 DD 30 YY 88

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
MM DD YY

AID 1330-4 (8-79)

PROJECT AUTHORIZATION
(Amendment No. 1)

NAME OF COUNTRY: Bolivia

NAME OF PROJECT: Handicraft Export Development

NUMBER OF PROJECT: 511-0583

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, the Handicraft Export Development Project for Bolivia was authorized on July 19, 1985 (the "Authorization"). The Authorization is hereby amended as follows:

a) In Paragraph 1, the amount "$3,000,000" is deleted and the amount "$4,000,000" is inserted.

b) In Paragraph 1, the words "over a five year period from the date of authorization" are deleted and replaced by "the time period from the original date of authorization to August 31, 1991."

2. Except as expressly modified or amended hereby, the Authorization remains in full force and effect.

C. Reginald van Raalte
Mission Director

Date 9/30/88

Drafted by: PD&I: JCloutier:mtn

Clearances

PD&I: ELKadunc date 9/30/88
HHR: PHartenberger date 9/30/88
HHR: SPinzino date 9/30/88
DP: AFunicello date 9/30/88
EXO: JLiebner date 09/30/88
CONT: JDavison date 9/30/88
DD: HRKramer date

19771

b

HANDICRAFT EXPORT PROMOTION PROJECT

(511-0583)

PROJECT PAPER AMENDMENT No. 1

I. SUMMARY

This Project Paper Amendment provides an additional $1,000,000 in development assistance (SDA) grant funds and the equivalent of $ 300,000 in local currency generations to the budget for the Handicraft Export Promotion Project (ADAM) and that the PACD be extended from July 15, 1990 to August 31, 1991. The Cooperative Agreement will be extended from four to six years, from August 31, 1989 to August 31, 1991. The new termination date of the Cooperative Agreement of August 31, 1991 will now be the same as the Project PACD.

The additional funding and time will be used to consolidate the institution building process within ADAM, provide ADAM with marketing and production technical assistance and assist ADAM in developing its export market and become a viable, self-sustaining entity. The original project agreement provided a three year technical services contract with Global Exchange, Inc. (GEI). However, after eight months ADAM cancelled the Global Contract because of its inexperience in the knitwear business and inability to obtain markets.

In effect, total project implementation was delayed for one year and two months, because of the problems with Global Exchange, Inc. Full project implementation really began in December, 1986 when ADAM took over total responsibility for production, marketing, quality control, procurement of project inputs, design and the training of artisans. Therefore, the Project has only been operational for 22 months which is insufficient for reaching a self-sustaining level. Additional time and funding for all project components are necessary to ensure that ADAM can become a viable, self-financing enterprise.

The stated goal of the project remains unchanged. It is to increase employment opportunities for poor rural women, the income of artisan

knitters, and the level of non-traditional exports. Since the inception of the project, ADAM, in the opinion of two external evaluators, "has evolved into a dynamic and well respected private sector organization. It has solidly established itself within the Bolivian knitwear industry and has initiated a wide range of marketing, production, training and commercial services. ADAM's performance to date is especially impressive considering that it has been accomplished without the technical assistance originally envisioned."

ADAM has increased from US$1.50 to an average of US$8.50 the per unit earnings of the artisan knitters involved in the project. ADAM has trained 1,774 knitters, since beginning its training program in 1987, thus creating new jobs. However, because of an overestimation of the total membership of the associated producer organizations and the absence of a systematic monitoring system, it is difficult to definitively measure the actual success in creating employment opportunities for artisan knitters.

ADAM is behind in meeting project export targets. This is due to overestimated targets developed in the project design phase, the absence of a qualified marketing representative to sell sweaters in the United States, and inherent difficulties in establishing a production and a quality control system for thousands of artisan handknitters. The present Amendment will assist ADAM to overcome these problems by employing two key experts in production management and marketing continuing to fund artisan training, production and operating costs and some equipment purchases, and by extending the Cooperative Agreement for two years. This will permit ADAM to become totally self-finaning by 1991.

The current increase in funding of $1,000,000 in SDA funds will be complemented by the equivalent of US$300,000 from local currency generations under the new Title III Agreement. The required 25 percent contribution from ADAM continues to be comprised of proceeds from export sales and other contributions, estimated at US$2,402,000 for the life of the project. The following table shows the revised budget under this amendment.

TABLE I

REVISED SUMMARY BUDGET ($000's)

HANDICRAFT EXPORT DEVELOPMENT PROJECT

	AID			ADAM's CONTRIBUTION			
	PREVIOUS BUDGET	THIS AMENDMENT	NEW TOTAL	AS OF 9/30/88	THIS AMENDMENT	LOCAL CURRENCY	TOTALS
1. Technical Assistance	857	429	1286	-	-	-	1286
2. Marketing	437	190	627	20	212	-	859
3. Training	99	85	184	-	-	47	231
4. Operating Expenses	343	60	403	30	190	40	663
5. Assets	362	40	402	616	184	75	1277
6. Raw Materials Fund	579	-	579	-	517	58	1154
7. Production	265	107	372	40	593	80	1085
8. Contingencies	18	29	47	-	-	-	47
9. Evaluation & Workshops	40	60	100	-	-	-	100
TOTALS	3000	1000	4000	706	1696	300	6702

II. BACKGROUND

A. Background

The indigenous population of Bolivia has a long tradition in the production of hand-made camelid (llama and alpaca) knitwear. Originally produced for exclusive use by indigenous artisan knitters and their families, Bolivian knitwear products have been characterized by traditional designs and disparate quality. In recent years, however, indigenous artisan knitters have begun to sell their products in limited quantities to small domestic and tourist markets, thus generating a small, but significant source of additional income. This income is especially important in rural areas where indigenous artisan knitters are primarily poor women who earn little cash income and lack the necessary skills to secure alternate means of employment.

To promote the production of hand-made camelid knitwear, several small social service and private sector producer organizations have been established throughout Bolivia. These organizations provide raw materials, training, marketing services, and, in some instances, health care and other social services. As a result of their efforts, hand-made Bolivian knitwear products are now sold throughout Bolivia and to more remunerative overseas markets in the United States, Europe, and Asia.

In recognition of these efforts, USAID/Bolivia initiated the Handicraft Promotion Project, in July, 1985. The stated goal of the project is to increase the incomes of artisan knitters and the level of non-traditional Bolivian exports, thus providing employment opportunities for poor rural women (the projects main beneficiaries). The $3,000,000 project grant is administered through the Asociación de Artesanía y Moda (ADAM), a non-profit artisan knitwear foundation governed by a board of eight leading Bolivian business persons. ADAM is directly responsible for providing marketing, production, training, and commercialization services to artisan knitters and knitwear producer organizations in order to promote the production and export of artisan knitwear products.

The present PP Amendment will extend the Cooperative Agreement from August 31, 1989 to August 31, 1991 to assist ADAM to obtain production and marketing technical assistance and to consolidate its institution building process to become a viable, self-financing enterprise.

B. Organizational Structure

In the original project design, there was significant debate over the manner in which ADAM should be structured to provide the marketing, production, training, and commercial services in order to achieve the project goal of increasing the incomes of artisan knitters and the level of non-traditional Bolivian exports. Although it was

agreed that ADAM should be market-oriented and run on a business-like basis in order to achieve the project-specified targets, the most appropriate organizational structure for ADAM was unclear. The following four alternatives were discussed and considered: 1) placing ADAM within one of the already-established artisan knitwear producer organizations, such as FOTRAMA, 2) organizing an artisan knitwear association for the producer organizations targetted by the project, 3) creating a cooperative service organization with a board of directors, and 4) establishing a privately-owned handicraft trading company, financed by investors with an interest in exporting artisan knitwear.

The initial option of establishing ADAM within one of the already-established artisan knitwear producer organizations was discarded due to the conflicting underlying objectives of these organizations. For example, three of the four founding knitwear producer organizations are social-development organizations with the primary objective of providing social services. The production and sale of knitwear products are viewed only as a means to finance these services. On the other hand, the primary objective of the other private for-profit businesses is to maximize profits. None of these organizations is dedicated primarily to increasing knitter earnings.

