

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PERU

**PROGRAM OF SUPPORT SERVICES TO GAIN ACCESS TO
RURAL MARKETS**

(PE-0234)

LOAN PROPOSAL

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BASIC SOCIOECONOMIC DATA

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

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

INFORMATION AVAILABLE IN THE RE3/RE3 TECHNICAL FILES*

Preparation:

1. Information for agricultural development. Prefeasibility study prepared by Apoyo Consultoría for the Ministry of Agriculture. October 2003
2. Business advisory services component. Report by Octavio Damiani. September 2003
3. Project to strengthen management of the public agricultural sector. Prefeasibility study prepared by Apoyo Consultoría for the Ministry of Agriculture. September 2003
4. Analysis of the program's institutional and financial elements. Report by Víctor Cárdenas. November 2003
5. Economic evaluation of the program. Report by Hernán Román. February 2004
6. Analysis of the program's environmental and social elements. Report by Eduardo Quiroga. December 2003
7. Support for the design of the program's business advisory services component—sample of rural businesses. Report by Carlos Puig. December 2003
8. Determining where to locate the business advisory centers and agricultural agencies. Report by José Luna for the Ministry of Agriculture. August 2003
9. Preinvestment study for the Rural Market Support Services Program. Ed. Ricardo Vargas del Valle. February 2004
10. Information for agricultural development. Prefeasibility study prepared by Apoyo Consultoría for the Ministry of Agriculture. October 2003

Execution:

1. Program logical framework. Prepared collectively by the different participants in a workshop coordinated by Rafael Díez. September 2003
2. Environmental management plan for the program. Report by Eduardo Quiroga. December 2003
3. Program Operating Regulations (preliminary). Report by Ricardo Vargas. February 2004

* Available in Spanish only.

ABBREVIATIONS

AAs	agricultural agencies
Agrobanco	Banco Agropecuario
BAC	business advisory center
DGIA	Dirección General de Información Agraria [MINAG General Directorate for Agricultural Information]
DGPA	Dirección General de Promoción Agraria [MINAG General Directorate for Agricultural Development]
EIRR	economic internal rate of return
GDP	gross domestic product
INCAGRO	Proyecto de Innovación y Competitividad para el Agro Peruano [Innovation and Competitiveness of Peruvian Agricultural project]
INIA	Instituto Nacional de Investigaciones Agropecuarias [National Institute for Agricultural Research]
INRENA	Instituto Nacional de Recursos Naturales [National Institute for Natural Resources]
LIBOR	London Interbank Offered Rate
MEF	Ministry of the Economy and Finance
MINAG	Ministry of Agriculture
NGO	nongovernmental organization
OC	Ordinary Capital
OGA	Oficina General de Administración [MINAG General Administrative Office]
OGPA	Oficina General de Planificación Agraria [MINAG General Office of Agricultural Planning]
PRA	Poverty Reduction and Alleviation project
RADs	regional agricultural directorates
SCU	special coordinating unit
SDS	Sustainable Development Department
SENASA	Servicio Nacional de Sanidad Agropecuaria [National Agricultural Health Service]
SMEs	small and medium-sized enterprises
USAID	United States Agency for International Development



PERU

IDB LOANS

APPROVED AS OF AUGUST 31, 2004

	US\$Thousand	Percent
TOTAL APPROVED	6,503,182	
DISBURSED	5,742,559	88.30 %
UNDISBURSED BALANCE	760,623	11.69 %
CANCELATIONS	1,227,186	18.87 %
PRINCIPAL COLLECTED	2,575,116	39.59 %
APPROVED BY FUND		
ORDINARY CAPITAL	5,851,868	89.98 %
FUND FOR SPECIAL OPERATIONS	430,187	6.61 %
OTHER FUNDS	221,127	3.40 %
OUTSTANDING DEBT BALANCE	3,167,443	
ORDINARY CAPITAL	3,086,675	97.45 %
FUND FOR SPECIAL OPERATIONS	80,730	2.54 %
OTHER FUNDS	38	0.00 %
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	572,025	8.79 %
INDUSTRY, TOURISM, SCIENCE AND TECHNOLOGY	680,952	10.47 %
ENERGY	410,303	6.30 %
TRANSPORTATION AND COMMUNICATIONS	932,510	14.33 %
EDUCATION	191,071	2.93 %
HEALTH AND SANITATION	327,235	5.03 %
ENVIRONMENT	33,416	0.51 %
URBAN DEVELOPMENT	97,377	1.49 %
SOCIAL INVESTMENT AND MICROENTERPRISE	576,859	8.87 %
REFORM AND PUBLIC SECTOR MODERNIZATION	2,094,541	32.20 %
EXPORT FINANCING	0	0.00 %
PREINVESTMENT AND OTHER	0	0.00 %

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



PERU

STATUS OF LOANS IN EXECUTION AS OF AUGUST 31, 2004

(Amount in US\$ thousands)

APPROVAL PERIOD	NUMBER OF LOANS	AMOUNT APPROVED*	AMOUNT DISBURSED	% DISBURSED
<u>REGULAR PROGRAM</u>				
Before 1998	2	48,300	40,552	83.96 %
1998 - 1999	5	417,708	311,884	74.67 %
2000 - 2001	3	160,300	56,058	34.97 %
2002 - 2003	10	838,860	411,165	49.01 %
2004	1	18,000	0	0.00 %
<u>PRIVATE SECTOR</u>				
2002 - 2003	2	93,000	0	0.00 %
TOTAL	23	\$1,576,168	\$819,659	52.00 %

* Net of cancellations. Excludes export financing loans.



Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Peru

Tentative Lending Program

2004

Project Number	Project Name	IDB US\$ Millions	Status
PE0241	Youth Training Program	18.0	APPROVED
PE0234	Program of Support Services to the Rural Markets	15.0	
PE1002	Moderniz of Controller Gral Office & Deconcent of National Control System	10.2	
PE0247	Reform of Poverty Alleviation Programs and Human Capital Development	300.0	
PE1004	Infrastructure Transaction Support Program	7.0	
PE1009	Support to Social Sector Reforms	5.0	
PE0203	Science and Technology Program	25.0	
Total - A : 7 Projects		380.2	
TOTAL 2004 : 7 Projects		380.2	

2005

Project Number	Project Name	IDB US\$ Millions	Status
PE1003	IIRSA Border Crossings	5.0	
PE0251	Support Program for Forestry Concessions	2.0	
PE1010	Guarantee for IIRSA Northern Amazon Hub	60.0	
PE0250	Rural Financial Market Development	10.0	
PE0142	Sanitation Sector Devel. Support Program II	50.0	
PE1008	Strengthening of the Finance Ministry	13.2	
PE0236	Support to Departmental Highway Decentralization	50.0	
PE1007	Development Program for Agricultural Health Phase II PRODESA	20.0	
PE0240	Democratic Consolidation of Citizen Security	10.0	
PE1006	National Highway Roads	100.0	
PE1005	Health Sector Development Program (PARSalud) - Second Phase	50.0	
Total - A : 11 Projects		370.2	
TOTAL - 2005 : 11 Projects		370.2	

Total Private Sector 2004 - 2005 **0.0**

Total Regular Program 2004 - 2005 **750.4**

*** Private Sector Project**

PROGRAM OF SUPPORT SERVICES TO GAIN ACCESS TO RURAL MARKETS

(PE-0234)

EXECUTIVE SUMMARY

Borrower:	Government of the Republic of Peru	
Executing agency:	Ministry of Agriculture (MINAG)	
Amount and source:	IDB (OC):	US\$15 million
	Local:	US\$10 million
	Total:	US\$25 million
Financial terms and conditions:	Amortization period:	20 years
	Grace period:	4 years
	Execution period:	4 years
	Disbursement period:	4 years
	Interest rate:	LIBOR-based option
	Inspection and supervision:	0%
	Credit fee:	0.25%
	Currency:	U.S. dollars from the Single Currency Facility
<p>The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendation. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.¹</p>		
Objectives:	<p>The objective of the proposed program is to improve rural producers' access to dynamic markets for goods and services, both within and outside Peru, by providing services such as business information and training and, in so doing, boost their income. The technical-assistance and lending services will be an outgrowth of the relationships the producers establish with business advisory service providers and the buyers of their products. As a result of the program, the percentage of</p>	

¹ With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount, divided by the number of six-month periods included in the original disbursement period.

producers who participate in the marketplace is expected to increase from 57% to 67%, and rural businesses are expected to generate approximately US\$120 million in sales. Two years after program completion, approximately 300,000 rural families will experience an average increase of 7% in income, compared to when they did not have access to the information provided under the program.

Description: **1. Component 1: Information for rural development (US\$10.3 million)**

This component seeks to provide better access to and improve the generation and use of agricultural information that helps farmers and other agents in the agricultural sector make decisions. To this end, it will provide financing to modernize the National Agricultural Information System by enhancing statistics, data processing, and dissemination of information through various channels. It will also finance the creation of a national network that will enable System users and the different institutions in the System to access and share information electronically.

2. Component 2: Business advisory services (US\$5.3 million)

This component will finance the provision of business advisory services to organized groups of rural producers, for the purpose of establishing and consolidating new rural businesses in six economic corridors in Peru's coastal region.² The MINAG will hire specialized public or private entities (operators) to provide these services through a business advisory center (BAC) that they will run in each of the corridors. The operators will receive financing in gradually decreasing amounts over the life of the proposed program, and their activities, in relation to both management and outcomes, will be supervised to ensure that the established targets are met. As a result of this component, rural businesses will be set up that promote new (nontraditional) products and/or marketing arrangements; and business contracts or partnerships between organized rural producers and buyers will be established, thereby reducing transaction costs and making it easier to gain access to credit and technology. The rural businesses in question will pursue rural agricultural and nonagricultural activities (including crafts, ecotourism, aquaculture, and forestry production).

² The six selected corridors are: Piura, Chiclayo, Trujillo, Ica, Arequipa, and Moquegua-Tacna.

3. Component 3: Strengthening management of the public agricultural sector (US\$4.9 million)

In the context of the decentralization process under way in Peru, this component seeks to increase capacity to formulate, analyze, implement, monitor, and evaluate policies, plans, programs, projects, and services provided by institutions in the public agricultural sector, and particularly the 24 Regional Agricultural Directorates (RADs) and the 100 Agricultural Agencies (AAs). To this end, financing will be provided for consulting services, software development, staff training, information technology and communications equipment, infrastructure, and furniture.

**Bank country
and sector
strategy:**

The goal of the Bank's country strategy with Peru (document GN-2205) is to promote sustained, equitable growth by pursuing three basic objectives: (i) raising the economy's productivity and competitiveness by removing institutional obstacles to increased productivity and investment, and making investments in human capital; (ii) improving the efficiency of social policy, while implementing measures to mitigate poverty and protect vulnerable groups; and (iii) creating a modern, decentralized, and efficient State.

The Bank and the Peruvian government developed this Rural Market Support Services Program to help achieve these objectives. The strategy is to give rural producers better tools (business information and training) so they can participate in more dynamic markets on a more competitive and sustainable basis. Component 3 will also help modernize and decentralize the Ministry of Agriculture, its agencies, and the Regional Agricultural Directorates.

**Coordination
with other
official
development
institutions:**

The proposed program will coordinate activities with the Poverty Reduction and Alleviation project, financed by the United States Agency for International Development (USAID), which will pursue a model similar to the one in component 2 in Peru's highland and jungle regions, while this program will focus on the coastal region. The proposed program will also help strengthen the Agricultural Agencies operating in the areas covered by the USAID project. In addition, the World Bank is working on the Innovation and Competitiveness of Peruvian Agricultural (INCAGRO) project, which focuses on the provision of technical assistance, and is preparing a poverty reduction project for the highlands that contains similar elements.

**Environmental
and social
review:**

The proposed program will not finance any activities that directly affect the biophysical environment. The focus of the environmental and social analysis for this operation was on: (i) ensuring that program activities do not promote the social exclusion of vulnerable groups,

including indigenous persons and women; and (ii) increasing the environmental sustainability of the businesses supported by the program, by applying criteria to ensure that they are tailored to their immediate environment and using sustainable techniques. The findings of the environmental analysis demonstrate the environmental and social feasibility of the operation and are summarized in the Environmental and Social Management Plan in the Environmental and Social Management Report, which is available in the program files.

Benefits:

The main benefit of the program will be that small and medium-sized producers in selected areas will have more and better quality information, which will reduce the transaction costs associated with their participation in the marketplace and increase the price they fetch for their products. This information will enable more producers to participate in the marketplace, with their numbers expected to increase from 57% (current rate) to 67% over the life of the program. Based on the cross-section analysis of the program's impact, the income of an estimated 300,000 rural families (including both current participants in the market and new entrants) is expected to be 21% higher than when they did not have access to such information. Based on this, different benefits periods were projected, resulting in economic internal rates of return of between 22% and 38%. As a result of the business advisory services component, additional sales on the order of US\$120 million should be generated over the life of the program. In addition, the economic internal rates of return of the businesses in the sample range from 34% to 68%.

Risks:

One risk that the proposed program must address is resistance to change among MINAG officials, particularly in the context of decentralization. To minimize this risk, the proposed program has planned for a suitable mix of public- and private-sector involvement. It will seek to strengthen the monitoring and oversight capacities of the MINAG and the RADs, while involving the private sector in the steering committee and hiring independent entities to provide business advisory services.

