

Quarterly Report Number 13 (April - June 2004)

Contract Number 527-C-00-01-00091-00
Colombia Alternative Development Project

Strategic Objective: Promote Economic and Social Alternatives to Illicit Crop
Production



Submitted to:
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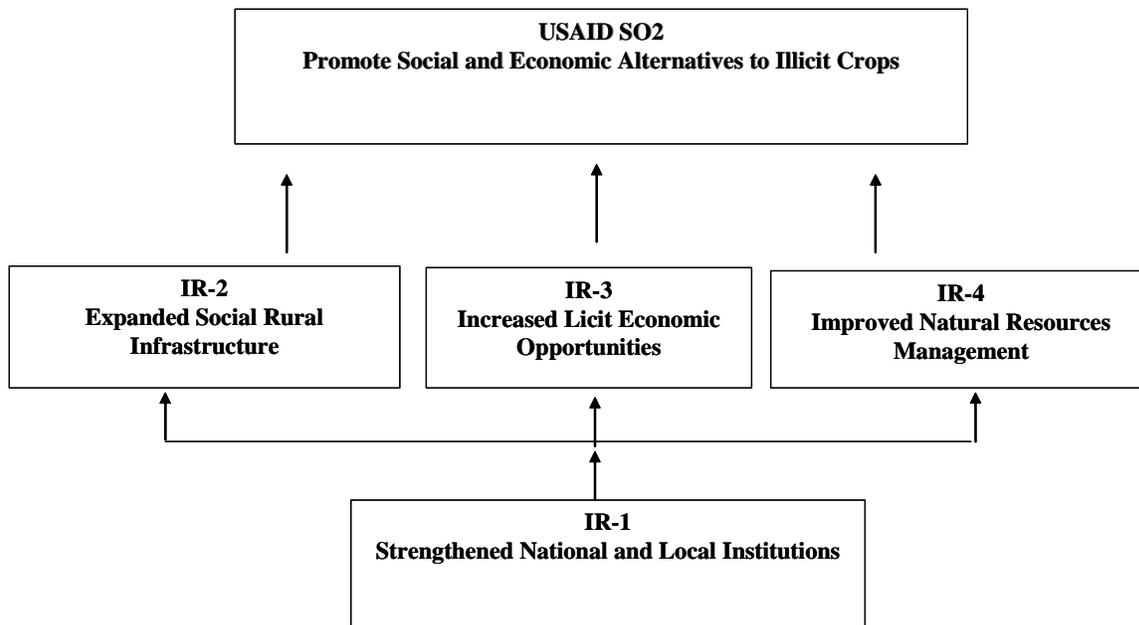
SECTION I. Background

The purpose of the Colombia Alternative Development Project (CAD) is to assist the United States Agency for International Development (USAID) and the Government of Colombia (GOC) to mount a vigorous campaign to significantly contribute to the reduction of the production of illicit crops by farmers in the departments of Putumayo, Caquetá, Sur de Bolivar and Norte de Santander, and poppy in the departments of Cauca, Nariño, Huila and Tolima. This is to be achieved through the development and provision of alternative licit economic opportunities to farmers and, when interdiction and aerial spraying are coordinated, will result over time in the abandonment of illicit crop cultivation and refusal by farmers to plant new areas in coca and poppy. Under the terms of the contract, Chemonics provides grants and subcontracts to NGOs, community and agricultural associations, municipalities and private enterprises to support the development of licit economic alternatives.

The contract was signed on March 30, 2001 and the Chemonics core team arrived in country on May 15 of the same year. On September 29, 2001, the RAISE (Rural and Agricultural Incomes with a Sustainable Environment) Task Order and the Colombia Alternative Development Project were merged, forming one unified project addressing coca and poppy production

Project support is divided into four intermediate results in support of USAID's **Strategic Objective (SO) 2** as shown in exhibit A.

Exhibit A - Results Framework



SECTION II. Significant Accomplishments During the Quarter

Putumayo New Economic Initiatives:

Construction was finished on the Agroindustrial Centers in Putumayo and Cauca, and significant developments were made in the development of the various agroindustrial plants that will operate in the centers. All plants are expected to be fully operational during the next quarter. These initiatives, backed by private sector operators and investment, will, over time, become major elements of the post-coca economic structure of Putumayo.

Cauca New Economic Initiatives:

The Novirao Forestry Service Center has been fully constructed and is expected to begin operation in August, 2004. The Patía River Valley Project has begun, with the perforation of the irrigation wells scheduled to begin in mid July, 2004.

Monitoring and Evaluation:

The M&E division has finalized the results of two important surveys - the Putumayo Social Capital Survey and the CAD Program Appreciation Survey. Data for the "Putumayo Rural and Social Infrastructure Survey" was analyzed, and results will be distributed during the next quarter.

Significant progress in Hectares Supported during the quarter:

While all contractual primary indicators have now been surpassed, significant progress was made in the Licit Hectares indicator, with 1,680 hectares supported during the quarter. Most of this progress came from the *Bosques y Maderas* project (606 hectares) and from the Rubber, Caquetá project (455 hectares).

Coordination between CAD and ARD/CAPP:

Coordination continued between CAD and ARD/CAPP technical teams for the smooth transition of the "Convocatoria" cacao and oil palm projects in Norte de Santander. Meetings will continue throughout the next reporting period.

Expenditures:

Total expenditures during the quarter were US\$4.7 million

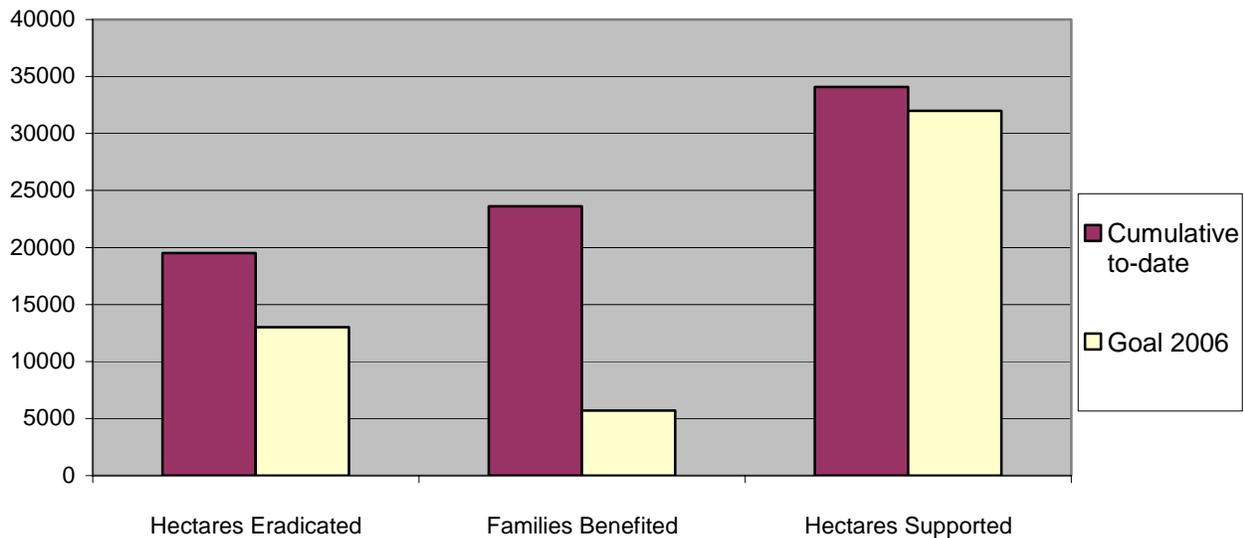
SECTION III. Progress on CAD Indicators

All contractual primary indicators have now been surpassed.

