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Report No: 71702-BO

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 32.9 MILLION
(US\$50 MILLION EQUIVALENT)

TO THE

PLURINATIONAL STATE OF BOLIVIA

FOR A

RURAL ALLIANCES PROJECT II

September 17, 2012

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CURRENCY EQUIVALENTS

(Exchange Rate Effective August 31, 2012)

Currency Unit = Bolivianos BOB

6.96 BOB = US\$1

1.52 US\$ = SDR 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

GOB	Government of the Plurinational State of Bolivia
CPS	Country Partnership Strategy
CRIAR	Creation of Food Rural Food Initiatives
CUT	Treasury's Single Account
EMAPA	Empresa de Apoyo a la Producción
EMF	Environmental Management Framework
EMPODERAR	(<i>Emprendimientos Productivos para el Desarrollo Rural Auto-gestionario</i>) Self-managed Productive Initiatives for Rural Development
FMR	Financial Management Report
FPS	(<i>Fondo de Inversión Productiva y Social</i>) Productive and Social Investment Fund
GMIS	Georeferenced Management Information System
IPP	Indigenous Peoples Plan
MDRyT	(<i>Ministerio de Desarrollo Rural y Tierras</i>) Ministry of Rural Development and Land
M&E	Monitoring and Evaluation
NCU	National Coordination Unit of EMPODERAR
NGO	Non-governmental Organization
OD	Operational Directive
OM	Operational Manual
PAR	Rural Alliances Project (I and II)
PIP	Project Implementation Plan
ROU	Regional Operating Unit of EMPODERAR
SIGMA	(<i>Sistema Integrado de Gerencia y Modernización Administrativa</i>) Integrated Management and Administrative Modernization System
SPO	Small Producer Organization

Regional Vice President:	Hasan A. Tuluy
Country Director/Country Manager:	Susan G. Goldmark / Faris Hadad-Zervos
Sector Director:	Ede Jorge Ijjasz-Vasquez
Sector Manager:	Laurent Msellati
Task Team Leader:	David Tuchsneider

BOLIVIA

Rural Alliances Project II

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PAD DATA SHEET

Bolivia

Rural Alliances Project II (P127743)

PROJECT APPRAISAL DOCUMENT

LATIN AMERICA AND CARIBBEAN

LCSAR

Basic Information			
Project ID	Lending Instrument	EA Category	Team Leader
P127743	Specific Investment Loan	B - Partial Assessment	David Tuchsneider
Project Implementation Start Date		Project Implementation End Date	
25-Jan-2013		18-Aug-2017	
Expected Effectiveness Date		Expected Closing Date	
14-Dec-2012		30-Nov-2017	
Joint IFC			
No			
Sector Manager	Sector Director	Country Director	Regional Vice President
Laurent Msellati	Ede Jorge Ijjasz-Vasquez	Susan G. Goldmark	Hasan A. Tuluy
Borrower: Plurinational State of Bolivia			
Responsible Agency: EMPODERAR			
Contact:	Jhonny Delgadillo	Title:	Coordinador Nacional
Telephone No.:	5912-2112794		alianzarural@gmail.com
		Email:	
Project Financing Data(US\$m)			
<input type="checkbox"/>	Loan	<input type="checkbox"/>	Grant
<input checked="" type="checkbox"/>	Credit	<input type="checkbox"/>	Guarantee
<input type="checkbox"/>		<input type="checkbox"/>	Other
Payable in 25 years, including a 5-year grace period with a level repayment schedule with repayments on each February 15 th and August 15 th .			
For Loans/Credits/Others			
Total Project Cost (US\$m):		64.54	
Total Bank Financing (US\$m):		50.00	

Financing Source	Amount(US\$M)
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	50.00
Municipalities of Borrowing Country	1.04
Local Farmer Organizations	13.50
Total	64.54

Expected Disbursements (in US\$ Million)

Fiscal Year	2013	2014	2015	2016	2017	2018	0000	0000	0000
Annual	0.80	5.40	11.40	16.70	12.40	3.30	0.00	0.00	0.00
Cumulative	0.80	6.20	17.60	34.30	46.70	50.00	0.00	0.00	0.00

Project Development Objective(s)

The objective of the Project is to improve accessibility to markets for small rural producers in the Selected Areas by: (a) promoting productive alliances between different small rural producer organizations and purchasers; (b) empowering rural producers through the establishment and strengthening of self-managed grass-root organizations; (c) increasing access to productive assets, technology and financial services; (d) promoting more effective, responsive and accountable service organizations at the local level; and (e) enhancing environmental sustainability of productive practices. The Project is a follow on operation to the successful Rural Alliances Project, which tested the model for improving market access.

Components

Component Name	Cost (US\$ Millions equivalent)
Institutional Strengthening	3.79
Implementation of Rural Alliances	37.51
Project Management, Monitoring and Evaluation	8.70

Compliance			
Policy			
Does the project depart from the CAS in content or in other significant respects?	Yes	<input type="checkbox"/>	No <input checked="" type="checkbox"/>
Does the project require any waivers of Bank policies?			
Does the project require any waivers of Bank policies?	Yes	<input type="checkbox"/>	No <input checked="" type="checkbox"/>
Have these been approved by Bank management?	Yes	<input type="checkbox"/>	No <input type="checkbox"/>
Is approval for any policy waiver sought from the Board?	Yes	<input type="checkbox"/>	No <input checked="" type="checkbox"/>
Does the project meet the Regional criteria for readiness for implementation?	Yes	<input checked="" type="checkbox"/>	No <input type="checkbox"/>
Safeguard Policies Triggered by the Project			
	Yes		No
Environmental Assessment OP/BP 4.01	<input checked="" type="checkbox"/>		
Natural Habitats OP/BP 4.04	<input checked="" type="checkbox"/>		
Forests OP/BP 4.36	<input checked="" type="checkbox"/>		
Pest Management OP 4.09	<input checked="" type="checkbox"/>		
Physical Cultural Resources OP/BP 4.11	<input checked="" type="checkbox"/>		
Indigenous Peoples OP/BP 4.10	<input checked="" type="checkbox"/>		
Involuntary Resettlement OP/BP 4.12	<input checked="" type="checkbox"/>		
Safety of Dams OP/BP 4.37			<input checked="" type="checkbox"/>
Projects on International Waterways OP/BP 7.50			<input checked="" type="checkbox"/>
Projects in Disputed Areas OP/BP 7.60			<input checked="" type="checkbox"/>
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Schedule 2.I.A.1 (a)	<input checked="" type="checkbox"/>		Yearly
Description of Covenant			
Maintain, throughout Project implementation: (i) within MDRyT, a unit with operational autonomy (“ <i>Unidad Desconcentrada</i> EMPODERAR” or “EMPODERAR”); and (ii) within EMPODERAR, a national coordination unit (NCU) and, in each of the Selected Areas, a regional operation unit (ROU), all with structure, functions and responsibilities acceptable to the Association and set forth in the Operational Manual, including, <i>inter alia</i> , the responsibility of the NCU to coordinate, monitor and supervise the carrying out of the Project, and the responsibilities of each of the ROUs in Subproject processing, field supervision and monitoring;			
Name	Recurrent	Due Date	Frequency
Schedule 2.I.A.1 (b)	<input checked="" type="checkbox"/>		Yearly

Description of Covenant

Ensure that the NCU is, throughout Project implementation, headed by a Project manager, and that each ROU is headed by a regional coordinator, all staffed with adequate professional, fiduciary, administrative and technical personnel (including procurement and financial specialists), with qualifications, experience and terms of employment acceptable to the Association, as set forth in the Operational Manual;

Name	Recurrent	Due Date	Frequency
Schedule 2.I.A.1 (c)	X		Yearly

Description of Covenant

Ensure that the staff of EMPODERAR is hired following the competitive and transparent selection processes, as detailed in the Operational Manual;

Name	Recurrent	Due Date	Frequency
Schedule 2.I.A.1 (d)		01-Jun-2013	

Description of Covenant

Not later than June 1, 2013, complete the staffing of the ROUs in a manner acceptable to the Association.

Name	Recurrent	Due Date	Frequency
Schedule 2.I.D.1	X		Yearly

Description of Covenant

The Recipient, through MDRyT, shall, and shall cause each Eligible Producer Organization, FPS and each Eligible Municipality to: (a) implement the Project in accordance with the EMF; (b) adopt the procedures detailed in said EMF for environmental screening, evaluation, implementation and monitoring of the works under the Subprojects, including the procedures for the preparation of environmental management plans, when applicable; and (c) implement and/or cause to be implemented the pertinent environmental management plan, in accordance with its terms and in a manner acceptable to the Association.

Name	Recurrent	Due Date	Frequency
Schedule 2.I.D.2	X		Yearly

Description of Covenant

The Recipient, through MDRyT, shall, and shall cause FPS and each Eligible Municipality to: (a) implement the Municipal Subprojects in accordance with the RPF; (b) adopt the procedures detailed in said RPF for screening, evaluation, implementation and monitoring of the Municipal Subprojects; and (c) implement the pertinent resettlement action plan or abbreviated resettlement plan (for cases where 200 or less persons are affected, or where they are not physically relocated or would lose 10% or less of their productive assets), as the case may be, all in accordance with their terms and in a manner acceptable to the Association.

Name	Recurrent	Due Date	Frequency
Schedule 2.I.D.3	X		Yearly

Description of Covenant

The Recipient, through MDRyT, shall, and shall cause each Eligible Producer Organization to, ensure that any works to be carried out under the Producer Organization Subprojects do not involve Resettlement.

Name	Recurrent	Due Date	Frequency
Schedule 2.V.B	X		Yearly

Description of Covenant

The Recipient undertakes that the proceeds of the Financing shall not be used to finance land acquisition in any of the Selected Areas. If the Association, at any time, determines that an amount of the Financing was used to make a payment for such land acquisition, the Recipient shall promptly, upon notice by the Association, refund an amount equal to the amount of such payment to the Association.

Conditions

Name	Type
Article V. 5.01.(a)	Effectiveness

Description of Condition

The Operational Manual has been adopted by the Recipient

Name	Type
Article V. 501.(b)	Effectiveness

Description of Condition

The FPS Agreement has been duly executed on behalf of the Recipient and FPS.

Team Composition**Bank Staff**

Name	Title	Specialization	Unit
Mary Lisbeth Gonzalez	Senior Social Development Specialist	Senior Social Development Specialist	LCSSO
David Tuchschnieder	Senior Rural Development Specialist	Team Leader	LCSAR
Liliana Venduvre	Temporary	Team Assistant	LCSAR
Lourdes Consuelo Linares	Sr Financial Management Specialist	Financial Management	LCSFM
Maria Ruth Llanos Vda De Navarro	Consultant	Social safeguards	LCSFN

Julio Velasco	Consultant	Consultant	LCCBO		
Ilka Funke	Consultant	Consultant	LCSHS		
Elena Segura Labadia	Senior Counsel	Senior Counsel	LEGLE		
Tuuli Johanna Bernardini	Environmental Specialist	Environmental safeguards	LCSSEN		
Jorge Trevino	Sr Water Resources Spec.	Municipal investments	LCSSEN		
Jose Yukio Rasmussen Kuroiwa	Procurement Specialist	Procurement	LCSPT		
Patricia Gutierrez	Team Assistant	Team Assistant	LCCBO		
Non Bank Staff					
Name	Title	Office Phone	City		
Jose Baldivia	Consultant		La Paz		
Dino Francescutti	Agricultural Economist		Rome		
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Bolivia	Department	Cochabamba			Selected municipalities
Bolivia	Department	Tarija			Selected municipalities
Bolivia	Department	Chuquisaca			Selected municipalities
Bolivia	Department	Potosí			Selected municipalities
Bolivia	Department	Santa Cruz			Selected municipalities
Bolivia	Department	Beni			Selected municipalities
Bolivia	Department	La Paz			Selected municipalities
Institutional Data					
Sector Board					
Agriculture and Rural Development					

Sectors / Climate Change				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Agriculture, fishing, and forestry	General agriculture, fishing and forestry sector	70		
Agriculture, fishing, and forestry	Agricultural extension and research	20		
Industry and trade	Agro-industry, marketing, and trade	10		
Total		100		
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.				
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Rural development	Rural markets	50		
Rural development	Rural services and infrastructure	40		
Rural development	Rural policies and institutions	10		
Total		100		

I. STRATEGIC CONTEXT

A. Country Context

1. **Bolivia has undergone a period of profound change since Evo Morales was first elected as President in 2005.** Bolivia's largely indigenous rural population has traditionally suffered from extreme poverty and socio-economic exclusion, and the new administration promised to change this reality. In May 2006 the Government launched its National Development Plan (NDP), with indigenous rights and development opportunities for the rural poor constituting fundamental elements of the plan. A new Constitution consolidating these principles was enacted in February 2009, and now, in its second term, the Government is consolidating the legal framework for the Constitution's implementation.

2. **Bolivia's economic performance over the past few years has been sound but poverty is still relatively high despite recent progress.** This good economic performance (in 2011, growth was 5.2%) is largely attributable to prudent policies and improved prices for natural gas and mineral exports, which have allowed for the rapid expansion of public sector investment and, more recently, private consumption.

3. **Incidence of Poverty.** About two thirds of Bolivia's population, mostly indigenous small-farmers, lives in poverty. Although poverty reduction has been a key policy of the Bolivian Government, well-being and rural poverty continues to be a critical socio-economic problem. Poverty and inequality strongly receded in the last years but in a regional context they remain relatively high, especially in rural areas where most of indigenous peoples reside. Extreme poverty impacts the most important indigenous groups of the country: Aymara, Quechua as well as smaller lowland indigenous groups. With a population of 10.3 million in 2009, of which 34% lives in rural areas, poverty and extreme poverty reached 66.4 and 45.5% respectively in rural areas, compared to 43.6 and 16.1 in urban areas. Furthermore, the Gini coefficient stood at 0.53 in rural areas compared to 0.45 in urban areas. Poverty tends to affect men and women equally as 50.5% of women live in moderate poverty and 25.7% in extreme poverty, compared to 52.1% and 26.4% respectively for men. Indigenous peoples living in rural areas are the less favored, they are in the vast majority agricultural smallholders and lack of access to credit and basic infrastructure. Social and economic gaps persist between the indigenous and non-indigenous population.

B. Sectoral and Institutional Context

4. **Agriculture is an important sector for employment and for GDP.** Agriculture activities accounted for 9.8% of GDP in 2011, while 76% of the rural population is dedicated to agriculture. Poverty incidences are high amongst those working in the sector. In 2009, 72.5% were found to suffer from moderate poverty and 51.5% from extreme poverty.

5. **Despite the importance of the sector, severe structural problems mean that productivity is among the lowest in the region.** A difficult topography, unequal land distribution, soil erosion (which affects one fifth of the country's land), high agro-climatic variability and the low technological levels and capacity all create challenges. Low productivity

and low population density also make infrastructure provision (e.g., roads, bridges and water) difficult. Legal and linguistic barriers make it more difficult to establish and maintain contractual relations between small rural, often indigenous, producers and urban, often non-indigenous or formal, buyers, further increasing risk and costs. These factors increase costs for buyers who wish to expand their purchases from a multitude of smallholders; for financial institutions to provide small-scale products; and also for small farmers in need of technical assistance and production support. In short, high transaction costs reduce private sector willingness to invest in rural areas, and make access to markets, credit and technology more difficult.

6. The Government recognizes that investing in agriculture is crucial for addressing rural poverty and has placed a strong emphasis on rural poverty alleviation. The NDP's Productive Bolivia pillar emphasizes the creation of greater productive opportunities through agricultural transformation, improved access to markets and better productive equipment and infrastructure, while the Sovereign Bolivia pillar seeks self sufficiency in food production. The Government Program 2010–2015—a continuation of the NDP—acknowledges that the agricultural sector faces important limitations. In October 2007, the Government approved its sector plan for the *Rural, Agrarian and Forestry Revolution* which proposed to: (i) move towards food security and sovereignty; (ii) deepen the contribution of agricultural and forestry production to the livelihood of the population and the development of the country; and (iii) promote the sustainable use of natural resources. Under this policy, the Ministry of Rural Development and Land (MDRyT), which focuses on strengthening family agriculture and small agricultural units, generated two key programs: Creation of Food Rural Food Initiatives (CRIAR), which intends to reduce the vulnerability of rural communities in extreme poverty, and Self-managed Productive Initiatives for Rural Development (EMPODERAR), which aims to stimulate the smallholder sector in poor municipalities in order to increase agriculture yields and production, as well as helping to address rural poverty.

7. A number of Government initiatives are currently underway to provide support to rural producers. Productive development policies received a boost after food prices began to rise in 2007. National government expenditure in productive development increased from 17% of agricultural expenditure in 1998 to 41% in 2008. A number of public sector companies have been created to stimulate production and benefit smallholders and consumers, chief of which is the *Empresa de Apoyo a la Producción* (EMAPA), which supports certain small food producers through no interest loans and commercializes some food staples at subsidized prices.

8. Credit to the agricultural sector recently witnessed a revival due to increased competitive pressures within the financial sector and government policies to foster financial inclusion. Between 2000 and 2009, credit to the agricultural sector declined from funding 45% of output to only 16%. This decline mostly stemmed from a shift in bank lending to the sector.¹ The trend reversed in 2009, when government policies to support growth of agricultural output and financial inclusion led to a revival of credit to the productive sectors. Another notable shift occurred in the institutional composition of lending to farmers. In 2000, banks were basically the only institutions catering to the agricultural sector, but since then micro-finance institutions and financial cooperatives entered this market segment. Their credit portfolios now account for 23%

¹ Bank credit to the agricultural sector constituted 11 % of the credit portfolio of banks in 2000, but only 5 % by end-2011

of all formal sector credit to this sector. In addition, the second tier development bank, Banco de Desarrollo Productivo, put in place a number of lending and guarantee facilities to foster credit to the productive sector at favorable terms and costs. Combined, these developments supported a lowering of interest rates, which came down to around 19% currently for small agricultural credit.

9. While access to credit for smallholders, in particular availability of working capital, has improved, lack of investment funding is still perceived as a major hurdle for growth.

Access is restricted by both supply of credit factors (payment modalities and maturities aligned with commercial and service cycles; availability of real guarantees, which small farmers, particularly those residing in poor indigenous communities, frequently cannot legally provide; and lack of alternative lending models), and demand factors (financial education and capacity for business planning, investment analysis and integration into value chains). Most potential beneficiary households don't use formal financial institutions for their transactions or for saving, and instead keep their money at home and pay all transactions in cash. Language and culture provide additional obstacles for indigenous farmers to access and to understand procedures established by financial institutions.

10. The proposed Project would address a number of key challenges facing the sector stakeholders.

Alliance financing in the Project would, as has been the case with the Rural Alliances Project I (PAR I), allow small farmer organizations and buyers to reduce risk and transaction costs. The Project provides a bridge to build trust between parties; reduces their measuring and monitoring costs by specifying the object of their commercial relation; and increases scale (and reduces unit costs) both for commercial transactions and for implementing innovations. In addition, subproject execution brings small producer organizations (SPOs) closer to formal financial institutions and provides them with basic financial skills. In this context, the Project will address some cultural barriers that small farmers have in dealing with market agents and financial institutions and will work on building the capacity of rural producers and their organizations, with particular emphasis on those from indigenous communities. A Rural Alliance is defined as an association of small rural producer organizations and purchasers eligible for participation under the Project in accordance with the provisions of the Operational Manual. It is explicitly mentioned in the Operational Manual as an economic agreement between a group of organized small rural producers and a buyer (intermediary, wholesaler, agro-processor) in which all assume risks, provide resources and share the profits, such that the agreement can continue over the medium- and long-term. Good alliances bring benefits first to producers and buyers and, by extension, to communities, rural municipalities and consumers.

11. PAR I has surpassed expectations by financing about 780 alliances (18% over the target), covering a large range of agricultural and non-agricultural products and services (see Annex 8 for greater detail). PAR I was approved in 2005 as a pilot project to test new means of helping poor rural producers to improve their access to markets. Including an Additional Financing credit, approved in 2009, total project costs reached US\$72 million, of which US\$58.4 million have been financed by IDA. All of PAR I funds are committed and the last disbursement to a Producer Organization Subproject is expected before the end of 2012. The Project may close one year ahead of its closing date following a consistently satisfactory implementation history. Its reach in the territory of the Borrower is vast, covering 110 poor rural municipalities.

12. **PAR I has successfully proven a model of socio-economic and ethnic inclusion**, empowering community-based and grass root organizations in order to deepen small producer access to markets, with significant positive effects on indigenous poor rural household incomes. Project success in the implementation of the Indigenous Peoples safeguard (OP/BP 4.10) is demonstrated by the fact that more than 90% of direct beneficiaries identify themselves as belonging to an indigenous group. Also, 32% of beneficiary household are represented in SPOs by women. A recent independent study carried out by FAO showed that almost 90% of SPOs in operating alliances showed net positive incremental real returns (compared to an expected failure rate of 20%), with significant effects on production, agricultural yields and demand for labor. A large part of this result is explained by the fact that the project has filled an urgent need, and has done it through efficient implementation, based on competitive and non-discretionary allocations. PAR I has served as a testing ground for operational innovation in Bolivia, and its influence is felt in other government programs as well as in the non-governmental sector. PAR II will build on this rich experience, reaching out to new producers, scaling up to new municipalities and further strengthening managerial capacities of SPOs.

C. Higher Level Objectives to which the Project Contributes

13. PAR II has been included under the Sustainable Productive Development results area of the World Bank Group's Country Partnership Strategy 2012-2015 (Report No. 65108-BO), discussed by the Executive Directors on December 1, 2011, which was designed to respond to the Productive Bolivia pillar of the National Development Plan. Through promoting productive alliances and providing incentives to improve production in rural areas, the Project will contribute significantly to meeting the goals of Sustainable Productive Development results area of the CPS.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

14. The objective of the Project is to improve accessibility to markets for small rural producers in the Selected Areas by: (a) promoting productive alliances between different small rural producer organizations and purchasers; (b) empowering rural producers through the establishment and strengthening of self-managed grass-root organizations; (c) increasing access to productive assets, technology and financial services; (d) promoting more effective, responsive and accountable service organizations at the local level; and (e) enhancing environmental sustainability of productive practices. The Project is a follow on operation to the successful Rural Alliances Project (PAR I), which tested the model for improving market access.

Project Beneficiaries

15. PAR II will benefit about 35,000 poor rural households (close to 157,000 people) most of which are indigenous peoples. Direct beneficiaries of Producer Organization Subprojects will add up to a total of 25,000 productive units (rural households), of which about 30% are expected to be represented in SPOs by women; beneficiaries of complementary public works will reach an

additional 10,000 households. The total rural population in the selected areas adds up to 1.2 million individuals, thus the Project will provide direct benefits to about 12% of the total rural population in the selected areas. Indirect beneficiaries include: workers in rural areas (through additional demand for labor from alliances), providers of goods and services, small-producer organization (SPO) buyers (through improved supply of quality products) and consumers. As shown in the Social Assessment, the majority of Project beneficiaries (64%) self-identify as Indigenous, of which 82% are Quechua or Aymara, and the rest belong to a variety of lowland indigenous groups.

16. **Who are Indigenous Peoples?** According to the 2001 Census, 62% of the total population is indigenous and between 80 and 90% of the rural population is indigenous. Aymaras and Quechuas form the largest indigenous groups and main beneficiaries of the Project. They live mostly in Bolivia's highlands and increasingly in its lowlands. They continue to speak their mother tongue, as well as Spanish, though monolingualism is still common among indigenous women in traditional highland areas. In the lowlands there are an additional 32 indigenous groups. All indigenous peoples maintain their customs, beliefs and social forms of organization and governance. Indigenous groups identify themselves as such and are identified as such by others. It is not statistically, socially or politically challenging to identify indigenous peoples in Bolivia. Government policies, particularly since the Constitutional Reform of 2009, have been focused on recognizing and mainstreaming indigenous peoples' interests, culture and languages, as well as empowering indigenous groups politically and economically. This Project is aligned with the main development objectives of the Government, and it is designed as to include indigenous peoples in each of its activities.

