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**Analysis of
Project Parameters
of the
Agricultural
Commercialization
and Enterprise
Project — India**



**Regional Agribusiness Project
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Analysis of Project Parameters of the Agricultural Commercialization and Enterprise Project - India

by

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BACKGROUND

The project paper for the Agricultural Commercialization and Enterprise Project (ACE) was issued in August 1991. The main activities planned for the project were loans to private companies working in the horticultural sector, technical assistance, and trade and investment tours.

The project started in 1992, working mainly with three organizations: 1) the Industrial Credit and Investment Corporation of India (ICICI) in Bombay; 2) the Mahratta Chamber of Commerce and Industry (MCCI) in Pune; and 3) Chemonics, a U.S. consulting company. ICICI is charged principally with promoting the project, evaluating loan applications, and administering the loan funds. The MCCI's role is to help promote the project. The organization will also receive some technical assistance in order to increase the effectiveness of the services it provides to its members. Chemonics's role is to provide technical assistance services to the project and to organize the trade and investment tours. According to the project paper, "The primary ACE Project clients will be private firms providing goods or services to the agro-industrial sector. Secondary clients will be MCCI and its member private firms in the sector" (p. vii).

To date, the project has met with a measure of success in implementing its planned activities (see Annex I - Project Report, USAID/TDE, 9/30/93). ICICI has assigned several staff members to the project and has made four loans totalling \$3.6 million to private agribusinesses. Seven loan applications have been processed and nine project profiles submitted to the corporation. Additionally, in its 8th Status Report, dated August 31, 1993, ICICI said it had received 56 inquiries about the ACE program.

The institutional contractor, Chemonics, has undertaken three technical studies analyzing the market potential for cut flowers and for fresh and dehydrated fruits and vegetables in the U.S. and Europe (performed by GIC Group, a subcontractor). Another of its studies describes the process Chile follows to increase its fruit and vegetable exports. Chemonics also has completed a study for the geographic expansion of ACE, as well as a market analysis of American food processing equipment. During the project, several people from India have attended agribusiness training programs in the United States, and an observational tour of various U.S. agribusinesses has been organized.

Given the problems (protests, among others) in starting up the project, its results to date seem quite reasonable. However, USAID project managers are beginning to think about how the project parameters might be changed to encourage more applications to the program and improve the disbursement of allocated funds. After briefly setting out which project parameters are to be considered, this paper will comment on what might be changed to improve the project's performance.

PROJECT PARAMETERS

The original project was structured somewhat narrowly to help focus the project. The following restrictions applied.

Geographical Restriction

The project was limited in the beginning to the State of Maharashtra. Specifically, the project paper states, "Initially, ACE will concentrate on Maharashtra; following the mid-term evaluation, consideration will be given to the addition of Andhra Pradesh or other states" (p. viii). The paper goes on to state that the rationale for this is "to enhance project manageability and effectiveness" (p. 8). Since the time this restriction was imposed, project managers have been considering the possibility of widening the geographical scope of the project, as examined in Chemonics's recent study of the subject.

Sectoral Restriction

The ACE Project has attempted to maximize its impact by targeting a specific agribusiness sector — the horticultural sector. The project paper states, "ACE activities will focus on fresh and processed fruits and vegetables, flowers, and foliage; perhaps 25 percent of project resources will be targeted to one crop subsector, probably export grapes" (p. vii).

Restrictions As to Which Horticultural Activities Will Be Funded

The project has further limited itself in the selection of which kind of activities should be funded, targeting specifically post-harvest activities. The project paper suggests that the ACE project identification document identified "the lack of integrated agribusiness services for post-farm products as one of the chief constraints to increasing growth and profitability in the fresh and processed fruits and vegetable industries....Sectors selected/targeted for assistance under the Project include: post-harvest handling; grading and sorting; packaging and packing; processing and storage; marketing; transportation; and technical and market information services" (p. 2). The paper goes on to state that the purpose of ACE is "to improve the investment environment for private agribusiness in horticulture" and that, to that end, "ACE will work in all post-farm subsectors of horticulture" (p. 6).

Restrictions on Amounts Lent to Large Companies

The project paper states that no more than "25 percent of the ACE loans funds shall be lent to India's top 100 firms (using gross assets as a measure of rank)" (p. 13).