- The number of hectares eradicated this quarter (25) increased this indicator over the contract goal by 50 percent to a total of 19,500 hectares.
- The number of families benefited during this quarter increased by 862, raising the cumulative total to 23,601 families. This exceeds by 314 percent the contract goal of 5,700 families.
- The number of additional hectares (1,680 hectares) of licit crops supported this quarter raises the cumulative total area to 34,073 hectares, exceeding the contract goal by 2,073 hectares.

Exhibit III-A

ALLTHREE LOP GOALS EXCEEDED (Life of Project) Indicators - SO-2



It is significant that the number of hectares supported continues to exceed the number of hectares eradicated; this demonstrates that alternative development is not simply one-for-one crop substitution program. Because of the relatively high returns to illicit crops, alternative crops, with lower returns, must significantly increase the area under licit crop production in order to be attractive.

Eradication this quarter totaled 25 hectares, for a total of 19,500 hectares eradicated

- In total, 11 hectares were eradicated under the PILDAET program in Putumayo, and 14 hectares under the Rubber project in Caquetá.

The number of families benefiting directly from CAD project activities increased by 862 families during the quarter to a total of 23,601 families benefited

- Under the PILDAET program in Putumayo 24 additional families were benefited during the quarter.
- Under the Caquetá rubber project, 47 additional families were benefited during the quarter.
- Under the Medicinal Plants project in Putumayo, 54 additional families were benefited during the quarter.
- Under the Tropical Flowers and Foliage projects in Putumayo, 152 additional families were benefited during the quarter.
- Under the *Bosques y Maderas* project in Putumayo and Cauca, 584 additional families were benefited during the quarter.
- One additional family was benefited under the Putumayo rubber project.

Licit Area supported by the project increased by 1,680 hectares to a total of 34,073 licit hectares supported to date

- The projects listed below resulted in an increment of 1,680 licit hectares supported, as follows:
 - Rubber (Caquetá), 455 hectares
 - Rubber (Putumayo), 60 hectares
 - *Raíz por Raíz*, 12 hectares
 - PILDAET, 416 hectares
 - *Bosques y Maderas*, 606 hectares (under plantations/agroforestry)
 - African Palm (Norte de Santander), 24 hectares
 - Hearts of Palm (Putumayo), 38 hectares
 - Medicinal Planys (Putumayo), 27 hectares
 - Flowers and Foliage (Putumayo), 42 hectares

A. Progress towards So-2 Goals¹

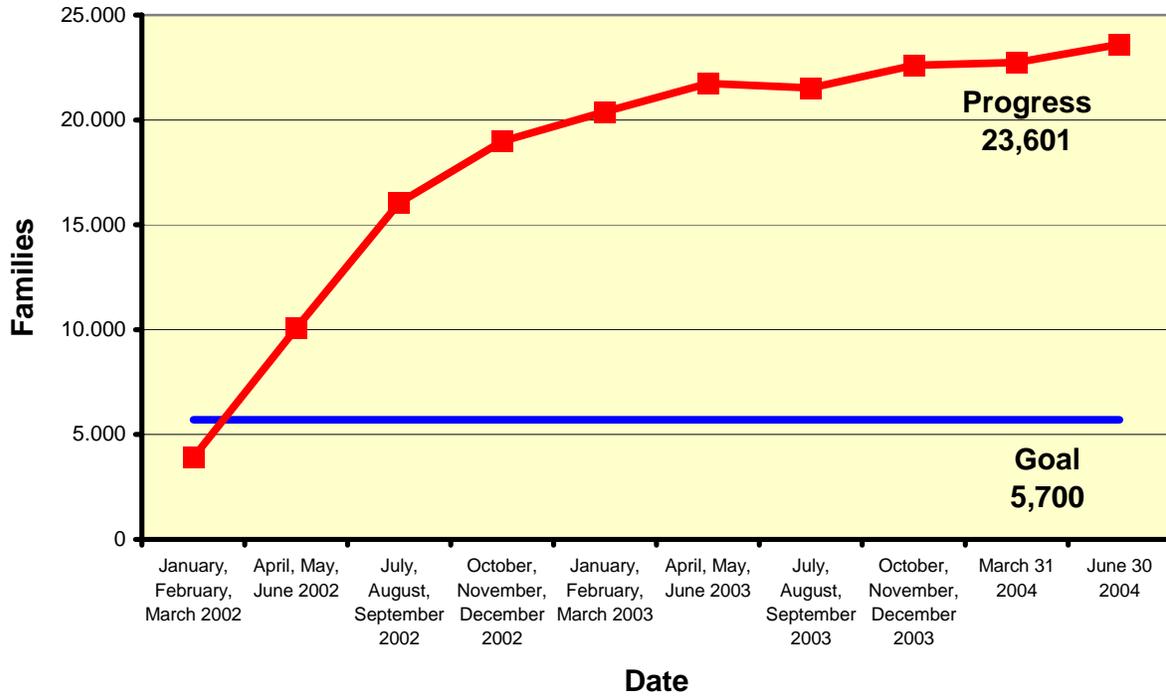
The following tables show the details of the SO-2 described in the previous sections of this report.

Exhibit III-B

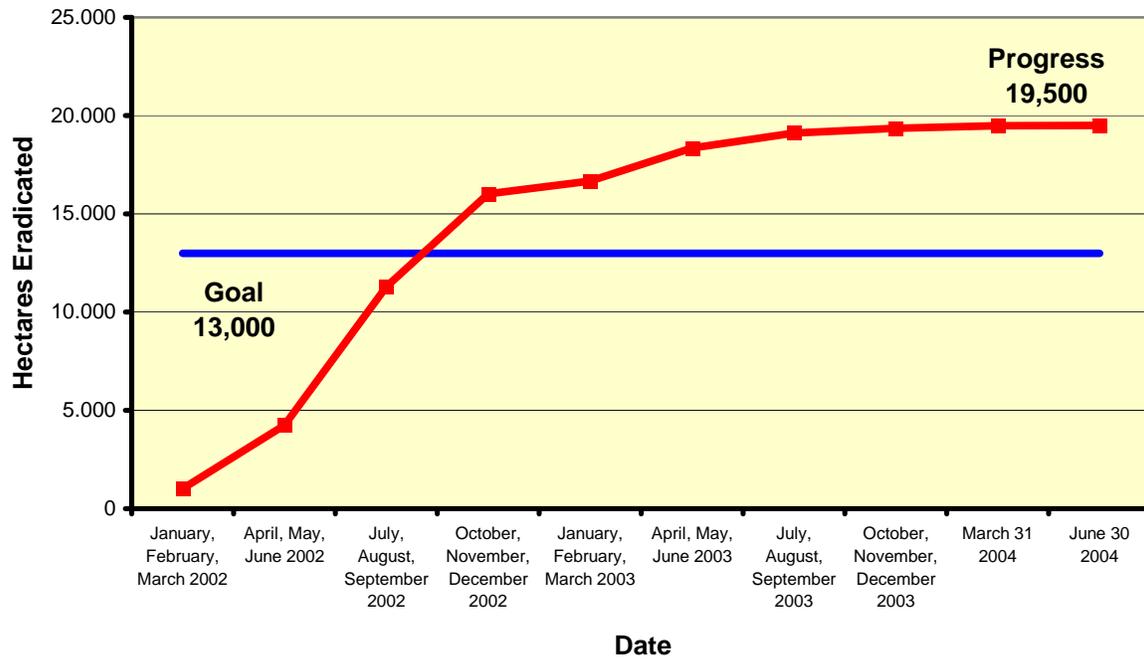
SO2 Indicator		Quarter Apr-Jun 2004	Cumulative 30 June 2004	Contractual Goals
Families Benefited	Poppy	0	2,732	5,700
	Coca	862	20,869	
	Total	862	23,601	
Hectares Eradicated	Poppy	0	1,208	13,000
	Coca	25	18,292	
	Total	25	19,500	
Hectares Licit Crops Supported	Poppy	0	3,206	32,000
	Coca	1,680	30,867	
	Total	1,680	34,073	

