

ALTERNATIVE DEVELOPMENT PROGRAM

(CO-0196)

EXECUTIVE SUMMARY

**BORROWER AND
GUARANTOR:**

Republic of Colombia

EXECUTING AGENCY:

The National Alternative Development Plan (Plan Nacional de Desarrollo Alternativo, known by the acronym PLANTE), attached to the Office of the President of the Republic. Program funds will be disbursed through the Cofinancing Facility for Rural Investment (DRI Fund) and the Development Projects Fund (Fondo Financiero de Proyectos de Desarrollo - FONADE).

AMOUNT AND SOURCE:

IDB:	US\$ 90 million
Local counterpart funding:	US\$ 60 million
Total:	US\$150 million

**FINANCIAL
TERMS AND
CONDITIONS:**

Amortization period:	20 years
Disbursement period:	4 years
Grace period:	4 years
Interest rate:	variable
Inspection and supervision:	1%
Credit fee:	0.75%
Currency of the loan:	U.S. dollars from the Single Currency Facility

BACKGROUND:

Colombia is working to eradicate illicit drug crops while at the same time contending with an economic crisis and violence in the eradication zones, where a large percentage of the population is either directly or indirectly involved in the production and trafficking of illegal products.

In parallel with its eradication plans, the government is pursuing an alternative development approach, the goals being to: (i) create legitimate sources of income; (ii) reestablish cultural values and ethics; (iii) bolster the State's institutional presence in the eradication zones, and (iv) lay the foundations for lasting, self-sustaining local and regional development.

Alternative development in Colombia follows on after eradication efforts, since it is recognized that in the absence of eradication or interdiction programs,

there can be no substitute for illegal products, given the prices they command and the financing and marketing options available for them.

Areas targeted for alternative development efforts have an economic base built on cultivation of drug crops, and include: (i) areas on the fringe of or beyond the agricultural frontier which have been haphazardly settled; and (ii) native reserves or territories whose residents have seen their cultural and production systems frayed by unregulated development.

Alternative development initiatives consolidate the agricultural frontier, large tracts of which are ecologically fragile and lend themselves only to environmental restoration and management initiatives. Those areas that could support farming have very limited marketing and other infrastructures and little in the way of proven technology or technology-transfer capacity.

It is against this backdrop of constraints and conflicts that the government is developing and carrying through its emergency plans, and has requested the Bank's help in smoothing the transition to a more normal stage of rural development, bolstering the State's presence in zones which are resistant to governance.

This is the first operation of this type undertaken by the Bank, with all the difficulties it will entail. The government has no experience either in large-scale operations of this nature. For these reasons, the emphasis in the program will be on quality of execution, so as not to waste resources, and on careful implementation. To this end, there are plans for very close monitoring, and two-phase implementation: the final US\$40 million of the loan proceeds, corresponding to the second stage, would only be committed upon receipt of evidence of satisfactory disbursement performance and program progress.

OBJECTIVE:

To provide support for urgent action required to rekindle sustainable production and social development in areas from which illegal crops are being eradicated.

BENEFICIARIES:

This program will benefit residents of rural areas from which drug crops are being eradicated, to be selected locally by municipalities and indigenous communities.

Benefiting from the program activities will be at least 30,000 families of small farmers, each of which had been growing up to three hectares of drug crops, along with other campesinos who are not involved in this activity but are legitimate residents of areas in which eradication campaigns are under way.

DESCRIPTION:

The program will provide support for institutional and community development, attending to the most pressing demands. It will fund local investment projects and preinvestment activities with short implementation times.

The program will be executed by means of annual operating plans identifying specific areas and activities for each successive year. These plans will be reviewed and approved at periodic meetings between the PLANTE and the Bank, after clearance by the representative institutions and authorities at the local level. The annual operating plans for the program will be based on development plans or "life plans" of indigenous peoples, formulated as two-year local operating plans.

The program will: (i) strengthen municipal administrative capacity and carry out health and education projects and small-scale training or productive projects to retrain workers and rebuild municipal social capital, among them initiatives targeted to women and youth; (ii) provide technical assistance to help restructure local economies along sustainable lines; (iii) restore areas that are environmentally fragile or require special management, such as national parks and their surrounding buffer zones; (iv) upgrade communications, water and sewer and electric power infrastructure (but not, in so doing, encourage the expansion of farmland into forested areas); (v) conduct studies and provide financing for specific resettlement projects; and (vi) support projects identified as high priorities by indigenous peoples and intended to strengthen their traditional economies, niche production and native institutions, with support also for processes to normalize their territories.

The following entities will be eligible for funding under the program: PLANTE municipalities – currently 95 out of the country's total of 1,096 municipalities – in which drug crop eradication efforts are under way; native councils and council federations having jurisdiction over native reserves; producer associations and organizations; community organizations; religious organizations; departmental

governments, and regional development corporations in eradication zones. The DRI Fund, FONADE, and eligible entities may hire specialized public or private agencies or nongovernmental organizations to carry out specific projects.

The scale of the program is based on a sample of projects reviewed, and on fitting projects to municipal plans, and recent project execution experience in the municipalities and other entities eligible for support under the program.

**ENVIRONMENTAL
CLASSIFICATION:**

The Environment Committee, at its meeting of April 30, 1996, classified this as a Category III operation (Minutes 12/96). The environmental report was approved at the Committee's meeting of November 5, 1996.

BENEFITS:

This program is designed to address an economic, political and social emergency. Specifically, it will reduce the risk that campesino residents in eradication zones might turn again to the cultivation of illegal crops, either because of a lack of viable legal alternative or due to a continuing absence of State presence in these areas, other than on the law enforcement and interdiction front.

Particular support is planned for indigenous communities, which have been especially affected by illegal crop growing activities.

