

BOLIVIA

**PROGRAM OF SUPPORT FOR RURAL PRODUCTIVE
DEVELOPMENT**

(BO-0179)

LOAN PROPOSAL

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CONTENTS

EXECUTIVE SUMMARY

I.	FRAME OF REFERENCE.....	1
A.	Macroeconomic policy and the economic context.....	1
B.	Economic growth with mixed results.....	2
C.	Economic activities in rural areas	2
D.	Nonagricultural employment.....	3
E.	Rural microenterprises and small businesses.....	4
F.	The country's strategy for the sector.....	5
G.	Bank activities in the sector	6
H.	Activities of other agencies in the sector	7
I.	The Bank's strategy with the country	8
J.	Lessons learned from the Bank's experience in the sector	8
K.	Conceptual design of the program	9
II.	THE PROGRAM	11
A.	Objectives.....	11
B.	Description and organization.....	11
1.	Promotion and training	11
2.	Rural production projects	11
3.	Production project preparation services	13
C.	Program scale	14
D.	Costs and financing.....	14
III.	EXECUTION OF THE PROGRAM.....	16
A.	Executing agency and supporting institutions	16
1.	The PEU	16
2.	The regional agencies	17
3.	The Technical Review Committee.....	17
4.	The Consultative Board	18
B.	Execution mechanism for each component	18
1.	Promotion and training	18
2.	Rural Production Projects	18
3.	Project preparation services	20
C.	Execution period and disbursement schedule.....	21
D.	Status of program preparation	21
E.	Managing environmental impact and citizen participation.....	22
F.	Revolving fund.....	24
G.	Procurement of goods and services	24
H.	Accounting, internal controls and audits.....	25

I.	Supervision and evaluation.....	25
J.	Ex post evaluation.....	27
IV.	FEASIBILITY AND RISKS.....	28
A.	Technical feasibility.....	28
B.	Institutional feasibility	28
C.	Socioeconomic feasibility.....	29
D.	Financial feasibility.....	30
E.	Environmental and social feasibility.....	31
F.	Benefits.....	32
G.	Risks	32

ANNEXES

Annex III-1	Logical framework
Annex III-2	Procurement schedule

BASIC SOCIOECONOMIC DATA

For basic socioeconomic data on Bolivia, please refer to the following address:

<http://www.iadb.org/RES/index.cfm?fuseaction=externalinks.countrydata>

INFORMATION AVAILABLE IN THE TECHNICAL FILES

Preparation:

Execution:

Operating Regulations
Itemized Schedule of Costs
Terms of Reference for Consulting Firms
Proposed Social and Environmental Management Plan
Draft contract between the MACyA and FDTAs

ABBREVIATIONS

DFID	Department for International Development (United Kingdom)
EBRP	Bolivian Poverty Reduction Strategy
FDTAs	Fundaciones de Desarrollo Tecnológico Agropecuario [Agricultural Technology Development Foundations]
FSO	Fund for Special Operations
GDP	Gross domestic product
GTZ	German Agency for Technical Cooperation
HACCP	Hazard Analysis and Critical Control Point
JICA	Japan International Cooperation Agency
MACyA	Ministry of Campesino Affairs and Agriculture
MDS	Ministry for Sustainable Development
NPE	Nueva Política Económica [New Economic Policy]
OECA	Organización Económica Campesina [Campesino Economic Organization]
PEU	Program executing agency
PROPEF	Project Preparation and Execution Facility
RASIM	Reglamento Ambiental para el Sector Industrial Manufacturero [Environmental Regulations on the Industrial Manufacturing Sector]
SBPC	Sistema Boliviano de Productividad y Competitividad [Bolivian Productivity and Competitiveness System]
SDC	Swiss Agency for Development and Cooperation
SIBTA	Sistema Boliviano de Tecnología Agropecuaria [Bolivian Agricultural Technology System]
UNDP	United Nations Development Programme
USAID	United States Agency for International Development



BOLIVIA

IDB LOANS

APPROVED AS OF OCTOBER 31, 2003

	US\$Thousand	Percent
TOTAL APPROVED	3,290,237	
DISBURSED	2,694,823	81.90 %
UNDISBURSED BALANCE	595,413	18.09 %
CANCELATIONS	243,129	7.38 %
PRINCIPAL COLLECTED	1,135,407	34.50 %
APPROVED BY FUND		
ORDINARY CAPITAL	1,190,831	36.19 %
FUND FOR SPECIAL OPERATIONS	2,027,144	61.61 %
OTHER FUNDS	72,261	2.19 %
OUTSTANDING DEBT BALANCE	1,559,417	
ORDINARY CAPITAL	449,001	28.79 %
FUND FOR SPECIAL OPERATIONS	1,104,075	70.80 %
OTHER FUNDS	6,341	0.40 %
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	300,289	9.12 %
INDUSTRY, TOURISM, SCIENCE AND TECHNOLOGY	227,843	6.92 %
ENERGY	571,132	17.35 %
TRANSPORTATION AND COMMUNICATIONS	766,193	23.28 %
EDUCATION	134,583	4.09 %
HEALTH AND SANITATION	386,694	11.75 %
ENVIRONMENT	43,456	1.32 %
URBAN DEVELOPMENT	74,234	2.25 %
SOCIAL INVESTMENT AND MICROENTERPRISE	247,999	7.53 %
REFORM AND PUBLIC SECTOR MODERNIZATION	395,696	12.02 %
EXPORT FINANCING	24,478	0.74 %
PREINVESTMENT AND OTHER	117,638	3.57 %

* Net of cancellations with monetary adjustments and export financing loan collections.



BOLIVIA

STATUS OF LOANS IN EXECUTION AS OF OCTOBER 31, 2003

(Amount in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROYECTS	AMOUNT APPROVED*	AMOUNT DISBURSED	% DISBURSED
<u>REGULAR PROGRAM</u>				
Before 1997	6	287,829	230,224	79.99 %
1997 - 1998	4	122,000	54,448	44.63 %
1999 - 2000	8	189,300	58,558	30.93 %
2001 - 2002	9	189,200	12,514	6.61 %
2003	3	101,000	30,126	29.83 %
<u>PRIVATE SECTOR</u>				
2001 - 2002	2	112,000	24,000	21.43 %
TOTAL	32	\$1,001,329	\$409,870	40.93 %

* Net of cancellations. Excludes export financing loans.



Bolivia

Tentative Lending Program

2003

Project Number	Project Name	IDB US\$ Millions	Status
BO0178	Education Reform II	36.0	APPROVED
BO0213	Fiscal Sustainability Program	63.0	APPROVED
BO0225	TC Sustainability Support Program	2.0	APPROVED
BO0179	Support Productive Activities in Rural Areas	13.5	
BO0221	Land Regularization and Legal Cadastre	22.0	
BO0219	Sector Program to Support Competitiveness	37.0	
Total - A : 6 Projects		173.5	
TOTAL 2003 : 6 Projects		173.5	

2004

Project Number	Project Name	IDB US\$ Millions	Status
BO0216	Reactivation of the Center of La Paz	20.0	
BO0220	Support to Bolivian Competitiveness System	10.0	
BO0209	Justice Sector Support	10.0	
BO0200	Geotechnical and Environmental Protection of the Cotapata-Santa Barbara Highway	16.0	
BO0224	Rural Electrification	10.0	
BO0207	National Transparency Program	15.0	
Total - A : 6 Projects		81.0	
BO0210	Rural Infrastructure Program	10.0	
BO1001	Restructuring of Private Enterprises	N/A	
Total - B : 2 Projects		10.0	
TOTAL - 2004 : 8 Projects		91.0	
Total Private Sector 2003 - 2004		0.0	
Total Regular Program 2003 - 2004		264.5	

* Private Sector Project

PROGRAM OF SUPPORT FOR RURAL PRODUCTIVE DEVELOPMENT
(BO-0179)

EXECUTIVE SUMMARY

Borrower:	Republic of Bolivia	
Executing agency:	Ministry of Campesino Affairs and Agriculture (MACyA)	
Amount and source:	IDB: (FSO)	US\$13,500,000
	Local counterpart:	US\$ 1,500,000
	Total:	US\$15,000,000
Financial terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Commitment of resources for components 2 and 3:	3 years
	Disbursement period:	5 years
	Interest rate:	1% first 10 years; 2% next 30 years
	Inspection and supervision:	1%
	Credit fee:	0.5%
	Currency:	Currencies forming part of the FSO, except that of Bolivia.
Objectives:	The goal of the program is to contribute to the sustainable reduction of rural poverty levels. Its general objective is to generate new and sustainable employment opportunities in rural areas, and its specific objectives are to: (i) strengthen the capacity of producer associations and institutions in the sector to develop agribusiness-oriented rural production projects; (ii) finance productive investments that generate sustainable employment and higher earnings among low-income rural inhabitants; and (iii) provide support for the preparation of production projects.	
Description:	These three specific objectives will be achieved by means of the following three components: (i) promotion and training, (ii) rural production projects; and (iii) project preparation services.	

1. Promotion and training (US\$400,000)

This component includes information activities and training in the preparation and management of rural production projects with an integrated approach of the process from primary production through access to consumer markets (production chain approach).

2. Rural production projects (US\$10.6 million)

This component will provide partial, nonreimbursable funding for rural production projects that allow small producers to obtain access to local and international markets. These projects will be based on business plans deemed technically sound and selected in a competitive process, and will include a mechanism for cofinancing with beneficiaries.

3. Project preparation services (US\$800,000)

Component 3 will provide partial, nonreimbursable funding for technical assistance to carry out additional research in specific areas where required to complete the business plans of selected production projects, through a cofinancing arrangement with beneficiaries.

Role of the project in the Bank's country and sector strategy:

As laid out in its country paper, the Bank's strategy with Bolivia has as its main objective to combat poverty by pursuing three lines of action: (i) economic growth and creation of opportunities; (ii) human capital development and access to basic social services; and (iii) governance and consolidation of reforms. These lines of action are consistent with the 2001 Bolivian Poverty Reduction Strategy. The operation proposed here falls under the first of these areas—with particular emphasis on the productive sustainability of the projects selected for inclusion in the program—and is in line with the Bank's Competitiveness Strategy (document GN-2195). It is also consistent with the Strategy for Rural Poverty Reduction (document GN-1995-5) and the Strategy for Agrifood Development in Latin America and the Caribbean (document GN-2069-1), in that it seeks to promote the development of microenterprises and small businesses in rural areas and a demand-driven approach to participatory execution.

