

PDKM-699

UNCLASSIFIED

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

BOLIVIA

PROJECT PAPER

HANDICRAFT EXPORT DEVELOPMENT

AID/LAC/P-254

Project Number:511-0583

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE <input checked="" type="checkbox"/> A = Add C = Change D = Delete	Amendment Number _____	DOCUMENT CODE 3
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2. COUNTRY/ENTITY Bolivia	3. PROJECT NUMBER 511-0583
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4. BUREAU/OFFICE LAC	5. PROJECT TITLE (maximum 40 characters) Handicraft Export Development
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6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 07 31 89	7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4) A. Initial FY 85 B. Quarter 4 C. Final FY 88
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8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	672	128	800	2,679	321	3,000
(Grant)	(672)	(128)	(800)	(2,679)	(321)	(3,000)
(Loan)	()	()	()	()	()	()
Other U.S.						
1.						
2.						
Host Country	10	426	436	65	2,139	2,204
Other Donor(s)						
TOTALS	682	554	1,236	2,744	2,460	5,204

9. SCHEDULE OF AID FUNDING (\$000)

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

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)	11. SECONDARY PURPOSE CODE
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)	
A. Code	
B. Amount	

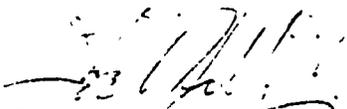
13. PROJECT PURPOSE (maximum 480 characters)

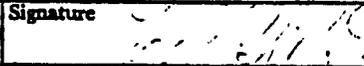
To provide Bolivian artisan knitwear organizations with production, marketing and training services which will enable them to sell to more remunerative overseas markets.

14. SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY 07 88 05 89	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input type="checkbox"/> Local <input type="checkbox"/> Other (Specify) _____
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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

The USAID Controller has reviewed the financing procedures described herein and hereby indicates his concurrence.


 Joe O. Hill, Jr.
 Controller

17. APPROVED BY	Signature 	Date Signed MM DD YY 06 17 85	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY 07 88
	Title Joe O. Hill, Jr. Acting Director		

INSTRUCTIONS

The approved Project Data Sheet summarizes basic data on the project and must provide reliable data for entry into the Country Program Data Bank (CPDB). As a general rule blocks 1 thru 16 are to be completed by the originating office or bureau. It is the responsibility of the reviewing bureau to assume that whenever the original Project Data Sheet is revised, the Project Data Sheet conforms to the revision.

Block 1 - Enter the appropriate letter code in the box, if a change, indicate the Amendment Number.

Block 2 - Enter the name of the Country, Regional or other Entity.

Block 3 - Enter the Project Number assigned by the field mission or an AID/W bureau.

Block 4 - Enter the sponsoring Bureau/Office Symbol and Code. *(See Handbook 3, Appendix 5A, Table 1, Page 1 for guidance.)*

Block 5 - Enter the Project Title *(stay within brackets; limit to 40 characters).*

Block 6 - Enter the Estimated Project Assistance Completion Date. *(See AIDTO Circular A-24 dated 1/26/78, paragraph C, Page 2.)*

Block 7A. - Enter the FY for the first obligation of AID funds for the project.

Block 7B. - Enter the quarter of FY for the first AID funds obligation.

Block 7C. - Enter the FY for the last AID funds obligations.

Block 8 - Enter the amounts from the 'Summary Cost Estimates' and 'Financial Table' of the Project Data Sheet.

NOTE: The L/C column must show the estimated U.S. dollars to be used for the financing of local costs by AID on the lines corresponding to AID.

Block 9 - Enter the amounts and details from the Project Data Sheet section reflecting the estimated rate of use of AID funds.

Block 9A. - Use the Alpha Code. *(See Handbook 3, Appendix 5A, Table 2, Page 2 for guidance.)*

Blocks 9B., C1. & C2. - See Handbook 3, Appendix 5B for guidance. The total of columns 1 and 2 of F must equal the AID appropriated funds total of 8G.

Blocks 10 and 11 - See Handbook 3, Appendix 5B for guidance.

Block 12 - Enter the codes and amounts attributable to each concern for Life of Project. *(See Handbook 3, Appendix 5B, Attachment C for coding.)*

Block 13 - Enter the Project Purpose as it appears in the approved PID Facesheet, or as modified during the project development and reflected in the Project Data Sheet.

Block 14 - Enter the evaluation(s) scheduled in this section.

Block 15 - Enter the information related to the procurement taken from the appropriate section of the Project Data Sheet.

Block 16 - This block is to be used with requests for the amendment of a project.

Block 17 - This block is to be signed and dated by the Authorizing Official of the originating office. The Project Data Sheet will not be reviewed if this Data Sheet is not signed and dated. Do not initial.

Block 18 - This date is to be provided by the office or bureau responsible for the processing of the document covered by this Data Sheet.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

PROJECT AUTHORIZATION

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, I hereby authorize the Handicraft Export Development project for Bolivia involving planned obligations of not to exceed Three Million United States Dollars (\$3,000,000) in grant funds ("Grant") over a five (5) year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project.
2. The project ("Project") consists of providing Bolivian knitwear organizations with production, marketing and training services which will enable them to sell to overseas markets. The project will be implemented by the Asociacion de Artesanias y Moda (ADAM) - a Bolivian non-profit Association.
3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Goods and Services

Goods and services, except for ocean shipping, financed by A.I.D. Under the Grant shall have their source and origin in Bolivia or in the United States, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall be financed only on flag vessels of the United States, except as A.I.D. may otherwise agree in writing.



Acting Assistant Administrator
Bureau for Latin America
and the Caribbean

JUL 19 1985

Date

4 X

Draft: GC/LA:MReidy *mhr*

Clearances:

LAC/SA:PFarley *PF*
LAC/DR:EZallman *EZ*
LAC/DR:ILevy *IL*
LAC/DR:DJohnson *DJ*

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I. SUMMARY

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 household 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 unfortunate 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 could be increased, a direct impact would 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 indigenously designed and fabricated articles rather than on using artisanal 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 in 1984 to assess the quality of Bolivian handicraft products and help the Mission select the most promising products for export promotion. The product category the Mission 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 other high income countries abroad, and the well developed talents of Bolivian knitters.

Current artisan knitwear production is characterized by the use of traditional designs and folkloric 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 an Artisanry Association which will arrange for the provision of these services to four artisan knitwear organizations in the Cochabamba area, promote investment in related industries (e.g. spinning mills, button/thread manufacture), facilitate access to needed services (e.g. transportation, credit), and lobby the GOB for policies supportive to artisan product exports.

The project's strategy calls for (1) rigorously applying a market-oriented approach in order to design and sell high quality artisanal knitwear products in the more remunerative markets of the U.S., (2) running export sales efforts in a business-like and professional manner, (3) keeping the project as uncomplicated as possible (emphasizing one product category and only a few artisan organizations in the Department of Cochabamba, and limiting the size of the Association's staff), and (4) selecting artisan organizations to participate in the project which remunerate their knitters well to ensure that the artisans themselves receive the benefits generated by increased export sales.

The Artisanry Association (Asociación de Artesanía y Moda - ADAM) will be receive a grant of project funds and use these resources to contract with a knitwear marketing company in the U.S. which will provide artisan organizations with services in the areas of market research, product design, production control and improvement, and artisan training. The U.S. firm will market the knitwear articles it assists its artisan organization clients to produce. Without the assistance to be provided by the Association to artisan organizations, the mutually profitable commercial relationship between an experienced U.S. marketing firm and Cochabamba artisan knitting organizations would not develop on its own because of the financial risks involved and uncertainties associated with doing business in Bolivia. By the fourth year of the project, it is expected that the production and sales of artisanal knitwear will have developed to the point where the Bolivian artisan organizations to receive assistance under the project and the U.S. marketing firm will continue their commercial relationships on their own.

The Association will be governed by a five-person Board of successful Bolivian businessmen who are interested in promoting artisanal exports (e.g. bankers, industrialist, merchants) and who are well known and respected community leaders. It will charge a commission on the sales of knitwear produced and sold by the artisan organization, with the assistance of the U.S. marketing firm. The commission will cover the Association's operating costs and recapitalize the funding provided by A.I.D. to the Association so that it can also work with artisan groups producing other exportable products.

Virtually all of the beneficiaries of this project will be 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 about \$139, up from a range of \$4 to \$20 currently earned. Annual production of hand-knitted sweaters of participating artisan organizations will have increased from about 40,000 to over 203,000 by 1989.

TABLE 1
SUMMARY PROJECT BUDGET
(\$ 000)

	AID GRANT			HOST COUNTRY CONTRIBUTION						TOTAL	GRAND TOTAL	
	FX	LC	Total	ASSOCIATION			ARTIS. ORGANIZATIONS					
	FX	LC	Total	FX	LC	Total	FX	LC	Total			
Technical Assistance	1,994	-	1,994	-	-	-	-	-	-	-	-	1,994
Marketing	230	-	230	-	-	-	30	24	54	54	54	284
Training	30	24	54	-	-	-	-	62	62	62	62	116
Operating Expenses	31	297	328	21	190	211	-	-	-	211	211	539
Commodities	46	-	46	-	-	-	-	-	-	-	-	46
Capacity Expansion	-	-	-	-	-	-	-	1,830	1,830	1,830	1,830	1,830
SUBTOTALS	2,331	321	2,652	21	190	211	30	1,916	1,946	2,157	2,157	4,809
Contingencies	348	-	348	14	33	47	-	-	-	47	47	395
TOTALS	2,679	321	3,000	35	223	258	30	1,916	1,946	2,204	2,204	5,204

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AID's contribution to the project (\$3.0 million) will finance technical assistance, marketing and training costs, and a portion of the Association's operating costs and commodity support. Funds are to be obligated as follows:

FY 1985	\$ 800,000
FY 1986	\$1,000,000
FY 1987	\$ 800,000
FY 1988	\$ 400,000

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 J. Asselin, Jr., Project Development Officer
Linda Garvelink, Project Manager, Private Sector Division
Luis Montero, Financial Analyst, Controller's Office
Raul Pinto, Financial Analyst, Controller's Office
Pascual Sanchis, Project Manager, Private Sector Division
Gustavo Vega, Financial Consultant, Private Sector Division

The project paper was reviewed by:

- (1) David A. Cohen, Director
- (2) Joe O. Hill, Jr., Controller
- (3) Roberto León de Vivero, Program Officer

II. PROJECT RATIONALE AND DESCRIPTION

A. The 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 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 meet household consumption requirements. More recently, however, increasing quantities of handicraft products have been produced for sale with the purpose of augmenting family incomes, although sales have mostly been directed to the internal tourist market.

Last year, USAID/Bolivia began investigating the possibility of developing a handicraft export project in order to increase the incomes of disadvantaged artisans and to promote better exploitation of the unique raw materials and artisanal talents available in Bolivia. Accordingly, the Mission contracted the firm of New Ideas Ltd. in January 1984 to survey the Bolivian handicraft 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 from the firm of Creative Associates, which was contracted during the

* Although alpaca garments have already been sold in the U.S. 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 70% 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.

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 sold there if both production and marketing practices were improved.

An additional important factor to USAID, Bolivia in choosing to concentrate on knitwear exports is that over two-thirds of knitters nationwide, and virtually 100% of knitters in the Cochabamba Department, 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 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. **

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 by 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 folkloric 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

* 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.

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.

Commercial practices are completely ad hoc in La Paz and in many areas of the Department of Cochabamba. While production is much more organized in 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 distributor in the U.S. This distributor assists Fotrama in the design and production of knitwear which can be sold more easily in the United States. Similarly, Amerindia has established contacts with a small retail chain in the U.S. This chain buys fewer than 2000 sweaters per year, for the production of which it also provides design and production assistance. More recently, two privately owned concerns, Kay Huasy in Cochabamba and La Lina in 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 have remained small.

During the last two years, 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 counterproductive 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. Until recently, exporters who have followed the exchange control rules have been forced to accept much less than the real value of their export earnings while, at the same time, having limited or no access to the foreign exchange (at the subsidized official exchange rate) they need to import critical production inputs. In February 1985, these exchange control measures were modified significantly to provide that artisan exporters retain 40% of the foreign exchange they earn. However, until exchange controls are completely lifted or the official exchange rate better reflects the Bolivian peso's true value, most artisanal exports will continue to leave the country in small lots, generally in the hands of tourists/middlemen. This practice, although technically

illegal, has been tolerated by the Bolivian authorities and is quite common. The severe exchange controls imposed during the last two years are unique in Bolivia's history, and are expected to be modified significantly or lifted completely as a result of economic reforms now underway.

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 artisanal knitwear exports significantly. This would directly benefit poor 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 which 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 also 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 help develop an Association which will: (a) contract with a U.S. marketing firm to provide these services; (b) promote cooperation among artisan organizations and Bolivian input suppliers (e.g. wool wholesalers, yarn mills, button and zipper manufacturers), encouraging new investments where necessary; (c) assist artisan knitwear organizations in arranging for needed services (e.g. transportation, raw material supply, credit); and (d) function as a producer association, helping its artisan organization clients to become fully familiar with exporting procedures and lobbying the government for policies more conducive to artisanal exports. The Association will be provided with assistance to develop its expertise in handicraft product marketing. It will charge a commission on the knitwear produced and sold with the assistance of the U.S. marketing firm it contracts, which will be used to cover its costs and recapitalize the funding provided by AID so that projects with artisan groups producing other exportable products can also be undertaken at a later date.

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 barrier to legal exports represented by the GOB's current exchange controls will be overcome; (4) that sufficient supplies of camelid yarn will be available to artisan knitwear groups; (5) that the knitwear groups with whom the Association will work will pass on the higher profits they gain from their exports to their knitters; and (6) that these knitters will modify the design of their knitwear and knit more articles in response to greater earnings prospects.

The main outputs of the project will be (a) established U.S. market channels for camelid knitwear, (b) ongoing marketing relationships between Bolivian artisan organizations and a U.S. marketing firm, (c) increased production of higher quality camelid knitwear for export, (d) better functioning artisan knitwear organizations, and (e) an established Artisanry Association capable of assisting other artisan groups to export their products.

The inputs to the project will include (a) technical assistance, training, and marketing support services for artisan organizations to be provided by a U.S. Contractor; (b) consultant services, operating cost support and commodities (vehicles, furniture and office equipment) necessary to set up and develop the Association; and (c) investment by the Cochabamba artisan knitting organizations in expanded operations. Some of these inputs will be financed by AID (TA, marketing support costs, commodities). Association operating expenses will be shared by AID, the Association's members and participating artisan organizations (through the payment of commissions to the Association on export sales). AID's share of costs will decline as the project proceeds. Training costs will be shared by AID and the artisan organizations. In addition to the project costs that the participating artisan organizations will finance through commissions paid to the Association, these groups will also finance the expansion of their own operations (staff salaries, working capital, raw material and finished product inventories, and plant expansion).

C. Project Strategy

The project's strategy to increase artisanal knitwear exports has four aspects to help ensure that both its purpose and the ultimate goal of increasing artisan incomes are achieved: (1) the adoption of a marketing-oriented approach to increasing exports; (2) running the project on a business-like basis (i.e. providing for profit incentives through the promotion of normal commercial ventures); (3) avoiding over-complicating the project; and (4) working with artisan organizations which remunerate their artisans well.

First and most importantly, the market-oriented approach described earlier will be applied rigorously. This approach calls for producing for specifically identified markets and designing products so that they appeal to international buyers, rather than producing and worrying about marketing later. 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 garments and accesories designed by Italian and Indian designers and produced by Indian artisans for various types of garments increased dramatically as a result of the project.

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 in Bolivia have had some success in adopting a market-oriented strategy.

The proposed project will help the Cochabamba artisan knitwear industry as a whole to implement this type of strategy in a more comprehensive and professional manner. Specifically, this project will assist in the production of knitwear to satisfy demand in the United States. Consequently, garments must be styled according to prevailing U.S. consumer tastes and preferences. That is why it is important that the assistance to be provided to artisan organizations under the project come from a U.S. firm already experienced and involved in apparel marketing (preferably in knitwear marketing), and not a consulting firm which might be able to provide expertise in certain specialties but would lack the practical knowledge of the U.S. market and ability to sell in the U.S. which will be indispensable to mounting a comprehensive exporting effort.

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 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. It is important that the project be structured in a way that fosters normal commercial relationships where the profit motive will provide the project's participants with the incentive to perform efficiently, and that paternalistic or non-commercially oriented approaches be avoided.

The approach to be followed by the project will ensure that all commercial activities are undertaken by private firms or cooperatives. The Association to be assisted under the project will not be a large institution. Neither will it be a profit-making commercial venture. Rather, it will be a facilitating or promotional entity dedicated to assisting in the development of Bolivia's craft organizations and artisanal exports. It will begin its efforts (during the life of this project) with artisan knitwear organizations. Using AID resources, it will contract with a U.S. marketing firm for the provision of assistance to participating artisan organizations in knitwear production, marketing, and artisan training. The U.S. marketing firm will, in turn, sign sales contracts with participating artisan organizations under the auspices of the Association for the marketing of their knitwear in the U.S. Artisan organizations will be free to continue dealing with their existing wholesalers, and make arrangements with new ones, as long as these arrangements do not conflict with their responsibilities under contracts with the project's U.S. marketing firm.

The objective of this arrangement will be to foster normal commercial relationships between a marketing organization in the U.S. and Bolivian artisan organizations which would not evolve naturally without the catalytic incentives to be provided by the Association and AID. This is so because even though the potential for increasing knitwear exports clearly exists, given the rudimentary manner in which Bolivian knitwear organizations currently operate, the need to design knitwear which will sell overseas, and the uncertain commercial climate in Bolivia, the U.S. marketing firm and the Bolivian artisan organizations will require time, patience and capital to finance developmental costs prior to realizing large sales.

