

**COLOMBIA COUNTRY ENGAGEMENT - AGRICULTURE (P161247)
ANALYTICS AND ADVISORY SERVICES (ASA)**

Activity Summary

The Second Rural Productive Partnerships Support Project (Programa de Apoyo a las Alianzas Productivas II - PAAP II) closed in June 2015, leaving the World Bank Group without an active IBRD-funded lending operation in the agricultural sector in Colombia for the first time in more than two decades. With agricultural and rural development having been identified as a priority both in the government's national development strategy as well as in the World Bank Group's Country Partnership Framework 2016-21, there is interest from both parties in continuing collaboration in the sector.

The purpose of the activity is to: (1) support the ongoing dialogue with the National Planning Department (Departamento de Planeación Nacional - DNP), the Ministry of Agriculture and Rural Development (Ministerio de Agricultura y Desarrollo Rural – MADR) and other key actors responsible for agriculture and rural development; (2) allow the World Bank Group to make available knowledge, data, and tools that can be used by the Government to inform the design and implementation of its new agricultural and rural development strategy; and (3) explore areas for potential future collaboration.

There is broad consensus that the World Bank Group could play a valuable role in supporting the Government's institutional transformation agenda by supporting the consolidation of the Agency for Rural Development (Agencia de Desarrollo Rural - ADR) as well as the concurrent reorganization of MADR. The World Bank Group has extensive experience in the area of institutional reform / institutional strengthening and could mobilize national and global expertise to support the effort that has been launched in Colombia. Support could come in the form of technical assistance funded through a reimbursable services (RAS) agreement or in the form of investment project financing.

Development Objective

To explore with the Colombian Government opportunities for the World Bank Group to provide analytical services, technical assistance, and/or financing in support of the Government's agriculture and rural development policies and strategies.

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Activities supported under the ANALYTICS AND ADVISORY SERVICES (ASA)

During FY17, the ASA supported four main sets of activities, as described below.

1. Dialogue surrounding Productive Alliances / Rural Development agenda

A mission in support of the Productive Alliances / Rural Development agenda was carried out from July 6-8, 2017. The mission was led by Michael Morris, Lead Agricultural Economist and Task Team Leader for the Second Rural Productive Partnerships Project (PAAP).

Productive Alliances Workshop: The objective of the workshop was to discuss an eventual third phase of PAAP, which would have followed the two successful earlier phases (implemented from 2002 to 2007 and from 2008 to 2015). The prospect of a third phase was of great interest, as peace talks were ongoing between the Government of Colombia and the FARC rebel group, and a successful conclusion of the talks was anticipated by the end of the year. PAAP was seen as an instrument that could potentially be used to tackle the roots of a conflict that had been nourished by rural poverty and inequality, by supporting small- and medium-sized producers in increasing their incomes, with the objective of reducing income disparities between urban and rural populations.

The Minister of Agriculture, the Vice Minister for Rural Development, and the President of ADR attended the workshop. Additional workshop participants included representatives from many PAAP stakeholders and partners, including producer organizations, commercial partners, and local and regional governments. Present as well were representatives from many government agencies that are active in rural development, including the Office of the High Commissioner for Post-Conflict; the National Agency of the Presidency for Cooperation; the Directorate of the Fight Against Drugs; the Ministry of Commerce, Industry and Tourism; and the newly created ADR that as a result of the ongoing institutional changes will be the entity responsible for implementing productive projects such as PAAP. In addition, academia was represented by the Universidad Externado.

Making reference to his earlier meeting in January 2016 with the President of the World Bank, the Minister of Agriculture stressed the important role that the World Bank Group could play in ensuring the continuity and extending the reach of PAAP, which was expecting to face increased demand following the anticipated signing of the Havana Peace Agreement (Chapter 1 of the Peace Agreement lays out an ambitious agenda for an Integrated Rural Reform Program).

Meetings were also held in parallel to the workshop with key actors responsible for the future of PAAP. A particularly important meeting was held with the President of the ADR, during which the World Bank Group team gained a better understanding of the President's vision for the Agency's future role and learned how the arrangements under which responsibility for implementing PAAP would be transitioned from MADR to ADR.