RISKS:

Risk that crops will not be eradicated. If economic conditions of the trade in illegal substances continue to be attractive or the government is unable to sustain the eradication effort, attempts to rebuild social capital and reverse environmental damage will be to little avail. And if the eradication effort is less than all-out, it could end up displacing illegal activities toward other equally environmentally vulnerable locations. At any event, the program will make a useful contribution to local infrastructure, without aggravating the problem of environmentally-unsustainable land settlement.

Risks associated with the program's implementation. Projects could be delayed or left unfinished if local entities are unable to generate investment proposals, if central agencies are slow to respond, or if too much red tape is created. At the local level, municipalities and indigenous communities will be helped to prepare plans and projects. And at the central level, all cofinancing funds available to eligible entities have been consolidated and will be

disbursed under agreements, on the basis of prior accords with the PLANTE, which will coordinate and supervise the process. The requirement of prior screening and clearance of projects by intermediate bodies at the departmental level has been done away with. The government will still have to contend with spending constraints under the annual cash management program, which have meant that a number of agencies have been able to expend far less than was originally budgeted for them.

Risks ensuing from policies that induce campesinos to move onto land which cannot sustain agriculture. Even if drug crops were to be completely eradicated, it is still possible that the process of haphazard encroachment on environmentally sensitive land might continue. Even if this did not trigger the massive flows of settlers that illegal drug crop cultivation attracted, it would still harm the soil and wildlife – the more so given the meager production potential of such areas in the first place. The present program includes funds for resettlement initiatives.

Risk of neglecting other regions and population groups. The present emergency could divert attention from other longstanding rural development concerns, with the risk of neglecting other areas which are no better off in terms of meeting basic needs. The Bank is considering a new stage of support for rural development.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

In August 1995, the Bank's Board of Executive Directors approved the country paper for Colombia (GN-1886), setting out the Bank's strategy for operations with the country from 1995 to 1997. Two elements of this strategy are particularly relevant for the present program: (i) support for direct investment in the social sectors as a means of alleviating poverty and raising the standard of living of the population; and (ii) strengthening capacity in public institutions in order to make public spending more efficient. Investments supported by the program will be in areas with extremely high rates of basic unmet needs, and will strengthen the institutions of the less developed local governments and indigenous councils. Paragraph 4.15 of the country paper refers to support to be given to decentralization and bolstering of the State's presence in areas of illegal activity; paragraph 4.24 deals with Bank support for alternative development.

**INTERNATIONAL
COMPETITIVE
BIDDING:**

The thresholds above which procurement funded under this program will require international competitive bidding are US\$350,000 for goods and US\$2.5 million for construction work.

**LOW-INCOME
BENEFICIARIES:**

The municipalities being targeted are rural, and are among the poorest in Colombia. In 92% of them, only 40% of the population has access to public water supply, 34% have electricity, and only 19% have sewer and basic sanitation services. Because precise indicators and beneficiary numbers for each municipality will have to wait until baselines are developed, the proposed program is not being presented as a poverty-targeted operation.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Before the first US\$50 million of the loan proceeds may be disbursed, the borrower must demonstrate to the Bank's satisfaction that:

- the PLANTE has signed administration agreements with the DRI Fund and FONADE for disbursement of the program funds, on terms substantially similar to those that are to have been agreed upon in advance with the Bank;
- the PLANTE management support unit is to be up and running, with core staff hired in accordance with draft contracts and with procedures agreed on with the Bank;
- the Operating Regulations have been put into effect;
- at least 12 municipalities in representative Andean and Amazonian areas have had their PLANTE programs approved by the local rural development council or equivalent body, and have signed agreements with the PLANTE; and
- independent audit support has been engaged for technical and environmental oversight for the first year of the program.

Before the balance of US\$40 million (second phase) of the Bank's loan can be committed, the borrower must have:

- a. disbursed at least 70% of the funds comprising the first phase of the financing, and
- b. paid out, from the first-phase loan funds, at least US\$22 million for construction or service contracts, after first ascertaining that the

works or services have been finished or delivered, as applicable.

In addition to the foregoing conditions precedent to each of the two disbursement phases, the borrower will undertake as follows:

- All amendments to the Operating Regulations must be cleared in advance by the Bank.
- Starting in the second year, all agreements between the PLANTE and eligible entities, as well as the respective DRI Fund cofinancing agreements, must be signed by March 31 each year.
- An annual programming meeting of Bank and PLANTE staff will be held before November 30 each year to review progress, take corrective action and draw up budgets for the subsequent period.
- At least 10 working days in advance of an annual programming meeting, the executing agency will provide the Bank with program progress documentation and action plans for the following period.
- Resettlement projects for which program funding is sought will require approval in advance by the Bank, in accordance with an Environment Committee review.