Coordination with other official development agencies:

Support for the agriculture sector and rural development is one of the main strategies adopted by the international community in Bolivia and has resulted in a large number of programs and projects. International support is coordinated by the Working Group for Rural Productive Development, which consists of all donors and lending agencies and operates under the coordination of the MACyA.

The project team met with members of the Monitoring and Follow-up Committee of the Bolivian Agricultural Technology System (SIBTA), which is made up of representatives from bilateral development agencies including the Department for International Development (DFID), the United States Agency for International Development (USAID), the Swiss Agency for Development and Cooperation (SDC), the German Agency for Technical Cooperation (GTZ), the Japan International Cooperation Agency (JICA), and the Directorate-General for International Cooperation (DGIS). The members of SIBTA's Monitoring and Follow-up Committee ratified their support for the program and the proposed execution mechanism and expressed interest in providing parallel financing as the program advances and experience is gained in its execution. The Swiss Agency for Development and Cooperation (SDC) has been an active participant in the program's preparation process and has indicated its willingness to contribute resources from the start of its execution. Such financing could be accepted by the Bank as part of the counterpart contribution (paragraphs 1.29 and 1.30).

Environmental and social review:

All of the requirements identified by the Committee on Environment and Social Impact (CESI) in its meeting 43-02 of 15 November 2002 have been incorporated into the Environmental and Social Management Plan. This plan sets out guidelines for all the environmental and social aspects of the program, and the Operating Regulations include the environmental and social safeguards needed for production project processing program. Consultants hired by the program executing unit (PEU) will carry out environmental and social analyses for the production projects as part of the qualifying process. The PEU will ensure compliance with the program's overall environmental and social feasibility criteria, with the help of its environmental consultant.

Benefits:

This program will generate the investments necessary to implement some 30 rural production business plans, benefiting some 3,000 low-income rural producers. It will at the same time increase the country's ability to prepare business plans linking rural producers with currently underused productive potential in chain with access to markets.

Risks:

Shortfall in the number of viable business plans: There is a risk that potential demand for investment in production projects may fail to produce a sufficient number of business plans of the type expected for the program. This risk will be mitigated through: (i) information activities; (ii) training in the formulation of business plans; and (iii) support for completing business plans in cases where the proposal has attractive features but requires technical assistance to make it eligible for financing. The support provided may include

conducting specific studies, formulating the business plan itself, and obtaining legal status in order to meet all of the program's eligibility requirements.

Inadequate quality of service. There is a risk that the quality of the services offered by the providers helping with preparation of the business plans for production projects may not improve. The program will minimize this risk by means of the training activities of component 1.

Special contractual clauses:

Conditions precedent to the first disbursement: In addition to standard contractual conditions, the following special conditions must be fulfilled: (i) creation of the PEU through a ministerial decision, and formal appointment of the coordinator (paragraph 3.4); (ii) implementation of the financial control and accounting system (paragraph 3.4); (iii) signing of agreements between the MACyA and two of the Agricultural Technology Development Foundations to provide support for execution of the program at the regional level (paragraph 3.7); and (iv) entry into force of the Operating Regulations via an MACyA decision (paragraph 3.11).

Poverty-targeting and social sector classification:

This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation qualifies as a poverty-targeted investment (PTI) (paragraph 4.20).

Exceptions to Bank policy:

None.

Procurement:

The threshold amounts for requiring international competitive bidding under components 1 and 3 are: US\$250,000 for goods and US\$200,000 for consulting services. These components do not include construction works. The procurement of goods, hiring of construction works and contracting of consulting services under component 2 will be carried out by the program beneficiaries in conformity with the Bank's procurement policies and procedures for the private sector.

Where evaluation of bids for consulting contracts is based on quality and price, the price criterion will have a relative weight of no more than 20%, and technical quality will have relative weight of not less than 80%.

I. FRAME OF REFERENCE

A. Macroeconomic policy and the economic context

- 1.1 With a population of 8.3 million and annual per capita income below US\$1,000, Bolivia's economic statistics show that some 63% of its inhabitants live in poverty, with nearly half of the poor—and 77% of the absolute poor—in rural areas.
- 1.2 In 1985 Bolivia began modernizing its economic policy and restructuring its economy to remove restrictions. In that same year, the country weathered a major economic crisis and implemented a new economic policy (NPE), leaving behind the State capitalism model and promoting an export-driven private sector instead. These changes enabled Bolivia to restore price stability, employment and economic growth to levels not seen since the 1960s and 1970s, this despite having to cope with problems arising from a much more difficult global environment. Also, the institutional changes introduced by the NPE resulted in government departments which, although still operationally weak, made important progress in decentralizing authority and encouraging greater citizen participation.
- 1.3 The NPE brought substantial gains in aggregate economic growth and exports, as well as monetary stabilization. It also promoted nontraditional exports, which scarcely existed in 1985 and today account for the majority of exports. The success of its reforms enabled Bolivia to maintain overall annual growth rates of better than 4%. This growth rate of 4% per annum was cited in a recent study by the United Nations Development Programme (UNDP) as the minimum rate required for increasing per capita income—given a 2.3% annual rate of increase of the population—and carrying out an investment plan. The investment plan would be very modest given the country's lack of infrastructure and directly productive capital, as well as its urgent need to address structural issues related to the lack of social equity.
- 1.4 Despite the macroeconomic improvements brought about by the NPE, Bolivia continues to lag behind in the productivity and competitiveness of its traditional sectors, including traditional agriculture, and most of the other rural activities. Years of economic growth have only managed to lower the percentage of people living in poverty and absolute poverty by 1% per year, demonstrating the low elasticity of improvements in poverty indicators in response to rising GDP associated with accelerated economic progress. Thus, lagging productivity in activities that are essential to Bolivia's economy has slowed the rate of improvement in indicators of social and economic progress.
- 1.5 Meanwhile, the positive results achieved under the NPE appear to have stalled beginning in 1999, with GDP growth slowing to 2.3% in 2002 and unemployment at over 12% and continuing to rise. Finding a solution to social deficits has become particularly difficult in view of the slowdown in macroeconomic progress.

B. Economic growth with mixed results

- 1.6 Economic growth produced mixed results because it was concentrated among those few households containing highly skilled human capital, and in “enclave” productive sectors. These sectors (oil and gas, basic and financial services, telecommunications) attracted foreign investment and posted annual growth in excess of 6%. For those sectors most important to Bolivia’s economy in terms of job creation and their impact on household income (manufacturing, trade, agriculture), the picture is quite different. The annual growth rate in these sectors was less than 4% during a period of notable macroeconomic success. The effect of such slow growth on poverty rates can be clearly demonstrated with models based on social accounting matrices.
- 1.7 Using a model social accountability matrix, the UNDP reports that traditional agriculture has a multiplier effect on (rural and urban) household incomes that is 80% greater than that achieved by growth in activities such as oil and gas production. In the case of modern agriculture the margin is somewhat smaller, but is still 35% greater than that of the dynamic oil and gas sector. These results are also consistent with a more intuitive analysis which leads one to expect greater positive impact from campesino agriculture on household incomes, based on the use of labor, the large number of households involved, and their greater propensity to consume.
- 1.8 The problems which remain in spite of the success of the NPE correlate strongly with rural areas where the low productivity of labor and of the types of activity commonly engaged in lead to two downsides: overall growth which has been fed by other sectors is slowed and, with an increased productivity differential, the gap in income distribution is widened.
- 1.9 To solve these long-term problems, which are all the more noticeable when seen against the backdrop of the NPE’s successes, it will be necessary to seek new options while recognizing the many initiatives carried out by the government and international donors to date, as well as the existing institutional weaknesses. In particular, a deeper understanding of conditions in the various rural areas of Bolivia and their differing responses to the stimulus provided by the NPE will be required.

C. Economic activities in rural areas

- 1.10 The rural economy of Bolivia is heavily dependent on agriculture, which also plays a strategic role in the country’s overall economy, accounting for 14% of GDP and nearly one third of the total value of Bolivian exports, and providing jobs for over 40% of its economically active population.
- 1.11 Bolivia’s primary agricultural sector has some 660,000 farms occupying a total of close to 25 million hectares and employing 1.6 million individuals. The land tenure

system has a number of shortcomings attributable to outdated policies, including uncertainty over land ownership due to poor property administration, and excessive concentration of ownership. Some 87% of all holdings have fewer than 20 ha and account for only 1.5% of total land put to agricultural use. At the other extreme, 1.5% of agricultural operations occupy over 80% of the country's farmland (with holdings ranging from 1,000 to 17,000 ha). Agricultural operations in Bolivia vary widely in terms of the size of their holdings, provision of capital and variety of natural resources (there are four major ecoregions: Andean Altiplano, central valleys, humid tropics and the Chaco region). As a result of this diversity, small agricultural units do not exceed 3-4 ha in the Altiplano region, whereas they may cover as much as 50 ha in the flat region known as the Llano.

- 1.12 Agriculture's share of total GDP has remained substantially unchanged under the NPE, although differences within the sector have rapidly widened. In the Altiplano region, which produces primarily root crops and some grains, and where per capita income is below US\$780 and 64.5% of the population lives in poverty, production grew by 1.8% per year. By contrast, in the humid tropics where agribusinesses predominate, production has risen by 5% annually over the last decade, per capita income is now over US\$1,100, and the poverty rate is 48%.

D. Nonagricultural employment

- 1.13 Off-farm employment has grown steadily, especially in areas where the agricultural sector is more developed and operations are better capitalized. So-called nonagricultural employment often involves some form of processing of primary production, which remains the basic activity in rural areas. Modernization of primary production diversifies sources of employment in these areas.
- 1.14 The relative importance of nonagricultural rural employment varies a great deal among regions. In the Andean Altiplano, 72% of rural households derive their incomes entirely from the family farm. The percentage drops to 67% for the central valleys, and to 42% in the Llano. The productivity of the agricultural sector and growth in rural employment opportunities in areas other than primary production are thus connected to the existence of activities with access to dynamic markets capable of adding value to the combination of human and natural resources.
- 1.15 The changes that have taken place in macroeconomics and rural activities over the last 15 years suggest three key issues that need to be addressed with respect to rural areas: (i) insecurity of land tenure; (ii) inadequate communications infrastructure and highways; and (iii) the importance of improving viable and sustainable campesino economies. The first two issues affect the entire sector. Improving Bolivia's campesino economies will require integrating them into production chains that will carry them to markets and add value. This is essential for achieving more equitable development and removing the constraints holding back the country's overall economic progress. Addressing this issue will require support for alliances

between primary producers and firms operating in rural areas, most of which are either microenterprises or small businesses.

