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UNCLASSIFIED

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

ROCAP

PROJECT PAPER

EXPORT AGRIBUSINESS DEVELOPMENT PROMOTION

Amendment No. 1

AID/LAC/P-469
CR P-327

Project Number: 596-0123
Loan Number: 596-T-024

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: C (A = Add, C = Change, D = Delete)
Amendment Number: 1
DOCUMENT CODE: 3

2. COUNTRY/ENTITY: ROCAP/LAAD

3. PROJECT NUMBER: 596-0123

4. BUREAU/OFFICE: Latin America and the Caribbean — 05

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

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 03 DD 31 YY 91

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 86 B. Quarter 4 C. Final FY 89

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

A. FUNDING SOURCE	FIRST FY 86 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	( )	( )	( )	( )	( )	(
(Loan)	(6,600)	( )	(6,600)	(16,000)	( )	(16,000
Other U.S. 1.						
Other U.S. 2.						
Host Country LAAD-CA						3,000
Other Donor(s)						
TOTALS	6,600		6,600	16,000		19,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) FN	118		150		15,000		1,000		16,000
(2)									
(3)									
(4)									
TOTALS							1,000		16,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): BR | BL | BF | INT

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 expand non-traditional agricultural exports from Central America and Panama and increase levels of income in the economies of these countries.

14. SCHEDULED EVALUATIONS
Interim MM YY MM YY
Final MM 04 YY 89

15. SOURCE/ORIGIN OF GOODS AND SERVICES
☐ 000 ☒ 941 ☒ Local ☐ Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a 7 page PP ~~AMENDMENT~~ Supplement)

Adds $1.0 million and extends PACD by 18 months to allow time for analyses and consideration of future A.I.D. support for LAAD.

I certify that the methods of payment and audit plan are in compliance with the Payment Verification Policy.

Joe Hill Jr., Controller

17. APPROVED BY
Signature: Nadine Hogan
Title: Nadine Hogan, Regional Director
Date Signed: August 21, 1989 — MM 08 DD 21 YY 89

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

AID 1330-4 (8-79)

PROJECT AUTHORIZATION

AMENDMENT No. 1

Name of Entity	:	Latin American Agribusiness Development Corporation, S.A.
Name of Project	:	Export Agribusiness Development and Promotion Project
Number of Project	:	596-0123
Number of Loan	:	596-T-024

1. Pursuant to Sections 103 of the Foreign Assistance Act of 1961, as amended, the Export Agribusiness Development and Promotion Project was authorized on September 16, 1986. That authorization is hereby amended as follows:

a. Paragraph 1 of the Authorization is deleted in its entirety and the following substituted in lieu thereof:

"Pursuant to Sections 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Export Agribusiness Development and Promotion Project with the Latin American Agribusiness Development Corporation, S.A. ("LAAD"), involving planned obligations not to exceed Sixteen Million United States Dollars (US$16,000,000) in loan funds ("Loan") over a four and one-half 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 costs for the project. The planned life of project is four and one half (4 1/2) years from the date of initial obligation."

2. The authorization cited above remains in force except as hereby amended.

Nadine Hogan
Regional Director

August 21, 1989
Date

Clearances:

DD, RNicholson (draft)	Date 8/18/89
CONT., JHill (draft)	Date 8/21/89
PRG, TMiller (draft)	Date 8/18/89
RADO, RCurtis (draft)	Date 8/18/89

PDO, PGa[redacted]4578j:8/17/89 (Corrected 8/18/89)

-2-

EXPORT AGRIBUSINESS AND DEVELOPMENT PROMOTION
596-0123

Project Paper Supplement

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Project Paper Supplement

EXPORT AGRIBUSINESS DEVELOPMENT AND PROMOTION - 596-0123

Summary of Supplement

ROCAP proposes, as an interim measure, to supplement the funds and extend the PACD of this agribusiness Project. $1.0 million dollars of additional loan funds will be obligated, and the PACD will be extended by 18 months to March 31, 1991. This will allow time for thorough consideration of the possibility of future A.I.D. support for LAAD, while maintaining the highly successful momentum of the present Project. The original goal, purpose, and operating mechanisms of the Project remain valid. No firm commitment to future LAAD funding is intended by this amendment.