A major risk associated with the business advisory services component is related to the continued delivery of services after program completion. To mitigate this risk, the program calls for a gradually diminishing financing schedule that will encourage the producers, operators, and local entities to shoulder more of the costs over time. In addition, a local management committee, which will include members from the private sector, will be created to assume increasingly greater responsibility for managing business advisory activities. In the case of individual specialized advisory services, the producers will cover 20% of the amount of the first request and 50%

of the amount of subsequent requests. There are also plans to design a government exit strategy during the midterm evaluation.

There is also a risk that the producers involved in the new businesses that are promoted will not have sufficient technical capacity to meet demand requirements in more dynamic markets or will not have enough capital for production-related upgrades. To minimize this risk, eligibility criteria have been established to ensure that only small and medium-sized producers that are able to access these inputs, either individually or as part of a group, will be selected. Similarly, the BAC operators must be able to provide or hire a third party to provide the technical assistance, which will be paid for by the producers. The operators will facilitate access to financing by designing business plans and forging strategic partnerships with buyers and/or financing providers.

**Special
contractual
clauses:**

1. **As a condition precedent to the first disbursement of the loan, the borrower:**
 - a. Must present evidence to the Bank that it has created and set up the special coordinating unit (SCU) for the program within MINAG, including the steering committee, with private sector involvement, and has hired the core technical, administrative, and financial staff, in accordance with the procedures and terms of reference agreed on with the Bank (paragraph 3.6).
 - b. Must present evidence to the Bank that the program Operating Regulations establishing the basic administrative, technical, and financial procedures for program execution have taken effect. Any amendments to the Operating Regulations must have the Bank's no objection (paragraph 3.26).
2. **Other contractual clauses. Present to the Bank for approval:**
 - a. Before the first disbursement of loan proceeds for the business advisory services component, the model contract that will be signed with the service providers (operators) (paragraph 3.17).
 - b. During the last quarter of each calendar year, the annual work plan for the following year (paragraph 3.30).
 - c. Within 12 months after the contract takes effect, evidence that the program monitoring and evaluation system has

been created and is operational, in accordance with the indicators set forth in the logical framework (paragraph 3.38).

- d. Within 24 months after the contract takes effect or when 50% of the loan proceeds have been disbursed, whichever occurs first, evidence that an independent, specialized firm has been hired to conduct a midterm evaluation of the program, in accordance with the terms of reference agreed on with the Bank (paragraph 3.40).
- e. Once 90% of loan proceeds have been disbursed, evidence that an independent, specialized firm has been hired to conduct the final program evaluation, in accordance with the terms of reference agreed on with the Bank (paragraph 3.41).

Social equity and poverty reduction 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). The borrowing country will not be using the 10 percentage points in additional financing (paragraph 4.24).

Exceptions to Bank policy:

None.

Procurement:

Bank rules and procedures will be followed for the procurement of goods and services, including consulting services. International competitive bidding will be required for the procurement of goods and related service equal to or above US\$350,000, works equal to or above US\$1.5 million, and consulting services equal to or above US\$200,000 (paragraph 3.35).

I. FRAME OF REFERENCE

A. Introduction

- 1.1 Peru has nearly 5.5 million hectares of land with good agricultural potential in a diverse range of ecosystems, allowing the country to produce a wide variety of agricultural products in different seasons of the year. There is also tremendous potential for rural nonagricultural activities, including crafts and agrotourism. Numerous rural companies have significant expertise in marketing, production technology, and accessing financing. A number of recent studies have identified several corridors where the potential for economic growth in agricultural and nonagricultural production is significant. However, the underdevelopment or absence of key rural services, high transaction costs, and a limited culture of contract agriculture have restricted small and medium-sized producers' access to dynamic markets and key services, such as information, technology, and financing, thereby slowing the emergence of a more competitive rural economy. This is evident in, among other things, slow productivity growth, a limited capacity to create jobs, the high relative burden of rural poverty, and the serious social problems affecting rural Peru.
- 1.2 The proposed program is based on the opportunity to promote dynamic, far-reaching development by making small and medium-scale agriculture and other rural activities more viable through the provision of specific services (business advising and information) that will reduce transaction costs in key markets and promote strategic partnerships with commercial and industrial companies that would give small and medium-sized production units better access to technology and financing and improve their management capacity. This strategy will spur more equitable and sustainable growth in the rural sector and will help alleviate the high levels of poverty in many rural areas, including among women and indigenous persons.

B. Production-related structure and efficiency in the agricultural sector

- 1.3 Peru's agricultural sector is highly fragmented. Structurally, it has a large number of excessively small production units, which compromises its economic viability; 24.3% of farms have less than one hectare of land and 55.4% have less than three hectares. The national average is 3.1 hectares, with a mean of 3.3 plots per farmer. A recent study on agriculture in Peru's coastal region found that only large agricultural companies had a positive net return, while small and medium-sized commercial producers would have a positive return if they had better technology and access to markets that would allow them to fetch better prices.
- 1.4 There are 6.6 million people living in the countryside (30% of the total population), mainly in the coastal and highland regions (only 22% live in the jungle region). Rural poverty rates are high and surpass urban rates. In 2000, 66.1% of the rural population was living in poverty and nearly one-third was living in extreme

poverty. Indeed, agricultural productivity rates are far lower than productivity in the rest of the economy. The agricultural sector accounts for only 9.1% of gross domestic product (GDP), even though it employs 31.1% of the country's economically active population.

- 1.5 The rate of GDP growth in the agricultural sector over the past five years (averaging nearly 5% per annum) was chiefly the result of the increase in exports (of fruits and vegetables) by a small group of medium-sized and large producers in the coastal region who have ties to foreign markets or dynamic domestic markets. However, this surge in exports is in contrast with the poor performance of traditional crops, which are primarily grown by small farmers. While yields of export products are either on par with or lead global averages, yields of traditional crops (such as wheat, beans, and potatoes) are among the lowest in the world. Efforts to integrate farmers of traditional crops into modern trade channels have progressed slowly in the coastal region due to small farmers' limited access to innovative technology and their lack of business skills. A recent study conducted by the Ministry of Agriculture found that only around 50% of farmers sell their products. Those traditional crops that have improved their production and yield, such as rice and yellow corn, are tied to major supply chains (milling and poultry industries) that give the farmers easier access to technological advances and best business practices.

C. Demand for and supply of basic services for rural production

1. Technical assistance, training, and business advisory services

- 1.6 The extensive fragmentation and small size of rural farms makes it difficult for farmers to gain access to production-related technical assistance, training, and business advisory services. The program baseline survey found that more than 92% of producers do not receive any technical assistance or business training. The few who do find it beneficial, but there is a general lack of awareness about available services, and the service providers are not able to effectively publicize and promote them.
- 1.7 The research conducted during program preparation identified a large number of providers of these types of services in the coastal region (with moderate coverage in the selected corridors). These providers are disparate in nature, are concentrated in a few geographic areas, and cover a wide range of topics. The types of services on offer are generally determined by the particular skills of the providers instead of by user demand. The service providers can be classified as follows: (i) institutional: i.e. the formal sector¹ (NGOs, government agencies, educational entities, and trade or

¹ These include the Servicio Nacional de Tecnología Industrial [National Industrial Technology Service] and the Instituto Peruano de Administración de Empresas [Peruvian Business Management Institute]. The NGOs include Valle Grande, Asociación de Promoción Agraria [Agricultural Development Association], Centro Peruano de Estudios Sociales [Peruvian Center for Social Studies], Centro de Investigación y Promoción del Campesinado [Campesino Research and Advancement Center], Instituto de Desarrollo Agrario de Lambayeque [Lambayeque Agricultural Development Institute], Instituto de Desarrollo del Sector Informal [Institute for the Development of the Informal Sector], and Centro de Investigación, Educación, y Desarrollo [Center for Research, Education, and Development].

professional associations) which plays a lead role in providing training services, has significant experience and geographic/sector service coverage, and is well accepted by beneficiaries; (ii) private sector: this sector is playing an increasingly important role in providing training services and technical assistance, although its geographic coverage is more limited and the types of services it offers are not particularly specialized; and (iii) external cooperation and development agencies: these agencies are financing several local and regional training programs, principally in technical-assistance and business advisory services (including the Innovation and Competitiveness of Peruvian Agricultural (INCAGRO) project and the Irrigation and Technical Assistance Program (PERAT)). At present, the NGOs and the private sector are serving approximately 5,200 producers, covering nearly 13,000 hectares of land. Their advisory services production-related technical assistance and access to credit, and the farmers pay between US\$80 and US\$150 per hectare for these services, which shows, for the purposes of the proposed program, that beneficiaries are willing to pay for services. The MINAG, through the General Directorate for Agricultural Development, has provided these types of services to 1,754 producers on 4,757 hectares of land. The estimates calculated during program preparation indicate that, of the 160,000 farmers living in the selected corridors, there are close to 90,000 farms with between 3 and 25 irrigated hectares in the coastal region, which provides a conservative estimate of the potential demand for training and business advisory services. Compared to the number of farms currently receiving services, this figure suggests that there is a broad sphere of action for the proposed program that could be covered by existing operators.

- 1.8 However, the studies also detected deficiencies in these services, such as a lack of emphasis on dynamic markets and nontraditional products and a paucity of information on basic elements associated with service delivery (registry of providers, hiring methods, and monitoring systems), which could be remedied under the proposed program.

2. Availability of rural credit

- 1.9 A recent study on rural financing in Peru found that the 2001 agricultural loan portfolio in the formal sector² was US\$407 million³ (barely 3.6% of the national total) and most of the loans were extended for short-term business purposes. Of that amount, bank loans accounted for nearly 86.1% of the portfolio and financed 14.5% of the operations, while loans from microfinance institutions (rural savings and loan institutions, municipal savings and loan institutions, and small business and

² The formal sector consists of lenders supervised by the Superintendency of Banking and Insurance, which include banks, financial companies, municipal savings and loan institutions, rural savings and loan institutions, and small business and microenterprise development entities.

³ Estimates calculated during program preparation indicate that a total of nearly US\$513 million in rural credit was extended in 2001, including financing for nonagricultural activities and US\$16 million in informal credit (extended by lenders not supervised by the Superintendency of Banking and Insurance, such as NGOs, traders, input suppliers, and certain governmental programs, such as the Fondo Nacional de Compensación y Desarrollo Social [National Compensation and Social Development Fund – FONCODES]).

microenterprise development entities) accounted for approximately 13.4% of the resources, but financed 85% of operations. It can be deduced from these figures that while banks tend to extend credit to medium-sized and large agricultural companies, microfinance institutions focus on small producers. The recently created Banco Agropecuario (Agrobanco) planned to loan approximately US\$12 million in 2003 to finance businesses linked to supply chains. Although the institutions serve the entire country, they clearly focus on the most developed departments of the coastal region. According to the National Standard of Living Survey, only 22% of rural households in Peru had access to credit in 1997. However, this figure is heavily weighted by the highland region, due to the small size of most farms, the low return on rural activities, the high operating costs associated with financial intermediation in the highlands, and the high transaction costs resulting from the weak transportation and information infrastructure available to economic agents operating in that region. However, a recent study that considered semiformal and informal credit sources found that nearly 70% of rural households receive some type of credit. Semiformal sources predominate (65% of the total) and are closely tied to formal sources, such as credit received by agroindustry and operators and passed on to producers through contracts.⁴

- 1.10 Microfinance institutions have significant coverage in the corridors selected for the proposed program: the rural savings and loan institutions, with 51 offices nationwide, focus on Arequipa, Ica, Piura, Lambayeque (Chiclayo), and La Libertad (Trujillo); the small business and microenterprise development entities cover Arequipa, Lambayeque (Chiclayo), La Libertad (Trujillo), Moquegua-Tacna, and Piura; and the municipal savings and loan institutions provide services in Arequipa, Piura, Lambayeque (Chiclayo), La Libertad (Trujillo), Ica, Tacna, and Moquegua. Three departments (Arequipa, Piura, and La Libertad) located within program corridors receive 38% of the total credit extended by microfinance institutions nationwide. There are two examples that are relevant to the proposed program. First, the Valle Grande Rural Institute, which works with groups of farmers, links technical assistance to financing by basing loan approval on the existence of contracts between cotton farmers and buyers. Second, Agrobanco extends credit to members of supply chains, which receive advisory services from business managers and operators. This study demonstrates that rural farmers in the selected corridors have potential access to financing through formal and semiformal credit mechanisms.

D. Access by producers to dynamic markets and the role of information

- 1.11 A number of studies have noted that rural producers have limited access to timely, relevant information that would help them make production- and business-related decisions. The program baseline survey, conducted in 2003 by MINAG, found that only 8% of rural producers used any type of price information to make production-

⁴ Alvarado, Javier, et al.: CEDES-IEP, November 2000, El financiamiento informal en el Perú [Informal financing in Peru].

related decisions. This can be attributed to both supply and demand problems. Because certain types of information (such as technical and environmental information) are in the public domain, it is hardly surprising that the private sector makes scarce attempts to disseminate it. However, the public sector publicizes this information on a very limited basis, and there is no adequate dissemination mechanism in place to allow farmers to make effective use of the little information that is available for decision making. The demand-side problems are related to the farmers' limited ability to incorporate market information and agricultural and business best practices (integrated pest management, soil conservation, water quality) into their decision-making processes.

