

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA528

Project Name	Rural Alliances Project II (P127743)
Region	LATIN AMERICA AND CARIBBEAN
Country	Bolivia
Sector(s)	General agriculture, fishing and forestry sector (70%), Agricultural extension and research (20%), Agro-industry, marketing, and trade (10%)
Lending Instrument	Specific Investment Loan
Project ID	P127743
Borrower(s)	Plurinational State of Bolivia
Implementing Agency	EMPODERAR
Environmental Category	B-Partial Assessment
Date PID Prepared	24-Aug-2012
Estimated Date of Appraisal Completion	31-Aug-2012
Estimated Date of Board Approval	23-Oct-2012
Decision	As the proposed Project is being processed under Track 1 guidelines, it was confirmed during the QER to proceed to appraisal without holding a Decision Meeting.

I. Project Context

Country Context

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 suffered from extreme poverty and socio-economic exclusion, and the new administration has 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. Bolivia has also benefited from improved prices for its natural gas and mineral exports, allowing for the rapid expansion of public sector investment and increased intervention in the economy. Despite recent improvements, poverty and inequality remain high, especially in rural areas. In 2009, poverty and extreme poverty reached 66.43 and 45.48 percent respectively in rural areas, compared to 43.55 and 16.09 in urban areas. Furthermore, the Gini index stood at 0.53 in rural areas compared to 0.45 in urban areas.

II. Sectoral and Institutional Context

With the Government's strong focus on rural poverty alleviation, a number of policies have been directed towards improving access to basic services, reducing infant malnutrition and increasing income for rural producers. 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. 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) widen 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 generated two key programs: CRIAR, which intends to reduce the vulnerability of rural communities in extreme poverty, and EMPODERAR, which aims at stimulating the smallholder sector in poor municipalities in order to increase agriculture yields and production and help to address rural poverty.

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 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.

The proposed Project would address a number of the key challenges facing the sector. Alliance financing in PAR II would, as has been the case with its predecessor project, allow small farmer organizations and buyers to reduce risk and transaction costs. The Project provides a bridge to build trust between parties; reduce the measuring and monitoring costs by specifying the object of the commercial relation; and increase economies of scale by enlarging the volume of production and reducing the cost of commercialization and innovation. In addition, subproject execution brings SPOs closer to formal financial institutions and provides them with basic financial skills. Good alliances bring benefits to both producers and buyers and, by extension, to consumers. PAR I has surpassed expectations by financing a total of 781 alliances (18% over the target). A recent independent study showed that almost 90% of closed alliances showed net positive incremental real returns (compared to an expected failure rate of 20%), with significant effects on 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.

III. Project Development Objectives

The project development objective is to improve market access for small rural producers in selected areas of the country. To achieve this, the

Project will support the creation and maintenance of productive alliances between rural small-producer organizations (SPOs) and effective value-adding buyers (intermediaries, wholesalers, transformers). Furthermore, it will empower rural producers through the strengthening of self-managed grass-roots organizations; increase their access to productive assets, technology and financial services in order to improve production; enhance environmental sustainability of production practices; and promote more effective, responsive and accountable service provision at the local level. The proposed Project is a follow on operation to the successful PAR I, which tested the model for improving market access.

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IV. Project Description

- Component Name**
- Institutional Support
- Implementation of Rural Alliances
- Project Management

V. Financing (in USD Million)

For Loans/Credits/Others	Amount
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	50.00
Municipalities of Borrowing Country	3.00
Local Farmer Organizations	7.00
Total	60.00

VI. Implementation

A. Institutional and Implementation Arrangements

a. Institutional arrangements. The Project will be implemented by the Ministry of Rural Development and Land through the EMPODERAR unit. EMPODERAR is a deconcentrated unit with operational autonomy that has been built around PAR, and its National Coordinating Unit (UCN) and Regional Operational Units (UOR) have been strengthened in order to manage both PAR I as well as additional projects financed by different sources. EMPODERAR has successfully implemented PAR I, with consistently satisfactory ratings.

b. Implementation arrangements. The UCN counts on a Project Coordinator as well as key fiduciary, safeguards, technical and monitoring and evaluation staff who are dedicated exclusively to Project management and oversight. In each Project zone a UOR will be established following an interinstitutional agreement to be signed (or updated, if necessary) between the MDRyT and the respective Departmental Governments. The UCN will approve the UOR's annual operational plans and budget, supervise their operations and provide final approval to appraised alliances. The UORs 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.

c. Staffing. As with personnel presently working in the Project, any new additions to the UCN or UOR 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.

d. Alliances. Each alliance will be composed of an organization of small producers (SPO) and a market agent or buyer, both of whom sign an alliance agreement. The SPO will carry out the Producer Subproject with differing degrees of participation by the buyer. EMPODERAR will sign a subproject agreement with the SPO and will transfer the co-financing resources to carry out the detailed activities, in tranches. SPOs will select technical assistance providers, buy goods and either contract or execute small works. The UORs will supervise the completion of field activities, certify the results and verify the counterpart deposit or execution as a basis for the UCN 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. 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 competencies, they will be implemented by Fondo de Inversion Productiva y Social (FPS) under technical, safeguard and fiduciary procedures agreed under the Second Participatory Rural Investment Project (P101298) with the World Bank for use in all World Bank-financed projects.

B. Results Monitoring and Evaluation

a. 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 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 UORs and finally by the UCN. Activity and indicator reports are also linked to the financial management and reporting system. The GMIS is accessible on line and permits internal and external users to aggregate reports in real time.

b. 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.

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c. 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.

d. 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. During appraisal it will be discussed how to use the existing baselines to provide a control groups for evaluation.

e. The GMIS will form the basis of a 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 Subproject tranche approvals, including approval by SPO members of progress reports and photographs of works and goods acquired. With the support of WBI's "Mapping for Results" (M4R) team, EMPODERAR will pilot and implement a web- and SMS-based citizen feedback loop to provide a channel for comments, complaints and grievances. Advances will be assessed during appraisal to determine operating viability.

C. Sustainability

a. 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 organizations themselves; (iii) and the alliance between producers and buyers. All three levels are related and, in fact, successively contained within the next level, like Russian dolls. 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, though this time restricted only to technical assistance (including for access to credit). 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 Subproject design and execution.

b. 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 access to financial services to help them graduate from the dependency of government and grant funding for growth and turning 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. A variety of activities are being designed for this purpose and they will be assessed during appraisal for inclusion in the Project.

c. Given that government has not yet allocated funding for future operating costs, end-of-project continuity is unlikely at present. However, 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 include: setting up departmental government units, as allowed under the new Decentralization Law; developing new services for maturing producer organizations, or focusing solely on access to formal financial services.

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

VII. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04	X	
Forests OP/BP 4.36	X	
Pest Management OP 4.09	X	
Physical Cultural Resources OP/BP 4.11	X	
Indigenous Peoples OP/BP 4.10	X	
Involuntary Resettlement OP/BP 4.12	X	
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X

VIII. Contact point

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