I. Background

A. Summary of Original Project

In 1986 A.I.D. expressed its continuing confidence in the Latin American Agribusiness Development Corporation (LAAD) with this project, the fourth loan for agribusiness development in Central America and Panama since 1971. Key areas of lending have been fruits and vegetables (both fresh and frozen/processed), beef processing, seafood cultivation and processing, cut flowers and ornamental plants, and wood products. Criteria for lending include (a) at least 25% is new funding; (b) new jobs are created, and there are linkages to smaller-scale producers and enterprises; and (c) there is potential for expansion or replication. LAAD's lending has the following characteristics:

1. All loans are made and repaid in dollars;

2. Loans are made to new enterprises, expansions, or firms (which may have had LAAD startup loans) that are diversifying into new areas of production or market;

3. Loan requests are processed rapidly (often within 30 days, compared to 3-6 months for other development finance entities);

4. Loan decisions are based on entrepreneurial skills and management ability of the borrower as much as on paper analyses of feasibility; and

5. Collateral requirements are realistic in terms of subproject capacity and generally lower than demanded by other sources of lending.

LAAD closely monitors its subborrowers, helping them with management problems, and restructuring loans when necessary.

At completion, the expected outputs are of Project are (1) 3,600 new jobs in export agribusinesses;and (2) new foreign exchange from export sales totalling approximately $27 million. In addition, it is expected that indirect benefits will flow to small-scale producers and to communities and linked businesses.

Under the terms of the Project, LAAD/CA submits to A.I.D. for review any subloan in excess of $500,000; utilizes reflows to further the purposes of the Project; seeks to maintain a level of equity of not less than $6.0 million and a ratio of debt to equity reaching toward 3:1; maintains records of sales, employment and income of its subborrowers; and performs environmental impact determinations on subprojects. LAAD also agreed to comply with A.I.D. policies regarding financing of pesticides and citrus production or processing. LAAD also planned to make its best efforts to take equity positions in selected enterprises in order to improve its own financial base.

B. Performance and Present Status

LAAD/CA has performed fully in accordance with the purpose and terms of the Project. As of May 1989, $12.4 million has been committed, and $10.6 million disbursed to 48 firms. All subprojects have met the established criteria. Subprojects approved for disbursement under the Loan will provide for the creation of more than the targeted 3,600 jobs and $27.0 million in new foreign exchange earnings. Working directly and intensively with entrepreneurs, subloans have been made to firms in the categories identified above for new and expanded enterprises, including those exporting such new crops or products (for the region) as asparagus, Belgian endive, black pepper, new varieties of plants and flowers, cultivated shrimp, tilapia, and tropical fruit juices.

In March-April, 1989, a case study assessment of selected LAAD subprojects conducted by a Development Alternatives team looked at employment and income effects of new or expanded enterprises funded under this Project. The team studied six borrowers to ascertain the effects on workers and communities of the LAAD-supported enterprises. Among the many interesting findings in the report were that the subprojects

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provided benefits in terms of increased permanent and seasonal employment, income (increased wages and on-time payment), advancement opportunities, and secondary benefits for the communities, particularly for those located in rural areas. Those subprojects that open new land for production of more intensively farmed crops tend to have the highest employment effects. Workers in these enterprises tend to be better treated in terms of training, benefits, promotion and general labor relations than they were in other farm work. Women find employment, often as packers or processors, but once they marry, often leave work to care for their families.

In a cross-cutting study of A.I.D.'s support for agribusiness development conducted by Experience, Inc. for the Bureau in 1988, both the ROCAP-supported Non-Traditional Agricultural Export Support (NTAES) Project, which provides key technical assistance in production and marketing, and the LAAD-CA Project were cited as among the most effective in the LAC portfolio.

II. Rationale for Amendment

ROCAP proposes, as an interim measure, to supplement the funds and extend the PACD of this Project. $1 million dollars of additional loan funds will be obligated, and the PACD will be extended by 18 months to March 31, 1991. This will allow time for thorough consideration of the possibility of future A.I.D. support for LAAD, while maintaining the highly successful momentum of the present Project. No firm commitment to future LAAD funding is intended by this Amendment.

A. A.I.D. and ROCAP Strategy and Policies

Even more than at the time of its design, the Export Agribusiness Development and Promotion Project is an integral part of A.I.D.'s strategic goal of increasing agriculture-based exports from the Central American region. It is now part of a network of agribusiness lending projects supported by the bilateral USAIDs (many were in design or startup phases in 1986) which respond to the LAC Bureau's CAI objectives and have helped provide the environment for the healthy demand for credit that LAAD is responding to. Nearly all of the bilateral projects operate through the formal banking system and finance companies, serving a different segment of the demand.

ROCAP's export promotion objective is supported by the work being carried out under the Non-Traditional Export Support Project (NTAES) (596-0108) offering technical assistance at all

steps in the export production/marketing process; the Export Management Training Project (596-0124) at INCAE, which is developing needed talent and assessing policy reforms that lead to export growth; the agribusiness lending component of the Regional Economic Recovery Project (596-0114) at CABEI, which is now fully operational through the banking sectors of the member countries; and the work of the Federation of Private Sector Entities of Central America and Panama (FEDEPRICAP) in the Private Sector Initiatives Project (596-0149) on resolving transportation obstacles and policy issues related to trade expansion.