The second option of forming an artisan knitwear association for the producer organizations targeted by the project was also rejected. Although several of these associations, such as the Asociación Boliviana de Exportadores y Productores de Artesanías (ABEPA) and the Asociación Nacional de Exportadores de Artesanías Bolivianas (ANEXABOL), have been formed throughout Bolivia, they have been largely ineffective and their programs dictated by the goals of individual members.

The third option of creating a cooperative service organization to implement the project was also ruled out in order to avoid the possibility of the group being splintered by the conflicting underlying objectives of the member groups. It was also unclear as to whether

competing knitwear organizations would cooperate in order to establish policies, operating procedures, and provide quality services to the knitters targeted by the project.

In the end, the fourth option of establishing a for-profit privately-owned knitwear trading company was modified, and ADAM became a non-profit knitwear foundation mandated to provide marketing, production, training, and commercial services in order to achieve the project goals. In this capacity, ADAM originally was to operate as a sales agent for the associated producer groups, and was not to take title to the goods produced by the associated producer organizations. At present, however, ADAM acts as trading company, purchasing directly from the associated producer groups, in addition to providing marketing, production, training, and commercialization services free of charge.

III. PROJECT PROGRESS TO DATE

A. Project Goals and Objectives

As stated earlier, ADAM has become a dynamic and well respected private sector organization. It has definitely established itself in Bolivia as a leader in the knitwear industry.

In order to achieve the project goals of increasing the incomes of artisan knitters and the level of non-traditional exports, ADAM is responsible for providing an integrated program of design marketing, production, training and commercialization services to the associated producer organizations. ADAM acts as a trading company, purchasing directly from the associated seven producers groups. ADAM's Board of Directors is comprised of eight independent Bolivian businesspersons with an interest in developing the Bolivian knitwear industry and expanding the export of Bolivian knitwear products.

Internally, ADAM is organized along functional lines, which report directly to the Executive Director. This overall organizational structure is adequate (with the major exception of the marketing and production experts designated in the original project design), and basically well-staffed by highly-trained, dedicated, and hard-working professionals. ADAM has also developed a comprehensive manual of operations for general management, in addition to computer systems for production management and financial accounting. In short, virtually all the elements for a profit-making business are in place and the project is moving in the right direction.

Both the knitters and associated producer organizations acknowledge that ADAM has been successful in substantially increasing the per unit earnings of artisan knitters involved in the project from the average of $1.50/per unit before the project to a present average of $8.50. The original project design was explicit in assigning ADAM the responsibility for ensuring that the "remuneration policies" of the associated producer organizations would directly allow the knitters to benefit from the increased sales, before the organizations could become associated with the project. Nonetheless, as ADAM does not have access to the financial records of the associated producer groups, it is not possible to verify to what degree the higher wages paid by ADAM are in fact being passed on to the knitters. ADAM will institute a tracking system to verify wage payments as part of this amendment.

ADAM is behind all project targets with regard to the level of export that it has been able to achieve. Much of this can be explained by the extremely slow start with the technical assistance provided by Global Exchange, and the subsequent disappointing experience with Matus. However, it is important to note that even after adjusting these export targets, which were overly optimistic, ADAM has not even met its own export targets or obligations. For example, after exporting only 250 units in 1986, ADAM readjusted the 1987 project export targets from 28,210 to 11,000 units. Even with the adjusted target, actual production

was 12,210 units, of which only 3,980 of total production was exported. Nevertheless, based upon ADAM's export performance in the first quarter of 1988, ADAM is learning from its past experiences, and is beginning to expand production for exports. By April 1988, ADAM had already exported 2,710 units - 74% of total exports for 1987. If this same level of production and exports is sustained, ADAM will produce at least 13,900 units in 1988 and export 8,194 sweaters.

To measure the project's success in creating employment opportunities for rural artisan knitters, comprehensive data reflecting the number of knitters currently participating in the project are needed for comparison against the original project targets. However, data can only be estimated as neither ADAM nor any of the associated producer organizations have kept accurate information on the total membership of their organizations. There does exist a general consensus among those interviewed, however, that the actual number of knitters given in the project paper was overestimated. Furthermore, many of these knitters work on a seasonal basis, and not year round, as assumed in the project paper.

In order to expand the pool of knitters participating in the project, ADAM has begun to form its own knitting groups. Since beginning its training program in 1987, ADAM has trained 1,774 new knitters, 524 of which it has transferred over to the producer organizations. The remainder works directly for ADAM. However, due to the absence of a systematic tracking process of knitters, and the reluctance of the part of many of the associated producer organizations to share information regarding their membership with ADAM, there is no way to determine whether or not the knitters trained by ADAM, have previously worked for other organizations or are in fact new entrants to the workforce.

ADAM is presently developing a monitoring system to track income to knitters associated with the producer groups and to determine how many new knitters are being employed by the Project to overcome the reporting deficiencies mentioned above.

B. ADAM Services

In order to achieve the project goal of increasing the incomes of artisan knitters and the sub-goal of increasing the level of non-traditional Bolivian exports, ADAM is responsible for providing an integrated program of marketing, production, training, and marketing services to the associated producer organizations. It is important to note, however, that ADAM is responsible only for providing those services, outlined in the project paper, which will directly promote the achievement of the project goals; it is not required to provide services requested by the associated producer organizations that do not promote these goals.

(1) Marketing Services

To promote market development and the provision of market services, the original project design outlined the following areas of responsibility for ADAM: 1) to identify and research markets and marketing channels; 2) to develop marketing strategies for sales to the markets selected; 3) to design knitwear articles according to market demand; and 4) to act as a sales agent for the artisan knitwear groups participating in the project.

The project paper recognized that the success of the ADAM project would require technical assistance from a US-based firm in the areas of product design, market analysis and strategy development, sales services, production improvement, artisan training, quality control and management training. After a formal RFP process, a three-year $1,993,137 technical services contract was signed with Global Exchange, Inc. (GEI) in March 1986. The contract was to provide 131 months of technical assistance in the areas of marketing, product design, and production management, including 45 months of short-term technical assistance from the Fashion Institute of Technology (FIT) in New York.

The key element of the GEI contract was the provision of two long-term advisors in marketing and in-country production management. Specifically, these two experts were to: 1) coordinate all technical assistance provided through the contract; 2) conduct extensive market research; 3) select target market(s) and marketing channels based upon market research; 4) present and implement a market strategy to reach target market(s); 5) select appropriate designs for target markets; 6) coordinate the purchase of raw materials and production schedules to meet export orders; 7) ensure adequate quality control; and, finally, 8) develop the internal capacity within ADAM to conduct these activities upon contract completion.

The marketing component of the technical services contract with GEI was intended to promote market development for Bolivian knitwear products in the United States, as well as to increase the technical capacity within ADAM to provide marketing services. Using its "connections" and "actual sales experience in the US" GEI was to conduct extensive market research to identify target markets and channels for ADAM products, and then develop an integrated marketing/production management strategy based upon this research.

Unfortunately, GEI had little actual experience in the knitwear industry. Furthermore, GEI was unable to fully utilize its subcontract with FIT due to poor communication and misunderstandings over reimbursement. In addition, the marketing expert assigned to the project had little relevant marketing experience and did not initiate market research or develop an integrated marketing strategy.

After eight months, and the expenditure of $517,570 Global Exchange, Inc., had sold only 220 sweaters of the 28,210 specified in the contract agreement. As a result, ADAM cancelled the Global contract on November 14, 1986 citing the convenience clause.

The disastrous experience with GEI left ADAM severely behind schedule on all original project targets and without technical guidance in the two key areas -- marketing and production management. Wary of relying so heavily again on outside technical assistance, ADAM is now attempting to internalize the marketing and production responsibilities which GEI left unfulfilled. To market the ADAM products in the U.S., ADAM signed a six month agreement for marketing and sales services with Matus, Inc. in February 1987.

