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BUSINESS PLANS TO SALES:

Supporting Small Farmers in Bolivia to Create Lasting Opportunities



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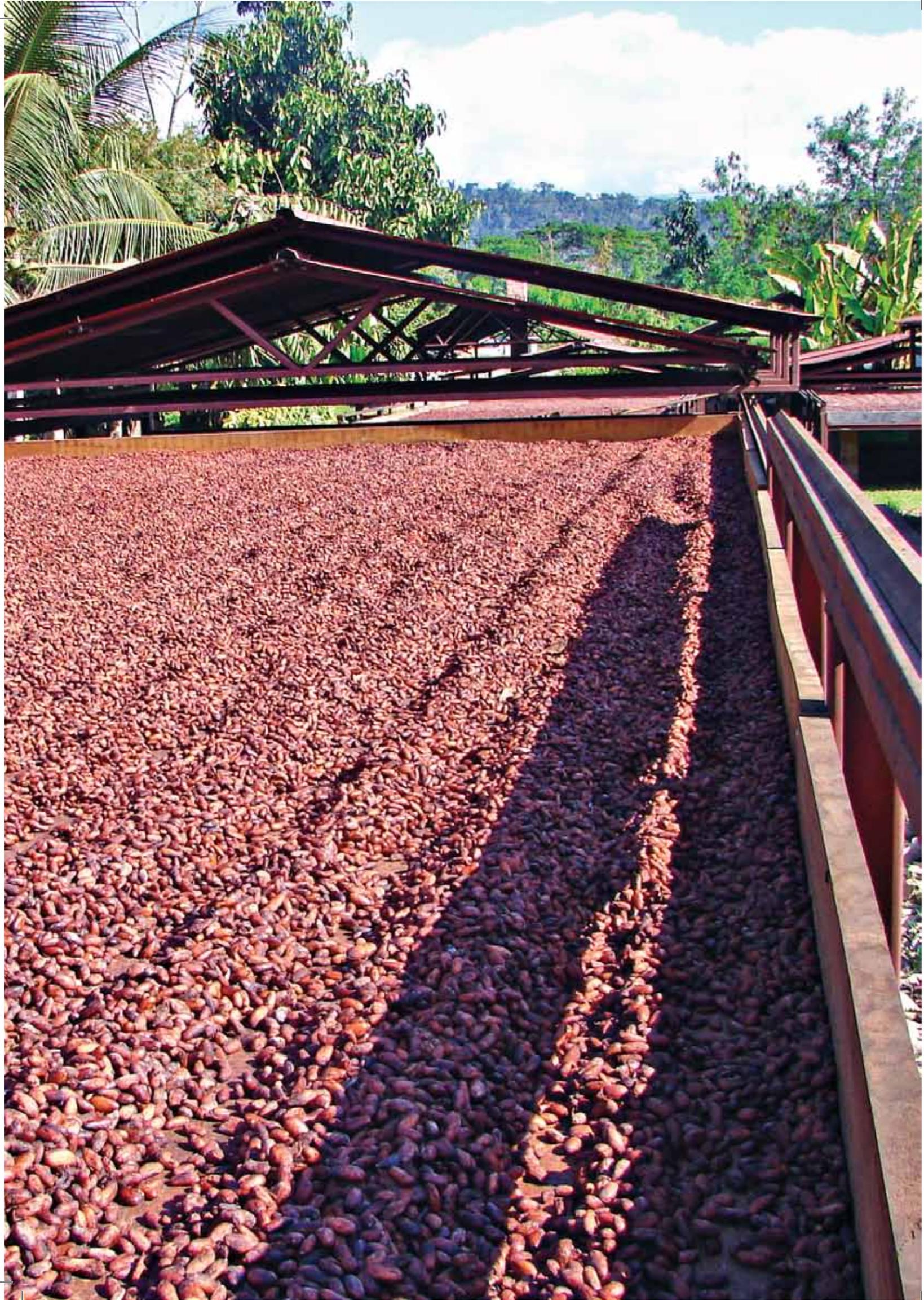


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USAID Contract No. 511-C-00-05-00050-00

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



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LEFT: Producers improved cocoa quality by building and using simple, productive infrastructure. The platform pictured here is on rails and allows the producer to uniformly dry cocoa. In the event of rain, the platform can easily slide under roof cover.

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INSIDE FRONT COVER: Workers prepare to transport bananas to market. With ARCo support, banana producers improved postharvest handling to safeguard banana quality and increase sales.

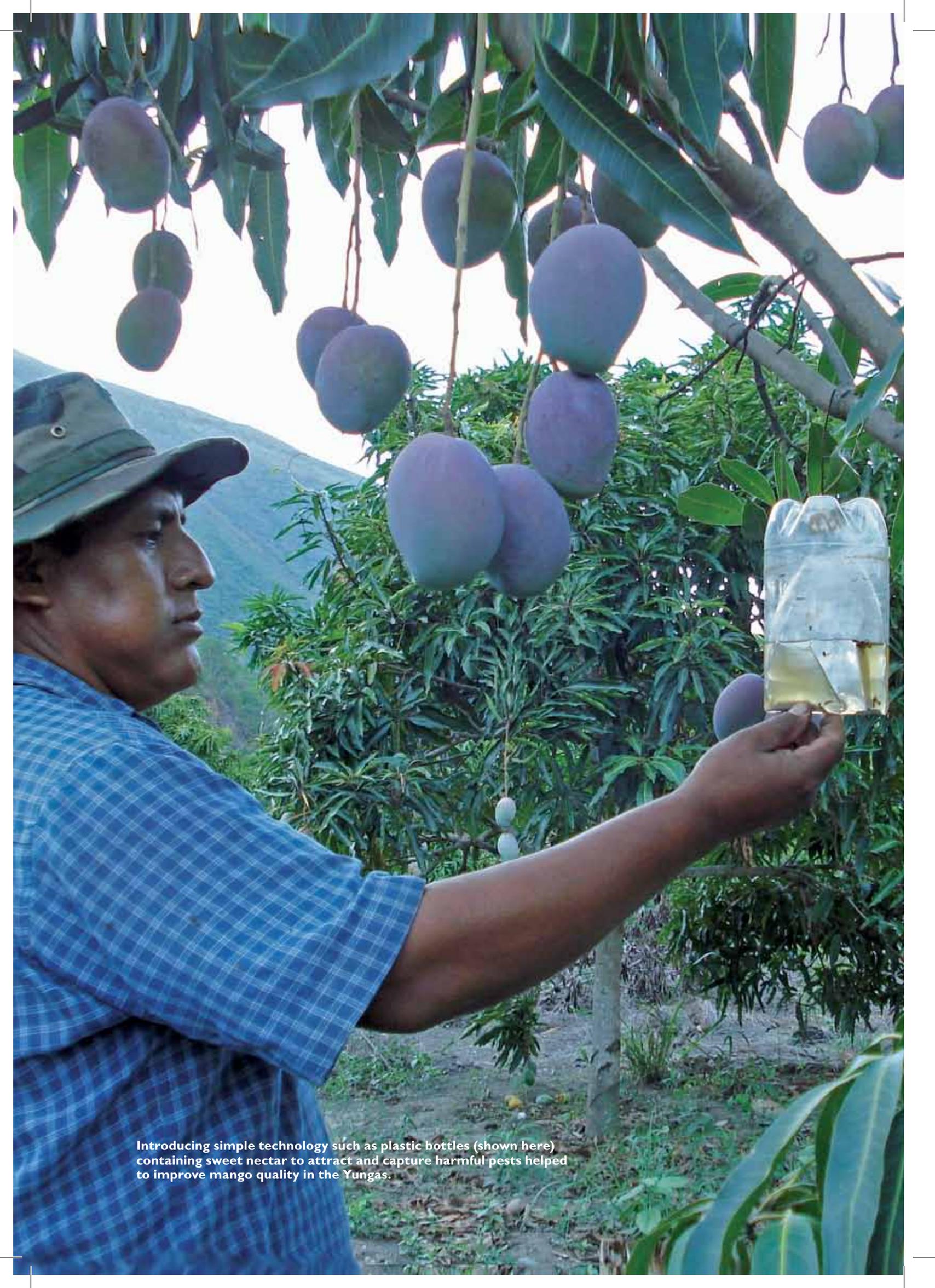
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FRONT COVER: Delivering products to market proved challenging for papaya producers from the Yungas. Due to limited rural road access, some producers in the Palos Blancos and Alto Beni regions transported papayas via river to reach the market. Project clients generated over \$3.9 million in incremental papaya sales.

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BACK COVER: Bolivia is now recognized as a source of high-quality, specialty coffee beans.

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Introducing simple technology such as plastic bottles (shown here) containing sweet nectar to attract and capture harmful pests helped to improve mango quality in the Yungas.



EXECUTIVE SUMMARY

After 20 years of implementation of alternative development projects in Bolivia, the main challenge for the USAID Rural Competitiveness Activity (Actividad Rural Competitiva in Spanish, or ARCo) at the start was to continue working toward the establishment of a solid productive base of high-value alternative crops in coca-producing areas. In contrast to earlier efforts, the project's aim was to spur economic growth and reduce subsidies in different areas of the country.

ARCo began in 2005, when USAID/Bolivia and the Plurinational State of Bolivia designed an approach based on a new strategy to promote integrated alternative development in coca-producing areas. The new strategy entailed a market-driven approach to production and reducing

subsidies, through work with producers genuinely interested in diversifying their production or shifting their entire productive base to high-value alternative products. It won the hearts and minds of the participating producers who saw tangible economic results as their family incomes began to rise significantly through increased sales in alternative products.

This was the backdrop for the Rural Competitiveness Activity. The project aimed to help improve the quality of life of families in coca-producing regions such as the Yungas of La Paz and Yapacaní (Santa Cruz)—and initially the Chapare in the Cochabamba Tropics—by developing productive businesses linked to sustainable markets that would enable producers to generate sustainable incomes from high-value agricultural products.

Promoting alternative businesses with an impact on family incomes.

The project enlisted regional economic service centers to help its clients—most of them cooperatives, associations, and ad hoc associations—address specific hurdles that were preventing them from launching or expanding their businesses. The Rural Competitiveness Activity measured its success by its clients' incremental sales, the jobs created, new and/or improved hectares producing alternative products, and the number of families participating in alternative businesses. At the end of seven years, despite a substantial budget cut in its final year of implementation, the project had exceeded the targets established for each result indicator (with the exception for new jobs). Through the Rural Competitiveness Activity, USAID/Bolivia helped small-scale producers in the country's coca-producing regions generate more than \$105 million in incremental sales, created more than 14,500 new jobs, and supported the introduction of high-value alternative products on more than 25,000 hectares. Even more importantly, through its successful business-centered approach, the project actively incorporated 25,300 families from coca-producing areas of Bolivia into a range of alternative productive ventures linked to secure markets.

During the start-up phase of the alternative businesses, 81 percent of families receiving project assistance were earning less than \$1,000 annually from products other than coca and only 8 percent were bringing in more than \$2,000. The panorama shifted significantly as the alternative businesses gradually consolidated. Forty-eight percent of families with consolidated businesses were earning more than \$2,000 a year and another 15 percent were generating \$1,000 to \$2,000 in sales from alternative products. A total of 24,268 families with operational businesses that reported sales saw an average 150 percent increase in their annual family income. This growth was the most pronounced in the Yungas of La Paz where annual family income increased 271 percent, followed by Yapacaní at 191 percent and the Cochabamba Tropics region—which started out with higher annual family income levels—at 89 percent.¹

Through the project's interventions, more than 8,000 small coffee growers have improved the quality of their coffee and, as a result, have successfully penetrated specialty, organic, and fair trade markets. The annual family incomes of these producers have increased approximately 292 percent. With assistance from the Rural Competitiveness Activity, these producers also established and/

1. The methodology used to calculate changes in annual income is described in Annex A.



Bolivian coffee cuppers play a critical role in specialty coffee competitions such as the Cup of Excellence. These young women are carefully preparing samples to be tasted in the competition.

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or improved more than 6,000 hectares of coffee. This will have an additional significant impact on their incomes beginning in 2015, when the new areas begin to produce at capacity. Similarly, some 2,300 banana-growing families in the Yungas of La Paz and the Cochabamba Tropics are now producing a high-quality banana that has made them competitive in Chilean, Argentine, and Peruvian markets, as well as in the best domestic markets. In another example, the annual family incomes of more than 2,000 small-scale cocoa producers in the Alto Beni and Palos Blancos region of the Yungas of La Paz have increased 6.4 times over. In this

sector, the project focused on incorporating new buyers of specialty cocoa into the market, while working with cocoa growers to boost productivity and improve postharvest and processing methods. As a result, these families saw their annual earnings from cocoa sales climb dramatically, from an average of \$235 to \$1,508.

One very exciting result was observed in the cattle and dairy sector. The annual incomes of some 506 families nearly tripled, primarily in the Yapacaní region. These producers boosted their incomes by \$1,000 annually by improving the quality of their milk production. Moreover,

the most significant result was obtained in the industrial branch of this sector, where the project assisted La Purita S.A., a producer-owned dairy company. With the installation of a microbiological laboratory and advisory services on the use of industrial machinery, La Purita has successfully penetrated the market for flavored milk products and has expanded its access to regional markets in Yapacaní and Santa Cruz. Another success story is the project's support for the poultry sector in the Yungas of La Paz, where 342 families not only quadrupled their incomes, but also helped to improve food security in areas such as La Asunta by making locally produced animal protein available to the population.

An important measure of the sustainability of the Rural Competitiveness Activity's impact is the amount of resources that small producers are willing to invest in their own businesses. The small producers supported by the project have invested a combined \$8 million in their own businesses. For example, the 8,000 small coffee producers associated with the project who established and/or improved more than 6,000 hectares of coffee invested more than \$2.4 million of their own resources in this effort.

The success of the Rural Competitiveness Activity is even more striking considering the tremendous uncertainty that surrounded the project from the outset. During the first

several years of implementation, Bolivia was immersed in a period of political uncertainty that ultimately led to significant structural changes. As a result, social movements and grassroots organizations acquired a significant degree of power in decision-making processes. Thus, the project had to be extremely flexible to adapt to the sociopolitical situation, without losing sight of its business-centered approach. A positive factor in this context was the bilateral nature of the Integrated Development Program, which facilitated the full participation of USAID and the Bolivian government. ARCO's Grants Advisory Group also played a crucial role in enabling the project to meet its objectives amid a complex and difficult situation, and facilitated close coordination with the Vice-Ministry of Coca and Integrated Development (VCDI) and USAID.

Developing local capacities. The project's business-centered approach relied heavily on the voluntary participation of producer families and the accomplishments they were able to make through their successful businesses. Therefore, it was necessary to hone their skills in areas such as production methods, supervision, accountability, administration, and negotiation. Development projects tend to approach these topics in a general way, using traditional teaching methods for all their beneficiaries. In contrast, the Rural Competitiveness Activity stressed the development of local



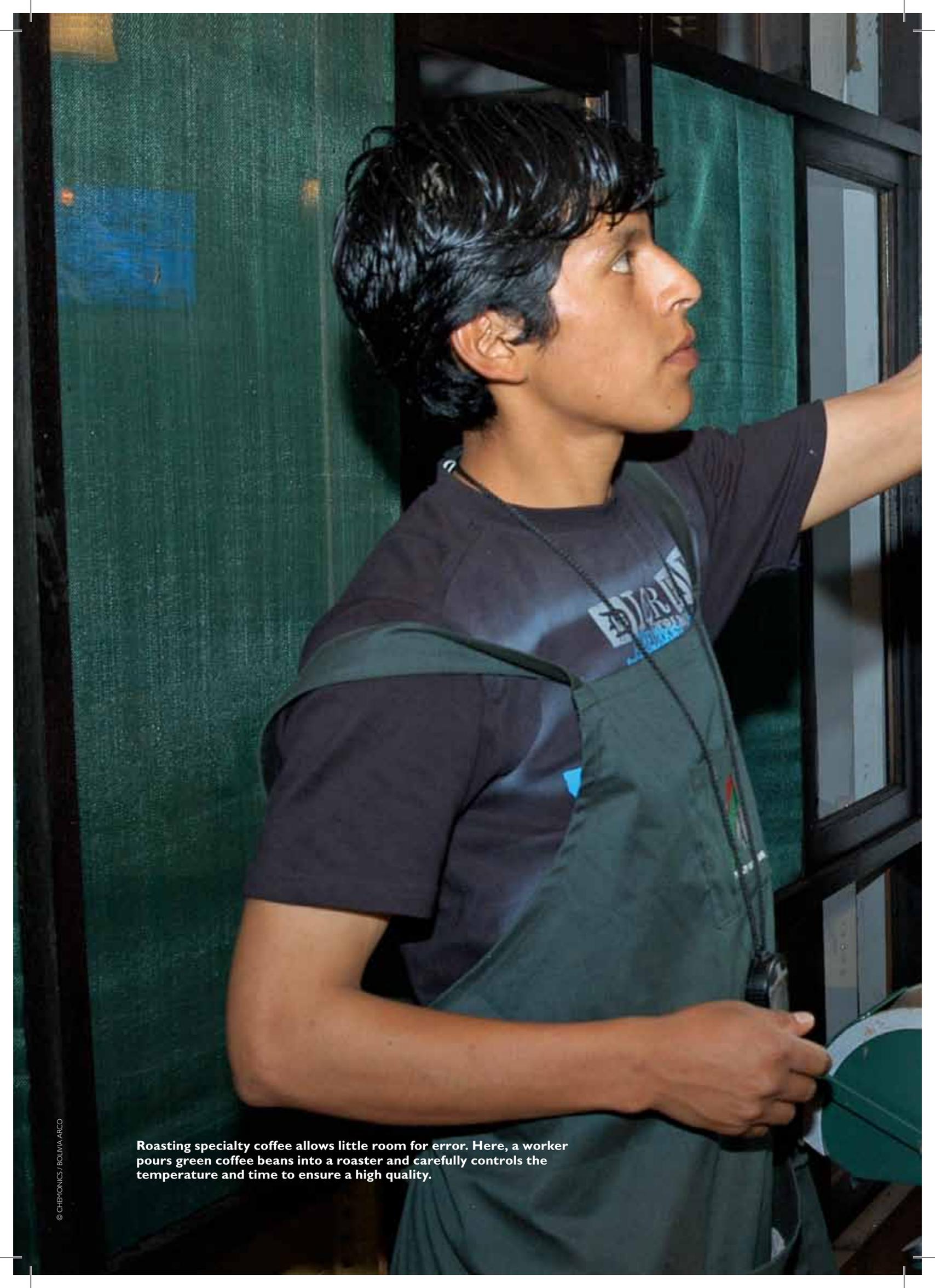
A producer shows how the cableway, which minimizes product handling, works to maintain banana quality. In coordination with producer associations, ARCo co-financed cableways to transport bananas from the tree to the washing and packing plant.

capacities through a farmer-led management approach (i.e., self-management) that empowers producers to manage their own businesses, administer project grants, and invest their own funds. In this framework, the project took an organic approach to the development of local capacities, addressing specific bottlenecks as needed in order to move forward with the business plan. It supported local producer cooperatives and associations that exhibited sufficient leadership and capacity to support smaller farmers, serving as a liaison to export markets. It also supported the creation of some 224 ad hoc associations—groups of producers united in a simplified legal structure for a specific productive business. In addition, the Rural Competitiveness Activity trained more than 300 local agricultural specialists, business advisors, and interns from coca-producing regions. It provided training to local technical personnel and contracted more than 6,000