B. Timing to Allow for Analysis

ROCAP believes A.I.D. should to continue to support LAAD's highly effective work, but a number of issues need further examination by A.I.D. before we can make such a recommendation to the Agency. The mission's present workload in project design requires that we postpone this effort for some months, and allow a bridge of continuing lending in the meantime. Information from LAAD indicates that there is ample demand for the additional funds, with increasing demand from El Salvador, continued high demand in Guatemala, and a level demand for financing from Belize, Costa Rica and Honduras.

LAAD has disbursed A.I.D. funds at a rate of $500,000 a month over the last two years. In order to avoid an abrupt change in its relationships with potential borrowers, LAAD-CA will attempt to decrease gradually its rate of disbursement. Even with a less rapid rate of decrease the additional $1.0 million could be disbursed by January 1990.

Issues requiring analysis before a firm decision about future LAAD support can be made include:

1. Does A.I.D. choose to continue to utilize LAAD as a means of achieving export-related development objectives? Is there a tradeoff between development objectives and business objectives?

2. What interest rate policy should be applied?

3. How could further support be structured as a grant/loan mix: making a grant to LAAD, the reflows of which would be paid back as a loan to build an endowment fund for a regional institution?

4. How can LAAD give greater attention to pesticide usage and environmental impacts?

5. Can PD 71 related to citrus-based subprojects be applied as a standard, rather than a prohibition?

6. What can and will be the participation of bilateral Missions (through buy-ins/other mechanisms) in future LAAD financing? Should additional financing for LAAD be considered as an alternative to more funds for bilateral NTAE projects?

III Project Analyses

The original analyses conducted for this project have been reviewed, and remain valid for this Supplement. LAAD continues to be financially sound, but could benefit from a strengthened leverage position LAAD is maintaining a debt equity ratio of 2 to 1 and is making best efforts to attain a debt equity level of 3 to 1. To do so, borrowings must be increased substantially. LAAD has also sought to develop an equity portfolio in Central America as it is in the company's own best interests to do so. Until now, economic and political instability have discouraged efforts to mobilize additional capital and to take equity positions. Clients have expressed more interest in receiving loans than in acquiring a partner. LAAD-CA expects that the prospects will improve with more stability, and local enterprises require capital infusions at levels beyond the capacity of local investors.

The Economic Analysis showed that, at an assumed 12% interest rate to subborrowers, the project would earn a real rate of return at least equal to the opportunity cost of capital in Central America. The Economic internal rate of return is slightly higher than the financial rate of return, and both are more than double the opportunity cost of capital. LAAD's average interest rate to its borrrowers has been averaging about 13% under the Project.

The Institutional Analysis showed that LAAD had a small but highly productive staff which might require slight expansion in order to manage the larger portfolio. LAAD/CA's staff was three professionals and a secretary in 1986; today it has four fulltime and one part-time professional, a secretary and a program assistant. The basic functions of loan marketing, credit initiation and remedial management assistance are performed by this team, and in a highly effective manner.

The projected effects of the project as discussed in the Social Soundness Analysis have been borne out, as indicated by

the recent case study assessment showing increased stable direct and indirect employment, increased incomes to farmers and suppliers, to area businesses, and to women who perform key functions in many of the enterprises.

IV Financial Plan

The Project will disburse the $1 million in additional A.I.D. funds through LAAD/CA as the intermediate credit institution, applying the same eligibility criteria and approval procedures, terms and conditions as provided for under the Project to date.

The summary project budget is shown in the table below:

	(US$ Millions) A.I.D.	LAAD	Total
Original Loan (FY 87-89)	15.0	3.0	18.0
Supplement (FY 89-90)	1.0	.0	1.0
New Total	16.0	3.0	19.0

Audit coverage will continue to be provided by Price-Waterhouse at LAAD's expense.

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9'

ANNEX I

LAAD
DE CENTRO AMERICA, S. A.

5299

Guatemala, 9 June, 1989
Ref.: 0003R- 0127/89

w/Encl PDO
RADO
CONT
6/20/89

Mr. Pirie Morley Gall
Project Development Officer
ROCAP/AID
c/o American Embassy
Ciudad

Dear Mr. Gall:

I refer to the proposed amendment to the September 30, 1986 Loan Agreement between AID and LAAD, providing for an increase in the loan by an amount of $1.0 million.

As indicated in the annexed material, as of May 31, 1989 ROCAP had reimbursed LAAD a total of $10,722,670 for subprojects financed under the loan. In addition, four proposals for a total of $800,000 are presently being processed by ROCAP, causing the balance of the $15.0 million for which we may request reimbursement to be $3,479,330.