E. Rural microenterprises and small businesses

- 1.16 Rural microenterprises and small businesses exhibit low productivity owing primarily to: (i) weak management skills for purposes of identifying, formulating and implementing business plans as part of an integrated production chain or cluster that ensures viable and sustainable market results; and (ii) difficulties in obtaining access to capital for the firms themselves, and for the agricultural producers who supply their raw materials, particularly where financing of capital projects is concerned. Financing is especially important to agricultural producers, most of whom find it very difficult to obtain credit owing to their lack of collateral acceptable to financial institutions, the high rates of interest charged by these institutions, and the risks to which agriculture is prone, such as weather-related risks that affect crop yield, and market access difficulties.
- 1.17 The attempt to solve the many problems hampering rural microenterprises and small businesses has led to the creation of a wide variety of support programs and projects. Among these are numerous programs to provide training for campesinos and rural entrepreneurs; and many initiatives designed to develop financial instruments with longer grace periods than those allowed for commercial activities in urban areas, payment commitments based on growing seasons or marketing arrangements, and provision of personal or real-property guarantees. And although they are in the initial stages only and are not yet fully operational, efforts are under way to strengthen financial agencies in rural areas.
- 1.18 The many support activities and different initiatives designed to help small producers, microenterprises and small businesses encounter problems when attempting to extend or ensure the sustainability of their successes. This problem consists of ignoring or minimizing two major difficulties: (i) the fact that no measures have been taken particularly short-term training measures to make up for the lack of business management skills, opting instead to assist the activities of entrepreneurs that have demonstrated experience in business and organization of production for marketing purposes; and (ii) the difficulties of financing investments in agriculture, especially for low-income rural inhabitants.
- 1.19 Based on developments in rural areas and among projects to assist small producers, microenterprises and small businesses, it is advisable to test ways of transferring funds to consolidate production systems, remedy existing marketing deficiencies in the financial system, and generate positive externalities through application of innovative technologies and new forms of business organization. These measures will permit development of a sustainable production model with the participation of entrepreneurs that are not eligible for formal investment loans. The fund transfers will help to build an integrated production base that will generate employment;

consolidate sources of income with a significant multiplier effect on rural household earnings; and, as the financial system for rural production is further developed, enable these same producers to access formal financial services.

- 1.20 The experience of the Agricultural Technology Development Foundations (FDTAs) in calling for innovative technology projects is that there is a demand for investments ranging from US\$20,000 to US\$45,000 per project. It should be noted that while the FDTAs provide financing only for agricultural technology innovation projects, they have made it possible to detect demand for productive investments as well. The amount cited, however, does not include the costs associated with the preparation of business plans, or the investments required for upgrading the business management skills of applicants or for helping them to improve access to markets. Investments under these headings will be important areas to consider in the selection and eventual success of the production projects to be funded under the proposed program, and they have been included in the estimate of minimum amount per production project to be granted under the program.

F. The country's strategy for the sector

- 1.21 The government's top priority is to create jobs and increase national revenues within a framework of social, economic and cultural inclusion. The main strategy in the rural sector calls for developing production chains as a means of improving productivity and making Bolivian agriculture more competitive.
- 1.22 To direct investments in the sector and develop agrifood and export-oriented production chains, the government relies on the Bolivian Productivity and Competitiveness System (SBPC). The SBPC seeks to create alliances between government, the private sector and academic institutions to carry out designated priorities for improving productivity and competitiveness, and to direct activities and resources in the effort to eliminate structural barriers to the development of the country's production system. The main tools at its disposal include the simplification of procedures, identification of the factors that limit competitiveness and resulting proposals for increasing it, and strengthening of production chains. In 2000, a participatory process was used to identify high-priority production chains, and the Ministries of Economic Development, Agriculture, Livestock and Rural Development, and Trade have continued the work of identifying these chains and formulating "competitiveness agreements" which assign responsibilities to each chain's various stakeholders. The Productivity and Competitiveness Unit and the MACyA have drawn up a list of 20 high-priority production chains based on their export and job creation potential. The sector program to support the resumption of production and competitiveness (BO-0219) and the program to support the Bolivian productivity and competitiveness system (BO-0220) are assisting this initiative.
- 1.23 The SBPC is consistent with the Bolivian Poverty Reduction Strategy (EBRP), which provides a general frame of reference for all government policies. Promoting

rural development with the aim of expanding employment opportunities and incomes among the poor is one of the central goals of the EBRP and is based on: (i) expanding and upgrading production infrastructure; (ii) expanding and supporting access to land; (iii) boosting competitiveness through effective coordination of production and marketing stages; and (iv) diversifying employment opportunities.

G. Bank activities in the sector

- 1.24 Like many other donors, the Bank has redoubled its efforts in the field of rural development. Under the campesino development investment program (901/SF-BO), the Bank approved a loan of US\$12.5 million on 26 May 1993 for rehabilitation and construction of roads, community irrigation systems, bulking centers and other small infrastructure works identified by local communities, and strengthening of community organizations. And under the national irrigation program (964/SF-BO), the Bank provided support for managing water resources and upgrading and rehabilitation of small irrigation systems through a loan of US\$32.9 million approved on 6 December 1995.
- 1.25 The agricultural services program (1057/SF-BO), which provided a loan of US\$34 million and was approved on 26 April 2000, is providing assistance for technology generation and transfer services, and health protection in the agrifood sector. Areas of special focus under this project include innovative technologies for production chains, and improvement of plant and animal health conditions. Support is provided under both of these headings for the development of investment proposals for effective integration of links of competitive chains with market access.
- 1.26 In addition to projects on the central issues of rural development, technology and health, plus land tenure, a tourism development program (961/SF-BO) was approved on 9 January 2002, under which a loan of US\$10 million supports accreditation and certification in the area of sustainable tourism, with emphasis on protecting cultural heritage and the environment, promoting Bolivia's image as a tourist destination, and financing demonstration projects that include resources from the private sector and the participation of local communities.
- 1.27 A program to support small business and microenterprise (1020/SF-BO), a loan of US\$35 million approved on 28 October 1998 finances subloans designed to facilitate access by enterprises to the financial system and includes technical cooperation funding for training and technical assistance. This program supplies resources for business diagnostic assessments and technical assistance, with particular emphasis on marketing and producer associations.
- 1.28 Three technical cooperation projects funded by the Bank provide training for agricultural entrepreneurs (ATN/MH7115 and 7116-BO) and strengthening of

competitiveness for small and medium-sized businesses (ATN/MH-7409-BO). They have helped small agricultural producers improve their business management skills and raised their awareness of, and helped them develop familiarity and experience with quality control systems through ISO 9000 standards and the HACCP system, which should facilitate their future efforts to develop rural production projects.

H. Activities of other agencies in the sector

- 1.29 The international community's support for rural development is coordinated through the Working Group for Rural Productive Development, which consists of all donors and lending agencies and operates under the coordination of the MACyA. In recent years, the actions of the international community have sought to create conditions for improving the production base in rural areas, in particular by strengthening rural economic organizations in the areas of community management, investment in irrigation infrastructure, and improvement of public agricultural services. Of particular note is the work carried by the bilateral agencies in support of production initiatives at the community level (e.g., the Swiss Agency for Development and Cooperation (SDC), the Canadian International Development Agency, and the Government of the Netherlands) and the cooperation of the German Agency for Technical Cooperation (GTZ), working jointly with the Bank, on the management of small irrigation systems. Other standout examples of recent experience include the coordination of the international community's contribution to the Bolivian Agricultural Technology System (SIBTA), which included development of a multi-agency financing scheme (IDB, SDC, DFID, GTZ, the Government of the Netherlands and JICA) to improve technology development in the sector; and the coordinated effort under the National Agricultural Health and Protection Service to control foot-and-mouth disease and other diseases affecting agricultural production.
- 1.30 Thanks to the strategic course of action adopted by the international community, a large number of programs and projects have been carried out in support of the rural economy. In 2001, the total amount of resources committed by the various sources of external financing was US\$220 million. In addition to the Bank, the largest contributors are the European Union, the World Bank and the United States Agency for International Development (USAID). The European Union has concentrated its efforts on food security; the World Bank on rural infrastructure; and USAID on alternative development in coca-growing areas. The Swiss Agency for Development and Cooperation (SDC) has participated actively in the program preparation process and has resources available to assist from the start of program execution, which could be accepted by the Bank as a counterpart contribution.

I. The Bank's strategy with the country

- 1.31 The Bank's strategy is consistent with the guidelines laid down in the EBRP. This strategy has as its main objective to combat poverty by pursuing three lines of action: (i) economic growth and creation of opportunities; (ii) human capital development and access to basic social services; and (iii) governance and consolidation of reforms. These lines of action are consistent with the 2001 EBRP, which establishes the following as top priority areas: generating employment and income-producing opportunities, skills development, increased security and protection for the poor, and promotion of social participation and integration.
- 1.32 The operation proposed here falls under the first of the Bank's strategic lines since it will contribute to economic growth and the creation of opportunities in rural areas, and is in line with the Bank's Competitiveness Strategy (document GN-2195). It is also consistent with the Strategy for Rural Poverty Reduction (document GN-1995-5) and the Strategy for Agricultural Development in Latin America and the Caribbean (document GN-2069-1), in that it seeks to develop microenterprises and small businesses in rural areas and promotes a demand-driven approach to participatory execution.