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 made in Bolivia, efforts will be concentrated in one product category - knitwear. This will enable the Association to specialize and keep its staff small. The project will also purposely work with a limited number of artisan knitwear groups in Cochabamba, the region of the country where the chances for initial success are greatest. The four groups initially chosen to participate in the project - three cooperatives and one private business - are the largest of their kind 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 initially in Cochabamba, where it is estimated that two-thirds of Bolivian 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 knitwear organizations. Some of these organizations are cooperatives, while others are relatively small,

privately run businesses. Knitters are organized into groups which produce for one or another of these established organizations, and 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 actually 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 most of those in La Paz live in the city (except for some living near Lake Titicaca). The Cochabamba knitters work in groups, organized within well defined communities. To expand production in the past, Cochabamba knitwear organizations have simply formed new groups of 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 Association initially currently employ 3090 knitters, and it is estimated that this number can be increased to about 7,980 within four years*.

The final, and most significant reason for concentrating activities in Cochabamba is that 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 Association 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 1,850 knitters belong to the Cooperative and produce approximately 25,000 sweaters and other knitted articles per year. Fotrama pays its knitters standard prices per sweater, which basically establish the prices paid to knitters by all Cochabamba artisan organizations. It 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

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

"grass-roots" cooperative which currently includes 50 knitters from the region of Arani, about 50 kilometers from Cochabamba. It was established in 1979. Members are remunerated per sweater knit, and the Cooperative has purchased commodities in bulk for resale 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 two 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 Association 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 Association clients. Since knitters have been known to switch from one group to another where they can earn more, the pressures on each organization to keep wages comparable are strong. Thus, if other knitwear organizations qualify technically, they should not have much difficulty meeting the project's remuneration requirement.

The project strategy described in this section of the project paper conforms fully with USAID/Bolivia's FY 1986 CDSS update (Feb. 1984) 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. It is consistent with AID policy statements on private sector development and institutional development.

D. The Artisanry Association

The Artisanry Association through which project assistance will be channeled has already been legally established as a non-profit entity. To establish it, its founders approved articles of establishment and statutes, had them notarized by the Department of Cochabamba, and approved Association Statutes. The Association is now legally established in a defacto sense and can sign an agreement with USAID/Bolivia. It will also be necessary for it to obtain official GOB recognition of its establishment as a non-profit entity, a process which requires the issuance of a Supreme Decree and which is expected to be completed by September 1985. The Association's founders, five respected Bolivian businessmen, will constitute the Association's initial Board of Directors. The founders/board members are community leaders in Cochabamba, who have had success in their chosen fields, and who have a personal interest in promoting artisan knitwear exports and can offer business expertise and contacts which will be of use to artisan organizations. They were chosen by the Association's two principal founders following consultations among participating artisan

organizations, potential Board members and USAID staff. Each of the initial five Board members has contributed \$1,000 to their Association. These initial members will recruit other Association members as the project proceeds, some of whom will contribute up to \$1,000 as have the initial founders, and others, who are less prosperous, who will contribute at least \$25 to become members.

The duties of the Board are to establish overall operating policies, hire staff, approve contracts with the U.S. marketing firm and other consultants, and (through contacts individual members of the Association will have) assist Association clients in gaining access to needed commercial services.

The staff of the Association will include the following personnel:

- . A Director
- . A Knitwear Production Specialist (Assistant Director)
- . An Accountant
- . A Secretary
- . A Chauffeur/Messenger

The Association's Director will report to the Board. His/her staff will maintain day-to-day contact with client artisan organizations, the U.S. marketing firm and other consultants. Joint meetings of representatives from all artisan organizations and the Association will be called when necessary. The Director will be responsible for running the day-to-day operations of the Association (monitoring contractors, maintaining contact with client artisan organizations, promotional activities with knitwear input suppliers and providers or services, coordination with GOB officials, and arranging for services to be provided (gratis) by Association members). His/her Assistant Director will provide the liason between Association contractors specializing in improving the quality of knitwear production (arranging training sessions, coordinating input supply and collection of finished products, etc.) Both the Director and the Assistant Director will work closely with the U.S. marketing firm to be contracted, and make trips to the U.S. as necessary.

As already noted the Association's responsibilities will be (1) to contract with a U.S. marketing firm to provide design, production and marketing services to client artisan organizations, (2) to promote input supply arrangements and the provision of certain services to its artisan organizations, and (3) to provide the services of a producer association. The institution-building objective of the project with respect to the Association is to develop the capacity of its Board and staff to provide these services, especially to arrange contracts for export marketing services and to contract for handicraft product improvement. However, the expertise developed within the Association should be applicable to a wide range of handicraft products and not just to knitwear. The Association's Board and staff will develop their

expertise primarily through the experience they gain and the contacts they make working with the U.S. marketing firm and other experts the Association contracts to assist its initial clients (knitwear artisan organizations). However, the project will also finance a long-term advisor, special seminars, short-term TA (10 p.m.) and trips to the U.S. to build up the expertise desired in the Association.

a. Alternative Project Design Schemes

USAID/Bolivia, the Association's founders and the participating artisan organizations gave careful consideration to the type of institutional structure for the project before deciding on the establishment of a private, non-profit Association which would contract with a U.S. marketing firm. The possibility of setting up another public sector entity to deal with artisan organizations was discarded 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/Bolivia to work with that institution, it has never been successful.

Six alternatives to the Association/marketing firm scheme were considered: working directly with one strong artisan organization, like Fotrama; transforming an existing private sector artisan association into an industry service organization; creating a service organization cooperatively run by existing artisan organizations; creating an independent service organization as a private Association/Foundation; making a grant to a U.S.-based PVO to assist 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 artisan knitwear industry rather than just one group, no matter how successful it had been in the past. In this way, many of the knitters in the Department of Cochabamba, and eventually in other regions, will be able to benefit from the project. In addition, it is doubtful that only one artisan organization could expand adequately to produce enough for the overseas markets the project intends to penetrate.

The next three alternatives would have involved setting up a Bolivian service organization to provide knitwear production and marketing services to artisan organizations, initially relying heavily on AID-financed T.A. This could have been done working with an existing artisan association, through a cooperative arrangement among participating artisan organizations, or by creating a new and independent association or foundation.

Over the years, a number of associations of artisan organizations and business have been created in La Paz and Cochabamba. The Asociación Boliviana de Productores y Exportadores de Artesanía (ABEPA) was established eight years ago to promote handicraft sales, but it represents only a few La Paz artisans, and lately has suffered from members leaving to join a rival organization, the Asociación Nacional de Productores Exportadores de Artesanías de Bolivia (ANPEXABOL). This latter organization was formed in 1983, mainly as a lobbying group. It is also centered in La Paz. A federation and a confederation of artisans also exist, but they are dominated by artisan retailers, politicized, and very ineffective. The artisan knitwear 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 foreign exchange controls.

Given their histories and operating styles, none of the existing artisan associations described above is suitable for the provision of specialized services to Cochabamba knitting organizations. None of them has ever been successful at defining its 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 foster their own individual interests.

Consideration was also given to creating a jointly managed, cooperative service organization, with a representative of each artisan organization to receive services on its 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 exists a certain level of distrust among Cochabamba knitwear organizations, which is understandable given the fact that they are competitors. In order for the proposed project structure to work, these groups will have to cooperate as recipients of services (e.g., organizing joint training courses) and be satisfied with the U.S. firm's marketing services, but they will not have to run the project jointly. The Association's Board will establish project policies and operating procedures and coordinate project activities. The artisan organizations receiving services will have to be satisfied that the services for which they are paying (through sales commissions) are worthwhile, but they will not be required to make the Association's operational decisions on a joint basis, and will be able to maintain control over their own operations.

The final service organization arrangement which was seriously considered was to set up a private association which would develop (through T.A. provided under the project) the capability to provide needed services (product design, etc.) to participating artisan organizations and act as their sales agent for marketing in the U.S. This alternative was seriously considered by USAID and potential project participants because it would avoid the pitfalls previously cited and could assist the artisan knitting industry as a whole. It was eventually

discarded, however, because (a) its success would depend on locating a firm with marketing experience in the U.S. willing to provide assistance for a consulting fee, but not sell the merchandise it helped develop, a remote possibility at best, (b) even if such firm could be found, the approach would not provide for enough emphasis on marketing, which must be the driving force of an integrated marketing/production sales strategy*, and (c) it would involve the development of a larger, more complex association, which would undertake commercial activities and lead to higher overhead costs, questionable sustainability, and over-dependence by artisan organizations.

Another alternative considered was to work with a U.S.-based PVO (as was done in Honduras with the PVO, Aid to Artisans). This option, like that of setting up a service organization, would not foster business-like operations. Although the PVO would undoubtedly help artisan organizations improve their products, it would lack specific knowledge of the knitwear markets in the U.S. and U.S. marketing facilities, and a separation between product development and production efforts and marketing in the U.S. would be inevitable. Furthermore, it is unlikely a PVO could help the artisan organizations become better businesses themselves, and the advantages of having successful businessmen help the artisan organization would be lost.

The final alternative considered was to set up a 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 would be carried out on a business-like basis. The trading company would purchase the articles it ordered from artisan organizations for resale to outlets it identified overseas and provide any assistance it felt necessary to its producers to improve their products. An example of this sort of arrangement is the Ecuadorian group mentioned earlier - ASEPA - which 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 raw materials. Over the years, ASEPA has also expanded into other products.

A private sector Bolivian trading company is conceivable and might work. However, as a result of intensive interviews by Mission staff with the executives of several of the principal U.S. camelid knitwear marketing firms, it was concluded that in order to carry out a successful penetration into the U.S. market, it would be necessary to

* The project would lack the organization needed to market knitwear products successfully in the U.S. This because (a) the consultants contracted to provide T.A. in marketing would not be able to provide the personnel and infrastructure required to perform the role of an importer/distributor needed by the project, and (b) the Association would not have the resources to establish such an organization by itself.

enlist the participation of an established U.S. marketing firm. This is so because to market successfully in the U.S., a company needs an understanding of U.S. consumer and retailer buying practices, a complex set of facilities (e.g. warehouses, showrooms, etc.), specialized personnel (e.g. customs broker, accountants, sales representatives, researchers, shippers, etc.), and the capability to carry out an aggressive marketing plan, based on prior experience in the marketplace.

A Bolivian trading company could only avail itself of such services by contracting with a wholesaler, or wholesalers, in the U.S. Fostering a direct relationship between a U.S. marketing firm and Bolivian producers should be much more effective. Furthermore, given the business climate in Bolivia, it is very unlikely that the artisan organizations with whom it has been decided to work would completely trust a profit-seeking Bolivian export company on which it would have to depend for vital marketing and production services. Given the probable atmosphere of distrust which would develop, it was concluded that it would be preferable to strengthen the operations of artisan organizations directly through a contracting relationship with a U.S. marketing firm employed by the Association specifically to improve the products and operations of the artisan organizations themselves.

E. Project Components

The project will sponsor an integrated marketing/product development effort. For presentational purposes, this project description section is divided into two parts: market development and delivery of services to artisan organizations.

1. Market Development

The marketing approach to be implemented is expected to follow certain predetermined steps, which will be elaborated in full detail in the marketing plan to be presented by the firm to be contracted for the project at the time it submits its proposal. These steps are:

- . Identification of market segments and marketing channels.
- . Identification of the types and designs of knitwear the markets identified require.
- . Elaboration of a marketing strategy to sell to the markets identified. The firm contracted by the Association will present a marketing strategy which specifies (a) the target markets selected, (b) the recommended product mix and market positioning, (c) the trade channels selected and recommendations on the use of labels, and (d) the marketing approaches to be employed in each target market. In addition to this strategy, the contractor will provide a detailed statement of sales targets and specific price levels for each of the items in the product mix, a total

25x

marketing budget (indicating the funds to be allocated for various marketing tools to be employed, such as advertising, sales promotion and personal selling), and a production and delivery schedule to meet sales targets.

- Design of new knitwear articles. These designs will include new colors, yarn mixtures, and stitches. Two design approaches have been considered during the intensive review: (1) investigating market segments and deciding on new articles to be designed and produced exclusively by the artisan organizations for these market segments and then marketing under a unique 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 specifications. 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 labels on the products. The CA team considered that the establishment and use of Bolivian labels would be much more difficult. The contractor to be hired under the project will make final recommendations 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 knitwear. Once new prototypes are produced, these will be shown to the same group of potential buyers in order to obtain their final approval, and orders. As a result of these contacts, wholesale prices and sale volumes for different articles will be determined. The marketing firm to be contracted is expected to act as a sales agent for each of the Association's client knitwear organizations. In this respect, the firm will sign contracts which commit the artisan organizations to deliver knitwear products according to specific delivery schedules. Concurrently, with sales efforts, the marketing firm will assist participating artisan organizations in preparing for knitwear production.
- Setting production schedules and producing knitwear. The marketing firm will provide supervision and coordination services (e.g. quota assignments, delivery schedules) to participating artisan organizations during the production phase. Supervisory activities will be directed to assuring that production plans are met in terms of quality and quantity.

- . Shipment of goods produced. As the different organizations complete their production quotas, their sweaters will be delivered to a central warehouse managed by the marketing firm, where packages will be prepared for shipment to the United States.
- . Importations of goods into the U.S. Packages shipped from Bolivia will be received in the U.S. The marketing firm will employ a customs broker to take charge of all aspects related to the payment of importation duties and shipping costs.
- . Warehousing and distribution. The marketing firm will transport all packages received from Bolivia to a central warehouse, where the merchandise will be classified and stored. In this warehouse, a shipper will prepare the orders, which will be sent in appropriate containers. The staff managing this warehouse is expected to be prepared to respond quickly to re-orders, requests for changes of merchandise, and returns.
- . Supporting marketing activities. In order to carry out its market penetration efforts properly, the marketing firm should have the capacity, or be able to contract outside services, to collect bills (Usually small retailers pay their bills one month after delivery, but larger ones commonly delay their payments for periods up to six months), to plan and execute promotional campaigns, to operate showrooms and attend to trade fairs, and to direct the efforts of a group of sales representatives who will be spearheading the marketing effort.

The marketing strategy employed will be reviewed at least yearly to take account of new fashion trends and market developments. This will require that the contractor's personnel be in constant touch with U.S. knitwear fashion trend experts and knitwear buyers.

Since sales under the comprehensive marketing plan discussed above will not take place until 1986, it has been decided to begin marketing assistance activities in 1985, from which participating artisan organizations will be able to benefit right away. After the arrival of the contractor's representatives, the firm contracted will 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.

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 be generally divided into the following categories:

- a. Market analysis and development of marketing strategies.
- b. Product design.
- c. Ensuring supply of inputs (wool, yarn, accessories).
- d. Production improvement and development.
- e. Production scheduling and quality control.
- f. Artisan training.
- g. Importing, warehousing and distribution services.
- h. Assistance in processing export shipment documents.
- i. Management training.
- j. Credit and other commercial services.
- k. Eliminating disincentives to exports which exist in Bolivia.

To meet these needs, the Association will contract with a U.S. marketing firm (items a, b, d, e, f, g and h) and management training consultants (item i), and, through its Board and own staff, it will work directly on items c, j and k. The Association will use its grant from AID to hire the U.S. marketing firm and management consultants. This grant will be partially repaid (see Financial Analysis) to the Association by the artisan organizations receiving assistance through the payment of a commission (10%) on the sale of sweaters designed and/or sold with the assistance of the U.S. marketing firm.

To provide these production and marketing services to the Association's clients, a different type of firm than AID normally finances will have to be contracted. The project will require a company which has ample experience in knitwear or apparel marketing in the U.S. and which has the ability to subcontract for the provision of specialized fashion industry services (e.g., design/color trends). Moreover, the firm should be prepared to market the knitwear it assists Bolivian artisans to produce. This is necessary in order that production and marketing be completely coordinated, as is, of course, normal commercial practice and indispensable to achieving sales. In other words, AID will finance a contract with a profit-making marketing firm rather than a consulting firm. The contract AID finances will cover the costs of personnel and consultants working in Bolivia with artisan organizations, selected marketing costs in the U.S. and logistical costs in Bolivia necessary to get the export process started. The latter category of costs will be specifically identified and limited in the contract to be signed with the Association, based on a proposal made by the firm selected for the contract. Arrangements for exports to the U.S. will be specified in contracts between the U.S. marketing firm and each participating artisan organization, signed under the auspices of the Association. The artisan organizations will naturally be free to

continue their existing export sales arrangements should they wish to do so, and to make new arrangements with other overseas buyers as long as they do not conflict with their obligations under their contracts with the project's U.S. marketing firm.

It is recognized that it is going to be difficult to obtain proposals from capable U.S. marketing firms which will be willing to get involved in the project under the contracting arrangements described above. This is partly because of the limited number of U.S. marketing firms involved in the importation/distribution of knitted garments, but primarily due to the problems and uncertainties associated with business activities in Bolivia. Nevertheless, it is believed that the subsidies to be provided by the Association/A.I.D. for initial product and market development costs, in addition to the possibility of the establishment of permanent profitable relations with Bolivian knitwear producers if the job is well done, will be sufficient to attract a number of serious proposals.

The U.S. contractor will be selected under competitive procedures and contracted by the Association. The RFP will require that each offerer submit a comprehensive marketing plan with its proposal, specifically identifying start-up marketing costs, indicating the items to be financed by the firm and those for which it proposes AID financing. The proposals will be reviewed by a committee composed of Association Board members, representatives of the four artisan organizations selected to participate initially in the project and USAID/Bolivia. The selection of the contractor will determine the specific export development strategy to be followed.

It is anticipated that the U.S. 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 responsible for identifying the specific technical assistance needs of each organization, obtaining approval from the Association's Director to contract outside consultants, signing marketing contracts with craft organizations, and supervising design, quality control, and production assistance activities. 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. The home 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 U.S. office will send to Bolivia, either from its own staff or on contract, a top marketing expert to advise on the firm's annual marketing strategy. This marketing strategy will set objectives for work in design, production and training.