The initial $98,950 contract was to provide the resources necessary for Matus to carry out a promotional sales campaign in the U.S. and to take firm orders for alpaca products and other products manufactured by ADAM and associated producer groups. The second contract, signed in October 1987, provided an additional $118,094 for the opening of showrooms in Boston and New York; sales staff in New York, Boston, Pennsylvania and Michigan; MATUS/ADAM participation in four major New York trade shows; the purchase of a 1987 design collection consisting of 40 designs of alpaca garments; and the production of an ADAM catalogue to be used for the marketing of the ADAM line.

To meet its obligations under the first and second contracts, Matus was to sell a total of 8,000 units. As of April 1, 1988, however, Matus had sold only 3081 units and incurred $179,654.00 in marketing costs. Despite the dedication of Matus and good intention on both sides, the relationship between Matus and ADAM has been plagued by differing expectations, poor communications, and a joint inability to achieve project objectives. ADAM expected Matus to provide a high-powered marketing program, yet did not allow Matus to dictate an integrated marketing strategy. For its part, Matus had a long involvement with FOTRAMA, and was primarily interested in helping Bolivian artisans. As such, Matus would accept orders from ADAM of substandard quality in order to help out, thus wasting valuable limited marketing resources, and sheltering ADAM from the harsh realities of the international market. Although genuinely committed to the success of the

project, Matus does not have the marketing savvy or experience to conduct a high-powered marketing program at this time.

With this overview of ADAM's marketing development efforts with both GEI and Matus, it is now possible to examine in greater detail ADAM's subsequent performance in each of the areas of responsibility outlined in the original project design.

Although both GEI and Matus conducted market research in order to identify possible buyers, neither conducted systematic or comprehensive market research to identify specific U.S. markets for Bolivian knitwear products, and the marketing channels necessary to reach those markets. Instead, both entities identified themselves as the appropriate marketing channels for ADAM, and then targeted the markets which they had the capacity to reach, rather than the most appropriate markets with the greatest potential for ADAM products. As a result, ADAM's marketing efforts became limited to extremely small and low-potential markets.

Recognizing the need for comprehensive and systematic market research, ADAM recently initiated its own market research efforts, including extensive consultation with USAID and the U.S. Commercial Section in La Paz, as well as promotional visits to the U.S. by ADAM's Executive Director and President of the Board of Directors. These efforts indicate ADAM's awareness of the need for market research, and have resulted in some valuable U.S. contacts with buyers who have expanded export orders.

The project paper stated that after ADAM conducted extensive market research and identified a specific target market based upon this research, a comprehensive integrated marketing strategy would then be developed. However, as a result of the failure of both GEI and Matus to conduct systematic and comprehensive market research and ADAM's own inexperience, ADAM needs technical assistance to identify potential U.S.

markets for Bolivian knitwear products. Without comprehensive market research and a thorough understanding of the demands and requirements of the U.S. markets, ADAM has been unable to target a specific market for its products or develop a well-defined marketing strategy to reach that market.

In absence of a clearly defined target market and well-coordinated marketing strategy, ADAM has attempted to be responsive to all markets. In its Marketing Report for 1988, ADAM stated that it would target the following market lines: clothing for children and adults of both sexes in the lines of sportswear, fashion, and traditional styles. As a result of this all-inclusive market orientation, ADAM has developed some 120 different designs for both men and women in alpaca, llama and pima cotton. ADAM has also purchased a complete line of designs from Matus and will reproduce the designs of other clients.

Equally important to ADAM's long term development is the promotion of an identifiable ADAM line. At present, ADAM products are not recognizable as uniquely belonging to ADAM. It is much easier, as well as much more profitable, to market a coordinated line of (10-20) sweaters. Part of this problem is a result of ADAM not having designed their products in response to a specific target market. Nevertheless, the development of a manageable coordinated line of ADAM designs must be an integral component of ADAM's overall marketing strategy, regardless of which market ADAM ultimately chooses to target. Even the largest designers present coordinated lines for each season. The development and reproduction of a manageable, coordinated line of new designs must be an integral component of ADAM's overall marketing strategy.

As visualized by the project designers, ADAM provides services to the organizations free of charge and acts as a trading company, taking actual title to the goods produced by the associated organizations.

In this capacity, ADAM provides the raw material in addition to a percentage of the labor costs (usually 50%) upon placing an order with the organization. Labor costs are determined by ADAM and are based upon the cost of raw materials plus a fee for level of difficulty. Upon completion of the order, ADAM pays the producer organizations the remaining portion of the labor cost plus overhead. Overhead rates represent a percentage of the final sales cost and the level of difficulty of the sweater and are not affected by whether ADAM provides the necessary instruction for the order free of charge. Average overhead per unit for 1987-88 was $5.48 (65% of the average labor cost per unit). After making the final payment to the producer organization, ADAM then inspects the sweaters and prepares them for shipment to the U.S. buyer, who pays ADAM only upon satisfactory receipt of the order.

As a result, ADAM assumes the majority of risk for the successful production of the order. ADAM receives payment from the U.S. client only upon satisfactory delivery, while it makes advance payments to the knitting organizations and routinely pays the balance due, or final payment, to the organizations.

Although FOTRAMA and the other producer organizations have clearly benefitted from the provision of ADAM services and ADAM acting as a trading company, some of the organizations complain that one major disadvantage of the new system is that clients who before purchased directly from them now prefer to purchase through ADAM, thus diminishing the margins they earn.

As discussed previously, the fundamental conflict between ADAM and these organizations lies in the differing underlying objectives of the organizations. For those organizations structured along purely for-profit lines, expanded production, even with diminished per unit margins implies a greater total profit. However, for those organizations who view their purpose to provide social services, diminished per unit margins imply less funding for social services and the need to divert

more energy and attention towards the production of knitwear products, and away from their primary goal of providing social services.

FOTRAMA also claims that, in becoming a trading company, ADAM entered in direct competition with the previously established producer organizations and ignored its commitment to market products independent of the ADAM label. In order to develop market recognition and establish itself within the U.S. market, however, ADAM must market its products under the ADAM label, even if they are produced by the associated producer organizations. To its credit, ADAM did sell 5,000 units of FOTRAMA inventory in 1987, through Matus.

In response to the claim that ADAM has entered into direct competition with the associated producer organizations, it is true that ADAM has established independent knitter groups. However, these groups are not meant to compete directly with the associated producer organizations, but rather, to provide ADAM with a secure source of production in instances where the associated producer organizations are unwilling or unable to produce ADAM orders.

(2) Production Services

To develop internal production management capacity and the provision of production services, the original project design outlined the following areas of responsibility for ADAM: 1) To assist in the procurement of wool and/or yarn by participating artisan organizations; 2) To coordinate production volumes and scheduling to fill overseas orders; and 3) To ensure quality control in the production of knitwear for export. As in the area of marketing, production services have clearly suffered from the absence of a highly qualified and demanding production manager able to coordinate all stages of the production process and enforce strict operating control.

Although ADAM now provides the associated producer organizations with all of the raw materials necessary to produce ADAM orders, ADAM itself has consistently suffered as a result of delays and errors in the supply of raw materials form Perú (where the main suppliers of Bolivian alpaca are located). In an attempt to insure more reliable supply, ADAM has entered into exclusive agreements with Mitchell Co., and the other major suppliers, and now maintains a large inventory of alpaca, llama, and pima cotton yarn.

To monitor the inventory and usage of raw materials, ADAM has developed a detailed raw materials flow chart, in addition to extensive paperwork to monitor this flow. All raw materials are tracked from their arrival at ADAM through their delivery to the producer organizations.

Due in large part to a lack of a fully developed marketing strategy, ADAM has not been entirely successful in integrating its marketing efforts with the purchase of raw materials and production scheduling. A well-defined market strategy would help to focus ADAM's production efforts. Nevertheless, the largest contributing factor to ADAM's production management problems is the absence of a system for gathering quantifiable data upon which to base the purchase of raw materials and realistic estimates of production capability (in both volume and time required). Without such a system, ADAM is unable to determine actual need for raw materials based upon expected production.