- 1.12 The underdevelopment of information directly contributes to the poor access that rural farmers have to competitive business opportunities in larger markets for their products. As a result, they fetch lower prices, their profits are low, and they lack economic incentives to improve productivity. Although there has been clear progress in telecommunications, the scarcity of adequate content (appropriateness, accessibility, intelligibility, reliability, and use value) creates asymmetries in the way that available information is handled by economic agents in rural markets, which drives up marketing margins, even in local communities, generally to the detriment of the producers. Another result of the dearth of information is that small rural producers are less able to diversify their operations to include more profitable products in new markets. In effect, econometric studies based on the MINAG survey found that a producer's market share primarily depends on such variables as price information and planting plans in neighboring communities. In addition, some specific observations indicate that this information is used to greater effect if it is managed in the context of strategic partnerships and if it is supplemented with technical assistance and business training.⁵
- 1.13 There are serious methodological and coverage problems in connection with agricultural statistics, as the current system is only configured to measure production and producer prices, using a subjective management assessment methodology that does not measure crucial elements, such as production costs, trade flows, agroecological zoning, and the use of credit and technology.

E. Institutional weaknesses in the public agricultural sector

- 1.14 One of the chief problems affecting Peruvian agriculture is the central government's insufficient ability to formulate, analyze, monitor, and evaluate policies and projects and effectively regulate rural markets. The regional public sector also has an extremely limited capacity for rural and agricultural planning, despite the fact that, as part of efforts to decentralize Peru's government, progress has been made in transferring responsibility for the Regional Agricultural Directorates (RADs) and Agricultural Agencies (AAs) to the respective regional

⁵ A recent study in the coastal region found that a 10% increase in the prices fetched by producers was accompanied by a proportionate increase in the net return of their farms (from -3% to 7%).

governments. In fact, the decentralization process is placing new demands on local and regional governments, which must plan and manage rural and agricultural development and enforce sector environmental policy, and on the central government, which must oversee the gradual shifting of these responsibilities to the regions.

- 1.15 Various assessments have identified a host of institutional problems, including: (i) lack of a common vision on agricultural policy with a well disseminated strategy; (ii) organizational redundancy, duplication of functions, insufficient coordination between central and deconcentrated agencies, and organizational structures ill suited for government management; (iii) limited management capacity and a dearth of skilled professionals; (iv) scarcity of logistical resources; and (v) varying ability among public agricultural sector institutions to evaluate program and project outcomes.

F. Activities pursued by the Bank and other entities

- 1.16 In the last several years, the Bank has supported Peru through a number of activities designed to boost the competitiveness and increase the incomes of rural producers. These experiences have shown that, in the case of small and medium-sized producers, the supply of public goods (such as technology, information, training, and healthcare, and the surmounting of obstacles such as clearing land titles) has played a decisive role in boosting productivity, creating business opportunities, and providing access to competitive markets. The Bank is currently helping to revitalize the real estate market with the Land Titling and Registration Project (906/OC-PE). During the initial phase, the project enabled nearly one million properties in the coastal region to be regularized, which has led to a gradual increase in the number of transactions in this market. The Bank is also financing the Agricultural Health Development Program (1025/OC-PE), which is being executed by the National Agricultural Health Service (SENASA). This program has helped improve food safety and animal and plant health, and, by extension, the quality of agricultural production in Peru. (Approximately 90% of the country is free of foot-and-mouth disease; progress has been made in controlling the fruit fly; and biological pest control is being used on more than 200,000 hectares of land.)
- 1.17 The World Bank is financing the Innovation and Competitiveness of Peruvian Agriculture (INCAGRO) project to expand the supply of technical-assistance services provided by the private sector. The International Fund for Agricultural Development (IFAD) financed the project for the Promotion of Technology Transfer to Peasant Communities in the Highlands (FEAS), which proved that it was possible to develop markets in the poorest of communities, even in relatively isolated areas. The program set up nearly 1,351 contracts with these communities, and in a representative sample of 181 business plans, the gross production value increased 57% and per capita income rose from US\$414 to US\$629 per business plan.

- 1.18 The Poverty Reduction and Alleviation (PRA) project, financed by the United States Agency for International Development, is an interesting experiment in promoting rural businesses among buyers and producers in the “economic corridors” of 12 impoverished zones with good economic potential in the highlands and the jungle. (The new businesses, which market a wide variety of products, generated US\$24.5 million in sales and created approximately 10,000 jobs in the 2000-2002 period. By the end of 2004, the project is expected to reach its goals of US\$67 million in total sales and 22,000 new jobs.) An evaluation of the operation found that between 1999 and 2002, the PRA project generated an average of US\$1.70 in sales for every dollar spent. In 2002, this figure climbed to US\$2.50. The project has produced exceptional results, spurring the creation of businesses in areas as diverse as crafts and cotton- and bean-farming. Some of these initiatives have enabled farmers to introduce new crops and use new areas, such as the sandbars and banks of the Ucayali River, to plant beans for export and corn for the domestic market.
- 1.19 An interesting evaluation was conducted in the province of Ucayali, where the PRA project helped revive production of oil palm and cotton by identifying reliable markets for the products. If all of the sales increases were attributed to the agricultural sector, they would have accounted for nearly 12% of the agricultural GDP and nearly 2% of the regional GDP in 2003. Based on a five-year projection, the increases would account for 22% of total agricultural GDP and 3.7% of the regional GDP. Interestingly, there is no reason for the PRA office to continue operating in the region, since it has generated stable, sustainable value chains with a multitude of private participants. The challenge for the PRA office is to produce similar results in other regions or for other products.

G. Lessons learned that have been incorporated into the proposed program

- 1.20 The Bank’s experience in Peru and other countries, as well as the experiences of other agencies, has taught several important lessons that have been considered in the design of the proposed program: (i) the efficacy of basing local development on identified existing demand for products in markets outside the region; (ii) the existence of medium-sized and large companies with technology and markets that are interested in partnering or entering into contracts with rural producers; (iii) the efficacy of targeting action to specific regions within the country; (iv) the importance of familiarity with the target market; (v) the importance of including, in addition to crop production, a wide range of rural activities; (vi) the use of business plans in providing services to support production processes, instead of providing them in a disjointed, isolated fashion; (vii) the greater institutional stability and transparent decision-making that arises when skilled representatives from the private sector are brought in to serve at the managerial level in development programs; (viii) the greater value and insistence on quality that producers place on services provided when cofinancing arrangements are used; and (ix) the importance of guaranteeing the sustainability of the advisory service arrangements and designing a government exit strategy before program completion.

- 1.21 Among the Bank's recent projects, three stand out: (i) the Agricultural Services Modernization Program in Ecuador (892/OC-EC), in which the process of hiring private operators to provide technical assistance services has been successful, leading to the creation of approximately 1,269 groups of farmers, who have increased their yields by more than 25%; (ii) the Agricultural Support Services Program in Jamaica (1283/OC-JA), which has supported 16 rural production projects generated by agents hired to develop businesses; and (iii) the Program to Enhance the Competitiveness of the Livestock Sector in Uruguay (1299/OC-UR), which has approved close to 866 business plans generated by 25 private operators. In addition, a review was conducted of the business development services projects executed by the Bank through the Multilateral Investment Fund (MIF) and the microenterprise programs, which have been evaluated separately by the Office of Evaluation and Oversight (OVE) and the Sustainable Development Department (SDS).⁶

H. Bank strategy and participation

- 1.22 The goal of the Bank's country strategy (GN-2205) with Peru is to promote sustained, equitable growth by pursuing three basic objectives: (i) raising the economy's productivity and competitiveness, by removing institutional obstacles to increased productivity and investment, while making investments in human capital; (ii) improving the efficiency of social policy, while implementing measures to mitigate poverty and protect vulnerable groups; and (iii) creating a modern, decentralized, and efficient State.
- 1.23 To help achieve these objectives, the Bank and the Peruvian government developed this Rural Market Support Services Program. Its strategy is to give rural producers better tools (business information and training) to enable them to participate in more dynamic markets on a more competitive and sustainable basis. As in the case of the Poverty Reduction and Allevation project, this program is founded on the idea that 'demand is the driving force behind development.' Conceptually, this is based on the positive effect that external demand (both domestic and foreign) has on rural areas in boosting productivity and local income.
- 1.24 In addition, the analysis of the low competitiveness of small farms suggests that, beyond neutral policies aimed at consolidating the liberalization of factor markets and stimulating private investment, efforts must be made to reduce the high transaction costs in underdeveloped markets and encourage the expansion of contractual arrangements that provide for better management of these farms.

⁶ IDB-OVE, "Evaluation of MIF projects: Business development services" (MIF/GN-78-12), December 2003, and IDB-SDS, "Lecciones aprendidas en la promoción de mercados de servicios de desarrollo empresarial, 1995-2002" [Lessons Learned in Promoting Markets in Business Development Services, 1995-2002].

II. THE PROGRAM

A. Objective and goals

- 2.1 The objective of the proposed program is to improve rural producers' access to dynamic markets for goods and services, both within and outside Peru, by providing services such as business information and training and, in so doing, boost their income.
- 2.2 The logical framework for the program (Annex II-1) establishes the following basic program targets:
 - a. Two years after program completion, approximately 300,000 rural families will experience an average increase of 7% in income, compared to when they did not have access to the information provided under the program (program impact).
 - b. As a result of the program: (i) the percentage of rural farmers participating in the market is expected to increase from 57% (current rate) to 67%; and (ii) rural businesses supported by the program are expected to generate approximately US\$120 million in sales.

B. Description of program components

1. Component 1: Information for rural development

- 2.3 This component (US\$10.3 million) seeks to provide better access to and improve the generation and use of agricultural information that helps farmers and other agents in the agricultural sector make decisions. It calls for modernizing the National Agricultural Information System and creating a national network that enables System users to share information electronically. Financing will be provided under this component to hire service providers to build statistical frameworks, conduct surveys, create portals for disseminating information, and carry out studies on dissemination methods, as well as to purchase the information technology and communications equipment needed to guarantee the flow of information. Financing will also be provided to train the disseminators and users of the information.
- 2.4 This component will have 11 specific outputs in four main areas:
 - a. Strengthening and expansion of the sectoral statistical system to make it more reliable, to meet the needs of producers and those responsible for implementing sector policy. Financing will be provided to introduce a new statistical methodology that will generate data with identifiable, controllable margins of error. There are also plans to expand the spectrum of variables and topics covered by the sectoral statistical system, with priority placed on production

costs, technology, environmental considerations, market structures, credit access, and technical assistance. In order to take into account the information needs of other rural sectors, the program will finance a study on the information systems used by entities outside the Ministry of Agriculture and explore the possibility of linking them as part of the electronic government agenda. Five specific outputs will be generated: (i) statistical frameworks will be built; (ii) a subsystem of statistics on production and sales will be installed; (iii) a subsystem of complementary statistics will be installed; (iv) a subsystem of statistics on agroindustrial chains will be installed; and (v) a subsystem of statistics on farming households will be installed.

- b. Integrated, decentralized information network. This calls for designing the technical components of the system and providing the equipment and connectivity needed, using the latest technology, to integrate national and regional levels and enable the timely flow of the information provided and requested by the various users, thus guaranteeing dissemination and access. Two specific outputs will be generated: (i) an organizational and operational framework will be set up; and (ii) information and telecommunications infrastructure will be installed.
 - c. Timely information content and services. This involves designing and implementing a strategy to create a supply of information support services for agricultural production and marketing, with local, regional, or national coverage, based on the needs of the producers. Three specific outputs will be generated: (i) regional and local agricultural portals will be developed, including several in indigenous languages (Quechua and Aymara); (ii) timely information service modules will be developed, including one on the management of renewable natural resources; and (iii) local communication and information systems will be strengthened.
 - d. Agents trained in the use and application of information. This involves implementing a system that trains agents involved in distributing and using information, such as farmers' organizations, irrigation boards, campesino and indigenous communities, local governments, and local media (rural telecenters, radio stations, etc.) in the management, dissemination, and use of agricultural information. There are also plans to train farmers on how to use information in decision making. One output will be generated: A training system will be implemented.
- 2.5 As a result of this component by the end of the program: (i) 60% of farmers will have price information (up from 45%); and (ii) 25% of farmers will make planting decisions based on market information (up from 15%).

2. Component 2: Business advisory services

- 2.6 This component (US\$5.3 million) will finance the provision of business advisory services to organized groups of rural producers, for the purpose of establishing and consolidating new rural businesses in six economic corridors in Peru's coastal region. The MINAG, in accordance with Bank procedures, will select and hire specialized public or private entities (operators) to provide these services in each of the corridors, through their respective business advisory center (BAC).⁷ The geographic delineation of the economic corridors (22 throughout Peru) is based on a ranking system of medium-sized cities and the rural areas surrounding them, organized around communication routes and economic flows. The six economic corridors in which this component will be deployed were chosen according to their economic potential, complementarity with efforts pursued under USAID's Poverty Reduction and Alleviation project (in the highland and jungle regions), the availability of financial and nonfinancial services, the existence of an infrastructure that is developed enough to support production processes, and an adequate spatial and regional distribution to reflect the range of possible conditions in coastal Peru.⁸
- 2.7 The business advisory services to be provided by the operators in each BAC will be based on the existing demand detected in promising, dynamic domestic and foreign markets, provided that such demand can be met by the producers, and will culminate in purchase contracts and productive partnerships between producers and buyers (agroindustrial companies, exporters, supermarkets, wholesalers). These types of partnerships reduce the transaction costs associated with rural markets and diminish risks, guaranteeing adequate quantity and quality for the buyers and ensuring that producers have access to stable markets (and, often, additional access to technology and financing).
- 2.8 Initially, the business advisory services (US\$3.5 million) will include identifying potential buyers, pinpointing problems (bottlenecks) that must be overcome in order to open businesses and meet buyer conditions, and planning and brokering sales contracts between the parties. To overcome the bottlenecks identified, the operators will coordinate their advisory services with other services provided in the context of specific business opportunities. Thus, business services will also include: (i) advisory services to coordinate requests for production-related technical assistance needed to open businesses, which may be provided by the same operator (but not financed by the program) or by other providers hired for that purpose; (ii) advisory services to help producers obtain credit, including drafting of business plans to be presented to financial institutions; and (iii) organizational advisory services for groups of producers. Efforts will also be made to promote production contracts or partnerships in which the buyers would provide financing, technical

⁷ A BAC is not a legally constituted institution, but simply the name used to identify the mechanism under which the operators will provide business advisory services.