The Team Leader will be assisted in Cochabamba by a full-time knitwear production specialist. This person will assist the participating artisan organizations in production sequencing, quality control, artisan training, raw material procurement, packaging and shipping. The individual holding this position will be in permanent,

day-to-day contact with the operational personnel (knitters, supervisors, administrators) of each participating artisan organization. The Production Specialist will also work closely with the Association's staff in setting up management training seminars based on his/her knowledge of the operations of each of the Association's clients.

Approximately 50 person-months of short-term assistance and home-office backstopping will be provided by the contractor in such areas as product design, fashion trends, pattern-making, artisan training and yarn production.* Eight person-months of short-term assistance (not from the prime contractor) to improve management practices within the artisan organizations is also budgeted.

Lastly, in order to increase the expertise of the staff of the Association itself in handicraft production improvement and marketing techniques (and to enable the staff to monitor the prime contractor's performance fully), three person-years of long-term TA from a handicraft production/marketing expert and ten person-months of assistance for the Association are also budgeted.

Training will be integral to the work of the contractor. Formal training will be carried out for two groups: artisans and the administration staff of client artisan organizations. Artisan knitters will be trained in a series of two-week courses organized by the contractor 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 for all participating artisan organizations. The U.S. contractor 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 garments identified in the market research phase. Subsequently, these leaders will teach what they learn to knitters in their respective production groups. In addition, six individuals from the staffs of participating artisan organizations will be sent to short-term (one month) specialized courses on design and marketing at U.S. fashion schools.

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

To improve the management of each artisan organization, administrative staff personnel (accountants, production supervisors, sales personnel, etc.) will be trained in management practices in seminars held jointly three times per year by consultants to be hired by the Association. Courses will be given in financial control, inventory control, personnel management, and the like.

The AID-financed contract will run from midway through project year one to midway through project year four, by which time it is expected that the volume of sales will allow the marketing firm and Bolivian artisan organizations to finance all needed services themselves.

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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, marketing, training, operating expenses, and commodity cost components. They are divided into portions to be financed by AID, the Association 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 and fixed assets necessary to expand their operations. This investment will be financed by the artisan organizations themselves, partially through loans to be refinanced from other AID projects.

AID will finance all technical assistance and commodities plus a declining portion of the operating expenses of the Association and training expenses (100% in year 1, 80% in year 2, 40% in year 3, and 20% in year 4).

TABLE 2. PROJECT BUDGET.

	I. COST ESTIMATE AND FINANCIAL PLAN (IN US\$ DOLLARS)			H O S T			C O U N T R Y			GRAND TOTAL	
	A I D G R A N T			A S S O C I A T I O N			A R T I S A N O R G A N I Z A T I O N S				TOTAL
	FX	LC	TOTAL	FX	LC	TOTAL	FX	LC	TOTAL		
I. TECHNICAL ASSISTANCE											
A. CONTRACT ADVISORS											
1. LONG TERM (72 P/M)	612000		612000							612000	
2. SHORT TERM (50 P/M)	375000		375000							375000	
3. CONTRACT OVERHEAD	592000		592000							592000	
B. OTHER											
1. LONG TERM (36 P/M)	300000		300000							300000	
2. SHORT TERM (18 P/M)	75000		75000							75000	
C. EVALUATIONS/AUDITS	40000		40000							40000	
II. MARKETING											
A. SUPPORT COSTS	200000		200000				0	24000	24000	24000	224000
B. TRIPS OVERSEAS	30000		30000				30000	0	30000	30000	60000
III. TRAINING											
A. SHORT TERM TO USA	30000	0	30000								30000
B. IN COUNTRY	0	24000	24000				0	12000	12000	12000	36000
C. MATERIALS & OTHER	0	0	0				0	50000	50000	50000	50000
IV. OPERATING EXPENSES											
A. SALARIES	0	200000	200000	0	123300	123300				123300	323300
B. OTHER	30900	94800	127700	20400	67300	87900				87900	215600
V. COMMODITIES											
A. VEHICLE	23000	0	23000								23000
B. OFFICE FURNITURE AND EQUIP.	23300	0	23300								23300
VI. CAPACITY EXPANSION											
A. CAPITAL INVESTMENT	0	0	0					340000	340000	340000	340000
B. INCREMENTAL WORKING CAPITAL	0	0	0					1490000	1490000	1490000	1490000
SUB TOTAL	2331260	320800	2652060	20400	190400	211200	30000	1916000	1946000	2157200	4909200
CONTINGENCIES	340000	0	340000	14135	32835	46970	0	0	0	46970	394970
TOTAL PROJECT COST	2679260	320800	3000060	34735	223435	258170	30000	1916000	1946000	2204170	5204170
PERCENTAGE			57.65			4.96			37.39	42.33	

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TABLE 3. DISBURSEMENT SCHEDULE (IN US \$ DOLLARS)

	YEAR 1		YEAR 2		YEAR 3		YEAR 4		TOTALS	
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC
A.I.D.										
I. TECHNICAL ASSISTANCE										
A. CONTRACT ADVISORS										
1. LONG TERM (2X36 P/M)	102000		204000		204000		102000		612000	
2. SHORT TERM (50 P/M)	135000		135000		105000		0		375000	
3. CONTRACT OVERHEAD	142000		204000		185000		61000		592000	
B. OTHER										
1. LONG TERM (36 P/M)	50000		100000		100000		50000		300000	
2. SHORT TERM (18 P/M)	15000		20000		20000		20000		75000	
C. EVALUATIONS/AUDITS	0		20000		0		20000		40000	
	444000		683000		614000		253000		1994000	
II. MARKETING										
A. SUPPORT COSTS										
	50000		50000		50000		50000		200000	
B. TRIPS OVERSEAS										
	15000		15000		0		0		30000	
	65000		65000		50000		50000		230000	
III. TRAINING										
A. SHORT TERM TO USA										
	10000	0	10000	0	10000	0	0	0	30000	0
B. IN COUNTRY										
	0	7000	0	11000	0	5000	0	1000	0	24000
	10000	7000	10000	11000	10000	5000	0	1000	30000	24000
IV. OPERATING EXPENSES										
A. SALARIES										
	0	82000	0	72000	0	29700	0	16300	0	200000
B. OTHER										
	13500	39000	9600	33000	5200	15200	2600	9600	30700	72800
	13500	121000	9600	105000	5200	44900	2600	25900	30900	296800
V. COMMODITIES										
A. VEHICLE										
	23000	0	0	0	0	0	0	0	23000	0
B. OFFICE FURNITURE & EQUIP.										
	23300	0	0	0	0	0	0	0	23300	0
	46300	0	0	0	0	0	0	0	46300	0
SUB TOTAL										
	578800	128000	767600	116000	679200	49900	305600	26900	2331200	320800
CONTINGENCIES										
	90598	0	114378	0	99233	0	43791	0	348000	0
TOTAL A.I.D.										
	669398	128000	881978	116000	778433	49900	349391	26900	2679200	320800

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TABLE 3. DISBURSEMENT SCHEDULE (IN US \$ DOLLARS)

ASSOCIATION										
I. OPERATING EXPENSES										
A. SALARIES	0	0	0	13500	0	44500	0	65300	0	123300
B. OTHER	0	0	2400	6100	7800	22800	10400	38400	20600	67300
SUB TOTAL	0	0	2400	19600	7800	67300	10400	103700	20600	190600
CONTINGENCIES	10450	0	1200	9800	1300	11220	1185	11815	14135	32835
TOTAL ASSOCIATION	10450	0	3600	29400	9100	78520	11565	115515	34735	223435

ARTISAN ORGANIZATIONS

TABLE 3. DISBURSEMENT SCHEDULE (IN US \$ DOLLARS)

I. MARKETING										
A. SUPPORT COSTS	0	3400	0	6600	0	6600	0	7400	0	24000
B. TRIPS OVERSEAS	0	0	0	0	15000	0	15000	0	30000	0
	0	3400	0	6600	15000	6600	15000	7400	30000	24000
II. TRAINING										
A. IN COUNTRY	0	0	0	2000	0	6000	0	4000	0	12000
B. MATERIALS AND OTHER	0	4000	0	4000	0	9200	0	11800	0	29000
C. LOCAL INSTRUCTORS	0	2000	0	2000	0	7300	0	9700	0	21000
	0	6000	0	8000	0	22500	0	25500	0	62000
III. CAPACITY EXPANSION										
A. CAPITAL INVESTMENT	269000		0		36000		35000		340000	
B. INCREMENTAL WORKING CAPITAL	148000		152000		490000		700000		1490000	
	0	417000	0	152000	0	526000	0	735000	0	1830000
TOTAL ARTISAN ORGANIZATION	0	426400	0	166600	15000	555100	15000	767900	30000	1916000
TOTAL PROJECT	679848	554400	885570	312000	802533	683520	375976	910315	2743935	2460235

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TABLE 4. ASSOCIATION OPERATING EXPENSE SCHEDULE (IN US\$ DOLLARS)

	YEAR 1		YEAR 2		YEAR 3		YEAR 4		TOTALS	
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC
1. SALARIES										
EXECUTIVE DIRECTOR		21000		23000		25300		27800	0	97100
ASSISTANT DIRECTOR		15000		16500		18100		19900	0	69500
ACCOUNTANT		11900		13090		14400		15800	0	55190
SECRETARY		7400		8100		8900		9800	0	34200
DRIVER		6200		6810		7500		8300	0	28810
	0	61500	0	67500	0	74200	0	81600	0	284800
2 OTHER										
OFFICE SUPPLIES		4000		5000		7000		7000	0	23000
OFFICE RENT		6000		6000		6000		6000	0	24000
TELEPHONE LINE	1500								1500	0
UTILITIES		6000		6000		8000		8000	0	28000
VEHICLE MAINT. REPAIR. FUEL.		4500		4500		6000		6000	0	21000
TRAVEL PER DIEM		4000		4000		6000		6000	0	20000
OVERSEAS TRIPS	12000		12000		13000		13000		50000	0
AUDIT								10000	0	10000
MISCELLANEOUS (LEGAL FEES)		5000		5000		5000		5000	0	20000
	13500	29500	12000	30500	13000	38000	13000	48000	51500	146000
TOTAL	13500	91000	12000	98000	13000	112200	13000	129600	51500	430600

TABLE 5. ASSOCIATION OPERATING EXPENSE SHARING (IN US \$ DOLLARS)

	YEAR 1		YEAR 2		YEAR 3		YEAR 4		TOTALS	
	FX (100 %)	LC	FX (80 %)	LC	FX (40 %)	LC	FX (20 %)	LC	FX	LC
AID										
1. SALARIES		61500		0		0		0	0	61500
2. OTHER	13500	29500	9600	78400	5200	44900	2600	25900	30900	173700
SUB TOTAL	13500	91000	9600	78400	5200	44900	2600	25900	30900	240200
ASSOCIATION										
1. SALARIES				0		0		0	0	0
2. OTHER			2400	19600	7800	67300	10400	103700	20600	190600
SUB TOTAL	0	0	2400	19600	7800	67300	10400	103700	20600	190600
TOTAL	13500	91000	12000	98000	13000	112200	13000	129600	51500	430800

... AND 2 ADJUSTED IN TABLES 2 AND 3 FOR OFFICIAL EXCHANGE RATE LOSS.

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B. Implementation and Financing Procedures

AID funds for the Project will be channeled as indicated in Table 6.

Table 6

Technical Assistance	Institutional Contract/ PSCs	Direct Payment	\$1,954,000
Marketing Support Costs	Institutional Contract	Direct Payment	200,000
Evaluations	Personal Service Contracts	Direct Payment	40,000
Overseas Training and Marketing Trips	Direct Placement	Direct Payment	60,000
Local Training	Administration Unit	Direct Reimburse- ment	24,000
Operating Expenses	Administration Unit	Direct Payment	30,900
Operating Expenses	Administration Unit	Direct Reimburse- ment	296,800
Commodities	AID Procurement	Direct Payment	46,300
	Sub-total		<u>\$2,652,000</u>
	Contingencies		<u>348,000</u>
	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 Association contributions as they are generated, to be deposited into special project bank accounts to be maintained by the Association. The Association will be responsible for disbursing funds from the special accounts in accordance with quarterly project financing approvals by USAID/Bolivia. Mission dollar payments for technical assistance, marketing support costs, training, and commodity procurement will be made directly by AID. In order to implement the disbursement system, USAID/Bolivia and Association representatives will agree on a detailed budgets for local contributions as the project proceeds.

IV. IMPLEMENTATION PLAN

A. Responsibilities

The duties of the Association and the U.S. marketing firm's team have already been outlined above.

The six artisan organizations participating in the project will be responsible for procuring raw materials, meeting the production schedules and quality standards set by the U.S. marketing firm, 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 expanded facilities. The funds for such expansion will come from loans refinanced under other AID projects and profits as the project progresses.

USAID/Bolivia's Private Sector Division will monitor the project. The Mission will also contract directly for the limited quantity of project commodities to be purchased for the Association.

B. Evaluations and Audits

Two evaluations will be scheduled. The first one will take place at the end of year 2 of the project to evaluate progress in implementing the marketing strategy and improving the operations of the initial four artisan organizations. It will also examine the experience of the Association and the feasibility of getting involved in other artisanry activities. This evaluation will require the services of an apparel marketing specialist and a management analyst.

A final evaluation toward the end of the project will measure both the project's progress and its impact on artisan knitters. It will also make recommendations for expanding the Association's activities to improve the quality and expand the exports of other artisanal products. This evaluation will require the services of an apparel marketing specialist, a sociologist/anthropologist and an economist. Specific scopes of work for each evaluation will be elaborated, taking into account progress to date under the project.

Funds are also budgeted for annual audits of the project grantee (the Association) by approved auditing firms.

C. Schedule of Events

AID/W is expected to approve the project in June 1985. During the remainder of 1985, the marketing strategy will target overseas customers already known to the four producer groups and attempt limited expansion via direct sales to new customers. Technical assistance in design and production will be aimed at improving the quality, volume and sales prices of products sold to these customers.

The marketing strategy for 1986 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 markets well known and training, raw material procurement, and production systems solidly established, large increases in sales are forecasted.

The abbreviated schedule of project activities is as follows:

1985	May	Association established.
	June	AID/W approves project. Project Agreement signed.
	July	RFP approved and sent to potential contractors.
		Association staff candidates interviewed and hired. Association commodities ordered.
	August	Proposals received
	September	TA contract signed.
	October	Contractor personnel arrive in Bolivia. Raw material contracts arranged. Intensified efforts to improve existing products begin. Initial marketing strategy adopted.
	Oct-Jan	Intensified effort to sell existing inventories. Sweater designs modified. Artisan training begins.
	Jan-May	Product samples shown in U.S. and orders taken.
	1986	February
Feb/June		Sweaters produced.
May/Nov.		Sweaters delivered.
September		Year 2 marketing strategy adopted.

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

V. PROJECT ANALYSES

A. 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

This section describes current U.S. markets for knitwear, existing marketing channels and product cost structures, and export barriers.

a. Potential U.S. 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 7 indicates, U.S. consumers devoted over 5 percent 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.

Table 7
United States: Personal Consumption Expenditures on Clothing
(in billions of current dollars)

	1978	1979	1980	1981	1982 <u>a/</u>
All products	1,346.5	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.

Source: U.S. Industrial Outlook, 1983

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A significant portion of U.S. consumer demand for clothing is satisfied by imports. Table 8 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 per cent. It should also be observed that the proportion of imports in relation to shipments by U.S. manufacturers rose from 7 percent to over 14 percent in the period between 1972 to 1982.

Table 8
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 by U.S. Manufacturers	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
Ratio of Imports to Shipments by U.S. Manufacturers	0.071	0.091	0.117	0.125	0.135	0.146

Source: U.S. Industrial Outlook, 1983

Table 9 presents the estimated quantities of sweaters purchased and imported by the U.S. market.

Table 9
1982-1983 Imports and Domestic Production of Sweaters*
(000 Dozen)

	<u>Wool</u>	<u>Cotton and Synthetic Fiber</u>	<u>Total</u>
<u>1982</u>			
<u>Imports</u>	2,582	11,613	14,195
Domestic Production	1,742	8,860	10,602
Total	4,324	20,473	24,797
 <u>1983</u>			
<u>Imports</u>	2,951	13,631	16,582
Domestic Production	1,390	9,317	10,707
Total	4,341	22,948	27,289

* Other knitted wool products which artisan organizations could produce are not included, such as shirts and blouses, of which 430,000 dozen and 639,000 dozen were imported in 1982 and 1983 respectively.

The quality of sweater imports varies widely, from low value acrylic knits being imported at a CIF value of \$5 or less to luxury fiber and well designed products with CIF values of \$30 and above. According to the Office of Textiles and Apparel of the U.S. Department of Commerce, the luxury sweater market in the U.S. is five percent of the total sweater market. As pointed out by the garment marketing experts from New Ideas Ltd., the market for high-value, well-designed imported sweaters appears to be increasing steadily. 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."