J. Lessons learned from the Bank's experience in the sector

- 1.33 The lessons learned in carrying out a wide variety of activities aimed at assisting rural development in Bolivia suggest results in common with those achieved in other countries, but which assume special importance in the recent experience of lending agencies and donors in Bolivia. It is particularly important that any program in this area pay special attention to:
- a. *The integration of investments.* The projects funded must be linked together in a chain which extends from the primary producer through distribution and sale, including commitments from a company with proven access to the market. These investments must go beyond the experience of projects targeting aspects of primary production, that have not found a market that would result in an impact on development.
 - b. *Responding to demand without neglecting the profitability of projects.* Carrying out projects that are in demand within the community imparts a sense of ownership that helps to ensure sustainability, but when the support was allocated to microprojects with low returns, these have proven unsustainable.
 - c. *Incorporating the means for helping entrepreneurs transition from proposal or baseline study to the carrying on of commercial activities.* While there is certainly a need for technical support in developing project proposals and identifying markets, serious thought should be given to funding investments, clearly identifying the lead enterprise or entrepreneur responsible for a proposal,

and working to ensure development of a real business rather than stopping at the proposal stage.

- d. *Selection of projects to receive partial funding under the program, based on objective criteria.* Granting nonreimbursable funding presents the obvious risk of discretionary authority in the use of resources. To mitigate this risk, the program will require assessment by independent evaluators and maximum disclosure and transparency in decision-making.
- e. *A flexible execution mechanism.* Because projects have to go through a great number of steps before a decision is taken and there is a lack of transparency, execution is delayed, which makes it difficult or impossible to achieve the expected results. This is particularly important in the case of Bolivia since constant coordination will be necessary among the different donors in order to maintain sufficient flexibility in the execution of programs with multiagency financing.
- f. *Monitoring of project execution with institutional support.* This is a very common lesson, but one which is well worth underscoring in light of the Bank's recent experiences in Bolivia where, as part of the process of implementing the EBRP an effort is being made to demonstrate the impact of public investment. Recent experience shows that in programs whose plans do not include a monitoring scheme, it is much more difficult to show whether such funding has had the desired results.

K. Conceptual design of the program

- 1.34 Taking into account the lessons learned in earlier projects and the experience gained during preparations, an agreement was reached with the government on the need for a program that will make funds available to legally organized groups of farmers. These funds and the proposed mechanism for obtaining access to them will provide an opportunity for verifying the viability of a cofinancing approach for investments in production for commercial markets. One of the essential conditions for eligibility will be that producers provide evidence of a prior agreement ensuring access to the market, either directly by the producers themselves, or through enterprises that have a relationship with the markets. The number of links in the production chain will be up to the applicants submitting a proposal, but the program will only support initiatives that include assured access to the end-user market, and where the proposal is deemed technically feasible and commercially viable.
- 1.35 Possible lack of the technical skills needed to formulate proposals will be overcome through the use of a mechanism to avoid the accumulation of studies and projects that do not get financed. The solution will be to compensate individuals who prepare business plans only in the event that their plans are approved. As an incentive, the program will include support for individuals wishing to specialize in

the preparation of business plans, as well as financing for completion of plans that show definite potential but require additional study in order to be technically and economically feasible.

- 1.36 The program will help to explore new methods of execution. Based on recent experience in the financing of technology innovation plans, it is advisable to avoid the use of complicated procedures in both calling for the preparation of plans and deciding whether to approve financing. Experience has shown that it is best to simplify execution, at the same time taking steps to ensure transparency and facilitate public monitoring of the use to which funds are put. Thus, as much information as possible will be made public concerning proposals received, those that are approved and those rejected, as well as explaining the rationale for decisions and indicating the persons responsible for making them.
- 1.37 Lastly, with respect to monitoring, the program will continue efforts to strengthen the public agencies that have already set up similar structures—particularly in the context of the Bank's programs. But it is also important that monitoring concentrate on a small number of variables, involving the program's beneficiary groups. These variables will make it possible to verify whether resources are actually reaching the intended recipients, and whether progress has been achieved in terms of additional employment and higher target-family incomes. These variables will be available to all potential users without excessively bureaucratic procedures.

II. THE PROGRAM

A. Objectives

- 2.1 The goal of the program is to contribute to sustainable reduction in rural poverty levels. Its overall objective is to generate new and sustainable income-producing opportunities in rural areas by promoting production projects that have been defined in viable business plans. Its specific objectives are to: (i) strengthen the capacity of producer associations and the sector's institutions to develop rural production projects with an agribusiness orientation; (ii) support productive investments that generate sustainable employment and higher earnings among low-income rural inhabitants; and (iii) support the preparation of production projects.

B. Description and organization

- 2.2 These three specific objectives will be achieved by means of the following three components: (i) promotion and training, (ii) rural production projects; and (iii) project preparation services.

1. Promotion and training (US\$400,000)

- 2.3 This component includes program information activities and training to prepare and manage fully integrated rural production projects that include everything from primary production through access to consumer markets (production chain approach). A total of 55 events are planned, to be attended by approximately 1,600 individuals, distributed in the following manner: (i) 6 national and regional workshops to provide information on the program for participants in its execution (MACyA officials, members of the Consultative Council and the Technical Review Committee, staff of the program executing unit (PEU) and from the Agricultural Technology Development Foundations (FDTAs), departmental and municipal governments); (ii) 15 information seminars to encourage potential program providers and beneficiaries to submit projects; (iii) 15 training workshops on the preparation and development of business plans and funding requests, for potential providers and beneficiaries; and (iv) 19 intensive training courses in agribusiness for managers and technical staff of producer associations and service providers. These training courses will include the training of instructors, thereby contributing to the spread of these activities in the regions.

2. Rural production projects (US\$10.6 million)

- 2.4 This component will provide nonreimbursable funding to offset part of the cost of rural production projects in every region of the country, enabling small producers to enter local and international markets. These projects will be based on business plans

selected and judged technically sound in a competitive process, and will include a contribution from the beneficiaries.

- 2.5 The production projects will be proposed by rural economic organizations made up of small producers of goods and/or rural service providers operating under various legal formats (e.g. cooperatives, rural associations, etc.). In the event that an organization without legal status submits a viable business plan, component 3 of the program can help the group obtain legal status. The program's beneficiaries are the production project participants who are members of these organizations.
- 2.6 The following are eligible projects: (i) **investments in rural production**: procurement of goods and infrastructure needed to launch innovative production methods under new or existing businesses, in order to reduce the risk to producers and pioneering entrepreneurs involved in the commercial use and appropriation of innovative technologies; (ii) **rural economic and business management**: technical assistance and training in business management and commerce, establishment of businesses and business connections, financial accounting administration, and legal assistance, to improve rural business management capacity in campesino organizations and among small producers and entrepreneurs linked together in production chains; and (iii) **market access and quality certification**: promotion of new products and specialized markets and implementation of systems for certification of quality of organic, farming methods, and of origin, and trademark and patent management, with the goal of encouraging processes that add value to rural products—both agricultural and nonagricultural products—and increased consumer interest in Bolivian products.
- 2.7 The program's contribution will be no more than 70% of the total specified in the business plan, and may not exceed US\$3,000 per beneficiary. This figure does not include costs covered by the program for preparation of business plans. The cost for preparation of the business plan may be included in the proposal, and is not to exceed 5% of the total value of the respective plan and, in any case, not to exceed US\$250 per beneficiary. These costs will be recognized by the program solely for those business plans that are approved. The limit of US\$3,000 per beneficiary is based on experience with similar projects in Bolivia, the sample of projects analyzed, and estimates of the capacity of small producers to cofinance investments.
- 2.8 **The minimum amount** of program resources provided for business plans submitted by an eligible rural organization will be US\$30,000. This minimum figure is based on the experience of the FDTAs, lessons learned concerning the support needed for the preparation of business plans, and business and market management, and seeks to provide opportunities for small producer associations (see paragraph 1.20).

- 2.9 **The maximum amount** provided for business plans submitted by an eligible rural organization will be US\$1,000,000. This figure is based on possible demand among the larger economic organizations already present in rural areas of the country. A survey of Campesino Economic Organizations (OECAs) registered with Bolivia's organization coordinating the integration of OECAs indicates that the average number of members per OECA is 165 for the nation as a whole, whereas the same figure for the Department of La Paz is 300. While demand for funding of per production projects is expected to be less than US\$1 million, the program will not exclude viable business plans prepared by enterprises made up of a large number of small producers. As noted in paragraph 2.7, the maximum amount available per beneficiary is US\$3,000 regardless of the size of the respective project—a figure which takes into account, among other things, the ability of individual beneficiaries to provide funding for their projects.

3. Production project preparation services (US\$800,000)

- 2.10 This component will provide partial and nonreimbursable funding for technical assistance to carry out additional research in specific areas where required to complete the business plans, and will include a cofinancing arrangement with beneficiaries. These plans may be eligible for the support provided under component 2.
- 2.11 The activities to be financed under this component include: (i) analysis of domestic and foreign markets; (ii) collection, processing and analysis of technology and trade data; (iii) holding of facilitation and coordination meetings for business agents; (iv) studies for the creation of alliances between the production and processing sectors through the formation of legally constituted consortiums, temporary associations, cooperatives or other types of organization to carry out projects; (v) studies to develop projects for certification of origin, organic products, ISO or other quality standards; (vi) technical and market studies on product quality and properties; and (vii) financial analyses, legal requirements and environmental assessments.
- 2.12 The program will finance a maximum of 5% of the investment amount specified in the business plan per request for funding. The cofinancing portion will cover up to 85% of the required resources, and the execution period for the project will not exceed six months. Funding under this component will only be available to entities whose business plans have been evaluated under component 2 and have received a recommendation for additional research to confirm their viability. The amounts, cofinancing percentages and execution period are based on experience with other initiatives in Bolivia, and are deemed appropriate for carrying out the activities to be financed under this component.

C. Program scale

- 2.13 This program will be testing a new way for rural producers and their associations to work: one that includes specific links to markets and business management resources needed to produce at quality levels required by those markets. It was felt best, therefore, to begin the experiment with limited resources, although sufficient to obtain results. To confirm that resources on the order of US\$10 million for investment in production projects is a manageable figure, an analysis was made to determine the number of currently eligible OECA's with the necessary capacity to submit projects that meet the specifications required by the program. With the help of the FDTAs and other reliable sources of information, an estimate was made of potential demand among those entities. The result was that if all of the funds of component 2 were allocated to the organizations in the Altiplano macroecoregion, this would serve only some 10% of total demand.

