

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Voluntary - Public

Date: 6/11/2010

GAIN Report Number:

Peru

Post: Lima

New Government Programs for Small Producers

Report Categories:

Agricultural Situation

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Approved By:

Candice Bruce

Prepared By:

Gaspar E. Nolte

Report Highlights:

Aiming at increasing competitiveness in the rural area, the government of Peru establishes two financing programs for small producers. These programs offer non reimbursable funds to build or improve irrigation systems, production and processing equipment, and contract technical assistance.

General Information: Summary

During the second quarter of CY 2010, the Peruvian government, through its Ministry of Agriculture, launched two programs--AgroEmprende and the Compensation for Competitiveness Program (PCC), both aiming to improve the competitiveness of small agricultural producers. These programs offer non reimbursable funds to build or improve irrigation systems, production and processing equipment, and contract technical assistance. Encouraging producers' associability and integration to the market are also objectives of these programs.

These programs define small producers by region as follows:

- Coast: no more than 20 hectares with irrigation
- Highlands: no more than 60 hectares and no more than 80 heads of cattle
- High rainforest: no more than 50 hectares and no more than 100 heads of cattle
- Lower rainforest: no more than 115 hectares and no more than 60 heads of cattle

AgroEmprende

This program, with a budget of \$10.5 million, targets specific provinces of Peru that either have high poverty rates or social unrest. Agroemprende's main objectives are to promote associability among small producers, encourage producers to identify and prioritize production constraints, strengthen the link between producers and other economic agents, encourage regional and local governments to participate in the agricultural development of the areas under their responsibility, improve producers' competitiveness, and increase their income.

Producers have to submit a business plan online to access these funds. A committee then evaluates the proposal taking into account the following factors: social impact, production improvement, market involvement, employment generation, environmental responsibility, and sustainability.

The program limits financing to \$3,800 per producer and to \$253,000 per association or company. A producer contribution is mandatory and required in cash. The counterpart varies from 10-50 percent depending on the value of the loan. For loans greater than \$125,000, the counterpart is 50 percent.

To date, 99 of 621 proposals have been awarded loans for a total value of \$5.8 million. The financed proposals include marketing of specialty coffees, production improvement for beef cattle, production improvement and marketing of several tropical fruits (mango and camu camu), improvement of Andean cereals (quiwicha, quinoa and kañihua), and construction of dairy processing plants.

Compensation for Competitiveness Program (PCC)

With a \$53 million budget, PCC targets producers in a more stable condition or who are too developed to access AgroEmprende but still need technical assistance or financing to operate to a level that is economically viable and sustainable. PCC financing falls into three areas:

- Associability: PCC finances 100 percent of the expenses incurred to create an association or company. Expenses to register the company and to obtain a tax code are reimbursed by the program.
- Management: The program offers to pay 50 percent of a manager's salary for three years. PCC begins paying 70 percent of the salary in the first year and then drops to 50 percent and 30 percent in subsequent years. This component aims to encourage producers to hire professional administrators and to incorporate that cost in their cash flow. The hiring process is carried out by the PCC who offers three candidates to the company. Usually the salary offered to the manager is above the average income of the area where he will be working. Candidates on the short list must submit a work plan for the company.
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- PCC finances up to 80 percent of equipment for production or processing. Producers must make an in-kind commitment in cash, private credit or credit from suppliers. PCC finances a maximum of \$400,000 per project and \$3,800 per producer.

Comment

Thought it may seem that the funding of these programs is insignificant, they could have a substantial impact in the development of the rural areas of Peru. The formalization component does not require much funding but will enable producers to access other sources of credit such as private banks and regional financial institutions. Encouraging producers to hire professional managers not only creates jobs, but also assures the project's viability. One of Peru's weaknesses is the low level of rural capitalization. The investment component of these programs will inject fresh capital in areas that have not seen investment in decades. This is the first serious government effort to bring the poorest areas of Peru up to speed with the market. If these programs are well managed, without political and partisan interference, they could be a turning point for Peru's least developed regions.