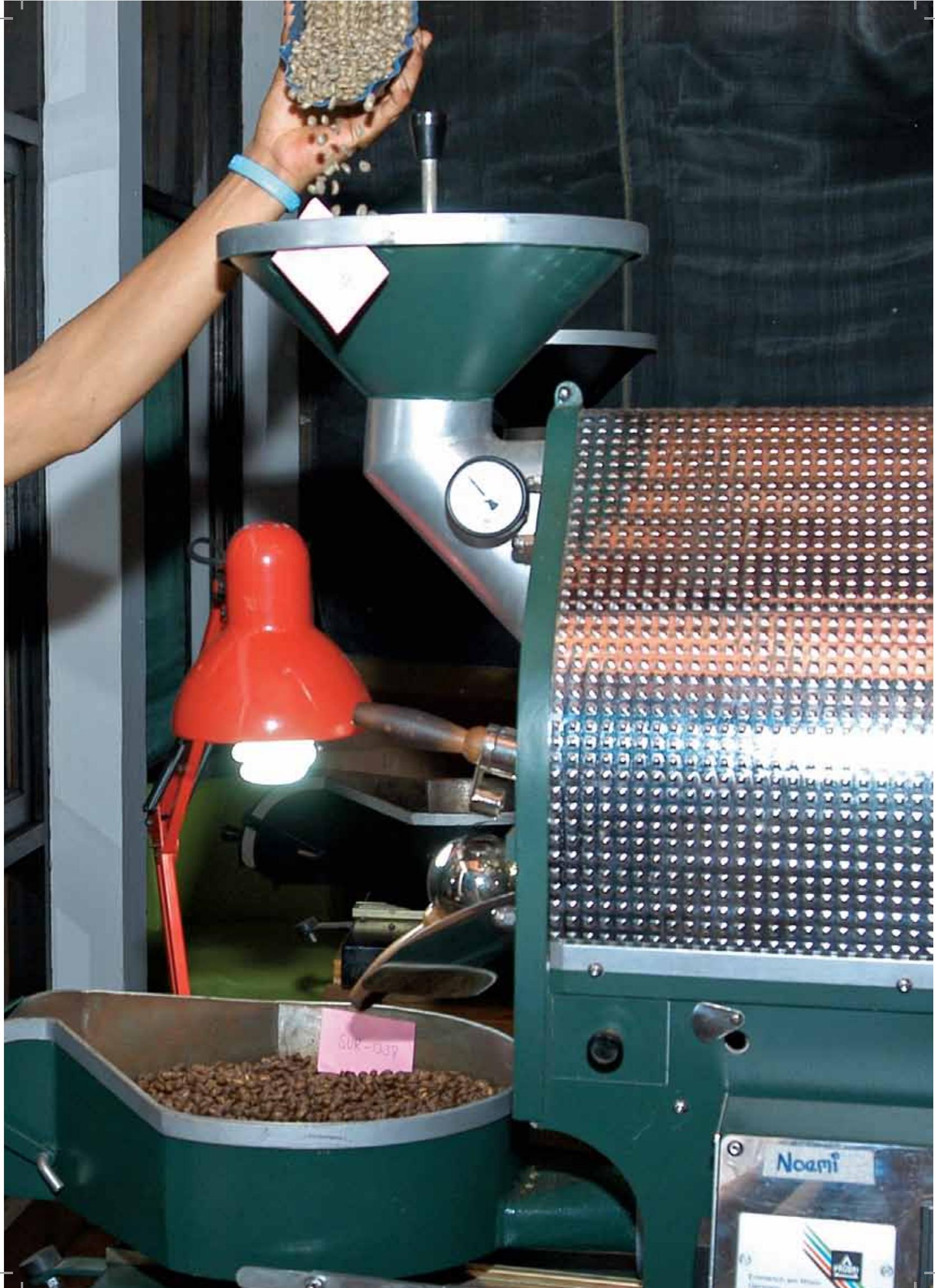
months of consultancies with them. These consultants were supervised directly by the producer groups, based on their business plans.

Close coordination. Another extremely important factor in the project's impact was a high level of coordination and collaboration among all of the counterparts. The project maintained close communication and coordination with USAID/Bolivia and the VCDI to ensure that its activities were consistent with the priorities of both entities. This ongoing dialogue through the Grants Advisory Group was critical for decision making and for the approval of plans to assist producers in the different regions. In addition, coordination with projects such as the Integrated Community Development Fund, the Bolivia Communications Activity, the Caminos Vecinales road infrastructure project, and others was very important in demonstrating the scale of the coverage and results achieved by the Integrated Development Program.

The success of the Rural Competitiveness Activity is not only reflected in the results obtained during the implementation period. It is also evident in the profound impact the project has had in changing the attitudes of producers in coca-producing areas of Bolivia by demonstrating that the rural population can achieve an adequate level of well-being through alternative businesses linked to secure markets.



Roasting specialty coffee allows little room for error. Here, a worker pours green coffee beans into a roaster and carefully controls the temperature and time to ensure a high quality.





Better washing and packaging practices lead to improved quality of product in the marketplace.

CHAPTER ONE

RESULTS OF THE RURAL COMPETITIVENESS ACTIVITY

APPROACH

The Rural Competitiveness Activity was implemented in the Yungas of La Paz, Yapacaní, and initially, the Cochabamba Tropics, through a bilateral agreement between USAID/Bolivia and the VCDI. Based on a co-investment with shared risk model, the project aimed to promote businesses capable of generating competitive incomes, with the producers in decision-making roles. Over more than a seven year period, the project transferred and implemented this approach with 25,300 small-scale producer families, who have embarked on the path of increasing their income and diversifying Bolivia's economy through the production of high-value products. ARCo's success

is due in large part to project implementation that emphasized:

1. *A market-driven approach to business* that forges links between producers and buyers based on specific business plans designed to “produce what sells rather than sell what is produced.”
2. *A self-management approach* in which the producers drive the development of their businesses. This empowers the producers to manage their own money as well as project funds, and fosters the development of local capacities for productive businesses.
3. *Encouraging beneficiary self-selection*, by working first



ARCo supervised USAID/Bolivia's host-country contract with the government entity Caminos Vecinales, charged with improving and maintaining rural secondary roads and building bridges.

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with producers interested in reducing their dependence on the coca crop, and scaling up coverage as other producers begin to see tangible results reflected in the higher incomes of the participating groups.

4. *A results-based methodology* that measures the project's success based on four indicators: new sales generated by the clients² through their businesses, new jobs created because of those sales, the number of new or technically improved hectares producing successful alternative products, and the number of families involved in project-assisted businesses.

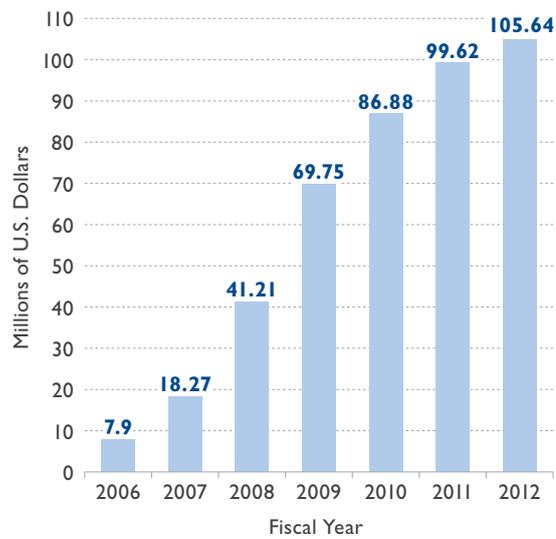
5. *Close coordination and extensive communication* with USAID/

Bolivia and the VCDI in order to target project activities more effectively and launch initiatives in new areas (such as La Asunta and Yapacaní) based on the priorities of the bilateral Integrated Development Program agreed to between USAID and the VCDI.

This chapter describes the most important results achieved during the project's tenure. Moreover, it should be noted that these results were attained in a complex and difficult context. ARCo had to earn the trust of its target communities by demonstrating significant, tangible results, despite considerable uncertainty associated with the political climate in Bolivia and the project's own funding stability.

2. In keeping with the project's business approach, ARCo refers to the actors with which it worked, usually called "beneficiaries," as "business clients."

FIGURE I.1 CUMULATIVE INCREMENTAL SALES THROUGH DECEMBER 2011



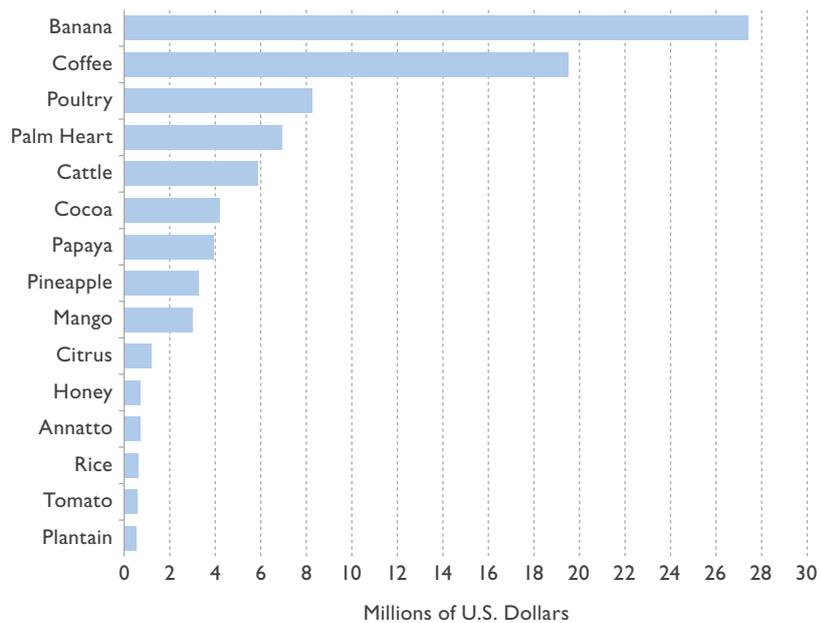
MAIN RESULTS

Incremental sales. The project used incremental sales as a result indicator to measure clients' success in generating additional net sales. *Figure 1.1* shows the evolution of incremental sales by fiscal year. As of December 2011, ARCo had reported more than \$105 million in additional

sales generated by its clients in the target businesses and sectors. Yungas of La Paz accounted for 41 percent of these sales; the Cochabamba Tropics, 55 percent; and the Yapacaní region in Santa Cruz department, 4 percent.

The project provided assistance in 38 productive sectors in the

FIGURE I.2 INCREMENTAL SALES OF TOP 15 PRODUCTS THROUGH DECEMBER





“Banana Man” educates school children about the nutritional value of bananas and the benefits of incorporating them into their diet.

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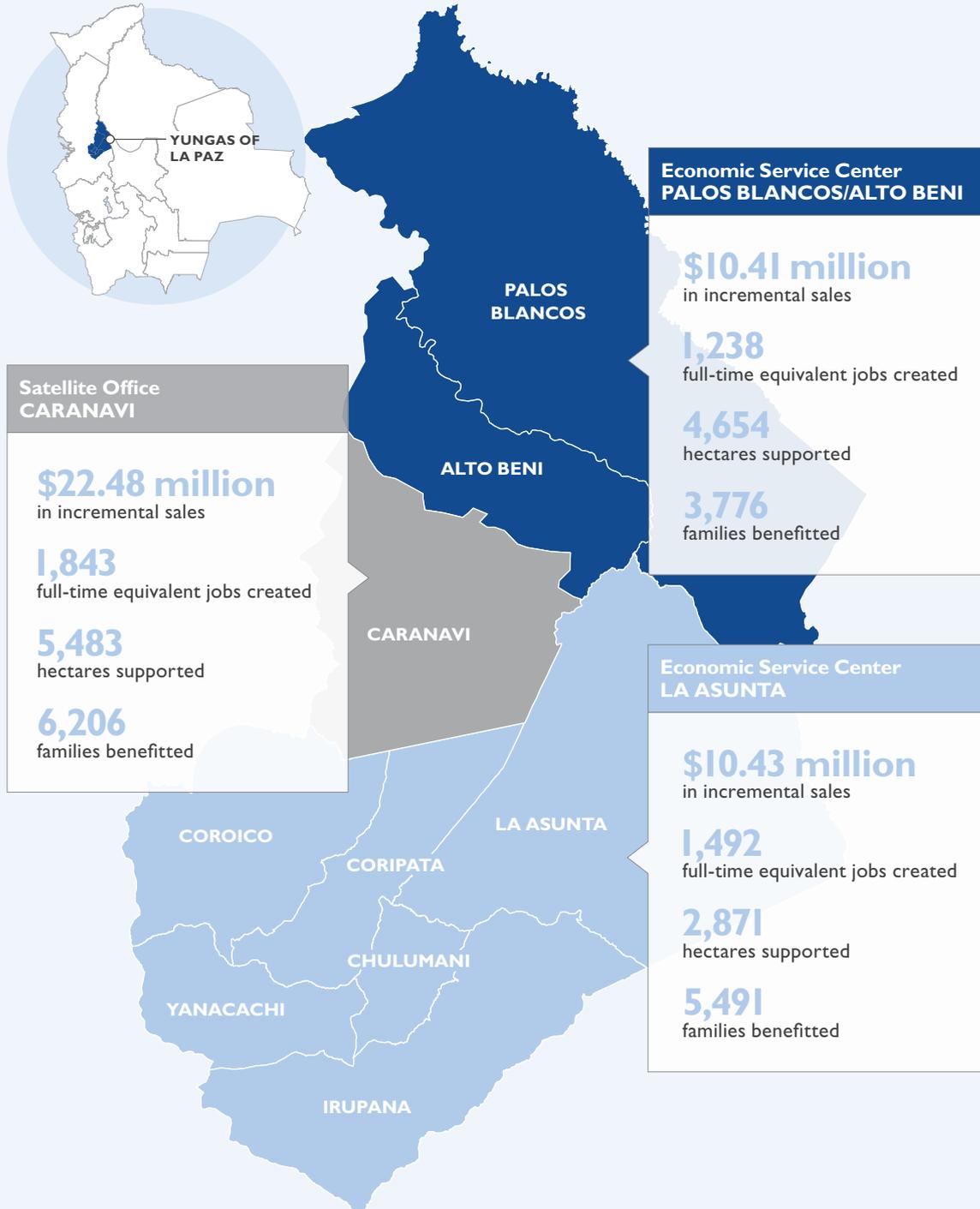
three regions where it worked. *Figure 1.2* lists the top 15 based on incremental sales. As shown, out of the top 15 products, banana and coffee were the most successful, accounting for 31.6 and 22.5 percent, respectively. Other important categories were poultry production, palm heart, and cocoa, which combined accounted for 22 percent. Papaya, pineapple, mango, and citrus fruits combined accounted for 13.1 percent and cattle and the dairy industry for 6.8 percent.

Several different clients were involved in the businesses in each category, most of them small-scale producer groups. The project has assisted 686 of these groups, with an average of 37 families participating in each group’s productive businesses.

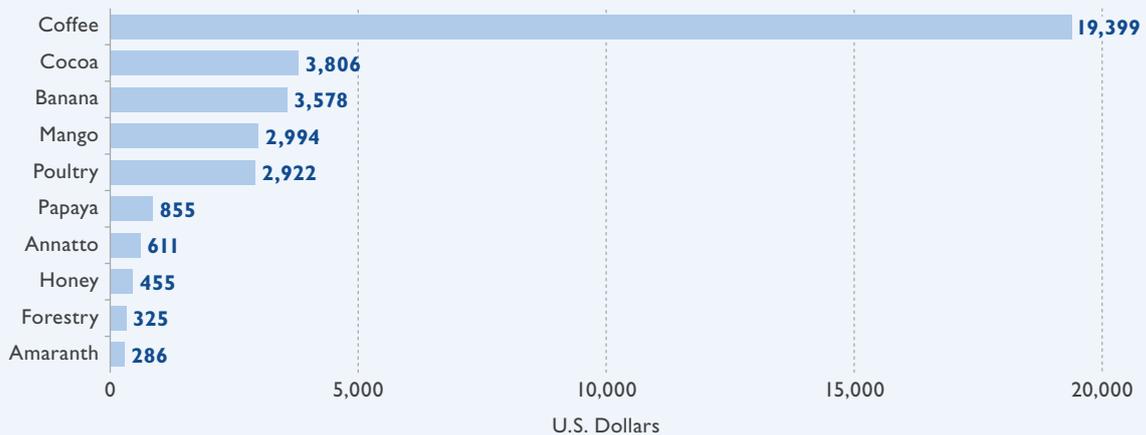
The success in the banana sector was due primarily to better access

to the Argentine market and the entrepreneurial vision of the banana producers behind the daily flow of more than 20 trucks from the Cochabamba Tropics to that market. The target businesses generated cumulative incremental sales totaling \$23.8 million as of the end of 2009, when the project withdrew from that region. Although ARCo has not tabulated sales from the Cochabamba Tropics since that time, nearly three years later, its clients have continued independently to pursue their business activities with banana, palm heart, and pineapple. The project also succeeded in opening the local market (like the government funded School Breakfast Program)—in addition to those in Chile and Peru—to its banana-producing clients in Alto Beni, helping to generate incremental sales totaling approximately \$3.6 million.

**ECONOMIC SERVICE CENTERS IN THE YUNGAS OF LA PAZ
CUMULATIVE RESULTS THROUGH DECEMBER 2011**



**YUNGAS OF LA PAZ: TOP SECTORS
CUMULATIVE SALES THROUGH DECEMBER 2011 (U.S. DOLLARS, THOUSANDS)**



COFFEE BUSINESS CONTINUES SCALING UP

ASOCAFE, a coffee growers association near Caranavi in the Yungas of La Paz, was one of the project's main partners and clients in the coffee sector. Due to its positive attitude and willingness to implement ARCo's recommendations, it has continued to strengthen its relationship with Atlas, a specialty coffee buyer in the United States. With assistance from the project, ASOCAFE doubled its chain of providers—made up of small-scale producers—to better meet the buyer's demand, boosting its volume by approximately 40 percent and increasing exports from 7 to 11 containers. This business relationship has been in place for three years and ASOCAFE recently signed another contract with Atlas for two containers of specialty coffee. An Atlas representative was a member of the international jury of the Cup of Excellence in 2009 and returned to Bolivia to establish business relationships, which turned out to be an important opportunity for ASOCAFE and its membership of small producers.

Building on the work begun by the USAID Market Access and Poverty Alleviation project/Yungas, starting in 2006, ARCo assisted more than 8,000 small-scale coffee growers, mostly in the Caranavi region and to a lesser extent in La Asunta and Palos Blancos/Alto Beni. The project's activities and results in coffee in the Cochabamba Tropics and Yapacaní have been marginal.

The coffee businesses assisted by the project have generated approximately \$19.4 million in incremental sales in the Yungas of La Paz. These sales were achieved by focusing on quality and forging links to specialty and high-value markets. As a result of the project's role in organizing the Cup of Excellence in 2005 and from 2007 to 2009 and support for plantation management, pre-processing and drying, several buyers from the United States, Europe and Japan came to recognize Bolivian coffee as a high-quality product. In this way, the Bolivian producers fully reaped the benefits of the rise in international coffee prices in 2010 and 2011. In addition to the incremental sales obtained by small-scale coffee producers, the project contributed significantly to the \$3 million in additional annual sales by the Bolivian coffee sector as a whole, by surmounting a penalty price differential (*el castigo*) imposed until 2004 on Bolivian coffee prices and transforming it into a premium price beginning in 2006. Despite the progress, this sector still has considerable potential to generate more economic activity, especially if productivity can be

boosted to levels comparable to those in Central America.

As ARCo identified opportunities in areas such as poultry, cattle, cocoa, papaya, mango, and citrus, the project diversified support to cover sectors that might once have been considered a low priority. New sectors that have exhibited enormous potential include honey, annatto (better known in Spanish as *achiote*), rice, plantain, fisheries, and forest products. This diversification was critical to the objectives of the Integrated Development Program, since more business opportunities created meant more families linked to value chains. This was a priority for USAID and the VCDI.

The significant accomplishments made in all the categories and businesses created a lot of enthusiasm for the project's new approach among clients, especially as rural families began to see their incomes rise and would gradually be able to lift themselves out of poverty. Enthusiasm for the technical team's work in rural development grew as early participants shared their triumphs. However, not all businesses did as well as expected. For example, there were problems related to volumes in the camu camu, sesame, and black bean businesses. Small quantities collected from geographically dispersed producers meant high costs, which led the buyers to withdraw from the business. The stevia business also did not prosper due to low volumes, the producers' high price expectations, and fierce competition for



Coffee in its various forms, from seedling to ripe cherries to pre-processed green coffee ready for roasting. The quality of the cherry directly impacts the quality of the coffee bean.