¹ As per p. 8, Section B of the USAID Contract with Chemonics

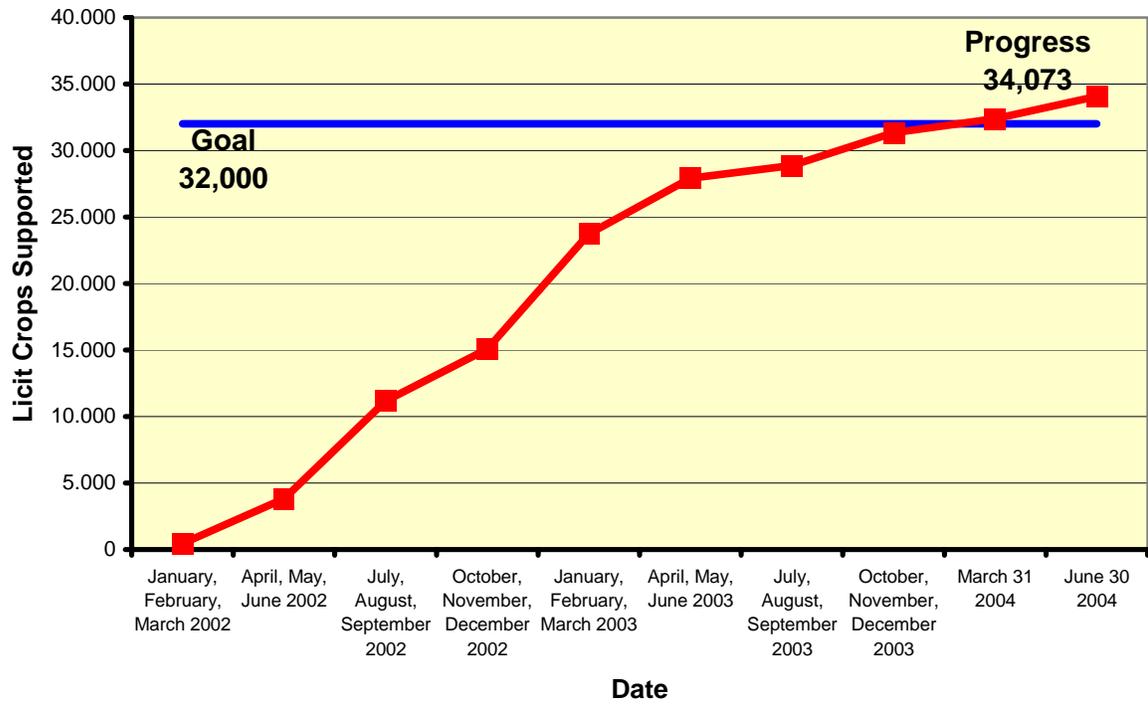
Families Benefited



Hectares Eradicated



Licit Crops Supported



SECTION IV. Accomplishments By Intermediate Results

A. Strengthened National and Local Institutions

A1. Activities/significant accomplishments during the quarter:

Support to the Maracuyá Project - Huila

During the quarter, the *Incubadora de Empresa de Base Tecnológica de Antioquia* concluded its participatory assessment with the maracuyá farmers to recommend to CAD a program for continued support to maracuyá in eight Huila municipalities. The *Incubadora* recommended focusing that further support of maracuyá be limited to farmers with adequate irrigation. For farmers unable to grow, no specific recommendations were forthcoming other than illustrative crops which may be profitable. The *Incubadora* also recommended using Huila-based technical assistance providers in the future and consolidating where feasible farmer associations (there are a few cases of more than one farmer organizations per municipality)

CAD personnel also met with representatives of FINAGRO, Banco Agrario, and the Secretario de Desarrollo from the Office of the Governor of Huila to analyze options to requalify maracuyá farmers in the 2002-2003 project for future credits. Based upon those discussions, which include participation of USAID and PDA representatives, CAD has proposed to the maracuyá farmers to support with grant funds one hectare of maracuyá per farmer with appropriate lands and irrigation. A RFA to that effect was prepared, which will be sent to technical assistance providers previously prequalified by the Office of the Governor of Huila. A second result of those discussions was the need for CAD to assist the Banco Agrario in determining whether current Colombian law allowed the Banco to individualize credits, given the commencement of formal liquidation by FUNDAMAR. CAD hired a lawyer who determined that the Banco Agrario could indeed proceed.

CAD also supported an initiative of FUNDAMAR to organize the individual farmer credit accounts so that each farmer will have a statement of what was received under the credit portion of the 2002-2003 project, administered by FIDUAGRARIO under the supervision of PDA.

Institutional Support to PDA (Government of Colombia's Plan de Desarrollo Nacional)

Payment to three PDA contractors continued as part of institutional strengthening efforts provided by the project to PDA, and USAID has instructed CAD to continue with this funding through August 2004. PDA staff supported consists of two contractors providing illicit crop pricing information, and one contractor providing assistance to PDA in alternative development planning.

A2. Obstacles encountered and overcome:

Support to the Maracuyá Project – Huila:

A major concern for both the farmers and CAD has been the willingness of both the Banco Agrario and FINAGRO to permit individualized credit repayment by the farmers. In this quarter, both institutions expressed a strong willingness to develop mechanisms which will permit farmers to repay their credits. The recommendations of a lawyer hired by CAD should allow the Banco Agrario to move forward in this area.

A3. Activities planned for the next reporting period:

Support to the Maracuyá Project – Huila:

The RFA will be distributed to Huila-based technical assistance providers, and will encourage the use of farmer experts as part of the local technical assistance team as well as coordination with municipal technical assistance programs. The grantee should be selected by early August. CAD will hold meetings throughout the quarter with Mayor, the Office of the Governor of Huila, and representatives of the farmers to discuss project strategy, introduce the grantee, and develop participatory project monitoring mechanisms. CAD also expects to provide limited assistance to FUNDAMAR in its liquidation process, to assure that farmers have the information required to make informed decisions. The selection of farmers to participate in the reestablishment of maracuyá is expected to be completed by the end of the next quarter. Also in this quarter appropriate mechanisms should be developed by the Banco Agrario, with the counsel of FINAGRO, to allow repayment individually by interested farmers.

B. Expanded Rural Social Infrastructure

B1. Activities/significant accomplishments during the quarter

Gerpromayo infrastructure contract

During the reporting period, Gerpromayo activities were centered on completing the construction of the Agroindustrial Centers in Orito and Villagarzón. In order to complete the Centers, and in order to complete additional activities that were added to the contract, the Gerpromayo contract received an extension until June 15, 2004. These additional activities included the purchase and installation of an electrical emergency plant for the Villagarzón Agroindustrial Center, improvements to the internal access roads for the Natura Flowers site, the construction of security enclosures, the construction of rainwater drainage systems as well as the expansion of the fuel network and the hydraulic and electrical systems. These activities are expected to be completed in the early part of the next reporting period.

Oversight of CONIF construction activities

The Expanded Rural Social Infrastructure division continued oversight of CONIF infrastructure activities in the Forestry Service Centers (FSCs) in Cauca and in Putumayo, as well as the "Centro de Servicios del Totumo" in Cauca. In the Villagarzón (Putumayo) FSC, specific activities included the construction of the civil works and the mounting of concrete bases for machinery, the construction of metallic structures, the design of electrical systems and the construction of an internal network for rainwater. In the Novirao (Cauca) FSC, specific activities included the construction of concrete bases for machinery, the installation of a low and medium tension energy system, the construction of an internal network for rain and wastewater and the filling-in and leveling of the Center's floors. In the Cauca *Totumo* Center, activities centered on the complete construction of a covered metallic structure measuring 395 meters squared, a well as corresponding concrete, electrical and hydraulic systems.