⁸ The six selected corridors are: Piura, Chiclayo, Trujillo, Ica, Arequipa, and Moquegua-Tacna.

assistance, and/or organizational strengthening services (contract agriculture or other similar arrangements).

- 2.9 This component will allocate additional resources (US\$1.5 million) to finance other consulting services and individual specialized activities designed to make rural businesses viable.⁹ Such services and activities include: (i) quality certification (green seals, organic production, risk analysis, denominations of origin, etc.); (ii) specialized legal assistance; (iii) business management training; (iv) development of intellectual property and trademark tools; (v) specialized assistance for the introduction of new crops or varieties; (vi) laboratory analysis of new products; and (vii) technology-related internships and tours.
- 2.10 Financing will also be provided to develop a business portal and train technical staff employed by the AAs in the economic corridors (US\$300,000) to work effectively and in a coordinated manner vis-à-vis the businesses promoted by the operators in each BAC.
- 2.11 The rural businesses to be promoted by the BAC operators must meet the following criteria: (i) they must be commercial businesses that buy and sell products from small and/or medium-sized rural producers; (ii) they must have a properly identified market (demand) with promising, attractive returns; (iii) the products must be new (nontraditional) to the region and/or have an alternative distribution channel and must pertain to a rural economic sector (agricultural or nonagricultural); (iv) the rural businesses must benefit an organized group of at least 20 small and/or medium-sized rural producers (with less than 25 irrigated hectares each, in the case of farmers, or organized into microenterprises or small businesses, in the case of producers from other sectors); and (v) the rural producers must be located in one of the six coastal economic corridors included in the program, have the technical and production-related capacity needed to properly run their business, employ appropriate technology (agricultural or other good practices, as applicable), observe environmental rules on natural resource conservation, and possess sufficient resources or credit to meet the business's investment and operating needs.
- 2.12 This component targets approximately 240,000 rural producers in the selected coastal corridors, of whom 160,000 are small and medium-sized farmers with an average of between three and ten irrigated hectares and 80,000 are producers pursuing nonagricultural activities such as fishing, crafts, and tourism. The average annual income of the farmers is currently 4,257 nuevos soles (equivalent to US\$1,200). They sell approximately 50% of their output, and nearly 40% of the farmers are illiterate.
- 2.13 During program preparation, a sample group of 25 potential rural businesses of the type that this component seeks to support were identified and analyzed

⁹ The Operating Regulations set forth the requirements and rules on access to and use of resources for individual specialized advisory services, including the cofinancing schedule for producers.

(Annex II-2). As part of the prefeasibility phase, business plans were developed for each of the businesses, which were located in the six corridors covered by the proposed program.¹⁰ This made it possible to assess the demand for support services for shoring up the businesses, particularly in relation to technology, credit, and business contacts. If the businesses in this sample were actually established, they would generate close to US\$10.4 million in sales (60% in domestic markets and 40% in foreign markets) and benefit approximately 1,500 producers.

- 2.14 This sample and the operating capacities designed for BAC operators were used to set the targets for this component. Upon completion, this component is expected to have benefited approximately 18,000 members of the overall target population and generated around 300 new businesses, with additional sales estimated at US\$120 million. (Approximately 150 businesses are expected to require additional individual, specialized advisory services.)

3. Component 3: Strengthening management of the public agricultural sector

- 2.15 In the context of the decentralization and regionalization process under way in Peru, this component (US\$4.9 million) seeks to increase the capacity of the institutions in the public agricultural sector, and particularly the 24 Regional Agricultural Directorates (RADs) and the 100 Agricultural Agencies (AAs), to formulate and monitor policies, plans, programs, and projects.
- 2.16 This component will have 12 specific outputs in five main areas:
- a. Institutional strengthening of the RADs and AAs. To support decentralization, financing will be provided to modernize 24 RADs and approximately 100 AAs located in the sphere of activity of the proposed program and the PRA project, through the following activities: (i) overhaul of key processes, activities, and services; (ii) skills training for staff, with emphasis on their ability to provide advisory services to indigenous communities; (iii) studies on where to locate AA offices; and (iv) renovation of physical infrastructure and procurement of equipment and furniture. Two outputs will be generated: (i) 24 RADs will have electronic communications equipment and their staff will be trained; and (ii) 100 AAs will have basic information technology and logistical equipment and connectivity infrastructure.
 - b. Training. Financing will be provided for technical and management training for RAD, AA, and MINAG staff. In the short term, training activities are expected to strengthen the capacity of the RADs to plan, direct, and monitor, in their spheres of activity, the policies, projects, and programs pursued by the MINAG.

¹⁰ Agricultural, agroindustrial, craft, forestry, and organic agriculture businesses that would benefit organized groups of rural producers (small and medium-sized enterprises, cooperatives, etc.), including indigenous communities, were considered.

Training is also expected to improve the capacity of the AAs to organize producers in supply chains and provide timely, relevant information to the economic actors in the sector. In the medium and long terms, the component will train the RADs and AAs to implement integrated agricultural public service platforms that coordinate, at the local level, national services provided by the MINAG and programs pursued by the regional governments. Two outputs will be generated: (i) a technical and management training system for RAD and AA staff will be deployed; and (ii) teams in MINAG and other entities in the public agricultural sector will be trained to help expedite procedures.

- c. Integrated strategic, operational, and budgetary planning system. Financing will be provided for consulting activities to help build the MINAG's capacity to design and implement, through the public agricultural sector, public policies for agricultural development. With regard to operational planning, activities will be performed to strengthen the Ministry's ability to set specific objectives and goals that address beneficiary needs and are consistent with strategic objectives. Three outputs will be generated: (i) a methodology for formulating a strategic plan for the sector and its work and financial plans will be designed and tested; (ii) software programs for carrying out strategic, operational, and budgetary planning will be tested and installed; and (iii) a strategic planning system will be established and deployed in the public agricultural sector.
 - d. Integrated organizational and procedural system. Consulting activities will be financed to help strengthen the MINAG's role in steering the process to retool the public agricultural sector, particularly with regard to changes in organizational setup; simplification, standardization, and systematization of key processes and procedures in sector agencies; and the division of labor between the central and regional governments. Two outputs will be generated: (i) an organizational and procedural plan will be designed and tested; and (ii) an organizational and procedural system will be installed and deployed in the MINAG and other public-sector agencies.
 - e. Integrated system for monitoring and evaluating plans and projects. Financing will be provided for consulting activities to help develop the ability of the MINAG to steer the process for evaluating and monitoring sector activities, including indicators to evaluate strategic, operational, and financial management and environmental and socioeconomic impact. Three outputs will be generated: (i) an integrated monitoring and evaluation system will be designed and tested; (ii) a monitoring and evaluation software program will be designed and installed in the MINAG; and (iii) a monitoring and evaluation system will be deployed at the MINAG and other public-sector agencies.
- 2.17 As a result of this component, upon program completion: (i) approximately 300,000 producers will be receiving services from the AAs; and (ii) nearly 60% of them will be satisfied with the services they receive.

C. Cost and financing

- 2.18 The total cost of the proposed program is equivalent to US\$25 million, of which the Bank will finance US\$15 million (60%) and the Government of Peru, US\$10 million (40%).

Table 2
TOTAL PROGRAM COST AND FINANCING
(in U.S. dollars)

Investment categories	IDB	Local contribution	Total	%
I. Oversight and administration (SCU)	1,203,600	161,000	1,364,600	5.5%
II. Direct costs (Components)	11,308,700	9,159,700	20,468,400	81.9%
1) Information for rural development	5,570,000	4,752,700	10,322,700	41.3%
2) Business advisory services	3,250,000	2,010,700	5,260,700	21.0%
3) Strengthening management of the public agricultural sector	2,488,700	2,396,300	4,885,000	19.5%
III. Concurrent costs (Audits and evaluations)	600,000	0	600,000	2.4%
IV. Unallocated (Contingencies)	283,400	613,700	897,000	3.6%
V. Financing costs	1,604,300	65,600	1,669,900	6.7%
1) Interest	1,604,300	0	1,604,300	
2) Credit fee	0	65,600	65,600	
3) Inspection and supervision	0	0	0	
T O T A L	15,000,000	10,000,000	25,000,000	100%
PERCENTAGE	60%	40%	100%	

- 2.19 The direct costs (81.9%) correspond to the program components, while the oversight and administration costs (5.5%) correspond to the set-up and operating expenses (staff, equipment, and vehicles) of the special coordinating unit (SCU) and the design of the monitoring and evaluation system. The concurrent costs (2.4%) correspond to program audits, evaluation, and oversight, including midterm and final evaluations, as well as the periodic evaluations of BAC operators and environmental monitoring. Contingencies (3.7%) and financing costs (6.7%) account for the remaining program costs.

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The borrower for this program will be the Republic of Peru, and the executing agency will be the Ministry of Agriculture (MINAG).

B. General execution plan

- 3.2 The proposed program will be directly executed by the MINAG, which will procure goods and services and arrange for the construction of works as necessary to perform all program activities, under its current institutional and administrative structure. To coordinate the program, a special coordinating unit (SCU) will be created within the MINAG. This unit will report directly to a steering committee chaired by the deputy minister of agriculture. The organizational framework for the program will consist of: (i) the steering committee, at the highest level; (ii) the SCU, at the coordination level; and (iii) at the operational level, the MINAG directorates and offices responsible for program execution: the General Directorate for Agricultural Information (DGIA), the General Directorate for Agricultural Development (DGPA), the General Office of Agricultural Planning (OGPA), and the General Administrative Office (OGA), which is responsible for executing the MINAG budget and procuring goods and services.

1. The steering committee

- 3.3 The steering committee will be the highest-level body for the program and will be comprised of the deputy minister of agriculture, who will serve as chair, the director general of the DGIA, the director general of the DGPA, the director general of the OGPA, a representative of the Ministry of the Economy and Finance (MEF), and three members of the private sector. The general coordinator of the SCU will serve as the committee's permanent technical secretary, but will not have a vote. The steering committee will meet semiannually and its chief responsibilities will be to: (i) provide general guidelines on program policy; (ii) approve the initial plan and the annual work plans for the program; (iii) approve the appointment of the SCU director and other managerial staff, ensuring that they meet the position requirements agreed on with the Bank; (iv) review the conditions under which the annual BAC contracts will be extended; and (v) review program outcomes and status and recommend any necessary corrective measures.

2. The special coordinating unit (SCU)

- 3.4 The SCU will be responsible for: (i) managing the program and representing it before entities such as the Bank, the MEF, Peru's regional governments, and other governmental agencies; (ii) convening the steering committee, on its own initiative or at the request of the deputy minister; (iii) drafting the initial plan and the annual

- work plans, for approval by the steering committee; (iv) coordinating, monitoring, and overseeing program activities; (v) ensuring fulfillment of the conditions precedent to disbursement and other conditions stipulated in the contract with the Bank; (vi) preparing or coordinating the drafting of terms of reference and tender documents and helping the OGA procure goods and services for program execution; (vii) preparing and submitting, through the OGA, disbursement requests for loan and local counterpart funds to the Bank and the MEF; (viii) coordinating the preparation of financial reports with the OGA, ensuring that they are submitted on time, and arranging the corresponding audits; (ix) drafting terms of reference and overseeing the midterm and final program evaluations; and (x) disseminating program research and outcomes to potential users.
- 3.5 Approximately 12 individuals, including professional, technical, administrative, and support staff, will work in the SCU, as follows: one general coordinator, who will run the unit; three coordinators, in charge of one component each; two technical assistants; one coordinator for the SCU administrative unit; two assistants to the administrative unit coordinator, one of whom will be in charge of procurement and contracts and the other for preaudits and accountability; and one secretary.
- 3.6 The SCU will be created by means of a binding legal instrument and run by highly skilled professional, technical, and support staff who meet position requirements. They will be provided with suitable space, equipment, and furniture. The minimum number of staff needed to run the SCU (the general coordinator and the four area coordinators) will be selected and hired through a recruiting agency and must have the Bank's no objection. **As a condition precedent to disbursement of the loan, the borrower must present evidence to the Bank that the SCU has been created and is operating within the Ministry of Agriculture, including the steering committee, with private sector involvement, and that it has hired the core technical, administrative, and financial staff, in accordance with the terms of reference agreed on with the Bank.**

C. Institutional considerations

1. The Ministry of Agriculture (MINAG)

- 3.7 The organizations and agencies that make up the public agricultural sector are as follows: (i) the MINAG proper, which serves as the lead agency for the sector and under which independent executing units, with their own budgets, are created to administer special projects (such as the Irrigation Subsector Project, the Agricultural Research and Extension Project, the Special Land Titling Project, the National Soil Conservation and Watershed Management Program, and the Management of Natural Resources in the Southern Highlands Project); and (ii) decentralized public agencies, such as the National Institute for Agricultural Research (INIA), the National Institute for Natural Resources (INRENA), the National Agricultural Health Service (SENASA), and the National Council for South American Camelids (CONACA), which have separate budget headings.