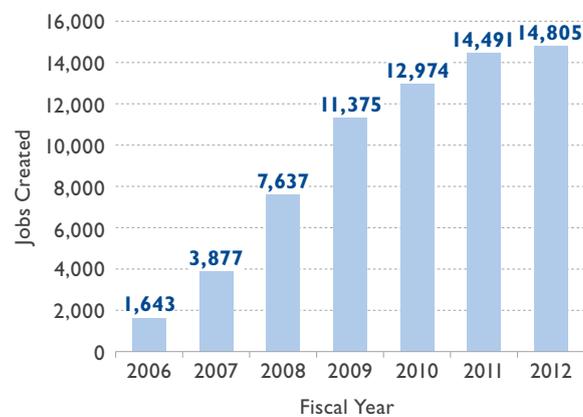
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labor in the area where it was produced. The project faced another hurdle as the international financial crisis had an abrupt impact on the palm heart market in Argentina in 2009, which forced the processors to react by seeking out new buyers in other markets. The palm heart market is currently showing signs of recovery.

Jobs created. Another important indicator for the project was the number of full-time equivalent jobs created in order to achieve incremental sales (see Figure 1.3). This results indicator is derived from reported sales. During the

implementation period, the Rural Competitiveness Activity created 14,805 full-time jobs. The project conducted detailed production cost analyses to obtain updated job coefficients for many of the sectors assisted. The findings of the most recent of these studies (2011) showed that the job creation equation used to calculate the targets for this period did not match the actual situation in the assisted sectors. As a result, while ARCo's clients surpassed the incremental sales goals, the project did not reach the anticipated target for the related indicator on full-time job equivalents.

FIGURE 1.3 CUMULATIVE JOBS CREATED AS OF DECEMBER 2011





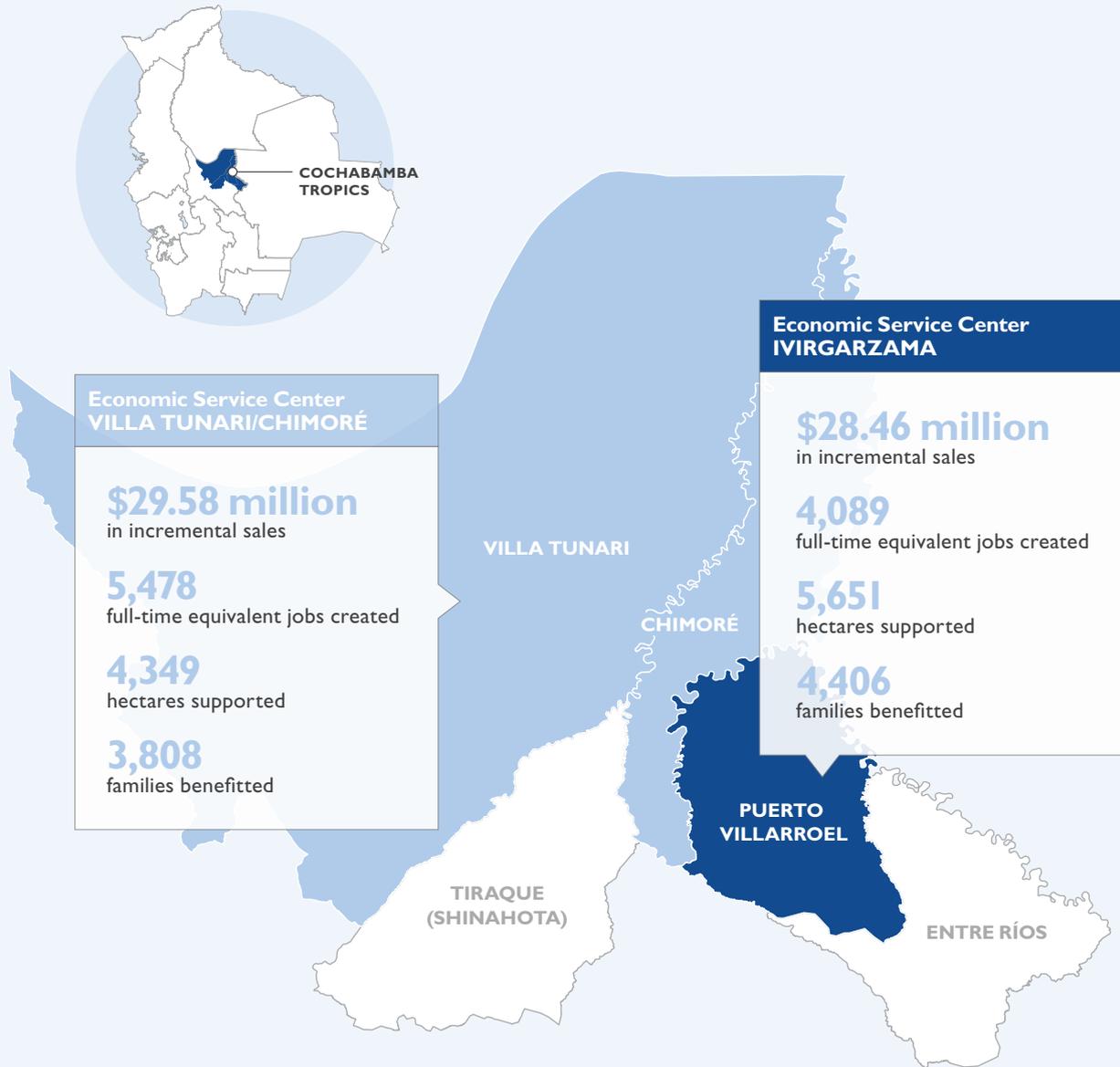
“ We’ve been pessimistic in perhaps not believing that we would actually get to the point of doing business... Yes we can overcome poverty. You have to devote yourself to the work and to improving the products with good buyers. ”

**MARCIAL AND
LUZMILA GARECA,
A BANANA
GROWING FAMILY
IN ALTO BENI**

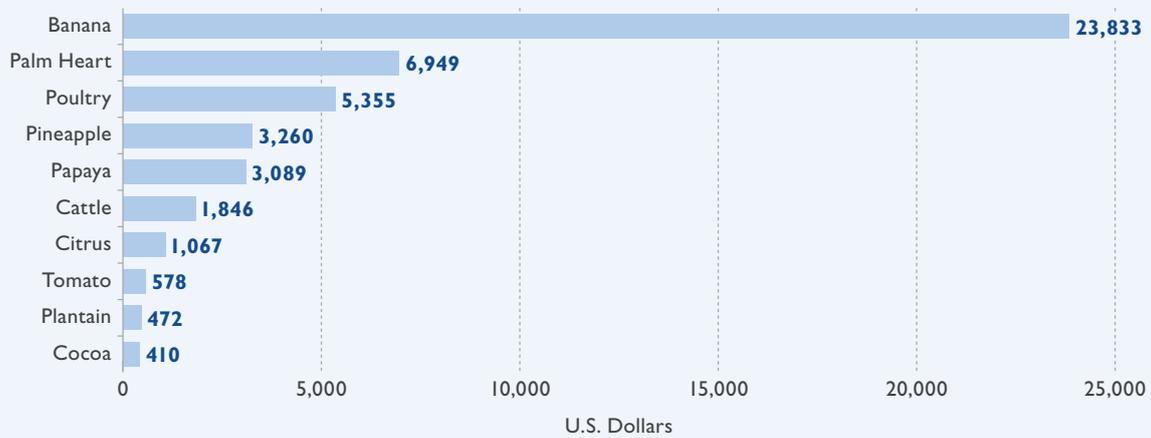
Traditionally women play a critical role washing, packing, and preparing bananas for market, while men primarily care for the trees and harvest. ARCo worked to support the participation of women and men in business plans, from production to final sale.



ECONOMIC SERVICE CENTERS IN THE COCHABAMBA TROPICS CUMULATIVE RESULTS THROUGH DECEMBER 2011



COCHABAMBA TROPICS: TOP SECTORS CUMULATIVE SALES THROUGH DECEMBER 2011 (U.S. DOLLARS, THOUSANDS)



Hectares supported. One of ARCo's main objectives was to develop a new productive base in the target regions by introducing high-value alternative crops and quality products with links to sustainable markets. It achieved this result by introducing technical improvements to low-yield crops that enabled farmers to produce at commercial levels and by establishing additional hectares of crops to produce at volumes attractive to buyers willing to pay for quality. The project assisted producers in different areas to establish and/or improve 25,461 hectares of alternative crops, with 16,194 hectares improved and 9,267 new hectares established.

Improved hectares. Figure 1.4 shows the number of hectares improved in each category with project support, beginning with banana (26 percent), coffee (26 percent), cattle (21 percent), and cocoa (11 percent). Forty-five percent of improved hectares are

located in the Yungas of La Paz, 42 percent in the Cochabamba Tropics, and 13 percent in the Yapacaní region. The fluctuations in the number of hectares supported were due to several factors. For example, the low figures for hectares supported in fiscal year 2009 can be attributed to the project limiting activities to its existing clients in the Cochabamba Tropics in order to fulfill commitments before its full withdrawal from that region. It launched no new activities in the Cochabamba Tropics after mid-2008, except for the construction of a bridge, which has no impact on hectares. The project's physical absence from the Cochabamba Tropics and the fact that it was precluded from initiating new activities there reduced the number of hectares assisted in that region. At the same time, ARCo did not launch intensive effort to significantly expand the surface area under coffee cultivation in the Yungas of La Paz until after 2009. In

FIGURE 1.4 CUMULATIVE NUMBER OF HECTARES SUPPORTED THROUGH DECEMBER 2011

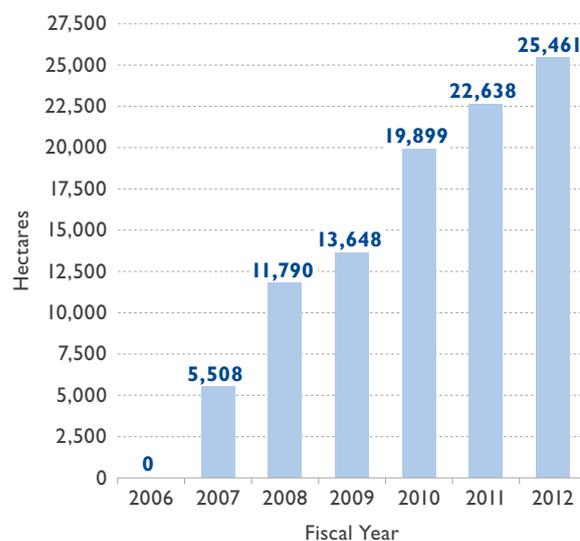


FIGURE 1.5 MAIN CROP CATEGORIES OF IMPROVED HECTARES AS OF DECEMBER 2011

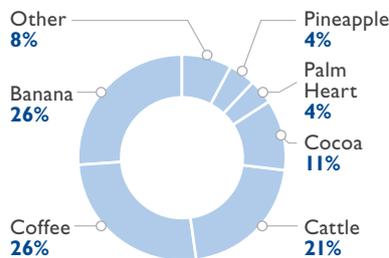
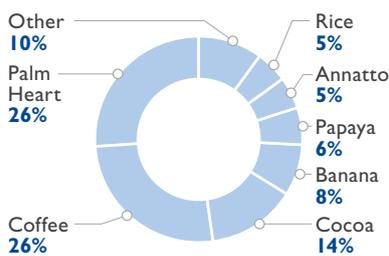


FIGURE 1.6 MAIN CROP CATEGORIES PLANTED ON NEWLY ESTABLISHED HECTARES AS OF DECEMBER 2011



addition, some of the hectares that were producing coffee in 2009 could not be counted because the client lacked organic certification papers.

In 2010, the project launched an intensive effort to expand the coffee crop in the Yungas of La Paz, the location of the vast majority of hectares supported that fiscal year. Also in 2010, it supported the expansion of the number of hectares planted with achiote and cocoa in the Yungas of La Paz.

The number of hectares supported in fiscal year 2012 is relatively low as the project reported data only up to the end of December 2011.

Total hectares supported. Of the total number of hectares assisted with technical improvements or newly established with ARCo's support (see Figure 1.5), coffee ranks first at 6,653, or 26 percent of the total, followed by banana (20 percent), cattle (13 percent), and cocoa and palm heart (12 percent). The hectares supported by the project are located in the Yungas of La Paz (51 percent), the Cochabamba Tropics (39 percent), and Yapacaní (10 percent).

New hectares established. The top categories in this area (see Figure 1.6) were palm heart (26 percent), coffee (26 percent), cocoa (14 percent), and banana (8 percent). The newly established hectares are located in the Yungas of La Paz (62 percent), the Cochabamba Tropics (34 percent), and Yapacaní (4 percent).

Families participating in business ventures. The results indicator on the number of participating families reflects the project's depth and reach in various target areas. ARCo's success was measured by its ability not only to promote thriving rural business, but also to draw a large number of small producers in the Yungas of La Paz, the Cochabamba Tropics, and Yapacaní to participate in those business opportunities. The most effective and sustainable way to reduce dependence on coca leaf production is to ensure that a significant segment of the target population is engaged in successful alternative businesses.

Between 2005 and the first quarter of fiscal year 2012, 25,300 families participated in ARCo-supported businesses (see Figures 1.7 and 1.8): 15,473 in the Yungas of La Paz, 8,214 in the Cochabamba Tropics, and 1,613 in the Yapacaní region. Despite its premature departure from the Cochabamba Tropics in late 2009, the project quickly established a significant presence in the Yungas of La Paz and thus maintained a consistently high level of participation of new families in productive businesses. ARCo's coordination with US-AID/Bolivia and the VCDI was critical to its ability to establish a presence in the area, especially in La Asunta municipality.

ARCo incorporated an average of 4,150 new families annually into productive businesses. At this pace, more than 11,000 families (new and existing) were involved in productive businesses in the

FIGURE 1.7 CUMULATIVE NUMBER OF BENEFICIARY FAMILIES AS OF DECEMBER 2011

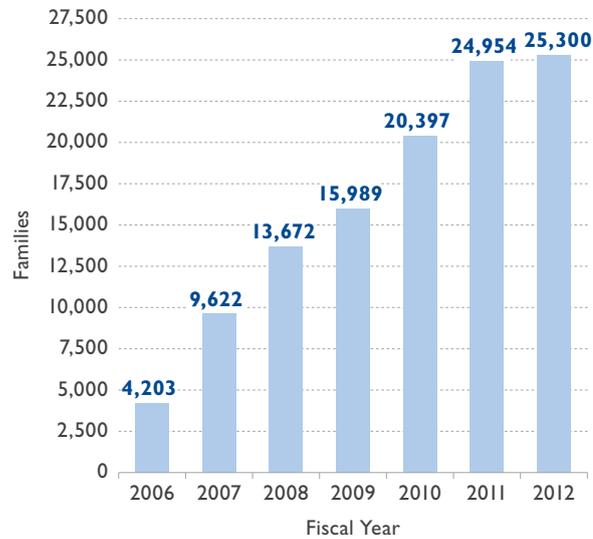
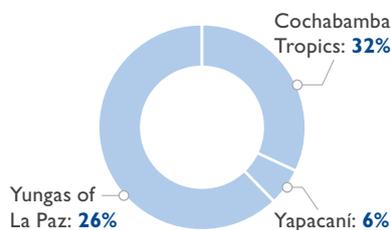


FIGURE 1.8 CUMULATIVE PERCENTAGE OF NEW BENEFICIARY FAMILIES BY REGION AS OF DECEMBER 2011



project’s target regions in any given year. *Figure 1.8* shows the percentage of new families participating in productive business by region as of December 2011. Some productive sectors stand out in terms of the number of participating families. *Table 1.1* offers a breakdown of families by sector and by region.

Thirty-two percent of all families participating in project-assisted businesses—and 50 percent of participants in the Yungas of La Paz—are from the coffee sector, followed by banana, cocoa, and palm heart, each of which represents 10 percent of the total. Other categories with a relevant number of participating families were: honey (5 percent), cattle (5 percent), citrus (4 percent), and pineapple (4 percent). These results were not easily achieved. Social problems and political tensions in the project’s first stage forced it to close down operations in 2006 in Caranavi,

the area of the Yungas of La Paz with the greatest productive and business potential. ARCo did not return to the area until 2008, when it launched an organic production initiative and also supported the Cup of Excellence competition. The project had to contend with the unfortunate and premature suspension of activities in the Cochabamba Tropics in late 2009 and the subsequent start-up of activities in the Yapacaní region in early 2010.

Finally, during its latter phase, the project placed greater support in the Yungas of La Paz, especially in La Asunta. Notwithstanding the socio-political tensions, the project worked collaboratively with USAID/Bolivia and the VCDI and surpassed the anticipated results.

TABLE I.1 FAMILIES PARTICIPATING IN BUSINESS VENTURES BY SECTOR AND REGION

SECTOR	Yungas of La Paz	Cochabamba Tropics	Yapacaní	Total by category
Coffee	7,776	334	74	8,184
Cocoa	2,084	388	—	2,472
Palm heart	—	2,456	—	2,456
Banana	1,342	1,093	—	2,435
Honey	526	728	123	1,377
Cattle	84	640	506	1,230
Citrus	92	314	579	985
Pineapple	45	841	—	886
Achiote	525	83	48	656
Papaya	304	211	—	515
Mango	493	—	—	493
Amaranth	443	—	—	443
Rice	133	185	101	419
Poultry	342	77	—	419
Tea	316	—	—	316
Fish	—	265	40	305
Tourism	286	—	—	286
Forest products	96	92	97	285
Plantain	143	33	—	176
Other categories	443	474	45	962
Total by region	15,473	8,214	1,613	25,300

**IMPACT ON PEOPLE:
FROM SUBSISTENCE
TO BUSINESS**

Impact in the project's target area. ARCo's approach created business opportunities that are now generating significant earnings and improving the standard of living of rural families. Together with USAID and the VCDI, the project successfully incorporated approximately 25,300 families into productive businesses in the Yungas of La Paz, Yapacaní, and the Cochabamba Tropics. The incomes of most of these families have increased significantly as a result of the project's interventions.

Figure 1.9 shows the upward trend in the average annual gross income of the ARCo-assisted

families, as their businesses gradually matured. The left-hand bar is the average annual income of families in the early years of their businesses (the preliminary phase). In most cases, this income level corresponds to the period from 2004 to 2007. As shown, 81 percent of families were earning under \$1,000 a year from the sale of alternative products, while 11 percent were earning \$1,001 to \$2,000 and just 8 percent were earning more than \$2,000 annually.

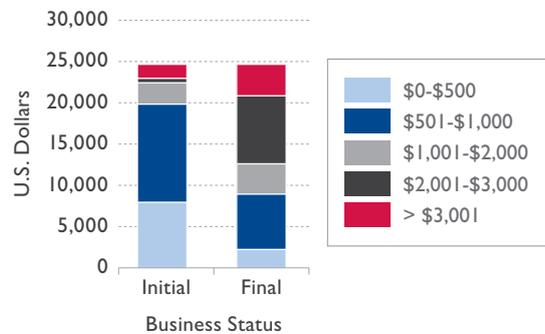
The gross family income derived from the sale of supported products was transformed as the businesses gradually became more consolidated with ARCo support. The right-hand bar represents average annual family income after this change



Incomes for coffee-growing families in the Yungas of La Paz increased through the production of high-quality coffee beans.