Since the evaluation, ADAM has improved its quality control process. Geographic distribution of both the individual knitters and the associated producer organizations in Bolivia necessitates the decentralization of the quality control process. As such, instructors for the independent ADAM groups are responsible for quality control in their classes. Each producer organization has it's own unique quality control process, which range from field extension agents who visit the knitters while the work is in process, to local group leaders in rural

areas. Upon receipt of the garments from the knitters, the producer organizations pass them through an internal quality control, in addition to onsite inspections by ADAM quality control specialists, before formally turning the garments in to ADAM. At ADAM, garments are then put through an additional test of quality control.

(3) Training Services

In the provision of training services, the project paper outlined the following areas of responsibility for ADAM: 1) to develop and carry out training courses for knitters and 2) to develop and carry out training programs in management disciplines (accounting, inventory control, personnel management, etc.) for the staff of participants knitwear organizations. Under the original technical services contract, GEI was to coordinate all training activities. After GEI's departure, ADAM assumed complete responsibility for the design, scope, and provision of training services.

ADAM has provided 41 training courses in design, color, dyeing, knitting techniques and quality control for a total of 1174 participants. ADAM also facilitated the selection of recipients for USAID scholarships for 20 indigenous knitters to visit U.S. knitwear production centers.

In addition, ADAM has mobilized impressive amounts of technical assistance from the German aid agency (GTZ) and the Canadian Executive Services Organization (CESO). GTZ has provided technical assistance in design, color, dyeing, and marketing. CESO has also provided technical assistance in these areas, in addition to training for two engineers who work within FOTRAMA in spinning and dyeing (financed by ADAM). The number of individuals and organizations who have received training from ADAM is extensive. Nevertheless, like ADAM's marketing and production efforts, the provision of training services has not been part of an integrated development plan. Rather, training has been provided

free of charge, to the producer organizations upon request. Thus training has been largely responsive to the needs of the producer organizations, and not always within the scope of ADAM's own needs and objectives.

ADAM has financed management training and individual scholarship programs in administrative systems, accounting and inventory control for representatives from all of the associated producer groups involved in the project. These programs have been administered through GTZ, CESO, and the Institute for the Development of Businessmen and Administrators (IDEA).

(4) Commercial Services

In addition to providing technical marketing, production and training services, part of ADAM's mandate is to provide commercial services to: 1) facilitate commercial services (such as credit and transportation) required by participating knitwear organizations to operate their businesses, and 2) assist knitwear organizations in carrying out the government of Bolivia's exporting procedures, and to lobby the government for this simplification.

Since ADAM provides all of the necessary raw materials plus a portion of the labor costs to the associated producer groups in advance of production, these groups have been able to expand production without having to obtain additional credit. Neverhteless, ADAM has assisted several of the associated producer organizations to file the necessary documentation to obtain formal credit, in addition to co-signing a $30,000 loan for AMERINDIA.

Operating as a trading company, ADAM takes responsibility for the transportation of all export orders. To decrease the cost of transportation costs to the United States, ADAM is presently negotiating with Lloyd Aereo Boliviano to obtain reduced rates for the export of ADAM products.

ADAM is also lobbying the U.S. Embassy in La Paz to use their influence to help ADAM become eligible for import duty exemptions under the GATT. At present, ADAM products are levied U.S. duties as textiles. Under the GATT agreements, artisan products are exempt from these duties.

In summary, although this highly experimental project is progressing satisfactorily, there is a need to strengthen production efficiency and marketing operations as soon as possible so that USAID funded support can be phased out within the next three years. This Amendment will permit ADAM to build upon its initial experience to achieve the project goals and take full advantage of the potential export market for Bolivia knitwear.

IV. JUSTIFICATION FOR THE AMENDMENT

The evaluation of ADAM's Handicraft Export Promotion Project described above was conducted in May 1988. This evaluation concluded that the Project deserves continued support from USAID in order to ensure that ADAM becomes a viable, self-financing agency. This evaluation further stated that the key to the success of the project is that ADAM recruit two experts in marketing and production management. The Original Project contemplated that these services would be provided by Global Exchange, Inc. However, GEI had little actual experience in the knitwear industry and ADAM cancelled the Global contract on November 14, 1986. Secondly, the evaluation stated that ADAM needed more time to develop the export market in order to earn sufficient income to become self-financing. The original project design overestimated production capacity in the short-term and export targets. Not enough time was allowed for ADAM to develop its own internal capacity to produce and export high quality knitwear. Basically, the Amendment provides ADAM with the additional technical assistance, time and funding needed to ensure self-sufficiency in the next three years.

The amendment will permit ADAM to build on the experience gained in the last two years and consolidate its institution building process. It will permit ADAM to implement the evaluation recommendations as discussed in the Revised Project Description Section.

V. PROJECT DESCRIPTION

A. Project Goal Purposes

The goal of the Project is to increase the employment opportunities and income of Bolivia's artisans and to increase non-traditional exports.

The purpose of the Project is to establish a private sector, non-profit Service Association to enhance handicraft production and marketing.

B. Revised Project Description

The problems addressed in the previous sections include the lack of expertise in marketing and production; conflictive relationships between ADAM and the producer associations; the need to improve business planning; production scheduling; the need to track income to knitters; improvement of the quality control system; and the fundamental requirement to do market research so that ADAM can specifically target export markets.

The marketing, quality control, and production deficiencies will be addressed through the provision of technical assistance as described below. The problem of relationships between ADAM and producer associations will be resolved through a series of facilitated implementation workshops, the first is scheduled in late October, 1988. The business planning problem will be improved by additional short-term technical assistance which is part of the Project's on-going evaluation

system. ADAM is already tracking incomes to knitters to ensure that remunerative policies are followed; finally, the need for market research will be the primary responsibility of the long-term marketing advisor.

The Project will continue as described in the Original Project Paper and Implementation Letter No. 12. However, ADAM will directly hire a marketing and sales representative and production manager, instead of relying on outside technical assistance agencies. Much of the funding for the Amendment will be to continue supporting such activities as production, marketing and operations. USAID support in these areas will decrease over the next three years. Only technical assistance, as an expense, will not decrease over the next three years. Also, ADAM will reprogram funds, originally designated for purchasing a building, for the possible construction of a facility for its operations, according to USAID regulations governing construction. The Cooperative Agreement will be extended from August 31, 1989 to 1991 to permit ADAM to consolidate its production and marketing system and become a viable, self-financing entity.

The production and marketing experts will assist ADAM to: 1) conduct extensive market research; 2) select target markets and marketing channels based upon market research; 3) present and implement a market strategy to reach target markets; 4) coordinate the purchase of raw materials and production schedules to meet export orders; 5) elaborate business plans; and 6) ensure adequate quality control. The marketing representative will reside in the United States, have an office and store room, and act as the sales representative of ADAM. The production manager will reside in Cochabamba and be in charge of all aspects of production. The Scopes of Work for these two experts are provided in Attachment No. 1.

ADAM will continue to provide marketing production, quality control, design, and training services to the associated producer organizations as originally planned in the PP.

As stated earlier, this Amendment will permit ADAM to implement the recommendations of the mid-term evaluation which includes: 1) acquire the necessary technical assistance in production and marketing; 2) design and implement a systematic and uniform process to monitor and report progress toward the achievement of progress goals; 3) concentrate its marketing efforts in the short-term (12-24 months) in strengthening its relationships with existing intermediary clients and its production and quality control system; 4) develop over the long-term a marketing strategy to directly sell to large retails chains in the high end of the knitwear market; and, 5) routinely prepare and update business plans which include a spreadsheet program that illustrates costs, revenues, cash flows, profits and losses.

An ongoing, outside monitoring and evaluation system will be established under the Amendment to follow-up on the interim evaluation conducted in May, 1988 to track progress in implementing program improvements, reaching project targets, achieving project goals and progressively reaching a point of self-financing. Also, facilitative workshops will be conducted to address conflict resolution issues with the associated producer groups.

This approach will allow the Project to make periodic adjustments to improve performance and ensure its successful completion. These evaluation and monitoring activities will be carried out in mid 1989 and 1990 and in early 1991.