B2. Obstacles encountered and overcome

- The operation of the electrical sub-station in the Villagarzón Agroindustrial Center encountered some problems due to the electrical (software) programming of some of the Center's machinery. The machinery was re-programmed to be compatible with the existing plant, and the problem was solved.
- While the Villagarzón aqueduct company had determined that there would be enough water to service the plant, it was discovered during the reporting period that there was not sufficient water pressure. The municipal aqueduct is expected to fix the situation, and in the meantime rainwater is being captured in tanks until appropriate adjustments are made to the municipal aqueduct.

B3. Activities planned for the next reporting period

- Complete construction of the Agroindustrial Centers in Orito and Villagarzón, as well as the *Totumo Center* in Cauca.
- Finalize the electrical network design and the architectural design of the offices for the Novirao FSC.

C. Expanded Licit Economic Opportunities

C1. Activities/significant accomplishments during the quarter

PILDAET and Raíz por Raíz Programs in Putumayo

PILDAET, *Raíz por Raíz*, large commodity and the *Bosques y Maderas* projects all registered important accomplishments during the reporting period, especially in regards to the number of licit hectares supported by the project. The number of hectares supported under the PILDAET program during this quarter amounted to 416, for a total of 8,581 hectares to date (cumulative). The number of hectares supported under the *Raíz por Raíz* program during this quarter amounted to 12, for a total of 9,146 hectares to date (cumulative). The number of additional hectares supported during the quarter under the *Bosques y Maderas* project was 606 (in plantations/agroforestry) and the large commodity projects registered 577 additional hectares supported during the quarter. The following Table shows progress indicators in regards to licit hectares supported by selected projects.

LICIT CROPS SUPPORTED THIS QUARTER

Licit Crops Supported by project	PILDAET	RAÍZ POR RAÍZ	BOSQUES Y MADERAS	LARGE COMMODITY PROJECTS	OTHER	TOTAL
Goal	8,046	2,900	11,670	7,231	3,400	32,247
Total, previous quarter	8,165	9,134	6,796	5,604	2,694	32,393
Progress, this quarter	416	12	606	577	69	1,680
Total, Cumulative	8,581	9,146	7,402	6,181	2,763	34,073

Villagarzón Agroindustrial Centers:

During the reporting period, the construction and outfitting of the Center was nearly completed, with the exception of some retaining walls which will be completed during the early part of the next reporting period. The Center's hydraulic and electrical systems were installed, and the site's offices, bathrooms, laboratories and other administrative infrastructure were completed for each of the businesses.

Orito Agroindustrial Centers:

During the reporting period, the construction and outfitting of the Center was completed, including the completion of all physical installations within the Center, the completion of the Center's electrical and hydraulic systems, the installation of a 375 KVA electrical back-up plant, the installation of a fuel provision plant and the structural completion of the



Center's enclosures. A ceremony was held at the Center during the reporting period, with the outgoing and incoming Orito mayors and municipal, civil and military authorities. This Center houses "Concentrados Putumayo S.A.", with a dehydration plant for tubers and grains, and the plant for animal feed concentrates.

Left – Orito Agroindustrial Center

Administration of the Agroindustrial Centers:

A contract was signed with Huairasachac during the reporting period for the "Creation and constitution of an enterprise that will manage the Agroindustrial Centers of Villagarzón and Orito in Putumayo".

Animal feed mill (Concentrados Putumayo SA): This business was legally constituted during the past reporting period, and has been fully staffed. Trials of the dehydration plants have begun, and they are expected to end during the early part of August, enabling commercial production to begin. The company now has enough capital to begin purchasing material from local and national markets (soy, cassava, micro nutrients, "bore", "yota", corn). Investor round tables continued with the assistance of the Putumayo Chamber of Commerce, to attract urban and small farmer investors. Local investors have pledged more than CP\$200 million, and national investors will be targeted during the next reporting period.

Black pepper and plantain processing plant: This business was legally constituted during the past reporting period, and the transfer of the working capital will take place during the beginning of the next reporting period. More than 100,000 pepper plants have been identified in the department, ensuring enough material for the plant to fully operate during the next year. Trials are scheduled to begin in early July, and the machinery is being calibrated and prepared to begin production in August, 2004. Investor round tables continued with the assistance of the ASOCAP, and rubber industry associations from Mocoa, Villagarzón, Puerto Caicedo and Puerto Guzmán. Local investors have pledged more than CP\$43 million, and national investors will be targeted during the next reporting period.

Tropical flowers and foliage – Mocoa (Asocoltrópicos):

Activities during the quarter centered on the establishment of 14 hectares of flowers and foliage (42% percent of the planned 30 hectares) and the training of 57 indigenous project beneficiaries, or 95 percent of the planned total. To date, 17,000 plants have been planted, and are all in excellent phytosanitary conditions.

Tropical flowers and foliage – Villagarzón (Natura Flowers):

Activities during the quarter centered on the establishment of 11.5 hectares of flowers and foliage (46% percent of the planned 25 hectares) and the training of four project beneficiaries. To date, 53,207 plants have been planted, and are all in excellent phytosanitary conditions. A total of 690 "jornales" have been generated since the beginning of the project.

Medicinal and aromatics crops and processing plant (Aceites Putumayo S.A.)::

All 54 project beneficiaries have been identified in the municipalities of Villagarzón and Mocoa, in the *veredas* of San Jose del Guineo, Canangucho, El Porvenir, Villa Colombia, El Mezon and Condagua. To date, 54,000 plants of *Estevia*, *Anamú*, *Cúrcuma*, lemongrass, *Ruda* and Ginger have been planted. More than 63,000 plants are awaiting the preparation of soils and appropriate climate conditions to be planted, and 386,000 plants are in the nursery waiting to be bagged and delivered to the farmers.

Vanilla:

The vanilla project has been socialized with more than 2,000 families in Mocoa, Villagarzón, Puerto Caicedo, Orito and Puerto Asís. A total of 887 lots for the planting of the vanilla have been identified. The first demonstration vanilla farm has been established in Puerto Asís, with the planting of 155 plants of *Vanilla Planifolia*. Arrangements have been made with the ICA for the importation of vanilla from Costa Rica.

Large commodity projects

During the reporting period, the large commodity projects including rubber, cacao, heart of palm and African oil palm continued concentrating on planting activities and plantation maintenance. Although these projects had already met the illicit crop eradication goals set out in the agreements, 14 additional hectares were eradicated under the Caquetá Rubber project.

During the reporting period, 679.9 new hectares were planted and supported under the large commodity projects, accounting for 94 percent of programmed goals for the quarter.

Project	Department	Goal Quarter (ha.)	Progress Quarter (ha.)	Goal Contractual (ha.)	Progress Cumulative (ha.)	Percentage Progress
Rubber	Caquetá	650	556.9	1,500	1,421	95%
Rubber, pepper, woods	Putumayo	75	60.5	500	498	99.6%
Heart of Palm	Putumayo	0	38.5	750	651.5	86%
Cacao, plantain and wood association projects **	Norte de Santander	0	0	1,000	1,018	102%
African oil palm	Norte de Santander	0	24	1,000	1,041	104%
Total		725	679.9	4,750	4,629.5	

Other significant accomplishments under the large commodities projects include:

Palmito project – Putumayo: To date 643 hectares of palmito are established, or approximately 76 percent of the programmed goal of 850 hectares. Technical assistance visits, concentrating on *chontaduro* cultivation and harvesting were carried out with beneficiary associations and five seminars on these same topics were conducted during the period. To date, 330 families have benefited from the project.

Significant project accomplishments during the reporting period at the Puerto Asís heart of palm factory include:

- Monthly production was increased to 15 days.
- Sales of the product continued to rise during the quarter, with an average of 1,500 cases sold per month.
- Pricing structures were changed and updated and discount charts for large scale buyers were developed.
- Important developments were made in the construction of the water bottling plant, and it is expected to be fully operational towards the end of the next reporting period.

A strategic sales and marketing plan continued during the quarter, resulting in an increase in total sales and number of buyers, particularly to supermarket chains. Important contacts abroad were also made during the quarter for the exportation of the product. Inventory levels were brought down to a minimum during the quarter.