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FIGURE 1.9 AVERAGE GROSS ANNUAL INCOME OF FAMILIES WITH OPERATING BUSINESSES DURING THE PROJECT



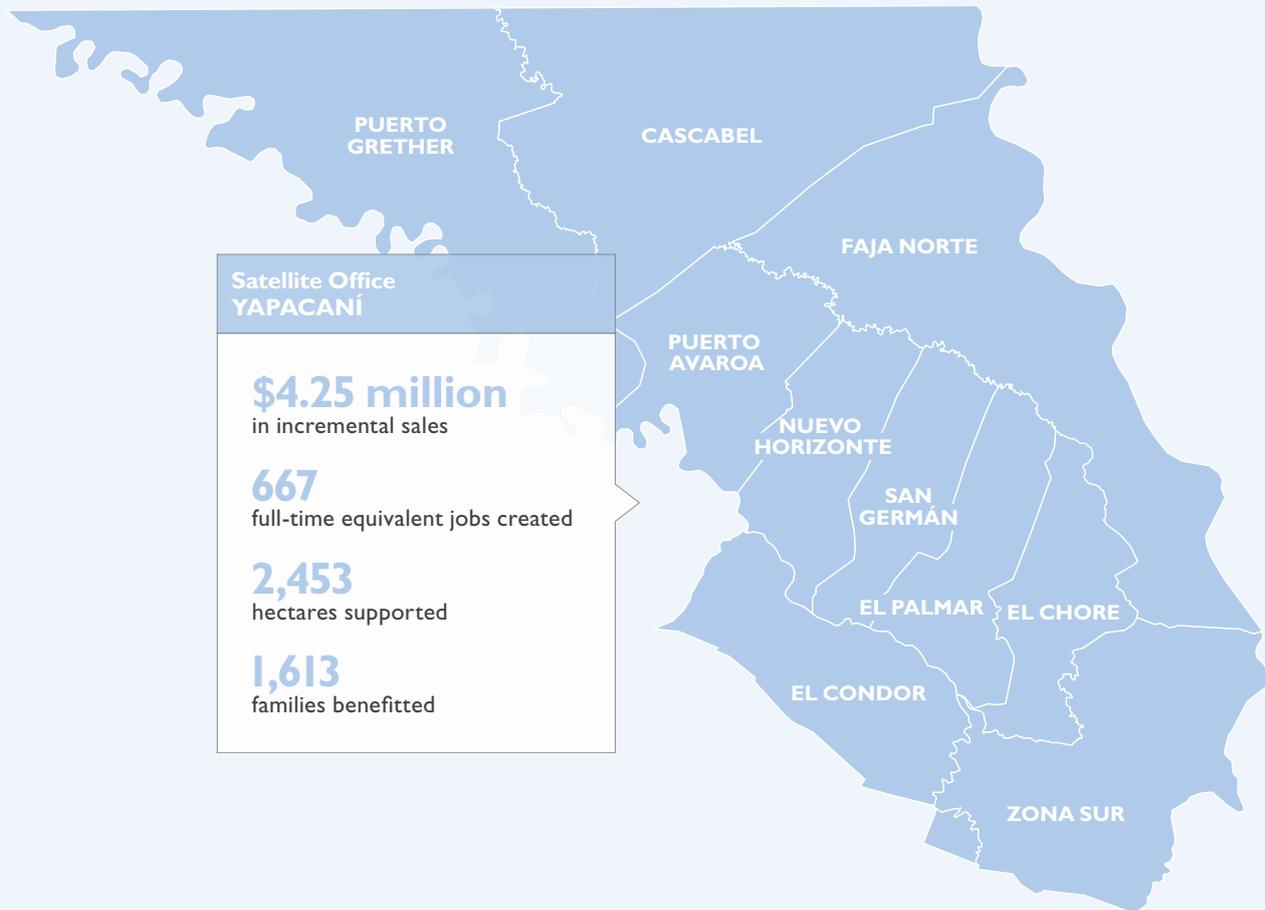
had taken place, in most cases between 2008 and 2011. As shown, just 37 percent of families now earn less than \$1,000 a year from the sale of alternative products, while 15 percent earn between \$1,000 and \$2,000. Most importantly, the average earnings for 48 percent—more than 11,000 families—have surpassed \$2,000 annually. Based on the universe of families with ARCo-supported businesses that reported sales³—24,268 families—average annual family

income rose from \$1,289 to \$3,227 between the initial and final measurements. This result is equivalent to a 150 percent increase in earnings derived from the sale of alternative products. A quantitative improvement of this magnitude indicates that these ARCo clients have made the transition from a subsistence economy to a business economy.

Regional impact. Figure 1.10 on the next page shows the increases in the average annual

3. Of the total 25,300 families that received ARCo support, 24,268 families reported incremental sales. At the project's end, the remaining 1,032 families had not reported those sales. There are various reasons for this: some have only recently finished implementing their business plan and are entering the productive phase; others have established new plantations for crops such as coffee, cocoa, and achiote, but have not begun commercial production as yet; still others have not generated sales that exceed their baseline.

SATELLITE OFFICE IN YAPACANÍ CUMULATIVE RESULTS THROUGH DECEMBER 2011



YAPACANÍ: TOP SECTORS CUMULATIVE SALES THROUGH DECEMBER 2011 (U.S. DOLLARS, THOUSANDS)

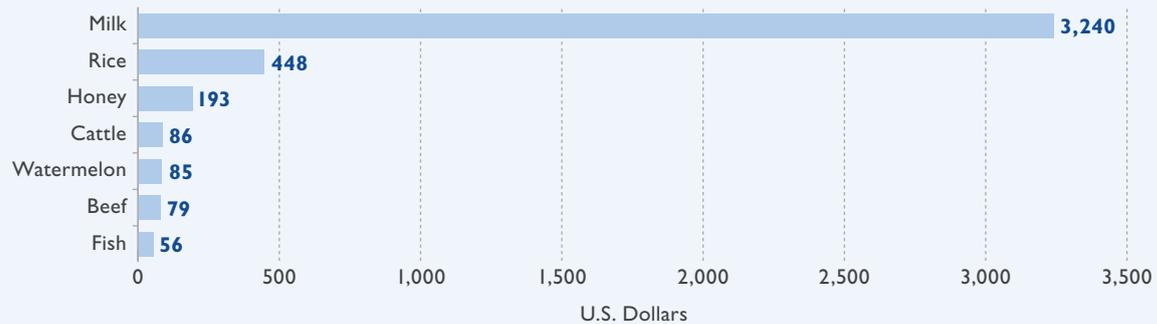
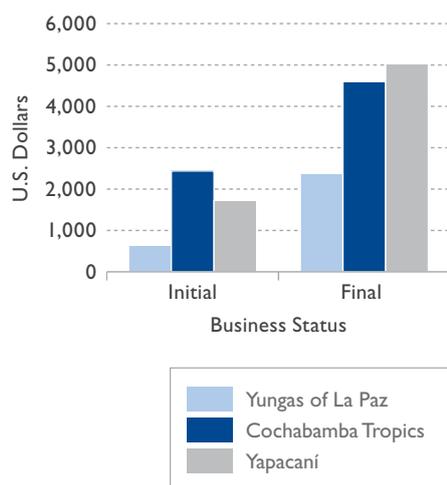


TABLE 1.2 SUCCESS OF THE SUPPORTED SECTORS BY REGION

Degree of Success	Region		
	Yungas of La Paz	Cochabamba Tropics	Yapacaní
Successful	Cattle products, citrus, cocoa, coffee, flowers, fruits and vegetables, honey, mango, papaya, plantain, pork products, poultry products	Banana, cattle, citrus, papaya, plantain, poultry products, tomato, turmeric	Cattle, fish, rice, watermelon
In progress	Achiote, amaranth, banana, tourism	Cocoa, crafts, palm heart, rice	Honey
Not promising	Aromatic herbs, beans, peaches, pineapple, rice, stevia	Camu camu, coffee, fish, ginger, honey, pineapple	Achiote, coffee

FIGURE 1.10 AVERAGE GROSS ANNUAL INCOME OF FAMILIES PARTICIPATING IN THE BUSINESSES BY REGION



income of the families involved in business ventures in each of the project’s three target regions. In the Yungas of La Paz, average annual family income rose from \$641 to \$2,377 as the businesses gradually matured. This represents a 271 percent increase in the annual incomes of the 15,157 families with operational businesses from sales in alternative products.

The Cochabamba Tropics was ARCo’s main target area from 2005 to 2009. During this period, average annual income rose from \$2,438 to \$4,598 as a result of the consolidation of productive businesses, reflecting an 89 percent increase for the region as a whole. This figure also shows the trends in family income in Yapacaní. Although ARCo did not begin working in that region until the beginning of 2010, it still managed to galvanize successful businesses in certain categories. The 923 families with active businesses supported by the project saw their average annual income climb from \$1,726 to \$5,029, or 191 percent, as their businesses became more consolidated.

Of the project’s target sectors in the Yungas of La Paz, 12 can be regarded as successful in their impact on family incomes, four are in progress, and seven offer fewer possibilities for success. In the Cochabamba Tropics, nine sectors have been successful, four are in progress, and six are less promising. Finally, in Yapacaní, four sectors have been successful, one is in progress, and two are less promising.

Impact in the main productive sectors. The market-driven business approach that ARCo implemented under USAID/ Bolivia’s and the VCDI’s bilateral Integrated Development Program harnessed the competitive advantages of rural Bolivia in a relatively large number of alternative productive sectors (*see Table 1.2*) and drew numerous producer groups into each one. The sectors that contributed the most in boosting family incomes and involving a significant number of producers in alternative businesses were coffee, banana, cocoa, cattle, palm heart, poultry products, mango, and honey.

LINKING PRODUCTS TO MARKETS

Helping small farmers gain access to new market opportunities through improved product quality and linkages with buyers undoubtedly was the core function of the project. However, ARCo also played a fundamental, contractually mandated role in providing technical, financial, and administrative supervision of USAID/Bolivia's host-country contract with the Bolivian government's Rural Roads Entity (known in Spanish as Caminos Vecinales, or CCVV). Under the contract, Caminos Vecinales improved and maintained secondary and tertiary roads and built bridges in the regions

where the project worked. This initiative to improve the road network facilitated small farmer access to markets. For example, the road infrastructure in the Yungas of La Paz is notorious for being underdeveloped and dangerous (e.g., dirt roads on mountainsides), which made access to markets outside the region difficult.

ARCo served as USAID's designated representative for overseeing the work and management of CCVV from the beginning of the project. *Table 1.3* shows CCVV's key achievements throughout the supervision period.

TABLE 1.3 ACHIEVEMENTS BY CAMINOS VECINALES UNDER PROJECT SUPERVISION

Calendar Year	Rural Road Maintenance (km)	Rural Road Improvement (km)	Number of Bridges Built	Number of Social Infrastructure Projects
2005	382.97	234.34	21.00	N/A
2006	304.17	227.37	18.00	N/A
2007	499.58	290.73	22.00	N/A
2008	461.33	212.79	14.00	N/A
2009	445.01	103.83	22.00	N/A
2010	527.46	160.79	12.85	12.00
2011	767.82	108.59	9.59	12.00
2012	121.82	--	3.27	2.00
Total	3,510.16	1,338.44	122.71	26.00



From 2005 to 2012 Caminos Vecinales constructed more than 120 bridges in the Cochabamba Tropics and Yungas of La Paz. Bridges proved essential for facilitating access to markets and reducing travel time.

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Through its rural roads infrastructure unit, the project collaborated closely with USAID to supervise CCVV initiatives in the Yungas of La Paz, Yapacaní, and the Cochabamba Tropics. ARCo's work as CCVV supervisor included:

- Support with the preparation of CCVV's annual operating plan.
- Participation on the selection committee to review proposals presented by potential contractors to implement CCVV projects.
- Technical supervision of quality of work in road maintenance and improvement and in bridge construction.
- Participation in the provisional and final reception of completed projects in order to ensure quality.
- Financial supervision of CCVV expenditures.
- Support to CCVV to respond to annual audit findings and observations.
- Administrative guidance.

Improved rural road infrastructure is directly linked to easier access of supported products to market. As part of the Integrated Development Program, assistance to CCVV was an important complement to USAID's efforts in the three target regions.



A coffee producer rakes “green” coffee beans to ensure that all sides are exposed to the sun for consistency in the drying process, an important step in producing specialty coffee.

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COFFEE

One of the project's most important successes was in the coffee sector. At the start of the intervention in this sector, most of the 20,000 small-scale coffee growers in the Yungas of La Paz were part-time producers who divided their energy between their aging, low-yield, poor-quality plantations and farming coca leaf. In 2004, most of these growers were selling their product in the international conventional coffee market with a “penalized” price differential of up to 20 points below the reference price on the New York Stock Exchange.

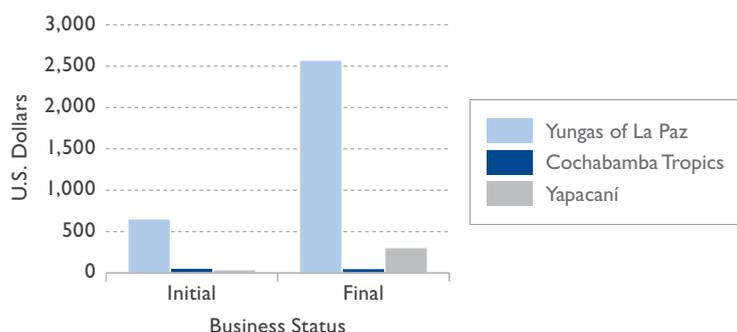
The project assisted more than 8,000 small-scale coffee growers in functions such as plantation management and harvest, postharvest activities, and the drying process. It also helped them establish contacts with specialty coffee buyers through the Cup of Excellence contest. Today the following results can be observed:

- International specialty coffee buyers seeking long-term contracts with local producers now recognize Bolivian coffee as a high-quality product of origin.
- Bolivian coffee is mostly sold in specialty, organic, and fair trade markets at prices 30 to 100 points

above the reference price on the New York Stock Exchange.

- The more than 8,000 coffee producers associated with the project (see Figure 1.11) have experienced a 292 percent increase in their average annual incomes—demonstrating that the coffee business can provide a decent standard of living. However, the incomes of coffee growers in the Cochabamba Tropics and Yapacaní did not rise similarly to the increases obtained in Yungas, which has access to specialty markets due to its altitude.
- Small-scale producers associated with ARCo have improved some 4,100 hectares of existing plantations and have planted approximately 2,400 new hectares. To accomplish this, the producers had to invest their own funds and labor valued at \$2.4 million.
- Through the efforts of the small-scale producers associated with the project, Bolivian coffee exports are expected to increase 50 percent by 2015, when the improved and new plantations are producing at capacity.

FIGURE 1.11 AVERAGE GROSS ANNUAL FAMILY INCOME FROM COFFEE





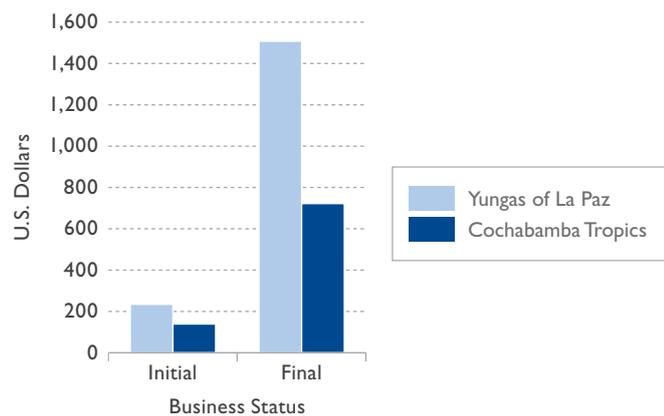
El Ciebo chocolate (left) ready for sale. With supplier development support, producers provided El Ceibo with higher quality cocoa. Today its chocolate products can be found in stores throughout the world. Workers prepare to make milk chocolate (right) with cocoa purchased from producers in the Alto Beni and Palos Blancos region.

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COCOA

ARCO supported 2,084 families in the Yungas of La Paz and 388 families in the Cochabamba Tropics in cocoa production. By incorporating new buyers and training thousands of small-scale producers in technical aspects of plantation management, postharvest, drying, and processing, the project had a major impact on the prices obtained by these producers. Producers in the Yungas of La Paz saw their annual family incomes from cocoa sales increase 6.4 times over, from \$235 to \$1,508, while annual family incomes from cocoa sales in the Cochabamba Tropics rose from \$139 to \$722 (see Figure 1.13).

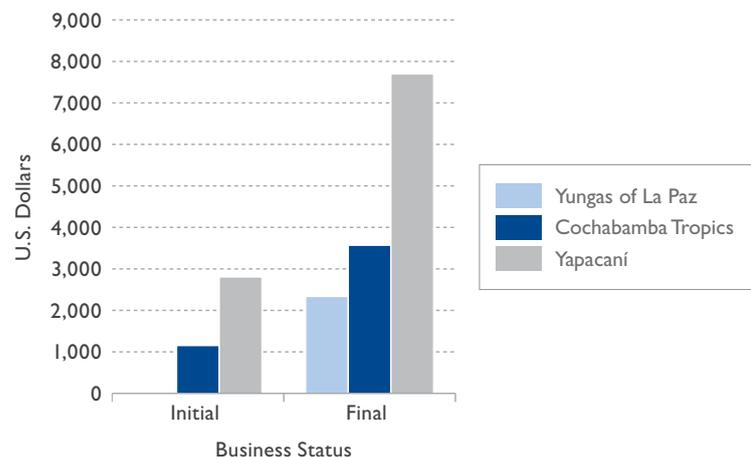
FIGURE 1.13 AVERAGE GROSS ANNUAL FAMILY INCOME FROM COCOA



CATTLE

The solid performance of the cattle industry, including dairy products, was a welcome surprise since support began during the latter stage of the project implementation period. The project assisted 1,230 families in this sector: In Yapacaní, the average gross annual income of 506 families rose from \$2,805 to \$7,698, an increase of \$4,893 (see Figure 1.14). In addition to improving herd management and milk quality, the project's interventions in this region had a significant impact at the secondary level through the industrialization of quality milk products.

FIGURE 1.14 AVERAGE GROSS ANNUAL FAMILY INCOME FROM CATTLE





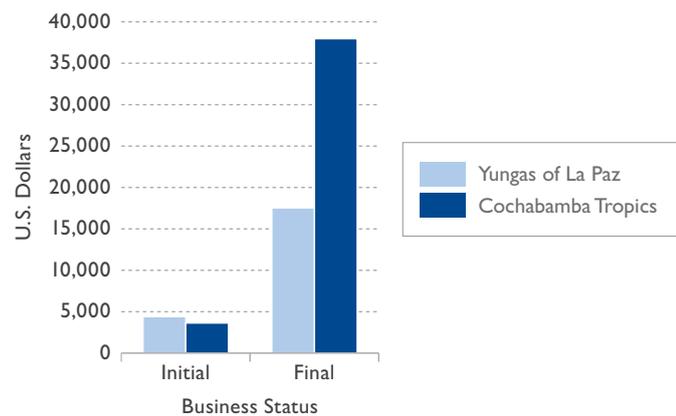
Through business plans and co-investment agreements, chicken producers improved their productive infrastructure to meet increased demand for poultry. In the Yungas, new poultry sales exceeded \$2.9 million.

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POULTRY PRODUCTS

The project's efforts in poultry began as a business response to the circumstances in the target areas. In places such as La Asunta in the Yungas of La Paz, for example, chicken meat was brought in from Santa Cruz or Cochabamba about twice a week. ARCo's support of small-scale poultry businesses generated high gross family incomes (see Figure 1.15) while contributing to food security by improving the local population's access to animal protein. In all, 419 of the families that received assistance have operational poultry businesses. In the Yungas of La Paz, 342 of these families have quadrupled their average gross annual incomes, which rose from \$4,399 to \$17,525 between the start-up phase and the consolidated business phase. The project's impact was even greater in the Cochabamba Tropics, where the average annual incomes of the 77 chicken farmers assisted increased ten-fold.

FIGURE 1.15 AVERAGE GROSS ANNUAL FAMILY INCOME FROM POULTRY





La Purita's new products: long-lasting milk in three flavors.

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SNAPSHOT

La Purita Boosts Market Share

Today, Industrias Lácteas La Purita is a legally incorporated venture made up of 219 small- and medium-scale milk producers. Originally a cooperative, La Purita was created by members of the Milk Producers Association Yapacaní (ASOPLA) to promote the sale of products from local dairy farmers and neutralize the monopoly held by the Planta Industrializadora de Leche (PIL), the only buyer operating in the area at that time.