Meeting with the Vice Minister for Agriculture Affairs: The mission held discussions with the Vice Minister to discuss topics of mutual interest. Colombia Siembra and the Incentive for Rural Capitalization were discussed in some detail.

In addition, the Vice Minister expressed interest in receiving support for a study to assess the potential for agriculture in Colombia's Caribbean Region. He indicated that the study would have to be financed through a Trust Fund, because the Ministry was not in a position to finance a Reimbursable Advisory Services (RAS) activity. The discussions on Colombia Siembra focused on potential funding arrangements for subsidy mechanisms, such as the Incentive for Rural Capitalization (Incentivo para Capitalización Rural - ICR). Through ICR, the Ministry covers part of the investment of private investors, with the percentage of co-financing varying depending on the type of investor: 20% in the case of large-scale producers, 30% in the case of medium-sized investors, and 40% in the case of small-scale investors. The mission indicated that it would likely be difficult for the World Bank Group to support the ICR program, because global experience suggests that subsidies of this type are difficult to target effectively.

Meeting with the Director of the Office for Integral Action Against Drugs: Illegal crops are of major concern to the Government of Colombia, as it is clear that they have helped fuel a significant part of the civil unrest that the country faced during the long period of conflict and that some parts of the country continue to face today. The Director recognized that PAAP has demonstrated its effectiveness as an instrument for introducing rural households away from the cultivation of illegal crops and into alternative, agriculture-based livelihoods, and he expressed hope that the Government's rural development strategy during the post-conflict period would include mainstreaming of the productive alliances approach. Note: The Office for Integral Action Against Drugs was created during the peace talks, but it no longer operates as an independent agency, as its functions have been taken over by the Office for the High Commissioner for Post-conflict. Meanwhile, some rural development activities in the territories that were most affected by the conflict are being led by the Agency for the Renewal of the Territories (ART) and the National Agency for Land (ANT).

Meeting with the Directorate for Rural Development, DNP: During this meeting, the DNP representative clearly articulated the vision of DNP concerning the newly created sectoral institutions, and he described the role that each one is expected to play in during the post-conflict period. He discussed as well the technical and financial support that the World Bank Group could potentially provide in helping to consolidate and strengthen the new institutions, noting the potential contribution of PAAP. He noted that DNP is open to a potential new lending operation, but only if there is a clear path to transition responsibility for implementation from MADR to the new sectoral institutions.

2. Meetings with representatives from the Agency for Territorial Renewal (Agencia de Renovación Territorial – ART)

The Agency for Territorial Renewal (ART) was created to focus on the territories most affected by the conflict. Initially under the management of MADR, the plan originally was to transfer it to the Office of the High Commissioner for Post-

conflict. The Constitutional Court of Colombia did not approve the transfer, however, which leaves unclear what will be the source for the funds needed to strengthen its technical and financial capacities. The Director of ART therefore approached the World Bank Group and expressed interest in discussing potential support on these matters.

During the last mission led by Laurent Msellati (Practice Manager, Agriculture Global Practice, World Bank Group), a meeting was scheduled to explore opportunities for collaboration, but in the end the meeting did not take place.

3. Discussions regarding the National Plan for Irrigation and Drainage (NPID)

In early 2016, sectoral institutions initially led by the Rural Agriculture Planning Unit (UPRA) and supported by the MADR expressed interest in having the World Bank Group support the development of the National Plan for Irrigation and Drainage (NPID). UPRA is responsible for the preparation of NPID, and MADR is responsible for sectoral policy. Between June and November 2016, a series of video conferences were organized involving representatives from these institutions and from the World Bank. Later ADR joined the discussions as the entity responsible for implementation of the PNID.

During the peace talks, irrigation development was included as part of the post-conflict development strategy. Accordingly, the Peace Agreement negotiated in Havana includes NPID as part of the Integrated Rural Reform Program laid out in Chapter 1. The objective of the Program is to contribute to the improvement of the living conditions of the rural population and their local economy through the implementation of projects for land development to achieve the consolidation of competitive and sustainable production in post-conflict areas.