Restrictions on Location from Which Equipment May Be Purchased

The project paper requires that "goods financed by USAID under the project shall have their source and origin in the United States or, subject to specific prior written AID approval, in India" (p. iv).

Other restrictions and limitations may exist in the design and implementation of the project; however, the five restrictions listed above are the most important operational issues and will be the subject of the remainder of this paper.

ANALYSIS OF PROJECT PARAMETERS

Geographical Restriction

Many issues should be examined concerning this restriction. First, it makes sense to begin in one location on a small scale and then expand carefully. One of the major criteria to be met in making the expansion decision should be that the marginal gains of expansion outweigh its cost. Chemonics has suggested a major staffing expansion of the project linked to geographical expansion. If this is necessary, one must wonder whether the marginal increase in costs would not be greater than the marginal increase in benefits. Conversely, if it is possible to expand the potential pool of good loan applicants without much additional staff time, expansion would be attractive. For example, this might be done by using existing ICICI staff in other geographical locations to promote the project and forward applications to the core ACE staff.

Some argue that a "critical mass" of applicant projects should be acquired by concentrating resources in one location. Yet, such discussions seem somewhat irrelevant for two reasons. First, the Indian agribusiness sector is so large that the ACE Project is a "drop in the bucket." The 20 loans ICICI has granted or is processing do not constitute a critical mass, even in Maharashtra. Second, it is not entirely clear that the critical mass concept is relevant to broad-based agribusiness development, which involves many firms doing a very large number of complementary activities within the agribusiness sector.

It would seem more reasonable instead to concentrate on the "demonstration effect"; that is, as the project lends to outstanding, innovative projects, those loan recipients will inspire other entrepreneurs to try similar activities. To continue the metaphor, a well-placed drop in the middle of the bucket will have a noticeable ripple effect outward. If the costs of expansion are not too great, it would make sense to have the broadest pool of applicants possible in order to choose the best one.

Broadening the ACE Project's geographical scope may change the criteria used to evaluate the project's impact. Therefore, the "ACE Project Impact Indicators" on pages 36-37 of the project paper should be revised if the geographical scope is expanded. The rate of repayment of loans within the entire portfolio — not currently listed — should be included as a key indicator.

Sectoral Restriction

Although a private banker would prefer not to be limited to lending by sector (preferring obviously to be able to choose among the most promising and least risky projects in all sectors), public lending entities find that they must sometimes undertake targeted lending by sector. At the same time, using the principle of getting the best projects possible, it would seem reasonable to keep the definition of the "horticultural sector" as broad as possible.

For example, the ICICI ACE project manager wrote a letter on October 7, 1993, suggesting that spices and herbs be included on the list of eligible commodities. He also suggested including "commercially viable tissue culture labs...production facilities for hybrid seeds...and pre-project market study visits." Except for the pre-project market study visits (which would fall under trade and investment tours, not project lending), these seem like reasonable interpretations of how a modern horticultural sector could be defined. Agribusiness takes advantage of all aspects of improved technologies in order to be competitive and profitable.

Restriction As to Which Horticultural Activities Will Be Funded

The limitation of project lending to post-harvest activities seems to indicate only a partial understanding of the way agribusiness works. To be successful in modern agribusiness, the use of modern technology and capital investment must be applied to all aspects of the agribusiness chain — production, processing, and marketing. Hence, the distinction between pre- and post-harvest activities is a false one for a borrower. If a project is successful, it is in part because the operators managed to integrate the production and marketing aspects of the project. Hence, it would make sense to fund certain pre-harvest activities if they are an integral part of the project. For example, the funding of a drip irrigation system is just as critical to a successful flower operation as a cold storage room for packing and shipping. It might also be wise to distinguish between lending for capital investment for agricultural production as opposed to short-term production credit for an operation, as ACE is interested in capital investment, not production credit.

The ICICI project manager for ACE has clearly understood the importance of integration, as shown in his October letter. He suggests that "on-farm support for the pre-harvest operations in deserving cases should be considered by way of technical and financial assistance to bring in 'state-of-the-art' technology for cultural practices to be followed, selection and introduction of suitable varieties of planting material, and infrastructure for integrated high-value horticulture." He goes on to suggest funding projects for the growing of strawberries and other short-gestation fruits and vegetables. While these ideas may be slightly outside of the original terms of the ACE Project, broadening the project's scope should be considered to be in its interest.