La Purita needed to penetrate the processed milk and dairy products market competitively. The company had a monthly sales volume of 68,000 liters of pasteurized milk, but was unable to expand its market coverage and increase the amount of milk it purchased from area dairy farmers.

The milk and dairy market demanded a product that—in the tropical area where La Purita is located—could be preserved in good condition for several days and was produced with microbiological controls that ensured product safety. With ARCo support, La Purita was able to achieve success with the investment it had already made in machinery to treat and obtain ultra-pasteurized milk, also known as ultra-high-temperature milk. ARCo focused on operationalizing the equipment and training in the use of ultra-high-temperature technology. The project also helped to outfit a microbiological control laboratory and to train local personnel, most of them the sons and daughters of ASOPLA members.

The change was as swift as it was remarkable. La Purita's average milk sales rose from 68,000 liters to 180,000 liters a month in the final year. Moreover, the company diversified its products to include flavored milks (strawberry and chocolate). The 110,000 a month increase in sales (approximately 165 percent) led to a commensurate increase in La Purita's capacity to collect the production of ASOPLA dairy farmers. Currently, ASOPLA members sell 50 percent of their milk production to La Purita. In general, dairy farmers in Yapacaní are obtaining better and more stable prices due to the presence of a more vibrant, competitive industry.

In Yapacaní, ARCo offered more than 500 milk-producing families assistance in animal health and nutrition, pasture management on more than 1,800 hectares, and production infrastructure such as milking pens. During the project's brief tenure in the Yapacaní region, the milk and dairy sector were consolidated as the most successful sector in the region, with incremental sales worth \$3.5 million.



Palm heart has long been and remains an important product in the Cochabamba Tropics. ARCo assisted the establishment of 2,447 new hectares of palm heart but was not able to continue its support beyond 2009.

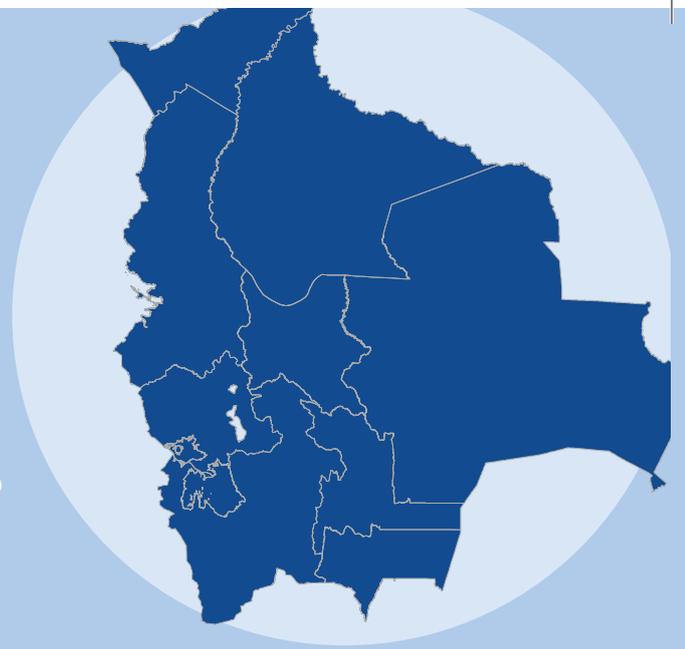
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PALM HEART

As one of the most important sectors in the Cochabamba Tropics region, palm heart had already received assistance from previous alternative development programs. ARCo provided assistance to 2,456 families, mainly through the establishment of 2,447 new hectares of palm heart with rigorously controlled commercial densities. Unfortunately, ARCo's unexpected withdrawal from the Cochabamba Tropics

at the end of 2009 preceded the first commercial harvest from these new plantations. Therefore, the project has only documented a small percentage of its impact on increases in average annual family income from palm heart production. The average annual income of those clients that reported sales in 2009 had climbed from \$772 to \$863, a 12 percent increase.

Summary of Bolivia ARCo Results



OVERVIEW

Indicator	Results Totals	Region		
		Yungas of La Paz	Cochabamba Tropics	Yapacaní
Participating families	25,300	15,473	8,214	1,613
Hectares of crops supported	25,461	13,007	10,001	2,453
Incremental sales (US \$ millions)	105.64	43.34	58.04	4.25
Jobs created	14,805	4,573	9,565	667



REGIONAL BREAKDOWN: YUNGAS OF LA PAZ

Product Category	Families	Hectares Supported	Incremental Sales (US\$ Millions)
Coffee	7,776	6,581	19.40
Cocoa	2,084	2,880	3.80
Banana	1,342	1,251	3.60
Honey	526	N/A	0.45
Achiote	525	641	0.61
Mango	493	214	2.99
Poultry	342	N/A	2.92



REGIONAL BREAKDOWN: COCHABAMBA TROPICS

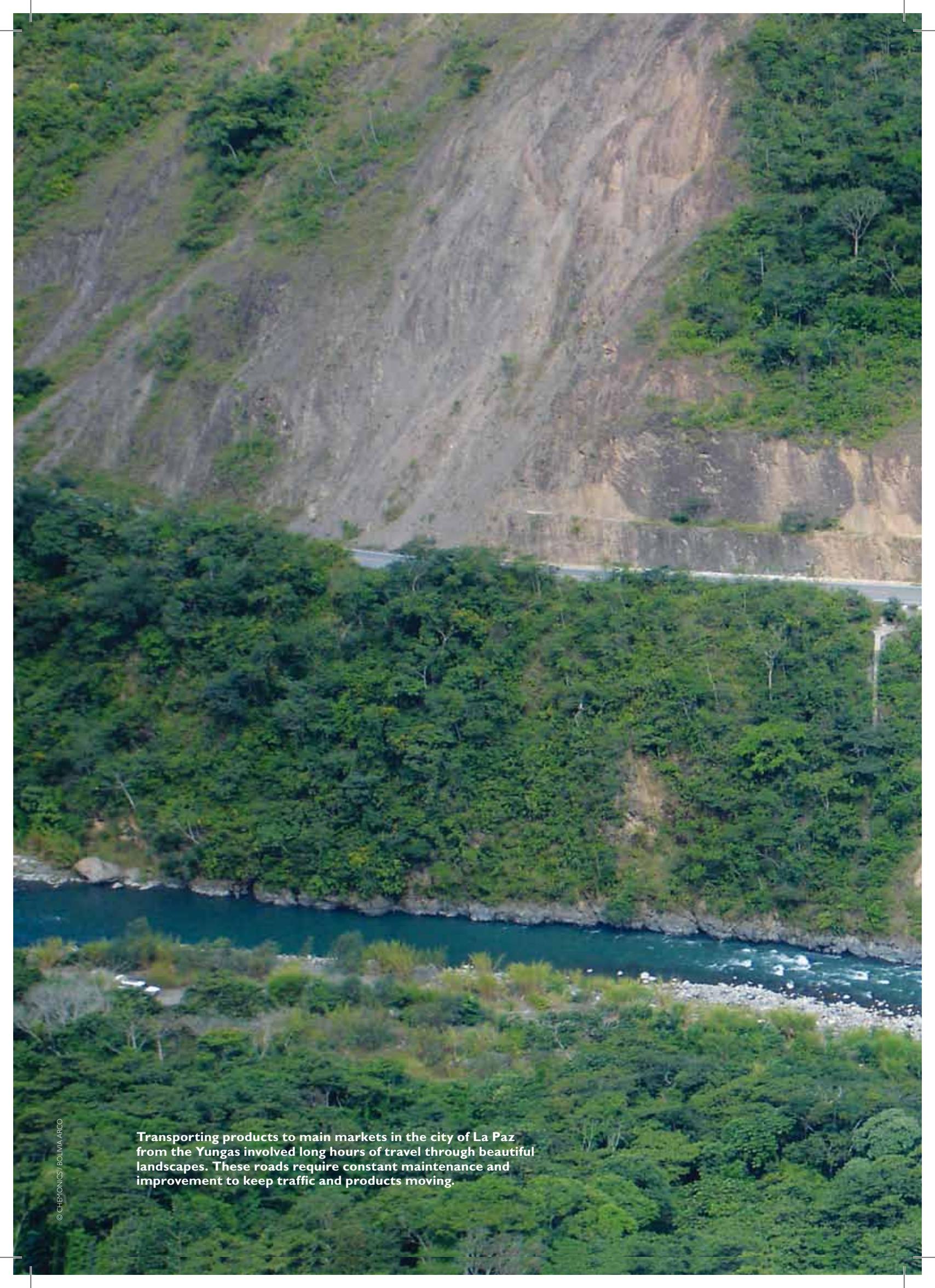
Product Category	Families	Hectares Supported	Incremental Sales (US\$ Millions)
Palm heart	2,456	3,028	6.95
Banana	1,093	3,776	32.91
Pineapple	841	803	3.73
Cattle	640	1,138	1.84
Citrus	314	185	1.07
Papaya	211	268	3.09



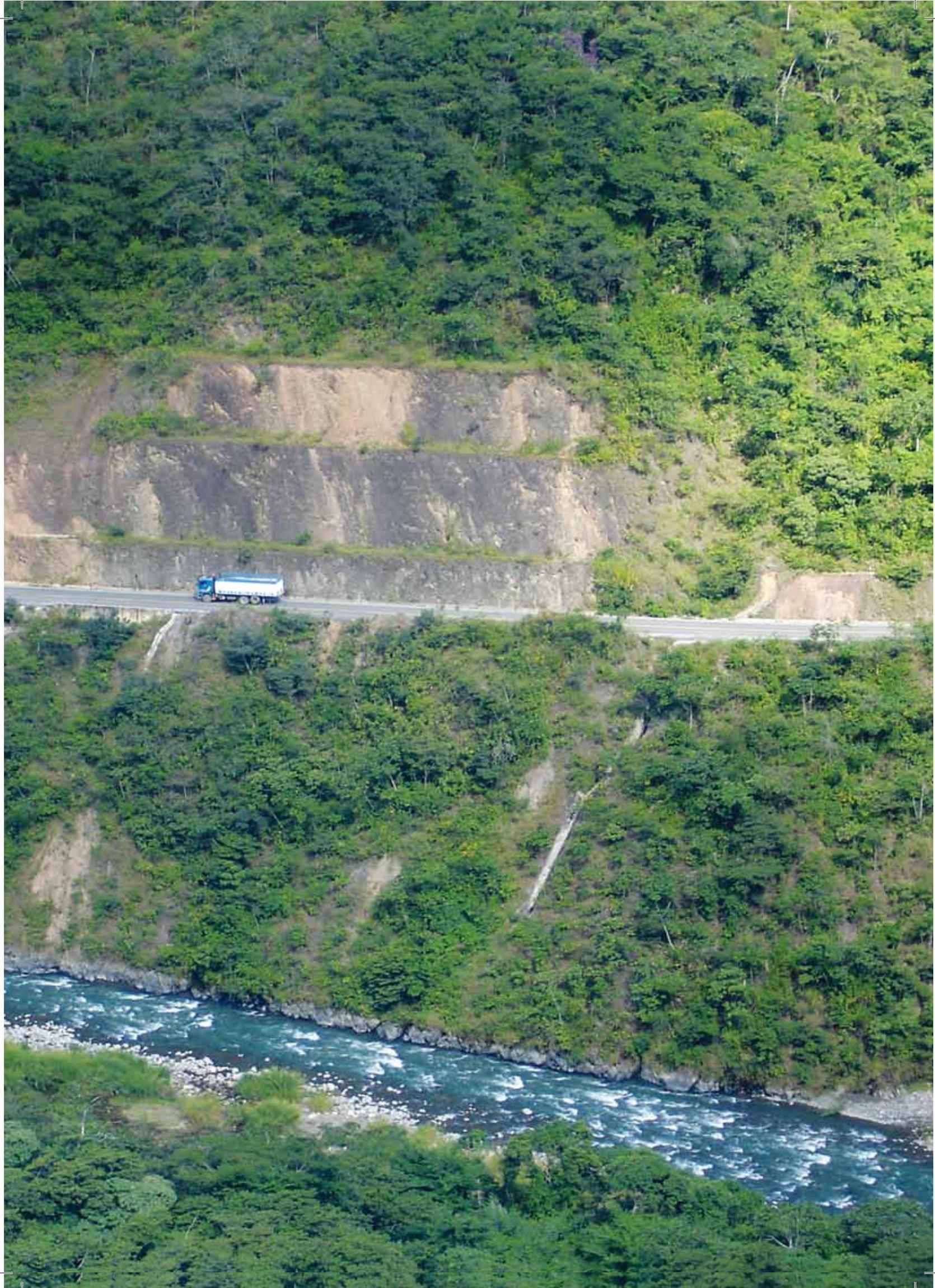
REGIONAL BREAKDOWN: YAPACANÍ

Product Category	Families	Hectares Supported	Incremental Sales (US\$ Millions)
Citrus*	579	—	—
Cattle and dairy industries	506	1,854	3.40
Honey	123	N/A	0.19
Rice	101	285	0.45
Watermelon	31	67	0.09
Fish	40	N/A	0.06

* The citrus sector program implemented in Yapacaní was the most strongly affected by budget reductions. Therefore, only the results in the area of participating families were tabulated, while hectares improved and incremental sales were not reported.



Transporting products to main markets in the city of La Paz from the Yungas involved long hours of travel through beautiful landscapes. These roads require constant maintenance and improvement to keep traffic and products moving.





A flower producer showcases her product during a producer fair, while a representative from the El Ceibo chocolate manufacturing plant stands ready to promote cocoa and chocolate.

CHAPTER TWO

PROJECT TOOLS

ARCo's business approach proved very effective in promoting significant economic development through alternative activities in coca-producing areas of Bolivia. From the outset, the key to success was the project's ability to articulate a clear and coherent message in its interactions with varied stakeholders, including officials of the Plurinational State of Bolivia, USAID, the producers, communities, and social organizations such as federations, cooperatives, and associations. The message reflected the crux of the project's business approach to achieving results: ARCo aimed to support productive businesses linked to real markets, with clients willing to share in the risk for the good of their productive

ventures. This approach won over clients and social organizations alike as they saw tangible results—namely, improved incomes of producer families. To achieve results, the project instituted clear operational principles to guide activities and developed several management and implementation tools.

OPERATIONAL PRINCIPLES

The project facilitated, instead of just implementing activities. The project's success relied on establishing and facilitating partnerships with other specialized public and private institutions able to contribute to the implementation of its activities. It empowered its clients and promoted ownership among

A SHIFT IN PRODUCERS' MINDSET

The most emblematic shift in the mindset of the producer groups can be summed up by rephrasing a single question:

Before ARCo's support: What will the project do for us?

With ARCo's support: Can this project help us with the business we wish to launch?

them. Ultimately, the client was responsible for the success of his or her specific business opportunity, with strategic support from the project. Some examples of this are:

- *Technical assistance.* The clients directly contracted and supervised experienced local technical professionals.
- *Installation of productive infrastructure.* The clients contracted and supervised construction firms.
- *Equipment procurement.* The clients maintained contact with equipment providers.
- *Certifications.* There were joint efforts involving public and private entities to obtain health, seed, organic, and fair trade certifications, among others.
- *Training.* There were contracts with local organizations and companies with various specialties.
- *Supplier development.* The project fostered partnerships between producers (suppliers) and the processing and export industries.
- *Financial services.* There were partnerships with regulated financial institutions for the development of new financial products.
- *Sector representation.* Producer and exporter organizations collaborated closely.

The project identified opportunities, it did not make the decisions. In applying a business approach to its work with small-scale producers, the project needed to foster a strong sense of ownership of the businesses among rural families, as they were the ones who were going to have to make a better life for themselves by dint of their labor. Therefore, the project discussed some of the key aspects of the business approach with the producer families and their communities and organizations, on questions such as:

- Which is more important: producing or selling?
- What happens if we produce, but are unable to sell?

From these discussions, it became evident that both producing and selling are important and that it is necessary to identify sales opportunities from the outset in order to produce from a more secure position (i.e., produce what sells). Therefore, the project's assistance was contingent on first securing a buy-sell transaction. This sent a clear signal that two or more parties were interested in investing their capital and their efforts in a productive activity, demonstrated shared responsibility for the success of the venture, and minimized the risk of a botched deal at the end of the day. As a result, the business in question would deserve assistance, since the essential elements—the market, productive areas, quality

“ With ARCo we have learned to do our part instead of waiting around for someone else. Thanks to them, we are better off economically. ”

FLORENCIO POMA,

BANANA PRODUCER, PORVENIR, ALTO BENI

requirements, delivery and payment terms, and so forth—were already taking shape.

For a poor family, whether or not to contribute and risk its capital is a very serious decision and one that a couple makes together, often with input from their children. The process entails a series of activities: forming a producer group, administering funds to contract services, implementing the production phase, carrying out quality control, tailoring the product to the buyer’s requirements, invoicing, and registering income. Therefore, the clearest indicator of a transition from subsistence to business production was when the families began to invest their own resources upfront to achieve the targets established in their business plans, and then later supplemented their own investment with project resources.

The businesses were strengthened, not the project. To apply ARCo’s business approach, it was important to change the mindset of the project’s own team and of local and national authorities. The project’s activities were designed to showcase what the clients had accomplished, rather than ARCo per se. The following characteristics distinguished this approach:

- The project did not “deliver” or inaugurate infrastructure projects, since the producers were in charge of contracting and supervising those services.

- The project did not “deliver” equipment and tools. The producers were responsible for purchases.
- Infrastructure was tailored to the economic potential of the clients, the local conditions, and the requirements of the business—rather than to some archetype.
- Managing environmental protection was an inherent part of the economic value added in a business, rather than simply a matter of complying with the minimum regulations.

MANAGEMENT AND IMPLEMENTATION TOOLS

Economic services centers. ARCo launched its activities in a complex rural context. The best way for the project to build trust and demonstrate tangible results through its new business approach was by bringing the producers on board from the initial idea to the establishment of the business opportunity. ARCo’s economic services centers were the operational field units that facilitated this type of engagement. Made up of a small team of business advisors with an administrative support structure, the ESCs were responsible for the following tasks:

- Introduce ARCo and its business approach to local organizations and potential clients.
- Start the discussion with potential clients/beneficiaries

about the business opportunities that the project could support.

- Facilitate contacts between producer groups and buyers.
- In conjunction with ARCo's technical team, submit proposed business plans to the Grants Advisory Group for its consideration and approval.
- Provide assistance in the design and subsequent follow-up of the business plans.

The project assigned ESCs the important task of providing technical assistance to facilitate business deals between groups of small-scale producers, processors, and buyers. The level of these business contacts was contingent on the degree of business development in the project's target regions.

Working through ESCs in the Cochabamba Tropics, ARCo continued to have an impact on the banana, palm heart, and pineapple industries. Its approach focused on a supplier development program and value chains that directly involved the producers, processors, food safety and plant health services, customs, and the buyers. To enhance efficiency and secure the collaboration of producers and buyers, the project promoted trade facilitation agreements between the customs services of Bolivia, Chile, and Peru that streamlined border crossing procedures. Through the supplier development program, processors and buyers were directly involved

in assisting small-scale producers in their supply chain.

In the Yungas of La Paz, the project tailored the business approach to the level of productive development in the different target areas. In Palos Blancos and Caranavi, where an adequate, albeit not very advanced, productive base was in place, the project supported several individual businesses with high-value products: coffee, cocoa, banana, poultry, and achiote, among others. Over time, ARCo established a baseline quantity of coffee, cocoa, and banana; this opened the door to more integrated businesses in which producer organizations, processors, and buyers also became involved in providing services to small-scale producers.

In La Asunta, with virtually no productive base of alternative crops, the project focused on facilitating simpler individual business deals in areas such as poultry, pork products, coffee, achiote, and beekeeping.

In Yapacaní, an area with an established business tradition, ARCo made a significant impact in a short time. For example, the project was able to support the entire milk sector in the region at the primary and value added levels. With a consistent focus on high-value business deals, ARCo promoted important businesses involving dairy products, beekeeping, rice, fisheries, and cattle, among others.