The emphasis of the current plan in its initial phases is to create a rapid response mechanism for the post-conflict, with a special focus on family agriculture and rural economy. Specific objectives include:

- Strengthen land development in post-conflict areas
- Promote the implementation of new land development projects
- Support agriculture processing activities

One of the medium term objectives of the Integrated Rural Reform Program is modification of Law 41-1993, which establishes the framework for land development activities, for the purpose of achieving greater integration with the new sectoral challenges.

Several possible avenues have been identified by UPRA through which the World Bank Group could provide support in this area:

- Adjustment of policies, laws, and regulations relating to land development
- Promotion of public-private partnerships (PPPs) to accelerate irrigation development

- Development of a financing plan for NPID

The Food and Agriculture Organization of the United Nations (FAO) and the World Bank Group have considerable experience supporting the above activities in other countries. Within the Latin America region, work done in Argentina and Peru provides useful models for structuring successful PPPs, especially with respect to the design of the legal and institutional frameworks needed to attract private sector investment. Experiences from other countries can also be useful by highlighting what to avoid, such as the PPP initiative in Brazil which failed, due to the fact that it focused narrowly on the technical aspects of the irrigation, while neglecting to assist producers with their commercialization activities.

A mission was carried out in November 2016 to support the design of NPID. During the mission, staff from the World Bank Group and FAO met with government officials to plan a RAS. The set of topics was identified that would be included in the RAS, and institutions were considered that could potentially lead the RAS. It was agreed that MADR would assume the leadership role. In January 2017, the Vice Minister for Rural Development sent a letter to the World Bank Group formally requesting a RAS, to cover the following topics:

- Development of a methodology for prioritizing the irrigation districts to be targeted, from among the 731 irrigation districts spread throughout the national territory (the methodology will have to take into account a range of economic, social, and political considerations).
- Development of a model for Public Private Partnerships (PPP) applied to irrigation districts. The model initially will be directed to medium and large irrigation districts. In each of the country's three main irrigation districts (Ranchería, Tesalia-Paicol, and Triangulo del Tolima), it is estimated that infrastructure construction alone will require investments in excess of US \$200 million, and similar or higher levels of financing could be needed to make the irrigation systems fully operable. The sectoral institutions acknowledge that they have neither the resources nor the administrative capability in order to fill the financing gaps in those districts. The PPP model should be sufficiently flexible that it can be used not only with large irrigation districts, but also with medium-sized irrigation districts.
- Development of a methodology for collecting and processing of the information that will allow the decision making on technical aspects.

In March 2017, a proposal for a Reimbursable Advisory Services (RAS) activity was sent to ARD, which is serving as the government's lead agency during this initial stage because it is responsible for the design of NPID. ARD is currently attempting to resolve a number of legal issues that have come up. The ARD General Secretariat considers that it is not possible under Colombian law for a public agency to enter into what would essentially be a single source (non-competitive) contract with the World Bank Group. By contrast, the General

Secretariat of the MADR considers the proposed RAS contracting arrangement to be acceptable. Representatives of the two agencies are planning to meet in the hope of coming to a mutually agreeable interpretation of the relevant law.

4. Miscellaneous activities

World Economic Forum New Vision for Agriculture (NVA): The World Bank has been participating in the discussions led by the Vice Minister for Agricultural Affairs and representatives from the World Economic Forum (WEF), the objective of which is to promote a more sustainable approach for agricultural and rural development in Colombia. These discussions have noted the World Bank Group's experience with the Rural Productive Partnerships Support Projects, the Sustainable Cattle Ranching Project, and the Biocarbon Fund. In the wake of plenaries held at the MADR, follow-up meetings are being planned to address sustainability issues within different subsectors (livestock, horticulture, oilseeds, etc.). It is hoped that participation in these meetings will lead to the identification of current and future needs for the financing of agricultural and rural development projects, along with associated technical assistance.