C. Project Outputs and Inputs

1. Project Inputs

The original Project Budget will be amended to add

$1,000,000 from USAID and the equivalent $300,000 in local currencies counterpart. The non-USAID Total LOP contribution will be adjusted and be comprised of proceeds from export sales and other counterpart funding estimated at $2,402,000. The contribution will exceed the minimum non-AID requirement of 25%. Table II gives a summary of the revised budget.

2. Project Outputs

This Amendment will change outputs based upon realistic projections provided by the evaluation and further adjustments made by ADAM based upon their actual experience. The adjustments include lowering production and export targets, and decreasing the number of artisans affiliated with producer organizations and ADAM, and the number of new artisans to be trained and incorporated in the project. ADAM will reach its breakeven when it exports approximately 35,000 units in 1991. Table III provides new Output Statements. Attachment No. 3 discusses Financial Viability and other problems facing ADAM.

3. Logical Framework

A new logical framework summary is provided as Attachment No. 2.

VI. PROJECT BUDGET DESCRIPTION

As stated earlier, this amendment will provide local currency and USAID SDA funds to obtain technical assistance and to continue all of the training, marketing, design, production, and quality control services required to produce and sale knitwear for local and export markets. The following provides a description of the line item categories presented in Table II of this amendment:

- Technical Assistance: The amendment will permit ADAM to employ

two experts in marketing and production for a three-year period (72 person months). It will also permit the employment of short-term consultants in business administration and budget planning, fiber engineering, dyeing, and finishing knitwear products.

2. Marketing: This budget category covers nine local sales personnel, the rental of local sales stores, storage and office space for the marketing representatives residing in the United States, participation in trade and fashion shows, advertising, sales promotion, and commercial communication expenses.

3. Training: This line item includes salaries for trainers in knitting, travel for instructors, small stipends for participants in knitwear courses making sweaters, and other training costs for producer associations in financial management and business administration.

4. Operational Costs: This budgetary item refers to all administrative costs and covers the salaries of the Director, Accountant, Secretaries, two bookkeepers, office messenger and legal and audit fees. It also includes rent, office supplies, utilities, maintenance of equipment, gas and oil, and travel expenses.

5. Assets: This line item covers the purchase of office and communication equipment, other equipment used in finishing knitted garments, and the construction of a facility for ADAM (subject to USAID approval). Under ADAM's contribution it includes equipment, manual knitting machines, and a yarn factory belonging to the associated producer groups.

6. Raw Materials Fund: Under this item all costs covering the purchase of alpaca yarn, dyes, and other inputs needed to produce knitted sweaters are included.

7. Production Costs: The budget category includes: (a) the cost of operating the quality control unit, designing new sweaters, producing design diagrams and patterns, evaluation of production costs, supervision of production, and finishing and repairing faulty garnments; and, (b) labor and overhead costs to producer associations and other production groups paid by ADAM for the hand knitted sweaters.

8. Evaluation and Workshops: During the next three years, several short-term consultants will be employed to provide on-going monitoring and evaluation services and to conduct facilitative workshops with producer gorups and ADAM to resolve conflicts.

CUADRO II

TABLE II

PROYECTO 511 - 0583 "ADAM"

PROJECT 511 - 0583 "ADAM"

PRESUPUESTO MODIFICADO

REVISED BUDGET

	PRESUPUESTO ACTUAL 1988 PRESENT BUDGET AS OF 1988 AID GRANT	CONTRIBUCION DE ADAM HASTA 1988 ADAM's CONTRIBUCION AS OF 1988	NUEVA DONACION DE AID AID's NEW GRANT			MONEDA NACIONAL LOCAL CURRENCY		NUEVA CONTRIBUCION DE ADAM ADAM's NEW CONTRIBUTION			GRAN TOTAL GRAND TOTALS
			1989	1990	1991	1989	1990	1989	1990	1991	
1.- Asistencia Técnica 1.- Technical Assistance	857,000	-.-	123,000	156,160	150,000	-.-	-.-	-.-	-.-	-.-	1,286,160
2.- Gastos Comercialización 2.- Marketing Expenses	437,000	20,000	80,000	65,000	45,000	-.-	-.-	55,000	90,000	67,000	859,000
3.- Capacitación 3.- Training	99,000	-.-	25,000	30,000	30,000	26,000	21,000	-.-	-.-	-.-	231,000
4.- Gastos de Operación 4.- Operating Expenses	343,000	30,000	50,000	10,000	-.-	40,000	-.-	-.-	90,000	100,000	663,000
5.- Bienes 5.- Assets	362,000	616,000**	-.-	40,000	-.-	50,000	25,000	120,000	-.-	63,800	1,276,800
6.- Contingencias 6.- Contingencies	18,000	-.-	-.-	-.-	29,000	-.-	-.-	-.-	-.-	-.-	47,000
7.- Fondo de Materia Prima 7.- Raw Material Fund	579,000	-.-	-.-	-.-	-.-	58,000	-.-	100,000	186,400	230,400	1,153,800
8.- Producción 8.- Production	265,000	40,000	90,000	16,840	-.-	65,000	15,000	95,000	215,760	282,000	1,084,600
9.- Evaluation & Workshops 9.- Evaluación y Talleres	40,000	-.-	-.-	30,000	30,000	-.-	-.-	-.-	-.-	-.-	100,000
	*3,000,000	706,000	368,000	348,000	284,000	239,000	61,000	370,000	582,160	743,200	6,701.360

*ADAM tendrá un saldo en efectivo de $109,000 a fines del Año Calendario 1988 que será utilizado como sigue:
*ADAM will have a cash balance of $109,000 at the end of Calendar Year 1988 to be applied as follows:

Asistencia Técnica Technical Assistance	$ 52,000
Contingencias Contingencies	17,000
Evaluación Evaluation	40,000
	$ 109,000

**Incluye activos de las asociaciones productoras.
**Includes assets of producer associations.

TABLE III

A. NUMBER OF ARTISANS AND KNITTED GARMENTS PRODUCED FOR EXPORT AND LOCAL MARKETS

	1987			1988			1989			1990			1991		
	NO. OF ART'S	EXP.	LOCAL	NO. OF ART'S	EXP.	LOCAL	NO. OF ART'S	EXP.	LOCAL	NO. OF ART'S	EXP.	LOCAL	NO. OF ART'S	EXP.	LOCAL
Associated Producer Groups	1,442	3,250	6,376	1,690	1,416	2,108	2,190	5,593	3,813	2,400	9,933	5,263	2,650	15,532	5,263
ADAM's Groups	685	730	1,740	1,005	5,023	3,022	1,500	8,209	3,880	2,000	9,980	3,380	2,500	19,990	3,380
Other Non-Associated Groups*	50	-.-	114	70	1,755	666	90	2,700	1,300	125	1,550	700	197	2,850	700
TOTAL	2,177	3,980	8,230	2,765	8,194	5,796	3,780	16,502	8,993	4,525	21,463	9,343	5,347	38,372	9,343
TOTAL ANNUAL PRODUCTION		12,210			13,990			25,495			30,806			47,715	

* Production with manual knitting machines.

B. *NUMBER OF KNITTERS TRAINED BY ADAM

1987	1988	1989	1990	1991
1,136	1,200	1,500	1,530	1,644

* Approximately 50% of the artisans trained will be incorporated into the producer associations and ADAM's groups. The other 50% will be either artisans already pertaining to the associated groups or lost through attrition.

ATTACHMENT No. 1

SCOPES OF WORK

FOR PRODUCTION MANAGER AND SALES AND MARKETING REPRESENTATIVE

A. PRODUCTION MANAGER

1. Analyze present production, quality control and management system and make recommendations to improve performance.

2. Develop a production plan in coordination with sales and marketing representative which specifies targets, timeframes and individual and unit responsibilities.

3. Manage production and quality control system.

4. Review performance on each production/export order to identify and resolve production and quality control problems.

5. Work closely with sales and marketing representative to ensure that export orders are received on a timely basis.

6. Develop a bonus and incentive system to motivate everyone in the production system, especially the artisans, to increase productivity, quality and rapidity of production of knitwear for export.