Throughout the implementation period, ARCo offered its assis-

RESULTS-BASED, SELF-MANAGEMENT AGREEMENTS

ARCo used results-based, self-management agreements to address the difficulties of working in less sophisticated rural areas where organizations did not have rigorous internal financial and management controls. Under these agreements:

- The project monitored a management system based on benchmarks and results.
- Producers were responsible for meeting the benchmarks.
- ARCo's reimbursements were contingent on verification that benchmarks had been reached.

SELF-MANAGEMENT BY THE NUMBERS

As of December 2011, ARCo had worked with 502 organizations based on 704 self-management agreements for the management of \$31.2 million in ARCo funds and \$7.8 million of their own funds. In doing so, they generated incremental sales valued at \$89.4 million.

tance at the local level through six ESCs and two small satellite offices. The local team was supported by a specialized technical team based at the project's headquarters in La Paz. The technical team was responsible for providing cross-cutting support to all the ESCs in areas such as environmental competitiveness, social capital, and geographic information systems and for identifying new or better buyers and facilitating their contacts with the clients. ARCo administered the ESCs both through subcontracts and directly.

Self-management as a management tool. In response to the sluggish pace of bureaucracy, a new model emerged: self-management. Cooperation agencies have debated the pros and cons of applying a self-management model in rural settings, especially in small-scale producer organizations. Can such organizations be trusted to carry out sound financial management? To what extent can resource administration be delegated to them? Shouldn't the project take charge of administrative procedures for the organizations? As a rule, the answers to these questions has led projects to strengthen institutions through strict reporting requirements or to retain control over resource management as there were too many financial risks with organizations that tended to be precarious and lacked financial control systems. In fact, a survey of 59 producer organizations that had received initial project support confirmed the obvious: 80 percent did not have financial

records, bookkeeping systems, or staff and procurement rules.

At first, ARCo opted for standard solutions, signing agreements that included rigorous financial controls for the producers to follow. Its institutional strengthening strategy consisted of supervising the producers in the submission of administrative documentation such as staff contracts, drawing up forms that met legal requirements, making tax payments on purchases or contracted services, and filing invoices and payment receipts. This approach required frequent staff travel to review the documentation and train producers onsite in best administrative practices.

After the first round, however, ARCo reached the conclusion that the sustainability and organizational development of the producers groups had to come about in a more organic manner, as they grew their businesses. All of the organizations that received assistance, even those lacking more advanced financial controls, had the capacity to improve their productive activities in response to specific business opportunities.

Given these circumstances, ARCo switched to a results-based, self-management approach. As a business opportunity moved forward, the project verified that certain benchmarks had been reached in order to disburse payment directly into the producers' accounts. Producers were responsible for managing their infrastructure, materials, tools, technical assistance in the field, plantation improvements,



and packing and loading. Under the results-based, self-management approach, peer supervision among group members, follow-up by the business advisers in the field, and a rigorous monitoring and evaluation system (by the project) were in place to ensure that resources were used appropriately for the activities set out in the business plan. For their part, local actors strengthened their capacities in negotiation, administration, and supervision as the businesses developed and grew.

Disbursements tied to results.

The project's support for self-management included setting up a mechanism to transfer funds directly to the producers in order to empower them as economic actors responsible for their productive activities. ARCo focused on tackling bottlenecks such as the lack of access to capital, technology, and markets, to name a few, in order to ensure the success of the business opportunity. Self-management encourages autonomous administration by the producer organizations, which are responsible for directing their own activities, including establishing targets, programming, and task monitoring. The strategy goes beyond strengthening the client, holding training workshops, and promoting participation. By delegating to the organizations the task of managing their own business opportunity, ARCo opted for a hands-on training model.

Once the business plan was approved, the project set out its assistance through a grant

agreement to support self-management. The agreement clearly identified the bottlenecks in the business, the activities to be carried out to address them, and the budget needed. It also specified the contributions from ARCo and from the client organization, established benchmarks, and allocated funds for achieving them. ARCo based reimbursement on verification of the benchmarks, such as hectares of plantations established, hectares under improved farming practices, infrastructure installed, equipment purchased and in use, and boxes of the commodity delivered to the buyer. In this approach, the clients were responsible for contracting and monitoring local technical assistance services, purchasing and distributing tools and equipment, and reaching the benchmarks and expected results. For its part, ARCo supported the implementation process, offered specialized assistance, facilitated market contacts with buyers, and verified benchmarks and final results through its monitoring and evaluation system. For many of ARCo's clients, this was the first time that a project had trusted them to administer resources for their own businesses.

Rationale for the matching funds.

After the initial period, ARCo's position was that the stakeholders should invest their own funds, and the project's role would be to supplement that investment. The clients' contribution to the development of their own productive businesses increased as they began to perceive the effectiveness of the business approach. In 285 self-

“ When we received the benchmarks payment request, we were delighted with the designs, maps, and work plans that the clients had prepared by hand ... It really was more serious, because it was obvious that the client had done it, rather than a professional. ”
ARCO EMPLOYEE



For honey sector clients, the manufacture and purchase of beehives was a benchmark frequently included in productive business plans. With high market demand and a relatively short production cycle, honey provided a rapid source of income.

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“ They have brought people together. Before I was raising pigs on my own, but the market is not for the smallest. That’s why it is good to form associations. ”

**HERNÁN MAMANI,
PRODUCER**

management agreements—40 percent of these agreements—the client’s matching funds exceeded ARCo’s contribution by more than a 2 to 1 ratio, a reflection of the producers’ staunch commitment to the success of their businesses.

Ad hoc associations: a response to the informal rural economy.

The rigidity of the Bolivian legal system and the sheer volume of regulations constitute a complicated environment for formalizing productive activities. For small and medium-sized producers, the process is costly and time-consuming. To surmount this serious structural hurdle, ARCo helped small-scale producers to formalize their endeavors by acquiring legal status as “ad hoc associations.” In this process, a notary public prepares a legal document declaring the constitution of an ad hoc association based on a charter drawn up by the members of the group and a power of attorney for the association’s chosen

legal representatives. To reduce the time and costs involved in registering the associations, ARCo created several forms to cover the basic information. In this way, any group of producers wishing to create a productive business association could obtain legal corporate status in two to five days, at a cost of \$40.

Through this legal mechanism, previously marginalized and informal producer organizations are now able to exercise their basic economic rights: they can open bank accounts, sign contracts with providers and clients, access public and private resources, and take advantage of market opportunities. But above all, these organizations can now grow as productive units with full legal status, which is an important step toward formalizing their businesses. By the end of the project, ARCo had supported the creation of 224 ad hoc associations and had offered assistance to 100 percent of them. With assistance from ARCo, 70 percent of these ad

FIGURE 2.1 AD HOC ASSOCIATIONS GENERATING INCREMENTAL SALES

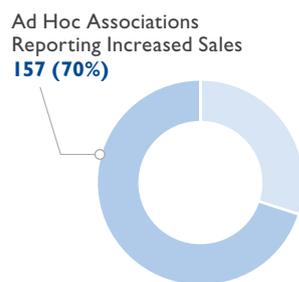
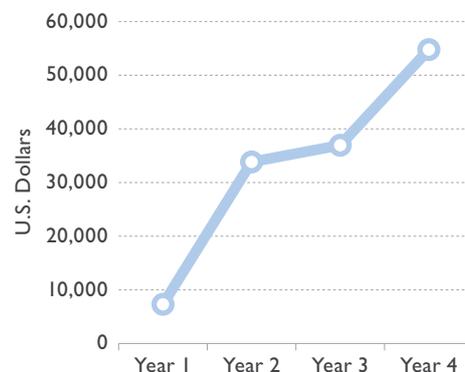


FIGURE 2.2 GROWTH IN AVERAGE INCREMENTAL SALES PER AD HOC ASSOCIATION



hoc associations had generated positive incremental sales, as shown in *Figure 2.1*.

The self-management model became a pathway from the informal to the formal economy, helping the producers to grow and expand their businesses. Moreover, it facilitated the establishment of strong organizational ties beyond an organizational charter. The producers learned to associate for a clear and tangible productive purpose, and their families strengthened different aspects of their associations in order to join forces to tackle the bottlenecks in their businesses.

Figure 2.2 shows the positive trend in sales achieved by the ad hoc associations. When the project’s assistance began, each association was bringing in an average \$7,300 annually in sales. The associations had boosted their annual sales to an average \$36,950 after the second year of ARCo assistance and to \$54,800 after the third year. Among the 224 ad hoc associations assisted, 157 generated additional sales, multiplying average annual sales by a factor of 7.5 by their third

year of participation in the project.

Social capital. A main challenge was to build trust among the stakeholders in order to garner social acceptance and legitimize activities in the rural areas. ARCo referred to this trust as “social capital.” The project interacted at several levels: with the Vice-Ministry of Coca and Integrated Development as USAID’s main counterpart and with federations, cooperatives, producer associations, communities, and buyers. In interacting with stakeholders, the project kept them fully informed about its business approach and planned activities. Through its focus on social capital, the project was able to identify potential problem areas or misinterpretations about the nature of its program and create connections between the different levels to facilitate and, in some cases, adjust its activities. As a result, ARCo’s *modus operandi* rapidly gained acceptance among rural families, inspiring them to participate actively in the development of productive businesses with project support.

ARCo launched activities during a period of profound social conflict in Bolivia, in which the increasingly defiant actions of certain groups could have derailed the project. To win social acceptance, ARCo responded with specific actions to persuade producers to adopt its business approach and ensure that local grassroots organizations saw the project as a help rather than a threat to development in their regions. This primarily involved clear and transparent conversations with relevant local actors on the scope and reach of the project. This served to clarify expectations among potential clients. During the implementation period, ARCo worked with groups of producers from more than 1,000 communities in the Yungas of La Paz, the Cochabamba Tropics, and Yapacaní.

Environmental competitiveness. ARCo established an environmental strategy framed by US-AID policies and environmental regulations, Section 216 of the Code of Federal Regulations, and the national environmental regulations set out in Law No. 1333 on the Environment and its provisions. The strategy incorporated environmental issues at the individual level—in the business plans developed with each client and in the sector as a whole where necessary. Thus, the clients' business plans incorporated the concepts of efficiency, optimal use of resources, and environmental risk management and early mitigation.

Under the project's environmental strategy, the ARCo team:

- Encouraged producers to comply voluntarily with environmental and health standards as an integral part of the competitiveness and sustainability of their businesses.
- Guided clients in designing business plans and addressing bottlenecks that included reducing costs and optimizing resource use (e.g., reducing the amount of water used in coffee processing).
- Within each sector, supported closer relations and coordination between local stakeholders linked to productive chains and entities, such as the National Agricultural Health and Food Safety Service (SENASAG), the National Customs Service of Bolivia (ANB), the seed certification offices of the National Institute for Agricultural and Forestry Research Innovation (INIAF), and organic certification organizations belonging to the Association of Ecological Producers Organizations of Bolivia (AOPEB).
- Promoted activities with institutes for applied research that could impact the environment, such as the Center for the Promotion of Sustainable Technologies.

The overall thrust of the project's message: "Environmental stewardship is good for business."

Training and developing local resources. ARCo used two important tools to gain social

acceptance while promoting the sustainability of the business approach beyond the life of the project: an internship program and a program to contract local technical personnel.

Internship program. Through internships, ARCo created a pool of rural technical human resources to work in agribusiness and ecotourism as service providers or as managers and technicians in productive organizations in the value chains in the Yungas of La Paz. The program laid the groundwork for the transfer of technology and skills to disseminate the business-centered model. In total, 36 interns acquired practical experience in areas such as ecotourism, best agricultural practices, cleaner production, rural business consultancies, monitoring and evaluation, and social communications.

Program to train and contract local technical resources. In training and contracting local technical personnel, the project helped to consolidate and expand producer associations and micro and small agribusinesses, as well as service providers. This program facilitated project implementation while contributing to the rapid acceptance of the business model at the local level. Local technical person-

nel were pivotal in implementing the business plans. Under the self-management system, the producers groups were responsible for contracting and supervising the local technical personnel they required (*see Table 2.1*).

In the Yungas of La Paz, 454 producer organizations with self-management agreements contracted 3,961 months of consultancies with local technical personnel to support business initiatives. For example, this included contracting a banana expert from the Cochabamba Tropics to transfer knowledge to the banana sector in the Yungas. In the Cochabamba Tropics, 217 organizations contracted 2,762 months of consultancies, and in Yapacaní, 33 organizations contracted 82 months. In all, 6,805 months of consultancies were contracted with local technical personnel trained by ARCo's business advisors and supervised by the producers groups under self-management agreements. This contributed to sustainability by ensuring that the expertise and capacities that ARCo had developed would endure after the project ended.

TABLE 2.1 USE OF LOCAL TECHNICAL PERSONNEL UNDER THE SELF-MANAGEMENT AGREEMENTS

Region	Number of Organizations	Assistance with Local Technical Staff (months)
Cochabamba Tropics	217	2,762
Yapacaní	33	82
Yungas of La Paz	454	3,961
Total	704	6,805

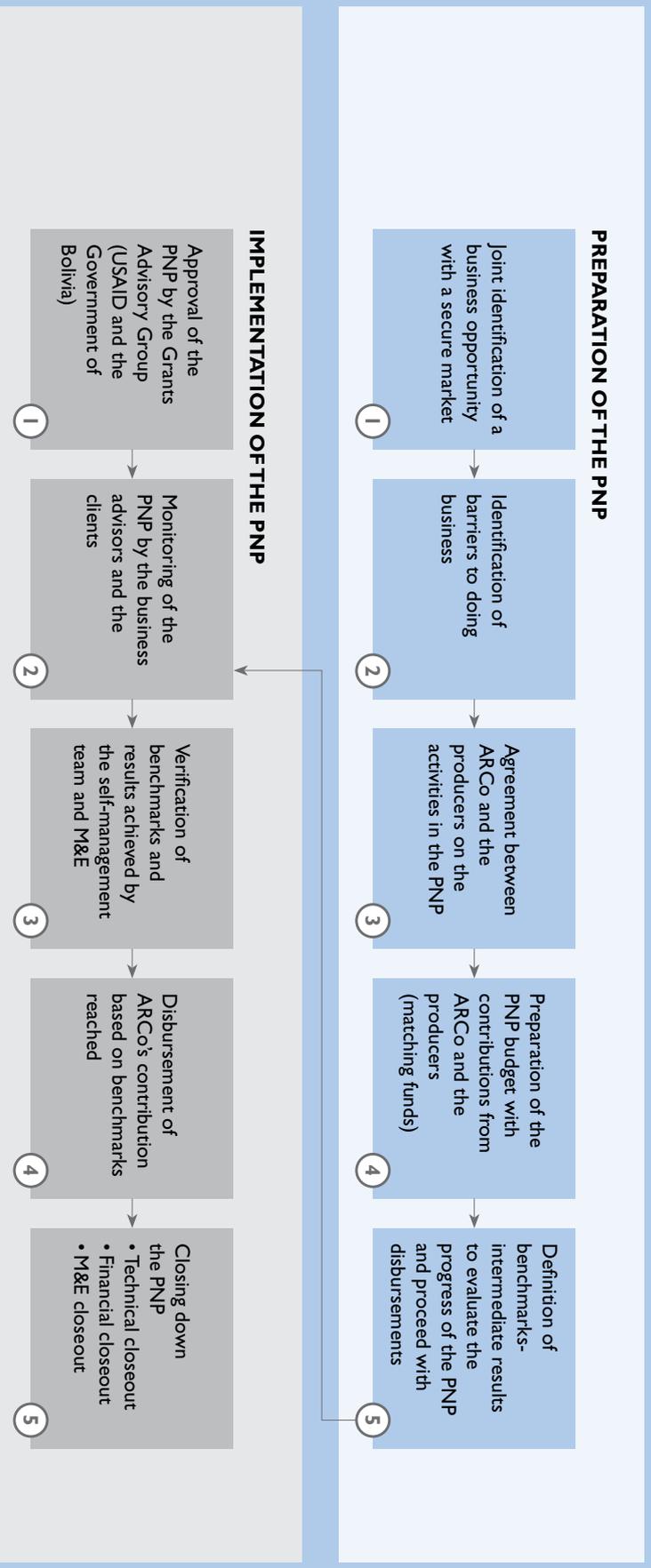


FIGURE 2.3 THE CYCLE OF THE PRODUCTIVE BUSINESS PLAN (PNP)

THE BUSINESS PLAN

ARCo supported business development through productive business plans (known by their Spanish acronym, PNP). The operational cycle (see *Figure 2.3*) of the PNP includes two main stages: 1) preparation and approval; and 2) implementation and monitoring.

Developing the PNP. Successful support for a business initiative began with the design of the PNP through the following steps:

- Contact potential clients and share the business approach with them.
- Propose a concrete business opportunity to specific buyers.
- Pinpoint specific bottlenecks and the activities to address them.
- Incorporate aspects related to environmental competitiveness.
- Include a clear description of the business opportunity in the PNP.
- Create a budget in which ARCo and the client have shared responsibility.
- Establish benchmarks to evaluate the progress of the PNP.
- Calculate the baseline, anticipated sales levels, and the percentage of sales related to ARCo's investment.
- Secure the client's commitment to provide information for monitoring and evaluation.
- Sign a self-management agreement between ARCo and the client, once USAID and the Bolivian government have approved the PNP.

Implementing and monitoring the productive business plan. This stage involves some of the more innovative aspects of ARCo's business approach, such as:

- Implementing the PNP based on the client/business owner's self-management.
- Implementing the PNP through provider programs to support the development of the processors and exporters chain in product categories such as cocoa, banana, coffee, and amaranth.
- Ensuring the reasonability of the costs included in the PNP budget and using an up-to-date price and cost database to serve as a reference point for establishing PNP costs.
- Monitoring of the PNP by business advisors from the economic services centers.
- Monitoring aspects of environmental competitiveness aimed at creating business advantages based on critical environmental points and identifying, anticipating, and ultimately reversing or mitigating any environmental disadvantage that places constraints on the business opportunity.
- Monitoring and verifying compliance with the benchmarks through the project's team.

The project's self-management and subcontracts unit monitored the productive business plans in terms of completion of established benchmarks; payments made to the client; and results in incremental sales, new jobs, number of hectares supported, and number of beneficiary families. This data proved critical for the project's monitoring and evaluation system.

Financing rural productive chains. ARCo was a business project, not a rural financing initiative. If the business system is to be sustainable, however, financial services need to be tailored to rural areas. Financial institutions were underrepresented and underutilized in the Yungas of La Paz and the Cochabamba Tropics. Few loan products were offered under adequate terms and conditions to finance working capital in the short term, posing a major hurdle to spurring the growth of productive units and the competitiveness of the productive chains slated for assistance.

Purchase order financing. In response to lack of financing options and services, ARCo introduced a new type of rural financing in Bolivia called “purchase order financing” (POF), a way of financing working capital that is backed by a specific transaction. Once a business organization (a cooperative, association, or company) has obtained a purchase order for its product from a buyer, the financial institution advances it enough money to collect, process, pack, and deliver the order. Under this arrangement, the contract between the buyer and the producer guarantees the loan. The account receivable is transferred to the financial institution and is the source for repayment of the loan. In this sense, POF loans are credit instruments that offer small and medium-sized enterprises and small-scale producers access to different types of business transactions with domestic and

international markets. This credit arrangement is intended to help producers fill purchase orders duly contracted with local and international buyers in a timely manner in productive sectors such as banana, coffee, palm heart, and pineapple.

The Central Bank of Bolivia (BCB, by its Spanish acronym) and the Superintendency of Banks and Financial Institutions encouraged ARCo to pursue the POF initiative, noting that “tying repayment to future buy-sell agreements was a strong point in terms of repayment of the loan and the sustainability of the project.” After a bidding process in which local financial institutions were invited to participate in the introduction of the POF, the project selected FIE Bank, which opened branch offices in five of the project’s target areas. Significantly, FIE has maintained its presence in these rural areas even after the conclusion of ARCo’s assistance. As of January 2011, 394 operations had been granted funds through FIE totaling \$3.7 million under this innovative financing method (see *Table 2.2*). Each POF transaction amounted to an average \$9,500, demonstrating by this relatively low amount that these loans were mainly used to finance the demand coming from rural small and medium-sized enterprises. Even more importantly, other financial institutions began to offer products similar to the POF, which indicates that this initiative has gained acceptance and begun to spread.

