

SOCIAL ENTREPRENEURSHIP PROGRAM

PROJECT SYNTHESIS

- 1. Country:** Peru
- 2. Project number:** PE-G1006
- 3. Project name:** Sustainable and Ecological use of sphagnum moss to generate rural income
- 4. Executing Agency:** Inka Moss S.A.C
- 5. IDB unit:** Multilateral Investment Fund (MIF)

- 6. Amount of financing**

	<u>IDB US\$</u>	<u>LOCAL US\$</u>	<u>Total US\$</u>
Technical cooperation	240,000	600,000	840,000

- 7. Objective and purpose of the project**

The *expected impact* of the project is its contribution to higher incomes for small low-income Andean producers and communities through the sustainable and ecological use of sphagnum moss as an export product.

The *expected outcome* of the project is an increase in productive capacity and sustainable management of Andean highland harvesting communities and Inka Moss to sell sphagnum moss to demanding export markets.

- 8. Components of the project**

The SII instrument consists of a results-based financing mechanism in which the institution that pays for the impact results agrees to pay bonuses to a social enterprise based on the social contribution it generates. These payments are made in parallel to the income the company generates through its activities. This links the company's impact and social performance directly to its profitability and, hence, to its attractiveness to investors. The IDB will be the institution that pays for the impact results, and it will only make payments to Inka Moss if it achieves the agreed impact results, which will be measured as established in the impact measurement and monitoring plan. The SDC, which is the financial partner of the LAC-IMPACT facility, will contract an independent consultant to verify and validate the results achieved, which will trigger the payments.

The objective of the mechanism is to encourage Inka Moss to expand its base of supplier communities and ensure an increase in the incomes of the moss harvesters. The SII payment is not intended to cover the overhead of project activities. Instead, it is an incentive to increase the social impact for the communities. The following paragraph presents the three social impact performance indicators agreed upon.

The thresholds were established based on historic figures for Inka Moss on the segmentation of supplier communities and harvester incomes. The formulas, targets, and maximum payments for each period are established in the impact measurement and monitoring plan. Each indicator allows for a range of results that trigger payments, and therefore, the final payment for the parameters for each period will vary based on the results achieved. Inka Moss' strategy in this expansion stage will focus on the following *lines of action*:

- **Improve the process of obtaining management plans.** To include a larger number of harvesting communities in its productive chain (move from level 1 to level 2), Inka Moss will hire forest management specialists. They will work in partnership with the communities and SERFOR to develop and refine sustainable management plans and their administration. For purposes of good management, they will each be assigned a specific zone to make all the arrangements necessary to obtain new plans and renew plans in the zone that are expiring.
- **Boost productive capacity in the harvesting communities.** This involves helping the communities move from level 2 to level 3. To increase the number of communities reaching level 3, Inka Moss will support them with: (i) technical assistance in organization, production, and the sustainable and ecological management of the moss; and (ii) improvements in logistics infrastructure for harvesting and shipping the product to collection points.
- **Provide new drying beds and machinery.** This includes: (i) increasing the processing capacity of the existing plant, including new blocks of drying beds to enable more sacks to be produced simultaneously; (ii) procurement of new presses and better quality vibrators to increase production speed and enable more than one purchase order to be filled at a time; and (iii) development of supplementary drying plants in the community areas, to dry the moss and send it to the main plant, streamlining the production chain and making work possible with communities in neighboring departments. In parallel, Inka Moss will explore to the south and north to find locations for new processing plants to scale up the activity in future.
- **Increase the retail market share to raise the profit margin per kilogram of moss.** With its representatives in target markets, Inka Moss is planning a strategy to increase its presence in the retail sector, positioning the brand and developing adequate distribution channels to capture more clients. This includes participation in trade fairs, development of the brand, an image that includes work with the communities, improvements of its website, and alignment of its message to consumers.

Inka Moss's counterpart financing will be used for: (i) working capital; (ii) investments in new machinery and drying infrastructure, packaging, storage, and transportation; (iii) development of the brand, marketing and sales tools, and participation in business trips and trade fairs.

The social impact incentive arrangement will reimburse part of the above-mentioned costs once the objectives of specific key performance indicators agreed upon in advance by Inka Moss, the SCD independent consultant, and the IDB have been attained.¹² The funds can be used for project execution, with no specific restrictions. It is estimated that the objectives will begin to be attained by the end of the first year of execution and they are designed specifically to quantify the benefits for individuals and communities that harvest and sell the moss. Validation by the SCD consultant will be required for disbursements.

The social impact incentive financing will be paid to the executing agency (Inka Moss) as an incentive to attain the objectives and to offset the additional costs of its plan to expand into new communities. Over time, it is expected that progress in incorporating more communities into the chain during the project will reduce the risks perceived by investors and so will speed up access to new loans or investments.

9. Beneficiaries of the Project

The project has been designed *to improve the living conditions* of low-income families in about 42 communities in Peru's Andean highlands in the departments of Junín, Huánuco, and Huancavelica. In these zones, 49% of the population is poor, including 16% living in extreme poverty. These families have annual average incomes of about US\$1,500. The direct beneficiaries will be 560 new harvesters of sphagnum moss (in addition to the existing 265) and their families and the general population of the 42 moss-harvesting communities, for a total of 11,000 people. The communities will benefit from higher income from the sale of moss, the community fees received for each sack sold, the improvements in access roads and infrastructure related to harvesting and shipping the product, and better water quality thanks to the water filters that Inka Moss will install in community drinking water systems.

10. Expected outcomes and capture of benefits

The project's resources will directly benefit 560 new and 265 existing rural moss producers in the Andean highlands, for a total of 825 households. These people will benefit from a 25% increase in income from the moss harvest. In addition, 42 communities (11,088 people) will benefit indirectly from the fees the communities receive for each sack of moss sold, the improvements in access roads and infrastructure related to the harvesting and shipping of the product, and better water quality as a result of the filters that Inka Moss will install in their community water systems. The project's results matrix describes these and other expected results. Lastly, Inka Moss will benefit from expanding its network of communities that supply raw materials and from additional investments in its processing capacity, which will lead to higher sales and profits and greater social impact, which is one of its core values.