7. Work with associated knitwear producer organizations to improve their production and quality control systems.

8. Coordinate production activities with department of training.

9. Establish a monitoring and evaluation system to measure the comparative performance of each artisan group in order to improve production planning. This system should be used to revise production schedules to ensure timely delivery to buyers, structuring prices and negotiating payment formulas and production targets with the knitting organizations.

10. Assist Director develop and implement annual business plans that articulates basic business goals and strategies. This plan should incorporate a marketing strategy, production plans, administrative management and operating procedures; estimate and project costs, revenues and profit margins, and anticipate the resources and timeframes required to reach a point where the project would be a viable self-financing enterprise.

B. SALES AND MARKETING REPRESENTATIVE

1. Develop marketing strategies for export sales of sweaters to the United States according to market demand.

2. Establish office and stock room in the United States to import, warehouse and distribute knitwear.

3. Act as a sales agent for ADAM in the United States.

4. Develop and execute sales plan specifying targets, geographical concentration, and potential buyers in accordance with marketing strategy.

5. Work closely with production manager to ensure that marketing strategy reflects ADAM's productive capability and that production volume and scheduling are adequate to fill export orders.

6. Coordinate marketing strategy with ADAM designers and buyers.

7. Represent ADAM at fashion shows and other events designed to promote the sale of knitwear in the United States.

8. Periodically visit ADAM headquarters in Cochabamba to provide advice on the implementation of the marketing strategy and to report on problems encountered in marketing ADAM's knitwear products.

9. Provide periodic recommendations to production manager to improve quality control system based upon an analysis of export orders received in the United States.

10. Assist Production Manager devise production export targets and price structures.

11. Provide other marketing services as required by ADAM.

12. Explore alternative products which may be produced by artisan groups associated with ADAM, such as scarves, handbags and wall hangings.

13. Ensure that buyers provide appropriate payment guarantees for orders provided to ADAM.

AID 1020-29 (7-71)
SUPPLEMENT 1

ATTACHMENT No. 2

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

(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.)

Life of Project:
From FY 85 to FY 91
Total U.S. Funding $ 4 million
Date Prepared: 9/13/88

Project Title & Number: Handicraft Export Development 511-0583

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes:	Measures of Goal Achievement:		Assumptions for achieving goal targets:
Increase the employment opportunities and incomes of Bolivian's artisans most of whom are among the country's poorest population.	Increased incomes of artisans participating in the project. Increased employment within participating private firms and groups formed by ADAM.	Project evaluation. Employment payrolls of participating firms. Service Association records.	A highly remunerative export market exists for Bolivian artisan products Artisans can be economically motivated to increase their production.

AID 1020 38 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 85 to FY 91
Total U.S. Funding $ 4 million
Date Prepared: 9/13/88

Project Title & Number: Handicraft Export Development 511-0583

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose:	Conditions that will indicate purpose has been achieved: End of project status.		Assumptions for achieving purpose:
Establish a self-financing private sector, non-profit Service Association to enhance handicraft production and marketing.	1. A financially self-sufficient Service Association will have been established which provides artisan product design; production and marketing services for participating artisans, private firms and manufacturers.	End of project evaluation. Project Management Information System.	Bolivian artisans and entrepreneurs can work together in a joint enterprise.
	2. Medium level and high garment fashion markets established.	Service Association records.	Bolivian materials and artisanry talents can be adapted to producing for the export markets established by the project.
	3. 6,000 artisans involved in export production.		
	4. Sales volume of Association products of $2 million by PACD.		Government of Bolivia export policies will facilitate penetration of foreign markets.

AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Proje
From FY 85 to FY 91
Total U.S. Funding $ 4 million
Date Prepared: 9/13/88

Project Title & Number: Handicraft Export Development 511-0583

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs:	Magnitude of Outputs:		Assumptions for achieving outputs:
1. Service center in place which provides production, marketing, design and quality control services to associated producer groups and groups formed by ADAM.	Association formed and operating with Producer Groups.	Legal establishment of functioning.	Producer Groups willing to work with association.
2. Export and Local sales increase from 10,000 units in 1987 to 47,000 units in 1991 generating over 2 million dollars annually in sales revenues by the PACD.	Number of Units produced for export and local sales.	ADAM's Records and Evaluation to determine export targets, wholesale and retail prices, number of knitters trained and working in project.	Technical Assistance adequate. Market exists for alpaca knitwear.
3. Knitted garments meet export standard and retail in the United States from US170 to US200.00			
4. Training of approximately 7,000 knitters in five year period.	Sales volume and profit margin.	Analysis of financial statements.	
5. Over 5,000 knitters working with Producer Associations and ADAM production groups.		Project Manager's reports.	

AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY -85 to FY 91
Total U.S. Funding $ 4 million
Date Prepared:

Project Title & Number:

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Inputs:	**Implementation Target (Type and Quantity)**		**Assumptions for providing inputs:**
A.I.D.			
1. Technical Assistance	$ 1,325,893.89		
2. Marketing Expenses	627,502.30		
3. Training	183,912.93		
4. Operating Expenses	402,586.04		
5. Assets	402,043.03		
6. Contingencies	47,087,91		
7. Raw Material Fund	579,116.90		
8. Production	371,857.00		
9. Evaluation and Workshops	60,000.00		
	$ 4,000,000.00		
Project Generations & Other Contributions			
1. Marketing Expenses	$ 232,000.00		
2. Training	47,000.00		
3. Operation Expenses	260,000.00		
4. Assets	875,000.00		
5. Raw Material Fund	575,000.00		
6. Production	713,000.00		
	$ 2,702,000.00		

Attachment No. 3

September 29, 1988
ECON:BGG - 490

MEMORANDUM:

TO : G. Reginald van Raalte, Mission Director
: H. Robert Kramer, Mission Deputy Director

FROM : Clark Joel, Economic Advisor

SUBJECT : ADAM: Financial Viability, Major Problems and Recommendations

I visited ADAM in Cochabamba on September 28 and spent the afternoon with ADAM's manager, Rolando Kempff. Rolando provided me with the financial viability analysis of ADAM (copies attached) that he had revised along the lines I had requested in our previous conversations.

My conclusions and recommendations are as follows:

1. Financial Viability:

ADAM made two alternative projections for the period 1989-91, one "optimistic", the other "pessimistic". They differ with respect to the number of alpaca sweaters assumed to be sold over the period. The assumptions are as follows:

	Number of Sweaters Sold (sold domestically plus exported			
	1988	1989	1990	1991
Optimistic Projection	13,300	25,495	30,806	36,400
Pessimistic Projection	13,300	17,846	21,564	28,000

I discussed the realism of these projections with Peter Whalen, an American businessman who heads up Andean Import and has substantial experience in marketing alpaca sweaters in the United States. In his view both projections are realistic, with the pessimistic one being quite conservative. He felt that if a good production manager could be obtained, and if ADAM could establish a reputation for delivering quality products and filling its orders on time, there should be no problem in attaining even the optimistic projection.

The financial analysis (summarized in Tables 1 and 2 attached) show deficits in 1989 under both the optimistic and pessimistic projections. The deficits would be in the range of $213,000 (under the optimistic projection) to $402,000 (pessimistic). These results are

obtained with technical assistance treated as an operating cost. If this item is excluded as a cost (because it will be fully covered by USAID assistance), then the 1989 deficit would decline by $123,000 under both projections.

In 1990, the deficit would disappear entirely under the optimistic projection, even when technical assistance is entered as a cost to be covered by sales proceeds. Under the pessimistic projection, there would be a deficit of $265,000. However, this loss would be reduced to $109,000 if technical assistance were omitted from operating costs.

Both the pessimistic and optimistic projections for 1991 show a profit: Under the optimistic projection, the expected profit is $603,000, while under the pessimistic one it is $227,000. The profit margin under both projections would increase by $150,000 if technical assistance were taken out of the cost column.