17. **Project area.** MDRyT identified municipalities on the basis of potential for increasing production and improving market accessibility of poor producers. First, aggregates of municipalities were selected on the basis of: (i) inclusion factors (above average population growth, weight of rural population); (ii) exclusion factors (low concentration of population, highly vulnerable municipalities and richest municipalities); and (iii) poverty density. Second, other municipalities that fell within the broad areas were included in order to avoid spatial gaps and ensure territorial cohesion. As a result, the Project will take place in 120 municipalities in five distinct Selected Areas across the country: (i) the "Central valleys" area in the department of Cochabamba; (ii) the "Southern valleys" area, including municipalities in the departments of Tarija, Chuquisaca and Potosi; (iii) the "Tropic" area composed of tropical municipalities in Santa Cruz and Beni; (iv) the Chaco area, including municipalities in Santa Cruz and Chuquisaca; and (v) the "North" area, comprising temperate and sub-tropical valleys and lowland municipalities in the departments of La Paz and Beni. PAR II will discontinue covering two areas and include a new one. The Project will expand into 44 new municipalities with an additional 104,000 potential households. Changes between projects and the resulting scale-up are summarized in the following table:

Table 1. Scaling up the Rural Alliances Project

Regional Operating Unit (ROU)	No. of municipalities		PAR I beneficiaries*		PAR II rural households
	PAR I	PAR II	No. of alliances	No. of households	
Central valleys	19	22	126	6,105	69,652
Southern valleys	n.a.	21	n.a.	n.a.	62,001
Tropic	32	40	140	5,896	68,351
Chaco	16	11	69	2,289	23,761
North	13	26	140	5,314	61,295
Lake Titikaka	16	n.a.	165	4,527	n.a.
Salar	14	n.a.	139	5,220	n.a.
Total	110	120	779	29,351	285,060

- Includes only direct beneficiary households in SPOs.

PDO Level Results Indicators

18. Three indicators will be used to reflect and measure success in achieving the PDO:
- Percentage increase in the average volume of sales of the product(s) involved in the alliances
 - Proportion of producer organizations that register income and costs, and are accountable to their members
 - Proportion of producer organizations that maintain or improve their commercial relations (in alliances) for at least two productive cycles

III. PROJECT DESCRIPTION

A. Project Components

19. The Project includes three components²:

Component 1: Institutional Strengthening (Total: US\$3.79 million equivalent; IDA 100%).

20. This component will finance provision of support for the creation and strengthening of Rural Alliances in the Selected Areas including, *inter alia*:

² Specific aims of each sub-component, as well as the activities supported by them, are described in Annex 2.

- a) The carrying out of a communication and dissemination campaign to inform potential stakeholders about the scope and rules of the Project through local workshops and mass-media outlets.
- b)
 - (i) Strengthening of the institutional capacity of small rural producer organizations to: (A) form Rural Alliances and prepare investment plans; (B) formalize their organizations; and (C) improve their marketing and business skills; and
 - (ii) Preparation of Rural Alliances Plans.
- (c) Strengthening of the capacity of technical service providers and Eligible Municipalities to support the Rural Alliances through, *inter alia*:
 - (i) The provision of training to officials of Eligible Municipalities and Rural Alliances' technical service providers to familiarize them with the Rural Alliance concept and processes; and
 - (ii) The establishment of a technical service provider database in the ROUs, including an outreach program to expand the number of available relevant providers.
- (d)
 - (i) The publication and dissemination of Project activities including, *inter alia*, the results of the call-for-proposals for Rural Alliances, and the Rural Alliances Plans; and
 - (ii) The carrying out of financial, social, environmental and technical evaluations of Rural Alliances.

21. Processes and activities in relation to Indigenous Peoples in this component include: the inclusion of locally-specific indigenous languages as part of a culturally appropriate approach in the communication and dissemination campaign; additional activities to ensure that indigenous peoples of both genders benefit from free, prior and well informed consultations through which they are informed of the PDO, components, activities and rules of the Project; separate workshops and additional technical assistance for small indigenous groups and monolingual women to facilitate their participation in the Project; culturally-appropriate techniques for institutional strengthening of indigenous SPOs; and the use of a social screening process to ensure indigenous beneficiaries receive targeted support as needed and are accounted for properly.

Component 2: Implementation of Rural Alliances (Total US\$52.05 million equivalent; IDA 72%).

22. This component will finance:

- (a) Carrying out of subprojects in support of the effective implementation of the Rural Alliances investment plans and consisting of, among others, one or more of the following activities ("Producer Organization Subprojects"):
 - (i) on farm infrastructure such as minor irrigation works, storage facilities and community centers for product processing, and water harvesting structures;

- (ii) soil conservation measures such as terracing, land leveling and watershed treatments;
 - (iii) provision and utilization of equipment, tools, machinery, veterinary supplies, seeds and other vegetative material and agriculture inputs; and
 - (iv) provision of support on access to financial services, business management, market and marketing, information technology, organic certification and other technical productive services.
- (b) Carrying out of subprojects in support of the productive goals of the Rural Alliance and consisting of, among others, one or more of the following activities (“Municipal Subprojects”):
- (i) rural road rehabilitation or improvement;
 - (ii) small vehicular and pedestrian bridges; and
 - (iii) provision of works related to water, gas, electricity or other utility services.
- (c) Provision of support to Eligible Producer Organizations for the implementation of Producer Organization Subprojects (including support on procurement financial and environmental aspects).

23. Processes and activities in relation to Indigenous Peoples in this component focus on the provision of targeted support during implementation of Producer Organization Subprojects. In addition, periodic evaluations of counterpart requirements for indigenous groups will be carried out to ensure that levels do not impose unreasonable barriers to entry for indigenous groups.

Component 3: Project Management, Monitoring and Evaluation (US\$8.70 million equivalent; IDA 100%).

24. This component will finance provision of support to EMPODERAR for:
- (a) the preparation, implementation, supervision and auditing of the Project;
 - (b) the implementation and supervision of the EMF and the RPF;
 - (c) the necessary updates to its management information system, through, *inter alia*:
 - (i) the design and implementation of a web-based system to track progress on result indicators; and
 - (ii) the creation of a link to a web-and-SMS- based citizen feedback survey; and
 - (d) the carrying out of technical studies on themes relevant to the Project, including studies on market opportunities in rural areas and rural investment climate, all as shall be proposed by the Recipient and agreed to by the Association.

25. Processes and activities in relation to Indigenous Peoples in this component include: yearly consultations of beneficiaries on overall Project performance, on the efficacy and cultural adequacy of targeted activities and processes and an evaluation of field staff; twice-yearly Project performance reports delivered to, and discussed with, national and mid-level social organizations, including those of Indigenous Peoples.

B. Project Financing

Lending Instrument

26. The Project will be financed through a 5 year regular IDA credit with Blend Terms of US\$50 million equivalent.

Project Cost and Financing (US\$ million)

Project Components	Project cost	IDA Financing (US\$ million equivalent)	% Financing*
1. Institutional Strengthening	3.60	3.60	100
2. Implementation of Rural Alliances	46.85	33.76	72
3. Project Management	8.44	8.44	100
Total Baseline Costs	58.89	45.80	78
Physical contingencies			
Price contingencies	5.65	4.20	74
Total Project Costs	64.54	50.0	78
Total Financing Required	64.54	50.0	78

* For greater detail in counterpart funding arrangements, see Annex 2, para. 5 and Annex 3, para. 6-7.

C. Lessons Learned and Reflected in the Project Design

27. PAR I was designed as a pilot operation to prove the viability of the concept of improving access to markets via alliances between buyers and producers. As a pilot, the project counted on a solid M&E system and a detailed (and still evolving) design for evaluation. The approach to supervision on the part of the Bank team focused on close monitoring, adaptive evaluation and overall partnership with the Government. Thus many operational lessons were derived during missions and immediately translated into procedures and instruments. There are 14 projects in the Latin America and Caribbean Region dedicated wholly or partly to alliances as means for improving market accessibility.

28. Lessons learned cover a wide range of topics. Key lessons which have impacted design in the new Project are:

- (a) The importance of using self-selection instruments transparently. In particular, the requirement that 30% of the Producer Organization Subproject cost be covered by the beneficiaries in cash and upfront in every tranche serves to: (i) ensure that the producers who join an initiative have the necessary resource endowment; and (ii) have the risk profile for committing to innovation processes. In addition, as the managed funds include those provided by the beneficiaries themselves, the incentives for transparent management and control of funds are improved.
- (b) In PAR I most of the initiatives were spearheaded by producer groups and existing buyers, but some SPOs later found that their increased productive capacity (including

that to innovate) surpassed their current buyer's capacity. Measures introduced in the new Project to support existing SPOs and new alliances in finding better buyers include: improved buyer identification; brokerage services for SPOs that outgrow their current alliance arrangements; and increased outreach to potential buyers outside the local spheres of most SPOs.

- (c) To reduce the risk that SPOs dwindle after alliance financing ends, a new line of financing will be implemented by the Project. It will aim at SPOs that prove resilient and wish to grow, with a focus on technical assistance co-financing for introducing or consolidating innovations and for linking them to formal financial institutions to facilitate their graduation from project or other donor support. All SPOs who enter into alliances will also be eligible for a wider range of training and technical assistance activities and an effort will be made to reach a wider number of beneficiaries, beyond the leadership of the organizations. Also, each SPO will implement an institutional development plan to develop capacities to provide specific services to its members after the end of the Project, including, as in the case of the Colombia Rural Productive Partnerships Project (P104567), the possibility of implementing rotational funds.
- (d) In PAR I 32% of the SPO households were headed by women, but information is lacking about women's participation in male-headed households. Women's representation at the SPO directorate levels is low. To improve access to Project opportunities by women and minority indigenous groups the Project will deploy a wider range of targeted activities, including radio messages in indigenous languages at adequate times, separate workshops for women and women's groups, more intensive technical assistance during the whole alliance cycle, and targeting women in leadership training activities.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

29. **Institutional arrangements.** The Project will be implemented by the Ministry of Rural Development and Land through EMPODERAR, a deconcentrated unit with operational autonomy that has been built around PAR I. EMPODERAR has a National Coordinating Unit, (NCU) and dedicated Regional Operational Units (ROUs) which have been strengthened in order to manage both PAR I and other projects financed by different sources. EMPODERAR has successfully implemented PAR I, with consistently satisfactory ratings.

30. **Implementation arrangements.** The NCU will be in charge of overall Project coordination, oversight and quality control. It has a Project Coordinator as well as key fiduciary, safeguards, technical and monitoring and evaluation staff. In each Project zone, a ROU will be established following a Department Agreement to be signed (or updated, if necessary) between the MDRyT and the respective Recipient's autonomous department government. The NCU will approve the ROU's annual operational plans and budget, supervise their operations and provide final approval to appraised alliances. The ROUs will handle key aspects of the subproject cycle, starting with the promotion, facilitation and identification of potential alliances; subproject ex ante evaluation; field supervision; local coordination; and monitoring. Training, technical assistance and capacity building activities for the alliances will be supported by locally based consultants. The adequacy of the financial evaluation of alliances will be verified by an

independent firm contracted by the Project under terms of reference and qualifications acceptable to IDA.

31. **Staffing.** As with personnel presently working in the Project, any new additions to the NCU or ROU teams will be selected following a process of recruitment handled by an independent, external human resources management agency. Yearly external evaluations, conducted by an independent firm and including beneficiaries for front-line personnel, will be carried out in order to ensure appropriate management of human resources.

32. **Alliances.** A Rural Alliance is defined as an association of small rural producer organizations and purchasers eligible for participation under the Project in accordance with the provisions of the Operational Manual. It is an economic agreement between a group of small rural producers and other economic actors, in which all contribute and gain, thus assuring the continuity of the agreement in the medium and long term. Each alliance will be composed of an organization of small producers (the SPO) and a market agent or buyer, both of whom sign an alliance agreement. The SPO will carry out the Producer Organization Subproject with differing degrees of participation by the buyer. EMPODERAR will sign a Producer Organization Subproject Implementation Agreement with the SPO, on the basis of which it will transfer the co-financing resources in tranches to carry out the detailed activities. SPOs will select technical assistance providers, buy goods and either contract or execute small works. The ROUs will supervise the completion of field activities, certify the results and verify the counterpart deposit or execution as a basis for the NCU to carry out direct disbursements to the bank accounts of the beneficiaries. A municipal government may also be part of an alliance if it agrees to co-finance public investment to support the alliance.

33. As in PAR I, the Project may also finance public infrastructure investments at the local level. These will be identified in the alliance creation process and, if included in municipal functions, they will be implemented by the *Fondo Nacional de Inversión Productiva y Social* (FPS) through Municipal Subproject Implementation Agreements, under technical, safeguard and fiduciary procedures agreed in the Second Participatory Rural Investment Project (P101298) with the World Bank for use in all World Bank-financed projects.³

B. Results Monitoring and Evaluation

34. EMPODERAR already has a comprehensive and well functioning M&E system which will be used throughout the implementation of the Project. The M&E system is based on a Geo-referenced Management Information System (GMIS) which is used to plan, monitor and control implementation during the alliance cycle (including Producer Organization Subproject procurement plans), as well as report on process and results indicators. Information is fed into the GMIS as activities are carried out by project personnel and consultants, and it is verified first at the ROUs and finally by the NCU. Activity and indicator reports are also linked to the financial management and reporting system. The GMIS is accessible online and permits internal and external users to aggregate reports in real time.

³ Other projects with investment components implemented by FPS are: the Emergency Recovery and Disaster Management Project (P106449), and the Expanding Access to Reduce Health Inequities Project (P101206).

35. Besides the indicators included in the Results Framework, the GMIS includes a set of process indicators at the component level which have been agreed with the Bank and which permit real time monitoring of advances in implementation and prompt corrective action. Indicators have been reviewed, adjusted and streamlined during supervision of PAR I and Project preparation. New indicators for monitoring gender participation and environmental management have been added.

36. The GMIS generates periodic reports for Project managers to control implementation. In addition, the Project will generate two implementation progress reports per year, which will be used as a basis for assessment during Bank supervision missions.

37. A Mid-term Review will be conducted about two years after approval to determine the likelihood of achieving the Project objectives and adopt remedial actions if necessary. The final impact evaluation will be focused on the agreed PDO indicators and additional studies. These indicators are generated by GMIS processes and include participatory financial evaluations of alliances after the first and second productive cycles to determine real incremental flows and changes in producer incomes.

38. An impact evaluation on farmers' income will be carried out using double differences. This method will be complemented with an ex-ante propensity score matching. The key variables to be assessed will be: household gross total income and household gross agricultural income. Baseline surveys will collect a comprehensive set of information about applicants for each call of proposals. Follow-up surveys will collect the same set of information when alliances are closed. The schedule for those surveys will be defined in accordance to the progress in the implementation of the Project.

39. With the support of the Mapping for Results (M4R) team from the World Bank Institute, the GMIS will be developed to an open-web based Public Information System that will allow disclosure of key Project information, as well as implementation milestones of both Project and Alliances. The system will report on Producer Organization Subproject tranche approvals, including approval by SPO members of progress reports and photographs of works and goods acquired. Complementing that system, EMPODERAR team, based on the results of a pilot to be conducted in the last stage of PAR I, will implement a web- and SMS-based citizen feedback loop to provide a channel for complaints, suggestions and stories. That inter-active web-based tool ("On track") will serve as a platform for communicating on-the-ground implementation status, identifying opportunities for communities to exchange best practices and negative beneficiary feedback, and promoting awareness about the effects of the project.

C. Sustainability

40. Project sustainability can be conceived at the levels of: (i) the productive model introduced at the level of the individual farmer households; (ii) the development of the producer organization itself; (iii) and the alliance between producers and buyers. All three levels are related and, in fact, successively contained within the next level. The Project will reinforce its focus on sustainability issues in the first place by ensuring that the productive model introduced at the household and organization levels is socially, financially and environmentally viable. A

stronger emphasis will be placed on resilience to environmental and market fluctuations to diminish the impact of predictable contingencies. At the next level, sustainability of producer organizations will be reinforced by broadening and deepening the institutional strengthening of SPOs, and also by providing a second round of financing to organizations which have held up in time. Financing for successful PAR I SPOs will be restricted to technical assistance (including for access to credit), with the exception of additional funding which may be provided for the incorporation of new members. At the level of alliances, greater emphasis will be placed in getting buyers involved from early on, from helping them to specify clearly their needs to increasing their involvement in Producer Organization Subproject design and execution.

41. PAR I has offered one-time funding to producer organizations that present viable business opportunities. While this is helpful to initiate a first upgrade in their production and business processes, it is however in some instances not sufficient to permanently move them to a higher production and growth curve, or to fund the working capital for the higher level of production. Thus the Project will incorporate measures to enhance beneficiary household's financial literacy and test means of improving access to financial services. It is expected that this will help them graduate from the dependency on government and grant funding for growth and turn them into attractive clientele for formal financial institutions. Key interventions will be focused on demand aspects of financial access, including improving the financial literacy of beneficiaries and easing relations between them and financial institutions, as well as technical assistance support for access to credit.

42. Given that Government has not allocated funding for future operating costs, end-of-project continuity at the institutional level is unlikely at present. This issue will provide one of the objectives for the Mid-term Review, during which it will be assessed to what extent continuity is necessary (and viable) in order to scale up both to a larger number of households and to other, poorer regions of the country. Other possibilities for institutional continuity include: (i) setting up departmental government units, as allowed under the new Decentralization Law; (ii) developing new services for maturing producer organizations; or (iii) focusing solely on access to formal financial services.

43. In terms of environmental sustainability, PAR II will take advantage of lessons learned from PAR I to improve capacity building on environmental management with a special emphasis on promoting enforcement of IPM.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary Table

Stakeholder Risk	Rating
Implementing Agency Risk	
- Capacity	Moderate
- Governance	Moderate
Project Risk	
- Design	Substantial
- Social and Environmental	Low
- Program and Donor	Low
- Delivery Monitoring and Sustainability	Moderate
Overall Implementation Risk	Moderate

B. Overall Risk Rating Explanation

44. Given that the Project relies on the transfer of funds to producer organizations with usually weak or no capacity for fund and subproject administration, risks to implementation could emerge related to delayed implementation and administrative mistakes. The Bank and the EMPODERAR have jointly reviewed the fiduciary requirements at this level to further streamline, simplify and clarify them. Overall, EMPODERAR has put in place sound financial management arrangements. Project use of Government disbursement systems in combination with a solid Management Information System permit an agile and smooth flow of funds to beneficiaries and have proved to provide reliable information. Capacity building at all levels will form an essential part of the implementation plan and the Bank will provide support and training to project personnel on a regular basis.

45. Though overall the risk of corruption is high, its incidence on PAR I has been low (of 779 alliances financed, only two suffered from issues related to misuse of funds in SPOs); however the possibility always exists. Social control and accountability mechanisms are strong and reinforced by SPO alliance accountability procedures, training and supervision activities. The procedures to follow should such a case arise have been reviewed and clearly stated in the Operational Manual. The Project's measures to support governance and accountability are detailed in Annex 7.

46. Summarizing Implementing Agency and Project Risks, the overall Project Implementation risk rating of the Project is **Moderate**.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analyses

47. The Project supports locally identified business opportunities. Thus, detailed ex-ante cost-benefit analysis is undertaken only for alliances that formulate investment plans. However, the

present appraisal benefits from the assessment of financial and economic results of 140 alliances financed by PAR I, which completed implementation of the investment phase and obtained results for at least one production cycle. As Municipal Subprojects supported by PAR I are currently under implementation and thus results have not been assessed yet, the corresponding financial and economic analysis is based on an updated impact assessment of a sample of around 40 municipal subprojects supported by FPS in previous years.

48. The following caveats apply to the analysis: (i) the base assessment does not include a counterfactual and thus cannot distinguish project effects from other influences;⁴ and (ii) as participation in the Project is competitive and the most promising alliances may have already been financed, there is a possibility (at least in the areas included in both PAR I and II) that the results may be reduced.

49. Considering total investments including other Project costs (institutional strengthening and project management components) and a 12.5% reduction of income level to account for risk factors (technical or social/organizational aspects) as well as climate or market related variability, the Financial Net Present Value (NPV) and Internal Rate of Return (IRR) of the analyzed alliance plans are: US\$83,500/alliance and 32% respectively. The incremental net income per family at market prices would be US\$730. The incremental labor use per family would be 44 person-days. The Economic NPV and IRR of the analyzed alliance plans are: US\$98,700/alliance and 39% respectively. The incremental net income per family at social prices would be US\$758. The NPV and IRR of Fiscal Impact from the analyzed alliance plans are: negative US\$10,800/alliance and 4% respectively. As expected, fiscal revenues can only compensate part of the Project's direct transfers to poor producer groups. The incremental net fiscal contribution per year would be US\$137/family. Finally, the NPV and IRR of cash flows to producer groups, from the analyzed alliance plans are: US\$293,700/alliance and 257% respectively. The annual incremental net cash flow would be US\$1,200/family.

50. Considering total investments including other Project costs and a 17.5% reduction of likely benefits to account for future variability, the Financial Net Present Value (NPV) and Internal Rate of Return (IRR) of the analyzed municipal subprojects are: US\$16,500/alliance and 20% respectively. The annual net benefit per family would be US\$27/year, equivalent to 2.3 productive labor days/family/year. The annual maintenance labor use per family would be 12 person/days. The Economic NPV and IRR of the analyzed municipal subprojects are: US\$18,900/subproject and 21% respectively.

51. A successful implementation of 615 alliance plans within 5 years would represent: an aggregate investment of US\$51.0 million (US\$37.6 million from PAR and US\$13.4 from producers); and a Financial and Economic NPV of US\$51.3 million and US\$60.07 million respectively. The implementation of 26 municipal subprojects within 5 years would represent: an aggregate investment of US\$5.7 million (US\$4.3 million from PAR and US\$1.4 from beneficiaries); and a Financial and Economic NPV of US\$0.4 million and US\$0.5 million respectively. Consequently, the overall Project Financial and economic NPV would be US\$51.8 million and US\$61.2 million respectively, and the Financial and Economic IRR would be 32% and 38% respectively.

⁴ A rigorous impact evaluation of PAR I is expected to be ready by March 2013.

B. Technical

52. Key technical considerations refer to quality issues at the level of: (i) relations between producers and buyers in alliances and (ii) the design of Producer Organization Subprojects.

53. A focus on the quality of the alliances themselves has been incorporated into the design of the Project as a result of lessons-learned (see section III c) and sustainability (section IV c) considerations. Key elements in buyer quality refer to the characteristics of demand (ideally permitting higher value production) and market capacity. A buyer who can clearly specify the demand in terms of quality, quantity and delivery facilitates alliance negotiation, design and appraisal. This approach, though clearly adequate for niche or high-value products, is also relevant for commodity production, as demonstrated by the experience in PAR I. It also lends itself to the Project's approach to deepening access to markets, based on market discovery rather than bottom-up territorial planning or top-down value-chain selection.

54. If product standards are clearly specified by, and agreed with, the buyer, the design of the Producer Organization Subproject becomes focused on the technological innovations required for reaching the agreed specifications. This allows for efficient use of resources, as all funding is geared to obtaining a clear output (including, but not limited to that for institutional strengthening of SPOs). However, product standards are not always clearly detailed and sometimes the design of the technological package is limited by the knowledge of all participating actors, including alliance facilitators. Training of service providers and alliance ex ante evaluation diminishes the risks of inadequate Producer Organization Subproject design, but does not eliminate it.⁵

55. The only significant delays in implementation in PAR I were found in the municipal investments sub-component. To avoid this, the following adjustments were adopted: streamlining of identification activities; clarification of the division of roles and responsibilities between FPS and EMPODERAR; and delegation from municipal governments to FPS of procurement activities.

C. Financial Management

56. The Bank performed a financial management capacity assessment to determine the adequacy of MDRyT-EMPODERAR's financial management arrangements to support project implementation, mainly based on EMPODERAR's existing capacity and performance in the preceding PAR for which FM performance has been found acceptable. The assessment also permitted to identify some actions to enhance efficiency of existing procedures (e.g., incorporating lessons learned).