D. Costs and financing

- 2.14 The total cost of the program will be US\$15 million equivalent. The Bank will finance the equivalent to US\$13.5 million (90%) using resources from the Fund for Special Operations. Local counterpart funding in the amount of US\$1.5 million equivalent (10%) will be provided by the Government of Bolivia (US\$500,000) and the private sector beneficiaries of the program (US\$1 million). The following table shows the cost categories and sources of financing for each of the activities.

(US\$000 equivalent)				
Categories	IDB/FSO	Local	Total	%
I. Administration and supervision	1,915	210	2,125	14.1%
1. Executing unit FDTAs	1,410	160	1,570	10.4%
2. Support for selection and execution of projects	150	-	150	1.0%
3. Planning, monitoring and evaluation	355	50	405	2.7%
II. Direct costs	10,770	1,070	11,840	79.0%
1. Promotion and training	370	30	400	2.7%
2. Rural production projects	9,650	940	10,590	70.6%
3. Project preparation services	750	100	850	5.7%
III. Concurrent costs	400	30	430	2.9%
1. PROPEF	250	-	250	1.7%
2. Operational-financial audits	150	30	180	1.2%
IV. Financial costs	415	190	605	4.0%
1. Interest	280	-	280	1.9%
2. Credit fee	-	190	190	1.2%
3. Inspection and supervision	135	-	135	0.9%
Total	13,500	1,500	15,000	100.0%
%	90.0%	10.0%	100.0%	

- 2.15 In addition to the direct costs associated with the activities carried out in each component, the program includes administrative and supervision costs related to contracting consulting services. It also includes financing to cover concurrent costs consisting of reimbursement of resources from the Project Preparation and Execution Facility (PROPEF), operation 1124/SF-BO, and operational-financial auditing.
- 2.16 The proposed loan will use resources from the Fund for Special Operations and have the following terms and conditions: (i) interest rate of 1% per annum for the first 10 years, and 2% for the following 30 years; (ii) credit fee of 0.5% per annum on undisbursed balances; (iii) inspection and supervision charge of 1%; (iv) commitment period of three years for components 2 and 3; (v) disbursement period of five years; (vi) grace period of 10 years; and (vii) amortization period of 40 years.

III. EXECUTION OF THE PROGRAM

A. Executing agency and supporting institutions

- 3.1 The executing agency for the program will be the Ministry of Campesino Affairs and Agriculture (MACyA), which will operate through the PEU. The PEU will be attached to the Office of the Deputy Minister of Agriculture and Fisheries, and will be responsible for the administration of resources and execution of activities under the program. The Agricultural Technology Development Foundations (FDTAs), located in the country's four geographical regions, will participate in the execution process by helping rural producers gain access to the program. The program will have a Technical Review Committee to evaluate production projects, and a consultative Council made up of representatives from the public and private sectors who will determine the strategic management of the program.

1. The PEU

- 3.2 The PEU will have the following responsibilities: (i) coordinate and administer the program; (ii) prepare integrated annual operating plans; (iii) make requests for disbursements and keep the program's accounts; (iv) draw up plans, monitor and evaluate the program; (v) hire consultants to conduct an independent evaluation of the program; (vi) contract consultants to analyze project proposals; (vii) publicize the calls for submission of project proposals and the results of the selection process; and (viii) ensure efficient operation of the Technical Review Committee and the Consultative Council (paragraphs 3.8 and 3.9).
- 3.3 The PEU will: keep proper accounting and financial records to permit identification of the sources and uses of program funds, separately from other resources administered by the MACyA; submit disbursement requests, appropriate substantiation for eligible expenses, audited financial statements on the program and semiannual reports on the use of the revolving fund to the Bank; and maintain and control a special bank account for administering the resources from the loan, as well as accounting records for the resources of the counterpart contribution.
- 3.4 The PEU will have a coordinator, an agribusiness expert, a specialist in planning, supervision and evaluation, a financial administrator, two administrative accounting officers and two specialists in program procedures. The unit will also have one legal adviser, one environmental consultant, four agribusiness experts and four assistants in the field assigned one each to the four FDTAs (paragraph 3.7). **The creation of the PEU by ministerial decision and formal appointment of its coordinator, plus the implementation of a financial control and accounting system, will constitute conditions precedent to the first disbursement of the loan.**

- 3.5 At the start of the execution period, the PEU will create several registers for prequalified professionals to analyze project proposals and give a technical assessment of their contents, and for providers of consulting services on the preparation of rural production projects. The PEU will contract a consulting firm with experience in training to organize promotional and training activities under the program (paragraph 3.10), and another firm to design and implement the system for monitoring and evaluation of the program.

2. The regional agencies

- 3.6 The Agricultural Technology Development Foundations (FDTAs) will support program execution at the regional level. The FDTAs are private public-interest entities of various types created to cooperate with the government in carrying out projects involving new agricultural technology. Two thirds of the members of their boards of directors represent the private sector, and one third are from the public sector, including representatives of the departments and municipalities.
- 3.7 The FDTAs will provide support for execution of all three components of the program. Their activities will include: (i) logistical arrangements for seminars, information workshops and training courses; (ii) promotional activities for the program; (iii) work with beneficiary entities in identifying and formulating business plans; (iv) support for supervision of program activities; and (v) participation on the Technical Review Committee and the Consultative Board. Program resources will be used to hire one agribusiness expert and one assistant per FDТА involved in the program to provide support for promotion and supervision of the program, who will be considered part of the PEU assigned to work in the field. **The signing of agreements between the MACyA and at least two of the Agricultural Technology Development Foundations (FDTAs) for supporting program execution at the regional level, will be a condition precedent to the first disbursement.**

3. The Technical Review Committee

- 3.8 The Technical Review Committee will be responsible for assessing proposed production projects based on evaluation criteria stipulated in the program's Operating Regulations. The Committee will meet quarterly beginning in the sixth month of the execution period and continuing through the 36th month of the program, and will consist of one representative of the PEU who will serve as technical secretary, four representatives of the FDTAs, and two representatives from the Deputy Minister of Agriculture and Fisheries. In each case, the FDТА representative of the region from which the business plan is submitted will abstain from rating the respective proposal.

4. The Consultative Board

- 3.9 The Consultative Board will meet in regular sessions every six months, and in special session at the request of its members, in order to carry out the following functions: (i) determine national policies and strategies for the program; (ii) review the priorities established for production chains to be included among the evaluation criteria for the program; and (iii) evaluate progress under the program and make recommendations where warranted. The Board will be headed by the Deputy Minister of Agriculture and Fisheries, and will be made up of the four Chairmen of the Boards of Directors of the FDTAs; four representatives from each of the macroecoregion, as agreed upon by the departmental governors of each region and preferably drawn from the production sector; and one representative of the Productivity and Competitiveness Unit appointed by the Ministry of Economic development.

B. Execution mechanism for each component

1. Promotion and training

- 3.10 Acting through the PEU, the MACyA will hire a consulting firm with experience in training programs (paragraph 3.5). This firm will be responsible for the following activities: (i) organizing the contents of the various types of events; (ii) provide training for officials of the MACyA and FDTAs who will be carrying out national and regional information workshops and motivational seminars in the macroregions; (iii) provide support for the organization of information and training workshops; and (iv) participate directly in the training program on business plans and intensive courses on agribusiness to be carried out with the support of the FDTAs. Logistical and organizational duties will be the responsibility of the FDTAs and the PEU.
- 3.11 The regional activities planned for this component will be supported by the FDTAs (paragraph 3.7). Personnel from the departmental governments will attend the information and training workshops, enabling them to assist in promoting the program.

2. Rural Production Projects

- 3.12 The execution of this component will be governed by the Operating Regulations, which will also specify the procedures and conditions for obtaining access to the resources of component 3. The most important elements in these Regulations are described below and make up the project cycle. **Putting these Operating Regulations into force by means of an MACyA Decision will be a condition precedent to the first disbursement under the program.**

a. Project cycle

- 3.13 **Submission of projects.** With the support of the FDTAs, the PEU will invite the submission of rural production project proposals. Interested parties will have support from the agencies and consulting firms listed in the registry kept by the PEU and available through the FDTAs to assist them in the preparation of their proposals. The consulting firms will only receive compensation for the work done (according to the limits established in paragraph 2.7), once the respective proposal has been approved.
- 3.14 **Project eligibility.** Project proposals will be submitted to the Executing Unit or to the FDTAs, which will determine their eligibility before forwarding them to the PEU for assessment.
- 3.15 To be eligible an applicant is required to submit: (i) a business plan which includes the information required in the model business plan; (ii) a sworn declaration stating the family income of each beneficiary and certified by the requesting entity (80% of the beneficiaries must have family income at or below 1.2 times the region's poverty line); (iii) a letter of intent, commitment to purchase or similar document demonstrating the existence of a genuine link to gain access to domestic or foreign markets; and (iv) evidence of compliance with environmental regulations.
- 3.16 **Project evaluation.** Business plans that meet the eligibility requirements will be analyzed by the PEU based on the following evaluation criteria: (i) evaluation of potential return on investment and sustainability of the business plan; (ii) relative impact of investment on the groups targeted by the program; (iii) implementation capacity; and (iv) environmental sustainability.
- 3.17 The PEU will issue a full report on business plans approved, rejected or returned to applicants with suggestions for completing or improving proposals. The Technical Review Committee will review and rate the process, and will then advise the Deputy Minister on the disposition of the respective business plans.
- 3.18 **Final approval of projects.** The Deputy Minister of Agriculture and Fisheries will make the final decision concerning approval of proposed business plans based on the recommendations made by the Technical Review Committee, which recommendations will include the grounds for any variance from the report of the PEU. Similarly, if the final decision of the Deputy Minister does not exactly match the recommendations of the Technical Review Committee, a written explanation for the change must be included.
- 3.19 Where proposals receive the same point score under the evaluation criteria, preference will be given to projects in the priority chains identified by the Productivity and Competitiveness Unit and the MACyA. In the first year of the execution period, priority will be given to the 20 chains identified by the PEU and

the MACyA under the SBPC (paragraph 1.22). These 20 chains are: grapes, wines and singanis; chestnuts; beef cattle; llamas and alpacas; leather goods; wood and furniture; palm hearts; bananas, tourism; cotton and textiles; poultry; wheat; quinoa; soybeans; broad beans; valley fruit; dairy cattle; exotic fruits; corn and garlic. For subsequent years, the Consultative Board may set new priorities with respect to production chains. Lastly, when choosing among projects that satisfy the above criteria and requirements, every effort will be made to ensure the widest possible national coverage.