The NVA discussions have led to the formation of roundtables to discuss the agricultural activities that have been prioritized. The WB is participating in three of these roundtables: (1) Sustainable Cattle Ranching, (2) Hass avocado, and (3) Cocoa. MADR staff and WEF representatives have participated in these roundtables, along with representatives from the private sector. Each roundtable has met once. Principal outcomes are summarized below.

(a) Sustainable Cattle Ranching

The roundtable on Sustainable Cattle Ranching is being coordinated by MADR and the Inter-American Institute for Cooperation on Agriculture (IICA) and supported by the Sustainable Cattle Ranching Project.

The roundtable has focused mainly on productivity and profitability issues.

With respect to productivity, the area in pasture land is increasing every year, but the total number of cattle has not changed, and as a result the average number of cattle per hectare is decreasing (to around 0.6 animals / hectare today). One reason for the low productivity may be that quite a bit of ranching activity is actually a front for land speculation. Clearing of land for use as pasture is sometimes done by land speculators whose ultimate objective is not really to engage in ranching. Land is cleared and used as pasture so that the owner can claim it is being used productively, which is required for claiming a formal title; once the title has been obtained, the land is sold.

With respect to profitability, variability in income is recognized as a widespread problem, particularly in the dairy sub-sector. Milk production fluctuates considerably throughout the year, and dairy producers express concern over the surplus that accumulates during some periods. Production costs in Colombia are

generally higher than prices on the international market, which not only discourages exporting but also depresses prices in the domestic market.

In terms of environmental impacts, cattle ranching has a negative image, often being blamed for contributing to deforestation. The negative image is unfair, however, because the general public and even many government officials tend not to understand that most deforestation results from illegal logging activities and clearing of land to plant illicit crops. Only afterwards is the cleared land used as pasture land.

(b) Hass avocado

The roundtable on Hass avocado is being coordinated by the National Council for the Avocado, which looks after avocado varieties.

Among the several avocado varieties produced in Colombia, the Hass avocado has attracted the greatest amount of interest due the heavy demand in international markets. Other avocado varieties produced in Colombia are not suitable for export, due their size and short ripening period, which precludes use of low-cost maritime transport to reach overseas markets.

An important feature of Hass avocado produced in Colombia is that most of the crop comes onto the market during periods when Hass avocados produced in Peru are in short supply; this represents a big advantage for Colombia producers, as they are able to cover markets normally served by Peruvian producers.

A major constraint facing many Colombian Hass avocado producers is lack of knowledge needed to identify and reach international markets. Many producers are unaware of the standards required for export and do not have access to the technical assistance needed to improve their production and handling practices to meet those standards.

The Government of Colombia, working in partnership with industry associations, has been working to gain access to North American and European markets. It is expected that these efforts will be expanded in future to include also Asian markets, mainly China, Japan and Korea.

Efforts are needed as well to strengthen collaboration among and between producers. Participants in the Hass avocado roundtable have recognized the experience of the World Bank in promoting collective action, through the Productive Rural Partnerships projects in Colombia and through many other similar projects in other countries. They expressed the interest in organizing a session during a future meeting of the National Council for the Avocado during which World Bank experts could share experiences from around the world.

(c) Cocoa

The cocoa roundtable operates in close coordination with the National Council for Cocoa, led by the MADR, to avoid duplication of effort.

Colombia is close to self-sufficiency in cocoa production, so continued growth in the cocoa sector will be possible only if external markets can be identified to absorb additional production. If Colombian producers are to compete effectively in international markets, however, they will have to increase productivity. Average cocoa yields in Colombia are currently below 1 MT/ha, and it is estimated that they will have to reach 1.5 - 2 MT/ha in order for Colombian cocoa to be competitive in international markets. Achieving yield increases of this magnitude will likely require investment in irrigation systems, because many cocoa producing areas of Colombia are subject to long periods of severe drought.

Cocoa production can potentially deliver large environmental benefits. Studies have shown that when pasture land is planted to coca, emissions of Green House Gases (GHG) are significantly reduced, and biodiversity increases. Publicizing these potential impacts could provide an important impetus to cocoa in the country.