57. Similar to PAR I, Project design requires disbursement of funds to Small-Producer Organizations (SPOs) with limited capacity for subproject implementation, which may delay the preparation and implementation process. This arrangement requires sound operational

⁵ During implementation the Project will explore improving links with Bolivia's innovation institutions (INIAF) which has begun implementing the Bank-supported Agricultural Innovation and Services Project (P106700).

arrangements, including for financial management, which need to be maintained throughout project life. Throughout the implementation of PAR I, EMPODERAR has developed the expertise and has put in place acceptable operational arrangements. Therefore, PAR II will rely widely on those existing arrangements, both at central and regional level, including the use of Government's integrated financial management system (SIGMA) and Treasury Single Account (CUT) for disbursement processing. Based on the lessons learned from the first phase, processes and procedures for the implementation of alliances and Municipal Subprojects have been further streamlined, mainly with the purpose of simplifying requirements at the SPOs level, and better rationalizing and balancing the level of detail required by the information system to adequately record and follow up physical and financial progress of subprojects. To this end, Empoderar: i) has updated the Operational Manual to reflect enhanced arrangements (procedures, system and tools), including a model financing agreement to be entered into with SPOs, and ii) will adjust the information systems (SIIG - *Sistema Integrado de Informacion Georeferencial* and SAS *Sistema de Administración*).

58. With the information available as of the date of this document, Project FM risk is considered substantial, mainly based on Bolivia's public financial management systems (high staff rotation and weaknesses in the public sector), the involved entity, and project design that requires disbursement of funds to producer organizations with low capacity. However, recognizing that the current FM arrangements--as designed and applied--are acceptable, the overall FM risk rating can potentially be reduced to Moderate once the agreed mitigation measures (processes and enhanced information system) are put into operation.

59. Based on the assessment carried out, EMPODERAR's FM performance under PAR I, the existing financial management arrangements--streamlined as agreed--are considered acceptable to the Bank.

D. Procurement

60. EMPODERAR will be responsible for procurement activities at the central level and for the coordination and supervision of procurement activities to be carried out by the SPOs during the implementation of Producer Organization Subprojects. An in-depth assessment of EMPODERAR'S procurement capacity has been carried out by the Bank and no major risks were identified.

61. Taking into account the fact that the Project will require consulting and non consulting services, training and workshops, subsistence and travel expenses for training participants, as well as training material, the EMPODERAR Coordination Unit currently has the necessary capacity to deal with procurement-related activities in terms of both staff and procedures. In order to ensure that EMPODERAR is able to fully respond to Project needs allowing for timely and smooth Project implementation, corrective measures include: (i) an update of the Project Operational Manual, including the Procurement Manual for SPOs, describing, inter alia, procurement and contracting procedures; (ii) inclusion of the Special Procurement Provisions in the Legal Agreement; (iii) training of fiduciary staff in procurement; and (iv) close monitoring by IDA. Additional details are available in Annex 3.

62. The overall Project risk for procurement is **substantial**. EMPODERAR has performed well throughout the implementation of PAR I. Nevertheless, the high risk country procurement environment and the nature of the decentralized implementation approach, which involves a large number of SPOs undertaking procurement activities, with limited knowledge and experience of Bank procurement regulations and procedures, the risk level is increased.

E. Social (including Safeguards)

63. The Project triggers two social safeguard policies: Indigenous Peoples (OP/BP 4.10), and Involuntary Resettlement (OP/BP 4.12). To comply with these safeguards, the Project will build upon the work of its predecessor. PAR I has been implemented in six different regions, and social assessments (SA) and consultations were prepared accordingly. Furthermore, due to the fact that the majority of Project beneficiaries identified themselves as indigenous (up to 70.4% in some zones), PAR I was considered, designed and implemented as an Indigenous Peoples Project, following policy guidelines, therefore not requiring specific IPPs. The same criteria apply to PAR II given that the majority of the target population in the selected areas (64 %) also identify themselves as Indigenous and meet the other three criteria of the Bank's Operational Policy 4.10. This will ensure proper integration of indigenous peoples into the Project and, as happened in PAR I, allow for special attention to vulnerable indigenous groups in the lowlands.

64. In addition to the processes and activities carried out in PAR I to ensure compliance with the Indigenous Peoples safeguard, further steps have been included in the Operational Manual to ensure that participation of indigenous peoples is well-targeted and systematic free-prior and well informed consultations processes are carried out. One of the main objectives of this consultation process is to identify key lessons learned and best ways to support access by indigenous households to Project benefits. To ensure the quality and effectiveness of this free, prior and well informed consultation during the life of the Project, the Recipient will include in the Operational Manual a consultation methodological framework that would include at least the following elements: a) identification and mapping of beneficiaries; b) beneficiary assessment; c) culturally-appropriate communication and dissemination strategy; and d) systematic consultation taking into account traditional governance structures, language, and ensuring inclusion of women and other vulnerable groups. Whereas Rural Alliances are demand driven, the social assessment has found that risks exist for elite capture of Project benefits among organizations. Given this and the requirement of OP 4.10 for broad community support, the social screening of Rural Alliance proposals verifies that each initiative has broad community support and, if potential conflicts are identified, approval is postponed until local actors arrive at an agreement. The Project will aim at supporting empowerment of grass-root organizations through direct transfer and management of funds, organizational strengthening and culturally-appropriate accountability mechanisms.

65. A complementary SA has been prepared by EMPODERAR including the new areas where the Project will operate. It shows that the project would benefit small producers, who mostly self identify as indigenous, by incrementing their incomes, empowering their own grass roots organizations, improving access to productive assets and improving the effectiveness and responsibility of service providers.

66. During Project preparation, consultations were held with potential beneficiaries in order to identify the achievements gained with the original project as well as assess the social risks presented throughout Project implementation. Simultaneously, a consultation process was undertaken in the new municipalities, with seven workshops held. These workshops worked with the Project's various stakeholders and were based on the social risks presented by the Project and the corresponding mitigation measures. In the various consultations and reviews, potential participants recognized a significant number of benefits in the new operation such as improvement of quality of products and income rise; development of capacities to manage financial resources in a transparent way; strengthening women's participation in management and production; better access to technology and opportunity to adopt innovations; diversification of products and clients and using production systems that are environmentally friendly. The results and recommendations of the consultations, as well as the full Social Assessment/IPP, have been published in-country on July 31, 2012 and by the Bank on August 1, 2012.

67. The Project triggers the Involuntary Resettlement policy because of the possibility of minor land acquisition occurring in complementary municipal infrastructure investments. As these will be administered by FPS, it has been agreed that FPS will use the Resettlement Policy Framework (RPF) it adopted in the context of the Second Participatory Rural Investment Project, which has been found acceptable by the Bank. In addition, application of the RPF will be supervised by EMPODERAR. Both FPS and EMPODERAR are already familiar with OP 4.12, have explicitly described its management in the OM, and have built capacity to manage it. The Framework has been published by the Recipient on July 31, 2012 and by the Bank on August 10, 2012. Any compensation costs, should they arise, will be covered by municipal governments.

F. Environment (including Safeguards)

68. The Project is classified as a Category B project and requires an Environmental Analysis. No large-scale impacts are expected given the limited, community-based nature of Project activities. Additionally, minor associated municipal works such as road or bridge improvement and water provision or irrigation systems can be financed as demanded. The proposed Project will promote environmentally friendly productive activities such as organic farming and integrated pest management and facilitate related capacity building.

69. A qualitative independent environmental assessment was conducted on PAR I in order to evaluate efficiency and effectiveness and extract environmental management lessons for PAR II. The main conclusions of the study emphasize: (i) ensuring timely integration of the Environmental Management Framework (EMF) in the overall subproject cycle; (ii) standardizing mitigation measures in terms of type, design and cost to prepare a catalog of measures for the main environmental impacts per productive subsectors; (iii) strengthening institutional arrangements and environmental training particularly with regard to the regional environmental analysts and consultants who provide alliances implementation and monitoring support; (iv) strengthening focus on integrated pest management (IPM), including monitoring and enforcement; (v) linking environmental monitoring to corrective actions as needed; and (vi) incorporating process and outcome indicators on the environmental management of the alliances.

70. The Project triggers five environmental safeguard policies: Environmental Assessment OP/BP 4.01, Natural Habitats OP/BP 4.04, Forests OP/BP 4.36, Pest Management OP 4.09, and Physical Cultural Resources OP/BP 4.11. A partial EA was conducted by the Borrower to revise and complete the identification of potential environmental impacts based on the PAR EA and lessons learned from supervision and the Independent Environmental Assessment. Its final report has been adequately disclosed within the country and by the Bank in the InfoShop. The EA report includes a revised Project-level EMF that focuses on identifying standard mitigation measures and improving monitoring and evaluation. Precautions are included to comply with the Bank safeguards, e.g., respect to preventing deforestation related to expansion of croplands or pastures. The report includes a Pest Management Plan and provides an overview on key aspects of climate vulnerability within the eco-regions covered by the Project. The Project EM will apply a continuous improvement approach emphasizing capacity building.

71. Public consultations on environmental and social aspects of the Project were held through 12 workshops encompassing the municipalities covered by the Project in March, 2012. The Environmental Assessment report and the EMF, including the Pest Management Plan, reflect the main results of these consultations, and have been disclosed by the Government and the Bank on August 2, 2012. Further, appropriate grievance handling procedures and arrangements for monitoring subprojects' EMF and Pest Management Plan implementation are in place. More information on the environmental management of the Project can be found in Annex 3.

Annex 1: Results Framework and Monitoring

Country: Bolivia

Project Name: Rural Alliances Project II (P127743)

Results Framework

Project Development Objectives

PDO Statement

The objective of the Project is to improve accessibility to markets for small rural producers in the Selected Areas by: (a) promoting productive alliances between different small rural producer organizations and purchasers; (b) empowering rural producers through the establishment and strengthening of self-managed grass-root organizations; (c) increasing access to productive assets, technology and financial services; (d) promoting more effective, responsive and accountable service organizations at the local level; and (e) enhancing environmental sustainability of productive practices. The Project is a follow on operation to the successful PAR I, which tested the model for improving market access.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	End Target			
Increase in the average volume of sales of the product(s) involved in the alliances	<input type="checkbox"/>	Percentage	0.00	0.00	0.00	50.00	50.00	50.00	Annual (YR3, YR4 and YR5)	M&E system (Alliance Plan; Alliance Final Report)	UOR
Producer organizations that register income and	<input type="checkbox"/>	Percentage	0.00	0.00	0.00	11.00	37.00	80.00	Annual (YR3, YR4 and YR5)	M&E system (Alliances reports	UOR

costs, and are accountable to their members										included in GIMS)	
Producer organizations that maintain or improve their commercial relations (alliances) for at least two productive cycles	<input type="checkbox"/>	Percentage	0.00	0.00	0.00	70.00	70.00	70.00	Annual (YR3, YR4 and YR5)	M&E system (Alliances reports included in GIMS)	UOR

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	End Target			
1.1 Producer organizations that receive assistance to be formalized	<input type="checkbox"/>	Number	0.00	0.00	80.00	184.00	300.00	300.00	Annual (YR2, YR3, YR4 and YR5)	Legal entity certificates of new organizations; records of start and end of formalization procedures	UCN
1.2 Alliances with signed financing agreement for integral support	<input type="checkbox"/>	Number	0.00	0.00	176.00	386.00	645.00	645.00	Annual (YR2, YR3, YR4 and YR5)	M&E system (Agreements recorded in GMIS)	UCN
1.3 Alliances	<input type="checkbox"/>	Number	0.00	0.00	13.00	46.00	86.00	100.00	Annual	M&E system	UCN

with signed financing agreement for technical assistance									(YR2, YR3, YR4 and YR5)	(Agreements with organizations recorded in GMIS)	
1.4 Public investment subprojects with signed financing agreement	<input type="checkbox"/>	Number	0.00	0.00	0.00	7.00	19.00	26.00	Annual (YR 3, YR4 and YR6)	M&E system	UCN
1.5 Organizations' members that receive managerial training	<input type="checkbox"/>	Number	0.00	0.00	581.00	1981.00	3724.00	4305.00	Annual	M&E (Participant lists in training activities)	UCN
1.5.1 Women that receive managerial training	<input type="checkbox"/>	Percentage	0.00	0.00	30.00	30.00	30.00	30.00	Annual	M&E (participant lists in training activities)	UCN
2.1 Supported alliances that fulfill their commercial aims in the framework of agreed arrangements	<input type="checkbox"/>	Percentage	0.00	0.00	0.00	85.00	85.00	85.00	Annual (YR3, YR4 and YR5)	M&E system (Alliance final report; sales records)	UOR
2.2 Households in alliances that receive financing support	<input type="checkbox"/>	Number	0.00	0.00	3360.00	11515.00	21630.00	25000.00	Every 6 months	M&E system (beneficiaries' records; alliance monitoring reports)	UOR

SPO households represented by women that receive financing support	<input type="checkbox"/>	Percentage	0.00	0.00	30.00	30.00	30.00	30.00	Every 6 months	M&E (beneficiary records; alliance monitoring reports)	UOR
2.3 Producer organizations that obtain positive net incremental real income from alliance product(s)	<input type="checkbox"/>	Percentage	0.00	0.00	0.00	80.00	80.00	80.00	Annual (YR3, YR4 and YR5)	M&E system (Financial evaluation in the alliance plan; Participatory financial evaluation)	UOR
2.4 Producer organizations whose leaders are periodically accountable to their members	<input type="checkbox"/>	Percentage	0.00	0.00	0.00	11.00	37.00	80.00	Every 6 months	M&E system (Accountability reports; statements of expenses for subproject milestones)	UOR
2.5 Executed public investment subprojects	<input type="checkbox"/>	Number	0.00	0.00	0.00	7.00	19.00	26.00	Annual (YR3, YR4, YR5)	M&E system (monitoring reports of FPS; final reports of works)	UCN
2.6 Households that benefit from public investment subprojects	<input type="checkbox"/>	Number	0.00	0.00	0.00	2716.00	7372.00	10100.00	Annual (YR3, YR4, YR5)	M&E system (Subproject design documents; reports about beneficiaries)	UCN
2.7 Alliances that apply	<input type="checkbox"/>	Percentage	0.00	0.00	0.00	80.00	80.00	80.00	Annual (YR3, YR4,	M&E system (Environmenta	UOR

environmental measures satisfactorily									YR5)	l management reports)	
3.1 Level of financial execution of the Project's Annual Operational Plan (POA)	<input type="checkbox"/>	Percentage	0.00	80.00	80.00	80.00	80.00	80.00	Every 6 months	Reports on financial execution (FMRs, SIIG, SAS)	UCN
3.2 Producer Organization Subprojects without delays in the verification of expenses	<input type="checkbox"/>	Percentage	0.00	85.00	85.00	85.00	85.00	85.00	Every 6 months	GMIS reports (including alerts); FMRs	UCN
3.3 Project's Public Information System installed and operating	<input type="checkbox"/>	Text		no	yes	yes	yes	yes	Every 6 months	Implementatio n reports	UCN

Country: Bolivia

Project Name: Rural Alliances Project II (P127743)

Results Framework

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)
Increase in the average volume of sales of the product(s) involved in the alliances	Average of the difference between volume of sales before and after alliance implementation, in all of the alliances closed after having completed 2 production cycles. It is expected that alliances from the first call-for-proposals finish operation in YR3. Beneficiary information (households in SPOs) will be disaggregated by gender and ethnicity.
Producer organizations that register income and costs, and are accountable to their members	The number of supported organizations that meet both conditions, carrying out basic accounting functions and providing periodic reports to their member assemblies. Organizations from the first call-for-proposals will be able to register income and costs in YR3. Beneficiary information (households in SPOs) will be disaggregated by gender and ethnicity.
Producer organizations that maintain or improve their commercial relations (alliances) for at least two productive cycles	The number of supported organizations that meet the condition, which is maintaining their alliance with the original buyer or improving their alliance with a new buyer (over two productive cycles). Beneficiary information (households in SPOs) will be disaggregated by gender and ethnicity.

Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)
1.1 Producer organizations that receive assistance to be formalized	The number of organizations that receive support to obtain juridical personality and a tax identification number, and to open a bank account. Beneficiary information (households in SPOs) will be disaggregated by gender and ethnicity.
1.2 Alliances with signed financing agreement for integral support	The number of signed agreements which include financing support for works, goods and technical assistance (Model 1 alliances). Beneficiary information (households in SPOs) will be disaggregated by gender and ethnicity.
1.3 Alliances with signed financing agreement for technical assistance	The number of signed agreements which include financing support only for technical assistance. Beneficiary information (households in SPOs) will be disaggregated by

	gender and ethnicity.
1.4 Public investment subprojects with signed financing agreement	The number of signed agreements with Municipal Governments that complement approved alliances.
1.5 Organizations' members that receive managerial training	The number of participants (formal organizations' members) in training activities. Beneficiary information will be disaggregated by gender and ethnicity.
1.5.1 Women that receive managerial training	The number of women that are formal members of the organizations and participate in training activities, considering the total number of participants, disaggregated by ethnicity.
2.1 Supported alliances that fulfill their commercial aims in the framework of agreed arrangements	The number of supported organizations that meet the condition in terms of quantity and/or quality of product(s) sold in comparison to the alliance agreement. Beneficiary information (households in SPOs) will be disaggregated by gender and ethnicity.
2.2 Households in alliances that receive financing support	SPO member households that receive financing for Producer Organization Subprojects. Beneficiary information (households in SPOs) will be disaggregated by gender and ethnicity.
SPO households represented by women that receive financing support	The number households represented by women in Producer Organization Subprojects, as a proportion of the total number of supported households, disaggregated by ethnicity.
2.3 Producer organizations that obtain positive net incremental real income from alliance product(s)	Difference between net real income (considering constant unitary costs and prices) before implementing subprojects and after closing them. Beneficiary information (households in SPOs) will be disaggregated by gender and ethnicity.
2.4 Producer organizations whose leaders are periodically accountable to their members	The number of supported organizations that meet the condition. Beneficiary information (households in SPOs) will be disaggregated by gender and ethnicity.
2.5 Executed public investment subprojects	The number of finished subprojects that have been transferred to the entity in charge of the operation and maintenance.
2.6 Households that benefit from public investment subprojects	The number of beneficiaries according to the type of work and following FPS standards, disaggregated by gender and ethnicity.
2.7 Alliances that apply environmental measures satisfactorily	The number of supported alliances that meet the condition, considering all of the supported alliances.
3.1 Level of financial execution of the Project's Annual Operational Plan (POA)	Actual disbursements in relation to planned disbursements.

3.2 Producer Organization Subprojects without delays in the verification of expenses	The number of supported organizations with neither Red nor Orange alerts (in accordance to risk categories of GMIS, as specified in the OM).
3.3 Project's Public Information System installed and operating	System in place in the different regional units; interaction with public demonstrated through records of suggestions, complaints and stories, as well as through records of responses and feedback.

Annex 2: Detailed Project Description

Bolivia: Rural Alliances Project II

A. Project Development Objective (PDO)

1. The objective of the Project is to improve accessibility to markets for small rural producers in the Selected Areas by: (a) promoting productive alliances between different small rural producer organizations and purchasers; (b) empowering rural producers through the establishment and strengthening of self-managed grass-root organizations; (c) increasing access to productive assets, technology and financial services; (d) promoting more effective, responsive and accountable service organizations at the local level; and (e) enhancing environmental sustainability of productive practices. The proposed Project is a follow on operation to the successful Rural Alliances Project (PAR I), which tested the model for improving market access.

Component 1: Institutional Strengthening (Total US\$3.79 million equivalent; IDA 100%).

2. This component will finance the provision of support for the creation and strengthening of Rural Alliances in the Selected Areas. The component will give a particular focus to the development of the institutional capacity of small producer organizations to negotiate and manage new marketing arrangements with private sector actors. This component's main results will be the formation or consolidation of rural productive alliances and the preparation of viable alliance plans. To achieve these aims, the component will (a) support the implementation of a project communications campaign; (b) build capacities of small producers and their organizations to negotiate and manage alliances and to improve their production processes; (c) support the process of call for proposals, the preparation of pre-feasibility and feasibility studies and their evaluation and approval; and (d) assist with the organizational arrangements for the formalization of the alliances.

3. The component counts on the following four sub-components:

(a) **Communication and dissemination:** This subcomponent will finance the carrying out of a communication and dissemination campaign to inform potential stakeholders about the scope and rules of the Project through local workshops and mass-media outlets. Its aim is to ensure that small producers, potential buyers and providers of goods and services become aware of the opportunities presented by the Project. Several campaigns will be held, accompanying the calls for proposals. The campaign will help to clarify the rules of the game and assist in ensuring that potential beneficiaries apply with realistic expectations. Dissemination will take place through the use of local workshops and mass media outlets, including radio spots, and will be delivered in both Spanish and the principal indigenous languages in each Project region to ensure that information reaches both indigenous groups and women. It will support the process of consultation so as to ensure that indigenous peoples of both genders benefit from free, prior and well informed consultations through which they are informed of the PDO, components, activities and rules of the Project. Separate workshops and additional technical assistance for small indigenous groups and monolingual women to facilitate their participation in the Project A further effort will be placed on reaching indigenous and non-indigenous women by disseminating information at

weekly markets and ensuring radio spots are broadcast at times when women will be more likely to be listening. An effort will also be made to reach potential buyers to inform them of the possibilities afforded by the Project and to facilitate encounters with SPOs. The sub-component will also include the publication of different activities throughout the Project's life, such as financing awards, good practices and results. Successful initiatives, that can be replicated, will be disseminated to share knowledge on upgraded technologies and feasible business opportunities.

- (b) **Institutional capacity support:** This subcomponent will finance strengthening of the institutional capacity of Eligible Producer Organizations to: (i) form Rural Alliances and prepare investment plans; (ii) formalize their organizations; and (iii) improve their marketing and business skills. It will also finance the preparation of Rural Alliances Plans. It aims to provide support to small producers and purchasers to create and consolidate their alliances. It will enhance the institutional capacity of SPOs and individual producers, providing them with training and assistance to design, negotiate, manage and carry out their alliance plans to a successful conclusion. Culturally-appropriate techniques for institutional strengthening of indigenous SPOs will be utilized. The TA and training financed by this subcomponent will include basic accounting and financial management; corporate governance and business plan management; integrated pest management; and procurement. This assistance should help to develop the capacities of producers and their organizations to manage their businesses and strengthen the sustainability of the alliances. Key outputs of the subcomponent will be the formalization of new producer organizations and the formulation of alliance investment plans, including Producer Organization Subprojects and Municipal Subprojects when necessary.
- (c) **Capacity building for service providers and local governments:** This subcomponent will finance strengthening of the capacity of technical service providers and Eligible Municipalities to support the Rural Alliances through, *inter alia*: (i) the provision of training to officials of Eligible Municipalities and Rural Alliances' technical service providers to familiarize them with the Rural Alliance concept and processes; and (ii) the establishment of a technical service provider database in the ROUs, including an outreach program to expand the number of available relevant providers. It aims to ensure that potential providers acquire the necessary knowledge and skills to support alliance formation, implementation and consolidation. I will deliver training sessions where providers and local government officials become familiar with the concept and procedures of the Project, as well as on specific themes unique to working with small, rural and/or indigenous producers. This subcomponent also involves the management of a goods and services provider database, and the constant search for new providers.
- (d) **Appraisal of alliances:** This subcomponent will finance (i) the publication and dissemination of Project activities including, *inter alia*, the results of the call-for-proposals for Rural Alliances, the Rural Alliances Plans; and (ii) the carrying out of financial, social, environmental and technical evaluations of Rural Alliances. The aim of this subcomponent is to ensure alliance plans are adequately appraised for financing. Appraisal follows a two-stage process. First, ROUs conduct the "Opportunity Evaluation" of proposals presented by SPOs and buyers. This involves a desk review and a field visit in order to ascertain

eligibility, potential feasibility and safeguard issues. Approved alliances hire a facilitator to aid in formulating the business plan which, in turn, is evaluated by both the ROUs and by an external and independent financial evaluation agency. The whole process is carried out under the guidance and monitoring of the NCU, which provides final approval. This ensures an objective allocation of resources, following pre-agreed evaluation criteria as established in the OM. Appraisal includes the use of a social screening process to ensure indigenous beneficiaries receive targeted support as needed and are accounted for properly. Ex ante evaluation of Municipal Subprojects is carried out by FPS.

Component 2: Implementation of Rural Alliances (Total US\$52.05 million equivalent; IDA 72%).