LAAD-CA has approved seven loans for the total of $2,450,000 which will be presented to ROCAP this month. In addition, we are in an advanced state of preparation of four new projects totalling $900,000. These, also, will probably be presented for reimbursement by the end of June. This would leave a balance of a little more than $100,000 undisbursed under the loan.

As indicated in the annexes, there is a balance of $357,670 undisbursed under our $3.0 million of matching funds.

Therefore, the balance to be disbursed under the $18.0 million program as of July 1989 should be $485,000. At the $500,000 monthly rate of disbursement of the $18.0 million program we have kept so far, this balance will be disbursed by the end of July and LAAD-CA will need recourse to the proposed additional $1.000,000 in order to keep operating at the same pace, at least for the next few months. In fact, we will attempt to slow down the pace of project development and disbursement in anticipation of a substantial drop off of available funds in the Fall of 1989.

10 CALLE 1-48 ZONA 10 4 NIVEL APARTADO POSTAL 110-A TELEFONOS 61441-317547 CABLE LAADEVCO, GUATEMALA GUATEMALA

LAAD

DE CENTRO AMERICA S A

The demand for LAAD-CA financing has accelerated since first disbursement was made in December 1986. With recent increased demand in El Salvador, continued high demand in Guatemala and a continuing level rate of demand in Belize, Costa Rica and Honduras, we expect the market for funds for elegible, nontraditional agricultural projects to continue at the present level, or increase, even without assuming further disbursements in Panamá.

We would be most grateful if drawdown of the additional $1.0 million could begin by August 1989.

Yours truly,

Thomas W. Mooney

Thomas W. Mooney

Encl:

TWM/ahdel

RECEIVED
'89 JUN -9 15:39
MAIL ROOM
USAID/GUATEMALA

2. THE FOLLOWING FY 89 AND 90 NEW PROJECT DESCRIPTIONS (NPDS) WERE APPROVED:

ANNEX II

- REGIONAL ECONOMIC RECOVERY PROJECT AMENDMENT 596-0114 ($2.8 MILLION FY 89). AMENDMENT APPROVED. APPROVAL DELEGATED TO AMMEND PROJECT AND EXTEND PACD FOR ONE YEAR.

- EXPORT AGRIBUSINESS DEVELOPMENT/PROMOTION PROJECT (LAAD) AMENDMENT 596-0123 ($1.0 MILLION FY 89). AMENDMENT APPROVED, AUTHORIZATION DELEGATED TO MISSION.

- INTRA-REGIONAL HIGHER EDUCATION PROJECT 596-0151 ($6.0 MILLION FY 92) NPD APPROVED. AID/W WILL REVIEW PID. THE PID SHOULD CLEARLY DEFINE EOPS AND BENCHMARKS FOR MEETING PROJECT OBJECTIVES AS A STAND-ALONE PROJECT. CAREFUL CONSIDERATION SHOULD BE GIVEN TO THE NUMBER OF INSTITUTIONS TO BE INVOLVED AND THE NUMBERS OF SCHOLARSHIPS TO BE PROVIDED TO ASSURE EFFECTIVENESS OF THE PROJECT. ALSO, THE PID SHOULD PROVIDE A STRONG INDICATION OF BILATERAL MISSION BUY-IN INTEREST IF THE TRAINING BUY-IN COMPONENT PROVES TO BE CRITICAL TO PROJECT SUCCESS.

- MATERNAL-CHILD HEALTH AND FOOD/NUTRITION TECHNICAL SUPPORT PROJECT 596-0153 ($12 MILLION FY 90) NPD WAS APPROVED, PROJECT AUTHORIZATION DELEGATED TO MISSION. THE APPROVAL FOR DEVELOPMENT OF THE PROJECT IS DEPENDENT ON ROCAP'S ESTABLISHMENT OF A HEALTH OFFICER POSITION OR OTHERWISE ASSURING ADEQUATE TECHNICAL STAFF FOR DESIGN AND MANAGEMENT OF THE PROJECT.

OTHER:

- INDUSTRIAL EXPORT PROMOTION PROJECT 596-0154 ($10.0 MILLION FY 91) THIS PROJECT WILL BE INCLUDED IN THE FY 91 ABS. THE PROPOSED LOP WAS REDUCED FROM DOLS 15 MILLION TO DOLS 12 MILLION. THE FY 91/92 ACTION PLAN NPD FOR THIS PROJECT SHOULD CLARIFY THE RELATIONSHIP OF THE PROPOSED PROJECT WITH BILATERAL MISSION ACTIVITIES, AND HOW THE PROJECT FITS AND SUPPORTS THOSE ACTIVITIES. THE NEW NPD SHOULD ALSO EXPAND ON THE VERY CRITICAL ISSUE OF SUSTAINABILITY. FURTHER, THE RATIONALE FOR A REGIONAL PROJECT AND THE COMPARATIVE ADVANTAGE OF ROCAP IN THIS AREA SHOULD BE CLEARLY EXPLAINED.