Thus, even under current operating procedures, approximate break-even could be expected in 1990 under the optimistic assumption, while a profit under both projections could be expected in 1991. As discussed below, the profit picture could be improved substantially and break-even achieved earlier if the current practice of providing subsidies to the associations were curtailed. This point will be discussed further in the sections on problems and recommendations.

2. Major Problems:

a. Perhaps the most important current problem confronting ADAM is the demands placed on it by some of the associations. In addition to providing the raw material on credit, the associations expect ADAM to provide advance financing for half the labor costs, credit for other expenses, as well as to provide, upon delivery of the product, the balance of the labor costs, and a significant margin for overhead and profit. ADAM has been paying an overhead charge equal to 50% of the total labor cost plus an allowance for profit equal to 35 percent of the overhead. Some of the associations are not happy with these allowances and are pressuring ADAM for higher margins for these items. ADAM has also provided free of charge technical assistance and training to the associations.

The manager of ADAM stresses the fact that he can operate much more efficiently by dealing directly with the production centers that ADAM has organized. When dealing with the centers, he does not have to provide advance credit to cover labor costs (the payment for the product is made upon delivery), and has no charge for overhead or for the profit margin of intermediate institutions. Nor is he asked to co-sign for bank loans, arrange for bank credit to the associations, etc. ADAM's manager estimates that currently 60% of ADAM's business is directly with its own centers, a ratio he would like to raise to 70%. He emphasized that doing business with the associations makes it much more difficult to achieve viability in view of the extra margins and services they demand.

b. The associations do not always deliver to ADAM the finished products made with the wool supplied by ADAM. They may, at times, owe ADAM for the wool for a period of several months. ADAM has failed to receive payment for raw materials delivered to at least one of the associations in 1987.

c. Pressure has been put on ADAM through complaints to AID Mission staff. These complaints are then relayed to Rolando Kempff who feels under pressure to give in to the demands of the associations as a result of Mission real or perceived intervention. This issue will be addressed further in the section on recommendations.

d. Training and quality control: Costs in the area of training and quality control are larger now than they are expected to be later after a sufficient number of knitters have been adequately trained. Currently, ADAM has to employ a large staff of some 70 people to inspect incoming products, resew garments, correct errors, etc. The problem is particularly acute with respect to the quality of the garments sent in by the associations, which are often defective and involve rejection of a number of items. This matter contributes to the tension between ADAM and the associations.

e. The raw material for the sweaters comes in large part from Peru. This source of supply is not reliable. Producers in Peru do not always fill orders on a timely basis. Rolando is thinking of expanding his source of domestic supply of alpaca.

f. The marketing of the finished product abroad is also a problem, though it is perceived as far less urgent than the production problem. If ADAM could sell its product to a retail chain, it might be able to avoid dealing with an intermediary, and hence be able to obtain a better price for its products.

Given the technical assistance that USAID will provide ADAM (and the associations)*/ in the production and marketing areas, I believe that most of these problems can be overcome. By far the most difficult one is the problem of ADAM's relations to the associations. At present, the associations have de facto stopped doing business with ADAM by refusing to fill orders. They demand that ADAM discontinue its operations in the Valle Alto area (i.e. turn over its production centers to the associations). This issue will be addressed further in the section on recommendations.

---

*/ It is expected that the long-term experts in the production and marketing areas will also share their expertise with the associations.

3. Issues to be resolved

Background: The basic objective of the project is clear and remains unchanged: it is to generate employment and boost the income of low-income women in the area; develop their capability to produce a useful product; and increase exports of handicrafts, thereby helping to relieve the country's foreign exchange constraint. What has changed significantly since the initial design of the project is the mechanism for bringing this about. Originally, Global Exchange Inc. was supposed to assume a key role not only in providing technical assistance to the associations, but also to help them in organizing and managing production and effecting the marketing of the sweaters in the United States. ADAM was created to coordinate the work of the associations and supervise Global Exchange. The failure of Global Exchange to perform its functions created a vacuum that the associations were not able to fill. As a result, AID modified the project to enable ADAM to organize its own production centers. ADAM has done so quite effectively, currently producing about 13,000 sweaters per year (estimated output in 1988), of which about 8,000 are for export and 5,000 for the domestic market. The total production of the associations is estimated at only about 3,000. Thus, ADAM has clearly assumed a dominant role in the production and exportation of alpaca sweaters.

The Issue: The key issue that now arises is the resolution of the conflict in concept between the associations and ADAM. The associations believe that ADAM should provide technical assistance, credit, marketing services, etc. to them. They do not look with favor on ADAM's involvement in direct production. In their view, ADAM should be a service organization funnelling USAID's contribution to the associations. On the other hand, ADAM believes that it can most effectively achieve the basic objectives of the project by organizing production centers and dealing with the knitters directly. It has proved (through its production record) that it can do so more effectively than the associations. In addition, the knitters much prefer working for ADAM which has a record of paying better wages and paying them on time. Their experience with some of the associations is quite negative in this regard.

There appears to be a basic conflict between achieving early viability for ADAM by allowing it to organize production directly, resulting in a higher quality and lower cost output and, on the other hand, meeting the demand of the associations for free services and higher prices from ADAM. I believe that it is clear that if ADAM were enjoined from forming its own centers and getting directly into production, and were forced to limit its role to providing services to the associations, the whole project would be set back considerably. On the other hand, the viability of ADAM would be impaired if it were required to continue to provide a wide range of free or subsidized services to the associations. AID must come to a decision with respect to the most appropriate mechanism for carrying out the basic objectives of the project.

4. Recommendations

(1) To improve ADAM's prospects to attain early financial viability as well as to signal the associations that they must soon proceed on their own, the list of subsidies and services provided by ADAM should be curtailed. I would recommend that they be limited to the provision of technical assistance and training as well as to the provision of raw materials on credit. With respect to technical assistance, I would suggest that the cost of providing it be gradually shifted to the associations over the period 1989-1992. The schedule could be as follows:

	1989	1990	1991	1992
ADAM's Share	100%	67%	33%	0

Two long-term experts to be provided under the amendment - one in production management and the other in marketing - should make their services available to the associations as well as to ADAM.

With respect to the provision of raw materials on credit, the current practice should be continued, but the associations must agree to deliver the final product made with these materials to ADAM within a reasonable period, say 6 to 8 weeks, following delivery of the material. Associations that do not comply and use the raw material to produce products that they sell themselves (without repaying ADAM) should be cut off from further raw material deliveries.

The practice of requiring ADAM to pay in advance part of the labor cost should be discontinued. ADAM should not be requested to provide credit over and above the provision of the raw material, to co-sign bank loans, to advance credit funds for other purposes, etc.

(2) The price to be paid by ADAM to the associations for delivery of the finished product (to be marketed by ADAM) should be the subject of negotiation between ADAM and the associations. AID should not get involved in this negotiation. If no mutually satisfactory price can be arrived at, ADAM would still be required to provide technical assistance and training, and to share the services of the experts, with the associations during the project period. However, in this case, ADAM would no longer provide raw materials and the associations would market their products on their own.

(3) We should not pressure ADAM to accept the territorial division suggested by the associations, i.e. to get out of the Valle Alto and reserve that region for the associations. This is a cartel-like arrangement that unnecessarily limits competition. It would involve turning over to the associations the production centers that were formed in the Valle Alto by ADAM. Such a transfer, most likely, would not be in accordance with the wishes of the knitters. Also, getting ADAM out of the Valle Alto might reduce employment opportunities in that region, which it is our policy to encourage.