4. This component will provide support for the implementation of the Rural Alliances prepared under Component 1. It aims to help alliance members to fulfill the specific agreements established in their respective alliance plans. The component’s main results will be: (a) achievement of commercial objectives agreed by producers and buyers in their alliance plans; (b) introduction of technological innovations and improved environmental management in the production process of SPO members; (c) access to follow-up credit from formal financial institutions; and (d) implementation of complementary public infrastructure.

5. **Alliance models.** To achieve these outputs, the project will co-finance the following indicative types of alliances:

	<i>Type</i>	<i>Scope</i>	<i>Use of funds</i>
Model 1: Integral support	a. New alliances for agriculture	Agricultural goods (including non-wood forest products), up to storage stage	Works, goods and technical assistance services. May include public infrastructure investments
	b. Second generation alliances, to widen membership		
Model 2: Technical assistance support	c. New alliances for transformation	Non-agricultural goods and services; post-storage processing	Technical assistance for productive purposes,
	d. Second generation alliances, to deepen innovation	Original product and/or partnership	
Model 3: Access to credit	e. New and old alliances	Open	Technical assistance

6. **Financing.** The type of financing that each actor will receive is summarized below:

	Producers	Local Governments	Financing ceilings
Model 1	Up to 70% of total costs	None or Up to 80% of total cost	<i>Producer Organization Subprojects:</i> BOB 12,500 (US\$ 1,800) per household. <i>Municipal subprojects:</i> US\$350,000.
Model 2 and 3	Up to 70% of total cost of technical assistance	None	<i>Producer Organization Subprojects:</i> BOB 1,400 (US\$200) per household.

7. The component has three subcomponents:

- (a) **Producer Organization Subprojects:** This sub-component finances carrying out of subprojects in support of the effective implementation of the Rural Alliances investment plans and consisting of, among others, one or more of the following activities: (i) on farm infrastructure such as minor irrigation works, storage facilities and community centers for product processing, and water harvesting structures; (ii) soil conservation measures such as terracing, land leveling and watershed treatments; (iii) provision and utilization of equipment, tools, machinery, veterinary supplies, seeds and other vegetative material and agriculture inputs; and (iv) provision of support on access to financial services, business management, market and marketing, information technology, organic certification and other technical productive services. Subproject design aims to help producers to reach the specifications agreed with the buyers in the alliance. It also finances the expenditures required for the implementation of environmental measures. This subcomponent will also finance TA for small producer organizations who have already received financing from PAR I (and who remain organized), as well as for SPOs in non-agricultural alliances. The TA provided could be in technical-productive aspects as well as in business management or access to the financial system. In cases of assistance in productive topics, the amount to be financed may include a package of demonstrative inputs. To facilitate access to credit from formal financial institutions, the project will finance technical assistance for investment feasibility assessments and the preparation of business plans. On the basis of the social screening of alliance proposals carried out in Component 1, additional targeted support during implementation of Producer Organization Subprojects will be provided to indigenous groups.
- (b) **Municipal Subprojects:** This sub-component will finance the carrying out of subprojects in support of the productive goals of the Rural Alliances and consisting of, among others, one or more of the following activities: (i) rural road rehabilitation or improvement; (ii) small vehicular or pedestrian bridges; and (iii) and provision of water, gas, electricity or other utility services. These small public infrastructure works will be selected on the basis of their contribution to alliance success. The works must assist the productive goals of an alliance or

group of alliances but must not be for the sole benefit of the producers in the SPO(s), and must be sustainable independently of the alliance.

- (c) **Support to alliance implementation:** This sub-component will finance Provision of support to Eligible Producer Organizations for the implementation of Producer Organization Subprojects (including support on procurement, financial and environmental aspects). These technical assistance services will be provided by SPO advisers (“*acompañantes*”)—consultants selected by the SPOs and who accompany alliance implementation--providing support to subproject execution, engagement with purchasers, and implementation of institutional strengthening strategies. They also help the Project to operate the M&E system, monitoring and reporting process and results indicators, and supporting field evaluations. These consultants will provide support to the consultation processes and the periodic evaluations of counterpart requirements for indigenous groups, which will be carried out to ensure that counterpart levels do not impose unreasonable barriers to entry for indigenous groups.

Component 3: Project Management, Monitoring and Evaluation (Total US\$8.70 million equivalent; IDA 100%).

8. The component will provide support to EMPODERAR for: (a) the preparation, implementation, supervision and auditing of the Project; (b) the implementation and supervision of the EMF and RPF; (c) the necessary updates to its management information system, through, *inter alia*: (i) the design and implementation of a web-based system to track progress on result indicators; and (ii) the creation of a link to a web- and SMS- based citizen feedback survey; and (d) the carrying out of technical studies on themes relevant to the Project, including studies on market opportunities in rural areas and rural investment climate, all as shall be proposed by the Recipient and agreed to by the Association. The component will finance goods, consulting and non-consulting services and operating costs for the operation of a National Coordination Unit (NCU) in EMPODERAR’s central office and five dedicated Regional Operating Units (ROUs) in order to achieve efficient, effective and transparent Project implementation, ensure quality in the identification, preparation and implementation of alliances, maintain a solid monitoring and evaluation system and implement a public information system. The component has the following sub-components:

- (a) **Implementation management:** This sub-component will support the continuation of an efficient and capable technical team in EMPODERAR, including technical, safeguards, fiduciary and M&E staff. It will finance the operation of a functional, transparent, accountable and efficient financial management system for the Project, as well as the operation of the Geo-referenced Management Information System (GMIS) which permits online project management, monitoring and reporting. An external and independent evaluation conducted at the time of Mid-term Review and project completion will complement the in-house M&E. To ensure adequate implementation of the Indigenous Peoples safeguard (OP/BP 4.10), EMPODERAR will carry out yearly consultations of beneficiaries on overall Project performance, on the efficacy and cultural adequacy of targeted activities and processes, and an evaluation of field staff. Two times per year, it will

deliver and discuss Project performance reports with national and mid-level social organizations, including those of Indigenous Peoples

- (b) **Public information system:** This sub-component will finance a web-based system, based on the GMIS, for reporting on alliance implementation. The public will be able to obtain information on the whole alliance cycle, from the call for proposals to the closing of each alliance. Producer Organization Subproject tranche approvals, including approval by SPO members of progress reports and photographs of works and goods acquired will be reported. The system will also provide a link to a web- and SMS-based citizen feedback loop to provide a channel for comments, complaints and grievances. The Project's webpage will also be revamped with the aim to incorporate and regularly update information relevant for producers, including links to market prices, suppliers and buyers, and latest research information.
- (c) **Studies.** This subcomponent will support technical studies relevant to Project objectives and activities during implementation. Topics will be determined during implementation but may include studies on market opportunities in rural areas, rural investment climate, legal and regulatory issues, and safeguard and fiduciary implementation analyses.

Annex 3: Implementation Arrangements

Bolivia: Rural Alliances Project II

Project administration mechanisms

1. **Institutional arrangements.** The Project will be implemented by the Ministry of Rural Development and Land through EMPODERAR, a deconcentrated unit with operational autonomy that has been built around PAR I. EMPODERAR has a National Coordinating Unit, (NCU) and dedicated Regional Operational Units (ROU) which have been strengthened in order to manage both PAR I and other projects financed by different sources. EMPODERAR has successfully implemented PAR I, with consistently satisfactory ratings.

2. **Implementation arrangements.** The NCU will be in charge of overall Project coordination, oversight and quality control. It counts on a Project Coordinator as well as key fiduciary, safeguards, technical and monitoring and evaluation staff. In each Project zone a ROU will be established following an interinstitutional agreement to be signed (or updated, if necessary) between the MDRyT and the respective Departmental Governments. The NCU will approve the ROUs annual operational plans and budget, supervise their operations and provide final approval to appraised alliances. The ROUs will handle the alliance cycle, starting with the promotion, facilitation and identification of potential alliances; subproject ex ante evaluation; field supervision, including fiduciary and safeguards; local coordination; and monitoring. Training, technical assistance and capacity building activities for the alliances will be supported by locally based consultants. The adequacy of the financial evaluation of alliances will be verified by an independent firm contracted by the Project under terms of reference and qualifications acceptable to IDA.

3. **Staffing.** As with personnel presently working in PAR I, any new additions to the EMPODERAR team will be selected following a process of recruitment handled by an independent human resources management agency, under terms of reference included in the OM. This procedure is designed to ensure that staff be selected in an open, competitive and merit-based process. In addition, yearly evaluations--conducted by an independent firm and including beneficiaries for front-line personnel--will be carried out in order to facilitate appropriate management of human resources.

4. **Alliance definition.** To comply with the proposed objective, project design is focused on the establishment and implementation and consolidation of *rural productive alliances*. A Rural Alliance is defined as an association of small rural producer organizations and purchasers eligible for participation under the Project in accordance with the provisions of the Operational Manual. It is explicitly mentioned in the Operational Manual as an economic agreement between a group of small rural producers and other economic actors, in which all contribute and gain, thus assuring the continuity of the agreement in the medium and long term. Alliances constitute an innovative, effective strategy to deal with constraints that limit market accessibility. Alliances will promote synergies and learning among members; produce innovative, relevant solutions; deliver concrete, significant results; increase availability, fairness, and productivity in the use of resources; improve the future sustainability of initiatives; facilitate the consolidation of

institutions and more solid, sustainable relationships; and increase social capital in the rural sector.

5. **Alliance Implementation.** The core of each alliance is composed of an organization of small producers (SPO) and a purchaser, both of whom sign an alliance agreement. To facilitate the process of confidence-building, a range of agreements will be acceptable, ranging from a letter of intention to a long-term commercial contract. Once the Rural Alliance Plan is approved, EMPODERAR will sign a Producer Organization Subproject Implementation Agreement with the SPO and transfer the co-financing funds in tranches. The SPO will carry out the Producer Organization Subproject, with differing degrees of participation by the buyer, as specified in the Rural Alliance Plan. SPOs will select technical assistance providers, buy goods and either contract or execute small works under procedures detailed in the OM and designed in compliance with World Bank Procurement Guidelines. The ROUs will supervise the completion of field activities, certify the results (outputs) and verify the counterpart deposit or works execution. On this basis the NCU will carry out direct disbursements to the bank accounts of the beneficiaries. In case a market agent also requires funding for technical services (including for access to finance), it may be provided under the Producer Organization Subproject.

6. **Producer Organization Subprojects** will be managed by the SPOs themselves. Once the alliance is approved and the financing agreement is signed, each SPO will open a bank account to deposit its counterpart funding and to receive the matching funds from the Project. The SPO implements the activities in compliance with procurement and financial management rules detailed in a Field Operational Manual which forms part of the OM. Activities that can be financed include (i) on farm infrastructure such as minor irrigation works, storage facilities, storage and processing centers; (ii) soil conservation measures such as terracing, land leveling and water shed treatments; (iii) goods such as minor equipment, tools, machinery, veterinary supplies, seeds and other vegetative material or agricultural inputs; and (iv) services and technical assistance for introducing agricultural innovations, organic certification, IPM and other technical productive services. The SPO is required to provide a cash counterpart, worth a minimum of 30% of the total amount, with the exception of the direct administration of works where the counterpart could be in cash or in kind in the case of indigenous peoples who have difficulties meeting counterpart requirement solely in cash. Funding by the Project and by the SPO will be executed in tranches. The financing ceiling per alliance (excluding the counterpart) will be US\$100,000, requiring the Bank's prior approval if the ceiling is to be exceeded. The eligibility and prioritization criteria for selected alliances will be fully stated in the OM.

7. **Municipal subprojects.** A municipal government may also be part of an alliance if it agrees to co-finance public investment to support the alliance(s). Municipal works will be identified during the alliance creation process and, if included in municipal competencies, they will be implemented by the Social and Productive Investment Fund (FPS) under technical, safeguard and fiduciary procedures agreed under the Second Participatory Rural Investment Project (P101298) for use in all World Bank-financed projects.⁶ These subprojects will be executed on the basis of Municipal Subproject Implementation Agreements signed between EMPODERAR, FPS and the respective municipal government. Payments to contractors will be

⁶ Other projects with investment components implemented by FPS are: the Emergency Recovery and Disaster Management Project (P106449), and the Expanding Access to Reduce Health Inequities Project (P101206).

handled directly by EMPODERAR. The Project includes provisions for financing the incremental operating costs of FPS. Based on the difficulties experienced in PAR, information about this subcomponent will be disseminated from the beginning of the Project, and a clear definition of roles between the PAR, FPS and the municipal governments will be established in the OM. The co-financing ceiling per infrastructure investment will be US\$350,000, with a minimum 20% counterpart from the municipal government.

8. **Financial services.** The development of a financial education module and measures to facilitate access to financial services from formal financial institutions will be carried out with the support of a qualified institution, which will coordinate with the national financial institutions regarding the needed information, and use available international information and experience for this type of work. This institution will support the roll out of initial pilots and finalize the modules based on feedback received and own observations.

9. **Operational Manual (OM).** The OM includes instruments, procedures, rules, and standards for the implementation of all aspects of the Project including, but not limited to: institutional arrangements; model agreements; eligibility criteria for beneficiaries and alliances; procedures for the operation of EMPODERAR's NCU and ROUs; project planning, monitoring & evaluation; project cycle management, including fiduciary, environmental and social review, and management of subprojects; communications strategy; management of human resources; complaints and grievance mechanism; procurement, including procurement by the SPOs; administrative and financial management; and procedures for its amendment.⁷ The OM will also include a Procurement Manual for SPOs, with simplified and ad hoc procedures for the alliances.

10. **Governance and accountability.** Alliance implementation is based on co-financing of subprojects to SPO and, occasionally, to municipal governments for small public works. Both SPOs and municipal governments have generally limited capacities and are spread out in rural areas, posing significant governance challenges for successful project implementation. As mentioned in the Operational Risk Assessment Framework (ORAF), project design includes specific arrangements and several tools and mechanism in terms of participation, transparency and accountability at different levels and throughout the alliance cycle, aiming at addressing and mitigating specific governance and fiduciary risks. Annex 7 provides a summary of those arrangements as well as a list of actions that will be taken in case fraud and corruption allegations occur.

Financial Management

11. As part of the preparation process of the Project, the Bank performed a financial management capacity assessment to determine the adequacy of EMPODERAR's financial management arrangements to support project implementation. EMPODERAR is currently in charge of implementing the PAR I⁸ and the Community Investment in Rural Areas Project (PICAR)⁹. Overall, FM performance has been found acceptable.

⁷ Amendments to the OM would need to be acceptable to the Bank and would require a no objection.

⁸ Cr. 4068-BO and Cr. 4558-BO.

⁹ Cr. 5003-BO.

12. This section spells out the main features of financial management arrangements, mainly based on EMPODERAR's existing capacity and performance; it also identifies some actions agreed to enhance efficiency of existing procedures (e.g., incorporating lessons learned).

13. As in PAR I, project design requires disbursement of funds to SPOs with limited capacity for subproject implementation, which may delay the preparation and implementation process. This arrangement requires sound operational arrangements, including for financial management, which need to be maintained throughout project life. EMPODERAR has developed the expertise and has put in place acceptable operational arrangements. Therefore, PAR II will rely widely on existing arrangements, both at central and regional level, including the use of Government's integrated financial management system (SIGMA) and Treasury Single Account (CUT) for disbursement processing. Based on lessons learned, processes and procedures for the implementation of Rural Alliances and their Producer Organization Subprojects have been further streamlined, mainly with the purpose of simplifying requirements at the SPO level, and rationalizing and balancing the level of detail required by the information system to adequately record and follow up physical and financial progress of subprojects. To this end, Empoderar: i) has updated the Operational Manual reflecting enhanced arrangements (procedures, and tools), including a model financing agreement to be entered into with SPOs; and ii) will adjust the management information system (SIIG - *Sistema Integrado de Informacion Georeferencial* - and SAS *Sistema de Administración*).

14. With the information available of Bolivia's public financial management systems, the involved entity, and project features, the project's FM inherent risk is rated as substantial due to: i) weaknesses in the public sector to attract and maintain qualified staff with subsequent high staff rotation, which could adversely affect both project preparation and implementation; and ii) project design that requires disbursement of funds to producer organizations with low capacity. The FM control risk is rated moderate because, the current FM arrangements –as designed and applied are acceptable, keeping in mind that their effective operation and maintenance throughout project life will continue to depend on EMPODERAR's ability to attract and maintain qualified and experienced staff. The overall FM risk is substantial though considering the project context and operating environment, and it can potentially be reduced to Moderate once the agreed mitigation measures (processes and enhanced information system) are put into operation.

15. Based on the assessment carried out, EMPODERAR's FM performance under PAR I, the existing financial management arrangements--streamlined as agreed--can be considered acceptable to the Bank.

Summary of Financial Management Arrangements

16. The Project would be implemented by the MDRyT through EMPODERAR, a deconcentrated unit that counts on operational autonomy and is currently implementing the Rural Alliances (P083051, P111863) and Community Investment in Rural Areas (P107137) projects; as well as other external-financed projects. EMPODERAR has in place a well defined structure and well established processes, procedures, instruments and systems.

Use of Country Public Financial Management (PFM) Systems

17. Similar to other projects in the Bolivia portfolio, PAR II will be fully integrated and executed through the National Budget, and it will benefit from the use of well functioning PFM elements including SIGMA and the Treasury Single Account (CUT), supplementing them where needed to make sure project needs and risks are adequately addressed, mainly as it relates to internal controls, financial reporting and auditing. Within this framework, the following sections describe some specific arrangements.

Organizational arrangements and staffing

18. EMPODERAR currently has an administrative and finance team, basically organized by source of financing. Each team follows the same arrangements to carry out financial management tasks in relation to budgeting, accounting, disbursements, financial reporting, and monitoring of subprojects. At the regional level, each ROU is staffed with up to two fiduciary specialists (subject to the number of subprojects), whose main function is to provide guidance to SPOs in administrative matters and undertake full responsibility for the review of disbursement requests and “*Rendiciones de cuenta*” presented by SPOs. Roles and responsibilities between central (NCU) and regional (ROU) offices, as well as between technical and fiduciary teams are clearly defined. The existing structure is considered sufficient to implement the new Project. Most of the FM staff has the qualifications and experience required and they have also developed the skills needed for this type of project.

19. Terms of reference of all positions are defined in the Operational Manual; any new selection process would follow the Bank’s selection and contracting procedures, as they are financed out of credit proceeds. Following existing practice, recruitment of new staff, as well as periodic evaluation, is carried out by external consulting firms. This mechanism has contributed to ensure the recruitment of qualified staff and also to diminish staff rotation.

Programming and Budget

20. The preparation of the annual program and budget will follow local regulations established by the Ministry of Economy and Public Finance (MEFP)¹⁰, as well as instructions issued by the Viceministry of Public Investment and External Finance (VIPFE), as applicable. The Annual Budget Law, as well as related regulations, provides for the transfer (disbursement) of public proceeds to private parties, such as producer organizations with a specific purpose; and EMPODERAR is already listed as one of the authorized entities to incur such expenditures. Those general procedures are complemented by specific guidelines included in the operational manual, for the preparation of an annual operating plan by project component/subcomponent with at least semi-annual budget, which can be consistently used for monitoring purposes.

21. At subproject level, EMPODERAR has in place arrangements and mechanisms to adequately support the preparation and monitoring of budgets for each alliance and respective tranches within a Producer Organization Subproject. The criteria for defining respective tranches has been revised and clarified for PAR II.

¹⁰ Law No. 2042, Supreme Decree No. 29881 dated January 7, 2009 – Regulations for Budgetary Modification.

Accounting – Information system

22. EMPODERAR has to comply with the Governmental Accounting Standards. Therefore, the Project would use the Chart of Accounts established by the Accountant General's Office (*Dirección General de Contabilidad Fiscal*). The project will benefit from the use of SIGMA and the CUT (in US dollars and local currency) to process payments, including disbursement to subprojects. From thereon, project execution will be fully integrated in the central government accounting.

23. The use of SIGMA will be complemented with the use of the EMPODERAR's Geo-referenced Management Information System (GMIS), a system designed and implemented by EMPODERAR to allow recording, control, reporting and monitoring of subproject implementation, both at the physical and financial levels, and throughout the alliance cycle. SIIG is linked to SAS (financial management system), which allows recording of project transactions incurred with all sources of financing (IDA credit, regional, municipal and SPO counterparts), and following a more functional classification (component/subcomponent) for further issuance of financial reports and statements of expenditures. As part of the preparation of this new operation, EMPODERAR will work on the specific adjustments to both SIIG and SAS, mainly to streamline some procedures and at the same time simplify the information required by some formats. This revision has also included a clarification of the accounting policies and practices for the recording of funds received and payments made under the municipal subprojects. As in PAR I, project transactions and preparation of financial statements will follow the cash basis of accounting.

Processes and procedures

24. Overall, EMPODERAR has to comply with local requirements related to administrative and control systems (SAFCO Law), which are partially integrated into the operation of SIGMA, as they relate to budget preparation and execution. Considering project needs and identified risks, EMPODERAR has supplemented those administrative and control systems by putting in place specific and detailed processes and procedures, key controls, instruments and monitoring tools for subproject implementation. Those procedures provide for clear roles and responsibilities at National, Regional and SPO level; adequate segregation of duties in terms of authorization (including FPS' role in approving payments under municipal subprojects); and recording and approval of payments and disbursements. Existing procedures have been recently revised to incorporate lessons learned aiming, in order to further enhance, streamline and simplify some requirements. Those strengthened mechanisms have been reflected in the updated Operational Manual. While the information system provides required information for monitoring purposes, oversight function over ROUs will have to be closely monitored, so that required corrective actions are taken on a timely basis. The operation of the monitoring function will require periodic follow up from the Bank team, to make sure EMPODERAR is able to act timely and identify systemic issues based on available information.

25. At subproject level, simplified guidelines for SPOs have also been developed, including requirements for record keeping (hand-written record of receipts), minimum documentation

requirements, and preparation of progress reports (physical and financial). Specific mechanisms to provide SPOs with technical assistance to carry out some administrative tasks will be similar to the ones applied for PAR I, with the cost being borne by each alliance. Overall, internal controls and accountability mechanism for the implementation of subprojects (at SPO level; from SPO to EMPODERAR; and from EMPODERAR to MDRyT¹¹) are well established and have functioned well.

Financial reporting

26. Taking into account the considerations made in the Accounting-Information System section, and as it is done under PAR I, the interim financial reports (IFRs) will be directly issued from the existing information system (SAS). IFRs will include: i) sources and uses of funds, reconciling items (as needed), and cash balances, with expenditures classified by project component; ii) a statement of investments, classified by project component/subcomponent, reporting the current semester and the accumulated operations against ongoing plans, as well as footnotes explaining the important variances; and iii) a Subproject Statement which shows amount disbursed, documented and outstanding balances, classified by age, to allow for timely monitoring. The reports would include credit proceeds, and local funds (municipal and SPO contributions) as well as in-kind contributions. Those reports would be prepared and submitted to the Bank on a semi-annual basis no later than 45 days after the end of each calendar semester. The reports would be prepared in local currency and US dollars. On an annual basis, EMPODERAR will also prepare project financial statements including cumulative figures, for the year and as of the end of the fiscal year (December 31).

Audit

27. Annual audit reports on project financial statements, including management letter should be submitted to the Bank, within six months of the end of the Borrower’s fiscal year¹² (December 31). The audit should be conducted by an independent private audit firm acceptable to the Bank and under terms of reference approved by the Bank. Audit cost would be financed out of credit proceeds and selection would follow standard Bank procedures. The scope of the audit would be defined by EMPODERAR in agreement with the Bank, based on project specific requirements and responding as appropriate to identified risks, including review of compliance with agreed processes and procedures; as well as a sample of subprojects. Audit TOR will specifically require that internal control report clearly identifies the issues related to EMPODERAR (NCU and ROUs) and the issues related to SPO responsibilities. Audit requirements would include the following:

Audit type	Due date
Project financial statements	June 30
Special Opinions – SOE	June 30

¹¹ Supreme Decree 214 “*Política Nacional de Transparencia y Lucha Contra la Corrupción* ” requires all government entities to present on an annual basis a “*rendición pública de cuentas*”.

¹² In accordance with Bank’s Guidelines, the first and last audits may cover a period of up to 18 months.

28. In accordance with WBG's Access to Information Policy, the audited annual financial statements will be made publicly available through Empoderar's web-site.