Considering that the U.S. luxury sweater market represented about 16.4 million units in 1983 (5 percent of total consumption according to the Department of Commerce's Office of Textiles and Apparel), and the fact that Bolivia and Peru are not presently exporting more than 20,000 high quality sweaters knit with camelid yarn, a significant market opportunity exists in the U.S. for the output to be generated by the project. Because of this, the Creative Associates team

estimated that at a minimum Bolivia could sell at least 200,000 alpaca/llama knitwear articles per year, assuming that the sweaters would be priced FOB Bolivia at around \$30. However, considering the need to develop the U.S. market, and the need to make U.S. consumers and retailers fully aware of the quality of camelid fibers, it has been conservatively estimated that the U.S. market will absorb about 200,000 sweaters per year only by the fourth year of project implementation. It should be borne in mind that this volume of imports is just a small fraction (.06 percent) of the total 1983 high quality sweater consumption in the U.S.

b. Existing Marketing Channels

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

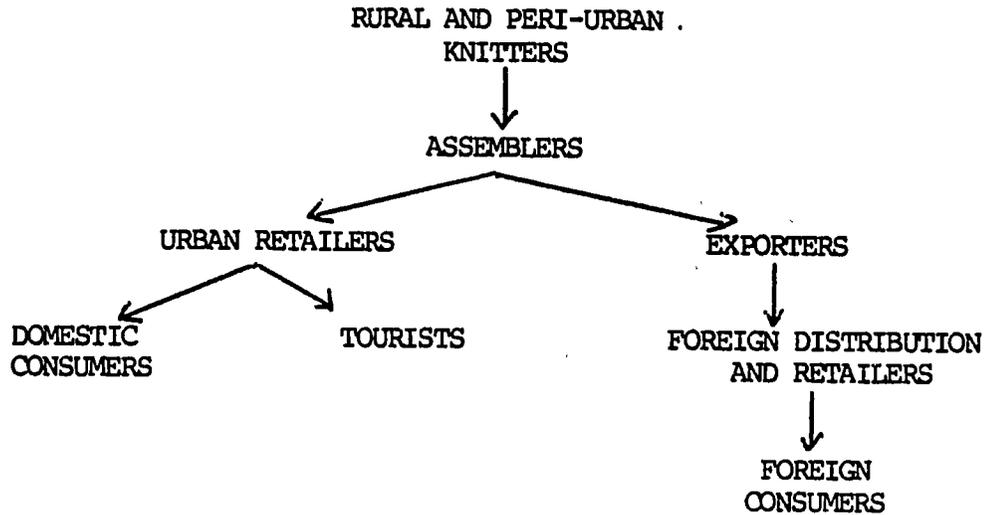
i. The Traditional System. The traditional production and marketing system for knitted products is characterized by the use of low quality hand-spun yarn, inadequately trained labor, lack of technical assistance and supervision, and individualistic behavior from the procurement of wool to the sale of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

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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 10 presents a set of typical marketing costs and margins in the traditional system. Note the relatively larger margins being obtained by exporters, 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 market 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.

1/5+

Table 10

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

	AMOUNT (\$US per knitted sweater)
1.a. FOB Price to foreign retailer or distributor	7.90
Minus: Exporter's gross margin	6.40

OR	
1.b. Price to domestic consumer	2.50
Minus: Domestic Retailer's gross margin	1.00

2. Price to Exporter or domestic retailer	= 1.50
Minus: Assembler gross margin to cover finishing, transportation and financing costs, and operating profit	0.30

3. Price to assembler	= 1.20
Minus: Costs of procuring raw materials	0.00
Raw wool costs (500 grams)	1.00
Spinning costs (1 1/2 days)	0.00

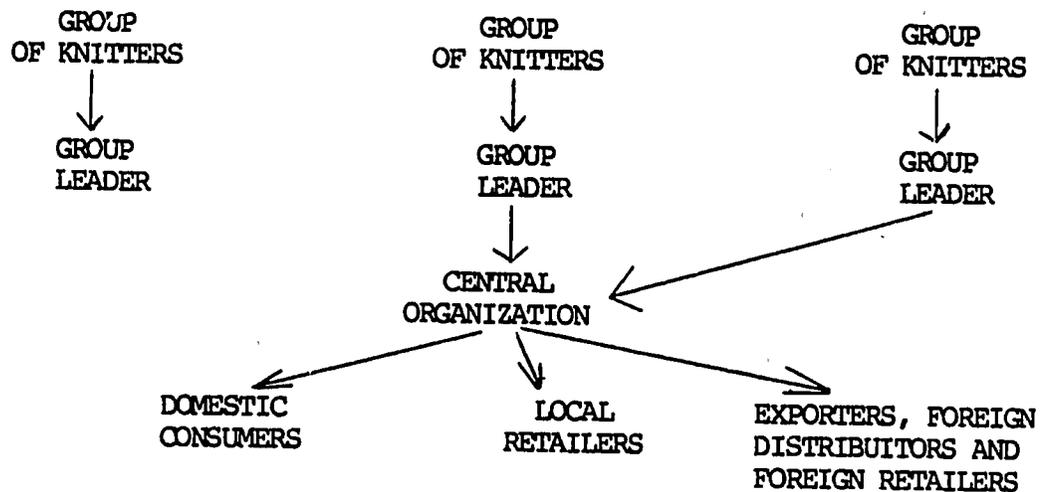
4. Knitter's net earnings (30 hours)	= 0.20

ii. The Improved System. The improved production and marketing system of textile crafts can be observed in the city of Cochabamba. In this system, there exist identifiable central artisan organizations (a cooperative or a private firm) which perform all, or some 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 11, piecework payments accruing to knitters in the improved marketing system are over seven 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 organization can only purchase about 13 sweaters per year from each of their knitters, who thus earn only about \$20 per year.

Table 11

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

	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

2. Price to domestic retailer or exporter	= 13.34
Minus: yarn costs (1/2 Kg.)	9.67
Administrative costs	1.33
Financial costs	0.60
Operating profits	0.24

3. Knitter's net receipts	= 1.50

The information presented in Table 11 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 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 organizations in Bolivia are a result of the inability 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 development, 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 limited degree of such services have permitted knitters to earn much higher wages. The fact that this improved system only benefits about 3,000 knitters in Cochabamba presently provides a measure of the opportunities available to the Bolivian textile craft sector.

Table 12 demonstrates how such opportunities can be seized using the production techniques pioneered by the Cochabamba producer groups with improved product quality and marketing in the U.S. 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 channels (which have different mark-up policies) and that the specific ones to be used will not be determined until the U.S. marketing firm is contracted. Production costs have been estimated jointly with Fotrama staff, taking account of its current cost structure and the expected changes to be brought about by the project. Note that knitters can be paid a minimum of \$5 per item knit and that artisan organizations make \$4 per unit sold to cover repayment of debts and profits (which are often partially returned to artisans on the form of other cooperative benefits). As sweater sales increase and administrative overhead declines, retained earnings will increase, thus enabling artisan organizations to pay their knitters even more.

Table 12
Marketing Costs and Margins for Sweaters
to be Produced for Sale by U.S. Marketing Firm

	Amount (\$US per knitted sweater)
1. U.S. Retail Price (rounded)	65.00 - 84.00
Minus:	
Retailer's gross margin (40 - 80%)	18.56 - 37.12
<hr style="border-top: 1px dashed black;"/>	
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)	1.00
<hr style="border-top: 1px dashed black;"/>	
3. FOB Cochabamba Price	= 30.00
Minus: Association commission (10%)	3.00
Payment to knitter	5.00
Collection, packaging, and delivery to airport	0.50
Cost of yarn (500 grams)	12.50
<hr style="border-top: 1px dashed black;"/>	
4. Balance to cover administrative overhead*, financial costs, and for retained earnings**	= 9.00

* Administrative overhead costs will average about \$5.00 per sweater sold. This average per sweater sold will decline as sales volume increases.

** In the case of the cooperative clients of the Association, their retained earnings/profits after loan repayments 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.

c. 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 additional barriers to increasing exports will have to be overcome for the project to be successful. These include current GOB exchange controls, Bolivia's isolated geographic location, overly bureaucratic export procedures, and the payment of 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 "legal" 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. Thus, one of the principle focuses of USAID/Bolivia's current policy dialogue is to encourage the GOB to take rational economic measures. Accordingly, the Mission has conditioned much of its planned new assistance on the GOB's taking a comprehensive series of measures to improve the current economic situation. In addition, USAID 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.

In February 1985, the GOB took a series of economic measures which represented a helpful start in stabilizing the economy. More key measures need to be taken, but that start provides some basis for optimism. The February measures allow artisan knitwear exporters to retain 40% of their export earnings and require them to remit the rest to the Central Bank at the official exchange rate. The GOB eventually plans to make mini-devaluations periodically, and take other measures, until the official rate is close to the parallel rate. If this occurs, exporters will lose little abiding by the GOB's exchange control regulations. Since this may not happen soon, the project's financial analysis was prepared assuming that artisan organizations would turn in 60% of their foreign exchange at the official rate as is currently required, and that the official exchange rate will be 75% of the parallel rate during the first two years of the project and unsubsidized thereafter. This analysis shows that artisans can still make an acceptable profit.* Significant exports to new overseas markets

* Moreover, the newly elected authorities of the Association have indicated their desire to lobby in Congress to pass legislation providing preferential treatment to exports of artisanal products. If this were to occur, the merchandise being exported by the artisan organizations participating in the project would benefit from increased earnings, which would, in turn, make the project much more profitable. This scenario is quite conceivable in as much as any government would look favorably on the approval of legislation directed to increasing the income levels of poor urban and rural women.

will not begin until 1986. Given this lead time, during which it is expected that economic measures by a new Bolivian Government 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 has 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 official export 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 weeks to complete. This situation will not change overnight; however, this project will provide the Association (and USAID/Bolivia) the opportunity to begin lobbying with the GOB to simplify its exporting procedures. Centralizing the export process through the U.S. marketing firm is expected to facilitate the work which would be required if each artisan organization were to have to continue handling its own export procedures.

To import sweaters into the U.S., the U.S. marketing firm will pay a 19.5 percent ad valorem tariff plus 25 cent per pound of wool. This tariff is affordable in terms of the higher price markets the project is expected 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 U.S. market, it is not expected that pressures 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

exist 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 project, and describes 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. orders for luxury fiber knitwear range from 25 to 200 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/volume clients, such as department stores. To solve this problem, the U.S. marketing firm will support 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 artisan organization clients is described in Section V.A.2.b. In addition, large orders will be divided among different artisan organizations to ensure that delivery schedules are met.

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). High quality and modern 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, a specific marketing and product design plan along the lines of the general model outlined earlier will be undertaken by the U.S. marketing firm. The implementation of a professional marketing approach to product development and sales 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 knitting needles and tools. Training in these areas will be provided by the U.S. marketing firm.

iv. 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, staff from the U.S. marketing firm will assist the Association's client knitting organizations in setting up better quality control and inspection systems.

v. Credit. Limited access to 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 the Agribusiness and Artisanry (A and A) Project, the Title III Program, and the Departmental Development Corporations loan. 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. 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 any of the AID programs cited above. The Association 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 Association's Board and the availability of guarantees under the Productive Credit Guarantee Program 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 contracted U.S. marketing firm 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, increases are projected in both membership and output per worker as shown in Table 13.

Table 13

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

	Y E A R				
	1985	1986	1987	1988	1989
<u>Number of knitters</u>					
Fotrama	1,850	2,220	2,664	3,463	4,502
Amerindia	700	840	1,008	1,310	1,704
Kay-Huasy	490	588	706	917	1,192
Las Imillas	50	60	72	94	122
Org.No.5	-	-	-	200	260
Org.No.6	-	-	-	-	200
TOTAL	3,090	3,708	4,450	5,984	7,980
Increase over previous year (%)	-	20	20	34	33
<u>Output per Knitter</u> (Sweaters per year)					
Fotrama	14	18	21	24	26
Amerindia	10	14	17	24	26
Kay Huasy	12	16	19	24	26
Las Imillas	24	26	28	30	32
Org.No.5	-	-	-	14	16
Org.No.6	-	-	-	-	14

The largest relative increases in membership in each of the initial four participating artisan organizations takes place after year 2. Note that one new organization is to be incorporated into the project during its third and fourth years of operation. These new organizations will be selected from some one hundred existing rural and peri-urban knitters' associations in the departments of Cochabamba, La Paz, and Oruro. The projected annual sweater output rates per knitter will increase gradually as the project proceeds, until knitters attain a maximum output of up to 32 sweaters per year.

Based on the numbers of knitters and production rates indicated in Table 13, outputs can be obtained for each client artisan organization for each year of the project as is shown in Table 14. Finally, Table 15 shows the percentages of total output that will be marketed by the U.S. marketing firm, considering that each initial client organization already has some established markets to which it will continue to sell during the life of the project.

Table 14
Aggregate Output Levels
(No. of Sweaters)

Name of the Organization	Y E A R				
	1985	1986	1987	1988	1989
Fotrama	25,900	39,960	55,944	83,112	117,052
Amerindia	7,000	11,760	17,136	31,440	44,304
Kay-Huasy	5,880	9,408	13,414	22,008	30,992
Las Imillas	1,200	1,560	2,016	2,820	3,904
Org.No.5				2,800	4,160
Org.No.6					2,800
TOTAL	39,980	62,688	88,510	142,180	203,212

Table 15
Output to be Marketed by the U.S. Marketing Firm
 (No. of Sweaters)*

Name of the Organization	Y E A R			
	1986	1987	1988	1989
Fotrama	17,982	33,566	70,645	105,347
Amerindia	5,292	10,282	26,724	39,874
Kay-Huasy	4,234	8,048	18,707	27,893
Las Imillas	702	1,210	2,397	3,514
Org.No.5**		-	2,800	4,160
Org.No.6**		-	-	2,800
TOTAL	28,210	53,106	121,273	183,588
Share of total output(%)	45	60	85	90

- * The U.S. marketing firm will help sell existing inventories of knitwear in 1985, but for analytical purposes that fact is ignored.
 ** All output sold through the U.S. marketing firm.

3. Raw Material Supply

Bolivia produces more than enough camelid wool to manufacture 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 by Peruvian importers (between 20 and 50 per cent higher) which induce many Bolivian 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;* 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 therefore cannot obtain enough raw material for yarn production. FORNO only processes wool purchased and delivered to it by artisan organizations and has not yet taken an active interest in the camelid yarn business. Fotrama does well with its old equipment but presently can produce enough yarn to meet only part of its own needs.

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

- * This state-controlled entity, sells its products in an arbitrary way. Its retail shops, located in the principal cities, do not open on a regular schedule. They 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.

a. Projected Demand for Yarn

Table 16 presents the estimate of the amount of yarn to be demanded during the life of the project. It includes the yarn needed by the Association's clients, both to knit sweaters for sale through the U.S. marketing firm and for their current markets. Added to this is the volume of industrially spun yarn required by other artisan organizations and knitters not involved with the Association and the yarn Bolivia's industrial yarn processors will want to use to produce camelid fiber cloth for sale to other markets.

Table 16

Current and Projected Demand for Industrially Produced Camelid Yarn
(MF)

Year	Cloth-makers	Independent Organizations a/	Client organizations b/ c/		Total
			Non-Project Sales	Project Sales	
1985	-	27	20	--	47
1986	10	28	17	14	69
1987	30	31	17	27	105
1988	40	34	10	61	145
1989	50	38	10	92	190

- a/ Assuming an annual rate of growth of 5 percent for the period 1985-1986 and 10 percent per year for the period 1986-1989.
- b/ Quantities correspond to output projections in Tables 14 and 15, assuming that each sweater requires 1/2 kg. of yarn.
- c/ Considering that industrially processed yarn is used in 100 percent of the production of Fotrama, Kay-Huasy, and Las Imillas, and 28.5 percent 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, 124,200 kg/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 1,000 kgs. per month. Although several other private textile firms exist, they currently concentrate on cotton and acrylic fiber processing.

Plans are currently being made to increase this production capacity significantly. Fotrama has already elaborated a feasibility study to expand its textile plant in Cochabamba. This study has been recently presented for financing to Banco de la Unión and the Cochabamba Department Development Corporation (CORDECO), from funds available under the DDC loan and Title III. Universaltex, the most modern and efficient firm in the Bolivian textile industry, is presently elaborating, with Mission support, a feasibility study to expand its plant to process alpaca and llama wool. This study is expected to be presented for financing by June 1985, under an AID line of credit.

This interest in expansion has been generated as a result of USAID's support for the proposed project and the Mission's willingness to consider the refinancing of credits for such expansion under its current lines of credit. Fotrama expects to produce enough yarn to satisfy its own needs, but intends to provide carding, spinning, and dyeing services to other artisan organizations in the country. Universaltex is planning to produce enough camelid yarn to satisfy artisan needs in Bolivia, but also intends to compete with Peruvian firms in the production of camelid cloth. This cloth would initially be exported, but Universaltex is also interested in promoting the formation of a number of firms with whom it could subcontract sewing services, so as to be able to export ready-to-wear garments. An essential component of both the Fotrama and Universaltex projects is the commitment to sell yarn at world market prices to Association clients, before sales to other artisan organization or exports take place.

Table 17 shows the current and projected camelid yarn production capacity in Bolivia. As can be seen, the installed capacity increases dramatically in 1986, when the expanded facilities in the Universaltex plant will begin operating. The last column shows the percentage of total installed capacity that will be used to produce the camelid yarn demand shown in Table 16. From that column, it can be seen that Bolivia will have enough spinning capacity to meet projected yarn

* This compares with the current estimated demand for industrially spun yarn of 47,000 kgs. shown in Table 16.

demand. The capacity not used to produce camelid yarn while demand is growing will be used to produce yarn made from sheepswool, which is available in plentiful supply in Bolivia.

Table 17

Current and Project Camelid Yarn Production Capacities (MT)

Year	INFOL	FORNO	FOTRAMA	UNIVERSALTEX	Total	Capacity Devoted to Camelid Yarn
1985	28	84	12	-	124	8
1986	28	84	25	250	387	18
1987	28	84	50	250	412	25
1988	28	84	50	250	412	35
1989	28	84	50	250	412	46

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 70% 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 18 shows the average composition of camelid yarn to be produced during the project. As can be seen, given current export market preferences for alpaca, 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 Universaltext. The use of non-camelid fibers begins in 1987.

Table 18 also shows the "fleece equivalent" of the alpaca and llama needed to produce the tonnage of yarn indicated in Table 16. The long (3 to 4 inch) fine fibers sheared from the animal's upper parts, from which yarn is made is referred to as "fleece". About 30% of fleece

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is lost in yarn production; hence, the 1.42 conversion factor to obtain 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 18 equal the amount of camelid fleeces industrial spinners will need to purchase each year to meet the yarn demand shown in Table 16.