- EXPORT AGRIBUSINESS DEVELOPMENT II PROJECT 596-0156 ($10 MILLION FY 90) AT THE WRAP-UP MEETING WITH AAA/LAC ROCAP WAS AUTHORIZED TO PROCEED WITH THE DEVELOPMENT OF THIS PROJECT SUBJECT TO NEGOTIATION OF MATCHING FUNDS FROM LAAD. HOWEVER THE PROJECT WILL NOT INCLUDE A TWO-STEP GRANT/LOAN PROCEDURE AIMED AT ENDOWING AN INTERMEDIARY OR REGIONAL ORGANIZATION. MISSION DIRECTOR WILL APPROACH SELECTED MEMBERS OF LAAD'S BOARD OF DIRECTORS TO DETERMINE WHETHER THEY WOULD BE INTERESTED IN THE INCREASED EQUITY MATCHING A NEW AID LOAN CONCEPT. ROCAP WILL REPORT BACK TO AID/W ON THE RESULTS OF THESE CONSULTATIONS BEFORE PROCEEDING WITH PROJECT DEVELOPMENT. IT WAS AGREED THAT THE PROJECT WOULD BE

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ANNEX III

Impact on Employment and Income of Investments in Export-Oriented, Non-Traditional Agribusinesses

An Examination of Six Investments Financed by the Latin American Agribusiness Development Corporation de Centroamerica (LAAD-CA)

Prepared for the Regional Office for Central American Programs, U.S. Agency for International Development, Guatemala City, Guatemala, under contract number PDC-5315-I-10-8101-00

John H. Magill
William E. Bolton
Paul H. Dillon
Amalia M. Alberti

April 1989

Development Alternatives, Inc. 624 Ninth Street, N.W. Washington, D.C. 20001

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PREFACE

During the past 18 years, the Regional Office for Central American Programs (ROCAP) of the U.S. Agency for International Development has provided concessionary financing to the Latin American Agribusiness Development Corporation de Centroamerica (LAAD-CA) to stimulate the growth of private-sector agribusinesses. Although the primary rationale for such support has been the need of the Central American countries to diversify exports and increase foreign exchange earnings, it has generally been assumed that successful business ventures financed by LAAD-CA would generate significant levels of employment:[1]

> . . . It is known that exports of non-traditional products, primarily fruits, vegetables, flowers, and ornamental plants, are generally labor intensive and often require decentralized production sources from smaller producers. Secondary benefits from these activities are expected to include higher levels of employment generated through production and processing and significant income increases for producers and laborers.

Numerous evaluations and studies of LAAD-CA and its program have been carried out during the past 15 years. None, however, has examined the effects on employment and income of investments financed by LAAD-CA. In early 1989, ROCAP/Guatemala contracted with Development Alternatives, Inc. (DAI) to conduct a study that would "gauge the impact on secondary income and employment generation of investments in non-traditional exports from Central America." Under the terms of reference for the study, DAI was to examine a selection of four to six case studies to provide information on (a) the impact on employment and income generation of new and expanded non-traditional export activities, and (b) linkages between exports and industries that service exports. In addition, DAI was asked to demonstrate a low-cost methodology for measuring impact on employment and income generation that could be replicated on a larger scale.

Field research for the study was carried out during a six-week period during February and March, 1989. The DAI team comprised John H. Magill, team leader; William E. Bolton, agricultural marketing specialist; Paul H. Dillon, anthropologist; and Amalia M. Alberti, research assistant. Six principal case studies were carried out during this period -- three in Guatemala and three in Costa Rica. In addition, information was gathered on three additional companies to illustrate unique or special relationships and impacts.

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[1] Statement of "Purpose and Background" from the Scope of Work.

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The DAI team wishes to express its appreciation to the owners, directors, and staffs of the companies studied; without their generous cooperation this study would not have been possible. We would also like to thank the employees and temporary workers who were interviewed during the course of the study; their frank and helpful responses provided much useful information on the effect of the development activities financed by LAAD-CA. The conclusions and recommendations of the study are those of the authors and do not necessarily reflect the views of AID, ROCAP/Guatemala, LAAD-CA, or DAI.