CAD continued working with Agroamazonía on important administrative changes, focusing on the administrative and financial reorganization of the company. Specific changes include the hiring of a new manager for Agroamazonía, a new accountant and a new administrative assistant. Important achievements were also made on the organization of financial and accounting data, resulting in completed financial data for 2003.

Rubber project – Caquetá: During the reporting period, 556.9 new rubber hectares were established, increasing this indicator to 1,421 hectares - 751 in agroforestry (goal was 750 hectares), 669.5 in monoculture (the goal was 750 hectares), and 119.5 hectares in the recuperation of old rubber plantations, out of a goal of 153 hectares. Eradication of 13 hectares of illicit crops took place during the quarter, increasing this indicator to 917 hectares eradicated. A total of 512 families have benefited from the project to date, 426 men and 86 women, out of which there are 400 active beneficiary families.

Construction of the rubber pilot plant was nearly completed, and will be finished during the next reporting period. Specific accomplishments during the quarter included the construction of the three basins for washing the rubber, two drainage mills, the laboratory for the electrical and hydraulic works, as well as the floors and bathrooms for the plant.

The plant received a Water Concession License (*Licencia de Concesión de Aguas*) from Corpoamazonía in order to begin construction of a separate aqueduct for the plant. Technical support visits from Heveatec and Talleres Amado from Guatemala helped with the installation of the machinery and with the plant's electrical designs.

Other accomplishments during the quarter include:

- Purchase of 43.5 tons of dry rubber, for a total of 293.8 tons of dry rubber during the life of the project.
- Sale of 39.9 tons of dry rubber, for a total of 310.3 tons of rubber sold during the life of the project.
- Realization of 594 technical assistance visits to farms and plantations during the quarter, for a total of 1,321 visits during this year. The goal for 2004 was 1,200 technical visits.
- Realization of 16 "field days" which provided agroforestry and rubber cultivation training to 330 beneficiaries.
- Technical seminars were held in five different municipalities, with a total of 51 beneficiaries attending.
- Seminars on organic agriculture were held in the municipalities of Curillo and Valparaíso, with the participation of 106 people.
- A training session on empresarial development and accounting was begun with the SENA, for the training of 30 young beneficiary family members.

Rubber project – Putumayo: During the reporting period, 60.6 hectares of rubber were established, bringing this indicator to 498 hectares, or 99.6 percent of the programmed project goal (500 hectares in agroforestry). To date, 255 families have benefited from the project. The Veracruz nursery located in Villagarzón continues to provide graft material and rubber seedlings for project beneficiaries, which are used to replace old trees and plant new ones. Surplus material was sold to Procaucho (18,500 stumps) and 15,000 stumps were sold to Asoprocaucho-Guaviare. The nursery generated 1,562 "jornales" in grafting and general maintenance activities during the quarter.

Other important project accomplishments during the reporting period include:

- The reformulation of the project for 2004 calls for the establishment of 44 hectares of pepper, and five hectares have been established to date.
- Realization of 168 technical assistance visits to project beneficiaries.
- A strategic plan for the nursery was developed during the quarter, enabling short and medium term sales projections.
- Carrying out of 31 demonstrations of pepper crop management methods on participating farmers' "fincas".
- Through a project sponsored by Agrovida, 12 participants were trained on the proper use of pesticides.

Cacao project – Norte de Santander: During the reporting period 158.5 hectares of cacao and seven hectares of trees were planted, intercropped with already existing plantain hectares. Progress to date includes a total of 1,018 hectares of plantain, or 102 percent of programmed goals; 985 hectares of Cacao, or 96 percent of programmed goals; and 1,000 hectares of trees, or 100 percent of programmed goals. The total programmed goal of cacao trees to be planted in association with plantain and trees is 1,000 hectares. Families benefited from the project to date total 456 families (412 men and 44 women).

Other important project accomplishments during the reporting period include:

- Implementation of eight training seminars on management and renovation of cacao crops, with the participation of 144 farmers.
- Carrying out of eight institutional strengthening seminars to the Asociación Gremial de Cacaocultores (Asocati) focused on 247 beneficiaries interested in understanding the organization and management of the association.
- Realization of 524 technical visits to farmers in support of soil preparation, planting, fertilization and management of cacao and plantain farming activities
- Sale of 216 tons of plantain (*fhia* variety) and banana, for a value of COLP\$66 million, increasing this indicator to 760 tons, totaling COLP\$197.4million.
- Marketing of six tons of cacao for an accumulated total of 49.5 tons and a value of CP \$182.3 million.
- Implementation of an educational tour through *veredas* of La Llana, focusing on agronomic management of cacao, with the participation of 15 beneficiaries.
- Manual labor generated under the project during the reporting period amounted to 1,462 "jornales", corresponding to a cumulative total of 87,370 daily wages to date.

African Palm Project – Norte de Santander: During the reporting period 24 hectares of African Palm were established, for a cumulative total of 1,041 hectares (out a goal of 1,000 hectares).

Other important project accomplishments during the reporting period include:

- Realization of 430 technical assistance visits to farmers.

- Implementation of three training workshops for 43 women, coordinated by Estam, Ltd., on productive projects.
- Additional training included the SENA's (Servicio Nacional de Aprendizaje) seminar on "The Family Business and Farm Planning" given to 28 participants of the project's Board of Directors and community leaders; a seminar on interpersonal relationships for 80 beneficiaries from the Libertad and Campo Dos *veredas*; and seminars on management abilities for members of the Asogpados Board of Directors.
- Through a project sponsored by Agrovida, 29 participants were trained on the proper use of pesticides.
- Visit of 29 farmers to the municipalities of Puerto Wilches, Maria la Baja and Codazzi to witness proper fitosanitary use and crop harvesting.
- Fitosanitary training provided by Promotora Hacienda las Flores for 82 beneficiaries, and training for seven farmers on maintenance and development of the plantations.

Projects in the Macizo Colombiano (Tolima, Huila, Cauca and Nariño)

Patía Valley Project: During the reporting period changes were made to the planned irrigation systems to be installed in the participating *veredas*, focusing instead on the perforation of deep wells from 70 to 100 meters deep. This change was considered necessary after a determination that water supply at lesser depths would not be adequate for the irrigation of project crops. These changes result in significant advantages to the project, ensuring that water will be available year-round, equalizing water access to all of the different *veredas*, and helping guarantee the technical and commercial sustainability of the project.



Installation of Patía Project irrigation systems, Patía, Cauca.

These small-scale irrigation systems will irrigate 354 hectares of pepper, tomato, onion, melon, papaya, mango and maracuyá crops in 11 *veredas*, where communities have agreed to eradicate their illicit crops. A total of 324 families will directly benefit from the project.

CAD continues to work with the selected communities and with the local governments of Balboa and Patía in the implementation of the project, ensuring that both productive and social issues are adequately addressed.

Maracuyá Project - Huila

During the quarter, the *Incubadora de Empresa de Base Tecnológica de Antioquia* concluded its participatory assessment with the maracuyá farmers to recommend to CAD a program for continued support to maracuyá in eight Huila municipalities. The *Incubadora* recommended that further support of maracuyá be limited to farmers with adequate irrigation. For farmers unable to grow, no specific recommendations were forthcoming other than illustrative crops which may be profitable. The *Incubadora* also recommended using Huila-based technical assistance providers in the future and consolidating where feasible farmer associations (there are a few cases of more than one farmer organizations per municipality)

CAD personnel also met with representatives of FINAGRO, Banco Agrario, and the Secretario de Desarrollo from the Office of the Governor of Huila to analyze options to requalify maracuyá farmers in the 2002-2003 project for future credits. Based upon those discussions, which include participation of USAID and PDA representatives, CAD has proposed to the maracuyá farmers to support with grant funds one hectare of maracuyá per farmer with appropriate lands and irrigation. A RFA to that effect was prepared, which will be sent to technical assistance providers previously prequalified by the Office of the Governor of Huila. A second result of those discussions was the need for CAD to assist the Banco Agrario in determining whether current Colombian law allowed the Banco to individualize credits, given the commencement of formal liquidation by FUNDAMAR. CAD hired a lawyer who determined that the Banco Agrario could indeed proceed.