Flow of Funds and Disbursement Arrangements

29. Following general practice of the current portfolio, the following disbursement methods may be used to withdraw funds from the credit: (a) reimbursement, (b) advance, and (c) direct payment.

30. Under the advance method, and to facilitate project implementation, a Designated Account (DA) in US dollars would be opened and maintained by EMPODERAR. Funds deposited into the DA as advances would follow Bank disbursement policies and procedures, as described in the Financing Agreement and in the Disbursement Letter.

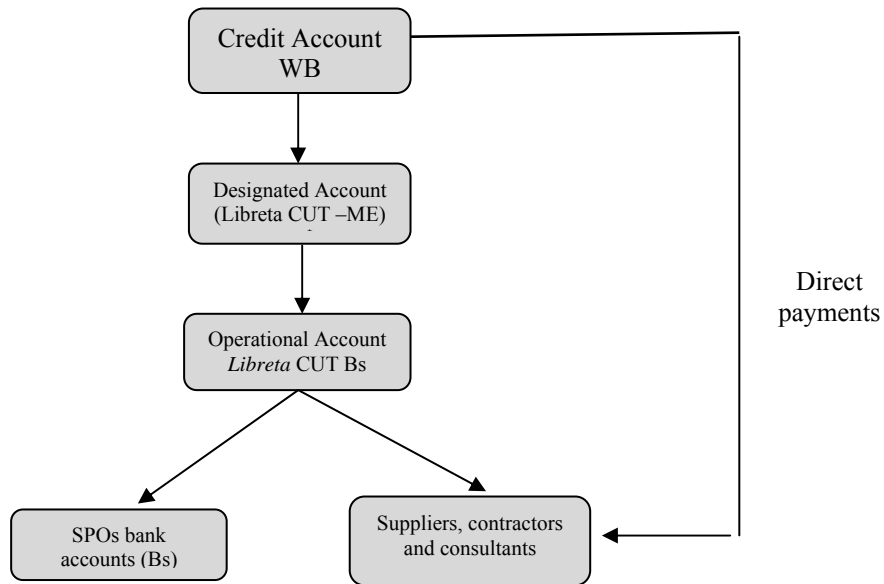
31. In keeping with current arrangements established by the Viceministry of Treasury and Public Credit for the operation, and use of a Single Treasury Account in US dollars (CUT-ME)¹³, the DA would be opened and maintained as a separate *Libreta* within the CUT in US dollars. Following the existing treasury arrangements, funds from CUT-ME will be periodically transferred to CUT in *Bolivianos* into a separate *Libreta* under the project name, from which all payments and disbursements to beneficiaries' bank accounts will be processed (See flow chart below).

32. The ceiling for advances to be made into the DA would be US\$5,000,000. Documentation of eligible expenditures paid out of the DA is expected to be on a quarterly basis. The supporting documentation requirements to document project expenditures (thresholds for the use of SOE), as well as the minimum value for direct payments and reimbursements will be defined in the Disbursement Letter, For Producer Organization Subprojects, a customized SOE will be used, which is already automatically prepared from the information system.

33. Disbursements to SPOs will be made in tranches on a lump sum basis, as defined in a Producer Organization Subproject Implementation Agreement to be entered into between EMPODERAR and each SPO. Each subproject contains assessed cost estimates per tranche, and a defined set of outcomes or delivery of end products. Disbursements will be made in two or more tranches and they are expected to be processed as transfers from the project's bank account (*Libreta CUT*). Detailed funds flow arrangements for subprojects, as well as requirements for SPOs to open bank accounts in the authorized financial system and be registered as SIGMA beneficiaries are reflected in the OM. Funds flow mechanisms for participating municipalities to provide their contributions under the municipal subprojects are also defined.

¹³ *Decreto Supremo* No. 29236 dated August 22, 2007

34. Overall funds flow of the project is diagrammed below.



35. Credit proceeds will be disbursed against the following expenditure categories:

<u>Category</u>	<u>Amount of the Credit Allocated (expressed in SDR)</u>	<u>Percentage of Expenditures to be Financed (inclusive of Taxes)</u>
(1) Goods, consultants' services, Operating Costs and Training under Part 1 of the Project	2,400,000	100%
(2) (a) Subprojects under Part 2 (a) and (b)	20,900,000	100% of the amount disbursed by the Recipient under the Subprojects
(b) consultants' services under Part 2 (c) and FPS Operating Costs	1,200,000	100%
(3) Goods, consultants' services (including audits), Training and Operating Costs under Part 3 of the Project	5,600,000	100%
(4) Unallocated	2,800,000	
TOTAL AMOUNT	32,900,000	

Procurement

36. Procurement for the proposed project will be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works and Non Consulting Services under IBRD Loans and IDA Credits & Grants by World Borrowers" dated January 2011, and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011, and the provisions stipulated in the Legal Agreement. For each contract to be financed by the Credit, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and timeframe, were agreed between the Recipient and IDA in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. An Ad hoc Operational Manual and a Field Manual for the project will be prepared, and will include further details on the procurement processes and arrangements.

37. Procurement of Works: Works procured under this project may include the construction of small-scale civil works (small rural infrastructure), etc. International Competitive Bidding (ICB) is not foreseen. Packages amounting to under US\$3,000,000 in the aggregate may be procured using National Competitive Bidding (NCB) processes. Shopping (S) procedures may be used for contracts of up to US\$200,000, only in emergency cases. Procurement of works for NCB or S methods would be based on bidding documents satisfactory to the Bank.

38. Procurement of Goods and Non Consultant services: Goods procured under this project would include, inter alia: vehicles; office furniture and equipment, including computers, printers and photocopiers, telecommunication equipment (telephone system, fax, radios); field equipment (GPS, surveying material, etc.) necessary to carry out the project activities; goods purchased in the framework of subprojects. Procurement of goods will be done using the Bank's standard bidding documents (SBD) for all international competitive bidding (ICB), and bidding documents satisfactory to the Bank for national competitive bidding (NCB) or Shopping (S) methods.

39. All procurement notices shall be advertised in the project's website, the Government's website (SICOES), and at least one local newspaper of wide national circulation. ICB notices and contract award information shall be advertised in the United Nations Development Business online (UNDB online), in accordance with provisions of paragraph 2.7 and 2.60 of the Procurement Guidelines.

40. Selection of Consultants: Consulting Firms services may be contracted for training and capacity building activities, technical studies, audits, evaluations, and support to the ALLIANCES. The procurement of consulting firms will be carried out using Bank's standard Request for Proposals (RFP). International firms should have the opportunity to participate in all solicitations above US\$100,000. Shortlists of consultants for services estimated to cost less than US\$200,000 equivalent per contract may be composed entirely of national consultants (firms registered or incorporated in the country) in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. Consulting Firms would be selected following Quality and Cost-based Selection (QCBS) for all contracts in the estimated amount of more than US\$100,000.

41. Selection of Individual Consultant Services: Individual consultant services will be contracted mostly for Project Management and for technical advice, mainly in the substantive matters of the project. The Terms of Reference, job descriptions, minimum qualifications, terms of employment, selection procedures, and the extent of Bank review of these procedures to contract “Consultores de línea” and documents shall be described in the Operational Manual and the contract shall be included in the Procurement Plan. Services by Individual Consultants may also be contracted to accompany the alliances in the preparation or implementation of their subprojects.

42. A project website, a government website (SICOES), and a national newspaper shall be used to advertise expressions of interest as the basis for developing short lists of consulting firms and individual consultants, and to publish information on awarded contracts in accordance with the provisions of paragraph 2.31 of the Consultants’ Guidelines and as mandated by local legislation. Contracts expected to cost more than US\$200,000 shall be advertised in UNDB online. Shortlists of consultants for services estimated to cost less than US\$100,000 equivalent per contract may be composed entirely of national consultants, in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

43. Training: Training would include expenditures (other than those for consultants’ services) incurred by the Borrower to finance logistics for workshops, meetings, and seminars, and reasonable transportation costs and per diem of trainees and trainers (if applicable), training registration fees, and rental of training facilities and equipment. The procurement would be done using NCB and Shopping procedures as discussed below. Direct Contracting (paragraph 3.7 of the Procurement Guidelines) may be used for the payment of registration fees, up to a ceiling amount to be established annually in the Procurement Plan.

44. Producer Organization Subprojects: The Project will finance demand-driven subprojects submitted by alliances and approved by the PCU under a grant mechanism. Procurement of goods, works, and technical assistance, financed through the subprojects, will be carried out directly by the communities using, in most cases, shopping procedures and commercial practices for goods and works. Producer Organization Subprojects generally envisage a large number of small value contracts for goods and both non-consulting and consulting services, and a large number of small works scattered in remote areas. Commonly used procurement procedures include Shopping, local competitive bidding inviting prospective bidders for goods and works located in and around the local community, direct contracting for small value goods, works, and non-consulting services, and the use of community labor and resources. The Project Operational Manual describes all procurement arrangements, methods, and procedures including the roles, the responsibilities, and the extent of participation of the community in general (including in certain circumstances community tender committees as may be needed), simplified steps for all applicable methods of procurement, provisions for any technical or other assistance required by the alliances, payment procedures, and procedures for maintenance of records, simplified forms of contracts to be used, roles and oversight functions of the implementing agency, etc. SPO Committees will receive training, guided by the Project’s Procurement Specialist, on procurement guidelines and preparation of simplified subproject procurement plans.

45. **Operating Costs:** The project will finance Project-related operational costs of the EMPODERAR program including, *inter alia*, travel costs (i.e. accommodation, transportation and *per-diem*); operation and maintenance of office equipment; vehicle rental, operation, insurance and maintenance costs; rental of offices; utilities; non-durable and/or consumable office materials; bank charges; communication, printing and publications; salaries of support staff; and other emoluments only for the NCU and ROUs staff working for the Project; but excluding the Recipient's public servants and/or permanent employees. These operating costs will be administered in accordance with the Bank's Procurement Guidelines, as appropriate. This procurement also will be carried out using the Bank's SBD or National SBD agreed with the Bank.

46. **Others: Financial or Procurement Audit.** The audit scope should cover verification of both quality and quantity of works, goods and services procured and proper use of funds.

Procurement Plan

47. EMPODERAR prepared a simplified Procurement Plan, reviewed by the Bank on September 6, 2012, based on an indicative list of eligible activities to be implemented. The Procurement Plan will be updated semi-annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

48. The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association, except for those contracts terminated by the recipient's agency for which the Borrower shall seek the Association's no objection prior to the proposed termination. Sub projects will be included in the Procurement Plan semi annually, and all of them will be subject to post review.

Frequency of Procurement Supervision

49. In addition to the prior review supervision to be carried out by the Bank, the capacity assessment of EMPODERAR has recommended semi-annual supervision missions, including field visits and post-reviews of procurement actions.

50. Twenty percent of all contracts will by post-reviewed by the Bank. Based on the finding of the Post Procurement Reviews and the proposed ratings, the Bank may determine the revision of the prior review requirements.

Details of the Procurement Arrangements Involving International Competition Goods, Works, and Non Consulting Services

51. List of contract packages to be procured following ICB and direct contracting:

1	2	3	4	5	6	7	8	9
Ref. No.	Contract (Description)	Estimated Cost	Procurement Method	P-Q	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid-Opening Date	Comments
1	Vehicles	265,000	ICB	No	No	Yes	June 2013	

52. ICB contracts for **works** estimated to cost above US\$3.0 million and ICB contracts for **goods** estimated to cost above US\$200,000 per contract and all direct contracting will be subject to prior review by the Bank. Direct Contracting regardless of the amount, will be subject to prior review by the Bank.

Consulting Services

53. List of consulting assignments with short-list of international firms: None

54. Consultancy services estimated to cost above US\$100,000 per contract and all single source selection of consultants (firms) will be subject to prior review by the Bank. Individual consultants services to cost US\$25,000 or above per contract and all single source selections (regardless of the amount), except for those carried out by SPOs under alliance investments, will be subject to prior review by the Bank.

55. Shortlists composed entirely of national consultants: Shortlists of consultants for services estimated to cost less than US\$100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Thresholds for procurement methods and prior review

Expenditure Category	Contract Value (Threshold) (US\$000)	Procurement Method	Bank Prior Review
1. Works	>3,000	ICB	All
	3,000>200	NCB	First two each year
	<250	Shopping (Price Comparison) only in emergency cases.	First two each year
	Regardless of value	DC.	All.
2. Goods	>200	ICB	All
	200>100	NCB	First two each year
	<100	Shopping	First two each year
	Regardless of value	DC.	All.
3. Sub Projects	Regardless of value	Community Participation in Procurement, including: Shopping for Goods and Works, Local bidding, Single source, Direct contracting, and Force account	All Post Review
4. Consultant Services	>100	QCBS	All
	<100	QCBS, QBS, CQ, FBS, LCS (as per Procurement Plan)	All TOR. Selection Process reviewed twice yearly (Ex Post).
	Regardless of value	SSS	All
5. Individual Consultants	>25	IC	All
	<25	IC	All TOR. Selection Process reviewed yearly (Ex Post). All contracts awarded under SSS, and key personnel
	Regardless of value	SSS	All (excluding subprojects)
Total value of contracts subject to prior review: tbd			
Notes: ICB: International Competitive Bidding; NCB: National Competitive Bidding; DC: Direct contracting; S: Shopping; FA: Force Account; CDD: Community Participation in Procurement; QCBS: Quality-Cost Based Selection; QBS: Quality Based Selection; FBS: Fixed Budget Selection; LCS: Least-Cost Selection; CQS: Consultant Qualification Based Selection; SSS: Sole Source Selection.			

Environmental and Social (including safeguards)

Environmental Impacts

56. In terms of PAR, no major negative environmental impacts have been reported from subproject implementation while many best practices and capacity building exercises have been introduced through the project-level EMF. PAR II is not expected to induce large-scale impacts given the limited, community-based nature of project activities. Based on the Project's EMF, the eligibility criteria of subprojects are:

- (a) Subprojects with site-specific and non-irreversible impacts that respond to applicable mitigation measures located either on already converted lands or natural habitats where the activities do not involve a considerable degree of conversion. All the technology used will need to be environmentally friendly.
- (b) Subprojects involving artisanal or semi-industrial transformation of raw materials without major environmental impacts in terms of contamination, waste disposal or generation of environmental liabilities, and appropriate mitigation plans and environmental monitoring.
- (c) Subprojects within national, departmental or municipal protected areas in case they are environmentally friendly and comply with the respective PA categorization; no activities are eligible within the PA core zones.
- (d) Subprojects that use wild, not threatened animals or plants, taken they develop a Biological Resources Management Plan to warrant natural renewal or induced regeneration of the used resource(s).
- (e) No clearing activities will be eligible for project funding.

57. Most alliances will be dedicated to agricultural products, and limited to primary production. On average, Producer Organization Subprojects under alliances will include 25-40 smallholder production units and one line of production. Further, minor associated municipal works will be financed as demanded and eligible, including for example road and bridge improvement and water provision and irrigation systems.

58. At the end of 2011, the Bank conducted a qualitative independent environmental assessment of PAR I with a dual purpose of assessing its implementation, performance, instruments and institutional arrangements, and providing inputs and recommendations for PAR II. According to its results, PAR I has not generated significant negative effects on people's health and/or natural resources. Possible environmental impacts of the alliances are limited in terms of territorial extent and severity, basically due to the type and scale of the production systems. Subprojects with potential serious negative impacts have been effectively excluded from the operation during the screening of proposals at the beginning of the evaluation process. However, some faults were identified in design, implementation and monitoring of environmental mitigation measures that reflect upon the overall efficiency and effectiveness of the environmental management of the alliances.

59. The case study presented evidence of subprojects that run the risk of emerging minor environmental damages. Fulfilling environmental commitments had not been a prerequisite for the next steps of the funding process, and the farmer groups suffered no consequences for improper implementation of planned mitigation measures.

60. The main recommendations of the independent assessment for PAR II included in the design are:

- Generate and apply standards for mitigation measures in terms of productive subsectors and their pre-established impact categories, designs, and costs;
- Revise instruments and procedures as proposed;
- Tighten the guidelines for storing, handling and applying pesticides and enhance promotion of IPM;
- Strengthen monitoring and supervision in different ways, inc. capacity building; and
- Introduce process and performance indicators to EM.

Environmental Safeguards

61. The Project triggers five environmental safeguard policies. In order to address the issues raised by these policies, the following instruments and provisions have been built into the Project design and the Operational Manual.

Environmental Assessment OP/BP 4.01

62. In accordance with the Category B assigned to the Project, the Borrower has concluded an update and completion of the PAR EA to analyze potential environmental impacts of the Project in terms of any new activities and the new eligible municipalities. Consequently, the PAR II EMF has been revised and improved, contemplating lessons learnt and the results and recommendations of the above described independent assessment. EMPODERAR has obtained an environmental license from the national environmental authority.

63. In addition to the potential impacts on forests and other natural habitats, pest management, and cultural property (all discussed separately below), the principal environmental issues addressed by the EA report include soil conservation, irrigation, water management, water pollution from agro-processing, crop genetic diversity, and possible over-exploitation of wild products. The EA report has been disclosed at the World Bank's InfoShop prior to the start of appraisal. Within the country, the report is available at the Project web site maintained by EMPODERAR, and its copies are available to interested members of the public in the national (La Paz) office and the six regional PAR offices, as well as five other regional project offices managed by EMPODERAR (projects *Desarrollo Económico Territorial con Identidad* (DETI) and *Proyecto de Inversión Comunitaria en Areas Rurales* (PICAR)).

64. The Project-level EMF specifies the measures by which the Project will address any negative environmental impacts and strengthen positive ones. The most relevant environmental instruments included in the EMF are:

- (a) A negative list (*Lista de Exclusion*) of environmentally sensitive investments which would be ineligible for Project support (subprojects involving deforestation or loss or degradation of natural habitats, dams higher than 10 meters, reservoirs exceeding 100 hectares, new irrigation command areas exceeding 200 hectares, new roads, road improvements in forested and protected areas, introduction of exotic species in natural ecosystems, etc.);
- (b) subproject eligibility and prioritization criteria which favor environmentally benign or positive activities;
- (c) an environmental screening checklist;
- (d) environmental management recommendations by sub-sector;
- (e) a standardized set of feasible mitigation measures by sub-sector;
- (f) detailed EM procedures for subprojects, including specific institutional responsibilities;
- (g) environmental supervision, monitoring, and evaluation procedures, including indicators;
- (h) requirement for a management plan for non-timber forest products and other biological resources to prevent depletion or degradation; and
- (i) a Pest Management Plan which promotes IPM and restricts which substances could be financed or applied under the Project, consistent with the requirements of OP/BP 4.09.

Natural Habitats OP/BP 4.04 and Forests OP/BP 4.36

65. The Project area covers the entirety or a part of 12 protected areas (out of the 22 existing PAs) and four Ramsar sites (out of the eight existing sites) throughout the country. Additionally, it encompasses more than 20 declared municipal conservation areas, and fully or partially 18 of the 48 important bird conservation areas of the country within and outside of protected areas. The EA provides maps of all these critical habitats respect to the Project coverage, as well as eco-region specific descriptions of the characteristics of the natural resources; their current status, potential, limitations and sustainability; and related environmental considerations for subproject development. Some types of rural alliances, such as those focusing on eco-tourism and gathering of non-timber forest products, could effectively promote natural habitat conservation by rural producers. Communication and careful screening and supervision will be applied to avoid induction of depletion or degradation of natural habitats or forest clearing activities.

Pest Management OP 4.09

66. Some supported agricultural activities are likely to involve pest management and pesticide safety issues, whether or not pesticides are actually procured under the Project. In terms of PAR, established procedures to check producers' acquisitions have ensured that no pesticides in categories IA, IB and II are purchased with Project resources. However, less attention has been given to checking safety conditions in the handling, storage, and use of lower category pesticides. Based on these lessons, the EMF includes enhanced capacity building for implementing IPM in the agricultural subprojects which require it. It is expected, however, that an important proportion of subprojects will actually promote organic agriculture.

Physical Cultural Resources OP/BP 4.11

67. Some rural alliances involving tourism could benefit from, and perhaps help protect or restore archaeological, historical, or other cultural property. Conversely, poorly-managed tourism could damage fragile sites or objects of cultural interest. Civil works such as road improvement and irrigation canals could possibly uncover cultural property, so the EA includes related operational guidance to secure appropriate precautionary activities and coordination with the competent national authority. Operational instructions are included also for potential chance finds.

68. The Environmental Assessment report and the EMF, including the Pest Management Plan, reflect the main results of these consultations, and have been disclosed by the Government and the Bank on August 2, 2012. Further, appropriate grievance handling procedures and arrangements for monitoring subprojects' EMF and Pest Management Plan implementation are in place.

Social Safeguards

69. It is expected that the Project would benefit 35,000 households in 120 municipalities. Approximately 64% of the total population in those areas is Indigenous people, so the majority of the beneficiaries would belong to an indigenous group (mainly Aymara and Quechua). In the Selected Areas to be intervened by PAR II the percentage of indigenous population lies between 40% (Chaco region) and 92% (Cochabamba valley region). Despite the fact that identifying indigenous peoples in Bolivia is quite evident, the Project will ensure that indigenous communities are identified using the criteria specified in the Policy 4:10: a) collective attachment to geographically distinct habitats and/or ancestral territories; b) customary, economic, social or political institutions that are distinct from the Government and rest of civil society; c) self-identification as members of distinct indigenous cultural community; and d) their identify is recognized by other social groups.

70. **Social assessment and consultations.** In the various consultations and reviews, potential participants have recognized a sizeable number of benefits in the new operation such as improvement of quality of products and income rise; development of capacities to manage financial resources in a transparent way; strengthening women's participation in management and production; better access to technology and opportunity to adopt innovations; diversification of products and clients and using production systems that are environmentally friendly.

71. As part of Project preparation, the Borrower conducted a comprehensive Social Assessment (SA) which included extensive stakeholder consultations in all seven new sub-areas which were slated for cover under PAR II: "Nor and Sud Cinti" (Chuquisaca), "Nor and Sud Yungas" (La Paz), "Nor and sud Chichas" (Potosí), "Valles centrales" (Tarija), "Valles meso térmicos" (Santa Cruz), "Pampas" (Beni) and "Norte amazónico" (Pando). The workshops were held between March 16 and March 23, 2012 in the municipalities of Camargo (Chuquisaca), Chulumani (La Paz), Tupiza (Potosí), Tarija (Tarija), Mairana (Santa Cruz), Trinidad (Beni) and Cobija (Pando), involving a total of 457 participants (potential beneficiaries, local authorities, farmers' representatives, *campesino* and indigenous organizations, and NGOs). In addition, a consultation

of 169 beneficiaries of PAR I was conducted in the municipalities of Yacuiba (Chaco de Tarija), Camiri (Chaco, Santa Cruz), Buena Vista (Santa Cruz) and San Javier (Santa Cruz). This process aimed at identifying the social benefits and risks of the current operation and gathering lessons learned to be applied in PAR II.

72. The key conclusions of all these consultations were:

- There are great expectations among indigenous and non-indigenous smallholder farmers for financial support and there is a strong demand for more information on PAR II.
- Potential beneficiaries from all ethnic groups have shown willingness to co-finance the investments with a minimum of 30% of subproject value.
- Smallholders also see advantages in formalizing their organizations as a way for receiving resources and independently managing them. Nevertheless, given that they are not familiar with the formalization procedures they have emphasized the need of assistance in this issue.
- In PAR I, rural indigenous and non-indigenous women and some indigenous communities have experienced greater constraints to access financial support; formalize their organizations; and access financial resource than other groups. Therefore, consulted participants expressed that EMPODERAR should make additional efforts to ensure their inclusion and participation in the Project. Specific measures to favor and facilitate the inclusion of women and indigenous peoples to benefit from the Project are introduced in the OM.

73. The SA identified the following main social risks: (i) appropriation of the project by local leaders and territorial organizations (e.g., local *sindicatos*) that try to control the initiatives of the producer groups; (ii) political utilization of the project in the pre-election period; (iii) influence of local leaders in the formulation of alliances plans in order to attend to their demands rather than to concrete business opportunities; (iv) exclusion of vulnerable groups such as minority Indigenous groups; (v) constraints for women to develop their own productive initiatives due to traditional roles and responsibilities within family and community; (vi) scarcity of financial resources to the requisite to co-fund the subproject; and (viii) problems derived from weak organizations and limited level of formalization of farmers groups.