I. FRAME OF REFERENCE

A. The Colombian economy in recent years and today

- 1.1 The Colombian economy is experiencing some difficulty at the moment, and growth is expected to slow to 3.5% in 1996, which is below the country's average for the last three years although still above the Latin American average. The damaging aftermath of the political crisis has combined with business-cycle circumstances to curb economic expansion.
- 1.2 The country's fiscal policy has been expansionary in recent years as a result of both political decisions (heavier spending on social sectors) and legislative action (new mandates for the decentralization process and social security reforms). Monetary policy has been tightened to rein in inflation, but the results have not been altogether satisfactory, as dampening inertial inflation has proved very difficult. Tightening the money supply has pushed lending rates to nearly 20% in real terms, while inflation has stubbornly held above 19%.
- 1.3 The main challenge on the macroeconomic front is to narrow the central government's budget deficit, which will stand at 3.5% of GDP in 1996 and is showing signs of further rise. However, a significant share of federal outlays is nondiscretionary spending, which means that it will be necessary to rally political consensus and amend laws to keep public spending in check.
- 1.4 By law, transfers to subnational governments and to the social security system must increase annually, whereas these same sectors do not generate the savings required to offset the central government shortfall. Moreover, the finances of some subnational governments have slipped badly even though the overall deficit for such local administrations amounted to less than 0.8% of GDP in 1995, with wide divergence in performance among regions.
- 1.5 Faced with these fiscal complexities, the government has proposed a series of measures aimed at paring the central government deficit. The National Social and Economic Policy Council (CONPES) took up these measures in Report 2863 of July 1996, noting that, unless corrective action is taken, the public deficit will burgeon to a level at odds with the country's macroeconomic plans. Included among the proposed initiatives are the sale of public enterprises, streamlining of the State, holding down transfers to municipalities and the social security system, and holding public sector wage increases below the rate of inflation. It is entirely possible that one or more of these proposals may fail to elicit the required consensus for approval.

B. Rural population and agriculture

- 1.6 Just over one quarter (28%) of Colombia's population lives in rural areas. According to 1993 statistics, 46% of household income in these rural areas was wage income, suggesting a heavy measure of involvement in activities other than family farming – or even outside agriculture altogether. Despite its declining share in the country's economic activity, agriculture still generates 20% of Colombia's GDP and gives employment to nearly 30% of its work force.
- 1.7 It is in the rural areas of Colombia that the country's most severe pockets of underdevelopment are to be found. Rural dwellers are three times as likely to live in poverty as their urban counterparts, and 70% of Colombians earning below the subsistence level live in the countryside.
- 1.8 In addition to cyclical problems such as the decline in coffee prices in the early 1990s, there are deep-rooted causes for this relative underdevelopment of rural areas, having to do with Colombia's long history of concentrated land ownership, rural violence, and eviction of campesinos from Andean zones, pushing them to resettle in environmentally vulnerable areas where the soil is less productive and the State holds less sway.

C. Agricultural policy and land settlement

- 1.9 The country's agricultural policies have in the past contributed to the movement of people and economic activities toward environmentally fragile areas. These policies have included restrictions on land titling and leasing, as well as greater relative protection for livestock farming, and tax incentives and subsidies for loans, machinery, and irrigation facilities, most of the benefits of which have been reaped by the larger producers. Between 1980 and 1992, the livestock and dairy sector received 82% of price-support and other forms of State benefits granted for the country's nine leading agricultural commodities.
- 1.10 Land settlement in Colombia has been haphazard. Beginning in the 1970s the government abandoned its attempts at agrarian reform and regulated settlement, whereupon campesinos began to stream into hitherto unworked land. They moved deeper into environmentally sensitive zones, working the relatively fertile strips of land parallel to the numerous streams and rivers (the lowland vegas). Wooded areas were gradually cleared to plant rice and corn, but after a few crops were harvested, the land went to pasture. The campesinos, having as a rule no other source of income, then sold the pastureland to large landholders and moved ever deeper into the forest.

D. Illicit crops and eradication programs

- 1.11 The growing of illegal crops, and efforts by the authorities to eradicate them, are a part of Colombia's rural and agricultural landscape. The cultivation of coca stabilized the agricultural frontier settlement pattern by raising squatters' income. At the same time, however, it unleashed a massive influx of newcomers from other parts of the country into environmentally sensitive areas, with no State control. Coca growing thus constitutes the most significant and widespread event affecting Colombia's rural frontier in the last 20 years. Though their historical origins are somewhat different and they are primarily confined to the indigenous population, marihuana hemp and, more recently in the Andes, the poppy plant now must be added to the list of illegal crops being grown.
- 1.12 The government is eradicating these crops in major growing areas, and is at the same time trying to substitute opportunities for sustainable rural development for the campesino residents of these parts of the country. The problem of eradicating drug crops, and then contending with the aftereffects of eradication campaigns, is a major challenge for Colombia.

E. Magnitude of drug crop cultivation

- 1.13 The extent of drug crop production is difficult to determine exactly, but such crops are thought to occupy some 3% of the country's 4.3 million hectares of cultivated land, and are tended by slightly more than 3% of the rural workforce of 5.5 million. Although such estimates will always be uncertain, it is generally agreed that Colombia supplies 70% to 80% of the cocaine consumed worldwide, either from homegrown plants or with products imported from the region's two largest coca leaf growers. Marihuana and poppy derivatives complete the list of illegal products, whose net export value would represent 3.5% of the country's GDP if they were legal - or some 25% of the value of its legal exports. Despite aggressive eradication efforts, in 1996 roughly 100 of Colombia's 1,096 municipalities, with a total population of 2 million - nearly 6% of the country's population - had significant acreage under illicit crops.
- 1.14 Official estimates indicate that there are some 60,000 hectares of coca, 5,600 hectares of poppy, and close to 5,000 hectares of marihuana growing in Colombia at present. Official figures may understate the real extent of the problem; others put the total for coca as high as 160,000 hectares, for example. Obviously, it is impossible to judge the reliability of the various estimates.
- 1.15 The increase in marihuana and poppy cultivation seems to have slowed, following a period of rapid and, in the case of poppy plants (from which opium and heroin are derived), relatively recent growth. The primary cause of the apparent halt in expansion of

these crops in Colombia is likely the emergence of other producing countries better situated for access to the European and North American markets. Coca growing, on the other hand, is again on the rise, as the price of cocaine base soared from US\$750 to US\$1,200/kilogram in late 1995 and 1996. The official estimate is that some 30,000 campesino families – working plots smaller than three hectares, averaging one hectare each – are involved in coca growing. A further 30,000 hectares are being cultivated by commercial growers with farms larger than three hectares. These commercial-scale operations in fact probably account for well over 50% of total acreage and – since they also would yield more per hectare – well over half of Colombia's total output.

