

Boosting Small-Scale Farmers in Ecuador through Access to Working Capital



CLIENT

Established more than 50 years ago, Procesadora Nacional de Alimentos, C.A., or Pronaca, is Ecuador's largest food processing company. Pronaca's operations include the production, distribution and sale of meat and poultry products. Pronaca also produces pet foods and agricultural inputs and processes and manufactures value-added goods such as canned meats. Pronaca is a *multilatina* with operations in Colombia, Brazil and Costa Rica.



IDB SUPPORT

Through Opportunities for the Majority (OMJ), the Inter-American Development Bank (IDB) granted a loan of US\$7 million to a special-purpose vehicle (Trust) created by Pronaca to channel working capital financing to its supply chain. With this loan, Pronaca will be able to scale its *Rueda del Éxito* program, a 22-year old business model that incorporates small-scale farmers into the company's value chain through the provision of in-kind working capital financing and technical assistance.



THE CHALLENGE

Agriculture represents 9% of Ecuador's GDP and employs 26% of the economically active population. Yet small and medium-size farmers face several challenges when it comes to accessing credit for working capital. Despite the efforts of public and private financial institutions, there is still limited credit for working capital, which restricts farmers' productivity.

The lack of property records for over 50% of rural properties in Ecuador, and the absence of legal titles for 324,000 small land owners, undermines farmers' access to finance, as financial institutions require that the farmers put up collateral as a guarantee of their ability to repay the loan. Additionally, as most small farmers lack a credit history, they do not qualify for commercial loans, which often pushes them to resort to more costly, predatory sources of informal credit.

Also troubling is the low productivity of small and medium-size farmers', as they often lack access to quality agricultural inputs and better production practices. Agro-industrial companies demand strict standards of quality, which this segment of the population cannot meet. Technical assistance to adopt better agricultural practices is scarce, and small and medium-size farmers are left out of more secure and profitable value chains.



THE SOLUTION

The goal of Pronaca's *Rueda del Éxito* is to include small and medium-size farmers in its value chain, mainly corn and rice producers with average monthly family incomes of US\$500. Access to finance for working capital, technical assistance, and purchase of the crop are the program's main components.

Pronaca first makes a credit analysis of the farmer, which it then passes to the borrowing Trust for loan approval. This Trust was created by Pronaca to channel working capital loans to the farmers entering its value chain. Once the loan is approved, Pronaca gives qualifying farmers a kit with seeds, fertilizers, and other agricultural inputs.

Pronaca's profits on the sale of the kits are used to provide technical assistance before, during, and after the agricultural cycle. The assistance includes an evaluation and monitoring of the seeding process, transfer of technology to improve the irrigation systems, training in environmental practices, and a review of the harvest.

As the crops are harvested, farmers deliver the product to Pronaca. The company reimburses the Trust a portion of the value of the crop to pay down the farmer's debt, and pays the farmer for the rest.



Rueda del Éxito's expansion will benefit approximately 900 small farmers annually for the next five years. As each farmer will receive two loans per year, the number of total financings will be 9,000 loans.



INNOVATION MAKES THE DIFFERENCE

Pronaca is the first nonfinancial business in Ecuador to establish a trust (special-purpose vehicle) to provide working capital financing to its supply chain. The IDB will be the first lender to the Trust, making it more attractive to other potential investors and/or creditors.

The trust—which has a 10-year track record—has allowed Pronaca to include BOP farmers into its value chain and gain access to a greater quantity of quality raw materials to satisfy its growing production needs. Thanks to the in-kind financing and technical assistance Pronaca provides, small-scale farmers have experienced higher crop yields and increased their incomes, making *Rueda del Éxito* a win-win business model.

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OMJ 2013 Portfolio



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