John H. Magill
Team Leader

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EXECUTIVE SUMMARY

Background

The Latin American Agribusiness Development Corporation de Centroamerica (LAAD-CA) is a subsidiary of the Latin American Agribusiness Development Corporation, S.A., a Panamanian company with headquarters in Coral Gables, Florida. LAAD-CA was established in 1971 to provide loan and investment capital to Central American businesses engaged in producing, processing, and exporting non-traditional agricultural and aquacultural products. It is responsible for lending activities in Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

During the past 17 years, LAAD-CA has received four loans, totaling $32 million from the U.S. Agency for International Development. With those funds, and with funds generated by capitalization provided by LAAD's corporate sponsors, LAAD-CA has made 219 loans, totaling $72.2 million, to 185 firms. The most recent AID loan (596-T-024, for $15 million) was authorized in 1986 to fund a projected $18 million loan program.[1]

The emphasis on stimulating non-traditional, export-oriented agribusinesses in Central America has been traditionally justified on macroeconomic grounds: increased foreign exchange earnings, higher valued exports, and diversification and stability of national income. At the same time, it has generally been assumed that these investments create direct employment opportunities for low-paid agricultural and industrial workers, and significant backward and forward linkages between the assisted firm and providers of goods and services and between the assisted firms and downstream reprocessors, shippers, and marketers.

The purpose of this study has been to generate information that illustrates the impact on employment and income of a selected sample of agribusiness investments financed by LAAD-CA. The study examines (a) the creation of direct employment opportunities in the companies that have received LAAD-CA financing, and (b) the creation of secondary employment and income opportunities through linkages between these companies and providers of raw materials, goods, and services.

Major Hypotheses

The study design focused on five specific employment and economic benefits that could be expected to result from the activities of firms that have benefitted from LAAD-CA financing: (a) temporary employment hired to carry out pre-production activities; (b) direct, long-term employment (both full-time and seasonal) within the firm itself; (c) secondary employment and income generated by the firms'

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[1] The remaining $3 million was to be provided from LAAD-CA's internal resources.

purchases of agricultural raw materials from independent producers; (d) secondary employment and income generated by the firms' local purchases of goods and services; and (e) tertiary employment and income generated by the increased spending of employees and other beneficiaries.

Major Findings and Conculsions

Impacts of Initial Investments

Initial investment activities played an important role in four of the six principal case studies. In the other two, there were either no initial investments funded by the LAAD-CA loan or it was not possible to distinguish between pre-production and ongoing activities with the data available. The employment and income effects of initial investments were often difficult to separate from the effects of ongoing production activities, especially when the activities were similar. Initial investments involving infrastructure development were easier to identify.

Initial, pre-production activities financed by total investments of $3.1 million in these four companies created between 371 and 425 person-years of short-term employment for 245 individuals. An average of one person-year of short-term employment was created for each $7,300 to $8,400 of investment in the company, ranging from a low of $3,100 to a high of $25,000 per person-year of work created.

The major factors that influenced the employment and income effects of initial investments were (a) the type of infrastructure development financed by the initial investments, (b) whether the initial investments finance land preparation, (c) the level of imported goods financed by the initial investments, and (d) the proportion of funds that is invested in working capital:

* The addition of infrastructure to land -- such as installation of irrigation systems and construction of trellises, live posts, and growing flats-- creates initial employment at a higher rate than constructing processing facilities.

* Initial investments that involve land clearing and preparation tend to be labor intensive and generate substantial short-term employment. While heavy land preparation activities -- such as leveling, plowing, tree removal, and road construction -- are undertaken with tractors and bulldozers and generate relatively little employment or income, other land preparation activities -- such as weeding, land clearing, and planting -- involve the employment of substantial short-term labor.

* Initial investments in infrastructure for crop production -- land clearing and planting -- tend to require few or no imports and, therefore, have a relatively large impact on the local, regional or national economies. In contrast, initial investments that require the installation of sophisticated equipment tend to involve a high level of expenditures on imported goods, and hire proportionately less labor.

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* Investments involving working capital -- such as loans to an existing firm for purchases of agricultural raw materials -- generated little or no short-term initial employment.

Laborers involved in pre-production activities are often absorbed into the ongoing production activities of the company when the initial work involves activities directly related to the functions of the firm -- such as land clearing, planting, and caring for crops. When the initial work is substantially different from the activities of the firm -- such as construction of a fruit juice plant versus processing juice or installing boilers versus distilling essential oils -- initial labor does not get absorbed into the firm.

Long-term Direct Employment Benefits of Investments

With only one exception, the LAAD-CA investments resulted in an increase in direct employment. In that one case, LAAD-CA's loan provided working capital for purchases of agricultural raw materials but did not support any increase in production or processing capacity.

Of the 3,600 direct jobs that were to be generated by the investments funded by the most recent LAAD-CA loan, the six firms studied had created 457 permanent jobs and more than 230 full-time job equivalents for regularly employed seasonal workers. Firms that had received 14.6 percent of the loan funds, or approximately 12.2 percent of the total $18 million loan program therefore had generated 19 percent of the projected total number of new jobs. By the time the companies reach full production, more than 604 permanent jobs and 374 full-time job equivalents for regular seasonal workers will have been added.