CAD also supported an initiative of FUNDAMAR to organize the individual farmer credit accounts so that each farmer will have a statement of what was received under the credit portion of the 2002-2003 project, administered by FIDUAGRARIO under the supervision of PDA.

C2. Obstacles encountered and overcome

Animal feed mill (Concentrados Putumayo SA): Trials of the dehydration plants carried out during the quarter identified possible overheating problems with the cassava drying equipment. Appropriate technical solutions have now been adopted to overcome this problem.

Maracuyá Project – Huila: A major concern for both the farmers and CAD has been the willingness of both the Banco Agrario and Finagro to permit individualized credit repayment by the farmers. In this quarter, both institutions expressed a strong willingness to develop mechanisms which will permit farmers to repay their credits. The recommendations of a lawyer hired by CAD should allow the Banco Agrario to move forward in this area.

Patía Valley Project: Delay in project start-up initially created some tension in the communities, making the socialization of the project and the initiation of project activities

more difficult. However, constant communication with community leaders, as well as the fact that the project has now begun, has allayed some of these initial concerns.

Rubber Project – Caquetá: The principal obstacle affecting this project continues to be the poor condition of the Valparaiso-Solita road that precludes transportation of supplies and vegetable material to farmers. Project activities are being shifted to areas offering better transportation facilities and less guerrilla risks. Delays in bringing equipment from Guatemala for the plant continue to be a problem, but it is expected that all equipment will be delivered during the next reporting period.

Rubber Project – Putumayo: ASOCAP continues to face financial and technical barriers to the marketing of the plantain. Help has been requested from Fedeplátano and three Sociedades Agrarias de Transformación (SATs) will help with this problem, and technical support from Asoheca will also be provided. Futuro Ambiental, the NGO operator, continues to experience delays in the planting of pepper and trees due in part to the lack of planting material. The planting schedule will be accelerated during the coming quarters, and other sources of material are being identified.

Cocoa Project – Norte de Santander: Delays in the delivery of cloned material from the cocoa supplier continued to be a problem during the reporting period. The contract with the particular supplier has been terminated, and there is now enough material in the nurseries to complete the planting schedule.

C3. Activities planned for the next reporting period

Animal feed mill (Concentrados Putumayo SA): Activities during the next quarter will center on the discussion of the company's strategic plan with the Board of Directors, as well as the initiation of an aggressive marketing and sales plan. Markets will be explored in nearby departments (Nariño, Cauca and Huila) and in northern Ecuador. Investor round tables will continue during the next quarter, targeting national investors.

Black pepper and plantain processing plant: Investor round tables will continue during the next quarter, targeting national investors.

Tropical flowers and foliage – Mocoa (Asocoltrópicos): The business will be legally constituted during the next quarter, construction of business installations will continue and the remaining hectares of flowers and foliage will be planted.

Tropical flowers and foliage – Villagarzón (Natura Flowers): The business will be legally constituted during the next quarter, construction of business installations will continue and the remaining hectares of flowers and foliage will be planted

Maracuyá Project – Huila: The RFA will be distributed to Huila-based technical assistance providers, and will encourage the use of farmer experts as part of the local technical assistance team as well as coordination with municipal technical assistance programs. The grantee should be selected by early August. CAD will hold meetings throughout the quarter

with Mayor, the Office of the Governor of Huila, and representatives of the farmers to discuss project strategy, introduce the grantee, and develop participatory project monitoring mechanisms. CAD also expects to provide limited assistance to FUNDAMAR in its liquidation process, to assure that farmers have the information required to make informed decisions. The selection of farmers to participate in the reestablishment of maracuyá is expected to be completed by the end of the next quarter. Also in this quarter appropriate mechanisms should be developed by the Banco Agrario, with the counsel of FINAGRO, to allow repayment individually by interested farmers.

Rubber Project – Caquetá (Asoheca): The project operator will accelerate the planting of rubber in order to achieve the project's goal of 750 hectares. Plans are to establish 131 hectares of monocropped rubber during the next quarter. Equipment for the rubber plant will be fully delivered during the next quarter, the hangar and receiving ramps will be expanded, and the water treatment plant will be completed.

Palmito project – Putumayo (Agroamazonía): The aggressive sales and marketing plan will continue throughout the next quarter, and will look to increase sales in Cali, Medellín and Bogotá. Important international contacts will be followed-up with the possibility of opening up exports to international buyers. CAD will also continue working with Agroamazonía in the restructuring of management and technical systems.

Rubber Project– Putumayo (Futuro Ambiental): The planting schedule will be accelerated during the coming quarters, and other sources of material are being explored in order to meet the goals of 166 hectares of rubber/pepper and the 40 hectares of pepper. Futuro Ambiental, the project operator, and Asocap are developing a Strengthening Plan for the association that should be completed during the next quarter.

Cocoa Project - Norte de Santander (Fundescat): It is expected that the 1,000 hectares of cacao will be fully planted by the next quarter. The project operator continues to work on an action plan for the handing over of the project to Asocati, an organization representing the cacao producers of Tibú, Norte de Santander.

Oil Palm Project – Norte de Santander (Asogpados): Work will continue on plantation inventory, drainage of crop sites and the completion of the integral management plan for plagues and weeds. With FIP funding, the fertilization plan will continue.

Patía Valley Project: The eradication of 264 hectares illicit crops will take place during the next quarter, which will allow the installation of the fruit and legume crops, as well as the small-scale irrigation systems. Six deep wells will be perforated during the beginning of the next reporting period, in the first two project productive nuclei, consisting of six *veredas*.

D. Natural Resources and Environment

D1. Activities/significant accomplishments during the quarter

Forestry Service Center – Putumayo:

Construction of the FSC structure was fully completed during the reporting period, with most of the Center's hydraulic and electrical systems installed. Final installation of machinery will take place during the early part of the next reporting period, with equipment and wood trial slated to begin around the same time. The Center is expected to be fully operational by mid next reporting period.

Forestry Service Center - Cauca:



Construction of the FSC structure (pictured) was fully completed during the reporting period, with most of the Center's hydraulic and electrical systems installed. Final installation of machinery will take place during the early part of the next reporting period, with equipment and wood trial slated to begin around the same time. Five water storage tanks, with a 10,000 liter capacity, were delivered to the Center. The Center is expected to be fully operational by mid

next reporting period. Socialization work with the indigenous beneficiaries continued, with the provision of social and business training for their eventual operation of the FSC.

Totumo Service Center – Cauca:

Significant progress was made during the reporting period on the construction of the Center in Cauca. Hydraulic and electric systems were begun, as well as the purchase of the Center's machinery. Socialization work with the afro-Colombian women beneficiaries (Cortamates) continued, with the provision of social and business training for their eventual operation of the Center.

Other significant accomplishments during the quarter include:

- The Bosques y Maderas program contributed 607 hectares to the Licit Hectares Supported indicator during the reporting period, with forest plantation and sustainable forest management activities.
- Approval by USAID of the Cauca Forestry Management Plan for pine plantations belonging to the Paéz and Guambiano Indian communities.