- 3.20 **Signing of contracts.** The PEU will invite applicants to sign contracts for the execution of their rural production projects. A prior condition for such signing is that the beneficiary entity must have legal status. In other words, an entity lacking this status is free to submit a business plan, but if that plan is approved it must obtain legal status before signing a contract with the program and may request assistance under component 3 for this purpose.
- 3.21 **Transparency.** Once the contract has been signed, the PEU will publish the list of proposals submitted; those that were accepted, including the amounts to be financed with program resources; and those that were not accepted, along with the reasons for their rejection. Information on the results at the various stages of the evaluation process will be posted on the program's Web page. So long as they do not contain confidential trade data, all program studies and findings will also be published on its Web page. This procedure will give the system added credibility and encourage producers to submit projects and consulting firms to offer their services.
- 3.22 **Execution.** Requesting entities will be responsible for identifying and negotiating procurement of the goods, works and services to be contracted to achieve the goals set out in the respective business plans. Such goods and services will be the property of the beneficiary entities. At this stage, specialists in the PEU will be available to help beneficiaries follow the procedures laid out in the Operating Regulations and in the respective award contract, and to recommend that the corresponding payments be made to suppliers. The MACyA will pay the amount corresponding to the program's financing directly to suppliers and will ensure that the beneficiary entity's payment is made to service providers.

3. Project preparation services

- 3.23 Applicants who submit business plans for financing under component 2, and who receive recommendations from the Technical Review Committee for completion or improvement of their proposals, may request help in carrying out these recommendations through the FDTAs, which will forward such requests to the PEU. This will result in the preparation of good production projects by encouraging producer organizations and firms providing consulting services to submit promising business plans that may only require additional support to complete assessment of

their feasibility and have a greater likelihood of being approved in the next call for proposals.

- 3.24 The applicants will select technical assistance service providers from the available register (paragraph 3.5) kept by the PEU and the FDTAs, following the Bank's procedures for the contracting of services as set out in the program's Operating Regulations.
- 3.25 The PEU will prepare service contracts between the MACyA, the beneficiaries and service providers. These contracts will specify the services to be carried out, the financial resources to be provided by each of the parties, a timetable for delivery of services, submission of a final evaluation by beneficiaries, and a dispute resolution mechanism. The form of payment to service providers will be the same as under component 2 (paragraph 3.21).

C. Execution period and disbursement schedule

- 3.26 The commitment period for the resources will be three years for components 2 and 3, and the disbursement period will be five years. The following table provides a summary of the planned disbursement schedule.

Disbursement Schedule (US\$000 equivalent)				
Year	IDB-FSO	Local	Total	%
1	1,163	185	1,347	9%
2	2,791	335	3,126	21%
3	3,139	344	3,483	23%
4	2,928	306	3,234	22%
5	3,479	330	3,810	25%
Total	13,500	1,500	15,000	100%

D. Status of program preparation

- 3.27 As part of the preparations for the program, meetings were held with the various stakeholders involved in its execution: MACyA officials, directors and technical staff of the FDTAs, small rural producers from different regions of the country, and entrepreneurs engaged in the processing and marketing of products from the rural sector. The conditions of various projects and initiatives financed by bilateral cooperation and other providers of funds to campesino sector activities were analyzed, and six potential production projects were prepared and developed to the advanced profile level.

- 3.28 Drafts of the following documents are available for the execution of this program: (i) Operating Regulations, which include the contract between the beneficiary entities and the MACyA; (ii) terms of reference for the firm that will provide training programs; (iii) terms of reference for the consultants to the PEU; (iv) program implementation schedule and annual operating plan for the first year; (v) environmental and social management plan; (vi) itemized schedule of costs; and (vii) Contract to be signed between the MACyA and the FDTAs. Resources from the PROPEF facility (1124/SF-BO) are being used to establish the PEU, including the hiring of key personnel and procurement of necessary equipment, development of monitoring and evaluation methods, development of a strategy for promoting the program, and the first information seminars, among other preparatory activities.

E. Managing environmental impact and citizen participation

- 3.29 During preparation of the program, a broad analysis of its environmental and social impact was carried out along with an evaluation of the institutional and legal framework for managing and protecting the country's environment. The environmental and social review examined the program's components, identified possible production projects or other rural activities in the 20 production chains assigned priority by the SBPC (paragraph 1.22), and analyzed three projects in the sample.
- 3.30 As part of the environmental analysis, and in accordance with the national Environment Act, a systematic environmental brief was prepared which identified potential general environmental impact and the mitigating measures that can be taken to avoid or reduce any adverse effects. This environmental brief was delivered to the Ministry of Sustainable Development (MDS) and classified as environmental category 3, which means that it does not require an environmental impact assessment, but that an environmental monitoring and management plan is requested.
- 3.31 In general, the review of the program did not detect any significant adverse environmental or social effects. To the contrary, the program is expected to have significantly positive social effects in that it seeks to create jobs and increase incomes in rural areas. The program is also expected to help correct certain existing environmental problems in Bolivia through support for production projects that promote sustainable production systems (paragraph 2.6), cofinancing certification of organic production, green seal products, etc., and the implementation of environmental management systems (e.g. treatment of agroindustrial sewage, rational management of agrochemicals, certification under ISO 14000, etc.).
- 3.32 Notwithstanding the positive impact that the program is expected to have, some rural production projects may cause small-scale adverse environmental effects such as environmental pollution (due to improper use of agrochemicals, inadequate storage or disposal of fuels or toxic substances used in agro-based industry, or improper disposal of liquid or solid wastes), or damage to natural ecosystems (due

to possible expansion of agricultural, livestock-raising, and timber or non-timber forestry activities).

- 3.33 To avoid or minimize these environmental problems, an environmental and social management plan has been prepared and will play an integral part in the execution of the program. This plan defines the general mitigation measures that will be employed by the program, establishes procedures for environmental impact assessment and identification of specific mitigating measures to be used with each type of potential project, and lists the procedures for monitoring and evaluating the program's effect on the environment. The environmental and social indicators have been incorporated into the program monitoring and evaluation system.
- 3.34 The rural production projects will be required to adhere to the provisions of the land use plans and the land use management plan (in the case of land being put to new uses); the regulations issued under the Environment Act, particularly those pertaining to water pollution, air pollution, and the industrial manufacturing sector (RASIM); and, in the case of timber and non-timber products, the Forestry Act and its regulations. The plan also developed environmental eligibility criteria (compliance with environmental legislation and submission of management plans where required, etc.) and evaluation criteria (inclusion of certification relating to environmental or social improvement, use of environment-friendly technologies, etc.). These criteria are part of the project selection process, as set out in paragraphs 3.13 and 3.14, and have been incorporated into the program's Operating Regulations.
- 3.35 It will be the responsibility of the PEU, through its environmental consultant, to oversee compliance with the environmental requirements and criteria. The duties of the environmental consultant include the following: (i) support evaluation of requests for the preparation of production projects by reviewing the terms of reference for environmental plans or studies to ensure that they are adequate; (ii) monitor the review process for rural production projects to ensure compliance with environmental criteria; (iii) take part in information workshops and training programs to explain the program's environmental requirements and criteria; (iv) monitor activities to promote participation by special population groups and make recommendations for improving efforts and developing greater participation, if necessary; (v) review the quality of environmental briefs prepared for projects where required by the MDS or departmental government; and (vi) monitor compliance with the country's environmental laws and regulations.
- 3.36 During the design of the program, the members of the project team and the MACyA consulted with various groups of beneficiaries belonging to campesino economic organizations in different regions of Bolivia, as well as with the owners of small and medium-sized businesses in the rural sector, in order to discuss aspects of the program and obtain their suggestions. At the same time, the MACyA

submitted the program's environmental brief and macroregional briefs to the MDS, all of which are available to the public.

- 3.37 Through the information and training activities under its promotion and training component, the program will ensure that women and the various ethnic groups have ample opportunity to learn about its benefits and take advantage of its resources. This component will promote participation by local communities, indigenous peoples and women by taking into account the cultural differences and specific needs of the various groups in areas such as language, scheduling of seminars, etc., as recommended in the environmental and social management plan.

F. Revolving fund

- 3.38 The Bank's resources under this operation will be disbursed to the executing agency by means of a revolving fund to be established with up to 5% of the total loan amount.

G. Procurement of goods and services

- 3.39 The procurement of goods and the contracting of consulting services under components 1 (promotion and training) and 3 (project preparation services) will be carried out by the executing agency in accordance with the procedures set out in the Bank's procurement policies and procedures. Neither of these two components include construction works. International competitive bidding will be required for procurements financed in whole or in part with foreign exchange from the loan, the total value of which exceeds US\$250,000 equivalent for the procurement of goods, and US\$200,000 equivalent for the contracting of consulting services. These thresholds are consistent with those recommended by the Bank's Procurement Policy and Coordination Office for the sector in Bolivia. Tenders involving amounts below these thresholds will be conducted in accordance with national legislation, which requires competitive bidding on amounts above US\$30,000 equivalent for goods and services and allows limited bidding for lesser amounts. These provisions are likewise consistent with the Bank's procurement procedures.
- 3.40 Where evaluation of bids for consulting contracts is based on the quality and price method, the price criterion will have a relative weight of no more than 20%, and technical quality will have relative weight of not less than 80%. The procurement of goods and contracting of services will be carried out in accordance with the Procurement Plan presented in Annex III-2.
- 3.41 The procurement of goods, contracting of construction works and hiring of consulting services under component 2 (rural production projects) will be carried out by the program beneficiaries in conformity with the procedures specified in the Bank's procurement policies and procedures for the private sector (principles of

economy, efficiency and use of competitive methods that permit procurement at market prices – GS-314).

- 3.42 The Bank will exercise control over the procurement process by means of an ex post evaluation (by sampling) for procurement of goods and services involving amounts below US\$250,000 equivalent, for the contracting of consulting firms involving amounts below US\$200,000 equivalent, and for the contracting of individual consultants involving amounts below US\$100,000 equivalent. In the case of component 2 and for purposes of reinforcing this method of control, a consultant hired by the Executing Agency will be used to supervise application of the principles mentioned in paragraph 3.41.