74. Given the risks identified, several mechanisms would ensure that project's benefits would primary target organized producers that intend to take advantage of market opportunities: (i) maintenance of good communications with local leaders to prevent conflicts and the formulation of a conflict resolution management plan; (ii) strict fulfillment of guidelines included in the operational framework; (iii) development of strategies to address needs of minority indigenous groups and promote initiatives led by women; (iv) collaboration with departmental governments to facilitate the formalization of producer groups. In addition, the communication and dissemination strategy, planned under the Project, will be tailored to address the particular information needs of the various producer groups, in regard to language, choice of media, and type of message.

75. Even though PAR I has achieved a relatively high level of participation of women (more than 30% of all direct beneficiary households are headed by women), PAR II would intend to improve it by various means: encouraging the participation of women in capacity building activities, even

if they are not the formal members of the farmers organization; further adapting the communication strategy to the particularities of women's daily activities (e.g., to distribute flyers and hold meetings in places they visit, such as markets) and education levels, as well as improving training activities in regard to language and method.

76. A comprehensive set of recommendations on the above mentioned issues has been gathered from stakeholders' participation. EMPODERAR responses to the recommendations were:

- To periodically provide social organizations at national and local levels with information on the alliances supported by the Project, and to encourage good coordination between those social organizations and the producers groups. In this regard, the Borrower has committed to strengthen communication with social organizations and to collaborate with them from the beginning of the operation until the final evaluation.
- To develop strategies and instruments to stimulate productive initiatives led by women. This has now been included in the design of the Project, so new ways to encourage the participation of women would be deployed, including a special assistance program for women to help them manage their alliances. To improve the approach to gender issues, the project has also planned capacity building activities for staff and service providers at national and regional levels.
- To develop incentives as well as instruments appropriate for minority Indigenous groups. Similar to the treatment of gender issues, the Borrower has committed to introduce innovative methods and tools to address these groups, as well as to carry out particular assistance activities and capacity building for project teams.
- To allow vulnerable groups such as Indigenous communities and women to reduce their cash contribution for co-financing subprojects. In this regard, the Borrower has decided to permanently review the financial capacity of minority vulnerable groups and to exceptionally authorize increasing their in kind contribution as to reduce the minimum of 30% cash contribution.
- To manage the support of Departmental Governments for the formalization of producer' organizations. In this regard, the Borrower accepted this recommendation and would work out with the Departmental Governments a way to speed up formalization procedures.
- To pay special attention to the producers' associations from the areas "Nor and Sud Chichas", "Pampas del Beni" and "Norte Amazónico" due to their high degree of poverty and climate vulnerability. In this regard, the Borrower is willing to consider vulnerability and variability of climate change when defining the business plans for the alliances in these areas.
- To target more efficiently Indigenous groups from Beni, in particular women, given that they have been exposed to many ways of social exclusion. In this regard, the Project would deploy specific strategies to approach these groups.
- To implement a permanent consultation mechanism for Project beneficiaries in the new geographical areas of PAR. In this regard, the Borrower would define a consultation system as well as improve the communication forms, using indigenous languages and appropriate media.
- To improve the M&E system, including information about issues such as formation of new alliances at local level, the degree of empowerment and ownership developed by the

organizations, access to technology and the level of response of the service providers. PAR team accepted this recommendation and would introduce more qualitative information into the M&E in the above mentioned topics.

- To follow up the identified risks for the transition from PAR I to PAR II with the M&E system. In the Project a robust monitoring system has been defined so that internal and external risks can be detected early.

Triggered Social Safeguards

Indigenous Peoples OP/BP 4.10

77. Due to the predominance of Indigenous Peoples in the project areas (approximately 64% of the local population), and following policy guidelines, the Project as a whole is designed in compliance with OP/BP 4.10 – Indigenous Peoples, and no separate Indigenous Peoples Plan or Planning Framework will be needed. This contributes to a better integration of indigenous peoples’ needs and concerns in the overall project design. Building on the experience in PAR 1 and the conclusions of the Social Assessment, further steps will be taken into account to ensure that participation of indigenous peoples in free-prior and well-informed consultations processes. One of the main objectives of this consultation will be to identify key lessons learned and best ways to ensure access to Project benefits for indigenous peoples of both genders. A consultation methodological framework, based on the Social Assessment, will be included in the Operational Manual. In this regard the Recipient, following the outcomes of the Social Assessment, will carry out the following budgeted activities to ensure the participation of Indigenous Peoples as project beneficiaries:

- a) Social screening tool: This tool will ensure that indigenous beneficiaries receive targeted support as needed and are accounted for properly. The tool will comprise the identification and mapping of beneficiaries: (i) indigenous communities (using the identification criteria according to the Policy 4:10), (ii) ethnically mixed communities with indigenous and non-indigenous people, (iii) peasant or non-indigenous communities;
- b) Culturally appropriate information and dissemination strategy: This strategy will focus on including specific issues that indigenous peoples need to know about the Project in locally-specific indigenous languages, media and message types as part of a approach in the communication and dissemination campaign;
- c) Free, prior and informed consultation during project implementation: This will include additional workshops and the adoption of project materials into local languages to ensure that indigenous peoples of both genders benefit from free, prior and well informed consultations through which they are informed of the PDO, components, activities and rules of the Project as well as separate workshops and additional technical assistance for minority indigenous groups and monolingual women to facilitate their participation in the Project;
- d) Broad community support: The social screening of Rural Alliance proposals will verify that each initiative has broad community support and, if potential conflicts are identified, approval is postponed until local actors arrive at an agreement
- e) Support to access and enhance program benefits for Indigenous SPOs: These Rural Alliances will receive additional and culturally appropriate technical assistance for

institutional strengthening, targeted support, and (if needed) more concessional terms for counterpart requirements;

- f) **Monitoring & Evaluation:** The project will support systematic consultation with Indigenous beneficiaries and their communities and will provide specific support for participatory monitoring and evaluation to build the capacity of communities and construct their ownership and social responsibility with regard to Rural Alliance activities. In addition, periodic evaluations of counterpart requirements for indigenous groups will be carried out to ensure that required cash levels do not impose unreasonable barriers to entry, in particular for minority indigenous groups. Yearly consultations will be carried out of beneficiaries on overall Project performance, on the efficacy and cultural adequacy of targeted activities and processes and an evaluation of field staff; and twice-yearly Project performance reports delivered to, and discussed with, national and mid-level social organizations, including those of Indigenous Peoples.

Involuntary Resettlement OP/BP 4.12

78. PAR II will not support Producer Organization Subprojects that would generate any sort of land acquisition, as it is expected that all beneficiaries carry out their related activities on land that either belongs to them or to the community. However, the Project can finance Municipal Subprojects, such as the improvement of roads and construction of bridges, for which land acquisition and compensation might be needed. Therefore, the Borrower has prepared a Resettlement Policy Framework, which has been disclosed in Bolivia on July 31, 2012 and by the Bank on August 10, 2012, in accordance with Safeguard **OP/BP 4.12 Involuntary Resettlement**. The defined Framework is based on the guidelines developed for the Productive and Social Investment Fund (FPS), which is the implementing agency for similar types of subprojects in the Second Participatory Rural Investment Project (P101298). Using that previous framework would be of advantage given that FPS would also supervise PAR II subprojects and will put into practice the experience gained in applying the Involuntary Resettlement policy. Compensation costs, if incurred, would be paid by municipal governments.

Borrower's capacity

79. Overall Borrower capacity for safeguard implementation is low, yet overall safeguards management in PAR 1 has been satisfactory throughout implementation. Nevertheless, in March 2012 the overall safeguards compliance and compliance on EA OP/BP 4.01 were dropped to Moderately Satisfactory based on the results of the independent assessment. It showed weaknesses in the design and application of mitigation measures at the subproject level, yet in most of the cases without significant impacts. From early 2012, adjustments have been made to strengthen the EM of alliances with potential negative impacts, and lessons learnt have been reflected in the EMF of PAR II. For PAR II, the NCU will have an environmental specialist solely focused on the EM of the Project, and each ROU will have at least one environmental analyst. This team will be in charge of reviewing and supporting environmental activities of the Project beneficiary alliances, supervising field activities, technical assistance, and safeguards compliance.

80. The EMF of PAR II contemplates improving environmental know-how of the key Project stakeholders, for example the technical consultants contracted to support implementation and conduct supervision of the rural alliances. Training and technical assistance will be provided along Project implementation on a number of topics such as integration of EM within overall project management, ecological production, IPM, erosion control, and eco-tourism. EM is expected to embrace an average of five per cent of subprojects' costs. Environmental M&E procedures have also been revised to enhance their measurability and efficiency. Further, the PAR web-based information system (GMIS) is being revised to better serve the Project EM.

81. The Borrower's capacity to address social issues and relevant safeguards policies is adequate. This assessment is based on the recent successful experience managing PAR I. Compliance with safeguards policies would be ensured through the recruitment of dedicated environmental and social specialists in the national and regional offices of EMPODERAR, as it was done in PAR I. FPS has built adequate capacity to manage the RPF for Municipal Subprojects.

82. A participative evaluation of the diverse social instruments used in the evaluation of the alliances was also held with EMPODERAR social specialists during Project preparation and they proposed a number of instrumental adjustments to the social screening of eligible alliances. It has also been agreed to reinforce EMPODERAR by contracting a Social Specialist at the national level.

Monitoring & Evaluation

83. PAR-EMPODERAR already counts on a comprehensive, efficient and well functioning M&E system which will be used throughout the implementation of the Project. The M&E system is based on a Geo-referenced Management Information System (GMIS) which is used to plan, monitor and control implementation during the alliance cycle (including Producer Organization Subproject procurement plans), as well as report on process and results indicators. Information is fed into the GMIS as activities are carried out by Project personnel and consultants, and it is verified first at the ROU and finally by the NCU. Activity and indicator reports are linked to administrative processing and even to payments for ROU personnel and consultants who provide implementation and monitoring support (*facilitadores* and *acompañantes*). The GMIS is thus also linked to the financial management and reporting system. The GMIS is accessible online and permits internal and external users to aggregate reports in real time which can be disaggregated by indicator, level of alliance execution, geographic area, gender and ethnicity amongst others.

84. Besides the indicators included in the Results Framework, the GMIS includes a set of process indicators at the component level which have been agreed with the Bank and which permit real time monitoring of advances in implementation and prompt corrective action. Indicators have been reviewed and streamlined during Project preparation. New indicators for monitoring gender participation and environmental management have been added.

85. An impact evaluation on farmers' income will be carried out using double differences. This method will be complemented with an ex-ante propensity score matching. The key variables to be assessed will be: household gross total income and household gross agricultural income.

Baseline surveys will collect a comprehensive set of information about applicants for each call of proposals. Follow-up surveys will collect the same set of information when alliances are closed. The schedule for those surveys will be defined in accordance to the progress in the implementation of the Project.

86. The GMIS generates periodic reports for Project managers to control implementation. In addition, The Project will generate two implementation progress reports per year, which will be used as a basis for assessment during Bank supervision missions.

87. With the support of the Mapping for Results (M4R) team from the World Bank Institute, the GMIS will be developed to an open-web based Public Information System that will allow disclosure of key Project information, as well as implementation milestones of both Project and Alliances. The system will report on Producer Organization Subproject tranche approvals, including approval by SPO members of progress reports and photographs of works and goods acquired. Complementing that system, EMPODERAR team, based on the results of a pilot to be conducted in the last stage of PAR I, will implement a web- and SMS-based citizen feedback loop to provide a channel for complaints, suggestions and stories. That inter-active web-based tool (“On track”) will serve as a platform for communicating on-the-ground implementation status, identifying opportunities for communities to exchange best practices and negative beneficiary feedback, and promoting awareness about the effects of the project.

88. Most data collection in the field and some processing for results monitoring is carried out by “*acompañantes*,” consultants who accompany alliance implementation and also provide basic information for the M&E system. An evaluation of PAR’s M&E conducted as part of regular supervision activities concluded that the *acompañantes* needed better training and enhanced supervision to ensure consistency in data collection and particularly when facilitating participatory financial evaluations with alliance members. These activities will be included in the Project, as well as an improved monitoring of the quality of information by NCU personnel.

Role of Partners (if applicable)

89. Since the Bolivian government decided to reduce the IDA allocation for the Project from US\$60 to US\$50 million, the MDRyT has initiated talks with other donors (e.g. Germany’s KfW Development Bank) to explore the possibility of financing the shortfall in order to intensify activities in the proposed Project area. Preliminary conversations with potential partners served to agree on a basic set of principles if co-financing were to be included in the Project:

- a. Financing would not be segregated by component, sub-component or activity;
- b. Financing could be segregated by region;
- c. All donors would operate under a common OM in compliance with Bank safeguards and fiduciary rules;
- d. There would be one set of progress reports, audits and supervision missions.

Annex 4: Operational Risk Assessment Framework (ORAF)

Bolivia: Rural Alliances Project II (P127743)

Project Stakeholder Risks

Stakeholder Risk	Rating	Low				
Description:	Risk Management:					
<p>-Primary stakeholders (direct beneficiaries) are mostly indigenous rural smallholder households, organized in small-producer associations, buyers (intermediaries, retailers and transformers) and municipal governments. Experience with PAR I shows great receptivity and very low levels of conflict in these groups, as evidenced by high levels of demand for Project support.</p> <p>-Mid-level indigenous and peasant social organizations have sometimes expressed their interest in managing Project funds instead of producer associations, but have not interfered in alliance implementation, particularly as funds are managed by producer organization themselves.</p> <p>-PAR I is a star project for Government. PAR II, its follow on, is awaited by all national stakeholders. The proposed operation is important for maintaining a solid alignment with Government objectives.</p>	<p>-A culturally appropriate communications strategy will be carried out during implementation to ensure all key stakeholders are properly informed of Project rules and benefits. Indigenous languages will be used as appropriate, depending on the ethnic characteristics of each Selected Area.</p> <p>-EMPODERAR will hold twice-yearly meetings with mid-level and national indigenous and peasant organizations to inform about Project progress, including information on activities carried out to promote the Project in the Selected Areas, the results of the call for proposals, approved alliances and beneficiaries.</p>					
	Resp:	Client	Stage:	Implementation	Recurrent:	<input checked="" type="checkbox"/>

Implementing Agency (IA) Risks (including Fiduciary Risks)							
Capacity	Rating	Moderate					
<p>Description:</p> <p>-Financial Management: Overall, Empoderar has put in place sound financial management arrangements, which are being further enhanced and simplified. Project transactions, including disbursement to producer organizations, will be processed and paid through SIGMA and Treasury Single Account (CUT), which permits an agile and smooth flow of funds to beneficiaries. SIGMA will be complemented with the use of Empoderar's SIGG (management system) and SAS (financial information system); which have proved to provide reliable information. However, programming at subproject level, and for individual tranches may at some point be affected by an excessive pressure to disburse funds, without duly reviewing the reasonableness of the activities proposed in terms of timing and costing; and the monitoring and oversight functions at the national office level needs to be strengthened to make sure systemic issues are timely identified.</p> <p>-Procurement: Frequent turnover of key staff and limited fiduciary capacity may create implementation bottlenecks.</p>	Risk Management:						
	<p>Financial management:</p> <ul style="list-style-type: none"> • Criteria for the definition of tranches under a given subproject have been clarified and included in the updated Operational Manual, also specifying the approval and authorizing requirements for disbursements exceeding a certain percentage (40 percent); and delays in implementation and documentation will be systematically followed up. • Adjustments to SIIG and SAS to permit a more streamlined recording of subproject implementation will be reviewed before effectiveness. • Some specific monitoring tasks will be reflected in the operational manual; and IFRs will be accompanied by specific reports on subproject implementation. 						
	Resp:	Client	Stage:	Both	Recurrent:	<input type="checkbox"/>	Due Date: 28-Sep-2012
	Risk Management:						
<p>Procurement:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Capacity building will be an essential part of project activities. <input type="checkbox"/> Staff in World Bank office will provide support to staff of EMPODERAR, including through regular and on-the-job training. 							
Resp:	Bank	Stage:	Implementation	Recurrent:	<input checked="" type="checkbox"/>	Due Date:	
Governance	Rating	Moderate					
Description:	Risk Management:						
-Ownership and commitment by both the	Government:						

<p>Ministry of Rural Development and Land (MDRyT) and its implementing agency, EMPODERAR, are very high, as this Project would follow on the steps of the most successful project implemented by these agencies in the last 5 years.</p> <p>-EMPODERAR is accountable to MDRyT, which reviews and approves its budget, monitoring and audit reports. EMPODERAR also reports regularly to the largest social organizations in the country.</p>	<p>-MDRyT will carry out yearly internal audits of the Project and of EMPODERAR.</p> <p>--EMPODERAR will hold twice-yearly meetings with mid-level indigenous and peasant organizations to inform about Project progress, including information on activities carried out to promote the Project in the Selected Areas, the results of the call for proposals, approved alliances and beneficiaries.</p> <p>World Bank:</p> <p>-The World Bank team will monitor budget approvals to ensure that adequate funding is provided for smooth operation.</p>						
	Resp:	Both	Stage:	Implementation	Recurrent:	<input checked="" type="checkbox"/>	Due Date:
Project Risks							
Design	Rating	Substantial					
Description:	Risk Management:						
<p>-Project design includes financing of Producer Organization Subprojects, which requires disbursement of funds to low-capacity producer organizations for implementation including undertaking fiduciary tasks, which would affect project implementation.</p> <p>-Implementation of Municipal Subprojects requires provision of municipal contributions which may not be readily available</p> <p>-Municipal Subprojects require the participation of FPS in the approval and authorization of payments, although not in the administration of project proceeds.</p>	<ul style="list-style-type: none"> • On the basis of PAR I, Empoderar has put in place specific procedures, including monitoring and evaluation mechanisms which were found acceptable, and which are being streamlined mainly to simplify requirements at SPO level. • Similar to PAR I, project design provides for a technical assistance component on administrative-finance tasks, as part of the subproject design. • Processes and procedures for the implementation of municipal subprojects, including FPS involvement have been clarified. 						
	Resp:	Client	Stage:	Preparation	Recurrent:	<input type="checkbox"/>	Due Date: 31-Jul-2012
Social and Environmental	Rating	Low					
Description:	Risk Management:						
Social: No significant social risks are	<p>Social:</p> <p>-EMPODERAR will carry out regular consultations with stakeholders under the principles and processes</p>						

<p>contemplated, as shown by implementation in PAR I. The Project as a whole is a IPDP, given that the overwhelming majority of beneficiaries is indigenous. PAR II will trigger the Involuntary Resettlement safeguard policy because of minor risks in the implementation of municipal investments.</p> <p>Environmental: The eligible rural productive activities funded by the project are not expected to entail major environmental safeguards issues due to their nature and scope. The main environmental risks are expected to relate with potential contamination derived of inadequate or even prohibited use of agro chemicals or deficient management of animal manure. Soil degradation might also occur in case sustainable agricultural practices were not followed.</p>	<p>of free prior and informed consultation to ensure that all groups are being properly informed of Project rules and progress and adequate feedback is provided to EMPODERAR on agreed Indigenous Peoples activities.</p> <p>-A culturally appropriate communications strategy will be carried out during implementation to ensure all key stakeholders are properly informed of Project rules and benefits. Indigenous languages, media and messages will be used as appropriate, depending on the ethnic characteristics of each Selected Area.</p> <p>-EMPODERAR will carry out separate activities with lowland minority indigenous groups and with women's organizations to facilitate the formulation of proposals, and additional technical assistance will be provided to their approved alliances as needed to ensure successful implementation.</p>						
	Resp:	Client	Stage:	Implementation	Recurrent:	<input type="checkbox"/>	Due Date: 31-Jul-2012
	Risk Management:						
	<p>Environmental: Environmental management of PAR I has been evaluated in order to review its successfulness and draw lessons on good practices in order to streamline applied instruments and improve related capacity building among different stakeholder groups. A complementary EA was carried out by the EMPODERAR in new areas covered by the Project, and the EMF has been updated and completed, including a carefully prepared negative list and guidance on activity-specific mitigation measures. Qualified staff at the national and the regional PAR offices will secure that all subprojects pass a specifically designed environmental evaluation process that counts with diverse inputs but has clearly defined responsibilities. The project monitoring system includes few carefully chosen environmental indicators.</p>						
	Resp:	Client	Stage:	Preparation	Recurrent:	<input type="checkbox"/>	Due Date: Completed
Program and Donor	Rating		Low				
Description:	Risk Management:						
<p>-The Project is a stand-alone operation which is financed solely through the IDA credit and beneficiary (producer organization and municipal government) counterparts.</p> <p>-During appraisal, MDRyT initiated talks</p>	None required.						
	Resp:		Stage:		Recurrent:	<input type="checkbox"/>	Due Date:

with other donors (e.g. Germany's KfW Development Bank) to explore possible financing of the proposed project.							
Delivery Monitoring and Sustainability	Rating	Moderate					
Description:	Risk Management:						
<p>-The project will be managed by EMPODERAR, an entity which has a good track record in properly administering and monitoring implementation.</p> <p>-Sustainability is expected at the level of the producers, their organizations and the alliances themselves. Project implementation is designed to ensure all three levels are viable, and that alliances are beneficial to all parties. Incentives for sustainability have been included.</p>	Monitoring of implementation of agreed new measures to increase sustainability likelihood; and adequate monitoring and evaluation of sustainability indicators (intermediate and EOP)						
	Resp:	Both	Stage:	Implementation	Recurrent:	<input checked="" type="checkbox"/>	Due Date:
Overall Risk							
Implementation Risk Rating: Moderate							
Description:							
<p>Though some Operating Environment, Implementing Agency and Project risks are deemed substantial, it is expected that the proposed project will successfully manage key operational risks. Project design is relatively complex both because of the number of subprojects in Rural Alliances, and also because of the involvement of low capacity beneficiaries to carry out technical, administrative and financial management tasks efficiently and transparently. At the level of producer organizations, existing social accountability mechanisms will be reinforced (through training and implementation procedures) and incorporated into the Project's control and monitoring systems. EMPODERAR, the agency which has been in charge of implementing PAR I and which will implement PAR II put in place solid FM and operating mechanisms, which are operating well. The maintenance and adequate operation of any kind of arrangements depends highly on the ability to attract and maintain qualified and experienced staff, which in the case of Bolivia is generally a major problem, but which has been adequately managed in PAR I through agreed procedures for the recruitment, selection and evaluation of personnel which are monitored on a continuing basis.</p>							

Annex 5: Implementation Support Plan

Bolivia: RURAL ALLIANCES PROJECT II

Strategy and Approach for Implementation Support

1. The following considerations guided the design of the Implementation Support Strategy :
 - The Project is a repeater operation of the successful Rural Alliances Project I, which is expected to close in 2013 (one year ahead of schedule), and has been consistently rated as Satisfactory.
 - The implementing agency (EMPODERAR) has a strong record of compliance with fiduciary and safeguard rules and procedures, much of it derived from adherence to a personnel management system regulated in the Financing Agreement and the Project Operational Manual.
 - EMPODERAR counts on a solid M&E system which will be complemented with a Public Information system to increase transparency and provide a systematic venue for receiving and processing public comments, criticisms and complaints.
 - Important innovations, including additional financing for successful alliances and access to credit, have been introduced into the design of the Project, demanding additional technical support during the roll out phase.
 - Project success is strongly dependent on compliance with agreed rules for implementation, in respect to both alliance selection criteria and detailed safeguard and fiduciary procedures.
 - The large geographic range and dispersed nature of the activities, in addition to generally low capacities of producer groups and municipal governments, increase training needs and field supervision requirements.
 - The Bank counts on a solid team in the Bolivia office, including specialists in agriculture and rural development, procurement, financial management and social safeguards.

Implementation Support Plan

2. Technical Support.

- *Component 1, Institutional Strengthening* requires expertise in the following areas: (i) alliance plan formulation (rural businesses, value chains and markets); (ii) institutional development of rural small-producer organizations; and (iii) financial literacy and access to financial services. These three areas of technical expertise will count on Bank staff, FAO specialists and local and international consultants to provide periodic assistance to the government team during missions, as well as feedback on demand on issues that may arise during implementation.
- *Component 2, Implementation of Rural Alliances* requires expertise in the same areas as Component 1, in addition to expertise in the areas of rural engineering, procurement, financial management and social and environmental safeguards. Support and supervision under this component will be carried out by technical and fiduciary specialists in the team, FAO specialists and local and international consultants.