Table 18
Current and Projected Composition of Industrially
Produced Camelid Yarn

Year	Composition by Type of Fiber						Total Yarn a/ Output MT	Fleece Equivalent	
	Alpaca		Llama		Other			Alpaca b/	Llama c/
	MT	%	MT	%	MT	%		MT	MT
1985	40	85	7	15	-	0	47	57	13
1986	59	85	10	15	-	0	69	84	19
1987	74	70	26	25	5	5	105	105	49
1988	73	50	58	40	14	10	145	104	110
1989	76	40	95	50	18	10	190	108	181

a/ From Table 16

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 19 shows the current and projected volumes of camelid fleece to be produced in Bolivia and its uses. The camelid fleece production projections are based on very low estimates of herd growth and no yield improvements; thus they are conservative.* Because Bolivian textile mills will be paying 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 19. It is assumed that industrial firms will pay enough to stem the flow of Bolivian alpaca to Peru. Llama fleece exports also decline, but continue at a lower level. Artisan 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 is 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 19
Current and Projected Supply and Uses of Alpaca
and Llama Fleece (MT)

Year		National Output	Industrial Demand	Exports to Peru	Hand Spinners	Marketing Losses	Aggregate Demand
1985	Alpaca a/	118	57	46	13	2	118
	Llama b/	524	13	200	300	11	524
1986	Alpaca	120	84	29	5	2	120
	Llama	532	19	200	302	11	532
1987	Alpaca	122	105	12	3	2	122
	Llama	541	49	184	297	11	541
1988	Alpaca	124	104	12	6	2	124
	Llama	550	110	157	272	11	550
1989	Alpaca	126	108	10	6	2	126
	Llama	559	181	120	247	11	559

a/ Assuming that 30 percent 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 Association 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.

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B. Institutional Analysis

This section discusses questions concerning the proposed Association/U.S. marketing firm scheme and describes the four artisan organizations which will initially participate in the project.

1. The Association/U.S. Marketing Firm Scheme

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

The Association's founders are enthusiastic about its chances for success. Its operations and staff will be kept flexible to respond to situations as they arise. The Board will ensure that the activities of the U.S. marketing firm to be contracted and those of other consultants are carried out in an efficient, business-like manner. The project's financial analysis shows that the Association will be self-financing and generate funds with which to undertake other artisanal export activities as knitwear sales increase. The Association's members and staff will gain the expertise in marketing necessary to undertake new activities from the experience gained with knitwear exporting and from technical assistance to be provided to the Association itself. Having the initial membership of the Association mostly from Cochabamba could unnecessarily restrict the scope of future artisan export activities, but special efforts will be made to widen the Association's membership as the project proceeds.

GC/LAC has suggested that a traditional technical assistance approach, under which TA could be provided in knitwear production to the artisan organizations through an Association contract with a consulting firm or individuals (perhaps with incentives built in for helping artisan organizations make marketing arrangements, but with the artisan organizations responsible for marketing) might be preferable because it would avoid potential conflicts of interest by a U.S. marketing firm responsible for both production assistance and actual sales. The Mission disagrees because:

a) Such an arrangement would divorce marketing activities from production activities (or at best not be marketing led). Marketing is the key to success for this project, and concentration on production with insufficient attention to marketing has been the reason for the failure of numerous previous artisanal export projects all over the world.

b) The pragmatic, useful and results-oriented expertise needed in knitwear design and production is available almost exclusively from

overseas apparel production and/or marketing firms which are in the business of using their expertise to make a profit selling apparel. The likelihood of interesting one of these firms in a consulting fee only type contract is remote. The more likely result of attempting to operate the project through a consultant arrangement would be a plethora of TA proposals from the consulting firms which normally work under AID-financed contracts, none of which would be able to offer qualified personnel already involved in apparel marketing. At best, retired executives or out-of-work fashion consultants might be attracted to the project. Undoubtedly, they would help the artisan organizations, but they could not do the job as well as personnel from a company actively involved in apparel marketing. In addition, and most importantly, a consulting firm would not be able to provide the personnel infrastructure and logistical support that are needed to carry out a serious marketing effort in the U.S. To penetrate successfully into the U.S. market, a well integrated organization is required, having a permanent staff (e.g. customs brokers, shippers, warehouse persons, accountants, sales representatives, show room attendants, etc.), physical infrastructure (warehousing, showrooms, retail stores, etc.), and the capacity to contract outside services (e.g. designers, color consultants, etc.). No consulting firm is likely to satisfy such requirements.

c) An arrangement such as that suggested would practically eliminate the profit motive to do a good job on behalf of the U.S. firm to be contracted. Incentive payments for consultants would be a poor substitute for the real incentive to do a good job that an operational marketing firm will receive from prospective sales profits.

GC/LAC pointed out potential conflicts of interest and contract enforcement problems under the proposed Association/U.S. marketing firm scheme. Some modifications have been made in the originally proposed scheme to reduce the potential risks pointed out.

First, it was decided (a) that the artisan organizations which decide to participate in the project as Association clients will not have the option of deciding whether or not to contract with the U.S. marketing firm for export sales, and (b) that the commissions negotiated by each artisan organization will be the same. Unless otherwise agreed by both parties, under the contracts to be signed with each artisan organization, the U.S. marketing firm will be appointed the exclusive distributor for a specified quantity of knitwear produced under the project, with each artisan organization agreeing to sell a minimum amount of items through the U.S. firm. The artisan organizations will be free to make, or retain, other additional arrangements to sell knitwear which do not conflict with their obligations under their contracts with the project's U.S. marketing firm, but they will not be free to accept TA and not sell through the U.S. marketing firm.

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GC rightly saw potential conflicts of interest on the part of the contractor with regard to the provision of design and production assistance were commissions to vary from one Association client to another or were any clients to decide not to use the U.S. firm as a sales agent. The Association's assistance will be made available to artisan organizations as a package. If they do not like the proposed arrangement, they are free to decline to participate. The artisan organizations will participate in the selection of the U.S. firm, and the Association will ensure that the sales contracts each one signs with that firm are fair and non-discriminatory. Any artisan organization will be free to drop out of the project (after completion of their contractual responsibilities) at any time they may become dissatisfied with the contractor. If several become dissatisfied, the Association would, no doubt, cancel its contract with the firm. The freedom each artisan organization retains to continue existing marketing arrangements with its current buyers/agents, or to start new ones, will be an additional continual incentive to the U.S. firm to do a good job.

Although all four artisan organizations have expressed their willingness, indeed their eagerness, to participate in the project as it is planned, the Mission has considered what strategy to adopt if, for one reason or another, one of the four organizations decided not to participate at the time the U.S. contractor is chosen. Fotrama is the only one of the four which has an ongoing marketing arrangement with a U.S. firm (through which it sells about 1/3 of its output - 8000 sweaters). Two of the others make only sporadic export sales now. Las Imillas sells all its production locally. Given their combined meager export sales, all four organizations are currently anxious to participate. In order not to compromise the exporting arrangements which do already exist, however, the sales contracts to be signed with the U.S. marketing firm will either allow existing arrangements to continue or, preferably, provide for increased sales of better knitwear by the U.S. firm to existing outlets. This way, the artisan organizations, their existing overseas customers and the U.S. marketing firm all will benefit. If, contrary to currently expressed desires, any of the four organizations refuses to participate in the project under the terms contemplated, USAID and the Association will revise the project's sales targets and inputs accordingly to ensure that the project will remain economically viable.

GC also questioned the wisdom of having a U.S. firm advise on marketing while also acting as a distributor under a separate contract. In fact, this will not be the case. Under the dual contract arrangement envisaged by the project, the U.S. firm will act as a sales agent/wholesaler for the artisan organizations as part of its overall project activities. It will not be asked to advise on alternative exporting arrangements. Rather, it will be judged on how well it succeeds. The artisan organizations are aware that they will be somewhat

"captive" to the U.S. firm, but they also know they are in urgent need of assistance and market outlets now, that they will help select the contractor, and that they can drop out any time they are dissatisfied with the arrangement.

GC also pointed out problems the Association might have enforcing its contract with a U.S. firm if the firm failed to comply with contract terms or discontinued activities without its consent. GC saw potential problems in the monitoring of contractor activities in the U.S. by a Bolivian Association and possible difficulties suing in U.S. court if such became necessary. Funds have been included in the project's budget to finance frequent on-the-job training trips to the U.S. by both Association and artisan organization personnel. In this way, they will be completely familiar with the U.S. contractor's stateside operations. Furthermore, the Association will be run by experienced businessmen who know how to judge performance and are used to dealing with overseas contractors. Therefore, few, if any, problems are anticipated in the Association's monitoring of its contractor.

With respect to the possible extreme measure of having to bring legal suit, the venue of the Association's contract will be Bolivia, and the Association will have the ability to bring suit in Bolivia. If a U.S. suit were to become necessary, the Association could hire counsel in the U.S.

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 3,090 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 pay artisans equitable prices regularly.
- They are enthusiastic about the project.
- They employ enough artisans to make a quick impact on the welfare of a significant portion 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.

a. 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 66 people full time, provides work for 1,850 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 have been adopted by Amerindia, Kay Huasy and Las Imillas and represent the key to each one'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 basic 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 related to access to yarn, export obstacles and its incomplete textile plant.

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 48 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 export obstacles.

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 team, the full-time staff in Cochabamba includes an accountant and five other quality control/administrative employees.

Kay Huasy employs 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 high school students residing in peri-urban areas of Cochabamba city, who do not consider themselves artisans nor plan to stay in artisanry, are found among the women at Kay Huasy's production centers. 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.
- Purchases from INFOL.
- Contracts with Bolivian spinning mills.
- Purchases of hand-spun yarn.
- Purchases of raw wool for delivery to Fotrama for conversion to carded fiber to be hand spun on consignment.

Kay Huasy currently sells about 6,000 sweaters per year. While 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 60 minutes drive from Cochabamba, when 25 former 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 members. The main difficulties being experienced by Las Imillas are the need to organize itself better 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 knitting 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 export project; Amerindia, a solidly established enterprise with a 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 grass-roots 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 Association choose two additional artisan organizations to participate in the project from the many others already in existence so as to broaden 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 Association. These knitters are female members of rural households in the Cochabamba Valley and its 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 7,980 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 activities, 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 train 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 detract 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 from 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 the different artisan organizations to cooperate as co-recipients of assistance from the Association.

On the first issue, in discussions with knitters themselves, it was learned that the income these women 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 other well trained knitters will be able to knit more than two dozen 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 work. They are simply knitting to earn money during periods when they have no other income-earning as productive alternative.

With regard to the issue concerning participation of artisan organization leaders in the project's activities, it should be reiterated that the artisan organizations will not co-manage the Association. This option was discarded as not feasible given the somewhat competitive nature of the relationships among the organizations. Instead, they must simply be sufficiently satisfied with the services they receive to continue to abide by the decisions of the Association's Board and its contractors to continue to cooperate in technical assistance and training efforts.

In extensive discussions with the leaders of the four organizations concerning the operational modality of the project 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 do what is necessary as joint recipients of assistance from the Association to take advantage of the opportunities offered by the project.

D. Financial and Economic Analyses

Four Analyses are summarized below:

- . An analysis of the financial benefit to artisan knitters of participating in the project.
- . An analysis of the financial viability of each of the artisan organizations participating in the project.
- . An analysis of the financial profitability of the Association.
- . An economic analysis of the project.

1. Basic Assumptions

The assumptions upon which the four analyses are based are:

- . The project budget figures included in Tables 2 to 5 in Section III.
- . The number of participating knitters, output per knitter, sales volumes, costs and margins shown in Tables 10 to 15 in Section V A.
- . An average sales price of \$30 per knitwear garment sold through the Association's contractor, which goes up as the project proceeds due to both inflation and penetration of better markets. (Garment production costs also rise accordingly.)
- . A payment of \$5 per garment to artisan knitters, which rises slightly over time. (This is conservative in view of the profitability of the project to participating artisan organizations after year 2.)
- . An official exchange rate estimated at 75% of the real (parallel) rate during the project's first two years. (This assumption is made in order to err on the conservative side. There is hope that the new GOB will discontinue use of a subsidized official rate by the fourth quarter of 1985. The assumption of continued subsidization results in an exchange loss of 15% by the Artisan organizations in years 1 and 2 ($.6 \times .75 + .4 \times 1$) and increases the amount of dollars AID must budget for local currency expenditures in those years.)
- . Year 1 in the analyses corresponds to mid 1985 - mid 1986.

2. Artisan Benefit Analysis

The objective of this analysis is to measure the financial benefit occurring to artisans participating in the project. Table 20 shows income to participating artisans as a group with and without the project. On a present value basis, artisans will receive over 9 times more income from knitting by participating in the project. For example, the average knitter will earn \$139 in year 4 of the project versus about \$12 without it.

3. Financial Analyses of Participating Artisan Organizations

The objective of these analyses is to examine the effects of participating in the project on the financial status of each of the initial four artisan organizations and whether they can borrow to make necessary investments in expanded operations. Projected balance sheets, income statements and cash flow statements are given for each. The same statements are projected for the two organizations to join the project in years 3 and 4, and a composite table is presented which forms the basis for the economic analysis presented later.

The assumptions used in the financial statements are those noted above plus:

- . A real interest rate of 16% on funds borrowed. Loans for working capital will have a maturity of two years, while those for fixed investment will run five years.
- . An average charge for administrative overhead of \$5 per garment in year 1, which declines with increased sales thereafter. (This compares with \$1.33 at present, and has been raised due to the need to increase fixed operating expenses (salaries, etc., to undertake increased production and sales.)
- . Income taxes of 30% for Kay Huasy only. The cooperative artisan organizations are exempt from Bolivian income taxes.

Fotrama is the largest organization participating in the project. Its current assets of \$425,000 include cash and inventories of raw wool, yarn and finished products. Its 8,000 m2 headquarters and textile machinery are valued at \$450,000. The Cooperative's only current debt is \$25,000 owed to OXFAM, and its equity totals \$850,000. Fotrama requires a loan of \$100,000 to install a spinning train and two gills which have already been acquired and to purchase a centrifuge, a dying machine, a boiler, a transformer and one vehicle. An additional loan of \$330,000 is required for working capital during the four year LOP. Fotrama has prepared a request for a loan from the Banco de la Unión, which will refinance the loan through CORDECO.

Amerindia has current assets of \$50,000, consisting of cash and inventories of wool, yarn and finished products. Its other assets are two vehicles and office furniture, valued at \$20,000. Its only liability is a debt of \$1,600 to wool suppliers. Amerindia requires loans of \$15,000 to invest in another vehicle and \$180,000 for working capital during the LOP. It has approached the Banco Mercantil and is preparing a loan request which will be refinanced through CORDECO. The loan will be backed by Amerindia's parent organization, the Centro para el Desarrollo Económico y Social (DESEC), one of Bolivia's most prestigious rural development organizations. Equity funds to be invested will be deducted from wages paid to member knitters.

Las Imillas has assets valued at \$15,000 consisting of cash, yarn, a small inventory of finished products and its headquarters building. It has no liabilities. The Cooperative plans to borrow \$40,000 during the life of the project, mostly for operating capital, through refinanced loans. Mission staff will assist Las Imillas to prepare its loan application.

Kay Huasy, has current assets (cash, wool, yarn and finished garments) valued at \$40,000 and fixed assets (800 m² building in Quillacollo, a vehicle, and furniture) valued at \$49,000. It has a debt of \$3,600 with a German importer. Kay Huasy, plans to borrow \$260,000, for wool processing machinery (\$80,000) and working capital (\$180,000). Only the working capital investment is necessary to participate in the project, but Kay Huasi's owners wish to become less dependent on yarn processors and therefore are planning the machinery purchase. They plan to borrow money from the Banco de Cochabamba and to obtain equity investment funds totalling \$140,000 from the owner's German family.

The projections prepared for the participating artisan organizations indicate that during the first two years of the project their financial situations will be tight, as is common in new ventures. Net income will be negative (due almost exclusively to exchange rate losses caused by the assumed subsidized official exchange rate) but cash flows will be positive. Each of the organizations will be able to service its new debt. Together, participating organizations will have a net income of \$1.17 million on sales of \$6.91 million by year 4. Their equity will grow from \$1.02 million in year 0 to \$5.1 million in year 5.

4. Income Statement of the Association

The objective of this analysis is to verify that the Association will be able to finance its own expenses as AID's contributions to operating costs are phased out, and to estimate the amount of funds which will accumulate for the financing of new artisanry exports activities.

The Association will be financed by members' contributions and commissions on sales its contractor helps arrange. Contributions are assumed to be \$5,500 in year 1 (\$5,000 from the five founders plus \$25 from 20 new members). Three additional founding members are assumed to join in years 2 and 3, and the assumption regarding 20 new members paying \$25 each is continued through year 5. Contributions will be made annually by all members. The income projections do not include institutional donations other than AID's, although the chances of obtaining them are good.

The projected income statement shows that by year 5 when the AID subsidy ceases, the Association will have accumulated over \$2 million, not counting interest on cash balances. Given the cash available, it is likely the Association will begin new artisanal activities in year 3.

5. Economic Analysis

The objective of this analysis is to measure the project's economic return to Bolivia. The net financial returns shown in Table 27 are converted to economic values and discounted against the project's incremental investment costs. The benefits include only those attributable to garments sold through the U.S. marketing firm. Thus, they are understated because through the project, participating artisan organizations will also be assisted in the production of garments sold through non-project distribution channels. The investment costs include AID's grant, Association members' contributions and the additional investment to be made by the artisan organizations.