H. Accounting, internal controls and audits

- 3.43 The PEU will keep accounting and financial records and operate a system of internal controls for managing the program's resources, so as to permit identification of the administration of program resources separately from those of other programs administered by the MACyA; prepare and submit to the Bank audited financial statements, semiannual reports on the revolving fund, and such other reports as may be required; submit requests for disbursements to the Bank along with substantiation of expenditures; and establish a suitable filing system in which to maintain documentation pertaining to contracts and disbursements of program resources.
- 3.44 Audited financial statements on the program will be submitted to the Bank annually within a 120-day period following the close of each fiscal year. The annual operational-financial audits will include preparation of a semiannual midterm report to be submitted to the Bank within 60 days following the close of the first six-month period. These reports will include: evaluation of the program's internal control system, examination of financial transactions and accounting records, examination of compliance with contractual obligations, and examination by statistical sampling of support documents used in connection with procurement of goods and contracting of works and consulting services, and the corresponding requests for disbursement submitted to the Bank. The operational-financial audits will be conducted by a firm of independent auditors selected in accordance with the Bank's policies and based on terms of reference approved in advance. These audits will be performed throughout the program's execution period, and their cost will be covered with resources from the loan.

I. Supervision and evaluation

- 3.45 The program will have a system for planning, monitoring and evaluation which includes a database containing information on performance indicators and program impact. The indicators in this system will include those listed in the Logical Framework (Annex III-1). The system will permit: (i) formulation, control and

- monitoring of annual operating plans; (ii) control and monitoring of rural production projects and requests for assistance in their preparation; (iii) evaluation of project proposals and requests; (iv) evaluation of the impact of projects and requests; and (v) evaluation of the program's effectiveness. In addition, the system will be equipped with an interface for connection with the accounting and budget system.
- 3.46 In order to assess the impact of production projects on beneficiaries' quality of life, the program will monitor income levels and job creation as proxies for this purpose. A draft has been prepared of the instrument that will be used to collect baseline data on each production project approved in the program, as well as data to be reported during program execution. In addition, records will be kept of access by program beneficiaries to financial resources from the formal or informal system as a measure for evaluating whether the program's support has provided the leverage needed to obtain additional resources.
- 3.47 The monitoring system will also provide information that will help evaluate the effectiveness and transparency of the program. The items reported will include the time required between publication of the calls for proposals and the start of execution of individual projects, and the program's administrative cost per production project and per dollar invested. Also, the system will maintain a record of the publication of results from each call for proposals, and how this information has been used to adjust the mechanisms for reviewing, approving, awarding and monitoring projects. The system will include evaluation of the promotional events and training programs, and their relationship to other components of the program.
- 3.48 This system will be linked to SIBTA's current planning, monitoring and evaluation system, taking advantage of the equipment and experience gained in designing and implementing the SIBTA system, and like the latter, will be in operation at the PEU and the FDTAs. The MACyA will submit program monitoring reports to the Bank as part of the semiannual reports to be submitted within 60 (sixty) days following the close of each calendar six-month period, with the corresponding computer support. Together with the reports it submits at the close of each year, the executing agency will present a detailed annual report containing information on the process used to select production projects and the achievements of those projects.
- 3.49 At month 24 of its execution, the PEU and the Bank will carry out a midterm review of the program. This review will report, among other things: (i) degree of progress towards the program's targets, (ii) effectiveness of the execution mechanism and the participating institutions; (iii) level of participation among beneficiaries; and (iv) evaluation of the economic and financial context for purposes of replicating the program.

J. Ex post evaluation

- 3.50 Following the Bank's policy and in consultation with the borrower, it was agreed that the program's monitoring and evaluation system will be used to establish baseline data, and that the necessary information will be collected for monitoring purposes. Three months before the end of the execution period, resources from the loan will be used to evaluate the developmental impact that can be measured at that time. This evaluation does not constitute an ex post evaluation to measure the program's medium-term impact. That type of evaluation is only possible when a minimum of two to three years have elapsed since the end of the program. However, in case an ex post evaluation is eventually scheduled, the available data in the program's monitoring system will provide information on the ex ante condition of the beneficiaries, and their status during the program. The cost of collecting data during the execution period is included under program costs.

IV. FEASIBILITY AND RISKS

A. Technical feasibility

- 4.1 A sample of potential projects that could receive support under the program was identified and analyzed. This analysis showed that applicants proposing production projects based on business plans will require support to help them submit income-producing projects with actual links to markets, and to improve their business management skills. This finding helped to fine tune the design of program activities, especially those intended to raise awareness, provide training and support business preparation, and investments in financial and rural business management as part of a business plan.
- 4.2 The sample projects analyzed are of mixed nature (processing of organic coffee, export-quality quinoa, onion in Cochabamba Valley, llama and alpaca fibers, trout farming for agricultural tourism, and export-quality honey). The projects have been developed to the advanced profile level since the final projects will not be submitted until funds are available to finance investments. Nevertheless, the sample of projects analyzed made it possible to draw up the eligibility criteria for proposals (paragraph 3.14).
- 4.3 Transparency is another key element for ensuring feasibility since the program must have credibility with its direct beneficiaries, entrepreneurs and exporters, and the international community, in order to achieve its targets and objectives. For this reason, eligibility requirements and evaluation criteria will be widely publicized at the time the call for proposals is issued, as will the details of proposals submitted, approved and rejected, with due justification in the case of proposals that do not receive funding (paragraph 3.20).
- 4.4 The type of production project to be developed with support from this program may be considered new to the Bolivian experience, both for its emphasis on market ties and for requiring counterpart financing from beneficiaries. The program includes provision for monitoring of its activities, which will help evaluate the degree to which its intermediate goals have been accomplished, and make it easier to introduce the changes needed to achieve its ultimate objectives (paragraph 3.46).

B. Institutional feasibility

- 4.5 The MACyA is the organization responsible for carrying out the program. Since the staff of the ministry is limited and does not include any personnel that could be assigned additional duties, a new unit will be created under the responsibility of the Deputy Ministry of Agriculture and Fisheries, which is being organized with resources from the PROPEF. The personnel for this new unit will be hired with program resources.

- 4.6 The program includes three activities in support of the MACyA: (i) agreements with the FDTAs to promote the program and facilitate access by beneficiaries located in the country's four macroregions; (ii) the hiring of specialists to guide applicants in the preparation of proposals and the implementation of production projects; and (iii) the hiring of consultants to provide independent evaluation of requests for financing submitted by the program's beneficiaries.
- 4.7 The FDTAs have demonstrated their ability to work with small rural producers under the Bolivian Agricultural Technology System (SIBTA), through the application of procedures similar to those of the program, in terms of information and promotional activities, the call for submission of proposals, and competitive selection methods. The FDTAs have installed all of the systems necessary to work under the standards of both the Government of Bolivia and the Bank, including SIBTA's planning, monitoring and evaluation system. The agribusiness field, in which the FDTAs have had little experience to date, will be strengthened by the program through the contracting of specialized consultants.
- 4.8 The consultants hired to evaluate production projects will provide technical experience for each of the fields in which projects are submitted, as well as the expertise necessary for overall evaluation of the business, including financial, organizational and environmental aspects. The consultants assisting with procedures will provide the knowledge that beneficiaries will need to follow the program's procedures, enabling them to meet program deadlines.
- 4.9 The Consultative Board, a mixed public and private sector body, will act as the program's executive body to ensure the perspectives of the various stakeholders are taken into account in determining the overall strategy and direction.

C. Socioeconomic feasibility

- 4.10 The proposed program is based on the need to ameliorate market imperfections prevalent in Bolivia's rural economy and, at the same time, identify methods of correcting them. Specifically, the support provided under components 2 and 3, based on business plans that identify end markets, is intended to improve the information and knowledge of small producers concerning market requirements so that they can provide higher quality products in a more competitive fashion, and obtain access to mid- to long-term investment resources.
- 4.11 Through cofinancing of rural production projects, the program aims to fill a need that is not being met by the country's rural financial markets, especially with respect to financing investment in projects that harness the production potential of small producers by providing access to markets from their starting point as primary producers. This type of investment entails high risk and slow capital turnover. In addition, these businesses have their own risks in terms of new technologies and new forms of business management (e.g. producer associations working directly

with processing/marketing companies). For this type of project, situations will arise that offer a high rate of private return, generating new information that may attract private investors; or, a higher rate of social return may be defined, with the need for incentives, to an extent that can only be determined with experience of the sort proposed in this program.

- 4.12 The economic feasibility of investments in rural production projects will be based on the evaluation of proposed projects. These projects will be evaluated by expert agribusiness evaluators.
- 4.13 The program establishes maximum amounts per beneficiary for the purpose of ensuring a wider distribution effect. In this way, the program's contributions will be of greatest importance to producers with the lowest levels of income. As indicated in paragraph 3.16, fully 80% of the beneficiaries will have incomes that are no more than 20% above the poverty line for Bolivian families.

D. Financial feasibility

- 4.14 The local counterpart resources will come via budget allocations from the National Treasury, and from program beneficiaries in the form of cofinancing of components 2 and 3. It is worth noting that the contribution by beneficiaries could amount to US\$4.3 million, a figure that exceeds the local counterpart requirement for the program (30% of the total cost of the production projects and 15% of the services for preparing the projects represents the beneficiaries' contribution and 70% and 85% respectively is from the program under component 2, the total for which is US\$11.45 million).
- 4.15 Consultations with potential beneficiaries indicate that they are willing to provide the necessary resources for making business plan investments. A project with the minimum cost of US\$30,000, that can be executed in two years and submitted by a group of 25 producers (far below the average number of members in OECAs, currently 165), would require each producer to provide counterpart funding (US\$257) equivalent to less than 20% of the amount set as Bolivia's poverty line for rural areas (currently US\$1,455 per family). Projects may be submitted by associations made up of beneficiaries whose levels of income may not exceed 1.20 times the amount set as the poverty line, together with producers with higher incomes. This will help to overcome any cash flow restrictions associated with the requirements for counterpart funding and working capital in the proposed production projects. The availability of beneficiary cofinancing will be reviewed as part of the qualifying process that proposed projects undergo.
- 4.16 The MACyA and the Deputy Minister for Public Investment and External Financing (VIPFE) have confirmed to the Bank that the country has the additional borrowing capacity required for this loan, and that the National Treasury is committed to supplying the cash counterpart resources which will be allocated to

the MACyA for this operation. An analysis of the MACyA's annual budget for 2001 and 2002 shows that the ministry made contributions to investment projects totaling close to US\$32 million. The total counterpart contribution in this program is US\$1.5 million, in amounts of no more than US\$350,000 per year, according to the disbursement schedule. This amount is equivalent to 1% of the MACyA's budget, with the result that this new operation is not expected to have a significant impact on the institution's budget. It should be noted as well that the total counterpart to be provided by the government under the program (i.e. excluding counterpart contribution from beneficiaries) is less than US\$500,000, which is equivalent to 0.3% per annum during execution of the program.