- *Component 3, Project Management* requires expertise in the areas of monitoring and evaluation (including impact evaluation), financial management, social and environmental safeguards and public information and feedback systems. Support under this component will be carried out by technical and fiduciary specialists in the team, supported as needed by consultants. The World Bank Institute's "Mapping for Results" (M4R) team will provide guidance for the roll out of the citizen feedback loop in the Project's Public Information System.

3. **Fiduciary Support.** As described in Annex 3, EMPODERAR has satisfactory experience in implementing Bank-financed projects, and counts on competent expertise in managerial, technical, fiduciary and safeguard areas. However, due to the dispersed location of alliances, low capacity of producer organizations and municipal governments, the decentralized model of implementation (delegation of key activities to Regional Operating Units) and country-wide risks, the following additional measures will be taken during implementation:

- *Procurement:* Implementation support will include: (i) periodic training to EMPODERAR personnel; (ii) ex post reviews of a sample of alliances and of Project purchases during each supervision mission; (iii) on-demand assistance provided by the procurement specialist in the Bolivia office; and (iv) at least two independent procurement reviews during the life of the Project.
- *Financial Management:* Implementation support will include: (i) twice-yearly comprehensive review of the operation of the financial management arrangements, including the operation of the Project Management Information System and internal controls; (ii) monitoring of automated alerts generated by delays in alliance implementation reports and reported in IFRs; and (iii) external audit review with interim visits to Regional Operating Units and a sample of SPOs.

4. **Safeguards support.** To ensure support in dealing with social and environmental issues at the alliance level, a special focus will be placed on safeguards supervision. The team will include an Environmental Specialist and a Social Specialist, the latter located in the Bolivia office and counting on support from headquarters specialists as needed. Post-reviews of ESMF screening of alliances will be undertaken annually.

5. **Thematic support.** The Bank team counts on specialists in rural alliances, agriculture, rural infrastructure and impact evaluation. WBI will provide support in public information and feedback systems. FAO specialists in monitoring and evaluation and rural productive projects also form part of the team and consultants in rural business, access to finance and other fields will be called on as needed.

6. **Focus of support.** The following table summarizes the main focus of support to implementation during the different phases of the Project:

<i>Time</i>	<i>Focus</i>	<i>Skills Needed</i>	<i>Resource Estimate</i>
<i>First twelve months</i>	Effectiveness Roll out of financial literacy and access to credit activities Piloting and roll out of Public Information System Monitoring of implementation of adjustments to Operational Manual	Rural alliances and rural business Financial systems Public Information (WBI) Safeguard and fiduciary	150% of supervision norm
<i>12-24 months</i>	Implementation quality and efficiency	Rural alliances and rural businesses Rural infrastructure M&E Safeguard and fiduciary	Supervision budget based on norm
<i>24-36 months</i>	Continue monitoring of implementation Mid-term Review	Rural alliances and rural businesses Rural infrastructure M&E Safeguard and fiduciary	150% of supervision norm
<i>36-Closing</i>	Maintain implementation quality and rhythm ICR	Rural alliances and rural businesses Rural infrastructure M&E Safeguard and fiduciary	Supervision and ICR budget based on norm

7. Skills Mix Required

<i>Skills Needed</i>	<i>Number of Staff Weeks</i>	<i>Number of Trips</i>	<i>Comments</i>
Rural Development Specialist	30	10	
Rural Development Specialist	30	10	
Rural Business Specialist	16	8	
Rural Infrastructure Specialist	8	4	
Environmental Specialist	8	4	
Social Development Specialist	10	4	
Procurement Specialist	10	4	
Financial Management Specialist	10	4	
Disbursement Specialist	2	0	
M&E Specialist	8	4	
Productive Project Specialist	8	4	

Annex 6: Economic and Financial Analysis
Bolivia: Rural Alliances Project II
Cost Benefit Analysis

Indicators	Expected Results in Scenario with Reduced Benefits	
	Economic Analysis	Financial Analysis
Productive Alliances		
Net Present Value	US\$60.7 Million	US\$51.3 Million
<i>Internal Rate of Return</i>	39%	32%
Expected Delivery	615 alliance plans financed and implemented	
Municipal Subprojects		
Net Present Value	US\$0.5 Million	US\$0.4 Million
<i>Internal Rate of Return</i>	21%	20%
<i>Expected Delivery</i>	26 municipal subprojects financed and implemented	
Overall Project		
Net Present Value	US\$61.2 Million	US\$51.8 Million
<i>Internal Rate of Return</i>	38%	32%

Introduction

1. The Project essentially supports locally identified business opportunities. Thus, detailed ex-ante cost-benefit analysis is only undertaken for alliances that formulate investment plans. However, the present appraisal benefits from the assessment of financial and economic results of 140 alliances financed by PAR I, which completed implementation of the investment phase and obtained results for at least one production cycle. Thus, the financial and economic analysis of the Project is heavily based on such an assessment. As in PAR I, the Project supports municipal investments aimed to complement investments of productive alliances. However, municipal subprojects supported by PAR I are currently under implementation and thus results have not been assessed yet. Therefore, the corresponding financial and economic analysis is based on an updated impact assessment of a sample of around 40 municipal subprojects supported by FPS in previous years.

2. The following caveats apply to the analysis: (i) the base assessment does not include a counterfactual and thus cannot distinguish project effects from other influences;¹⁴ and (ii) as

¹⁴ A rigorous impact evaluation of PAR I is expected to be ready by March 2014.

entrance to the Project is competitive and the most promising alliances may have already been financed, there is a possibility (at least in the areas included in both PAR I and II) that the results may be reduced.

Eligible Investments

3. As mentioned in the Project description, eligible alliance plans will be: Model 1 alliances that support organized small producers with formal or informal market agreements, and include technological and organizational innovations which increase volume sales and/or enhance product quality according to given quality specifications agreed with buyers; and Model 2 alliances aim to support organized small producers which received funding from PAR I, as well as those involved in non-agricultural production. Matching grants would cover: goods, works and technical assistance for Model 1 alliances and only technical assistance for Model 2 alliances.

4. Tables 1 and 2 provide summaries of basic parameters of representative alliances and municipal subprojects, with likely shares among total investments. Representative alliances are based on average parameters and results obtained in PAR I. Some adjustments were made, so as to generate conservative indicators. Without-Project annual input and labor costs per unit of production were set equal to with-Project cost figures. Thus, incremental figures essentially result from increases in productive base (crop area, herd size, etc.) and productivity. In turn, municipal subprojects are based on average parameters and results obtained by a sample of subprojects executed in FPS several years ago. Basic parameters for alliances include alliance product, participating families, productive base, annual production, investment cost and annual labor use. Basic parameters for municipal subprojects include investment type, beneficiary families, investment scale, annual benefit, investment cost and annual maintenance labor. Tables 3 and 4 provide the same parameters per family.

Feasibility Analysis

5. For alliances included in Tables 1 and 3, average economic, financial, fiscal impact and cash flow indicators were estimated. Economic (social) prices were calculated based on a Conversion Factor of 0.88¹⁵ for products, inputs and services and 0.64¹⁶ for labor. Estimated parameters include: incremental annual revenues, input/service costs, labor costs, net benefits/income; incremental labor; Net Present Value (NPV) of benefit flows (at a 12% annual discount rate); and Internal Rate of Return (IRR). Financial feasibility analysis essentially applies market (private) prices, whereas economic feasibility analysis applies economic (social) prices. Fiscal impact analysis essentially considers a 13% Value Added Tax (VAT) on revenues, after deducting VAT paid on inputs purchased and services contracted. Finally the cash-flow analysis strictly includes producers' cash inflows (sales) and outflows (inputs, services and taxes). The results of the financial, economic, cash flow and fiscal impact analysis are shown in Table 5. Such results are also presented per family in Table 7. In all four analyses, annual flows were linearly projected for 10 years, considering the standard evaluation period considered for

¹⁵ Shadow price calculated by deducting the 13% VAT from the unit price ($1/1.13=0.88$).

¹⁶ Shadow price for labor obtained from National Fund for Social and Productive Investments (FPS) based on updated parameter from the National Evaluation System for Public Investments (SNIP) in Bolivia.

preparation of eligible alliance plans. For alliances related with perennial plantations and breeding herds, estimated NPV and IRR based on linear projection of annual flows should be viewed as minimum expected values.

6. For municipal subprojects included in Table 2 and 4, average economic and financial indicators were estimated, using the same parameters described above. The results of the financial and economic analysis of such municipal subprojects are shown in Table 6. Such results are also presented per family in Table 8.

7. For sensitivity analysis, switching values¹⁷ of financial income reduction (or output price reduction) were calculated for alliance plans and municipal subprojects (Table 7 and 8). To estimate aggregate impacts, average results per alliance plan were multiplied by 615, which is the likely number of alliance plans to implement, given project funds. Similarly, average results per municipal subproject were multiplied by 26 possible subprojects, in line with limitations of project funds.

Aggregate and Average Project Indicators

8. **Financial Analysis.** As shown in Table 5, the Financial NPV and IRR of the average alliance plan for 47 producer families, considering total investments including other Project costs (institutional strengthening and project management components), are: US\$159,000 and 50% respectively – very close to the feasibility indicators estimated during appraisal of PAR I additional financing. An income or output price reduction of 25% will result in a NPV close to zero and IRR of almost 12% (Table 7). The incremental annual net income would be US\$1,100/family (Table 6). The incremental annual labor use would be 44 person/days/family (Table 3). To take account of risk factors (technical and social/organizational aspects) as well as climate and market related variability, feasibility indicators were adjusted considering an income reduction of 12.5% – average figure between zero (no reduction) and switching value. Under this more realistic scenario, the Financial NPV and IRR of the average alliance plan are: US\$83,500/alliance and 32%. The incremental annual net income per family at market prices would be US\$730. A successful implementation of 615 alliance plans within 5 years would represent: an aggregate investment of US\$51.0 million (US\$37.6 million from PAR and US\$13.5 from producers); and a Financial NPV of US\$51.3 million. The most sensitive alliances to income/price reductions are those involved with production/marketing of: coffee, peanuts, pork, chicken, milk and potato seeds. However, the alliances for milk and potato seeds are highly demanded. The most profitable alliances are those involved with: strawberries, vegetables, chick-peas, sesame and flowers.

9. As shown in Table 6, the Financial NPV and IRR of the average municipal subproject, considering total investments including other Project costs, are: US\$30,500 and 27% respectively. The annual net benefit would be US\$34/family, equivalent to 2.9 productive labor days/family/year (Table 8). The annual maintenance labor would be 12 person/days/family (Table 4). A reduction on expected benefits of 35% will result in a NPV close to zero (IRR close to 12%). To account for risk factors, feasibility indicators were also adjusted considering an income reduction of 17.5% – average figure between zero and switching value. Under this more

¹⁷ Percentage reduction on income or output price which yields an NPV close to zero (IRR close to 12%).

realistic scenario, the Financial Net Present Value (NPV) and Internal Rate of Return (IRR) of the analyzed municipal subprojects are: US\$16,500/alliance and 20% respectively. The annual net benefit per family would be US\$27/year, equivalent to 2.3 productive labor days/family/year. The implementation of 26 municipal subprojects within 5 years would represent: an aggregate investment of US\$5.7 million (US\$4.3 million from PAR and US\$1.4 from beneficiaries); and a Financial NPV of US\$0.4 million. Consequently, overall Project Financial NPV is US\$51.8 million.

10. Economic Analysis. Under the 12.5% income/price reduction, the Economic NPV and IRR of the average alliance plan for 47 producer families are: US\$98,700/alliance and 39% respectively. The incremental annual net income per family at social prices would be US\$758. A successful implementation of 615 alliance plans within 5 years would represent an aggregate Economic NPV of US\$60.7 million. Under the 17.5% income/price reduction, the Economic NPV and IRR of the average municipal subproject are: US\$18,800 and 21% respectively. The implementation of 26 municipal subprojects within 5 years would represent an aggregate Economic NPV of US\$0.5 million. Consequently, overall Project Economic NPV is US\$61.2 million.

11. Fiscal Impact. As shown in Table 5, the NPV and IRR of net fiscal contributions of the average alliance plan are: negative US\$260 and 10%. This suggests that under optimum circumstances and results, the Bolivian government will practically recover, through VAT in 10 years, the non-reimbursable funds granted to producer groups. The incremental annual net fiscal contributions would be: US\$180/family (Table 7). Under the 12.5% income/price reduction, the NPV and IRR of net fiscal flows are: negative US\$10,800/alliance and 4%. Under this more realistic scenario, fiscal revenues can compensate less than 50% of Project's direct transfers to poor producer groups. The incremental net fiscal contribution per year would be US\$137/family. A successful implementation of 615 alliance plans within 5 years would represent an aggregate NPV of net fiscal transfers of US\$6.6 million.

12. Cash flow of producers. Under the 12.5% income/price reduction, the NPV and IRR of annual net cash flows to producer groups, on the average alliance plan are: US\$293,700 and 257%. The incremental annual net cash flow would be: US\$1,200/family. A successful implementation of 615 alliance plans within 5 years would represent an aggregate NPV of annual net cash flows to producers of US\$180.6 million.

Tables 1 and 2

Table 1. Basic Parameters - Summary of Alliances - Prices of 2011 expressed in USD at: 6.9 BOB/USD

Description		Productive Base						Annual Production			Investment (USD)			Labor (Person-days)		
Regions	Activity	Frequency	Participating Families	Production Unit	Situation without PAR	Situation with PAR	Production Unit	Situation without PAR	Situation with PAR	PAR Investment	Participants Investment	Total Investment	Situation without PAR	Situation with PAR	Diferential	
VLP, VCB, VDS, TSC, CHC, NLP	Handcrafts	5.3%	34	Unit	30.0	30.0	Piece	52,445.0	58,562.0	42,780	14,950	57,729	880	1,280	401	
VLP, VCB, VDS	Chick-peas	1.5%	56	Hectare	21.0	51.0	Ton	116.5	416.9	100,787	5,279	106,066	1,576	5,643	4,067	
TSC, CHC, NLP	Cattle	5.8%	32	Head	250.0	434.0	Ton	12.1	24.7	45,904	16,978	62,882	328	673	345	
TSC, NLP, VLP	Coffee	4.1%	79	Hectare	54.0	62.5	Ton	25.0	318.5	80,611	25,185	105,796	490	2,412	1,922	
VLP, VCB, VDS, TSC, CHC, NLP	Pork	5.8%	28	Head	39.0	182.0	Ton	26.0	48.1	48,624	16,191	64,815	291	960	669	
VLP, VCB, VDS, TSC, CHC, NLP	Chicken	1.5%	29	Unit	5,367.0	13,407.1	Ton	14.1	373.5	46,686	13,111	59,797	33	844	811	
VLP, VCB, VDS, TSC	Peach	4.7%	45	Hectare	22.5	22.7	Ton	131.7	165.6	57,980	22,068	80,049	307	331	24	
VCB, VDS, TSC	Apple	2.3%	45	Hectare	16.1	27.0	Ton	144.9	279.3	77,664	29,691	107,355	1,504	3,642	2,138	
VLP, VCB, VDS	Flowers	5.4%	52	Hectare	0.3	11.6	Pack	3,701	32,606.4	70,069	17,908	87,978	102	931	829	
TSC, CHC	Strawberry	0.9%	33	Hectare	10.0	23.1	Ton	106.0	866.3	58,755	15,025	73,780	283	2,310	2,027	
VLP, VCB, VDS	Vegetables	1.7%	65	Hectare	16.0	32.0	Ton	202.4	833.2	79,814	29,363	109,178	170	700	530	
VLP, VCB, VDS, TSC, CHC, NLP	Milk	34.6%	51	Head	195.4	250.3	Liter	375,783.6	716,900.6	69,344	23,788	93,132	2,190	4,240	2,050	
TSC, CHC	Maize	3.4%	43	Hectare	277.7	404.3	Ton	717.8	1,271.0	53,249	19,762	73,011	4,127	6,558	2,431	
TSC, CHC	Peanuts	0.7%	28	Hectare	31.0	69.0	Ton	50.0	98.2	45,089	18,836	63,924	1,441	2,829	1,388	
VLP, VCB, VDS, TSC, CHC, NLP	Honey	6.2%	34	Bee-hive	287.6	477.8	Ton	6.7	14.5	40,501	15,773	56,274	218	482	264	
VCB, VDS	Potato seed	11.2%	62	Hectare	44.1	52.9	Ton	348.0	472.4	80,129	35,409	115,538	2,046	2,958	912	
TSC, CHC	Sesame	5.1%	66	Hectare	41.7	133.7	Ton	23.0	231.3	87,020	34,881	121,902	534	4,910	4,376	
Without other Project costs										61,067	21,866	82,933	1,429	3,479	2,050	
With other Project Costs		Average	100.0%	47						77,215	21,866	99,081				

Table 2. Basic Parameters - Summary of Municipal Subprojects - Prices of 2011 expressed in USD at: 6.9 BOB/USD

Description		Base			Annual Benefits			Investment (USD)			Annual Labor (Person-days)				
Regions	Activity	Frequency	Beneficiary Families	Investment Unit	Situation without PAR	Situation with PAR	Unit of Cost Reduction	Situation without PAR	Situation with PAR	PAR Investment	Participants Investment	Total Investment	Situation without PAR	Situation with PAR	Diferential
VLP, VCB, VDS, TSC, CHC, NLP	Bridge	61.3%	435	Meter	-	31.7	Person-day	-	1,203.0	141,917	59,129	201,047	-	2,716	2,716
VLP, VCB, VDS, TSC, CHC, NLP	Road improvement	38.7%	221	Kilometer	-	17.1	Person-day	-	1,328.0	202,991	48,852	251,843	-	4,931	4,931
Without other Project costs										165,557	55,151	220,708	-	3,573	3,824
With other Project Costs		Average	100.0%	352						214,864	55,151	270,016			

Tables 3 and 4

Table 3. Basic Parameters - Summary by Participating Families in Alliances - Prices of 2011 expressed in USD at: 6.9 BOB/USD

Description				Productive Base			Annual Production			Investment (USD)			Labor (Person-days)		
Regions	Activity	Frequency	Participating Families	Production Unit	Situation without PAR	Situation with PAR	Production Unit	Situation without PAR	Situation with PAR	PAR Investment	Participants Investment	Total Investment	Situation without	Situation with PAR	Diferential
VLP, VCB, VDS, TSC, CHC, NLP	Handcrafts	5.3%	1	Unit	0.9	0.9	Piece	1,542.5	1,722.4	1,258	440	1,698	26	38	12
VLP, VCB, VDS	Chick-peas	1.5%	1	Hectare	0.4	0.9	Ton	2.1	7.4	1,800	94	1,894	28	101	73
TSC, CHC, NLP	Cattle	5.8%	1	Head	7.8	13.6	Ton	0.4	0.8	1,441	533	1,974	10	21	11
TSC, NLP, VLP	Coffee	4.1%	1	Hectare	0.7	0.8	Ton	0.3	4.1	1,027	321	1,348	6	31	24
VLP, VCB, VDS, TSC, CHC, NLP	Pork	5.8%	1	Head	1.4	6.5	Ton	0.9	1.7	1,729	576	2,305	10	34	24
VLP, VCB, VDS, TSC, CHC, NLP	Chicken	1.5%	1	Unit	188.3	470.4	Ton	0.5	13.1	1,638	460	2,098	1	30	28
VLP, VCB, VDS, TSC	Peach	4.7%	1	Hectare	0.5	0.5	Ton	2.9	3.7	1,288	490	1,779	7	7	1
VCB, VDS, TSC	Apple	2.3%	1	Hectare	0.4	0.6	Ton	3.2	6.2	1,726	660	2,386	33	81	48
VLP, VCB, VDS	Flowers	5.4%	1	Hectare	0.0	0.2	Pack	71	624.0	1,341	343	1,684	2	18	16
TSC, CHC	Strawberry	0.9%	1	Hectare	0.3	0.7	Ton	3.2	26.3	1,780	455	2,236	9	70	61
VLP, VCB, VDS	Vegetables	1.7%	1	Hectare	0.2	0.5	Ton	3.1	12.8	1,228	452	1,680	3	11	8
VLP, VCB, VDS, TSC, CHC, NLP	Milk	34.6%	1	Head	3.8	4.9	Liter	7,307.7	13,941.2	1,348	463	1,811	43	82	40
TSC, CHC	Maize	3.4%	1	Hectare	6.4	9.3	Ton	16.6	29.3	1,229	456	1,685	95	151	56
TSC, CHC	Peanuts	0.7%	1	Hectare	1.1	2.5	Ton	1.8	3.5	1,610	673	2,283	51	101	50
VLP, VCB, VDS, TSC, CHC, NLP	Honey	6.2%	1	Bee-hive	8.5	14.1	Ton	0.2	0.4	1,191	464	1,655	6	14	8
VCB, VDS	Potato seed	11.2%	1	Hectare	0.7	0.9	Ton	5.6	7.6	1,295	572	1,868	33	48	15
TSC, CHC	Sesame	5.1%	1	Hectare	0.6	2.0	Ton	0.4	3.5	1,325	531	1,856	8	75	67
	Average	100.0%	1							1,299	465	1,765	30	74	44
										1,643	465	2,108			

Table 4. Basic Parameters - Summary by Beneficiary Families of Municipal Subprojects - Prices of 2011 expressed in USD at: 6.9 BOB/USD

Description				Base			Annual Benefits			Investment (USD)			Annual Labor (Person-days)		
Regions	Activity	Frequency	Beneficiary Families	Investment Unit	Situation without PAR	Situation with PAR	Unit of Cost Reduction	Situation without PAR	Situation with PAR	PAR Investment	Participants Investment	Total Investment	Situation without PAR	Situation with PAR	Diferential
VLP, VCB, VDS, TSC, CHC, NLP	Bridge	61.3%	1	Meter	-	31.7	Person-day	-	2.8	326	136	462	-	6	6
VLP, VCB, VDS, TSC, CHC, NLP	Road improvement	38.7%	1	Kilometer	-	17.1	Person-day	-	6.0	917	221	1,137	-	22	22
	Average	100.0%	1							470	157	627	-	12	12
										610	157	767			

Tables 5 and 6

Table 5. Financial, Economic, Cash Flow and Fiscal Impact Assessments - Summary by Alliances - Prices of 2011 expressed in USD at: 6.9 USD/BOB