F. Effects of illicit crop growing

- 1.16 The impact of this illegal activity in Colombia has been estimated from a variety of different perspectives. While some have calculated a positive economic effect, the consensus view underscores how drug trafficking distorts markets, undermines ethical standards, tarnishes the country's image and hampers the conduct of foreign policy.

1. Economic impact

- 1.17 The most obvious economic effect has to do with the foreign exchange generated through unreported transactions, the gross amount of which is thought to exceed US\$4 billion annually. The drawback of this illicit income is that it supports an underground economy based on smuggling, underinvoicing of imports, overinvoicing of exports, capital flight, and purchases of urban and rural real estate, which skew the respective markets. To this must be added the amounts the country is having to budget to combat drugs, which cost the government US\$760 million in 1994 and over US\$980 million (5% of the national budget) in 1995.

2. Social impact

- 1.18 The social effects of this black market economy are of varying dimensions, and some have particularly significant implications for the effort to rekindle legitimate and sustainable rural development in Colombia. Included in this category are the effects on social capital, community involvement, and specific issues involving women and youth.

a. Social capital

- 1.19 Social capital in the frontier zone has often been tenuous at best. Now, with the waning of legitimate authority and the growing clout of illegal, armed and economically powerful players in these areas, one of the clearest effects has been a dramatic reduction or outright elimination of opportunities for civil society involvement. Maintaining power by force of arms, these elements

- who view settlement zones as a battlefield - make it exceedingly difficult to instill the stability needed for development proposals.

b. Community involvement

- 1.20 Avenues for community involvement in setting priorities and carrying out projects differ widely, depending on the social dynamic that has developed within each region: from the absence of the most rudimentary community organizations in a place like Guaviare, to the active albeit highly polarized participation - with numerous mutually antagonistic organizations - in a place like Caguán. These variations notwithstanding, the prevailing scenario is one in which the means of social regulation and participation are imposed as the result of a shaky balance between armed camps.

c. Women, youth and children

- 1.21 Women, young people, and children are part of the work force in these areas, where children and adolescents in particular are employed to harvest leaves and women work out of their homes, for instance to feed day laborers.
- 1.22 In municipalities where illicit drug crops are being grown, there has been a noticeable increase in the rate at which women are suddenly thrust into the role of head of household due to death, desertion or migration by their partners or husbands. Areas of conflict have experienced a dramatic rise in the number of female heads of household, with the share of households in this category climbing from 7.8% in 1978 to 19.2% in 1991 - versus national averages of 8.5% and 11.8%, respectively. Phenomena such as violence against women are especially common in drug-crop growing areas.
- 1.23 The plight of children and youths in these areas has been made worse by the arrival of thousands of abandoned children from the country's larger cities seeking work in drug crop fields. Those that find work in the coca fields quickly adopt adult lifestyles, obliterating the normal generational gap in their free-time pursuits. With ready access to money, they come to spend it on alcohol, weapons and prostitution. And scraping coca leaf or poppy gum leaves little time for school, resulting in steep dropout rates.

3. Impact on municipal economic bases and productive structures

- 1.24 The cultivation of illegal crops has had a devastating effect on the basic economy and production patterns of the municipalities affected. The economic base of these communities now consists of the cultivation, processing and sale of these illegal products on

the black market, accompanied by prostitution, arms dealing and smuggling.

- 1.25 The municipalities in which drug crops are being grown are among the poorest in Colombia. The ratio of urban to rural population in these areas is the reverse of the rest of the country, with just 29% of the population living in the municipal seat and 71% in the countryside. These municipalities suffer from the same social and economic development gaps that characterize many other Colombian municipalities: in the overwhelming majority (92%) of cases, less than half the population has access to running water (40%), electricity (34%) or sewers and basic sanitation (19%). But unlike other municipalities, this shortfall in services in drug crop farming areas attests not just to poor service but to population numbers that are higher than the legal economy can sustain.

4. Environmental impact

- 1.26 The cultivation of illicit crops threatens the two most environmentally sensitive biogeographical systems in Colombia: the Andean forests and the Amazon tropical jungle. Not only have forests been destroyed, but the cultivation of remote areas – many of them part of the national park or forest reserve systems, with their highly sensitive environments rich in biodiversity – is further eroding natural resources, because of the farming practices being used and the methods needed to supplement local soils.
- 1.27 Most of the poppy crop is being grown in Andean cloud forests – an especially important reserve given their biogeographical complexity. Use of cloud forests for this purpose is accelerating the processes of deforestation, erosion, degradation of water sources and biodiversity loss. There is an estimated total of 20,000 hectares in poppy fields, for which some 50,000 hectares of wooded land have been cleared (2.5 hectares felled for each hectare sown to poppy plants).
- 1.28 Poppy is a rapid-maturing plant which can yield two harvests per year. Fields thus are being side rotated, with both cumulative and periodic effects that have yet to be studied. These crops are grown at an altitude of between 2,000 and 3,000 meters above sea level, in areas formerly covered with a mix of moisture-retaining vegetation that ensured the availability of water at lower elevations.
- 1.29 Coca is being grown in the Amazon wet tropical forest where it too triggers biodiversity losses and soil erosion. Unlike poppy plants, coca requires two years to mature, and permanently damages the growing area due to the constant application of herbicides. It is estimated that sowing a single hectare with coca wipes out two hectares of forest, usually within a forest reserve or national park that is home to unique flora and fauna and is a source of water and biogenetic resources.