Adjusting from financial to economic values is not difficult. Real, or economic, values are costs and revenues calculated at their opportunity values or assigned the values they would command in freely competitive world trade. Fortunately, most of the factor prices used in designing the project, and included in the financial analysis, are real. These include:

- . The FOB knitwear product price set in dollars to compete with similar products traded internationally.
- . Administrative services to run the producer organizations and the Association valued in parallel market dollars and based on the competitive Bolivian private sector market for such services.
- .. Alpaca yarn based on the dollar price of internationally traded alpaca yarn sold by Mitchell Brothers of Peru.

- . Collecting, packaging and delivery costs and local training costs, at parallel market dollar values based on competitive Bolivian prices.
- . Foreign technical assistance, training, marketing and commodity costs based on international dollar prices.
- . Association contributions fixed in dollar values.
- . Costs of expansion of productive capacity based on international dollar prices of machinery, vehicles, and office equipment.

Certain other costs included in the financial analysis are considered internal transfer prices which do not represent an addition or subtraction of resources to or from the Bolivian economy, and are thus deleted from the economic analysis. These include:

- Interest, a transfer from borrowers to savers.
- Commissions, a transfer of revenue from artisan organizations to the Association.
- Depreciation which is not included as an expense required to produce goods since this would entail double counting given that the item leading to depreciation, capital, is included in the project investment.

Thus, without having to convert a major portion of the project's financial prices to economic values, and being able to delete transfer prices, the only adjustments remaining to be made in the financial analysis to convert to economic values are for the cost of knitting, and to take account of the effects of the subsidized exchange rate in years 1 and 2.

In the financial analysis, it is assumed the knitter will begin to be paid \$5 per item of knitwear in year 1. However, knitters could be attracted for less than \$5 per sweater. The economic analysis estimates the opportunity cost of the knitter's labor at \$1.3 per unit in year 1. This value has been calculated based on the assumption that knitting is the activity rural women engage in on the margin, in the time available from other farm and family chores. Without the project, it is assumed the four initial producer organizations will continue to produce sweaters for which their artisans will receive \$1.5 in year 1, and that the artisans estimated to enter the project in the first year will continue to knit sweaters for which they will earn \$.20. A weighted average of those knitters who, without the project, would receive \$1.5 and \$.20 per garment in year 1 results in an average without project wage

of \$1.28 per sweater. In later project years, with the project labor force containing a higher proportion of new entrants, the average opportunity wage received without the project declines. For example, in year 1, 618 new knitters represent 17 percent of total knitters. By year 4, the accumulation of new knitters represents 61 per cent of total knitters. Thus, the without project wage declines from \$1.28 per unit in year 1 to \$.82 in year 4, or from 26 percent of the project's financial wage in Year 1 to 14 per cent of the project's financial wage in year 4.

Two adjustments to the financial analysis must be made on account of the subsidized official exchange rate in years 1 and 2: to increase sales revenues by the amount lost to the Central Bank and to reduce the amount of AID's dollar grant by the exchange loss experienced as a result of changing dollars to pesos for local costs.

Artisan organizations will lose 15% of their revenue due to the exchange rate each year ($.6 \times .75 + 4 \times 1$). Thus the conversion factor to be applied to financial revenues is 1.18 ($1 / .85$).

AID's financial contribution to the project was increased by \$60,500 as a result of the application of the official exchange rate to dollars exchanged to finance local costs in years 1 and 2. Therefore, AID's investment cost is reduced to \$2,939,500

The project's economic analysis, which is conservatively figured over only the life of the project (four years) with a 12% discount rate, indicates a net present value of \$1,220,000 and a benefit/cost ratio of 1.33.

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 MARKETING FIRM(M.F.)	28210	53106	121273	183569	293821	293821	293821	293821	1561461
NUMBER OF UNITS SOLD. LOCAL-BETTER QUALITY	34478	35404	20907	19824	31283	31283	31283	31283	235545
INCOME PER UNIT-THRU M.F.-TO THE ARTISAN	5.00	5.27	5.55	5.85	6.19	6.18	6.18	6.18	
INCOME PER UNIT-BETTER QUALITY-TO THE ARTISAN	1.5	1.58	1.65	1.74	1.84	1.84	1.84	1.84	
NUMBER OF ARTISANS	3708	4450	5984	7980	10374	10374	10374	10374	10374
TOTAL INCOME TO THE ARTISANS	192767	335826	707562	1108144	1871816	1871816	1871816	1871816	9831563.
TOTAL INCOME PER ARTISAN	51.99	75.47	118.24	138.87	180.43	180.43	180.43	180.43	947.71

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	18564	41493	73590	115099	115099	115099	115099	602076
INCOME PER UNIT-BETTER QUALITY-TO THE ARTISAN	1.5	1.58	1.65	1.74	1.84	1.84	1.84	1.84	
INCOME PER UNIT-LOWER QUALITY-TO THE ARTISAN	0.20	0.21	0.22	0.23	0.24	0.24	0.24	0.24	
NUMBER OF ARTISANS	3708	4450	5984	7980	10374	10374	10374	10374	10374
TOTAL INCOME TO THE ARTISANS	61862	70577	82203	98011	117896	117896	117896	117896	784236
TOTAL INCOME PER ARTISAN	16.68	15.86	13.74	12.28	11.36	11.36	11.36	11.36	75.60

PRESENT VALUE:

TOTAL INCOME WITH PROJECT.	627.28
TOTAL INCOME WITHOUT PROJECT.	67.06
RATIO INCOME WITH/WITHOUT PROJECT.	9.35
RATE UTILIZED	0.12

TABLE 21 COOPERATIVA ARTESANAL DE FOMENTO AL TRABAJO MANUAL (US\$000)

	BEFORE LOAN	Y 1	E 2	A 3	R 4	S 5
A. BALANCE SHEET						
ASSETS						
CURRENT ASSETS	423	368	417	896	1629	2957
NON-CURRENT ASSETS	450	495	440	385	330	275
TOTAL ASSETS	875	863	857	1281	1959	3232
LIABILITIES						
CURRENT LIABILITIES	25	30	70	125	135	70
NON-CURRENT LIABILITIES	0	90	100	105	70	0
EQUITY	850	870	910	910	910	910
RETAINED EARNINGS	0	-127	-223	141	844	2252
T. EQUITY & LIABILITIES	875	863	857	1281	1959	3232
B. INCOME STATEMENT						
# OF UNITS SOLD THRU MARKETING FIRM(M.F.)	17982	33566	70645	105347	168555	
# OF UNITS SOLD DIRECTLY	21978	22378	12467	11705	18728	
NET PRICE UNITS SOLD THRU M.F.	30.00	32.00	34.00	36.00	38.00	
NET PRICE UNITS SOLD DIRECTLY.	13.34	14.05	14.67	15.47	16.18	
DIRECT COST PER UNIT SOLD THRU M.F.	18.00	18.99	20.00	21.05	22.16	
DIRECT COST PER UNIT SOLD DIRECTLY.	11.17	11.77	12.29	12.96	13.55	
ADMINISTRATIVE COST PER UNIT SOLD (AVERAGE)	5.00	4.50	3.75	3.50	3.00	
SALES:						
THROUGH THE M.F.	752	1227	2585	3974	6708	
DIRECTLY	459	913	2402	3792	6405	
	293	314	183	181	303	
DIRECT COSTS:						
THROUGH M.F.	569	901	1566	2369	3988	
DIRECTLY	324	637	1413	2218	3734	
	245	263	153	152	254	
GROSS PROFIT	183	327	1019	1604	2720	
MINUS: ADMINISTRATIVE COST						
COMMISSION TO THE ASSOCIATION	200	252	312	410	562	
MARKETING & TRAINING	46	91	240	379	641	
DEPRECIATION	6	9	26	28	28	
FINANCIAL COSTS	55	55	55	55	55	
TOTAL OTHER COST	3	16	22	30	27	
NET INCOME	310	423	653	901	1312	
	-127	-96	364	703	1408	
C. SOURCE AND APPLICATION OF FUNDS						
SOURCES						
NET INCOME	-127	-96	364	703	1408	
DEPRECIATION	55	55	55	55	55	
WORKING CAPITAL LOAN	20	80	130	100	0	
FIXED INVESTMENT LOAN	100	0	0	0	0	
OWN RESOURCES	20	40	0	0	0	
TOTAL SOURCES	68	79	549	858	1463	
APPLICATIONS						
FIXED INVESTMENT	100	0	0	0	0	
INCREMENTAL WORKING CAPITAL	40	80	250	350	0	
CAPITAL REPAYMENT	25	30	70	125	135	
TOTAL APPLICATIONS	165	110	320	475	135	
SOURCES MINUS APPLICATIONS	-97	-31	229	383	1328	
PREVIOUS CASH ON HAND	146	49	17	246	636	
NET CASH AT THE END OF THE PERIOD	49	17	246	630	1958	
INVENTORIES AT THE END OF THE PERIOD						
MINIMUM INVENTORIES (3 MONTHS)	279	319	399	649	999	999
INVENTARIES IN EXCESS OR (DEFICIT)	142	225	392	592	997	997
	137	94	8	57	2	2

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TABLE 22 AMERINDIA (US\$000)

	BEFORE LOAN	Y 1	E 2	A 3	R 4	S 5
A. BALANCE SHEET						
ASSETS						
CURRENT ASSETS	50	80	104	291	591	1080
NON-CURRENT ASSETS	20	32	28	25	21	18
TOTAL ASSETS	70	112	132	315	612	1097
LIABILITIES						
CURRENT LIABILITIES	2	19	33	47	63	33
NON-CURRENT LIABILITIES	0	29	23	36	33	0
EQUITY	68	88	118	118	118	118
RETAINED EARNINGS	0	-24	-42	114	398	946
T. EQUITY & LIABILITIES	70	112	132	315	612	1097
B. INCOME STATEMENT						
# OF UNITS SOLD THRU MARKETING FIRM(M.F.)		5292	10282	26724	39874	63798
# OF UNITS SOLD DIRECTLY		6468	6854	4715	4430	7088
NET PRICE UNITS SOLD THRU M.F.	30.00	32.00	34.00	34.00	36.00	38.00
NET PRICE UNITS SOLD DIRECTLY.	13.34	14.05	14.67	15.47	16.18	16.18
DIRECT COST PER UNIT SOLD THRU M.F.	18.00	18.99	20.00	21.05	22.16	22.16
DIRECT COST PER UNIT SOLD DIRECTLY.	11.17	11.77	12.29	12.96	13.55	13.55
ADMINISTRATIVE COST PER UNIT SOLD (AVERAGE)	5.00	4.50	3.75	3.50	3.00	3.00
SALES:						
THROUGH THE M.F.		221	376	978	1504	2539
DIRECTLY		135	280	909	1435	2424
		86	96	69	69	115
DIRECT COSTS:						
THROUGH M.F.		168	276	592	897	1510
DIRECTLY		95	195	534	839	1413
		72	81	58	57	96
GROSS PROFIT		54	100	385	607	1030
MINUS: ADMINISTRATIVE COST						
COMMISSION TO THE ASSOCIATION		59	77	118	155	213
MARKETING & TRAINING		13	28	91	144	242
DEPRECIATION		2	3	10	10	10
FINANCIAL COSTS		4	4	4	4	4
TOTAL OTHER COST		0	6	7	11	12
NET INCOME		78	118	229	323	481
		-24	-18	156	284	548
C. SOURCE AND APPLICATION OF FUNDS						
SOURCES						
NET INCOME		-24	-18	156	284	548
DEPRECIATION		4	4	4	4	4
WORKING CAPITAL LOAN		33	27	60	60	0
FIXED INVESTMENT LOAN		15	0	0	0	0
OWN RESOURCES		20	30	0	0	0
TOTAL SOURCES		47	43	220	347	552
APPLICATIONS						
FIXED INVESTMENT		15	0	0	0	0
INCREMENTAL WORKING CAPITAL		53	27	120	160	0
CAPITAL REPAYMENT		2	19	33	47	63
TOTAL APPLICATIONS		70	46	153	207	63
SOURCES MINUS APPLICATIONS		-23	-3	67	140	489
PREVIOUS CASH ON HAND		26	3	0	66	207
NET CASH AT THE END OF THE PERIOD		3	0	66	207	695
INVENTORIES AT THE END OF THE PERIOD						
MINIMUM INVENTORIES (3 MONTHS)		23	78	105	225	385
INVENTORIES IN EXCESS OR (DEFICIT)		42	69	148	224	377
		-17	9	-44	0	7

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TABLE 23 LAS MILLAS (US\$000)

	BEFORE LOAN	Y 1	E 2	A 3	R 4	S 5
A. BALANCE SHEET						
ASSETS						
CURRENT ASSETS	10	22	28	43	68	93
NON-CURRENT ASSETS	5	8	7	7	6	5
TOTAL ASSETS	15	30	36	49	74	98
LIABILITIES						
CURRENT LIABILITIES	0	6	9	9	11	5
NON-CURRENT LIABILITIES	0	9	5	6	5	0
EQUITY	15	19	29	29	29	29
RETAINED EARNINGS	0	-4	-7	5	29	64
T. EQUITY & LIABILITIES	15	30	36	49	74	98
B. INCOME STATEMENT						
# OF UNITS SOLD THRU MARKETING FIRM(M.F.)		702	1210	2397	3514	4568
# OF UNITS SOLD DIRECTLY		858	806	423	390	507
NET PRICE UNITS SOLD THRU M.F.		30.00	32.00	34.00	36.00	38.00
NET PRICE UNITS SOLD DIRECTLY.		13.34	14.05	14.67	15.47	16.16
DIRECT COST PER UNIT SOLD THRU M.F.		18.00	18.99	20.00	21.05	22.16
DIRECT COST PER UNIT SOLD DIRECTLY.		11.17	11.77	12.29	12.96	13.55
ADMINISTRATIVE COST PER UNIT SOLD (AVERAGE)		5.00	4.50	3.75	3.50	3.50
SALES:						
THROUGH THE M.F.		29	44	88	133	182
DIRECTLY		18	33	81	127	174
		11	11	6	6	8
DIRECT COSTS:						
THROUGH M.F.		22	32	53	79	109
DIRECTLY		13	23	48	74	101
		10	9	5	5	7
GROSS PROFIT		7	12	35	54	74
MINUS: ADMINISTRATIVE COST						
COMMISSION TO THE ASSOCIATION		8	9	11	14	18
MARKETING & TRAINING		2	3	8	13	17
DEPRECIATION		0	0	1	1	1
FINANCIAL COSTS		1	1	1	1	1
TOTAL OTHER COST		0	2	2	2	2
NET INCOME		11	15	22	30	39
		-4	-4	12	24	35
C. SOURCE AND APPLICATION OF FUNDS						
SOURCES						
NET INCOME		-4	-4	12	24	35
DEPRECIATION		1	1	1	1	1
WORKING CAPITAL LOAN		11	5	10	10	0
FIXED INVESTMENT LOAN		4	0	0	0	0
OWN RESOURCES		4	10	0	0	0
TOTAL SOURCES		16	12	23	34	36
APPLICATIONS						
FIXED INVESTMENT		4	0	0	0	0
INCREMENTAL WORKING CAPITAL		15	5	10	10	0
CAPITAL REPAYMENT		0	6	9	9	11
TOTAL APPLICATIONS		19	11	19	19	11
SOURCES MINUS APPLICATIONS		-3	1	4	15	25
PREVIOUS CASH ON HAND		4	1	2	7	22
NET CASH AT THE END OF THE PERIOD		1	2	7	22	47
INVENTORIES AT THE END OF THE PERIOD						
MINIMUM INVENTORIES (3 MONTHS)		6	21	26	36	46
INVENTORIES IN EXCESS OR (DEFICIT)		6	8	13	20	27
		0	13	13	19	19

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TABLE 24 KAY-HUASY (US\$000)

	BEFORE LOAN	Y 1	E 2	A 3	R 4	S 5
A. BALANCE SHEET						
ASSETS						
CURRENT ASSETS	40	59	108	218	393	650
NON-CURRENT ASSETS	49	179	159	139	119	99
TOTAL ASSETS	89	238	267	357	512	750
LIABILITIES						
CURRENT LIABILITIES	4	31	51	66	71	41
ACCRUED TAXES	0	0	0	1	52	108
NON-CURRENT LIABILITIES	0	79	68	62	41	0
EQUITY	85	165	225	225	225	225
RETAINED EARNINGS	0	-37	-77	3	124	376
T. EQUITY & LIABILITIES	89	238	267	357	512	750
B. INCOME STATEMENT						
# OF UNITS SOLD THRU MARKETING FIRM(M.F.)		4234	8048	18707	27893	44628
# OF UNITS SOLD DIRECTLY		5174	5356	3301	3099	4957
NET PRICE UNITS SOLD THRU M.F.		30.00	32.00	34.00	36.00	38.00
NET PRICE UNITS SOLD DIRECTLY.		13.34	14.05	14.67	15.47	16.18
DIRECT COST PER UNIT SOLD THRU M.F.		18.00	18.99	20.00	21.05	22.16
DIRECT COST PER UNIT SOLD DIRECTLY.		11.17	11.77	12.29	12.96	13.55
ADMINISTRATIVE COST PER UNIT SOLD (AVERAGE)		5.00	4.50	3.75	3.50	3.00
SALES:						
THROUGH THE M.F.		177	294	684	1052	1776
DIRECTLY		108	219	636	1004	1676
		69	75	48	48	80
DIRECT COSTS:						
THROUGH M.F.		134	216	415	627	1056
DIRECTLY		76	153	374	587	989
		58	63	41	40	67
GROSS PROFIT		43	78	270	425	720
MINUS: ADMINISTRATIVE COST						
COMMISSION TO THE ASSOCIATION		47	60	83	108	149
MARKETING & TRAINING		11	22	64	100	170
DEPRECIATION		1	2	7	7	7
FINANCIAL COSTS		20	20	20	20	20
TOTAL OTHER COST		1	14	15	17	15
EARNINGS BEFORE TAXES		80	119	188	253	360
TAXES		-37	-40	81	172	360
NET INCOME		0	0	1	52	108
		-37	-40	80	120	252
C. SOURCE AND APPLICATION OF FUNDS						
SOURCES						
NET INCOME		-37	-40	80	120	252
DEPRECIATION		20	20	20	20	20
WORKING CAPITAL LOAN		30	40	60	50	0
FIXED INVESTMENT LOAN		80	0	0	0	0
OWN RESOURCES		80	60	0	0	0
TOTAL SOURCES		173	80	160	190	272
APPLICATIONS						
FIXED INVESTMENT		150	0	0	0	0
INCREMENTAL WORKING CAPITAL		40	40	60	110	0
CAPITAL REPAYMENT		4	31	51	66	71
TOTAL APPLICATIONS		194	71	111	176	71
SOURCES MINUS APPLICATIONS		-21	9	49	14	201
PREVIOUS CASH ON HAND		24	3	12	61	75
NET CASH AT THE END OF THE PERIOD		3	12	61	75	276
INVENTORIES AT THE END OF THE PERIOD						
MINIMUM INVENTORIES (3 MONTHS)		16	56	96	157	374
INVENTORIES IN EXCESS OR (DEFICIT)		34	54	104	157	264
		-12	2	-8	1	110