Description				Financial Feasibility			Economic Feasibility			Cash Flow Impact			Fiscal Impact		
Regions	Activity	Frequency	Participating Families	Incremental Net Income	NPV at 10 years	IRR at 10 years	Incremental Net Income	NPV at 10 years	IRR at 10 years	Incremental Net Inflow	NPV at 10 years	IRR at 10 years	Incremental Net Impact	NPV at 10 years	IRR at 10 years
VLP, VCB, VDS, TSC, CHC, NLP	Handcrafts	5.3%	34	21,085	65,298	34.7%	19,761	63,939	37.0%	25,582	129,311	171.1%	2,943	(16,413)	-3.6%
VLP, VCB, VDS	Chick-peas	1.5%	56	93,511	425,925	88.0%	89,972	417,248	95.7%	122,980	682,164	2329.6%	14,148	(1,500)	9.6%
TSC, CHC, NLP	Cattle	5.8%	32	33,489	129,902	52.5%	30,329	118,830	53.8%	36,319	187,443	213.9%	4,178	(11,814)	1.4%
TSC, NLP, VLP	Coffee	4.1%	79	28,665	63,944	23.9%	30,341	84,369	30.1%	48,968	250,638	194.4%	5,633	(30,750)	-3.4%
VLP, VCB, VDS, TSC, CHC, NLP	Pork	5.8%	28	14,880	24,199	18.9%	14,982	31,544	22.8%	22,283	109,751	137.6%	2,563	(23,106)	-7.8%
VLP, VCB, VDS, TSC, CHC, NLP	Chicken	1.5%	29	48,379	215,886	80.7%	44,885	202,618	84.6%	56,834	305,556	433.5%	6,538	336	10.2%
VLP, VCB, VDS, TSC	Peach	4.7%	45	40,772	241,848	50.1%	36,149	243,708	50.2%	41,049	433,628	186.0%	4,722	(6,384)	-0.6%
VCB, VDS, TSC	Apple	2.3%	45	60,767	241,848	55.9%	59,090	243,708	61.7%	82,460	433,628	277.7%	9,487	(6,384)	7.4%
VLP, VCB, VDS	Flowers	5.4%	52	71,862	321,439	81.5%	66,204	299,032	84.9%	82,513	444,632	460.8%	9,493	(1,473)	9.4%
TSC, CHC	Strawberry	0.9%	33	292,818	1,568,602	396.9%	264,889	1,420,306	405.7%	316,324	1,753,316	2105.3%	36,391	157,583	72.1%
VLP, VCB, VDS	Vegetables	1.7%	65	164,331	818,695	150.5%	147,307	735,018	152.4%	172,011	934,155	585.8%	19,789	49,400	26.7%
VLP, VCB, VDS, TSC, CHC, NLP	Milk	34.6%	51	31,192	89,572	31.3%	32,984	109,326	38.5%	53,159	275,322	223.5%	6,116	(19,138)	0.8%
TSC, CHC	Maize	3.4%	43	36,642	138,310	49.3%	39,236	160,435	60.2%	64,440	341,997	326.1%	7,414	639	10.4%
TSC, CHC	Peanuts	0.7%	28	14,801	24,563	19.1%	16,548	41,009	26.5%	28,885	144,229	153.3%	3,323	(15,742)	-2.2%
VLP, VCB, VDS, TSC, CHC, NLP	Honey	6.2%	34	21,079	66,590	35.7%	19,441	63,325	37.4%	24,292	121,355	154.0%	2,795	(15,323)	-3.4%
VCB, VDS	Potato seed	11.2%	62	33,611	82,715	26.3%	31,701	84,127	28.5%	41,598	200,172	117.4%	4,786	(34,029)	-5.7%
TSC, CHC	Sesame	5.1%	66	91,538	400,506	74.8%	91,158	411,134	84.3%	132,978	711,099	381.2%	15,298	19,096	16.3%
Average: Investment only	Simple projection	100.0%	47	50,557	207,016.5	60.4%	50,111	213,197.5	67.9%	72,480	384,991	331%	8,338	(264)	10%
Average: Investment & Support	12.5% benefit reduction	100.0%	47	34,212	115,712.1	39.8%	35,646	132,397.1	47.6%	56,134	293,686	257%	6,458	(10,768)	4%
Average: Investment & Support	reduction			34,212	83,497.3	32.5%	35,646	98,682.4	39.2%						

Table 6. Financial and Economic Assessments - Summary of Municipal Subprojects - Prices of 2011 expressed in USD at: 6.9 USD/BOB

Description				Financial Feasibility			Economic Feasibility			Cash Flow Impact			Fiscal Impact		
Regions	Activity	Frequency	Beneficiary Families	Incremental Net Benefit	NPV at 10 years	IRR at 10 years	Incremental Net Benefit	NPV at 10 years	IRR at 10 years	Incremental Net Inflow	NPV at 10 years	IRR at 10 years	Incremental Net Impact	NPV at 10 years	IRR at 10 years
VLP, VCB, VDS, TSC, CHC, NLP	Bridge	61.3%	435	12,304	41,033	39.1%	12,651	34,383	39.6%	-	-	-	-	-	-
VLP, VCB, VDS, TSC, CHC, NLP	Road improvement	38.7%	221	11,634	30,549	28.2%	12,204	24,653	28.4%	-	-	-	-	-	-
Average: Investment only	Simple projection	100.0%	352	12,045	36,975.0	34.4%	12,478	30,617.2	34.7%	-	-	-	-	-	-
Average: Investment & Support	17.5% benefit reduction	100.0%	352	9,506	23,023.7	25.9%	9,939	18,415.2	26.5%	-	-	-	-	-	-
Average: Investment & Support	reduction			9,506	16,533.2	19.8%	9,939	18,839.1	21.0%						

Tables 7 and 8

Table 7. Financial, Economic, Cash Flow and Fiscal Impact Assessments - Summary by Participating Families of Alliances - Prices of 2011 expressed in USD at:													6.9 USD/BOB		
Description			Financial Feasibility				Economic Feasibility			Cash Flow Impact			Fiscal Impact		
Regions	Activity	Frequency	Incremental Net Income	NPV at 10 years	IRR at 10 years	Switching Value Income Reduction	Incremental Net Income	NPV at 10 years	IRR at 10 years	Incremental Net Inflow	NPV at 10 years	IRR at 10 years	Incremental Net Impact	NPV at 10 years	IRR at 10 years
VLP, VCB, VDS, TSC, CHC, NLP	Handcrafts	5.3%	620	1,921	34.7%	26.0%	581	1,881	37.0%	752	3,803	171.1%	87	(483)	-3.6%
VLP, VCB, VDS	Chick-peas	1.5%	1,670	7,606	88.0%	51.0%	1,607	7,451	95.7%	2,196	12,182	2329.6%	253	(27)	9.6%
TSC, CHC, NLP	Cattle	5.8%	1,051	4,078	52.5%	50.0%	952	3,730	53.8%	1,140	5,884	213.9%	131	(371)	1.4%
TSC, NLP, VLP	Coffee	4.1%	365	815	23.9%	6.0%	387	1,075	30.1%	624	3,193	194.4%	72	(392)	-3.4%
VLP, VCB, VDS, TSC, CHC, NLP	Pork	5.8%	529	860	18.9%	5.0%	533	1,122	22.8%	792	3,902	137.6%	91	(822)	-7.8%
VLP, VCB, VDS, TSC, CHC, NLP	Chicken	1.5%	1,698	7,575	80.7%	8.0%	1,575	7,109	84.6%	1,994	10,721	433.5%	229	12	10.2%
VLP, VCB, VDS, TSC	Peach	4.7%	906	5,374	50.1%	52.0%	803	5,416	50.2%	912	9,636	186.0%	105	(142)	-0.6%
VCB, VDS, TSC	Apple	2.3%	1,350	5,374	55.9%	39.0%	1,313	5,416	61.7%	1,832	9,636	277.7%	211	(142)	7.4%
VLP, VCB, VDS	Flowers	5.4%	1,375	6,152	81.5%	57.0%	1,267	5,723	84.9%	1,579	8,510	460.8%	182	(28)	9.4%
TSC, CHC	Strawberry	0.9%	8,873	47,533	396.9%	37.0%	8,027	43,040	405.7%	9,586	53,131	2105.3%	1,103	4,775	72.1%
VLP, VCB, VDS	Vegetables	1.7%	2,528	12,595	150.5%	71.0%	2,266	11,308	152.4%	2,646	14,372	585.8%	304	760	26.7%
VLP, VCB, VDS, TSC, CHC, NLP	Milk	34.6%	607	1,742	31.3%	11.0%	641	2,126	38.5%	1,034	5,354	223.5%	119	(372)	0.8%
TSC, CHC	Maize	3.4%	846	3,192	49.3%	31.0%	905	3,702	60.2%	1,487	7,892	326.1%	171	15	10.4%
TSC, CHC	Peanuts	0.7%	529	877	19.1%	6.0%	591	1,465	26.5%	1,032	5,151	153.3%	119	(562)	-2.2%
VLP, VCB, VDS, TSC, CHC, NLP	Honey	6.2%	620	1,959	35.7%	37.0%	572	1,863	37.4%	714	3,569	154.0%	82	(451)	-3.4%
VCB, VDS	Potato seed	11.2%	543	1,337	26.3%	19.0%	512	1,360	28.5%	672	3,236	117.4%	77	(550)	-5.7%
TSC, CHC	Sesame	5.1%	1,394	6,099	74.8%	38.0%	1,388	6,261	84.3%	2,025	10,829	381.2%	233	291	16.3%
Average: Investment only	Simple projection	100.0%	1,076	4,405	60.4%	27.0%	1,066	4,536.1	67.9%	1,542	8,191	331%	177	(6)	10%
Average: Investment & Support	12.5% benefit reduction	100.0%	1,076	3,382	50.1%	25.0%	1,066	3,520.4	56.5%	1,194	6,249	257%	137	(229)	4%
Average: Investment only	17.5% benefit reduction	100.0%	728	2,462	39.8%	13.5%	758	2,817.0	47.6%	758	2,099.6	39.2%	758	2,099.6	39.2%

Table 8. Financial and Economic Assessments - Summary of Beneficiary Families of Municipal Subprojects - Prices of 2011 expressed in USD at:													6.9 USD/BOB		
Description			Financial Feasibility				Economic Feasibility			Cash Flow Impact			Fiscal Impact		
Regions	Activity	Frequency	Incremental Net Benefit	NPV at 10 years	IRR at 10 years	Switching Value Income Reduction	Incremental Net Benefit	NPV at 10 years	IRR at 10 years	Incremental Net Inflow	NPV at 10 years	IRR at 10 years	Incremental Net Impact	NPV at 10 years	IRR at 10 years
VLP, VCB, VDS, TSC, CHC, NLP	Bridge	61.3%	28	94	39.1%	53.0%	29	79	39.6%	-	-	-	-	-	-
VLP, VCB, VDS, TSC, CHC, NLP	Road improvement	38.7%	53	138	28.2%	34.0%	55	111	28.4%	-	-	-	-	-	-
Average: Investment only	Simple projection	100.0%	34	105	34.4%	44.0%	35	87	34.7%	-	-	-	-	-	-
Average: Investment & Support	17.5% benefit reduction	100.0%	34	87	27.1%	35.0%	35	93	28.2%	-	-	-	-	-	-
Average: Investment only	17.5% benefit reduction	100.0%	27	65	25.9%	22.0%	28	52	26.5%	-	-	-	-	-	-
Average: Investment & Support	17.5% benefit reduction	100.0%	27	47	19.8%	17.5%	28	53	21.0%	-	-	-	-	-	-

Annex 7: Transparency, Accountability and Participation

Bolivia: Rural Alliances Project I and II

1. Alliance implementation is based on co-financing of subprojects to Small Producer Organizations (SPO) and, occasionally, to municipal governments for small public works. SPO subprojects involve the direct transfer of public funds while municipal subprojects are managed through FPS, with significant involvement by municipal governments in the identification, preparation and supervision phases. Both SPOs and municipal governments have generally limited capacities and are spread out in rural areas, posing significant governance challenges for successful project implementation. As mentioned in the Operational Risk Assessment Framework (ORAF), project design includes specific arrangements and several tools and mechanism in terms of participation, transparency and accountability at different levels and throughout the alliance cycle, aiming at addressing and mitigating specific governance and fiduciary risks. The following sections provide a summary of those arrangements as well as a list of actions that will be taken in case of fraud and corruption allegations occur.

Transparency

2. Under PAR I the following measures have been implemented:
- The selection and approval of subprojects is a rules-based competitive process with successive technical evaluations and a financial evaluation certified by an external independent body.
 - Approved subprojects are publicly advertised in each municipality, detailing the objectives, a list of programmed activities and amounts, beneficiaries, buyer(s) and dates. A contact number is provided in case further information is required and/or to report observations and complaints regarding the subproject execution.
 - The Project Operational Manual, including the rules and requirements to access funding, is available in the Project website.
 - The Project's budget is part of the national budget and its execution is fully integrated into the country's integrated financial management system (SIGMA). Disbursements are processed through the Treasury Single Account (CUT) providing for direct bank transfers from the account managed by PAR's National Office (NCU) to beneficiaries' bank accounts in the financial system. This permits an agile and simple flow of funds without additional and unnecessary layers.
 - Project staff is selected through an open, competitive and merit-based process with the support of an external consulting firm for the recruitment process. Project staff is subject to an objective and systemic annual performance evaluation, carried out with the support of a different external consulting firm, and which includes evaluation by beneficiaries for front-line personnel.
3. All these measures will be continued in PAR II. In addition, the Project will implement the following:
- The list of rejected alliances will be published in the Project's website, along with the reasons for non-approval.

- Subproject progress, including tranche disbursements, activity completion and photographs will be published in the Project's website, along with an e mail address and a telephone number for public reporting.
- A web- and SMS-based system for public feedback on Project implementation.
- A list of comments, complaints and allegations and related Project actions will be published periodically in the Project's website.

Internal control and Accountability

4. EMPODERAR (the implementing entity, under the Ministry of Rural Development and Land) is responsible for ensuring that project proceeds are used only for the intended purposes. To that end, it has put in place and maintains adequate operational arrangements--technical and fiduciary--which include a set of processes, procedures, internal controls, tools and other mechanisms (including key mitigating measures) intended to guarantee: (i) the adequate use of funds; (ii) the availability of reliable information for monitoring purposes; and (iii) compliance with established mechanisms in case inadequate use of funds is identified. As it specifically relates to the implementation of subprojects under the responsibility of SPOs, EMPODERAR has the responsibility to ensure compliance with procedures established in the Operational Manual and the Producer Organization Subproject Implementation Agreements, for which it carries out timely and adequate monitoring of alliance implementation. For all purposes, EMPODERAR is responsible for ensuring all involved actors comply with agreed procedures, and in cases of corruption and/or fraud allegations, it is responsible for taking any appropriate action as set forth in the Anti-Corruption Guidelines¹⁸, the Producer Organization Subproject Implementation Agreement(s), and in accordance with the legislation of the Plurinational State of Bolivia.

5. Producer Organization Subprojects. With the purpose of operationalizing all these arrangements, the following measures have been defined under PAR I and will be continued in the new Project:

- Roles and responsibilities for the implementation of subprojects are clearly differentiated among EMPODERAR's NCU, Regional Offices (ROUs) and SPOs, providing for an adequate segregation of duties in terms of subproject execution, on-site verification of implementation and tranche approval, approval of new disbursements and processing of disbursements.
- Based on assigned roles, key internal controls have been designed and implemented throughout the subproject cycle. Most of these are actually part of the project management system and therefore ensure adherence and compliance by project staff.
- In order to strengthen its monitoring function over the implementation of subprojects and ROU roles, EMPODERAR's information system included an alert -based mechanism that enables project staff to timely identify delays in the implementation of programmed activities.

¹⁸ Guidelines On Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, Dated October 15, 2006.

- A strong management information system for the recording, control, processing, follow-up and monitoring of subprojects has been put in place, thus ensuring that every single subproject follows the approved and standard processing line throughout the subproject cycle. This allows for the availability of timely and reliable information for monitoring purposes regarding the physical and financial progress of each subproject. Key data from this system will be linked to the Project website for public viewing.
- Roles and responsibilities within SPOs are also clearly defined through the establishment and functioning of a Directorate made of an Administrative Committee and a Monitoring Committee, each with clear functions and responsibilities.
Accountability arrangements have been implemented as follows:
- At SPO level: A) The Administrative Committee of the SPO provides tranche completion reports to all members of the Producer Organization (“*Rendición Pública de cuentas*”), who have to approve the report and the minutes of the meeting, including the observations and responses raised. Once approved, Project staff carries out an on-site verification of proper activity completion. B) The SPO registers activities and documents the use of funds with the help of professional accountants (if needed) in order to demonstrate adequate management prior to tranche approval on the part of EMPODERAR.
- At implementing entity level: In accordance with Bolivia’s Policy on Transparency and Fight Against Corruption¹⁹, public entities are required to have on a yearly basis a public presentation of results (“*Audiencia Pública de Cuentas*”) with civil society organizations, including presenting the use of the allocated budget during the year.
- The Project is also subject to regular independent audit reviews--on project financial statements and procurement processes--which involve the on-site revision of a sample of subprojects, as well as to a yearly review by the Ministry of Rural Development and Land’s internal audit office.

6. Municipal Subprojects. Taking into consideration fiduciary risks identified in municipal subprojects, mainly resulting from the involvement of low-capacity municipalities, specific arrangements have been discussed and agreed with EMPODERAR and FPS.

- Roles and responsibilities for FPS, EMPODERAR and Municipal Governments have been clarified. Under those arrangements, it has been decided that Municipal Governments will delegate to FPS the responsibility for carrying out contracting processes, while exercising an oversight role (*veedor*). This means that FPS, contrary to established practice under other Bank-financed projects, will undertake responsibility for procurement decisions and approval of payments.
- Municipal subproject are recorded, and processed through FPS’s institutional system (SAP) in order to facilitate control and monitoring.
- FPS’ Monitoring and Control Unit will undertake a systematic review of a sample of municipal subprojects financed under PAR II, and their reports will be shared with EMPODERAR and the Bank.

¹⁹ Supreme Decree 214. *Política Nacional de Transparencia y Lucha contra la Corrupción – Rendición de Cuentas Pública*.

- As part of the effort to strengthen FPS capacity, staff has been trained on procurement and fraud and corruption issues.

Oversight and participation

7. Project design and the transparency and accountability mechanisms included in there promote and enable wide participation of project beneficiaries throughout subproject cycle:

- From the inception of an idea, members of an SPO need to work together in making decisions, first for the development of a proposal and then, if new, for the subsequent creation of the organization itself. Each SPO is a legally and formally established body with legal status (*personería jurídica*), bylaws formally registered and approved by a designated authority and respective governing bodies (*Directivas* and *Comites*).
- Ownership is also reinforced by the counterpart contributions required from each member. This has become a strong incentive for the members to demand sound project management, clear internal controls and accountability arrangements from the leadership of the organization.
- The use of physical and financial information for accountability purposes through the “*rendición de cuentas*” has also strengthened the importance and usefulness of the financial information (although in simple formats). It is used for participatory financial evaluation and decision making purposes as it relates to the use of the funds and the results of their small investments.

8. These arrangements aim at empowering organizations and members within each organization to overall strengthen ownership and has created demand for sound project management.

Anti-corruption provisions

9. In addition to the above-described measures, mainly designed to mitigate and prevent fraud and corruption risks, following the World Bank’s Anti-Corruption Guidelines, the Ministry of Rural Development and Land (MDRyT) and the Bank have worked on and agreed on specific procedures that need to be followed in the case findings and/or allegations of fraud and corruption are identified during project implementation. Among the most important, it has been agreed that:

- EMPODERAR would immediately notify the Association of any allegation of fraud and corruption received through any of the established mechanisms or that came to its knowledge as part of their monitoring function.
- EMPODERAR will transmit the above referenced allegations to the MDRyT’s Legal Unit which, in accordance with local legislation, would then present a formal request for further action to the Prosecutor’s Office (*Ministerio Publico*).

10. All contracts and agreements to be entered into between EMPODERAR and any other recipient of project funds will include a specific reference to the compliance with Bank’s Anti-Corruption Guidelines.

Annex 8: Implementation of the Rural Alliances Project I

Bolivia: Rural Alliances Project II

Background

1. The Rural Alliances Project (PAR I) was approved by the Bank in 2005 and became effective a year later in 2006. Effectiveness and field implementation were initially delayed by widespread political conflict and changes of government. Once the first administration of president Evo Morales put together a complete project team, project implementation proceeded speedily, recovering lost time both in terms of outputs and disbursements. By 2009, the Bank approved an Additional Financing credit which doubled project size. The project has been consistently fully satisfactory, both for Development Objectives and Implementation Progress since May 2007. Final disbursements to alliances are expected to be executed by the end of 2012 and the project is expected to close in 2013, one year ahead of schedule.

2. The following table summarizes the scaling-up provided by the project restructuring which accompanied the Additional Finance credit:

	Original project (Cr. 4068-BO)	Additional financing (Cr. 4558-BO)	Total
Total cost (US\$m)	34.9	37.1	72.0
IDA credit (US\$m)	28.4	30.0	58.4
# of municipalities	54	56	110
Rural population (households)	121,000	117,400	238,400
Direct beneficiaries (households in alliances)	8,400	25,300	33,700
Indirect beneficiaries (households in public works)	18,000 (down to 3,600)*	8,400	12,000
# of financed alliances	237	438	675

*Target reduced by reallocation of funds to Producer Organization Subprojects

Results

3. *Output targets.* Efficiency gains, the elimination of activities (to access complementary credit) and funding reallocations between components (towards alliances) and sub-components (reduction in municipal subprojects) have allowed for a scale-up that has greatly surpassed the expected outputs, as shown by increments over targets in the following indicators:

- Number of alliances identified with a viable plan: 50%
- Number of alliances supported in their organization: 29%
- Number of alliances financed: 15%

- Number of alliance members who received training in institutional strengthening for alliance operation: 51%

4. *Beneficiaries.* The number of direct beneficiaries (households in alliances) will be 13% lower than planned due to price contingencies which raised unit costs. Thirty-two percent of these households are headed by women. Ninety percent of the beneficiaries identify themselves as Indigenous.

5. *Impact.* A complete impact evaluation of PAR I is under preparation (including comparison against a counterfactual) in order to measure agreed impact indicators. In the meantime, as the project counts on a wealth of data provided by ex ante and ex post financial evaluations of financed alliances, an independent study was conducted by FAO on a group of 140 alliances which had completed investments and reached at least one cycle of sales. It provided the following average results per family:

- Total investment (including ~30% counterpart): US\$1,870
- Net incremental real returns per sales cycle: US\$1,500
- Gross increase in the value of sales: 79%
- Gross increase in net income from the alliance product: 158%

6. Agricultural yields in the analyzed alliances have increase significantly, ranging from 12% in quinoa to 214% in sesame. The increase in net income is markedly higher than the rise in demand for labor, showing a significant improvement in labor productivity as well.

7. About 11% of the evaluated alliances showed a decrease in incremental returns. Most of these were due to climatic factors (drought, frost and hail) and do not necessarily determine long-term trends.

Markets

8. *Buyers.* Purchasers who enter into alliance agreements with small producer organizations range from informal buyers to large exporting companies. Of the 779 alliances financed in PAR I, about 44% count on “informal” buyers, usually individuals who aggregate purchases from several producers and sell it wholesale in urban markets; 41% are formal companies, ranging from small companies that process and package goods for the national market to bulk exporters, and including some high-quality niche export products; the remaining 15% include cooperatives and producer associations who serve national and export markets.

9. *Products.* The bulk of alliances (96%) are dedicated to agricultural products. Of these, more than half farm a variety of crops; less than half raise cattle for milk or meat; and the rest range from honey producers to fish farmers. The remaining 4% are dedicated mostly to handicraft production.

10. *Destination.* About 74% of the alliances are dedicated to internal markets, producing a variety of products, including milk, fruits, seeds and honey; 26% produce organic coffee and quinoa, banana, beans, sesame and other products for external markets.

Lessons-learned

11. There are 14 projects in the Latin America and the Caribbean region which wholly or partly rely on alliance funding for improving market accessibility. Of this group, PAR I finances around one-half of all alliances and provides one-third of the direct beneficiaries. Lessons learned in PAR I cover a wide range of topics. In addition to those described in part I.C. of the PAD, the following lessons have influenced design in the new Project:

- A greater focus on sustainability is necessary to ensure viability and resilience of alliances. This has been conceptualized at several levels and has led to the inclusion of measures including: increased promotion among buyers and better filtering during alliance identification; activities geared to increasing the financial literacy of small producers; the design of a new line of support for access to credit for existing alliances; and a sustained effort to strengthen business and managerial capacity of SPOs.
- Communications and dissemination of project rules and procedures is vital to enhance the participation of women and the poorest. For example, a lack of adequate comprehension on the part of some small producers about counterpart requirements seems to have been a primary cause for alliance abandonment (about 10% of approved alliances). Two measures will be taken to diminish this: improved dissemination of Project rules and procedures throughout the alliance cycle; and, in the case of poorer households, the possibility of in-kind counterpart financing for small works executed directly by the SPO.
- Beyond its intended impacts, PAR I has served as a crucible for operational innovation. It demonstrated that government can efficiently implement a program based on a multitude of small-scale, well-tailored disbursements to social organizations; and that these organizations, with proper training and support, can manage funds transparently and reach intended targets. It also funded a model of empowerment of grass-root organizations based on their capacity to negotiate with buyers and re-orient their production to sometimes sophisticated markets; purchasing goods and services in local markets, has helped to exclude often paternalistic intermediaries; managing bank accounts has permitted closer relations with financial firms. The project has served as a model for other government programs, including the Bank-funded Community Investment in Rural Areas Project, as well as to a host of NGO programs, which have adopted the aims, language and even some of the instruments tested by PAR.