G. Illegal crop growing and indigenous peoples

- 1.30 The problems surrounding illicit drug crops highlight fundamental issues affecting indigenous peoples in Colombia today: (i) intrusion into their territories; (ii) sustainability of traditional economies, both internal economies of indigenous communities and the balance struck with the market economy around them; and (iii) the need for strengthening native judicial institutions so that they can exercise the powers granted under the 1991 Constitution.
- 1.31 Indigenous reserves are the site of 17% of the three illegal crops (74% for marihuana hemp, 19% for poppy, and 11% for coca). This directly impacts on land set aside for indigenous peoples, and their communities are thus fundamentally affected in the growing of illegal crops and by eradication and alternative development efforts.
- 1.32 Colombia does not have vast or homogenous native populations. While there are differences by region and culture, studies show that the presence of drug crops has driven up alcoholism and crime (assaults, theft and homicides) among Colombia's native peoples, and has altered family interactions, including more widescale absences from home that erode day-to-day family rituals. In Colombia's Amazon region, settlers have moved into indigenous peoples' territory to grow illegal crops, thereby encroaching on and interrupting the continuity of traditional homelands, and monetizing the native economy (doing away, in the process, with traditional reciprocity arrangements and the sharing of both tasks and resources). The tendency is to intermarry with settlers, at which point the native communities begin to disintegrate.

H. National policy to deal with illicit crops

- 1.33 The national policy for dealing with drug crops is built around two components: policing and interdiction on the one hand, and the National Alternative Development Plan (PLANTE) on the other.

1. Policing and interdiction

- 1.34 Under the policing and interdiction plan, 50,000 hectares of illegal crops have been eradicated in two years, with an effort to assure that eradication operations have as light a social and environmental impact as possible. The program has been carried out on the ground by hired laborers or through aerial spraying with constant monitoring by a team of environmental auditors. This component is run by Colombia's Drug Enforcement Police, independently of the PLANTE.

2. National Alternative Development Plan

- 1.35 The National Alternative Development Plan (known by the acronym PLANTE) seeks to foster comprehensive development in areas where drug crops have been eradicated, by means of local and regional development initiatives. Under the PLANTE's approach to alternative development, it is acknowledged that in the absence of eradication and interdiction programs, activities associated with illegal crops offer such strong price, financing, and market security advantages that there usually is no viable substitute for the growers involved. In connection with such eradication programs, then, the plan seeks to provide these campesinos, settlers and indigenous groups with another way of earning a livelihood, within the bounds of the law.
- 1.36 The objectives of the PLANTE are to: (i) create legitimate alternative sources of income; (ii) reinstill cultural values and ethics; (iii) bolster the institutional presence of the State in eradication zones, and (iv) lay the foundations for lasting, self-sustaining local and regional development.
- 1.37 The PLANTE operates in rural farming areas and indigenous territories where it helps develop, fund, and execute projects intended to give residents opportunities to earn legitimate income and improve their standard of living. Prospective beneficiary communities are selected on the basis of a voluntary decision to eradicate drug crops, their willingness to participate in PLANTE projects, and the comparative advantages afforded by proposed alternative production systems. Commercial growers of drug crops are automatically excluded, since they are subject to forced eradication.

I. Effects of eradication

- 1.38 The eradication of drug crops has staggering economic, social and political ramifications, given the size of the associated underground economy. The immediate effect is lost income for campesinos and day laborers, which in turn affects the full range of commercial and other activities in the area that depend upon this illegal trade. The problem is compounded by the dearth of viable economic alternatives, owing to the fragile resource base of these areas and, often, to difficulties in market access for alternative products.
- 1.39 The major immediate impact is a drop in income of the campesinos who were growing illicit crops (on average, one hectare per family), and of wage earners who were employed in commercial operations. For example, one hectare of coca requires 111 person-days of farm labor annually, so the estimated 30,000 hectares currently tended by campesinos create the equivalent of 3.3 million person-days of employment per year. At US\$8 per day, the loss in income to campesino families from eradication of these

30,000 hectares exceeds US\$26 million a year. Meanwhile, commercial growers on average provide 150 person-days of employment per hectare at wages of US\$18 per day. Using the minimum estimated commercial acreage (also 30,000 hectares), these growers generate US\$81 million per year in earnings for their laborers. The indirect effects in this case are even greater than for small-scale farmers, because of the extensive network of goods and services required by such commercial farming operations.

- 1.40 It is impossible to offset income losses aggregating at the very least US\$107 million a year. There are few opportunities for substituting other farm commodities for the drug crops, due to the poor soil in these areas, which is generally unsuited for supporting the population levels that have been drawn there to tend illegal crops. Unless eradication efforts go hand in hand with effective development efforts, they will trigger the classic sequelae of recession in these areas and unleash social unrest that may well be exploited by groups outside the law. To this must be added the potential political fallout for the government, which will be perceived as the main force disrupting the local black market economy and, as such, as the main cause of plummeting income.

J. National support for development of municipalities and indigenous communities

- 1.41 Colombia has a system of national support for development of municipalities and indigenous communities in which drug crops are being eradicated. Among other avenues, these entities can receive assistance through the National Cofinancing System, which transfers central government budget funds for investment in high-priority local projects. It finances such local projects through special centrally operated funds, the four most important being the Urban Infrastructure Fund, Road Fund, Social Investment Fund, and Cofinancing Facility for Rural Investment. However, the national funding and cofinancing programs are finding it difficult to provide support, as and when needed, to the poorest municipalities, in general, and more specifically to those in which illegal crops have been grown.
- 1.42 The inability of the less-developed municipalities to effectively prepare projects and secure funds, their new responsibilities in the wake of recent decentralization moves, and the complex procedures and maze of public agencies with which they must negotiate, mean long delays in carrying out projects. These factors further erode the government's credibility and pose additional obstacles for the eradication process, making it more tempting to return to growing drug crops. Furthermore, there is no mechanism in place for tailoring local priorities to an area's potential for legitimate and environmentally sustainable economic activities.