- 3.8 In addition to the offices of the minister, deputy minister, and secretary general, the central administration of the MINAG has two line general directorates: the DGIA and the DGPA. In addition, the OGPA reports directly to the deputy minister and the General Office of Legal Counsel and the OGA report directly to the secretary general. Moreover, MINAG also has an Office of Internal Audits and a Solicitor's Office.
- 3.9 At the central level, the public agricultural sector had a budget of US\$272 million and 7,363 employees in 2003, distributed among MINAG headquarters (US\$53 million and 855 employees), its six special projects (US\$152 million and 3,125 employees), and the four decentralized public agencies (US\$67 million and 3,383 employees).

2. The regional level: the Regional Agricultural Directorates (RADs) and Agricultural Agencies (AAs)

- 3.10 At the regional level, there are 24 RADs and 187 AAs. They are financially and administratively attached to the regional governments, but coordinate policy with the MINAG. In 2003, the RADs and their AAs had a budget of US\$39 million and employed 3,079 persons.
- 3.11 There is one RAD in each of Peru's 24 departments. Each one is managed by a regional director and is responsible for: (i) coordinating policies, plans, and programs for regional agricultural development with entities representing the agricultural sector and the corresponding economic agents; (ii) coordinating and evaluating activities pursued by the special projects and decentralized public agencies at the regional level; (iii) directing, overseeing, and evaluating the technical and administrative performance of the AAs operating in their region; and (iv) formulating and proposing plans and programs to promote agricultural development in their region.
- 3.12 The AAs report to the RADs and are responsible for performing activities assigned by the RADs in their areas of operation. The AAs are also financially and administratively attached to the regional governments and are located throughout the country, nearly all in provincial capitals. Many have district-level offices that are known as Sedes Agrarias [Agricultural Offices] (222 throughout the country). In 2003, a total of 1,721 individuals worked for the AAs. The territorial jurisdictions of the AAs are based on watersheds and may, accordingly, cover part of a province, an entire province, or a larger area. Directors of AAs have the authority to convene the heads of the MINAG special projects and decentralized public agencies in their area of operation to resolve problems affecting organized producers.
- 3.13 The AAs are responsible for: (i) helping to create and strengthen producers' organizations in the main supply chains; (ii) enforcing regulations governing natural resources and agricultural activities, in coordination with the special

projects and decentralized public agencies; (iii) contributing to the National Agricultural Information System by gathering and disseminating information to assist organized agricultural producers; and (iv) inviting and arranging, on behalf of organized producers, for public- and private-sector entities to provide services related to business management, marketing, financing, management information, legal counsel, training, technical assistance, health, and advisory services on production systems. Although the AAs complement the efforts of the BACs to develop rural businesses, the Centers must be able to meet their goals independently of the actions of the AAs in the respective corridors.

D. Implementation of program components

1. General responsibilities

- 3.14 The MINAG, with the support of the SCU, will be responsible for executing the proposed program, through its internal departments and agencies. The financial administration of the program will be the responsibility of the OGA (Offices of Accounting and Treasury), with assistance from the SCU administrative coordinator and two technical assistants (a procurement and contracts assistant and a preaudit and accountability assistant).

2. Component 1: Information for rural development

- 3.15 The General Directorate for Agricultural Information (DGIA) will be responsible for executing this component. With the support of the SCU and other agencies in the MINAG and the public agricultural sector, the DGIA will ensure that component objectives and targets are met. To this end, its duties will include: (i) executing and administering the Statistical Information System for the Agricultural Sector and the MINAG's information systems; (ii) drafting annual execution plans and requesting the corresponding funds, in coordination with the SCU; (iii) monitoring and overseeing technical execution of the component; (iv) coordinating consulting contracts with the SCU and the OGA and monitoring and overseeing consulting activities; (v) drafting the technical specifications and terms of the procurement contracts for this component, in coordination with the SCU; and (vi) being accountable to the SCU on funds received and used. Oversight of the component's technical aspects will be provided directly by the DGIA, which has specialized advisers, some of whom have financial support from the Food and Agriculture Organization of the United Nations, USAID, and the United Nations Development Programme.

3. Component 2: Business advisory services

a. General considerations

- 3.16 The MINAG, through the General Directorate for Agricultural Development (DGPA) and with the support of the SCU, will be responsible for executing this component. To this end, it will hire public or private independent, specialized

entities (operators) to provide business advisory services. The operators will be in charge of setting up, operating, and managing the business advisory centers (BACs).

b. Selection and hiring of operators responsible for the business advisory centers

- 3.17 The executing agency will select and hire, in accordance with Bank procedures, NGOs, consulting firms, universities, and trade associations (operators) to provide business advisory services in each of the six selected economic corridors. The process for hiring operators will be conducted in accordance with Bank procedures and will result in signed contracts that specify the targets (sales and businesses generated) that rural producers are expected to meet as a result of the business advisory services. The service delivery contracts with the operators may be terminated if the targets are not met and may provide incentives for surpassing the targets. In addition, the executing agency will hire a private, independent entity to oversee and evaluate the performance of the BAC operators, in terms of both management and outcomes. The executing agency will also hire specialized entities to train AA employees and other local technical agents in subjects related to business and business advisory activities, based on the needs identified by the AA agents themselves and the BAC operators. The model contract that will be signed with the providers of these services (operators) must be presented to the Bank before the first disbursement of loan proceeds for the business advisory services component.
- 3.18 As part of the minimum technical qualifications required to participate in the bidding process, operators must demonstrate, among other skills, their ability to: (i) run an office (called a “business advisory center”) that is dedicated to providing services to rural producers in a given economic corridor;¹¹ (ii) appoint or hire three professional experts in marketing and rural businesses to provide these services exclusively; (iii) demonstrate capacity in terms of equipment, transportation facilities, and computer equipment needed to ensure the expeditious, timely provision of these services; and (iv) indicate in their bid the plan by which they will provide production-related technical assistance (directly or through contracts) and lending assistance (both paid for by the producers). Once hired, the operators must pursue their activities within the area covered by the respective BAC, in accordance with program Operating Regulations.¹² The operators will receive decreasing amounts of financing from the State to perform their tasks. These funds will cover no more than the following percentages of the operators’ annual advisory costs: 100% for the first year; 80% for the second year; 60% for the third year; and 40% for the fourth year. However, during the bidding process, preference will be given

¹¹ The BACs are not legally constituted entities. They are offices run by the service providers selected and hired by the MINAG to provide business advisory services to rural producers.

¹² Program Operating Regulations also set forth detailed terms of reference for the contracts between the MINAG and the operators.

to bidders who offer a more favorable scale. In addition, each bidder must specify in its proposal the sources of financing for the remaining funds. To expedite execution of component 2, the terms of reference for the bidding process for the BACs should be prepared prior to the program launching mission.

c. Administration of resources for individual advisory services in support of businesses

- 3.19 The administration of these resources will be governed by the program Operating Regulations, which will stipulate the terms and procedures for accessing the funds and the eligible services. The MINAG (i.e., the OGA) will award contracts for individual advisory activities based on applicable rules and procedures, that is, in the case of advisory services, Bank rules and procedures.¹³ In addition, the Public Budget Law will govern accountability. Transfers will be relatively small in comparison to sales and the necessary financing, technical assistance, and other services, but they will play an essential role in making businesses viable. No more than US\$5,000 per request and no more than US\$10,000 per business will be disbursed during program execution. Producers will cofinance at least 20% of the amount for the first request and at least 50% of subsequent requests.

d. Sustainability of the business advisory services component

- 3.20 The financing provided to operators will decrease gradually over the life of the program in order to encourage producers, operators, and local organizations to shoulder more of the financial burden. In addition, in each of the corridors served by this component, the MINAG (through the DGPA), with the support of the SCU and the operator of the respective BAC, will help set up a local management committee comprised of local social organizations representing the stakeholders involved in this component and of organizations of producers and entrepreneurs, in particular. These committees will support the operators in their efforts, seek collaboration with other projects and institutions, and help make the BACs sustainable upon expiry of the contracts between the MINAG and the operators. The committees will thus take on greater responsibilities over the life of the program.
- 3.21 During the midterm evaluation, a detailed study will be conducted of the outcomes achieved by each BAC and the progress made in creating a market for services (willingness to pay) in each of the corridors served by the program. Based on this study, a detailed plan will be developed for a program exit strategy for component 2, which will include creating fund-raising mechanisms to cofinance services.

¹³ An estimated 200 contracts of this type will be awarded during the life of the proposed program. At present, the MINAG signs nearly 600 such contracts per year.

- 3.22 Notwithstanding the foregoing, the continued availability of business advisory services will be guaranteed to the extent that demand generated by the program (reflected in the greater willingness of producers to pay for services) will spur private providers to create a local supply of services. This is clearly demonstrated by the existence of producers in the coastal region who already pay for the technical assistance services offered by NGOs and private providers.

4. Component 3: Strengthening management of the public agricultural sector

a. Basic responsibilities

- 3.23 The General Office of Agricultural Planning (OGPA), with the support of the SCU, will have basic responsibility for executing this component. In coordination with the SCU and other agencies in the MINAG and the public agricultural sector, the OGPA will ensure that component objectives and targets are met. Its chief duties will thus be to: (i) promote training in strategic planning and in project design, management, execution, monitoring, and evaluation; (ii) prepare annual execution plans for the component in coordination with the SCU; (iii) monitor and oversee technical execution of the component; and (iv) prepare the technical specifications and terms of procurement contracts for the component, in coordination with the SCU.

b. Management agreements, specific use agreements, and coordination mechanisms

- 3.24 For the purposes of this program, the RADs and the AAs will perform specific tasks in the areas of information, training, strategic planning systems, oversight and monitoring, and organization and methods. To this end, the MINAG has drafted a model version of the management agreements that will be signed with the regional governments prior to the commencement of program activities in the respective regions to regulate their involvement in such activities. Within the framework of these agreements, the MINAG has also drafted a model version of the specific use agreements that will be signed with the regional governments. These agreements will ensure the proper use of resources and the maintenance of assets and equipment. In an attempt to create concrete local coordination mechanisms, the MINAG has been designing the Integrated Platform of Agricultural Services to coordinate, at the local level, activities related to information, training, and business advisory services (covered by the program) with activities pursued by other sector entities in areas such as health, research, natural resource management, and land titling.

E. Financial execution schedule

- 3.25 The proposed program will be executed in four years. The initial evaluation indicates that this will allow enough time to perform the activities required to meet

program targets. The program execution schedule is as follows:

Table 3
FINANCIAL EXECUTION SCHEDULE
(in U.S. dollars)

Investment category	Year 1	Year 2	Year 3	Year 4	Total
I. Oversight and administration (SCU)	404,900	319,900	319,900	319,900	1,364,600
II. Direct costs (Components)	5,964,000	6,569,600	4,231,100	3,703,700	20,468,400
1) Information for rural development	3,452,200	2,943,100	2,067,100	1,860,300	10,322,700
2) Business advisory services	665,900	1,531,600	1,531,600	1,531,600	5,260,700
3) Strengthening management of the public agricultural sector	1,845,800	2,095,000	632,400	311,800	4,885,000
III. Associated costs (Audits and evaluation)	125,000	145,000	155,000	175,000	600,000
IV. Unallocated (Contingencies)	259,800	281,400	188,200	167,600	897,000
V. Financing costs	139,600	346,100	522,100	662,100	1,669,900
T O T A L	6,893,300	7,662,100	5,416,300	5,028,300	25,000,000
Percentage	(27.6%)	(30.6%)	(21.7%)	(20.1%)	(100.0%)

F. Program Operating Regulations

- 3.26 The general guidelines of the program Operating Regulations were discussed and agreed on during program preparation and analysis. The Operating Regulations contain guidelines or instructions to ensure that the program and its components are properly executed. **As a condition precedent to disbursement of the loan, the borrower must present evidence to the Bank that it has implemented the program Operating Regulations, which establish the basic administrative, technical, and financial procedures for program execution. Any amendment to the Operating Regulations must have the Bank's no objection.**

G. Financial and budget management

1. Revolving fund and disbursement mechanisms

- 3.27 The revolving fund for the program will be equivalent to 5% of the loan. The Bank will conduct an ex post evaluation of procurement procedures resulting in contracts for goods, works, and services under US\$50,000, except in the case of SCU staff contracts, which the Bank will review ex ante regardless of their value.

2. Budget execution

- 3.28 The General Administrative Office (OGA) will be responsible for executing the entire program budget, including both external and local funds, which it will do in coordination with the SCU. The budget will be prepared by the SCU component coordinators, in coordination with the executing agency's directorates (the DGIA, DGPA, and OGPA). It will be consolidated by the OGPA Budget Office and

submitted to the MEF upon approval by the steering committee. The budget process must be the same as that required of other MINAG agencies, and the quarterly and monthly programming established by the MEF for budget performance must be followed.