Restriction on Amounts Lent to Large Companies

From a banker's point of view, this type of limitation is undesirable. However, from a political point of view, it may be important. Often larger companies offer lenders better risk; however, larger companies often are unwilling to assume the risks involved in innovative agribusiness projects. Many times that type of risk is undertaken instead by small-scale entrepreneurs who have good ideas and a desire to grow. It can be difficult for them to get the capital to implement their ideas, however. This project, with its emphasis on innovation, could be a source for small applicants.

It would seem reasonable, therefore, not to relax this restriction, with the assumption that a sufficient number of innovative projects is presented by entrepreneurs not associated with the top 100 companies in India. One should keep in mind that this places an additional burden on project managers to balance innovative, riskier projects with the need to lend to reliable, financially solvent entrepreneurs.

Restrictions on Location from Which Equipment May Be Purchased

The limit on where equipment may be purchased makes mostly political sense. Naturally, entrepreneurs want to buy the best equipment for their job at the lowest price. This would include the purchase of used equipment. The U.S. Congress and American companies, on the other hand, do not want to see U.S. tax dollars being used to finance equipment from other countries. The U.S. is hardly alone in this type of restriction.

The ICICI project manager for the ACE Project makes a good point, however: that Indian entrepreneurs may be unfamiliar with U.S. equipment, and that U.S. equipment manufacturers are underrepresented at some trade shows in India. To alleviate this problem, the project could actively work to improve the presence of U.S. equipment and technology suppliers in Indian trade fairs. It should also

work to send Indian entrepreneurs to the United States to visit American farms, equipment shows, and trade fairs. As noted earlier, in fact, this is one of the chief objectives of the project.

Some projects that receive loans may still purchase at least some equipment from non-U.S. or non-Indian sources. If this is the case, a loan could be considered if some U.S. equipment is to be used, but with priority given to projects having a higher American and/or Indian equipment content.

ADDITIONAL COMMENTS

USAID may need to play a more active role in using the project funds designated for technical assistance. Indian entrepreneurs do not necessarily have a tradition of using U.S. technical assistance and may be reticent to use such "high-cost" resources. Indian entrepreneurs' use of U.S. consultants, therefore, may need to be reviewed. However, it should be made clear that non-use of consultants will not result in more of the project funds being made available for loans, but rather in a net decline in the resources available to the project.

USAID could also take a more active role in defining policy studies and other studies that would benefit the horticultural sector and the agribusiness sector in general. Because ICICI is a bank, one would not necessarily expect policy study ideas to come from it directly. Some of the studies could be conducted jointly by U.S. and Indian consultants. Others could be done solely by Indian consultants paid in local currency.

While some of the potential consulting functions of RAP are already covered in the ACE Project by Chemonics, there appear to be many other areas in which RAP could help Indian entrepreneurs. Given the dearth of dollars in USAID missions, use of RAP's regionally oriented core funds would undoubtedly be the most attractive to the USAID mission in Delhi and to Indian entrepreneurs. A number of regional activities could be envisioned:

- **Regional marketing studies.** Studies of potential markets in Japan, Europe, or the U.S. for horticultural products would be of interest to entrepreneurs in India, as well as in other Asian countries.
- **Regional cost comparison studies.** Studies that examine the costs of production in various countries or other basic costs, such as those associated with transportation, processing, and labor, would be of interest in India.
- **Regional training workshops.** Workshops in various subjects in agribusiness, including food safety, post-harvest handling, processing techniques, and packaging, would be useful to Indian entrepreneurs.

In addition to these activities, RAP might provide assistance in seeking joint-venture partners, information useful in evaluating loan applications, and other market information.

Clearly, careful coordination of ACE and RAP resources is needed to avoid confusing Indian entrepreneurs and stepping into the territory of the consulting firms already contracted to work under ACE. This coordination would most likely be undertaken by the USAID project manager for ACE. It would seem reasonable for a RAP representative to visit India directly and discuss how RAP project resources could best be used both with USAID officials and Indian project managers and entrepreneurs.