The principal impact on employment generation of projects that cultivate non-traditional export-oriented crops is that they intensify rates of labor utilization. Two factors contribute to this increase in labor utilization. First, without exception, these projects involved a shift in land use from activities of low labor-intensity (such as cattle, sugar cane, or coffee) to those of high labor activities of intensity (such as ornamental flowers and vegetables). Thus, within a given area, these activities absorb greater amounts of labor and increase the overall wage bill. Second, only products of a high-quality can be successfully exported, and producing high quality products requires relatively large labor resources at all stages of the product cycle -- land preparation, planting, cultivation, harvesting, cleaning, sorting, packing, and processing.

Employment creation occurs primarily with the establishment of a new enterprise or significant expansion or diversification of an existing one. Once established, additional investments in an ongoing activity may increase labor utilization and efficiency, but seldom result in significant additional employment creation.

The number of jobs created was not directly related to the size of the investments, as large investments tended to involve capital-intensive construction or

sophisticated equipment. Although the total amount of the investment is not directly related to the amount of employment generated, several other factors appear to be related to increasing employment opportunities:

* Investments in projects that convert land from traditional agriculture to export-oriented production tend to generate substantial new direct employment; the need of export-oriented producers to have a constant supply of produce for the market tends to stimulate more continuous employment.

* Investments in projects that grow a product tend to create more direct employment per dollar of investment than those involved solely in processing or marketing products.

* Investments in projects that only market products tend to have a negligible impact on direct employment.

* Loans for working capital -- especially for the purchase of agricultural raw materials from small producers -- generate relatively little direct employment.

Producing for the export market tends to upgrade the labor pool. Since the companies require a relatively high-skilled worker, they pay attention to training, promoting, and retaining workers.

Workers employed in these companies tended to receive higher wages than those prevailing in firms involved in producing and marketing traditional products. Also, the companies studied tend to comply with labor laws, and pay wages and salaries on time.

Secondary Employment Impacts of Investments: Purchases of Raw Materials

Companies that purchase agricultural raw materials from independent suppliers or that provide access to export markets for small producers also play an important role both in stimulating and in sustaining employment opportunities.

Only three companies considered in the study (Frutas y Sabores, Comercial Tropical, and Agropecuario Balmoral) purchased raw materials from independent producers. The other six (La Melisa, Nispero Chiquito, La Meseta, American Flowers, Monte Norte, and Clemente Ros) did not. Three factors appeared to influence whether, and to what extent, a firm will purchase raw materials from independent producers:

* Orientation of the firm: companies engaged primarily in growing a crop will not purchase raw materials from others; companies engaged primarily in processing or marketing will.

- Adequacy of supply: when a firm is engaged in marketing a product but cannot produce sufficient product internally to achieve economic shipping quantities, it will tend to purchase raw materials from independent producers.

- Ability to control quality: to compete successfully in export markets, products must meet high quality standards. When quality control must be maintained in the field production stages, companies tend to produce their own raw materials. When quality can be maintained in the processing or selection stage, companies tend to purchase raw materials from independent suppliers.

The purchase of agricultural raw materials from independent producers did not appear to generate significant levels of new employment. These purchases did, however, appear to (a) decrease underemployment of existing labor on the farms of independent producers, (b) increase the rate of return to on-farm labor, (c) encourage agricultural diversification, and (d) increase income stability for independent producers.

There is often a temptation to view marketing intermediaries as exploiters of primary producers, but the existence of these intermediaries is essential for smaller producers to have an access to export markets. The importance of LAAD-CA loans for the purchase of raw materials is that these loans create or enhance market opportunities for both large and small producers. As a result, they play an important role in the reorientation of local farm practices toward exports and the intensification of labor utilization on local farms.

Secondary Effects and Benefits: Purchases of Supplies and Services

Expenditures for goods and services tended to fall into four categories: materials and supplies, maintenance services, transportation services, and utilities and taxes. Expenditures on utilities and taxes were small.

Local expenditures of the companies studied averaged between 10 and 66 percent of total investments in the company each year, and between 27 and 50 percent of annual sales. The investments, therefore, stimulate local economic development by generating a continuous demand for local goods and services.

Most purchases of materials and supplies were from companies that were located in urban areas and that serviced a broad client base. As a result, the effect of these purchases on specific businesses tended to be marginal, as volumes of purchases from LAAD-CA clients were low relative to the total sales volumes of the vendors. Purchases of goods and services from small, local vendors, especially in remote areas, had a more noticeable impact on their businesses.

When purchases of materials and supplies involved a large component of imported goods -- particularly agricultural chemicals and hardware -- the local impact of expenditures was reduced.