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TABLE 25 GROUP NUMBER 5 (US\$000)

	BEFORE LOAN	Y 1	E 2	A 3	R 4	S 5
A. BALANCE SHEET						
ASSETS						
CURRENT ASSETS	0	0	0	68	84	113
NON-CURRENT ASSETS	0	0	0	32	29	25
TOTAL ASSETS	0	0	0	100	113	138
LIABILITIES						
CURRENT LIABILITIES	0	0	0	27	37	12
NON-CURRENT LIABILITIES	0	0	0	33	16	4
EQUITY	0	0	0	26	26	26
RETAINED EARNINGS	0	0	0	15	35	96
T. EQUITY & LIABILITIES	0	0	0	100	113	138
B. INCOME STATEMENT						
# OF UNITS SOLD THRU MARKETING FIRM(M.F.)	0	0	2800	4160	8112	
# OF UNITS SOLD DIRECTLY	0	0	0	0	0	
NET PRICE UNITS SOLD THRU M.F.	30.00	32.00	34.00	36.00	38.00	
NET PRICE UNITS SOLD DIRECTLY.	13.34	14.05	14.67	15.47	16.18	
DIRECT COST PER UNIT SOLD THRU M.F.	18.00	18.99	20.00	21.05	22.16	
DIRECT COST PER UNIT SOLD DIRECTLY.	11.17	11.77	12.29	12.96	13.55	
ADMINISTRATIVE COST PER UNIT SOLD (AVERAGE)	5.00	4.50	3.75	3.50	3.00	
SALES:						
THROUGH THE M.F.	0	0	95	150	308	
DIRECTLY	0	0	95	150	308	
DIRECT COSTS:						
THROUGH M.F.	0	0	56	88	180	
DIRECTLY	0	0	56	88	180	
GROSS PROFIT	0	0	0	0	0	
MINUS: ADMINISTRATIVE COST	0	0	39	62	129	
COMMISSION TO THE ASSOCIATION	0	0	11	15	24	
MARKETING & TRAINING	0	0	10	15	31	
DEPRECIATION	0	0	1	1	1	
DEPRECIATION	0	0	4	4	4	
FINANCIAL COSTS	0	0	0	8	7	
TOTAL OTHER COST	0	0	0	8	7	
NET INCOME	0	0	25	42	67	
	0	0	15	20	62	
C. SOURCE AND APPLICATION OF FUNDS						
SOURCES						
NET INCOME	0	0	15	20	62	
DEPRECIATION	0	0	4	4	4	
WORKING CAPITAL LOAN	0	0	50	20	0	
FIXED INVESTMENT LOAN	0	0	10	0	0	
OWN RESOURCES	0	0	26	0	0	
TOTAL SOURCES	0	0	104	44	65	
APPLICATIONS						
FIXED INVESTMENT	0	0	36	0	0	
INCREMENTAL WORKING CAPITAL	0	0	50	20	0	
CAPITAL REPAYMENT	0	0	0	27	37	
CAPITAL REPAYMENT	0	0	0	0	0	
TOTAL APPLICATIONS	0	0	86	47	37	
SOURCES MINUS APPLICATIONS	0	0	18	-3	28	
PREVIOUS CASH ON HAND	0	0	0	18	14	
NET CASH AT THE END OF THE PERIOD	0	0	18	14	43	
INVENTORIES AT THE END OF THE PERIOD						
MINIMUM INVENTORIES (3 MONTHS)	0	0	0	50	70	70
INVENTORIES IN EXCESS OR (DEFICIT)	0	0	0	22	45	45
	0	0	0	28	25	25

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TABLE 26 GROUP NUMBER 6 (US\$000)

	BEFORE LOAN	Y 1	E 2	A 3	R 4	S 5
A. BALANCE SHEET						
ASSETS						
CURRENT ASSETS	0	0	0	0	71	73
NON-CURRENT ASSETS	0	0	0	0	32	28
TOTAL ASSETS	0	0	0	0	103	101
LIABILITIES						
CURRENT LIABILITIES	0	0	0	0	27	27
NON-CURRENT LIABILITIES	0	0	0	0	33	6
EQUITY	0	0	0	0	25	25
RETAINED EARNINGS	0	0	0	0	18	43
T. EQUITY & LIABILITIES	0	0	0	0	103	101
B. INCOME STATEMENT						
# OF UNITS SOLD THRU MARKETING FIRM(M.F.)	0	0	0	0	2800	4150
# OF UNITS SOLD DIRECTLY	0	0	0	0	0	0
NET PRICE UNITS SOLD THRU M.F.	30.00	32.00	34.00	36.00	38.00	38.00
NET PRICE UNITS SOLD DIRECTLY.	13.34	14.05	14.67	15.47	16.18	16.18
DIRECT COST PER UNIT SOLD THRU M.F.	18.00	18.99	20.00	21.05	22.16	22.16
DIRECT COST PER UNIT SOLD DIRECTLY.	11.17	11.77	12.29	12.96	13.55	13.55
ADMINISTRATIVE COST PER UNIT SOLD (AVERAGE)	5.00	4.50	3.75	3.50	3.00	3.00
SALES:						
THROUGH THE M.F.	0	0	0	0	101	158
DIRECTLY	0	0	0	0	101	158
	0	0	0	0	0	0
DIRECT COSTS:						
THROUGH M.F.	0	0	0	0	59	92
DIRECTLY	0	0	0	0	59	92
GROSS PROFIT	0	0	0	0	0	0
MINUS: ADMINISTRATIVE COST	0	0	0	0	42	65
COMMISSION TO THE ASSOCIATION	0	0	0	0	10	12
MARKETING & TRAINING	0	0	0	0	10	16
DEPRECIATION	0	0	0	0	1	1
FINANCIAL COSTS	0	0	0	0	4	4
TOTAL OTHER COST	0	0	0	0	0	8
NET INCOME	0	0	0	0	24	40
	0	0	0	0	18	26
C. SOURCE AND APPLICATION OF FUNDS						
SOURCES						
NET INCOME	0	0	0	0	18	26
DEPRECIATION	0	0	0	0	4	4
WORKING CAPITAL LOAN	0	0	0	0	50	0
FIXED INVESTMENT LOAN	0	0	0	0	10	0
OWN RESOURCES	0	0	0	0	23	0
TOTAL SOURCES	0	0	0	0	106	29
APPLICATIONS						
FIXED INVESTMENT	0	0	0	0	35	0
INCREMENTAL WORKING CAPITAL	0	0	0	0	50	0
CAPITAL REPAYMENT	0	0	0	0	0	27
TOTAL APPLICATIONS	0	0	0	0	85	27
SOURCES MINUS APPLICATIONS	0	0	0	0	21	2
PREVIOUS CASH ON HAND	0	0	0	0	0	21
NET CASH AT THE END OF THE PERIOD	0	0	0	0	21	23
INVENTORIES AT THE END OF THE PERIOD						
MINIMUM INVENTORIES (3 MONTHS)	0	0	0	0	50	50
INVENTORIES IN EXCESS OR (DEFICIT)	0	0	0	0	23	23
	0	0	0	0	27	27

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TABLE 27 ALL SIX GROUPS (US\$000)

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	BEFORE LOAN	Y 1	E 2	A 3	R 4	S 5
A. BALANCE SHEET						
ASSETS						
CURRENT ASSETS	525	530	682	1511	2832	4965
NON-CURRENT ASSETS	524	714	634	588	536	450
TOTAL ASSETS	1049	1243	1286	2098	3369	5414
LIABILITIES						
CURRENT LIABILITIES	31	86	163	274	344	188
ACCRUED TAXES	0	0	0	1	52	108
NON-CURRENT LIABILITIES	0	207	196	242	198	10
EQUITY	1018	1142	1277	1303	1328	1328
RETAINED EARNINGS	0	-192	-350	278	1447	3781
T. EQUITY & LIABILITIES	1049	1243	1286	2098	3369	5414
B. INCOME STATEMENT						
# OF UNITS SOLD THRU MARKETING FIRM (M.F.)		28210	53106	121273	183588	293821
# OF UNITS SOLD DIRECTLY		34478	35404	20907	19624	31283
NET PRICE UNITS SOLD THRU M.F.		30.00	32.00	34.00	36.00	38.00
NET PRICE UNITS SOLD DIRECTLY.		13.34	14.05	14.67	15.47	16.18
DIRECT COST PER UNIT SOLD THRU M.F.		18.00	18.99	20.00	21.05	22.16
DIRECT COST PER UNIT SOLD DIRECTLY.		11.17	11.77	12.29	12.96	13.55
ADMINISTRATIVE COST PER UNIT SOLD (AVERAGE)		5.00	4.50	3.75	3.50	3.00
SALES:		1179	1942	4430	6913	11672
THROUGH THE M.F.		719	1444	4123	6609	11165
DIRECTLY		460	492	307	304	506
DIRECT COSTS:		893	1425	2682	4119	6934
THROUGH M.F.		508	1008	2425	3865	6510
DIRECTLY		385	417	257	254	424
GROSS PROFIT		286	517	1748	2794	4738
MINUS: ADMINISTRATIVE COST		313	398	533	711	975
COMMISSION TO THE ASSOCIATION		72	144	412	661	1117
MARKETING & TRAINING		9	15	44	48	48
DEPRECIATION		79	79	83	86	86
FINANCIAL COSTS		4	38	47	67	70
TOTAL OTHER COST		478	675	1119	1574	2297
EARNINGS BEFORE TAXES		-192	-158	629	1220	2441
TAXES (KAY-HUASY)		0	0	1	52	108
NET INCOME		-192	-158	628	1169	2334
C. SOURCE AND APPLICATION OF FUNDS						
SOURCES						
NET INCOME		-192	-158	628	1169	2334
DEPRECIATION		79	79	83	86	86
WORKING CAPITAL LOAN		94	152	310	290	0
FIXED INVESTMENT LOAN		199	0	10	10	0
OWN RESOURCES		124	135	26	25	0
TOTAL SOURCES		305	208	1056	1580	2420
APPLICATIONS						
FIXED INVESTMENT		269	0	36	35	0
INCREMENTAL WORKING CAPITAL		148	152	490	700	0
CAPITAL REPAYMENT		31	86	163	274	344
TOTAL APPLICATIONS		448	238	689	1009	344
SOURCES MINUS APPLICATION OF FUNDS		-143	-30	367	571	2076
PREVIOUS CASH ON HAND		200	57	27	395	966
NET CASH AT THE END OF THE PERIOD		57	27	395	966	3042
INVENTORIES AT THE END OF THE PERIOD	325	473	625	1116	1867	1923
MINIMUM INVENTORIES (3 MONTHS)	223	336	671	1030	1733	1733
INVENTORIES IN EXCESS OR (DEFICIT)		117	-46	86	133	189

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TABLE 28. ASSOCIATION INCOME STATEMENT

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
	SALES	SALES	SALES	SALES	SALES
	REVENUE	REVENUE	REVENUES	REVENUES	REVENUES
PRICE PER UNIT. IN US\$	30	32	34	36	38
WHOLESALE VALUE IN US\$	846300	1699392	4123282	6609168	11165198
COMMISSION TO ASSOCIATION IN US\$ (*)	71936	144448	412328	660917	1116520
CONTRIBUTIONS FROM MEMBERS	5500	9000	12500	13000	13500
TOTAL INCOME TO ASSOCIATION	77436	153448	424828	673917	1130020
OPERATING EXPENSES	104500	110000	125200	142600	163990
CONTINGENCIES	10450	11000	12520	14260	16399
TOTAL COSTS	114950	121000	137720	156860	180389
NET INCOME BEFORE AID GRANT	-37515	32448	287108	517057	949631
PLUS AID GRANT TO ASSOCIATION FOR OPERATIN EXPENSES(**)	104500	88000	50100	28500	0
NET INCOME AFTER GRANT	66986	120448	337208	545557	949631
ACCRUED NET INCOME (***)	66986	187434	524642	1070199	2019830

NOTES: (*) THE ASSOCIATION COLLECTS 10% OF NET SALES REVENUES AFTER EXCHANGE RATE LOSSES IN YEARS 1 AND 2.

(**): INITIAL COMMODITY PURCHASES NOT INCLUDED.

(***): INTEREST EARNED ON IDLE FUNDS NOT INCLUDED.

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TABLE 29 ECONOMIC ANALYSIS IN 1000

	Y E A R 1			Y E A R 2			Y E A R 3			Y E A R 4		
	FINANC.	ADJUST.	ECONOM.	FINANC.	ADJUST.	ECONOM.	FINANC.	ADJUST.	ECONOM.	FINANC.	ADJUST.	ECONOM.
NO. UNITS SOLD.	28210			33106			121273			103500		
PRICE PER UNIT IN 0	30			32			34			36		
REVENUE												
SALES	719	1.10	844	1444	1.10	1700	4123	1	4123	6609	1	6609
TOTAL INCOME	719		844	1444		1700	4123		4123	6609		6609
EXPENSES												
COMMISSION TO ASSOCIATION	72	0	0	144	0	0	412	0	0	661	0	0
FINANCIAL COSTS	4	0	0	30	0	0	47	0	0	67	0	0
ADMINISTRATIVE COSTS	191	1	191	295	1	296	996	1	996	600	1	600
COLLECTING-PACKING-DELIVERY	14	1	14	28	1	28	67	1	67	107	1	107
YARN COSTS	253	1	253	700	1	700	1604	1	1604	2604	1	2604
ENTER COSTS (1)	141	0.26	36	280	0.22	62	674	0.17	118	1073	0.14	150
MARKETING & TRAINING	9	1	9	15	1	15	44	1	44	60	1	60
DEPRECIATION COSTS	79	0	0	79	0	0	83	0	0	84	0	0
TOTAL COSTS	663		663	1501		1101	2500		2410	3406		3449
NET INCOME BEFORE TAXES	-143		244	-136		599	615		1714	1203		2940
TAXES (LEAT-HEMPSY)	0	0	0	0	0	0	1	0	0	32	0	0
NET INCOME AFTER TAXES	-143		244	-136		599	614		1714	1151		2940
OPPORTUNITY COST OF LABOR ADJUSTMENT IN 0	1.20/5.0			1.16/5.27			.97/5.35			.82/5.83		
BENEFITS & INVESTMENT CASH FLOW IN 0000												
ECONOMIC FLOW	244	599	1714	2940								
PLUS NET EQUIPMENT RESIDUAL VALUE AND INVENTORIES				1700								
TOTAL ECONOMIC FLOW	244	599	1714	4640								
INVESTMENT USAID/GADPS(a)	1109	1130	1367	1124								
(a) INVESTMENT BY SOURCE												
					TOTALS							
USAID	766	969	820	376	2939							
ARTISAN ORGANIZATIONS-ASSOCIATION	423	161	539	740	1870							
CAPACITY EXPANSION	269	0	36	35	340							
WORKING CAPITAL FOR COOP.	100	152	090	700	1990							
CONTRIBUTION FROM MEMBERS	6	9	13	13	60							
BENEFIT/COST RATIO	1.33											
PV ECONOMIC BENEFITS	6649											
PV INVESTMENT	3649											
RATE TO CALCULATE PV	0.12											
	Y E A R 1		Y E A R 2		Y E A R 3		Y E A R 4					
	FINANC.	ECONOM.	FINANC.	ECONOM.	FINANC.	ECONOM.	FINANC.	ECONOM.	FINANC.	ECONOM.	FINANC.	ECONOM.
PRICE PER UNIT IN 0	30.00	30.00	32.00	32.00	34.00	34.00	36.00	36.00	36.00	36.00	36.00	36.00
DIRECT COST/PER UNIT IN 0												
COLLECTING-PACKING-DELIVERY	0.50	0.50	0.53	0.53	0.56	0.56	0.58	0.58	0.58	0.58	0.58	0.58
YARN COST	12.50	12.50	13.19	13.19	13.89	13.89	14.62	14.62	14.62	14.62	14.62	14.62
ENTER COST	5.00	1.70	5.20	1.16	5.56	0.97	5.85	0.82	5.85	0.82	5.85	0.82
TOTAL DIRECT COST	18.00	14.70	19.00	14.88	20.01	15.42	21.05	16.02	21.05	16.02	21.05	16.02
PLUS ADMINISTRATION COST/PER UNIT	5.60	5.00	4.50	4.50	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50
PLUS COMMISSION TO ASSOCIATION	2.55	0.00	2.72	0.00	3.40	0.00	3.60	0.00	3.60	0.00	3.60	0.00
TOTAL COST	25.55	19.70	26.22	19.38	27.16	19.17	28.15	19.52	28.15	19.52	28.15	19.52
MARGIN TO COVER CAPITAL REPAYMENT, MARKETING/TRAINING, FINANCIAL, AND C.P. PLUS	4.45	10.72	5.78	12.62	6.84	14.83	7.85	16.48	7.85	16.48	7.85	16.48