- 3.29 The OGA, in coordination and with the support of the SCU, will be responsible for the financial management of the program. The SCU general coordinator and administrative coordinator will be in charge of programming the use of resources and preparing requests for payment and disbursement of local counterpart resources and loan proceeds. For disbursement of the loan, the OGA will be the MINAG office responsible for budget execution, and as such, it will have access to a program account at the Banco de la Nación in which disbursed loan proceeds will be deposited.

3. Annual work plans

- 3.30 To manage the program, the SCU will rely primarily on annual work plans, which will be developed, using participatory planning techniques, during a workshop held before the start of each year of program execution. Prior to implementation, the annual work plans will be submitted to the steering committee and the Bank for approval. **During the last quarter of each calendar year, the borrower will submit the annual work plan for the following year to the Bank for approval.**

4. Accounting system

- 3.31 The procedures currently employed by the OGA for providing accountability and preparing reports and financial statements are consistent with Bank rules and requirements. The OGA also follows the procedures established by the Integrated Financial Management System, which is run by the MINAG. At present, the OGA is able to record expenses by source of financing, using internally developed procedures. However, it must process information manually. In order to speed up processing and guarantee the accuracy and timeliness of financial statements, it needs a software program with adequate interfacing capacity that allows for greater itemization. Efforts are being made to adapt the Integrated Administrative Management System that the Special Land Titling Project (PETT) uses to meet the requirements of the proposed program.

5. Funds transfer mechanisms

- 3.32 The SCU will work in coordination with the OGA to prepare and submit to the Bank: (i) program disbursement requests and receipts for eligible expenses; (ii) semiannual reports on revolving fund activity; and (iii) audited financial statements and other reports required by the Bank; and to (iv) maintain an adequate filing system of supporting documentation for eligible expenses for verification by Bank staff and external auditors.

- 3.33 The OGA will also: (i) maintain separate records of program operations to ensure that accounting and financial management of loan and local counterpart resources are carried out in accordance with Bank requirements; (ii) maintain separate, specific commercial bank accounts for loan and local counterpart funds; and (iii) select and procure works, goods, and consulting services, and maintain a contract management system.

6. External audits

- 3.34 Based on the characteristics of the proposed program, external audits will be performed as follows:
- a. External auditing of the program will be performed by a firm of independent auditors acceptable to the Bank, based on the terms of reference previously approved by the Bank (documents AF-400 and AF-500). For the process of selecting and hiring a firm, the Bank's standard bidding procedures for external auditing services (document AF-200) will be followed.
 - b. Annual financial statements for the program will be submitted within 120 days of the end of the fiscal year, and the final audit report will be submitted within 120 days of the final disbursement, in accordance with the terms of reference approved by the Bank.
 - c. Auditing costs fall under the category of "associated costs" and will be covered by proceeds from the Bank loan. External auditors will be hired for a period of at least three years.

H. Procurement of goods and services

- 3.35 Bank rules and procedures will be followed for the procurement of goods and services, including consulting services. International competitive bidding will be required for the procurement of goods and related services equal to or above US\$350,000, works equal to or above US\$1.5 million, and consulting services equal to or above US\$200,000 (see Annex III—Procurement Plan).

I. Oversight

- 3.36 Program oversight and monitoring will be performed by the Bank's Country Office in Peru. The MINAG, through the SCU, will submit an initial program execution report that is based on the logical framework and includes the annual work plan for the first year. Subsequently, the MINAG, through the SCU, will submit semiannual progress reports that will guide program management. These reports will contain an up-to-date version of the execution schedule for the program and its components, including an analysis of problems encountered, the corresponding mitigating measures that were adopted, and the programming for the next six-month period.

J. Monitoring and evaluation during program execution

- 3.37 In 2003, the MINAG conducted the National Baseline Survey, which it used to establish a baseline and targets for the program and its components, as presented in the logical framework. This baseline was used to establish the main indicators for monitoring the program and its components, which include: (i) producer participation in the marketplace; (ii) percentage of producers with access to price information; (iii) percentage of producers who make planting decisions based on market information; (iv) percentage of producers served by the AAs; and (v) percentage of these producers who are satisfied with the services they receive. The MINAG also conducted a detailed baseline survey of the RADs and the AAs, against which the program monitoring indicators will be compared.
- 3.38 At program start-up, the MINAG, through the SCU, will hire a consulting firm to design and deploy a monitoring and evaluation system, using the baselines mentioned in the previous paragraph, which will make it possible to periodically assess progress towards program targets. The tools and information sources for the system will include the annual work plans, the SCU management reports, contract performance reports for each component, and other data collection tools implemented as part of activities pursued under the agricultural information, rural business, and sectoral strengthening components. The status of the monitoring and evaluation system will be a major indicator of program performance, and every six months it will generate data for inclusion in the Project Performance Monitoring Report (PPMR), so that the Country Office, in coordination with the executing agency, can take any necessary corrective measures. **Within 12 months of the signing of the loan contract, the borrower will present evidence to the Bank that the program monitoring and evaluation system has been created and is operational, in accordance with the indicators set forth in the logical framework.**
- 3.39 Due to the innovative nature of the rural business component, the monitoring and evaluation system will include detailed socioeconomic information about the participating rural producers, as well as on outcomes obtained, in a database maintained by the operators of each BAC that can be accessed over the Internet. In addition, the MINAG, with the support of the SCU, will hire a private organization specializing in business-related matters to oversee the BAC operators. It will submit semiannual oversight reports that will be used to evaluate the operators' performance, based on the collection and analysis of management and performance information in each corridor, evaluations by the producers, and interviews with buyers.¹⁴ The oversight firm will pay particular attention to the data on additional

¹⁴ Monitoring will be based primarily on three performance indicators: incremental sales divided by expenses (V/Q), total expenses divided by wages (Q/E), and total expenses divided by investments (Q/I). In addition, information will be gathered for several management indicators related to the number of business plans generated within each BAC, as well as the number of strategic partnerships forged in the corridor and the number of individuals trained to provide business advisory services.

production generated and jobs created in each economic corridor and to the resources used by the operators from the BAC dispatch. Based on this oversight, the MINAG, with the support of the SCU and in consultation with the steering committee, will decide on annual renewals of operator contracts.

- 3.40 The proposed program provides resources for a midterm and a final evaluation, which will be conducted independently by external consultants acceptable to the Bank. Based on the results of the midterm evaluation, the MINAG and the Bank will decide on any conceptual, managerial, or operational adjustments that must be made to ensure the fulfillment of program targets and objectives. The focus of the midterm evaluation will be on progress towards the expected outcomes of the various component activities, as set forth in the logical framework. **At the end of the second year of the program, calculated from the date of the first disbursement, or when 50% of the Bank's loan has been disbursed, the borrower will hire an independent, specialized firm to conduct a midterm evaluation of the program, in accordance with the terms of reference agreed on with the Bank.**
- 3.41 For the final program evaluation, a survey of the rural population will be conducted, using the MINAG national survey as the baseline. The final evaluation will be based on the following additional criteria: (i) the sampling frame will consider the representativeness of the participating (beneficiary) and nonparticipating (control group) households located in the areas of influence of the AAs, which will work in coordination with the respective BAC in each economic corridor; and (ii) the econometric model will be the one used for the ex ante evaluation and will incorporate into the survey several questions for estimating other transaction costs, related to transport and contract negotiation and supervision, incurred during the marketing phase. **Once 90% of loan proceeds have been disbursed, the borrower will arrange for a final program evaluation to be performed, in accordance with the terms of reference agreed on with the Bank.**
- 3.42 The executing agency will gather, file, and keep on hand all information, indicators, and parameters, including the annual work plans, the midterm evaluation, and the final evaluation, which will enable the Bank to prepare the project completion report.

K. Operation and maintenance

- 3.43 The borrower, through the MINAG, will undertake to include in all financing agreements the obligation to operate and maintain works and equipment financed with program resources according to generally accepted technical standards, to hire adequate staff, and to provide the materials they need to work efficiently.

IV. FEASIBILITY AND RISKS

A. Technical feasibility

- 4.1 The components of the program were designed to make it easier to provide more and better quality information to small and medium-sized producers in areas selected for their economic potential. The impact of this strategy is maximized by the fact that the information is to be applied to new business opportunities and production partnerships, that, in turn, make it easier for producers to access complementary services, such as technology and financing. As demonstrated in program studies, the lower transaction costs resulting from greater use of and access to information will enable rural producers to break into new markets and fetch better prices for their products, thus increasing their income.
- 4.2 Concerning the complementarity of program services, the business advisory services to be provided by BAC operators, along with the organizational support that the strengthened AAs will deliver, will help rural producers make efficient use of the statistics generated and disseminated under the information component. The creation of new profitable businesses will depend on both the availability of reliable information on planting intentions, prices, and markets and the services that the operators provide to rural producers to help them identify business opportunities and form partnerships. These partnerships will help producers overcome obstacles to setting up businesses, such as those posed by limited access to financing and technical assistance (contract agriculture and other similar arrangements).
- 4.3 The design of the information component was based on Peru's experiences in recent decades with generating and disseminating public information for rural markets, as well as an analysis of available technology that could be used to improve dissemination efforts, including the use of modern, effective dissemination mechanisms, in accordance with the socioeconomic and cultural characteristics of the beneficiaries. The business advisory services component was structured around local experiences (see paragraph 1.16) and the existence of organizations with staff trained to provide the services, as well as local availability of financing and other basic services needed to open rural businesses. The component for strengthening management of the public agricultural sector was designed on the basis of the MINAG's recent experiences strengthening the AAs and an analysis of the requirements for creating an integrated information and monitoring system for public policy within the institutional framework of the sector, at both the central and the regional level.

B. Institutional feasibility

- 4.4 The institutional feasibility of the program is the result of an adequate, balanced mix of public- and private-sector participation. Similarly, within the public sector, the program has been structured to divide activities between the MINAG and the

regional governments (RADs and AAs), within the context of the decentralization process under way in Peru. On one hand, the program seeks to strengthen the MINAG's subsidiary role and its capacity to formulate and monitor national policies and strategies and process information. Indeed, a major portion of the program will be executed by MINAG line agencies, with the support of the SCU. On the other hand, a major part of the activities for gathering and disseminating information, as well as for developing rural businesses, will be carried out regionally by the RADs and the AAs. To ensure that the SCU is run efficiently, all position applicants will participate in a competitive process carried out by a specialized, independent entity; and a steering committee that includes private-sector representatives will chart the unit's strategic course, providing greater stability and transparency.

- 4.5 The feasibility of the proposed institutional model has been demonstrated by recent Bank experiences in Peru and in other countries. As part of the information component, the program will extend the statistical work already carried out in 10 coastal valleys to the entire country, incorporating new variables and ensuring that users can access and use the information. As part of the sectoral management strengthening component, the pilot institution-strengthening model in place since 2002, which has benefited 47 AAs in 10 departments throughout the country, will be expanded through agreements between the MINAG and the regional governments. Lastly, by hiring private entities to execute the business advisory services component, in coordination with the AAs and in relation to identified business plans in corridors with high economic potential, the program will ensure the quality and effectiveness of the services provided to producers, raising the value they place on them and increasing their willingness to pay.¹⁵ This model has been tested within the framework of the Poverty Reduction Alleviation project (USAID), the Promotion of Technology Transfer to Peasant Communities in the Highlands project (IFAD), and other Bank projects in Peru, as well as the projects in Ecuador, Jamaica, and Uruguay mentioned earlier.

C. Financial feasibility

- 4.6 The MINAG's projected revenue for the 2004-2007 period (based on the multiyear programming of investments agreed on with the MEF) indicates stable performance, with average annual income from the Bank's loan for this program accounting for barely 5.3% of total revenue and local counterpart funds, for only 3.5%. With regard to projected expenses, the program as a whole will account for 28% of the MINAG's annual average investments and just 8.8% of total annual average expenses.
- 4.7 From a financial perspective, a comparison of recent figures with those resulting from previous projections indicates that the Peruvian government has the capacity

¹⁵ During program preparation, approximately 20 potential operators were identified in the economic corridors to be served by the program.

to allocate and disburse, on an annual basis, the funds corresponding to the MINAG's counterpart contribution. Moreover, the proposed loan for the program does not exceed the external borrowing ceiling set by MEF authorities.

Table 4
MINAG PROJECTED REVENUE AND EXPENDITURES FOR 2004 – 2007
(in millions of 2003 U.S. dollars)

REVENUE	2004	2005	2006	2007	Average	%
Ordinary capital	63.0	64.9	65.2	66.3	64.9	90.1
- MINAG ordinary activities	60.1	61.6	63.1	64.6	62.4	86.7
- Counterpart contribution, IDB pgm	2.9	3.3	2.1	1.7	2.5	3.5
IDB loan	4.0	4.4	3.3	3.3	3.8	5.3
Grants, transfers, and other sources	3.4	3.3	3.4	3.4	3.4	4.7
Total revenue	70.4	72.6	71.9	73.0	72.0	100.0
EXPENDITURES	2004	2005	2006	2007	Average	%
Current expenses	46.3	47.4	48.5	49.7	48.0	66.7
Capital expenditures	24.1	25.3	23.4	23.4	24.0	33.3
- Investments	22.6	23.8	21.9	21.9	22.6	31.4
*IDB program	6.9	7.7	5.4	5.0	6.3	8.8
*Other investments	15.7	16.1	16.5	16.9	16.3	22.6
- Other capital expenditures	1.5	1.5	1.5	1.5	1.5	2.1
Total expenditures	70.4	72.6	71.9	73.0	72.0	100.0

- 4.8 Capacity to cofinance specialized advisory activities and business advisory services. The operators hired to provide business advisory services will receive financing from the government that will decrease from 100% in the first year to 40% in the fourth year. Assuming that producers shoulder the remaining cost of services and pay for part of the cost of individual consulting services (20% for the first request and 50% for subsequent requests), they will contribute US\$1.6 million, or US\$7.50 per hectare per annum. The business advisory services component is expected to generate net profits on the order of US\$9 million (assuming an increase of 11% in net return as a result of BAC operations). Therefore, the contributions made by the users would represent approximately 18% of expected profits. It can thus be concluded that the beneficiaries will be able to cover part, and eventually all, of these costs. Even if the beneficiaries were to finance the entire cost of the business advisory services component, their contribution would only be US\$24.50 per hectare per annum.¹⁶

¹⁶ The total cost of the component (US\$5.3 million) divided by 54,000 hectares (300 businesses x 60 producers x 3 hectares on average) is US\$98 for four years, or \$24.50 per year. Some producers currently pay between US\$80 and US\$150 per hectare per annum for production-related technical assistance.