(4) After these (or some alternative) recommendations have been agreed within AID, we should discuss them informally with Rolando Kempff. Following agreement, I would suggest we call a meeting involving ADAM as well as the associations, at which the Mission Director will also be present. At this meeting, we would announce the following:

a. The full viability by 1991 of all institutions involved in the export of handicrafts is a major AID objective. It is not the Mission's goal to provide a continuing subsidy to the industry, but merely to get the ball rolling.

b. It is, therefore, our intention to limit the subsidy that ADAM will provide to technical assistance, training and the provision of raw materials on credit. When raw materials are provided, the final product must be delivered to ADAM within a reasonable period. It is also our intent that the expertise to be provided by the production management and marketing experts be shared with the associations.

c. We would expect the cost of technical assistance and training to be shared by the associations on a gradually increasing scale, as suggested under recommendation (1). No credit or other free services are to be expected from ADAM.

d. There is no reason for limiting ADAM's activities in the production area. We wish to encourage all institutions able to contribute to employment, income and foreign exchange earnings. We also do not wish to interfere in any negotiation between ADAM and the associations with regard to the price that ADAM should pay for their products. The associations are, of course, free to market their own products directly. In any event, ADAM will continue to provide the associations with technical assistance and training services during the project period, including assistance in production management and marketing if wanted, whether or not they market their finished products through ADAM.

e. Complaints by the associations, if any, should be taken to the ADAM directorate on which they are represented. As a last resort, when AID policy is directly involved, complaints should be taken directly to either the Project Manager or to the Front Office. No other AID staff should be involved.

5. The Director should instruct all Mission personnel not to encourage complaints by the associations; if these are received, they should not be passed on the the management of ADAM, as they are perceived by him as pressure from AID, and thus could interfere with the management of the project.

6. We should review our own procurement procedures. Rolando informed me that there was a delay of some two years in obtaining delivery of some weaving and pressing equipment.

34

Table 1

Optimistic Projection

ANALISIS FINANCIERO
ASOCIACION DE ARTESANIA Y MODA (A.D.A.M.)
DEPARTAMENTO DE CONTABILIDAD
CRITERIO OPTIMISTA

I T E M	GESTION 1989	GESTION 1990	GESTION 1991	T O T A L
I N G R E S O S	804,850.00	1,282,240.00	2,062,000.00	4,149,090.00
VENTAS LOCALES	268,410.00	341,840.00	518,100.00	1,128,350.00
EXPORTACIONES	496,440.00	890,400.00	1,483,900.00	2,870,740.00
OTROS INGRESOS (INTERESES)	40,000.00	50,000.00	60,000.00	150,000.00
E G R E S O S	1,017,800.00	1,239,600.00	1,458,600.00	3,716,000.00
1. ASISTENCIA TECNICA	123,000.00	156,160.00	150,000.00	429,160.00
2. COMERCIALIZACION	135,000.00	155,000.00	112,000.00	402,000.00
3. CAPACITACION	51,000.00	51,000.00	30,000.00	132,000.00
4. GASTOS DE OPERACION	90,000.00	100,000.00	100,000.00	290,000.00
5. BIENES	170,000.00	65,000.00	63,800.00	298,800.00
6. FONDO COMPRA MATERIA PRIMA	173,800.00	410,080.00	633,600.00	1,217,480.00
7. PRODUCCION	275,000.00	272,360.00	310,200.00	857,560.00
8. CONTINGENCIAS	0.00	0.00	29,000.00	29,000.00
9. EVALUACION	0.00	30,000.00	30,000.00	60,000.00
SALDO AL FINAL	(212,950.00)	42,640.00	603,400.00	433,090.00

P R O D U C C I O N
UNIDADES FISICAS

PROD. EXPORTACION	16,548.00	22,260.00	26,980.00
PROD. VENTAS LOCALES	8,947.00	8,546.00	9,420.00
PRODUCCION TOTAL	25,495.00	30,806.00	36,400.00

T O T A L V E N T A S
DOLARES AMERICANOS

EXPORTACIONES	496,440.00	890,400.00	1,483,900.00
VENTAS LOCALES	268,410.00	341,840.00	518,100.00
TOTAL VENTAS	764,850.00	1,232,240.00	2,002,000.00

R E S U M E N
DOLARES AMERICANOS

INGRESOS	804,850.00	1,282,240.00	2,062,000.00
EGRESOS	1,017,800.00	1,239,600.00	1,458,600.00
SALDO	(212,950.00)	42,640.00	603,400.00
DONACIONES REQUERIDAS	212,950.00	0.00	0.00

Table 1 (Con't)

R E S U M E N
DOLARES AMERICANOS

INGRESOS	804,850.00	1,282,240.00	2,062,000.00
EGRESOS (menos ASIST. TECNICA)	894,800.00	1,083,440.00	1,308,600.00
SALDO	(89,950.00)	198,800.00	753,400.00
DONACIONES REQUERIDAS	89,950.00	0.00	0.00

INFORME DE UTILIDAD ESTIMADA
DOLARES AMERICANOS

VENTAS ESTIMADAS	764,850.00	1,232,240.00	2,002,000.00
COSTO DE VENTAS ESTIMADO	458,910.00	677,732.00	1,092,000.00
UTILIDAD EN VENTAS ESTIMADA	305,940.00	554,508.00	910,000.00

Table 2

Pessimistic Projection

ANALISIS FINANCIERO
ASOCIACION DE ARTESANIA Y MODA (A.D.A.M.)
DEPARTAMENTO DE CONTABILIDAD
CRITERIO PESIMISTA

I T E M	GESTION 1989	GESTION 1990	GESTION 1991	T O T A L
I N G R E S O S	575,380.00	912,560.00	1,600,000.00	3,087,940.00
VENTAS LOCALES	187,890.00	239,280.00	398,530.00	825,700.00
EXPORTACIONES	347,490.00	623,280.00	1,141,470.00	2,112,240.00
OTROS INGRESOS (INTERESES)	40,000.00	50,000.00	60,000.00	150,000.00
E G R E S O S	977,000.00	1,177,560.00	1,372,800.00	3,527,360.00
1. ASISTENCIA TECNICA	123,000.00	156,160.00	150,000.00	429,160.00
2. COMERCIALIZACION	135,000.00	155,000.00	112,000.00	402,000.00
3. CAPACITACION	51,000.00	51,000.00	30,000.00	132,000.00
4. GASTOS DE OPERACION	90,000.00	100,000.00	100,000.00	290,000.00
5. BIENES	170,000.00	65,000.00	63,800.00	298,800.00
6. FONDO COMPRA MATERIA PRIMA	158,000.00	372,800.00	576,000.00	1,106,800.00
7. PRODUCCION	250,000.00	247,600.00	282,000.00	779,600.00
8. CONTINGENCIAS	0.00	0.00	29,000.00	29,000.00
9. EVALUACION	0.00	30,000.00	30,000.00	60,000.00
SALDO AL FINAL	(401,620.00)	(265,000.00)	227,200.00	(439,420.00)

P R O D U C C I O N
UNIDADES FISICAS

PROD. EXPORTACION	11,583.00	15,582.00	20,754.00
PROD. VENTAS LOCALES	6,263.00	5,982.00	7,246.00
PRODUCCION TOTAL	17,846.00	21,564.00	28,000.00

T O T A L V E N T A S
DOLARES AMERICANOS

EXPORTACIONES	347,490.00	623,280.00	1,141,470.00
VENTAS LOCALES	187,890.00	239,280.00	398,530.00
TOTAL VENTAS	535,380.00	862,560.00	1,540,000.00

R E S U M E N
DOLARES AMERICANOS

INGRESOS	575,380.00	912,560.00	1,600,000.00
EGRESOS	977,000.00	1,177,560.00	1,372,800.00
SALDO	(401,620.00)	(265,000.00)	227,200.00
DONACIONES REQUERIDAS	401,620.00	265,000.00	0.00

Table 2 (Con't)

R E S U M E N
DOLARES AMERICANOS

INGRESOS	575,380.00	912,560.00	1,600,000.00
EGRESOS (menos ASIST. TECNICA)	854,000.00	1,021,400.00	1,222,800.00
SALDO	(278,620.00)	(108,840.00)	377,200.00
DONACIONES REQUERIDAS	278,620.00	108,840.00	0.00

INFORME DE UTILIDAD ESTIMADA
DOLARES AMERICANOS

VENTAS ESTIMADAS	535,380.00	862,560.00	1,540,000.00
COSTO DE VENTAS ESTIMADO	356,920.00	539,100.00	980,000.00
UTILIDAD EN VENTAS ESTIMADA	178,460.00	323,460.00	560,000.00