Perhaps the most visible effect of local expenditures was the stimulation of local transportation services. The need for timely, reliable transportation for several of the projects (notably La Meseta, Frutas y Sabores, and Comercial Tropical) has created a large demand for local transportation services and provided an entry for small, independent truckers and other transporters.

Although the direct impact of local purchases may appear small and difficult to measure when considered from the perspective of individual suppliers, LAAD-CA's clients do represent a growing demand for locally produced goods and services, and contribute to expanding the breadth of local economic activity. The effect of this demand should become even more apparent as the investments mature.

Secondary Impacts and Benefits: Impact on the Local Community

It was often difficult to identify specific impacts of the individual companies on the communities in which they were located. In the case of enterprises located in urban areas, the effects of the plant itself cannot be distinguished in most cases from the general effects of urbanization. Even in many rural areas, such rapid transformation is taking place that it is difficult to attribute specific changes to activities in a particular firm.

There were, however, several instances in which substantial changes in local activities could be directly attributed to the projects. In Costa Rica, for example, the establishment of the tropical juice plant stimulated a large-scale change in cropping in the region as local farmers increased plantings of fruits that would be purchased by the company. In Guatemala, the development of an essential-oils farm and processing plant has stimulated an increase in agricultural wages in the area. The combined effects of two LAAD-CA-financed activities in east-central Guatemala have stimulated a rapid growth in small business, shops, and markets in a number of small remote towns.

Small food stands and vendors were among the first local businesses to emerge as a response to an increased concentration of workers. These were found in at least three of the cases studied. Another firm reported that itinerant vendors regularly appeared at the farm on paydays.

Most of the companies studied were relatively young. As the investments mature and the firms reach full employment and production levels, the concentrations of employees with wage income can be expected to generate more visible examples of local change.

Gender-related Issues

The projects financed by LAAD-CA tended to generate substantial employment opportunities for women, with women occupying between 25 and 75 percent of the job positions in four of the six principal case studies. The two major factors contributing to the increase in employment opportunities for women appear to be the following:

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* Growing acceptance of a role for women in the formal labor force in the two countries studied; and

* Producing for export requires considerable attention to quality and appearance, and female employees are preferred for many of the activities related to quality control -- picking, pruning, harvesting, sorting, and packaging -- because they tend to be more careful, accurate, and productive than men.

Most of the new positions created by the investments are low-level entry positions requiring little formal education or previous work experience.

Employment tends to fall into traditionally defined gender patterns. Men perform heavy-duty work, operate tractors and other equipment, fumigate, carry, and cultivate. Women are generally preferred for activities involving delicate tasks or tasks requiring careful handling -- such as handling seed beds, transplanting seedlings, picking and harvesting, grading and sorting, and packing. This situation does produce de-facto wage discrimination. Fumigators, equipment operators, and irrigation personnel earn premium pay, and these are occupations that are systematically closed to women. Even when men and women performed essentially similar tasks, women received a lower wage rate in some of the enterprises.

Most of the female agricultural field workers were young and single. According to both men and women interviewed in these enterprises, the custom in rural Costa Rica and Guatemala is for married women to take care of the home. As a result, married women quickly drop out of the labor market. The relatively short time women are in the labor force appears to limit their ability to rise to low- and mid-level supervisory positions; they do not accumulate the experience or seniority necessary to gain access to these positions. Urban-based processing and other semi-industrialized activities generate long-term employment opportunities for women, and married women are found more frequently among these groups.

Recommendations

Employment generation is not the sole objective of LAAD-CA investments. Since other studies and evaluations have considered issues of financial viability, impact on the financial viability of the local investments, and effectiveness in promoting export earnings, this study was limited to the employment and income benefits of the investments. All other factors being equal, to enhance the employment and income benefits of future investments, LAAD-CA and ROCAP should:

* Provide loans that support start-up or significant expansion of activities. These kinds of projects tended to create substantially more employment, both in short-term pre-production activities and in permanent positions, than projects involving relatively marginal expansion.

* Finance projects that involve both agricultural and processing activities. The combination of these activities in a single firm tended to increase the level of employment and the sophistication of skills required. Because of the structural differentiation of the work force in these operations, the opportunities for advancement within the company were greater.

* Finance activities that bring land into production. The shift from low-intensity non-export agriculture to high-intensity agriculture that is oriented toward exports creates a significant increase in demand for labor.

* Refrain, to the extent possible, from making working capital loans, especially for the purchase of agricultural raw materials. The characteristics of LAAD-CA's loans -- fixed term with a declining balance -- are not particularly well suited to the needs of a firm engaged in this kind of activity. Loans for the purchase of agriculture products also tended to generate little additional direct or indirect employment, although they did help sustain employment among independent producers.