- Completion of the civil works for the Forestry Service Centers in Cauca and Putumayo, as well as near final construction of the Totumo Service Center in Cauca.
- Elaboration of catalogue for products that will be produced in the Villagarzón Forestry Service Center, to be distributed to important national and international buyers.
- Approval by AID Washington (BEO) of nine environmental documents (Environmental Review Files and Environmental Approvals) for maracuyá, Huila; Forestry Management Plan for plantations of indigenous communities; hydro sources for the Patía irrigation project and six subprojects under PILDAET, Fundaempresa.
- Three day training on the "Safe and Effective Use of Phitosanitary Products" in Patía, Cauca, for project beneficiaries, members of the UMATA- Patía, students from the Colegio Agropecuario de El Bordo, and technical staff from Fundaset and Riego y Clima, attended by 30 people.
- Three day training on the "Safe and Effective Use of Phitosanitary Products" in Tibú, Norte de Santander, for project beneficiaries, members of ASOGPADOS, ESTAM, FUNDESCAT, CORPONOR and students from the Universidad Francisco de Paula Santander, attended by 29 people.
- Three day training on the "Safe and Effective Use of Phitosanitary Products" in Mocoa, Putumayo, for project beneficiaries, members of Futuro Ambiental, Vida y Futuro, Cecoin/Corfas, Ecofuturo and Natura Flowers, attended by 15 people.

Environmental Compliance:

The Environmental Evaluations for the following projects were approved by USAID during the quarter: Maracuyá project, Huila

Accomplishments during the reporting period under the *Bosques y Maderas* Program are as follows:

Natural Forest Management and Forest Management Plans: The Forestry Management Plan for the Forestry Service Center in Cauca has been approved by USAID, covering 1,080 hectares that will provide the wood for the Forestry Service Center.

PAZFOR: During the quarter, 22,372 PAZFOR (payment for forestry services) day-wages were paid under the project for the establishment and maintenance of plantations, totaling CP\$390 million. Total PAZFOR wages to date are 125,715 totaling CP\$2.138 million.

Establishment and strengthening of plantations: During the reporting period, 607 new hectares were established.

Other accomplishments under the technical program component include:

- Sistema de Información Geográfica (GIS) information continues to be collected and analyzed in Putumayo and in Cauca for the planning of Annual Cutting Units.

- CONIF continues working on the legal definitions and property issues related to the Forestry Service Center in Cauca, and has instituted weekly meetings with indigenous leaders and governors representing the project's beneficiaries. These meetings are being led by regional experts in the formation of cooperatives and working with indigenous groups.
- The socialization of the FSC in Cauca continues, and community labor (*mingas*) continues in the maintenance of plantations.

D2. Obstacles encountered and overcome

While still in small proportion, ants continue to attack some crops in Cauca. Training of community members has been carried out to exert community control over the ants and to understand the importance of proper maintenance of the crops.

Problems were encountered with the cutting of certain species of wood, *in situ*, in Putumayo, due to lack of appropriate blades for the "wood mizer" machinery. In addition to obtaining the appropriate blades, certain techniques have been instituted that facilitate the efficient cutting of this wood.

Forestry Service Centers Putumayo and Cauca: The legal establishment of the Centers required significant legal advice, as well as coordination between all of the mayors involved and their legal advisors. CAD hired a lawyer to work with CONIF on the legal constitution of the Centers to ensure full legal compliance.

D3. Activities planned for the next reporting period

- Obtain approval from USAID for the Environmental Evaluation for the Cacao project in Norte de Santander.
- Legally constitute the private operating companies for the FSCs in Cauca and Putumayo, and have the businesses fully operational in August, 2004.
- Begin the marketing of the various types of wood that will come out of the two Forestry Service Centers, with detailed pricing structures.
- Begin operations of the Totumo Service Center in Patía, Cauca.
- Continue the careful environmental monitoring, in accordance with the Environmental Management Plans, of all CAD projects and activities.
- Continue with the training plan for the Pesticide Evaluation Reports and Safe Use Action Plan (PERSUAP), Integrated Pest Management and organic agriculture for all CAD projects, including the New Initiatives.
- Proposals will be received during the next quarter for a private operator for the Totumo Center in Cauca.
- Continue with investor roundtables to attract private investors to the operation of the FSCs.
- Continue coordination meetings between local governments (governors and mayors), communities and CAD and operator staff.

E. Monitoring and Evaluation

E1. Activities/significant accomplishments during the quarter

Surveys and Reports: During the quarter, CAD distributed the results of two important surveys - the Putumayo Social Capital Survey and the CAD Program Appreciation Survey. Data for the "Putumayo Rural and Social Infrastructure Survey" was analyzed, and results will be distributed during the next quarter. These surveys can be found at www.fundacad.org.co.

The "SIMONE Consolidated Information Report" was also developed during the quarter, which provides a summary of all indicator information entered into the SIMONE system.

SIMONE Information System: During the reporting period, an analysis of the information entered into the SIMONE system under all of the PILDAET and *Raíz por Raíz* projects, since the beginning of the project, was carried out. In addition, information was also verified for the African palm and Cacao projects in Norte de Santander. This careful verification of data ensures accurate reporting as these projects prepare for project close-out.

Monthly Report: CAD continued delivering the "Monthly Report" to USAID, PDA and project operators. This report includes information on project performance indicator progress, CAD financial information and analysis of the status of each project, with emphasis on value of sales, private sector participation and use of credit by the projects.

E2. Obstacles encountered and overcome

- SIMONE system: While the quality of feed back information reported by project operators through the SIMONE system has significantly increased during the reporting period, some inconsistencies still persist. This includes incomplete information, failure in feeding data on indicators and activities, mistakes in digitalizing information, etc. This problem is being solved by carrying out one-on-one personal evaluations with NGO managers and adjusting information, as necessary.

E3. Activities planned for the next reporting period

- Final reports on the Putumayo Infrastructure Survey will be finalized and distributed.
- Design and field work will begin for the evaluation of productive activities assisted by CAD, and for productive infrastructure work in Putumayo.
- The consolidated SIMONE system will be updated.
- Individual work with operating NGOs will take place during the next quarter in order to evaluate all information entered into the SIMONE system, ensuring a successful close-out of projects,

SECTION V. Program Management and Support Activities

A. Key constraints and concerns

A1. Security Situation

The security situation remains the same as reported previously. The departments where CAD works continue to be areas of high danger. While CAD still considers that the NGOs and operators that work with the program, as organizations, are not considered “military objectives” at this time, the project maintains a high level of alert and closely monitors the security situations in project areas

In general and with precautions, the staff of the NGOs and Chemonics continues to be able to visit sub-project field sites in Putumayo, but the unstable security situation requires the highest level of vigilance. The situation in Northern Santander continues to deteriorate in the past months, a situation that will continue to be closely monitored by CAD.

Because of the growing security concerns in urban areas, and particularly with the increase of guerrilla activity in Bogotá, CAD management hired a part-time security expert to work with staff, conducting a series of security seminars aimed at making the CAD workplace safer. Specific topics have included security training for the project’s office receptionists (identifying possibly dangerous mail, identification and ways to respond to threatening phone calls, monitoring of guest coming in and out of the office, etc), personal safety for employees, and bomb and fire drills in conjunction with our building’s security supervisor. These seminars will continue on an as-needed basis.

B. New CAD personnel this Quarter

In support of the Technical Resources and Support division, two new staff members joined the CAD project during the reporting Period. Miguel Fadul joined the project as the manager of the Technical Resources and Support division, and Elkin Nieto joined CAD as the Marketing and Sales Specialist.

C. Contract modifications, amendments and reporting

During this reporting period, USAID signed modification No. 16 to the contract, incorporating additional Level of effort (LOE), adding US\$10 million dollar to the contract and updating Key Personnel clauses.

SECTION VI. Grants Management

A. Grants

A1. Activities/significant accomplishments during the quarter

1. Grant awards during the reporting period:

The following projects/grant agreements were selected, negotiated and awarded during the reporting period:

- Grant Agreement No. CAD-075-03-1, Project “Creation and constitution of an enterprise that will manage the Agroindustrial Centers of Villagarzón and Orito in Putumayo” awarded to Huairasachac.
- Contract No CAD-CT-076-03-1, Project “Provision of vanilla and transfer of technology”, awarded to Bio Filial Ltd. associate of MANE International.

Terms of reference were let to USAID approved auditing firms for the external auditing of the following projects.