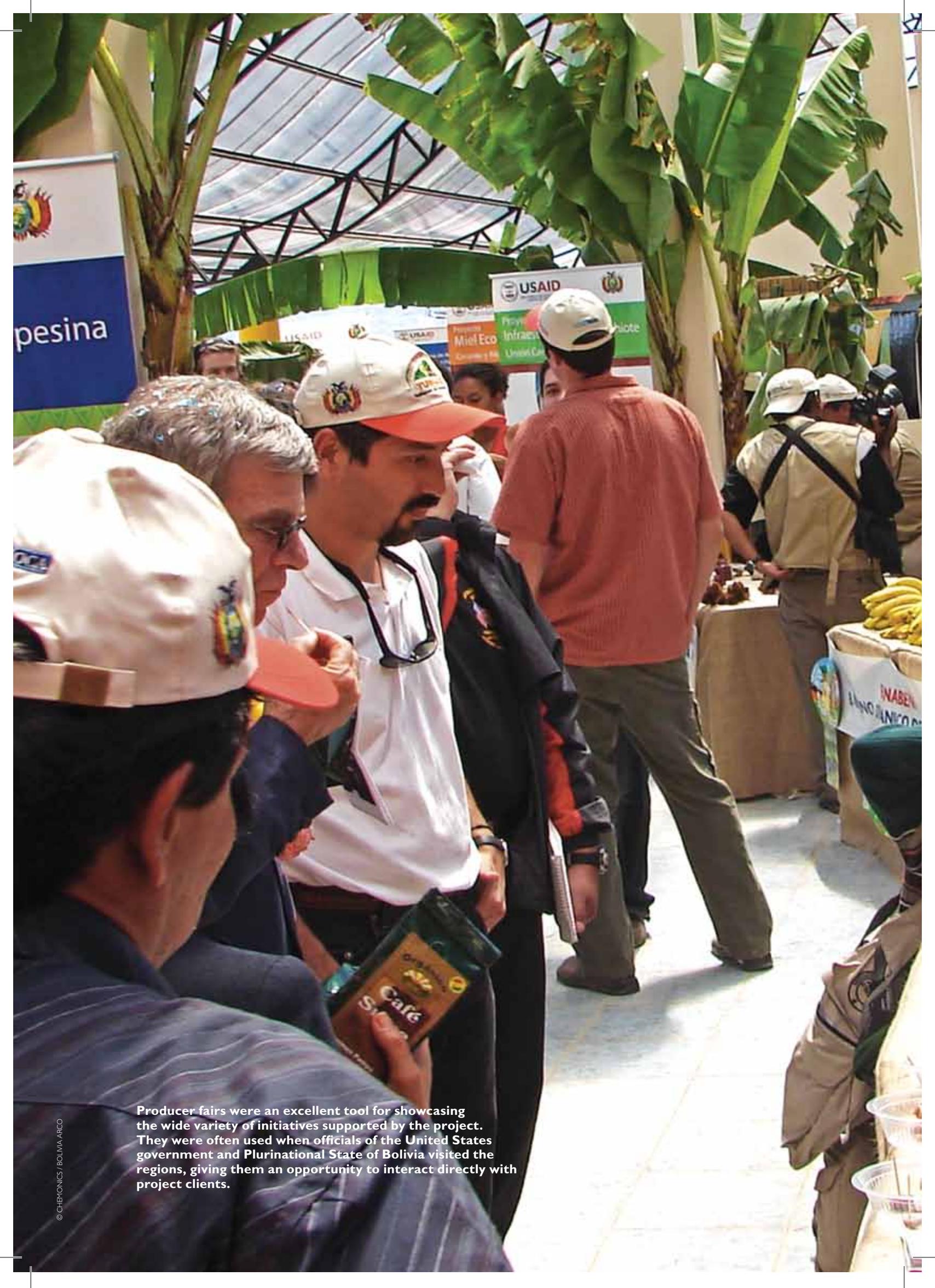
TABLE 2.2 POF OPERATIONS BY PRODUCTIVE CHAIN (AS OF JANUARY 31, 2011)

Category	Number of transactions	Total
Organic coffee	101	\$2,348,513
Organic banana	2	\$43,000
Conventional banana	79	\$452,618
Palm heart	193	\$819,346
Pineapple	19	\$79,516
TOTAL	394	\$3,742,993

Expansion of other financial services. As a result of its contacts with ARCo clients, FIE expanded its presence in rural areas to respond to the demand from small-scale producers and micro, small, and medium-sized rural enterprises. The producers and enterprises sought loans as well as a rural savings product tailored to local conditions. As of January 2011, FIE Bank's total portfolio in the region, which it funded with its own resources, included \$18.5 million in credit. The non-performing asset ratio (i.e., loans in "jeopardy of default" as defined by Investopedia) was

set at 0.2 percent. FIE Bank's contribution to rural micro-savings mobilization includes facilitating the opening of 9,047 regular saving accounts and 432 fixed-term deposit accounts, amounting to \$4.7 million in rural savings.

In 2009, this successful purchase order finance initiative won the Innovations in Financing Value Chains Competition sponsored by the USAID Microenterprise Development Office/Washington D.C., a major achievement for USAID/Bolivia and for the project.



Producer fairs were an excellent tool for showcasing the wide variety of initiatives supported by the project. They were often used when officials of the United States government and Plurinational State of Bolivia visited the regions, giving them an opportunity to interact directly with project clients.





The project helped put Bolivia on the map as an origin country of some of the world's best specialty coffee, through Cup of Excellence competitions in 2005 and 2007-2009. Here, one cooperative's coffee specialist records information through a farmer who is entering his coffee in the competition.

CHAPTER THREE

LESSONS LEARNED

There is no single recipe, but rather countless support mechanisms for businesses.

Rather than impose a development model, ARCo gradually adapted and frequently created mechanisms that enabled the client to examine and prioritize bottlenecks and seek practical solutions that would make their businesses viable and potentially sustainable.

When ARCo began, the livelihoods of most producers in the project's sphere of influence revolved mainly around cultivating coca. Virtually no one believed that a business could be launched with other commodities, which were regarded merely as a form of

subsistence. This was particularly true in the Yungas of La Paz. Most of the producers had never been exposed to a project that required clients to make matching contributions in order to implement their business opportunity, much less to achieve certain benchmarks or intermediate results to trigger disbursements.

The project did not offer a cookie-cutter approach for the type or amount of assistance, nor a single mechanism for channeling resources to the businesses it planned to assist. Each potential business had specific bottlenecks to overcome for optimal functioning. The project left a lot of room for its technical staff and business advisors to devise dif-

“ The producers had doubts about the market: ‘If we produce more, where will we sell it?’ ... So we explained to them that we had to focus on identifying markets and making contacts. In the case of banana, for example, we brought in the buyers and they negotiated everything with the producers, including prices, volumes, and all the rest... Then they began to feel encouraged. ARCo was the bridge that guided them in all of this. ”

**CARLO PEÑALOZA,
BUSINESS ADVISOR,
ARCO**

ferent solutions. It soon became clear that they would have to be innovative to achieve the expected results while not losing sight of ARCo’s inherently business-oriented approach, recognizing that many beneficiary families were either used to large subsidies or simply did not view their productive capabilities from a business perspective. The two constants throughout implementation were reducing dependence on international donor assistance and establishing a clear course of action for each business opportunity to help partner with project clients and lead them to success.

Based on this premise, the project assisted the approximately 700 rural businesses and 25,300 families that decided to join the program and with them achieved the following objectives:

- Explored different ways of doing business based on alternative products.
- Facilitated transactions while developing local capacities.
- Facilitated the producers’ direct access to the market, with a focus on overcoming obstacles.
- Advised the producers to prioritize their business needs by showing them that a functioning business would enable them to meet their other general needs.
- Created niches with better prices by avoiding the tendency to sell to the most comfortable market, organizing

the supply in response to the market, and leaving behind the subsistence mentality.

- Established partnerships between cities and rural areas, producers and investors, and small and large enterprises.
- Focused on specific, practical solutions to problems, rather than on broader issues.

The project’s most significant impacts included: 1) an entrepreneurial culture that developed among the producers naturally and over time; 2) the Plurinational State of Bolivia offering viable economic alternatives; and 3) reduction in the clients’ dependence on subsidies and international assistance through a requirement for significant matching contributions from them.

Finally, the project’s approach set rural organizations on a path toward institutional maturity as they took ownership of their businesses, enjoyed economic autonomy, and made decisions about the future of their ventures.

However, not all of the businesses prospered, and some never even got off the ground. For example, there was no progress with camu camu, black bean, and stevia, as low volumes and widely scattered plots drove up technical assistance costs to the point that buyers were disinclined to pursue the business. In some cases, political turnover in an organization’s leadership discouraged their members from

participating; in others, some groups made the decision not to participate, since client participation was voluntary.

A participatory approach and focus on building stakeholders' trust can earn critical social acceptance and legitimacy for interventions.

As noted in Chapter Two, “social capital” was a critical tool for implementing the project and gaining social acceptance in the target areas. Thus, ARCo’s participatory approach, carried out in close communication and coordination with the VCDI and USAID, was pivotal in facilitating acceptance and activities in rural target areas. To establish legitimacy, a project must create channels for open communication based on transparency and trust among the stakeholders in each region, municipality, or community.

This legitimacy and trust helped ARCo navigate difficult times and dramatic changes. For example, the project’s social capital facilitated its work when its activities were suspended in Caranavi from 2006 to early 2008; when its activities permanently closed in the Cochabamba Tropics as of the end of December 2009; and when it began to work in La Asunta in early 2009 and Yapacaní in early 2010. In response to these largely unanticipated circumstances, ARCo adapted its action plans and designed specific activities to gain social acceptance and foster a coordinated effort to achieve project goals. In the case of La Asunta,

the project along with USAID worked closely with the VCDI to ensure that activities were being implemented in the specific priority areas for the Plurinational State of Bolivia. The project used this same collaborative approach in Yapacaní to address concerns and needs of citrus producers in the region. Ultimately, it struck a balance between the need for social acceptance by the authorities, local organizations, and communities and the goal of supporting sustainable alternative productive growth.

The project’s participatory approach to designing productive business plans with producer groups turned out to be a keystone in gaining social acceptance. Before approaching the producers, however, the project made a concerted effort to publicize its objectives and approach at all leadership levels in the target areas. ARCo also created mechanisms for technical coordination with the VCDI in order to study the government’s new priority categories and areas and to follow up on existing agreements and review new ones. In this way, the project fostered an atmosphere of transparency and trust at all levels. This enabled it to build the social acceptance or social capital that proved to be one of ARCo’s most important assets.

Self-management leads to sustainability as it fosters the producer’s ownership of decision making.

The sustainability of a business is mainly determined by the degree

to which the producers take ownership of it and how they administer its resources. This assertion is based on several years of carrying out ARCo's business approach.

International donor agencies have debated the pros and cons of applying a self-management model in rural settings, especially where organizations of small-scale producers are involved. Can such organizations be trusted with sound financial management? To what extent can resource administration be delegated to them? Shouldn't the project take charge of administrative procedures on behalf of the organizations? Donor agencies saw too many financial risks with organizations that tended to be precarious and lacked financial control systems.

As a rule, the answers to these questions have led to "institutional strengthening" with strict reporting requirements. In many cases, it had been simply easier for project implementers to administer the resources themselves. At first, ARCo also opted for this course, using "standard" agreements that included rigorous financial controls for the producers. The institutional strengthening strategy consisted of supervising the producers in the submission of administrative documents such as staff contracts in keeping with labor laws, required legal forms, tax payments on purchases or contracted services, and invoices and payment receipts. This required project staff to travel frequently to

review the documents and provide on-site training in best administrative practices.

As the number of businesses grew, however, the project became mired in the sheer volume of forms, paperwork, red tape, reporting, inspections, accountability requirements, monitoring, oversight, and audits. Most of the producer organizations that the project was supporting lacked balance sheets, bookkeeping systems, and staff or procurement procedures. Despite these shortcomings, the team observed that these organizations did have experience in the field of production and were capable of improving their productive activities in response to specific market opportunities.

Therefore, ARCo subsequently replaced the standard system with a results-based or self-management grants agreement model that entailed verifying the achievement of benchmarks or intermediate results as the businesses developed. The project began to disburse funds directly into the producers' bank accounts. In this approach, the producers were in charge of developing their productive infrastructure, purchasing materials and tools, contracting technical assistance in the field, improving plantations, packing, loading, and so forth. This gave the producers a sense of ownership of their businesses. To reach this point, ARCo made sure that the producers had rigorous administrative control and social oversight mechanisms in place which, while frequently

unconventional, did ensure the proper use of resources and the success of the venture.

Under ARCo's self-management agreements, the producer organizations enjoyed administrative autonomy in directing their own activities. Self-management also involved target-setting, scheduling disbursements, and following up on progress toward planned results. The project went beyond organizational strengthening, training workshops, and encouraging active participation. It delegated to the organizations the task of managing their own futures so that the producers would "learn by doing."

Self-management — accompanied by specialized technical assistance and a sound monitoring and evaluation system — was a means to transition from informal to formal productive activities. The most industrious producers were motivated, took risks, and succeeded. Upon seeing the success of these producers, many others wanted to participate and follow the same course. The successful initiatives were the ones whose members were committed and anxious to develop and expand their businesses.

Discipline and efficiency in achieving targeted results are essential for any alternative development program.

Why did ARCo decide that sales would be its most important results indicator? The answer is that sales are market-driven and represent higher incomes for

families. In addition, sales attract investments, jobs, businesses, and families.

By adopting this approach—namely, contracting based on results rather than on the number of days or months worked or through expense reimbursements—ARCo rose to the challenge of achieving results within the established time frame and cost limits. The project's performance monitoring plan included the main targets and results indicators established for the regions and sectors it supported. In addition to sales, other results indicators included jobs created, families supported in the businesses, and surface area of alternative crops established and/or improved.

These indicators were clear-cut and definitive and set the course for ARCo's technical team. They also helped the team maintain the necessary discipline and rigor as it looked for options that promised a better return or a greater economic impact. The team regarded the support provided, investments made, and efforts of the producer groups themselves, along with the progress of the businesses, to be intermediate steps toward a larger objective of improved incomes, more jobs, and more families operating viable alternative businesses.

From the outset, ARCo's message to the producers was that the success of a venture did not lie in having a nice, well-maintained crop. Rather, real success was when they actually received and

tallied their profits from selling what they had produced.

USAID articulated the results at the beginning of the project, and ARCo designed the monitoring method. The project integrated evaluation throughout the implementation process. According to ARCo's monitoring system, before approving a business plan, it was first necessary to identify the option that would yield the most sales for the most families at a reasonable cost. In this way, the project was able to maximize its impact on the family economies of rural producers.

Clients' business results were a better reflection of the project's impact than any other factor, and ARCo's monitoring system captured these results. The project ensured that the monitoring and evaluation system would be effective as a management tool and in measuring impact. To this end, it standardized the collection, monitoring, and analysis of intermediate and final results in a single computerized system called "SISARCo." It also used analytical tools based on the geographic information and global positioning systems to measure hectares supported.

A business approach to development helps change the mentality of producers.

Poverty is based on a mentality of disadvantage. Even in the major coca-producing areas, the economic and social milieu of families reflected this

mentality. ARCo showed that by offering concrete business opportunities and empowering producers to take charge of their own businesses, this mentality can be shifted toward one of entrepreneurship.

The project successfully demonstrated that rural Bolivia is home to many entrepreneurs — producers willing to take charge of their own businesses and invest their efforts and money to bring a concrete business opportunity to fruition. Many producers who assimilated this vision not only own their own business, but have become true entrepreneurs and examples for their communities.

By adopting a demand-driven approach, the project was able to work with individuals and groups interested in making the transition toward alternative crops. This self-selection process spurred a "virtuous circle": as the businesses prospered and incomes rose, the producers paid more attention to their alternative businesses. Seeing their neighbors' successes with alternative crops linked to sustainable markets, other producers decided to participate in the program and invest their own resources.

Indeed, high-value productive activities such as coffee, cocoa, banana, plantain, honey, dairy, and poultry products, among others, are offering alternative livelihoods to thousands of producers in coca-producing regions. The key to this change has been the support



In an initiative to reduce export red tape, ARCo brought together banana and pineapple farmers with customs and phytosanitary officials and brokers from both sides of the Bolivia-Argentina border to facilitate cooperation and set expectations for export requirements. The project conducted a similar workshop at the Peruvian border.

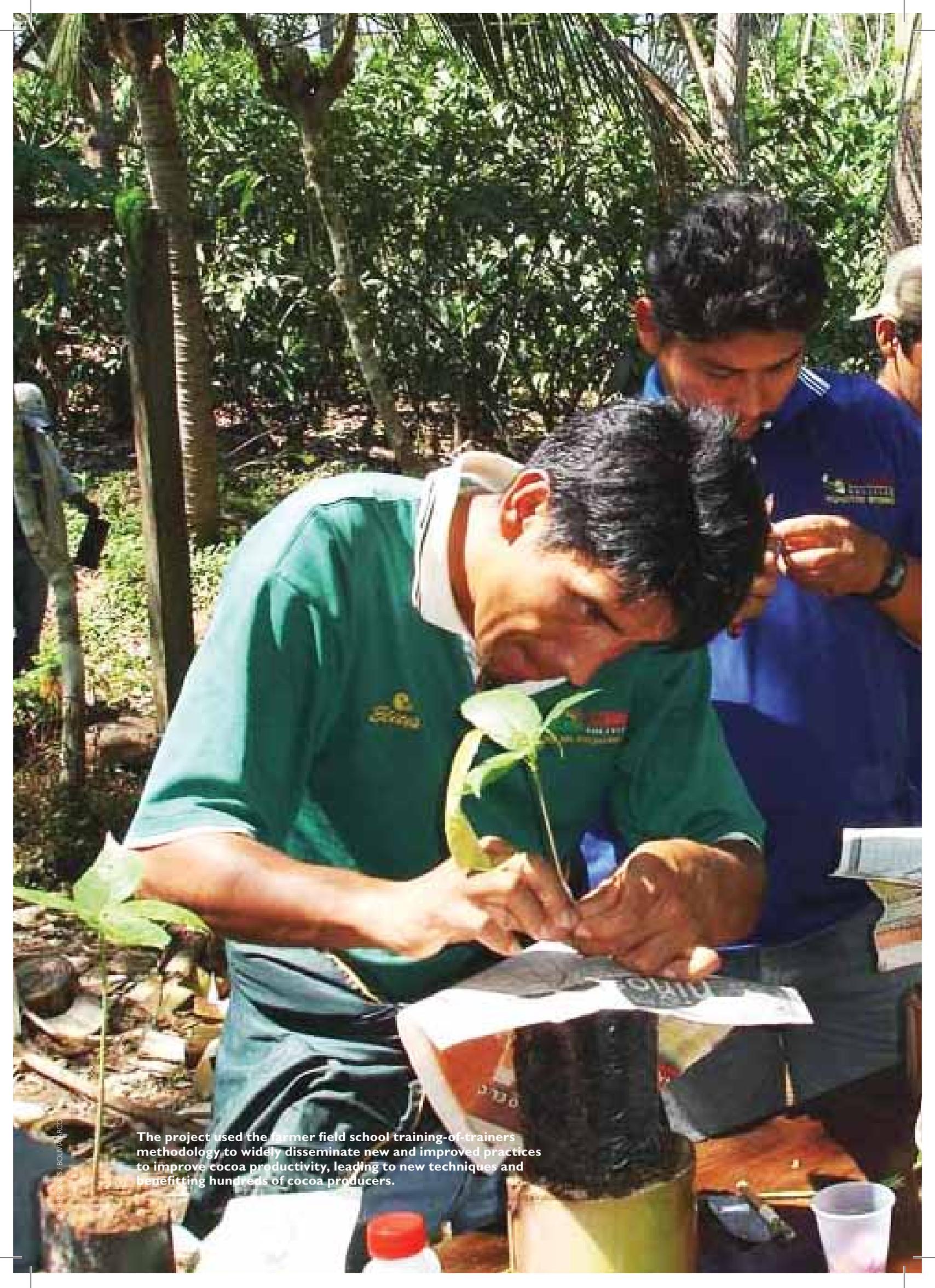
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offered to the producers as they made the transition from subsistence farming to high-value commercial crops.