E. Environmental and social feasibility

- 4.17 The program will support environmentally sustainable production and manufacturing systems. Consultations with potential direct beneficiaries and entrepreneurs show that Bolivia has a competitive advantage in the production of ecologically-sound agricultural products. These products will be given preferential treatment provided they meet the eligibility requirements and obtain the necessary point score when evaluated by the Technical Review Committee.
- 4.18 The sustainability of the program will be supported through the inclusion of: (i) environmental aspects in the eligibility requirements and evaluation criteria for rural production projects; (ii) mitigating measures; and (iii) procedures for evaluating the environmental impact of each production project and proceeding with its execution. The Operating Regulations include the environmental and social safeguards necessary for the processing of production projects. The environmental and social management plan provides the guidelines for addressing all environmental and social aspects of the program. The specialized consultancies responsible for evaluating the production projects will conduct an environmental and social assessment as part of the selection process, and the PEU, aided by its environmental consultant, will oversee the environmental and social feasibility of the overall program.
- 4.19 Given that women play a significant role in the agricultural sector, the program will support participation by women's associations through technical assistance, training and financial support for projects. The program can have an indirect impact for the better on women's quality of life in the regions by increasing family income and reducing the number of men who migrate to urban centers in search of employment, thereby lightening the burden on women. With respect to ethnic groups which make up a large proportion of Bolivia's population (over 50% of the country's inhabitants are indigenous, and over 80% of this group lives in rural areas), the program takes into account their special characteristics (their traditions, language, etc.) so as to facilitate their participation in the training activities and production projects.

- 4.20 This program qualifies automatically as a poverty-targeted, social equity enhancing operation in view of the sector and its beneficiaries. The justification for this classification lies in the fact that the program is designed to improve the production and productivity of small rural producers and rural microenterprises. Small rural producers who are primarily dependent on agriculture show a greater incidence of poverty and have fewer of the basic necessities of life (paragraphs 1.11 and 1.12). In addition, this operation—given its emphasis on improving access to markets for small producers—is expected to improve equity in Bolivia’s rural sector.

F. Benefits

- 4.21 This program will provide the necessary investments to implement a minimum of 30 rural production business plans, benefiting at least 3,000 low-income rural producers. This minimum number of beneficiaries is based on the availability of a total of US\$9,000,000 for financing production projects at a maximum contribution from the program of US\$3,000 per beneficiary. In turn, the minimum number of projects is based on the assumption of an average of US\$300,000 per production project, which permits the financing of a minimum of 30 projects.
- 4.22 The program will enhance the national capacity for preparing business plans that join rural producers with currently underused productive potential into a production chain with access to markets. It will also provide the resources for investments that create additional jobs directly linked to the production process, and, through the appropriation of investments by the program’s beneficiaries, it will leverage additional resources.
- 4.23 The market orientation of the program will encourage the creation of business alliances between farmers, processing enterprises and marketing companies, thereby improving the flow of market information and the distribution of income throughout the agrifood production chains.
- 4.24 The experience that the program generates on private or social rates of return on the projects, as well as the level of incentives required to make projects with high rates of social return viable in the private sector, will help to develop a permanent system for private sector financing of investment in rural production, with the resulting achievement of more long-term benefits by the program.

G. Risks

- 4.25 **Shortfall in the number of viable business plans:** There is a risk that potential demand for investment in production projects may fail to produce a sufficient number of business plans of the type expected for the program, owing to the new work method proposed here for linking organizations to markets. This risk will be mitigated through: (i) information activities; (ii) training in the formulation of business plans; and (iii) support for completing business plans in cases where the

proposal has attractive features but requires technical assistance to make it eligible for financing. The support provided may include conducting specific studies, formulating the business plan itself, and obtaining legal status in order to meet all of the program's eligibility requirements.

- 4.26 **Inadequate quality of service.** There is a risk that the quality of the services provided to help with preparation of the business plans for production projects may not improve. The program will minimize this risk by means of the training activities of component 1.

**PROGRAM OF SUPPORT FOR RURAL PRODUCTIVE DEVELOPMENT
(BO-0179)
LOGICAL FRAMEWORK**

Narrative Summary	Indicators	Means of Verification	Assumptions
<p>A. Goal</p> <p>To help reduce poverty in rural areas.</p>	<p>Reduction in indicators of poverty and absolute poverty in rural areas.</p>	<p>National statistics from the INE and household surveys.</p>	<p>For improvements in rural poverty indicators to be sustainable the following are required:</p> <ol style="list-style-type: none"> 1. Macroeconomic policy attracts investment and stimulates increases in productivity so that overall growth in the economy remains above 4% per year; 2. Support for sustained progress of production chains remains constant and stimulates rural productivity; and 3. Modern policies are maintained vis-à-vis land and expansion of communications infrastructure in rural areas.
<p>B. Purpose</p> <p>To increase the incomes of rural inhabitants benefiting from the program.</p>	<ul style="list-style-type: none"> • By the end of the program, at least 80% of the beneficiaries of investment projects will have net annual incomes that are at least 10% higher than when they joined the program. • At least 75% of the projects financed by the program will have been completed. 	<p>Semiannual evaluation and monitoring reports on the program.</p>	<ol style="list-style-type: none"> 1. Policies concerning land and expansion of communications infrastructure in rural areas prove effective. 2. Financial sector and donors adopt an operating model for financing investments in rural production, based on experience under the program. 3. The government continues to give priority to activities that support competitiveness and the strategy of promoting production chains.

Narrative Summary	Indicators						Means of Verification	Assumptions
C. Products							Semiannual evaluation and monitoring reports on the program.	Service providers remain interested in improving their services in order to support the execution of the production projects under the program.
<i>Component 1</i> <i>Institutional strengthening</i>		Year 1	Year 2	Year 3	Year 4	Year 5		
Will have provided support for the MACyA and FDTAs to promote the program and improve the quality of projects submitted for financing.	Information workshop	5						
	Motivational seminar	4	7	4				
	Training workshop	10	5					
	Agribusiness courses	2	13					
<i>Component 2</i> <i>Rural production projects</i>		Year 1	Year 2	Year 3	Year 4	Year 5		
Will have financed and incorporated into the monitoring and evaluation system production projects that integrate at least two links in a sustainable chain that raises and maintains the incomes of rural producers.	Investment projects approved and incorporated into monitoring and evaluation system	6	12	12	0	0		
<i>Component 3</i> <i>Project preparation services</i>		Year 1	Year 2	Year 3	Year 4	Year 5		
Will have provided technical support in specific areas necessary for the preparation of business plans to generate sustainable sources of income for rural producers.	Services financed	10	20	10				

Narrative Summary	Indicators	Means of Verification	Assumptions
D. Activities	Budget indicated in the loan proposal.		<p>Demand for the program's resources remains strong among small producers and entrepreneurs.</p> <p>The service providers in the sector remain interested in offering their services for preparation of the production projects supported by the program.</p>

INSERT ANNEX TITLE

Principal Procurements under the Program	Sources of Financing		Method of Procurement ¹	Prequalification	Special Procurement Notice	Status ²
	IDB (%)	Local/Other (%)		Yes/No	Expected date of publication	
1. Goods						
<ul style="list-style-type: none"> Operating equipment Monitoring system (Hardware) Amount: US\$100,000 	84%	16%	LCB	No	2nd half 2004	Pending
<ul style="list-style-type: none"> Operations software Monitoring system Amount: US\$100,000 	84%	16%	LCB	No	2nd half 2004	Pending
<ul style="list-style-type: none"> Work vehicle (4-wheel drive) (1 unit) Amount: US\$23,000 	84%	16%	S	No	1st half 2004	Pending
2. Consulting services						
<ul style="list-style-type: none"> Training under the program Specialized consulting firm Amount: US\$161,200 	84%	16%	LCB	No	1st half 2004	Pending
<ul style="list-style-type: none"> Logistical services for information/training events 5 bid competitions Amount: From US\$45,000 to US\$50,000 per competition 	100%		S	No	2nd half 2004	Pending

¹ Notes: **ICB**: International Competitive Bidding; **LCB**: Local Competitive Bidding ; **S**: Shopping; **DP**: Direct Purchase; **LB**: Limited Bidding; **OFA**: On Force Account.

² The terms for describing status are: Pending/Awarded/Cancelled.

Principal Procurements under the program	Sources of Financing		Method of Procurement ³	Prequalification	Special Procurement Notice	Status ⁴
	IDB (%)	Local/Other (%)		Yes/No	Expected date of publication	
<ul style="list-style-type: none"> Design and Implementation of program monitoring system Consulting firm Amount: US\$130,000 	84%	16%	LCB	No	1st half 2004	Pending
<ul style="list-style-type: none"> Specific studies for presenting proposals to the program Consulting firms/individual consultants (Approx. 65 studies) Total amount: US\$750,000 Average amount per study: US\$12,000 	85%	15%	LCB	No	Continuous beginning in 2nd half of 2004	Pending

Note: Procurements relating to business plans to be co-financed under the Rural Production Projects Component will be carried out by means of competitive procedures included in the program's Operating Regulations, using the Bank's standards for the private sector.

³ Notes: **ICB**: International Competitive Bidding; **LCB**: Local Competitive Bidding ; **S**: Shopping; **DP**: Direct Purchase; **LB**: Limited Bidding; **OFA**: On Force Account.

⁴ The terms for describing status are: Pending/Awarded/Cancelled.