D. Economic evaluation

- 4.9 The baseline survey revealed that small and medium-sized producers with limited access to information for decision making, small market shares, and low net profits or net losses predominate in the selected corridors. According to the survey, only a small percentage of producers (8%) base their planting decisions on price and market information. Only 10% report having any knowledge of planting intentions in other provinces and departments—information that would be very useful in forecasting price patterns at the end of the crop year. The producers' limited access to information explains the low prices they fetch for their products, their low returns, the absence of economic incentives to boost their productivity, and their extremely limited presence in dynamic markets for rural products.¹⁷
- 4.10 As a result of the foregoing, program activities are geared towards reducing transaction costs in order to increase the number of producers who participate in the marketplace. These costs are associated, on the one hand, with acquiring price and product information before performing a transaction and identifying a buyer or seller and, on the other hand, with carrying out the actual transaction, including drafting contracts and devising the exact terms of the transaction. The reduction in costs that results from the three program components will give rural producers improved access to markets. The final outcome or economic benefit of the program will thus be the increases in income that rural producers experience as a result of their entry into new markets. This outcome will be further enhanced if the markets are outside the producing region, inasmuch as more demanding markets would require the producers to make technological improvements to their production processes.
- 4.11 A two-stage econometric model was used to estimate the impact of price, market, and climatic information on producer income. The results indicated that producers who use this type of information, as opposed to those who do not, will experience a 21% increase in income. The first stage of the analysis consisted of the estimation of a Probit model in which the dependent variable was participation or lack of participation in the market and the explanatory variables included availability of capital (physical and human), transportation, technology, location, and use of information. To measure the impact of transaction costs on the likelihood of market participation, access to information and transportation cost variables were used. In the second stage of the model, in which producers were assumed to participate in the market, the impact of access to information on producer income was estimated.¹⁸

¹⁷ As demonstrated in academic studies, the high transaction costs that small rural producers must pay in order to access local markets for production and marketing services (primarily the result of extremely limited access to information) adversely affect the price margins for their products (purchase or sale) and, by extension, encourage them to consume their products instead of participating in the marketplace.

¹⁸ The information source was the nationwide MINAG baseline survey, conducted in 2003 using a representative sample of 5,469 rural households.

- 4.12 This impact was applied to the program's beneficiary population (approximately 300,000 rural producers located within the areas of operation of 100 strengthened AAs) to conservatively project the flow of profits over 10 years on a diminishing basis (it is assumed that a certain percentage of producers will not remain in the market). The flow of economic costs associated with the program, including operating and maintenance costs, was subtracted from the flow of profits, which resulted in an economic internal rate of return (EIRR) of 21.9%.¹⁹
- 4.13 Lastly, the sample group of 25 potential rural businesses, for which annual sales of US\$10.4 million were estimated, was reviewed. The EIRRs for these businesses are between 34% and 68%, which again demonstrates the economic importance that access to information, together with adequate technical and business training, has in identifying and establishing profitable rural businesses.

E. Social and environmental feasibility

- 4.14 The proposed program will not finance any activities that directly affect the biophysical environment. The focus of the environmental and social analysis for this operation was on: (i) ensuring that program activities do not promote the social exclusion of vulnerable groups, including indigenous persons and women; and (ii) increasing the environmental sustainability of the businesses supported by the program, by applying criteria to ensure that they are tailored to their immediate environment and by using sustainable techniques. The findings of the environmental analysis demonstrate the environmental and social feasibility of the operation and are summarized in the Environmental and Social Management Plan in the Environmental and Social Management Report, which is available in the program files.
- 4.15 The National Institute for Natural Resources (INRENA) is responsible for environmental management in the agricultural sector, in coordination with the RADs and the AAs. MINAG policies are essentially rooted in three sources: the general agricultural policy guidelines, the integrated pest management campaigns, and the promotion of agricultural best practices. The DGPA introduces policies and tools that help producers develop supply chains aimed at achieving sustained increases in profitability and leads efforts to promote agricultural best practices for all crops, whether for export or for domestic consumption.
- 4.16 The proposed program will have a significant positive impact on the environment by expediting, through the information for rural development component, the dissemination of: (i) agricultural best practices (integrated pest management, soil and water management, sustainable use of agrochemicals); (ii) climatic information to lessen the inherent risk associated with planting and harvesting; and (iii) access to product certification institutions. In the business advisory services component, the costs associated with obtaining quality certification, organic certification,

¹⁹ In a less conservative scenario, the EIRR was 38%.

certification for agricultural best practices, and green seals will be eligible for financing. Activities to strengthen national and regional institutions will enable them to implement environmental management policies and techniques in a consistent manner. Lastly, the availability of modern dissemination tools will enhance the efficacy of the biological control programs pursued by the National Agricultural Health Service (SENASA).

- 4.17 The results of the environmental and social analysis demonstrate that the program will not have any direct adverse environmental or social impact. However, there is an indirect risk of social exclusion in the event of: (i) limited access to and relevance of information for small farmers and certain vulnerable groups; (ii) exclusion of nontraditional sectors and vulnerable groups from the businesses that will be supported with business advisory services; (iii) inadequate training of AA staff who serve indigenous communities; and (iv) weak promotion of the program and low levels of participation among vulnerable groups such as indigenous persons and women.
- 4.18 In addition, although the selected corridors for rural businesses are in areas that have already been incorporated into production, the agricultural and productive expansion resulting from the new businesses may hasten deforestation and soil erosion, lead to the increased use of agrochemicals, and accelerate water contamination.
- 4.19 The risk that vulnerable groups will be excluded from program benefits will be mitigated by: (i) designing 24 regional portals, 10 local portals, and two portals in indigenous languages (Quechua and Aymara) to ensure that vulnerable groups, and particularly indigenous communities, have access to relevant information; (ii) designing and implementing three information modules for sustainable production: the INIA (technology), the INRENA (natural resources), and the National Meteorology and Hydrology Service, or SENAMHI (agrometeorology); and (iii) training institutions and end users to access and use the information (a team of 20 trainers will train 7,200 persons).
- 4.20 Efforts to link businesses to indigenous communities in Peru's jungle or highlands regions will ensure that indigenous communities in the coastal region participate in component 2 and that lessons can be compiled for use in future projects in the jungle and highlands regions. In addition, financing will be provided to interconnect businesses that are based on the sustainable use of forest resources. The sample group of 25 rural businesses includes business plans involving an indigenous community (organic coffee in Tarapoto, San Martín) and a group of producers who specialize in sustainable forestry.
- 4.21 A customized training plan will be implemented to guarantee that the content of training courses for agents in indigenous communities is relevant. Given the high percentage of bilingual AA staff in indigenous areas (54% in the central highlands and 80% in the southern highlands), staff will be able to effectively impart the

information to users. To ensure that program benefits extend to the entire population in an equitable manner, the SCU will design and implement a special dissemination plan to secure the involvement of indigenous communities and other vulnerable groups.

- 4.22 The environmental impact of the expansion in production resulting from businesses linked under the business advisory services component will be mitigated by a preventive framework based on selection and business support criteria that include rules on sustainable use of resources, in the context of agricultural best practices and regional environmental policy. At program start-up in each corridor, environmental criteria will be drafted. Rural businesses supported by the program will take these criteria into consideration and BAC operators will be required to apply them. (This will be established as a general rule in the program Operating Regulations.) In addition, an ongoing dialogue will be maintained with the Regional Environmental Commissions and the Regional Offices for Natural Resource Management to fit the program into Peru's environmental action plan and the regional environmental agenda. Monitoring and oversight of these activities will be performed as part of semiannual oversight activities (see paragraph 3.45), when compliance with environmental criteria among rural businesses supported by the program will be verified. Lastly, individual consulting services on environmental topics will be arranged as necessary, and any studies needed to obtain certifications such as the green seal, agricultural best practices, organic production, etc. will be conducted.
- 4.23 The Environmental and Social Management Plan calls for monitoring and evaluation activities to be performed in accordance with a monitoring plan that establishes a number of parameters for evaluating the fulfillment and impact of program activities. The environmental and social activities identified in the Environmental and Social Management Plan for this operation, as well as the associated implementation costs of US\$1.9 million, have been integrated into the program. These costs are itemized in the Environmental and Social Management Report, which also includes the terms of reference for the design of the multilingual portal, the special dissemination plan, the customized training plan, and the environmental studies in each corridor.

F. Social equity and poverty reduction classification

- 4.24 It was confirmed that the average annual income of rural producers in the sample of potential program beneficiaries was US\$1,200 (2003). This figure is below the annual per capita income threshold the Bank uses to establish the poverty line, which is US\$1,665 (2003). This program therefore qualifies as a poverty-targeted investment (PTI). However, the borrowing country will not be using the 10 percentage points in additional financing.

G. Special considerations and risks associated with the program

- 4.25 One of the risks that the proposed program must address is resistance to change among MINAG officials at both the central and regional levels, particularly in the context of decentralization. To minimize this risk, the proposed program has planned for a suitable mix of public- and private-sector involvement. It will seek to strengthen the monitoring and oversight capacities of the MINAG and the RADs, while involving the private sector in the steering committee and hiring independent entities to provide business advisory services. It also calls for specific coordination agreements between the MINAG and the RADs, which will specify the activities that the RADs and the AAs must perform in order to receive program resources. Lastly, training events will be held to ensure that MINAG, RAD, and AA staff have the skills they need to perform their new role in the management and use of information for developing rural markets.
- 4.26 A major risk associated with the business advisory services component is related to the continued delivery of services after program completion. To mitigate this risk, the program calls for the creation of a local management committee, which will include members from the private sector, to assume increasingly greater responsibility for business advising activities. In addition, the BAC operators will receive decreasing amounts of financing from the State to perform their tasks. These funds will cover no more than the following percentages of the operators' annual consulting costs: 100% for the first year; 80% for the second year; 60% for the third year; and 40% for the fourth year. In addition, each bidder must specify in its proposal the sources of financing for the remaining funds. In the case of individual, specialized consulting services, the producers will cover 20% of the amount of the first request and 50% of the amount of subsequent requests. Furthermore, the business development training provided to the AAs will ensure that there are local entities within Peru's institutional framework that could potentially assume these duties. Lastly, there are plans to develop a BAC sustainability strategy during the midterm evaluation, based on experiences generated during the first two years of the program.
- 4.27 There is also a risk that the producers involved in the new businesses that are promoted will not have sufficient technical capacity to meet demand requirements in more dynamic markets or will not have enough capital for production-related upgrade. To minimize this risk, eligibility criteria have been established to ensure that only small and medium-sized producers that are able to access these inputs, either individually or as part of a group, will be selected. Similarly, the BAC operators must be able to provide or hire a third party to provide the technical assistance, which will be paid for by the producers. The operators will facilitate access to financing by designing business plans and forging strategic partnerships with buyers and/or providers of technology and financing.

**PROGRAM OF SUPPORT SERVICES TO GAIN ACCESS TO RURAL MARKETS
(PE-0234)**

Logical Framework

NARRATIVE SUMMARY		INDICATORS	MEANS OF VERIFICATION	MAJOR ASSUMPTIONS
A. GOAL				
1. To raise the income of rural producers benefited by the program	1.1	Nearly 300,000 rural producers experience an average increase of 7% in their income over their present situation (in which they do not have information). ¹	1.1 Future impact assessment	
B. PURPOSE				
1. To improve rural producers' access to dynamic markets for goods and services, both within and outside Peru, by providing services such as business information and advisory services	1.1	Expected outcomes at program completion: <ol style="list-style-type: none"> 67% of rural producers participate in the marketplace (57% baseline). 60% of farmers have access to price information for their products (45% baseline). 25% of farmers make planting decisions based on market information (15% baseline). Nearly 18,000 small and/or medium-sized producers benefit from new businesses that will have generated around US\$120 million in additional sales. 	1.1 Three means of verification: <ol style="list-style-type: none"> Final survey (compared to baseline survey) Final program evaluation Agricultural Statistics System 	1.1 Three major assumptions: <ol style="list-style-type: none"> Adequate supply of other complementary services Stable macroeconomic policy Adequate international trade agreements
C. COMPONENTS				
1. Information for rural development To improve access to and the generation and use of agricultural information that helps farmers and other agents in the public agricultural sector make decisions, by modernizing the National Agricultural Information System and creating a national network that allows System users to share information electronically	1.1	Expected outcomes at component completion: <ol style="list-style-type: none"> Improved Agricultural Statistics System <ol style="list-style-type: none"> Eight statistical frameworks built (1st year) Systems deployed that continually generate information on land use, planting, harvests, planting intentions, production forecasts, livestock, sales, and gross production value or GPV (2nd year); on agricultural structure, production costs, and agricultural financing and insurance (3rd year); on trade in agricultural products and price indices and margins for seven supply chains (3rd year); and on social characteristics of farmers' households (2nd year) 	1.1 <ol style="list-style-type: none"> Midterm and final evaluations Monitoring reports 	1.1 <ol style="list-style-type: none"> The existence of a regulatory framework and adequate policies support the smooth operation of factor, goods, and services markets Telecommunications and transportation infrastructure operates effectively.