- 1.43 The existing systems are bolstering their local support activities and tackling long-range issues in numerous rural municipalities that have high levels of poverty and large numbers of residents unable to satisfy their basic needs. During the portfolio review mission from October 29 to 31, 1996, Bank personnel and Colombian authorities agreed on an evaluation of the National Cofinancing System, in order to take corrective action to improve the System and the operations which the Bank is carrying out with it. However, while this process is under way, there is no mechanism for attending to the urgent needs of residents of the eradication zones, or to the difficult task of identifying sustainable projects for an economy and society that are being restructured.

K. Experience of the Bank and other multilateral agencies

- 1.44 The Bank is currently carrying out related projects on the rural development and environment front, including the integrated rural development (DRI) operation and the environmental, Pacific Coast and social solidarity network programs. The performance and disbursement record of these programs is very poor, and if anything has worsened following recent curbs on fiscal spending which have meant that agencies are expending far less than was originally budgeted. The most successful (and oldest) of the projects mentioned is the DRI initiative. This project, cofinanced with the World Bank, is now winding up, but it encountered difficulties with changes to the institutional system and in obtaining direct allocations from Congress, with the result that fewer resources were available, and the deadline for disbursement in full had to be extended twice.
- 1.45 In its rural development, environmental, and social sector operations, the Bank has gained experience in participation by disadvantaged groups, and in ways of helping less-developed municipalities gain access to funds and services. The main lessons learned from this experience are the need to: (i) avoid the complications that arise when a large number of public agencies are involved; (ii) provide rapid assistance to local and other subnational entities in project identification and development; (iii) keep to a minimum the number of steps required for funds to actually reach such entities; and (iv) give due heed to constraints on availability of funds.
- 1.46 To strengthen municipal administration, the Bank is funding a technical cooperation component in a financing operation for subnational governments (loan 715/CO-OC) which will provide short courses and general support (with no direct intensive assistance) for less-developed municipalities. A project to strengthen local and departmental governments (CO-0155) calls for intensive assistance to further efforts to strengthen the public finances of subnational political entities. However, eligibility is restricted to departments, municipal capitals and municipalities with populations of 100,000 or more, the idea being to cover subnational

entities that are larger and more advanced than those heavily affected by drug crop eradication.

- 1.47 The government has some experience with foreign technical aid for various forms of alternative development. In 1984, a master plan for the substitution of illicit crops was drawn up with the support of the United Nations. Later on, the region became one of the leading poppy growing centers, and subsequent evaluation of the project indicated the following major deficiencies: the fact that the project targeted growers of drug crops, which provided an incentive for illegal producers; and the assumption that these producers would voluntarily eradicate their crops after alternative development was achieved.
- 1.48 Other similar initiatives followed, including a series of projects launched in the Amazon region in 1991 (with the support of the United Nations Drug Control Programme) which again attempted to include eradication as a goal to be achieved through development. The areas targeted did receive a certain amount of new infrastructure under these projects, but the gains in establishing alternative crops were modest in the extreme – and worse yet when it came to the eradication of drug crops. In one target area comprising 6,600 hectares, for example, only 145 hectares were in fact eradicated. The experience in Colombia – as in Bolivia and Peru – shows how difficult it is to achieve eradication by means of market mechanisms, and suggests the need to view alternative development programs as emergency support for eradication zones, rather than look to such development as a centerpiece of eradication efforts.
- 1.49 A number of investment programs in the pipeline will make an important contribution to rural development, leaving law enforcement agencies to look after eradication or interdiction. The projects most relevant to this proposal involve prospective World Bank support for agrarian reform, plus the IDB's planned land titling and integrated rural development operations. The agrarian reform and titling programs will help people settle in areas of sustainable agricultural production. The rural development program will pave the way for a new phase of activities that can further the objectives of alternative development by helping to curb the expansion of drug crop growing into new areas.

II. THE ALTERNATIVE DEVELOPMENT PROGRAM

A. Objective

- 2.1 The objective of this program is to assist in emergency measures required to reinstate sustainable productive activities and social development in municipalities from which illegal crops are being eradicated.

B. Program components

- 2.2 The program will provide support for institutional and community development, to address the most pressing needs. Program funds will be used to pay for local investments and preinvestment activities with short completion times. The following entities will be eligible for funding under the program: PLANTE municipalities - currently 95 out of the country's total of 1,096 municipalities - in which drug crop eradication efforts are under way; indigenous councils and council federations having jurisdiction over native reserves; producer associations and organizations; community organizations; religious organizations; departmental governments, and regional development corporations. All program activities are to conform to an operating plan worked out with the local rural development council or equivalent body.

- 2.3 The following are the planned program activities:

- a. Strengthening of municipal administrative capabilities, building capacity to help boost municipally generated revenues and develop projects for the national cofinancing systems. Tax administration will be addressed as part of this local administrative support, to be based on a study of financing and revenue policies of local governments with environmental constraints and responsibility for environmental protection. Funding will be made available for small-scale health, education and training projects to retrain workers and rebuild municipal social capital, among them initiatives targeted to women and youth.
- b. Support for technology and production, providing technical assistance in agriculture and rural development to help reconfigure local economies along sustainable lines, including the introduction of new crops and products or improved productivity in traditional ones.
- c. Restoration of areas that are environmentally fragile or require special management, such as national parks and their surrounding buffer zones which have been taken over by drug crop growers, and which cannot support agriculture. Included in this component are land-use plans, watershed management and

protection, demarcation of protected areas, and management and development planning of ecotourism projects.

