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MEDA – ASOMEX
USAID IGP
Annual Report
October 2000 – September 2001

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1.0 Local Context

The Bolivian Rural Export Program (BREP) is being carried out under currently quite difficult circumstances. During the past two years Bolivia, like much of South America, has faced a recession unparalleled since the hyper-inflation eras of the early 1980's. Business failure rates, late payments on credits and bank repossessions are sky-rocketing. Social discontent and political instability are growing, and this has had a multiplying effect on the economic crisis, as strikes and blockades have translated into lost sales and lost investments. It has also had the effect of lowering prices for many commodities, as the general population has had to reduce its budget for even the most basic food staples.

This situation has had a direct effect on ASOMEX and ASOPROF (as well as all the other businesses that deal in commodities) and consequently on the project.

2.0 Beans

The BREP has faced a difficult time with bean sales. ASOMEX had developed a strategic partnership with ASOPROF for the production of Oriental Red beans in Yacuiba and San Julian for sale in Colombia. Unfortunately, bean sales this year have incurred losses. Both China and Colombia have had good crops this year, which led to a drastic and unexpected fall in prices of this commodity. Last year Oriental Red beans sold in Colombia for approximately $650-750/ ton. This year prices dropped to $450-550/ ton. The drop in price of almost 40% could not be passed on to producers as contracts had already been signed with assured prices. Furthermore, it was not expected that this drop in prices would be a permanent phenomenon. In previous years, prices have dropped from September to December, but then tended to recover by the beginning of the next year. While prices for the beans produced in November and December were low, there was still strong evidence that prices would likely recover by February or March.

This year, however, prices have not recovered, and ASOMEX and ASOPROF are being forced to sell their produce at or below cost rather than lose the entire value of the crop. Recovery in prices was further aggravated by a decline in the quality of the beans while being in storage for nearly a year awaiting increased demand.

In its joint venture with ASOPROF, ASOMEX helped produce and purchase approximately 166 tons of beans at $680/ ton. It is expected that the beans will sell at $500/ ton, generating a loss of $180/ ton.

The unfortunate experience has led ASOMEX to opt out of a continued joint venture with ASOPROF. The profits expected from these ventures do not meet expectations and do not seem to justify the risks involved. If the market appears to recover or if new, more profitable varieties can be identified, ASOMEX will reassess its willingness to participate in bean production with ASOPROF.

3.0 Broad Beans

The 3rd semester of the IGP brought important developments in the broad bean trade. ASOMEX took measures to effectively expand its production base by delivering seed to a number of institutions that are providing technical assistance to producers and will sell to ASOMEX at harvest time. FHI, CEDEC, Semta and ProAgro were among the institutions that were coordinating with ASOMEX. Unfortunately, this year flooding hit the valleys of Chuquisaca where CEDEC and ProAgro work, and much of the seed loaned to producers was lost. Thus, production this year was minimal, and producers have asked to use what little came out of this year's crop as seed to plant for next year, when the debt will be paid back. Consequently, this situation creates a small financial loss for this year and a larger loss of opportunity for ASOMEX. Some of the loss may be recovered in the upcoming harvest.

In terms of actual sales, ASOMEX sold 185 metric tons (MT) of its own product this year (i.e. increase in production and processing support) compared to the 432 MT projected and had preliminary arrangements to sell 60 tons more by the end of December, when reporting for the project ends.

4.0 General Management Strategy

Successes during the past semester can be seen in broad bean sales, opening up new markets and finding new providers. However, bean sales have proven less attractive than initially projected and ASOMEX has yet to find a viable substitute in order to become profitable. Up to this point, ASOMEX continues to lose money, and the board of directors is analyzing a number of different possible strategies to reduce costs and increase sales volume in order to correct this problem.

One of the most important opportunities that may increase the viability of the business is the peeling of broad beans. Markets exist for good quality peeled broad beans. Peeling broad beans would allow ASOMEX to sell the smaller sizes at a better price and to use some of the beans that would normally be discarded. This activity would be critical for turning the business around. Unfortunately, peeling broad beans is a difficult task that must be done by hand and can be a costly process. However, if costs can be kept low, it will be an interesting opportunity to pursue.

It has also become evident that it is important to maintain a high product rotation, even if it means selling at slightly lower prices than could be achieved by waiting. In the past, waiting for the highest possible market price has led to a loss of opportunities by slowing down rotation and increasing the cost of capital. By selling at a slightly lower price, the loss of profit on the individual transaction level would be compensated by the increase in volume sold. Increasing product rotation will be an important focus in the upcoming months and years.

5.0 Operational and Administrative Targets

1. The target of purchasing 296 MT/ field was not achieved. Falling short of this target was due to the decision to withdraw from further beans purchases. Broad bean purchases did not meet expected goals as a result of the flooding in Chuquisaca, which ruined a large broad bean harvest.

2. Bean export costs were reduced by more than $100/ container by the end of the project. The current recession has driven prices far below current levels, and this has helped to reduce costs significantly.

3. Administrative costs did not increase by more then 10% by the end of the project. In fact, there was a significant decrease in administrative costs.

4. Processing Costs have dropped this year, though it appears there is an error in the contracted indicator as processing costs have never been $1,448/MT.

5. Marketing costs per container have been reduced, though it is difficult to compare as systems have changed. It is safe to assume that targets have been met or exceeded in this case.

6. In general, prices for ASOMEX products did not increase by 10% by project end. Bean prices, as mentioned previously, dropped significantly in Colombia (30-40%), and prices for smaller varieties of broad beans have dropped on the international market. Prices obtained for the larger sizes of broad beans, currently the main focus of ASOMEX's business, have increased significantly. This indicator was established with the idea that ASOMEX would attain an increase in price as a reputation for quality was established. However, this did not take into account the uncertainty and general tendency of the markets for the products, which have played a critical role in spite of ASOMEX's solid reputation for quality.

6.0 Summary of Important Points

Sales of both beans and broad beans have fallen significantly below projected levels. In the case of broad beans, it is attributable to the fact that a large portion of the sales for this year will be carried out between October and December. An unfounded extension of the project has been granted in order to show the results of these sales, which are starting to take place, though it is still difficult to say how close or far we will be from initial projections.

In the case of Bean marketing, the question has been much more complicated. Early on in the project it became apparent that ASOMEX could not enter into production and marketing of beans directly without damaging its relationship with ASOPROF, its largest client. A joint venture was established with ASOPROF to produce and market beans together. This venture was unsuccessful due to chaotic conditions in the Colombian market, which drove down prices drastically and unexpectedly. With the losses incurred, ASOMEX decided that it should stay away from bean production until the markets in Colombia recovered rather than run the risk of further losses. This situation led to a drop in projected revenues, and accounts for a portion of the lack of attainment of project goals.

Aside from the changes in the market, a change in government policy also had significant adverse effects for ASOMEX. Previously, ASOPROF was forced to rely on ASOMEX in order to export its product. New laws passed allowed ASOPROF to export on their own, which they are now doing, which accounts for the other portion of the drop in revenues and shortfalls in the attainment of project goals.

In short, a large part of the failure of ASOMEX to achieve the goals established initially for the project have been due mainly to external factors, beyond the control of MEDA and ASOMEX.