- Cacao project, Tibú, Norte de Santander. Fundescat.
- African palm project, Tibú, Norte de Santander. Coopar.
- CONIF – Phases II and III.
- Heart of palm project, Putumayo. Agroamazonía.

A2. Obstacles encountered and overcome

None to report this quarter

A3. Activities planned for the next reporting period

- External audits will be contracted during the next reporting period for grants exceeding US\$500,000 and which have already expired, as well as for those grants whose yearly disbursements exceeded \$300,000.
- Terms of Reference (TORs) will be let during the next reporting period for a maracuyá project in Huila; a social and rural infrastructure program to complement the existing irrigation project in Patía, Cauca, and a light manufacturing (*totumo*) project in Cauca.

A4. Training during the quarter, and explanation of activities

None to report during the reporting period.

A5. Request for Proposals

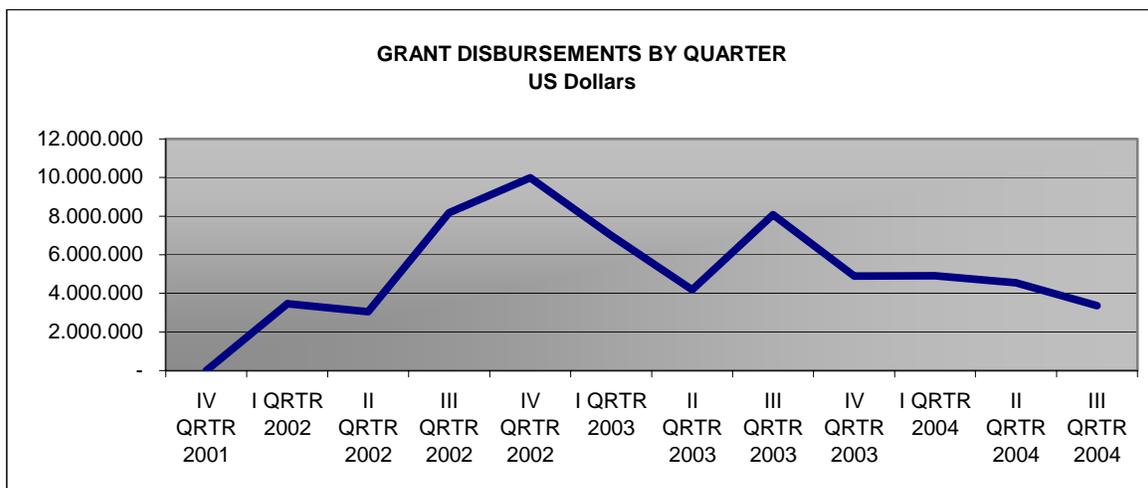
Proposals for the "Establishment of an enterprise to transform and market licit timber in Puerto Asís", were received during the reporting period. A total of 47 entities were invited to bid, but none of the proposal received met the minimum requirement to begin the negotiation process. This process has been declared annulled, and will be re-bid during the next quarter.

Proposals for the "Establishment of one or more enterprises for the sacrificing and marketing of chickens" to be located in Putumayo" are being reviewed by CAD's Technical Committee, and will be awarded in the first part of the next reporting period.

B. Grant Disbursements

B1. Grant Disbursements by Quarter

The rate of disbursements during this quarter has decreased, as most of CAD's productive projects are coming to a close. While New Initiatives disbursements are expected to increase during the next quarter, quarterly disbursements are not expected to increase dramatically for the remainder of the project.



CAD disbursements to grantees and contractors for field implementation activities during the quarter were \$3.361 million. Total Grant disbursements, for grantees and contractors only, at the end of the quarter are \$61.659 million.

B2. Disbursements (Dollars)

The major contributor to this continued advance was in Intermediate Result 3 (IR-3). It is expected that this intermediate result will continue to be the major investment line considering that the project has now surpassed the manual eradication and family goals, and will honor the commitment to alternative crops and economic activities. As disbursements

for the New Initiatives in Putumayo come on-line, a disbursement increase under IR3 Productive activities will be reflected during the next quarter.

DISBURSEMENTS	Quarter Apr – Jun 2004	Cumulative to 30-Jun-04
IR1 Institutional Strengthening	\$14,865.79	\$1,751,824.55
IR2 Infrastructure	\$378,843.96	\$7,066,391.37
IR3 Productive	\$1,999,031.43	\$45,026,285.48
IR4 Natural Resources Management	\$968,646.11	\$7,814,831.90
Total	\$3,361,387.30	\$61,659,333.29

SECTION VII. Financial Information

A. Contract Expenditures by CLIN

Contract Expenditures to Date	Contract Total	Total Expenditures through March 2004	Total Expenditures April – June 2004	Balance Remaining
Invoiced to USAID				
CLIN 01	\$189,477.53	\$161,252.41	\$633.27	\$27,591.84
CLIN 02	\$413,632.53	\$363,122.80	\$16,138.75	\$34,370.98
CLIN 03	\$4,800,296.40	\$3,602,266.34	\$153,948.17	\$1,044,081.89
CLIN 04	\$1,404,011.92	\$792,015.72	\$41,939.24	\$570,056.96
CLIN 05	\$15,157,829.33	\$8,309,624.58	\$889,242.10	\$5,958,962.65
SubTotal	\$21,965,247.71	\$13,228,281.85	\$1,101,901.53	\$7,635,064.33
Drawn down from FLOC				
CLIN 01	\$2,399,792.35	\$1,736,958.75	\$14,865.79	\$647,967.81
CLIN 02	\$7,865,186.24	\$6,687,547.40	\$378,843.97	\$798,794.87
CLIN 03	\$56,851,384.00	\$43,029,931.21	\$2,251,796.93	\$11,569,655.86
CLIN 04	\$8,264,996.77	\$6,846,185.78	\$968,646.11	\$450,164.88
CLIN 05	\$0.00	\$0.00	\$0.00	\$0.00
SubTotal	\$75,381,359.36	\$58,300,623.14	\$3,614,152.80	\$13,466,583.42
GRAND TOTAL	\$97,346,607.07	\$71,528,904.99	\$4,716,054.33	\$21,101,647.75

B. Differences between disbursements and FLOC draw-downs

Advances received through the Federal Letter of Credit must be logged in and accounted for within Chemonics' accounting system at the time the money is received. These advances are reported against the CLINs on a monthly basis and a summary of spending to date is sent to USAID Bogotá along with the monthly invoice. Each month the advances received from the FLOC are allocated across the four CLINs based on disbursements made during the month. However, since not all grant disbursements are completed in the month the money is requested from USAID (for example money is requested and received at the end of the month and therefore some might remain on the 31st) there may be differences between the official financial reports generated by the Chemonics home office (which report the advances when they are received) and the disbursement report. The portion of the advance received that has not been disbursed by the end of the month is allocated to CLIN 3 and is reallocated at the end of the following month based on that month's disbursements.

The purpose the table below is to show where the differences are between the disbursements reported in this quarterly report, as well as to HHS, and the advances (draw downs) Chemonics receives and reports in the quarterly financial report above. As you will note from the chart, there was a \$108.87 difference between what had been drawn down

from the FLOC and what had been disbursed to the grantees. This has been allocated to the appropriate lines; this quarter \$252,874.37 is pending for allocation during the next quarter and has been booked to CLIN 3

C. Allocation of FLOC drawn downs by CLIN

April-June 2004

	Disbursements	FLOC draw down
CLIN 1	\$14,865.79	\$14,865.79
CLIN 2	\$378,843.96	\$378,843.96
CLIN 3	\$1,999,031.43	\$2,251,796.93
CLIN 4	\$968,646.11	\$968,646.11
Pending allocation (booked to CLIN 3)	\$252,874.37	\$0.00
Amount pending allocation in last report (Was booked to CLIN 3 and has now been allocated above)	-\$108.87	\$0.00
Total	\$3,614,152.80	\$3,614,152.80