Many producers associated with ARCo have shared stories of success in raising their standard of living or that of their families following their decision to focus on alternative commercial crops. Because they can count on a secure market for a high-value crop, these producers have become more efficient in planning and prioritizing their family spending. Another key success was farmers becoming active economic agents at the local level through improved access to credit and banking

services, enabled through ARCo's assistance.

Self-selection and self-management of the businesses were two critical factors in changing the mentality of clients so that they could transition from subsistence farmers to providers in value chains. Clients had to discard what they had internalized under traditional systems in order to take ownership of the new business approach. Despite the complex and difficult circumstances of the project's implementation, the 25,300 families that participated in ARCo are a testament to the robustness of the project's self-management approach.

A man in a green polo shirt with a logo is focused on working with a young cocoa plant. He is holding the plant's stem and roots, possibly preparing it for planting. In the background, another man in a blue shirt is observing. The setting is outdoors, surrounded by trees and other plants, suggesting a field school or training environment. A table in the foreground holds various items, including a white bag, a red-capped bottle, and a plastic cup.

The project used the farmer field school training-of-trainers methodology to widely disseminate new and improved practices to improve cocoa productivity, leading to new techniques and benefitting hundreds of cocoa producers.



A group of young children, likely in Bolivia, are shown eating bananas. They are wearing school uniforms, including white shirts and dark blue jackets or sweaters. The children are looking towards the right, and one child in the foreground is holding a banana. The background shows more children in similar uniforms, suggesting a school setting.

Feeding the future of Bolivia with bananas provided through the government's School Breakfast Program. This program served as an important market for project clients.

CHAPTER FOUR

FUTURE OPPORTUNITIES

RECOMMENDATIONS

Many of the lessons learned from ARCo can inform the design and implementation of other alternative and rural development projects in Bolivia. While we understand that USAID will conduct an independent evaluation of the integrated alternative development program in Bolivia, including its productive component, we offer the following suggestions stemming from our internal review of the project's experiences.

THE BUSINESS APPROACH: A DEMONSTRATED SUCCESS

- The project's business approach led to a tangible improvement in family

income levels, as the participating producers have attested. Future alternative or rural development projects in Bolivia should continue to use this approach.

- A very important aspect of the business approach was its emphasis on the clarity and purpose of each activity undertaken. The establishment of clear, results-based targets to measure the final impact—such as incremental sales, jobs created, hectares assisted, and number of participating families—helps to avoid expending too much effort on activities that do not contribute to the expected results. It is important to maintain a system in which

the contractor is responsible for generating significant results based on clear, measurable targets in areas indicative of actual impact.

- The project's business approach and the related tools and lexicon—i.e., business plans, benchmarks, and self-management—are easily conveyed. Groups of participating producers can assimilate and put them into practice in a relatively short time frame.
- Finally, in relation to the incremental sales result, the business approach focuses on market and demand, which should take precedence over supply. ARCo's motto sums up the order of priorities for future efforts: "Produce what sells, rather than sell what is produced."

DEVELOPING LOCAL CAPACITIES BASED ON ACTUAL RESULTS

- ARCo used a variety of management methods to promote the development of local capacities. Methods included drawing up grants agreements under a self-management model, working with local technical professionals and promoters as part of the staff of the economic services centers, and coordinating with local partners in each sector.
- Self-management through fixed obligation grants tied to results was critical for cementing the producers' commitment to their businesses and

to the program. It is important to avoid falling into the classic paternalistic approach in which a project makes all the decisions "on behalf of" the beneficiaries. ARCo's culture, in which the producers—the clients—are responsible for making decisions about their own businesses and managing grant resources as well as their own funds, contributed to the success of the businesses assisted and to the development of local capacity.

- Self-management reinforces USAID's new emphasis on developing local capacities because the producers themselves are responsible for making decisions concerning their own businesses. In the process, the producers develop skills in areas such as negotiation, management, and technical supervision.
- The incorporation of local technical professionals in the economic services centers was key to building the trust necessary for success in the field. This was particularly the case in rural areas of Bolivia where the sociopolitical situation is complex.
- While several local partners successfully assimilated the business approach in a relatively short time frame, more effort needs to be invested in this area. It is advisable to continue to work with local partners and to incorporate counterparts in each sector, with a view to encouraging the use of business plans, negotia-



Visiting project activities provided excellent opportunities for both USAID/Bolivia and the Plurinational State of Bolivia officials to see firsthand the economic progress achieved by project clients.

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tions with buyers, and results-based performance as goals that can help improve the living conditions of their associates.

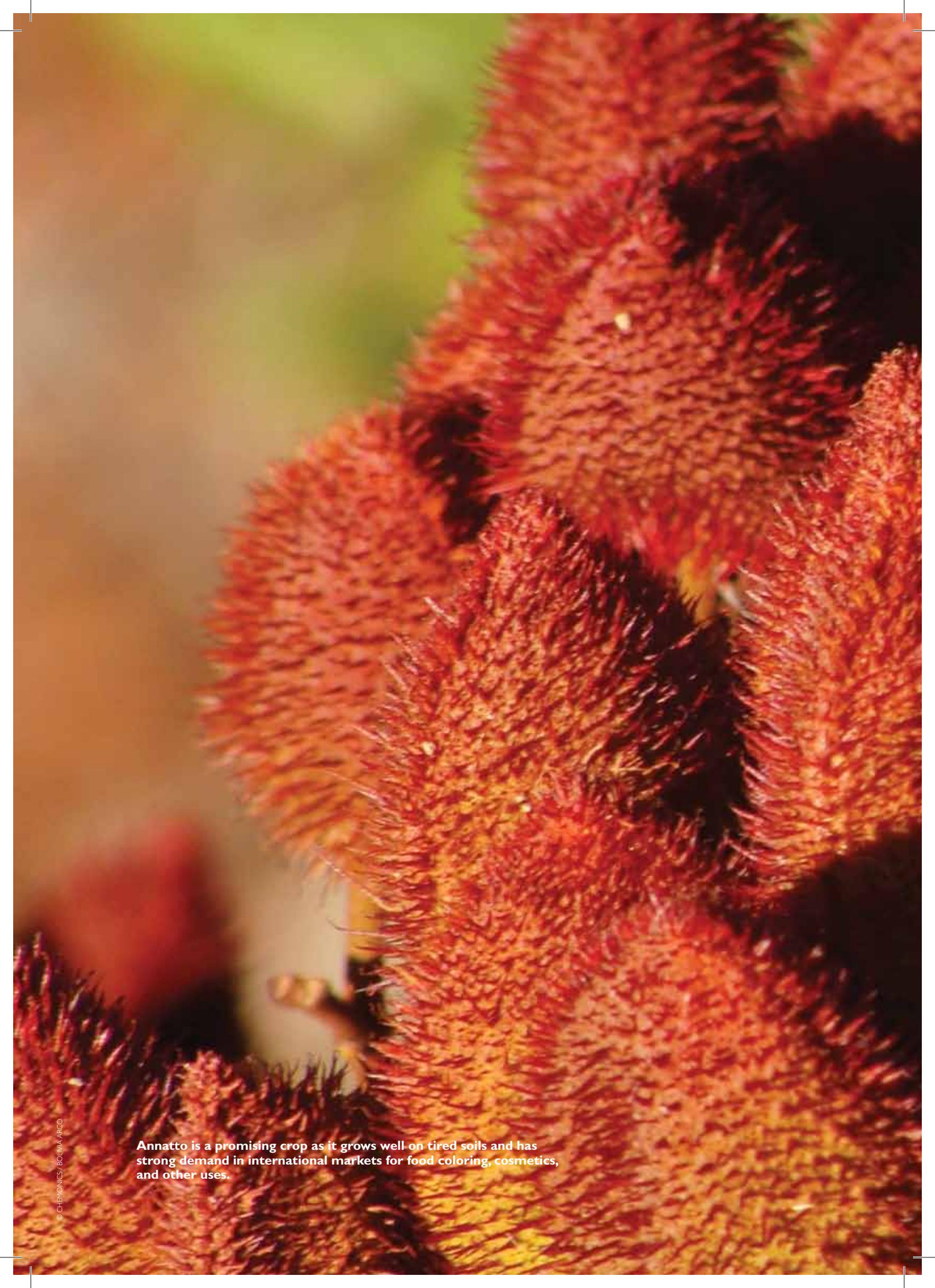
- It is important to focus on tackling the specific bottleneck that the producers and the project are in a position to resolve, rather than waste time and effort on the broader issues. The producers that receive assistance must be capable of achieving success—with project support—under existing local conditions.

INGREDIENTS FOR SUCCESS: FLEXIBILITY AND COLLABORATION

The success of ARCo is measured by the results achieved, which are quantifiable and duly documented in this final report. More important, however, is the establishment of new business relationships that have helped the producers make the transition from subsistence farming toward production, with a commercial vision that responds to buyer demand. The project remained flexible and agile during the years

of implementation, constantly tailoring its modus operandi to the situation. This was evident in 2006, when ARCo had to suspend its activities in Caranavi for security reasons, and its subsequent return to the area; in close collaboration and coordination with USAID and the VCDI, the project responded quickly to needs in new priority regions, such as La Asunta and Yapacaní, two regions with very different challenges and issues, and once again in 2008, when USAID projects had to withdraw from the Cochabamba Tropics.

The project could not have maintained its relevance in such a fluid and constantly changing setting without the support, trust, and close coordination of USAID/Bolivia. Working together, it was possible to arrive at a good understanding of the project's methodology and its target areas. ARCo's solid working relationship with the VCDI, through USAID, was also crucial to project success. The Rural Competitiveness Activity is grateful for this coordination and collaboration.



Annatto is a promising crop as it grows well on tired soils and has strong demand in international markets for food coloring, cosmetics, and other uses.



ANNEX A

Methodology Used To Calculate Results

As specified in the contract for the USAID/Bolivia Rural Competitiveness Activity, the contractor was charged with collecting data regarding results in four key areas:

- Value of increased sales
- Number of full-time equivalent jobs
- Number of new and rehabilitated hectares supported
- Number of beneficiary/client families supported

This final report includes many charts and graphs related to these four areas. The data included in the final report comes directly from an analysis

of the clients supported by the project. Throughout ARCo's implementation period, the project collected data directly from its clients (i.e., groups and associations of small farmers), and this data formed the basis for each business plan developed and implemented by the project. The business plans contained information about the specific bottlenecks that needed to be resolved to ensure that the business opportunity was successful, the amount of technical assistance required, and the level of resources provided by both the project and the client (i.e., counterpart from the client). Furthermore, this information was uploaded to SISARCo, the project's database. SISARCo served as a management tool for the

project to track the progress of co-investment agreements (i.e., grants) and subcontracts with project clients. It can generate reports by region, by sector, and by client. Throughout the implementation period, the project's monitoring and evaluation staff frequently visited clients to collect and verify data for accurately reporting on progress toward expected results.

Project staff used SISARCo to calculate average annual gross income of families receiving assistance. The analysis focused on the evolution of the business being supported by the project over time. The source for calculating family income and specific average numbers was family income earned from alternative products, which was directly linked to project assistance.

The project analyzed the businesses supported during its first two years (classified as the early stage) and compared this data with businesses supported during its last three years (classified as the mature stage of the business). All information is related to project clients.

The methodology used for calculating results does not necessarily follow the same families throughout the process as would have been preferred. However, many of the beneficiaries/clients during the early stage were the same as those during the mature stage of the business opportu-

nity. This exercise has served to generate data to measure project impact based on firsthand information collected directly from project clients.



ASOCAFE, a coffee growers association near Caranavi in the Yungas, was one of the project's main partners and clients in the coffee sector. Due to its positive attitude and willingness to implement project recommendations, it has continued to strengthen its relationship with a specialty buyer in the United States.

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ASOCAFFE

SAMPLE OF
GREEN COFFEE IN GRAIN
Produced in Taipiplaya - Bolivia

Weight: _____

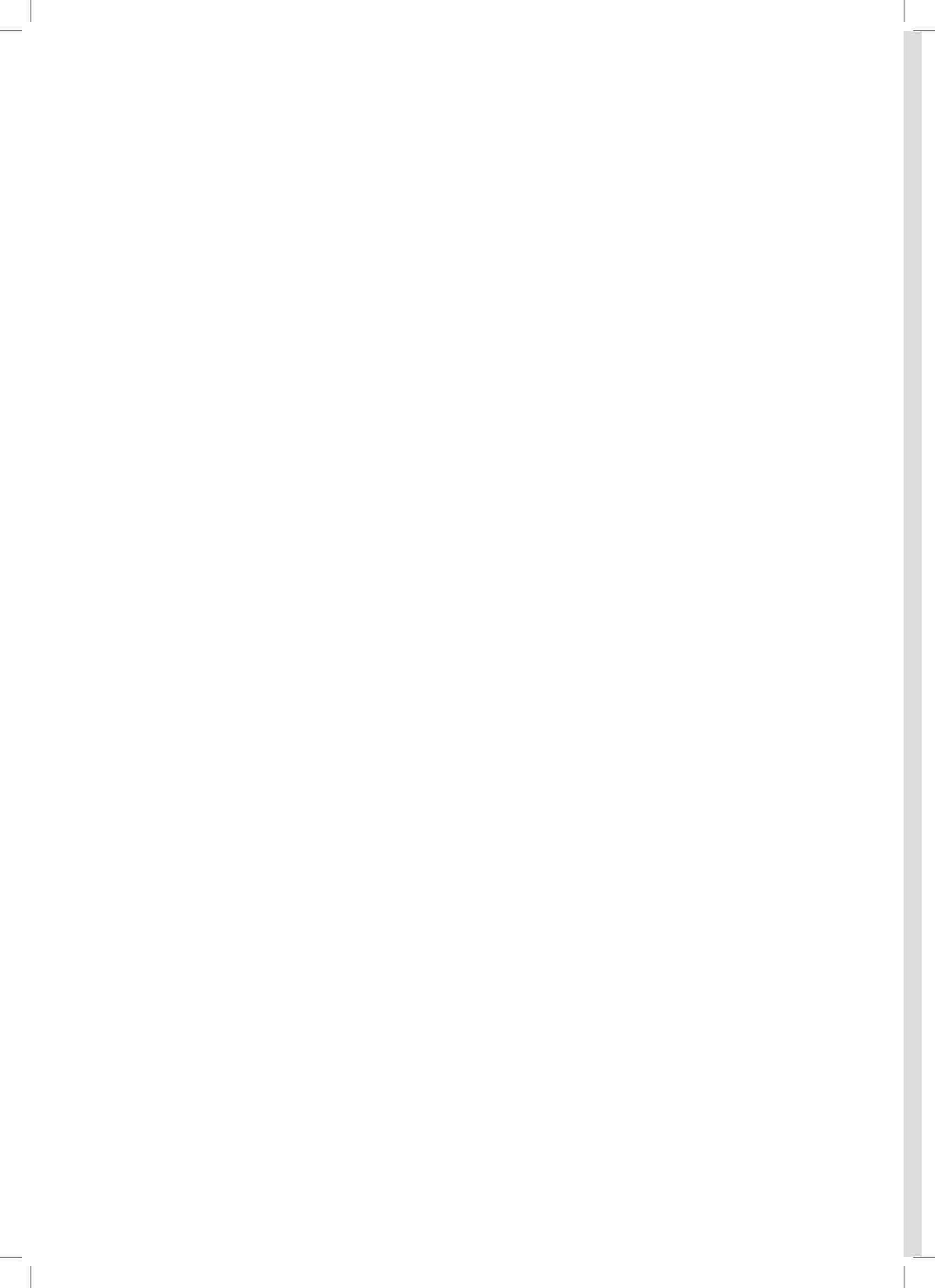
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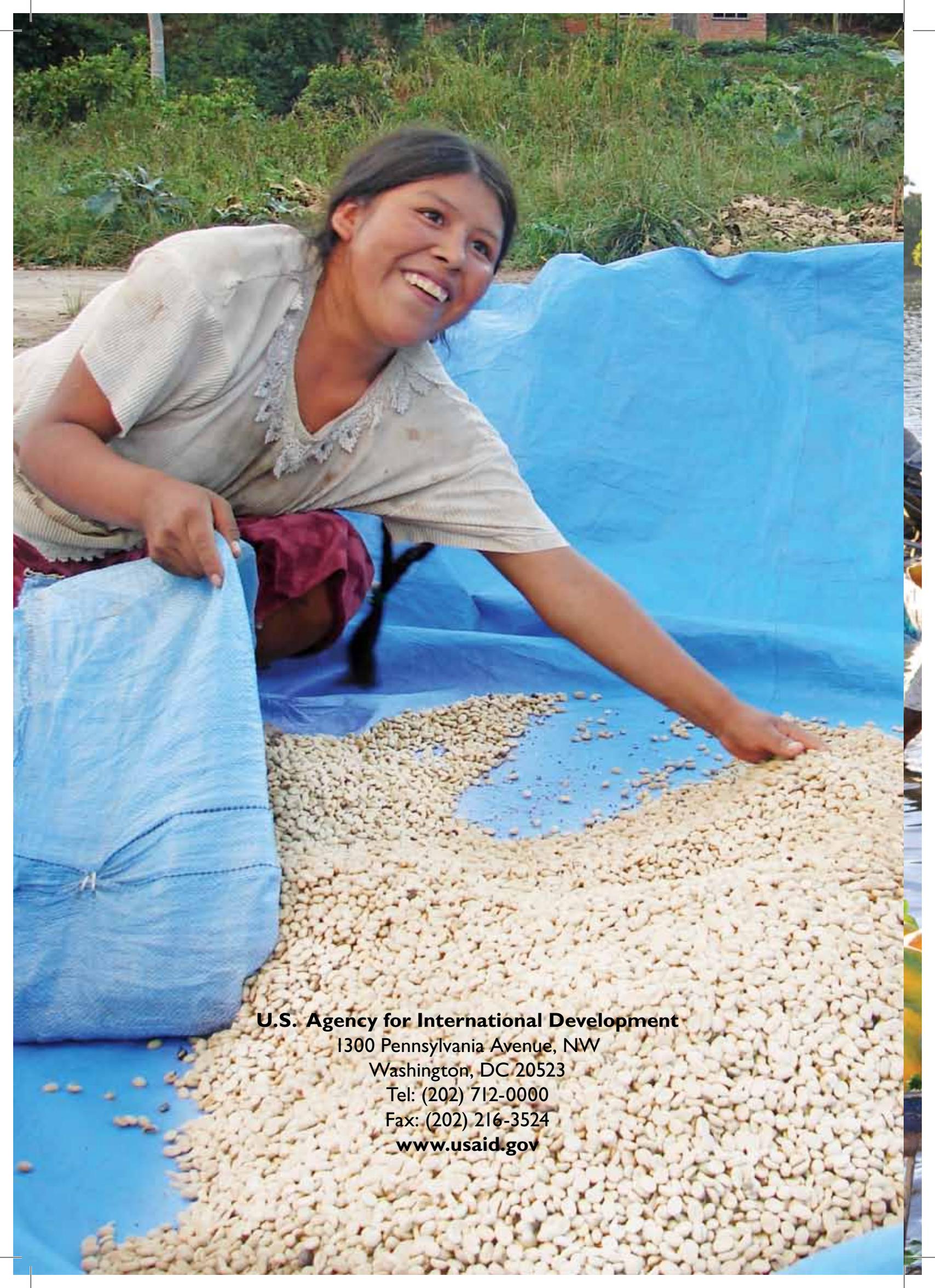
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EN LA TELA. CONSERVAR EN
SU LUGAR ORIGINAL, PROTEGERLO DE
LA LUZ Y DEL CALOR.
DE ASESORIAS AGRARIAS

UMI
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