The National Chocolate Company, the most important buyer of cocoa in Colombia, has highlighted the need to increase the support provided to smallholder producers through initiatives such as the Rural Productive Partnerships Program. Nestlé, which controls a significant share of the Colombian chocolate market, has recognized the importance of collective action in the cocoa sector. Nestlé representatives frequently point to the successful experience of Ecuador, where Nestlé sources and processes most of the chocolate it sells in Colombia. In Ecuador, producer cooperatives are extremely powerful, and they provide many benefits for their members in terms of production and marketing support.

The World Bank Group has shared with roundtable participants its interest in working with cocoa producers in the Orinoquia region, considered as one of the last remaining untapped agricultural frontiers in the country. The Orinoquia region has been largely bypassed by agriculture, due to its remoteness and lack of connectivity, the generally poor soils, and the high level of insecurity during the armed conflict. Support to cocoa producers could potentially be provided under the Biocarbon Fund Program, whose objective is to promote sustainable production in the Orinoquia region.

Agency for Rural Development / Vice-presidency for Productive Integration

Discussions have taken place involving World Bank Group representatives and the National Director for Technical Assistance for Agriculture. As part of the recent institutional reforms in the rural sector, responsibility for implementing agricultural development projects and programs has been transferred from MADR to ARD. As a newly formed agency, ARD has two main concerns:

- **Lack of budget:** During 2017, only \$43,000 million COP (about US\$ 14.7 million) was allocated to ARD. For 2018, the amount proposed is only \$48,000 million (about US\$ 16.5 million). These amounts are far from adequate to deal with the enormous demand for rural and agricultural

development services, including the commitments made as part of the Peace Agreement between the Government and the FARC.

- **Lack of capacity:** As a brand new agency with a very small staff and no institutional experience, ADR lacks capacity in many areas. Management is interested in exploring the possibility of receiving technical assistance through the World Bank Group and would be interested in hearing how such support has been organized in other countries. One proposal under discussion is to organize a virtual meeting so that World Bank staff based in Washington and/or other countries could share experiences.

Next Steps

Activities to be supported in the coming year under the next phase of the Colombia Agriculture Engagement ASA are likely to include the following:

1. Dialogue around the Productive Alliances / Rural Development Agenda

During the last conversation (May the 24th 2017) with the VM for Rural Development, Juan Pablo Diaz Granados, has confirmed the difficulties and instructions from the Ministry of the Treasury for operations that involves national debt. A meeting with the VM could be requested, but before it, would be important to determine Our willingness on a potential IPF for a III phase on PAAP.

2. Dialogue with representatives from the Agency for Territorial Renewal (Agencia de Renovación Territorial – ART).

This Agency was originally created along with the Agency for Rural Development – ADR and the National Agency of the Land – ANT (Acronyms in Spanish) after the liquidation of the Colombian Institute for Rural Development – INCODER. Once the Peace Process ended, the Government would transfer the ART from the MADR to the High Council for Post-Conflict. The Constitutional Court did not approve it under the Peace Agreement special power to the President, therefore it is not yet clear how it will operate.

3. Discussions regarding the National Plan for Irrigation and Drainage (NPID)

The Government and the WBG have been discussing a RAS that would cover different needs of ADR and UPRA, under a contract that would be signed ADR. Since it is not clear whether the ADR will proceed, UPRA is proposing to divide the RAS into two. One RAS, led by UPRA, would cover the planning stage and a second RAS, led by ADR, would cover the implementation stage

4. Miscellaneous Activities

- MADR / World Economic Forum - New Vision for Agriculture: Specific interest on WB activities linked with the BioCF program, the Sustainable Cattle Ranching Project and PAAP has been expressed. Activities like VCs for the articulation with public / private activities on regions where the WB is implementing its projects, can be an opportunity for leveraging on initiatives of common interest.
- **Agency for Rural Development / Vice- presidency for Productive Integration:** A VC with the National Director for Technical Assistance, could lead to a future RAS with the Agency, since the possibilities for an IPF are not clear, either from the Government side nor from the WB.