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

ANNEX 1

Life of Project:
From FY 85 to FY 89
Total U.S. Funding \$3.0 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

AID 1020-28 (7-71)
SUPPLEMENT 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>

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 85 to FY 89
Total U.S. Funding \$3.0 million
Date Prepared: _____

01. 1077 28 (2-71)
SUPPLEMENT 1

Project Title & Number: Hnadicraft Export Development 511-0583

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Purpose: <i>20</i></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>Association 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: 85 to FY 89
From FY 85 to FY 89
Total U.S. Funding \$3.0 million
Date Prepared: _____

AID 1023-28 (7-71)
SUPPLEMENT 1

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. Association established and functioning. 2. Commercial relationships established. 3. Marketing channels established. 4. Increased production of knitwear. 	<p>Magnitude of Outputs:</p> <ol style="list-style-type: none"> 1. One Association 2. 6 commercial relationships 3. Several market channels. 4. 203,212 5. Six 	<p>Quarterly implementation plans.</p> <p>Project Manager reports and surveys.</p> <p>Periodic evaluations.</p> <p>Association and artisan organization records.</p>	<p>Assumptions for achieving outputs:</p> <p>Inputs provided in a timely manner.</p> <p>Qualified technical assistance available in a timely fashion.</p> <p>Credit available from other programs, for artisan production requirements.</p> <p>Training available in a timely fashion.</p> <p>Marketing strategies successful.</p>

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

AID 1925-23 17-711
SUPPLEMENT I

Life of Project: _____
From FY 85 to FY 89
Total U.S. Funding \$3.0 million
Date Prepared: _____

Project Title & Number: Handicraft Export Development 511-0583

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Inputs:</p> <p><u>USAID</u></p> <p>1. Technical Assistance</p> <p>2. Marketing costs</p> <p>3. Training</p> <p>4. Operating Expenses</p> <p>5. Commodities</p> <p>6. Contingencies</p> <p><u>Association/Artisan Organizations</u></p> <p>1. Marketing Costs</p> <p>2. Training</p> <p>3. Operating Expenses</p> <p>4. Expansion of Productive Capacity</p> <p>5. Contingencies</p>	<p>Implementation Target (Type and Quantity)</p> <p>(000)</p> <p>\$1,994</p> <p>\$ 230</p> <p>\$ 54</p> <p>\$ 328</p> <p>\$ 46</p> <p>\$ 348</p> <p>\$ 54</p> <p>\$ 62</p> <p>\$ 211</p> <p>\$1,830</p> <p>\$ 47</p>	<p>Project Accounts</p>	<p>Assumptions for providing inputs:</p> <p>AID funds provided.</p> <p>Artisan organizations borrow money.</p> <p>Association dues paid.</p>

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5 C (1) - COUNTRY CHECKLIST

Listed below are statutory 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?

Bolivia has been strengthening the effectiveness of its narcotics control program, and in 1983 signed a series of agreements with the United States Government to reduce the illegal production of coca and control narcotics trafficking.

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?

N/A

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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 beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? N/A

4. FAA Sec 532(c), 620 620 (f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. 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 restrictions 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 (j). Has the country permitted, or failed to take adequate 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 Protection Act been made?
9. FAA Sec. 620 (g); FY 1982 Appropriation 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.
- (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 bill appropriates 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? Yes
(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.)

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. 620 A; 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 group which has committed a war crime? No.
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 Torrelio 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
- E. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY
1. Development Assistance Country Criteria.
- a. FAA Sec. 116. 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

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); ISDCA 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 percent 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 CP)? 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 annum thereafter? 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(f); 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 CIA 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.
 - f. FY 1982 Appropriation Act. Sec. 503. To pay pension, 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.

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PROJECT CHECKLIST

A. General Criteria for Project

1. FY 1982 Appropriation Act, Sec. 523
FAA Sec. 634A; Sec.653(b).

(a) Describe how authorization and ap- propriations committees of Senate and House have been or will be notified concerning the project;

By CN

(b) Is assistance within (Operation- al Year Budget) country or interna- tional organization allocation reported to Congress (or not more than \$1 million over that amount)?

Yes.

2. FAA Sec.611(a) (1). Prior to obli- gation in excess of \$100,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reason- ably firm estimate of the cost to the U.S. of the assistance?

Yes.

Yes.

3. FAA Sec. 611(a) (2). If further leg- islative action is required within recipient country, what is basis for reasonable expectations that such action will be completed in time to permit orderly accomplish- ment of purpose of the assistance?

N/A

4. FAA Sec. 611(b); FY 1981 Appropria- tion Act, Sec. 501. If for water or water-related land resource con- struction, 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 guide- lines.)

N/A

5. FAA 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 Assistance Ad- ministrators taken into consideration the country's capability effectively to maintain and utilize the project?

N/A

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so 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. firm will provide services, and private trade channels will be used to sell Bolivian knitwear in U.S.
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. FY 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? Yes.
Does the project or program take into consideration the problem of the destruction of tropical forests? 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), 11, 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, Project will have a direct impact in all these items with the exception of "e"

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 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?

- 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.

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- 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 if 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 but will help development of private civic organization

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

- 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

ANNEX 3

ASSOCIATION BOARD MEMBERS

NAME	ORGANIZATION	RECOMMENDED BY	ADDITIONAL INFORMATION AND COMMENTS
Joaquin Aguirre (60)	Central Aguirre Ltda.	USAID/Bolivia	- Industrialist, inventor - Bestselling writer - Presently implementing a major grain exporting project in the Santa Cruz region.
Guido Quiroga (50)	Banco de Cocha - bamba	USAID/Bolivia	- President of Banco de Cochabamba
Yolanda E. de Rivera (55)	Molino "San Luis"	Guido Quiroga	- Vice-Presidente of Banco de Cochabamba. - President and princial owner of Molino San Luis - Very active in social work with low income women in Cochabamba
Raúl Artero	Femco	Joaquin Aguirre Guido Quiroga USAID/Bolivia	- Owner and President of major electric product enterprise - Socially minded entrepreneur
Hugo Galindo	Galindo Ltda. (Ford Dealer)	G. Quiroga J. Aguirre	- Businessman - President of Cochabamba Federation of Businessmen.

ANNEX 4

RIGHTS AND OBLIGATIONS IN ASSOCIATION - ARTISAN

ORGANIZATION AGREEMENTS

The association will sign agreements with each participating artisan organization. The terms of these agreements have already been discussed with the four initially participating organizations. The main rights and obligations of the two parties are listed below.

A. Association

1. Rights

- . To select any AO meeting project criteria to receive its services.
- . To hire staff and run the Association as directed solely by its Board.
- . To collect commissions.

2. Obligations

- . To foster development of normal commercial relationships between marketing organizations in U.S. and AO's in Bolivia.
- . To ensure that commercial agreements signed between AO's and foreign marketing firms are fair and non-discriminatory.
- . To ensure that the activities of its contractors dealing with AO's are carried out efficiently and fairly.
- . With expert help, to assess TA needs of AOs.
- . To facilitate the procurement of production inputs and services by AO's.
- . To help AO's in becoming fully familiar with export procedures.
- . To lobby the GOB for policies more conducive to artisanal exports.

B. Artisan Organizations

1. Rights

- . To decide whether to sign an agreement with the association and, periodically according to the terms of the agreement, whether to continue its relationship to the Association
- . To receive TA in production, marketing and management.
- . To continue any existing marketing arrangements and to initiate new ones as long as they do not conflict with responsibilities under contracts with Association's/project's marketing firm.

2. Obligations

- . To remunerate its artisans well, according to increased sales revenues and profits.
- . To pay commissions to the association on sales its contractor arranges.
- . To follow association's recommendations in areas of production, marketing and management.
- . To meet production schedules and quality standards established by foreign importers.
- . To organize training sessions, form new production groups, and expand operations to meet export sales targets.
- . To cooperate in any evaluation of operations being undertaken by the association or its contractors.
- . To sign marketing contracts with the Association's contractor.
- . To accept the arbitration of the Association in any conflicts arising with Association contractors.
- . To provide records and accounts to the Association as necessary to verify compliance with AO obligations.
- . To act in such a way in its commercial transactions so as not to compromise the interests of other AO's participating in the project.

ANNEX 5

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.***

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 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.

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 funded by a Special Development Activities grant.

The Knitting Course

The six 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.

* 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.

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, so that they returned home with some \$8 to \$ 10 in cash, which represented an unexpected income in a period of agricultural inactivity.

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.

* 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 graduation and display of the sweaters knitted in the course, were asked by USAID/Bolivia Mission Director if these garments would sell in the U.S. Both experts responded affirmatively.

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 then sponsored a one-month knitting course to be held in the Bombo community, in which 43 additional people were trained. FOTRAMA has since established 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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LAC/DR-IEE-85-6

ENVIRONMENTAL THRESHOLD DECISION

Project Location : Bolivia
Project Title and Number : Handicraft Export Development
511-0583
Funding : \$3,000,000 (G)
Life of Project : 4 years
IEE Prepared by : Robert Asselin
USAID/La Paz
Recommended Threshold Decision : Categorical Exclusion
Bureau Threshold Decision : Concur with Recommendation
Comments : Project will not finance any
handicraft activities which
use either endangered species
or parts thereof.
Copy to : Henry H. Bassford, Director
USAID/La Paz
Copy to : Robert Asselin, USAID/Guatemala
Copy to : Eric Zallman, LAC/DR
Copy to : IEE File

James S. Hester Date DEC 13 1984

James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

RECORD COPY

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M E M O R A N D U M

TO : LAC/DR, James Hester
FROM : USAID/Bolivia, Robert Asselin *RA*
SUBJECT: Initial Environmental Examination (IEE)

Project Location: : Bolivia
Project Title : Handicraft Export Development
Funding : USAID \$3.0 million
Handicraft Association 1.9 million
\$4.9 million
Life of Project : 4 Years

Environmental Action Recommendation: It is recommended that a categorical exclusion (CE) from the requirements for an IEE be granted for this project. The project consists of technical assistance in knitwear production, marketing and training for Bolivian artisan organizations to be provided through a Foundation to be created with AID assistance. As such, it is not anticipated that the project will have positive or negative effects on the environment. It should therefore be excluded from the provisions set forth in Regulation 16 paragraph 216.3 in accordance with Section 216.2(c)(2)(i) which excludes "education, technical assistance or training programs, except to the extent such programs include activities directly affecting the environment (such as construction of facilities, etc.)."

Concurrence

[Signature]
Henry H. Bassford
Mission Director
USAID/Bolivia

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Department of State

ANNEX VIII
Page 1 of 1

FORM 01 STATE 204222
OFFICIAL PID-00

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STATE 204222

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ORIGIN OFFICE LA07-01
INFO APLA-01 LAC-03 LADP-04 PPCE-01 PDPR-01 PPRB-02 GC-01
GCLW-03 GCFL-01 WIO-01 CHGT-02 CTR-02 RELO-01 NACT-01
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DRAFTED BY LAC/DR: SPARKER: NIM-0822L
APPROVED BY A3/AA/LAC: HOBBS, ACTING
AID/LAC/DR: RYTO (DRAFT)
AID/LAC/DR: JHESTER (DRAFT)
AID/LAC/DR: HOTT (DRAFT)
AID/GC/LAC: DHOEPELSON (DRAFT)
AID/LAC/DR: FALHAQUER (DRAFT)
PPC/PPF: RLONG (DRAFT)
AID/LAC/DR: ABISLET
AID/LAC/DR: OJHNSCH

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TAGS:

SUBJECT: PID GUIDANCE FOR BOLIVIA HANDICRAFT EXPORT
DEVELOPMENT PROJECT (511-0583)

A DAEC FOR SUBJECT PID WAS HELD FRIDAY, JUNE 29, 1984 AND PID WAS APPROVED. IN LIGHT OF THE PROJECT'S HIGH RISK, INNOVATIVE NATURE AND IN ORDER TO GIVE OTHER LAC MISSIONS AN OPPORTUNITY TO REVIEW PROJECT, THE MISSION SHOULD SUBMIT THE PP TO AID/W FOR APPROVAL AND AUTHORIZATION. THE FOLLOWING GUIDANCE IS PROVIDED THE MISSION TO BE USED IN PP DEVELOPMENT.

1. THE MISSION SHOULD PREPARE A SHORT MEMO TO THE BUREAU'S CHIEF ENVIRONMENTAL OFFICER USING THE IEE FORMAT TO OFFICIALLY REQUEST A CATEGORICAL EXCLUSION (CE) FROM PREPARATION OF AN IEE FOR THE PROJECT PER REGULATION 16 SECTION 215.2(d)(3). THE MEMO SHOULD DESCRIBE HOW THE PROJECT FITS THE EXCLUSION CRITERIA. THE SUBSEQUENT PROJECT AGREEMENT SHOULD CONTAIN A COVENANT THAT STATES THAT NO FUNDS WILL BE USED TO SUPPORT INDUSTRIES WHICH WILL USE ENDANGERED SPECIES OR PARTS THERE OF AS RAW MATERIALS. NO PROBLEMS WITH APPROVAL OF CE REQUEST ARE FORESEEN AND MISSION MAY WISH TO CABLE IT TO AID/W.

2. GIVEN THE FACT THAT AUTHORIZATION OF THIS PROJECT WILL BE PRECEDED BY A DOLS 20 MILLION TITLE I AGREEMENT AND A DOLS 26 MILLION DISASTER RECOVERY AMENDMENT, BOTH OF WHICH CONTAIN CPS WHICH WILL ADDRESS THE BASIC PROJECT CONSTRAINT IDENTIFIED IN THE PID, I.E. THE NEED FOR A SUBSTANTIAL REAL DEVALUATION FOLLOWED BY A SERIES OF MINI-DEVALUATIONS, THE PROJECT'S BASIC CONSTRAINT OF AN OVERVALUED PESO AS A BARRIER TO POTENTIAL EXPORTERS WILL HAVE BEEN ADDRESSED. HOWEVER THE PP SHOULD ADDRESS THE BUREAUCRATIC OR ADMINISTRATIVE PROCEDURES WHICH CONSTRAIN EXPORTS AND BUILD INTO THE SERVICE ASSOCIATION'S TECHNICAL ASSISTANCE PROGRAM, ASSISTANCE TO ARTISANS AND MANUFACTURERS IN THIS IMPORTANT AREA. WE ALSO URGE THE MISSION TO LOOK AT WHAT MORE SUCCESSFUL COUNTRIES HAVE DONE IN THE AREA OF HANDICRAFT EXPORT DEVELOPMENT, E.G. GUATEMALA, URUGUAY, INDIA, AND ISRAEL.

3. THE MISSION IS ENCOURAGED TO USE A PRE-EXISTING ORGANIZATION AS THE SERVICE ASSOCIATION IN ORDER TO SAVE START-UP TIME AND COSTS AND EASE PROJECT IMPLEMENTATION. FOR WHATEVER ENTITY SELECTED OR NEWLY ESTABLISHED THE PP SHOULD DESCRIBE IN DETAIL HOW THE SOCIOLOGICAL CONCERN, DESCRIBED IN THE PID, I.E. HOLDING OF THE ARTISAN GROUPS WITH HIGHER INCOME MANUFACTURERS INTO A SINGLE FEDERATION, WILL BE ADDRESSED.

4. THE PP SHOULD CAREFULLY EXAMINE THE FEASIBILITY OF ESTABLISHING A SELF-SUSTAINING SERVICE ASSOCIATION IN FOUR YEARS. THE PROJECT MAY STILL BE VIABLE IF SELF-SUFFICIENCY IS OBTAINED IN FIVE OR SIX YEARS. THE NUMBER OF FIELD DESIGN TECHNICIANS AND FIELD STAFF GENERALLY SHOULD BE EXAMINED CAREFULLY AND INCREASED AS THE PROJECT GROWS OVER TIME.

5. THE PP SHOULD ENSURE THAT THE RAW MATERIALS, I.E. DOMESTIC PRODUCTION OF ANIMAL FIBERS, WILL BE SUFFICIENT TO MEET THE PROJECT NEEDS, ESPECIALLY AS EXPORT SALES OF ARTISAN TEXTILE PRODUCTS GROW.

6. THE MISSION HAS AGREED TO CONDUCT AN IN-DEPTH ANALYSIS OF THE CONDITIONS OF WOMEN EMPLOYED BY THE PROJECT PARTICULARLY IN RELATION TO TIME ALLOCATION, LEVEL OF EDUCATION, ACCESS TO CREDIT, ETC., IN ORDER TO ENSURE THEIR FULL PARTICIPATION. WE RECOMMEND THE MISSION USE A SOCIAL SCIENTIST WITH A WID BACKGROUND FOR THE SOCIAL ANALYSIS SECTION OF THE PP AND/OR CONSIDER USING ASSISTANCE FROM THE PPC/WIO OFFICE.

7. TO THE EXTENT THAT CREDIT AND MANAGEMENT TRAINING SKILL NEEDS CANNOT BE MET WITH EXISTING RELOUPCES FROM ALREADY AUTHORIZED PROJECTS, THE PP'S FINANCIAL PLAN SHOULD PROVIDE FOR THESE INPUTS.

8. WE URGE FULL INTENSIVE REVIEW FOR THIS INNOVATIVE PROJECT AND DO NOT RECOMMEND ITS SUBMISSION IN ORDER TO MAKE AN ARBITRARY FY 1984 OBLIGATION SCHEDULE. MISSION SHOULD BEGIN NOW TO DEVELOP RFP FOR THE TECHNICAL ASSISTANCE CONTRACT, WHICH MUST BE ADVERTISED, AND SHOULD INCLUDE PROVISION FOR FOLLOW-ON WORK ENVISIONED UNDER THE PROJECT DURING IMPLEMENTATION. OAH

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