- d. Infrastructure for communications, water supply and sewerage, and electric power, which will be designed so as not to encourage the encroachment of farmland onto protected areas.
- e. Resettlement activities, including: (i) studies to examine the population movements triggered by eradication programs and migratory trends and preferences, as well as preinvestment work for possible settlement projects in PLANTE municipalities and elsewhere; and (ii) investments for off-farm infrastructure required for resettlement projects (with prior approval by the Bank's Environment Committee in all cases).
- f. Support for projects identified as high priorities by indigenous peoples and agreed upon with the PLANTE. The projects are to fit into the framework of the "life plan" of each native group, with the aim of strengthening its traditional economy, niche production and institutions and furthering territorial normalization processes.

C. Size of the program

- 2.4 To decide on the size of the proposed program, the recent experience of 12 municipalities that would take part in the first year was reviewed. In 1995, these municipalities carried out over US\$34 million worth of small-scale physical infrastructure projects of the sort envisaged here. An investment figure 50% higher than that amount would be a reasonable minimum execution target, and would mean starting out the program with US\$17 million annually in municipal investment projects alone, not counting preinvestment activities or projects with indigenous communities. Moreover, part of the funding received by the aforementioned municipalities in 1995 came from the National Cofinancing System, and will therefore be replaced by resources provided under this program, thereby lowering the baseline for calculating the increase in financing the proposed program would represent.
- 2.5 It was ascertained in reviewing the specific investment plans of the 12 municipalities that have such plans ready, and adapting them to the proposed program, that they call for an aggregate infrastructure outlay of US\$26 million. Extrapolating this estimate to similar municipalities - and adding in other components - it is estimated that the proposed program can easily attain the envisaged levels of preinvestment and investment spending on infrastructure, social capital building, and institution-strengthening.

D. Cost

- 2.6 The total cost of the proposed program over its four-year life span will be US\$150 million, including finance charges during the

planned four-year disbursement period. Total estimated costs are presented in the table below, followed by a description of the main cost categories, with the caveat that these are to be reviewed and spelled out in detail each year during the execution of the program.

ESTIMATED BUDGET

	US\$000		
	IDB	LOCAL	TOTAL
I. ADMINISTRATION AND COORDINATION	-	6,100	6,100
1.1 PLANTE — Technical Management Unit	-	3,000	3,000
1.2 DRI	-	1,600	1,600
1.3 FONADE	-	300	300
1.4 Evaluations and external audits	-	1,200	1,200
II. DIRECT COSTS	90,000	40,000	130,000
2.1 Institution-strengthening and community development	7,000	5,000	12,000
2.2 Technology and production	9,000	7,000	16,000
2.3 Restoration of the environment	7,000	5,000	12,000
2.4 Rural development infrastructure	52,000	15,000	67,000
2.5 Resettlements	10,000	5,000	15,000
2.6 Support for indigenous communities	5,000	3,000	8,000
Subtotal	90,000	46,100	136,100
III. FINANCE CHARGES			
3.1 Interest	-	11,500	11,500
3.2 Credit fee	-	1,500	1,500
3.3 Inspection and supervision	-	900	900
TOTAL	90,000	60,000	150,000

1. Administration and coordination

- 2.7 Administration and coordination costs account for 4% of the program total, covering personnel, equipment and overhead of the DRI Fund and FONADE. This includes contracts for the PLANTE's management

unit and for strengthening its accounting functions, and for external technical and environmental audit services.

2. Direct costs

2.8 Direct costs comprise 87% of the total program cost. The main items in this category are:

- a. Institution-strengthening and community development (8%). This includes consulting services to help municipalities, and funding for projects under US\$100,000 for studies, training and education carried out by nongovernmental organizations, which may require a small outlay for equipment in addition to the cost of consultants.
- b. Technology and production (10.7%). Consultants for preinvestment support and technical assistance in agriculture and agroindustry.
- c. Environmental protection and improvement (8%). Consultants and equipment for environmental protection and management activities, including preparation of land-use plans at an estimated cost of US\$500,000 each.
- d. Rural development infrastructure (45%). Outlays for physical infrastructure (including design and construction supervision): rehabilitation and upgrading of roads, docking and other facilities for river transport, electrification, water supply and basic sanitation.
- e. Resettlement. This includes consulting services for studies and preinvestment work.
- f. Support for indigenous communities (5% of total cost). These project costs are for all the foregoing categories, including infrastructure. The main items are consultants for preinvestment and legal-institutional support.

3. Financial costs

2.9 Finance charges (9% of the total cost) include estimated financial costs during the life of the program to pay interest, the credit fee on undisbursed balances, and the Bank's inspection and supervision fee.

E. Bank funding and the local counterpart contribution

2.10 The Bank will provide US\$90 million in funding (60% of the total), to be disbursed in United States dollars from the Single Currency Facility. The loan will have the following terms: 20 years for amortization, 4-year disbursement period, variable rate of

interest, inspection and supervision fee equivalent to 1% of the loan total, and a credit fee of 0.75% on undisbursed balances.

- 2.11 In accordance with policy FN-507-1 approved on September 25, 1996, the government has requested financing in a single currency, electing to receive the loan in United States dollars.
- 2.12 The local counterpart will consist of regular appropriations from the national budget. Most (95%) of this local share will come from budget allocations to the Cofinancing Facility for Rural Investment (DRI Fund), and to the Office of the President of the Republic, by way of agencies attached to it. The remaining 5% is to be supplied by the municipalities and indigenous communities benefiting from the program.