¹ Based on user performance, it is assumed that the impact on income will be 21% when entering the corridor, 10% in the second year, and stabilizing at 5.5% in subsequent years, resulting in a 7% increase over current income levels.

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	MAJOR ASSUMPTIONS
	<p>1.2 Integrated, decentralized information network</p> <p>a. An organizational and operational framework for an integrated, decentralized information network for nine entities in the public agricultural sector in place (1st year)</p> <p>b. 80 agents trained to manage the information resources of nine institutions (1st quarter of the 4th year) and the technology required for sharing information electronically in place in 9 institutions at the central level (2nd year)</p> <p>c. 24 RADs (2nd year) and 50 AAs (4th year) have access to the Internet</p> <p>1.3 Instant information content and services developed</p> <p>a. 24 regional portals, 2 portals in indigenous languages, 10 local portals in selected communities, and 1 central agricultural portal in place (3rd year)</p> <p>b. Three services in place to provide individual information on prices and markets, market intelligence, and planting guidelines (3rd year)</p> <p>c. Four information modules developed in coordination with the INIA (technology), the INRENA (natural resources), the Private Investment Promotion Agency (PROINVERSION) (investment opportunities), and the National Meteorology and Hydrology Service (SENAMHI) (agrometeorology) in service by the end of the 4th year</p> <p>d. A participatory assessment conducted of local systems and information and communication flows in 20 rural communities (1st year) and 10 local information systems deployed and/or strengthened (4th year)</p> <p>1.4 Agents trained to use and take advantage of information</p> <p>a. Training system deployed (2nd year)</p> <p>b. Team of 20 trainers created and 7,200 agents trained to use and take advantage of agricultural information (4th year)</p> <p>c. Available information services publicized throughout the country (4th year)</p>	<p>1.2 See 1.1</p> <p>1.3 See 1.1</p> <p>1.4 See 1.1</p>	<p>1.2 See 1.1</p> <p>1.3 See 1.1</p> <p>1.4 See 1.1</p>
<p>2. Rural business advisory services</p> <p>To provide business advisory services to organized groups of rural producers, for the purpose of establishing and consolidating new rural businesses in six economic corridors in Peru's coastal region</p>	<p>Expected outcomes at component completion:</p> <p>2.1 300 new rural businesses supported by the program (4th year)</p>	<p>2.1 i) Midterm and final evaluations ii) Monitoring reports iii) Semiannual oversight reports On-line monitoring system (BAC database)</p>	<p>2.1 Development of and access to factor, goods, and services markets are promoted by appropriate laws and policies, particularly in relation to land, credit, and technology.</p>

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	MAJOR ASSUMPTIONS
	<p>2.2 Twelve operators created in six corridors and providing services in coordination with the AAs (4th year)</p> <p>2.3 Cofinancing provided for services needed to open approximately 150 rural businesses (4th year)</p> <p>2.4 150 AA agents in six corridors trained in business consulting services (4th year)</p> <p>2.5 A business portal that identifies opportunities in the six economic corridors in place (2nd year)</p>	<p>2.2 See 2.1</p> <p>2.3 See 2.1</p> <p>2.4 See 2.1</p> <p>2.5 See 2.1</p>	<p>2.2 See 2.1</p> <p>2.3 See 2.1</p> <p>2.4 See 2.1</p> <p>2.5 See 2.1</p>
<p>3. Strengthening management of the public agricultural sector</p> <p>To increase the capacity of institutions in the public agricultural sector to formulate and monitor policies, plans, programs, and projects, thereby improving the quality of rural public services provided by the RADs and AAs in the context of decentralization</p>	<p>Expected outcomes at component completion:</p> <p>3.1 60% of producers served by the AAs satisfied with the services (4th year)</p> <p>3.2 Institutional strengthening of the RADs and the AAs (4th year)</p> <p>a. 24 RADs with computer equipment</p> <p>b. 12 RADs with training equipment and infrastructure</p> <p>c. 24 RADs with radio communication equipment</p> <p>d. 100 AAs equipped with basic computer and wiring set-up, vehicles, basic renovated physical infrastructure, and basic furniture</p> <p>3.3 Training of AA and RAD staff</p> <p>a. Training system deployed in 24 RADs and 100 AAs (4th year)</p> <p>b. 24 training teams created in the RADs and provided with 12 teaching packets (2nd year)</p> <p>c. 35 procedural facilitation teams for institutions in the public agricultural sector (MINAG, 24 RADs, 4 decentralized public agencies, and 6 special projects) trained in the use and application of integrated systems for strategic, operational, and budgetary planning, in organization and procedures, and in monitoring and evaluation (2nd year)</p> <p>3.4 Integrated System for Strategic, Operational, and Budgetary Planning</p> <p>a. Methodology for formulating strategic, operational, and budgetary plans designed and tested (1st year)</p> <p>b. Strategic planning system deployed in the MINAG, the 24 RADs, the 4 decentralized public agencies, and the 6 special projects (25% by the 2nd year, 75% by the 3rd year, and 100% by the 4th year)</p>	<p>3.1 i) Midterm and final evaluations ii) Monitoring reports iii) Integrated Monitoring and Evaluation System</p> <p>3.2 See 3.1</p> <p>3.3 See 3.1</p> <p>3.4 See 3.1</p>	<p>3.1 Peru continues to pursue its policy to decentralize and deconcentrate the MINAG.</p> <p>3.2 See 3.1</p> <p>3.3 See 3.1</p> <p>3.4 See 3.1</p>

NARRATIVE SUMMARY		INDICATORS		MEANS OF VERIFICATION		MAJOR ASSUMPTIONS	
	3.5 Integrated organizational and procedural system	3.5	See 3.1	3.5	See 3.1		
	a. Organizational and procedural plan tested for overhauling the organization, procedures, activities, optimal size, scope of activity, and administrative documents of entities in the public agricultural sector (2nd year) b. Integrated organizational and procedural system deployed: 100% of administrative documents drafted, approved, and used by institutions in the public agricultural sector by the end of the 4th year c. Key processes and activities of sector institutions optimized and improved (25% by the 2nd year, 75% by the 3rd year, and 100% by the 4th year) Key processes and activities of sector institutions optimized and improved (25% by the 2nd year, 75% by the 3rd year, and 100% by the 4th year)						
	3.6 Integrated Monitoring and Evaluation System: Integrated system for monitoring the institutional management and impact of programs, projects, and policies deployed in the MINAG, the 24 RADs, the 4 decentralized public agencies, and the 6 special projects (25% by the 2nd year, 75% by the 3rd year, and 100% by the 4th year)	3.6	See 3.1	3.6	See 3.1		
D. ACTIVITIES							
1.	Information for rural development	US\$10.32 million					
2.	Rural business advisory services	US\$5.26 million					
3.	Strengthening management of the public agricultural sector	US\$4.88 million					

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Sample group of potential rural businesses identified

Type of business	Economic corridor	Destination market	Number of producers	Annual sales (US\$)
1. Snails	Huacho	Export	50	\$266,143
2. Sweet potato starch	Chiclayo	Domestic	Small or medium-sized enterprise (SME)	\$289,286
3. Pigeon peas	Chiclayo	Export	SME	\$312,500
4. Pisco plant	Tacna	Export	SME	\$113,571
5. Pasteurized milk	Chiclayo	Domestic	SME	\$1,301,143
6. Dairy farming	Huacho	Domestic	83	\$2,365,200
7. Carob wood charcoal	Huacho	Domestic	SME	\$8,571
8. Tara (forest product)	Chiclayo	Export	SME	\$201,986
9. Paprika	Tacna	Export	25	\$448,500
10. Watermelons	Tacna	Export	25	\$400,000
11. Mangos	Chiclayo	Export	30	\$357,143
12. Limes	Piura	Domestic	45	\$328,571
13. Canteloupes	Piura	Domestic	15	\$47,143
14. Papayas	Piura	Domestic	25	\$110,286
15. Organic bananas	Piura	Export	100	\$900,000
16. Avocados	Trujillo	Export	18	\$38,571
17. Piquillo peppers	Trujillo	Export	10	\$247,143
18. Peaches	Trujillo	Domestic	35	\$67,429
19. Yellow onions	Tacna	Export	70	\$58,143
20. Yellow corn	Huacho	Domestic	67	\$1,331,100
21. Artichokes	Arequipa	Export	20	\$128,571
22. Oregano	Tacna	Export	71	\$120,900
23. Olives	Tacna	Export	35	\$342,857
24. Organic coffee (indigenous communities)	San Martín	Export	250	\$414,286
25. Straw hats (Malcora palm)	Chiclayo	Export	200	\$222,857

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Procurement plan

MAIN PROCUREMENTS	IDB (%)	METHOD	PREQUALIFICATION YES/NO	ESTIMATED AMOUNT (US\$)	ESTIMATED DATE (Quarter/Year)
A. Goods					
1. Procurement of vehicles for the AAs (3)	100	ICB	No	720,000	II/2005
2. Procurement of equipment for the AAs (3)	100	ICB	No	550,000	II/2005
3. Procurement of equipment for the RADs (3)	100	ICB	No	680,000	II/2005
B. Consulting services					
1. Design and development of statistical frameworks (1)	60	ICB	No	550,000	IV/2004
2. Subsystem of production and sales statistics (1)	75	ICB	No	2,300,000	I/2005
3. Complementary subsystem of production and sales statistics (1)	50	ICB	No	1,250,000	III/2005
4. Subsystem of agroindustrial chains (1)	40	ICB	No	500,000	II/2005
5. Subsystem of statistics on rural households (1)	50	ICB	No	340,000	I/2008
6. Organizational and operational framework for information network (1)	0	LB	No	170,000	I/2005
7. Advising on information and telecommunications infrastructure (1)	70	ICB	No	1,350,000	IV/2004
8. Regional and local agricultural portals (1)	0	ICB	No	480,000	IV/2005
9. Development of individual information modules (1)	60	ICB	No	1,700,000	III/2005
10. Local information systems (1)	70	ICB	No	950,000	II/2005
11. Training in use of information systems (1)	40	ICB	No	600,000	III/2005
12. BAC operations in the Piura corridor (2)	40	ICB	Yes	580,000	II/2005
13. BAC operations in the Chiclayo corridor (2)	40	ICB	Yes	580,000	II/2005
14. BAC operations in the Trujillo corridor (2)	40	ICB	Yes	580,000	II/2005
15. BAC operations in the Ica corridor (2)	40	ICB	Yes	580,000	II/2005
16. BAC operations in the Arequipa corridor (2)	40	ICB	Yes	580,000	II/2005

MAIN PROCUREMENTS	IDB (%)	METHOD	PREQUALIFICATION YES/NO	ESTIMATED AMOUNT (US\$)	ESTIMATED DATE (Quarter/Year)
17. BAC operations in the Tacna-Moquegua corridor (2)	40	ICB	Yes	580,000	II/2005
18. Training on business advising topics (2)	0	LB	No	260,000	IV/2005
19. Oversight and evaluation of the BAC operators (2)	100	LB	No	100,000	II/2005
20. Design and deployment of AA training system (3)	60	ICB	No	240,000	III/2005
21. Training of procedures facilitation teams in the public agricultural sector (3)	50	ICB	No	400,000	III/2005
22. Integrated strategic planning system (3)	60	ICB	No	600,000	I/2005
23. Integrated organizational and procedural system (3)	25	LB	No	250,000	I/2005
24. Integrated system for monitoring and evaluating public agric. sector entities (3)	100	ICB	No	300,000	II/2005
25. Oversight, monitoring, and evaluation system (0)	100	LB	No	90,000	III/2004
26. Midterm program evaluation (0)	100	LB	No	80,000	I/2007
27. Final program evaluation (0)	100	LB	No	80,000	II/2009
28. External audits (0)	100	LB	No	100,000	II/2005
29. Environmental monitoring of the program (0)	100	LB	No	200,000	II/2005
30. Hiring of SCU staff (specialized firm) (0)	100	LB	No	20,000	II/2004
C. Civil works					
1. Retrofitting of offices for the 24 RADs (3)	50	LB	No	150,000	II/2005
2. Retrofitting of offices for 30 AAs (group 1) (3)	50	LB	No	300,000	II/2005
3. Retrofitting of offices for 35 AAs (group 2) (3)	50	LB	No	350,000	II/2006
4. Retrofitting of offices for 35 AAs (group 3) (3)	50	LB	No	350,000	II/2007

ICB International competitive bidding (in accordance with Bank rules and procedures)

LB: Local bidding (in accordance with the rules and procedures of Peruvian law, but following Bank rules for consulting contracts)

(1) Procurement for component 1 of the program (Information for rural development)

(2) Procurement for component 2 of the program (Business advisory services)

(3) Procurement for component 3 of the program (Strengthening management of the public agricultural sector)

(0) Procurement not assigned to any particular program component