III. PROGRAM IMPLEMENTATION

A. Implementation arrangements

- 3.1 The proposed program will be conducted by a central executing agency which will direct the annual programming and implementation process. This agency will request disbursements in accordance with an annual plan agreed on with the Bank, and make certain that the two agencies selected to channel the program funds disburse them to end-beneficiaries to carry out urgent projects that can be completed in two years or less.
- 3.2 Responsibility for project execution will ultimately come down to the local level, adhering to plans drawn up locally. However, given the program's strategic nature within a drug crop eradication framework, all funding of local activities must be approved in advance between the central and local levels. From the central government level, the executing agency will be able to lend technical support for completing local plans and projects and to strengthen local capacity in the long term.

B. Executing agency

- 3.3 The executing agency for the program is the National Alternative Development Plan (Plan Nacional de Desarrollo Alternativo), known by the acronym PLANTE, which reports to the Office of the President of the Republic. The PLANTE will be accountable to the national government for the program outcome, and will determine overall budgets, oversee execution of the program, and serve as liaison with the Bank. For the actual disbursement of funds, the PLANTE will make use of two financial agents: the Cofinancing Facility for Rural Investment (DRI Fund) and the Fondo Financiero de Proyectos de Desarrollo (Development Projects Fund - FONADE).
- 3.4 Projects will be carried out with the eligible entities listed in paragraph 2.2 of this proposal, though the bulk of the funds will likely go to municipalities and native communities. Local management units or technical support groups for these local bodies will provide services directly within them, according to the specific needs identified in each case. The PLANTE will direct assistance to the local entities and guide consultants and the preparation and funding of plans, and supervise the entire process.
- 3.5 The PLANTE will operate with its own personnel and with a management unit with staff hired on contract. As its minimum core personnel the unit will have a coordinator and professionals in the areas of participatory-process management, monitoring and evaluation, environmental protection, economic analysis, and infrastructure. Clearance from the Bank will be required for these hirings.

- 3.6 The management unit will perform the following services: (i) coordinate program activities with the DRI Fund and FONADE; (ii) help develop the annual investment program; (iii) supply the DRI fund with information needed to execute annual cofinancing agreements with eligible entities; (iv) draw up terms of reference for studies; (v) enforce the Operating Regulations and assure the technical quality of proposals, eliciting of community input and compliance with environmental requirements, and operation of the monitoring and evaluation system; (vi) centralize and classify information pertaining to progress of the program and disbursement of investment funds; (vii) help identify municipal management support needs; (viii) produce required reports; (ix) oversee the external evaluation of the program; (x) evaluate consultants' reports and PLANTE plans and programs proposed by eligible entities; (xi) in concert with the DRI Fund, draw up rules and standards on unit costs that are to apply in projects selected using cost-effectiveness criteria; and (xii) prepare technical proposals and reports needed for annual programming meetings with the Bank.
- 3.7 The management unit will also help prepare and submit disbursement requests to the DRI Fund and FONADE, monitor the selection of consultants and suppliers, track contract performance by suppliers of goods and services and payments to them, and prepare and submit disbursement requests to the Bank.

C. Expending of program funds

- 3.8 The DRI Fund will be responsible for distribution of funds to eligible entities. It will execute cofinancing agreements with local entities according to instructions from the PLANTE, after an agreement has been signed between the PLANTE and each entity seeking funding.
- 3.9 To streamline cofinancing arrangements, in 1997 all national budget allocations that the government had originally earmarked for different agencies for cofinancing for local governments in PLANTE zones will be directed instead to the DRI Fund. Pursuant to special provisions, the DRI Fund will be able to disburse funds from these allocations in accordance with agreements signed with municipalities and indigenous entities, without the requirement of prior departmental review and approval.
- 3.10 All other program funding not involving cofinancing with local governments will be distributed by FONADE under instructions from the PLANTE, to pay for consultants (including the contract for the management unit) and technical assistance and preinvestment support, and for special contracts with nongovernmental organizations.

D. Two-year operating plans

- 3.11 The two-year operating plans of local governments will be carried through on the basis of annual operating plans for the program, specifying geographic coverage and types of investments to be funded in successive years, according to PLANTE priorities. The program's operating plans for those entities will be based in turn on municipal investment plans or comparable instruments for other entities, taking into account the program guidelines, experience gained during execution, and community input. Overall operating plans for the program will be reviewed and agreed on by the Bank and PLANTE at meetings to be held before the end of November each year.

E. Duration of the program and disbursement timetable

- 3.12 The program will have a limited life-span, given its emergency nature and the long-range institutional goal of expediting the operation of normal rural development finance systems.
- 3.13 The program funds would be disbursed over four years, for packages of local projects that can be completed in a maximum of two years. However, because it would be impossible to complete projects in close to 100 municipalities in just four years, preinvestment activities will be emphasized in entities that do not have plans and projects ready for execution. In cases where no investment project is ready for funding by the end of the program, efforts will be made to at least strengthen the capacity of the respective municipality or department, draw up land-use plans and complete the design for one or more projects.
- 3.14 The disbursement timetable concentrates disbursements in the first three years of the program, the fourth year being devoted to completing investments and dismantling administrative systems developed in the program or transferring them to more formal rural development finance institutions. The latter should be facilitated by the municipal and departmental strengthening activities planned in the program.

Estimated disbursement timetable for investment projects (US\$ million, not counting finance charges)					
YEAR	1997	1998	1999	2000	TOTAL
IDB	14	25	30	21.0	90.0
Local	6	13	15	12.1	46.1*
Total	20	38	45	33.1	136.1

* The local counterpart also includes an estimated US\$13.9 million in financial charges during construction.

F. Eligibility for investment funding

- 3.15 To obtain investment funding under the program, a local government must have submitted a two-year plan worked out with the local rural development council or equivalent body, and have signed an agreement with the PLANTE pledging that the proposed operations conform to program guidelines. Where cofinancing is involved, the respective agreement with the DRI Fund is required as well.

G. Environmental eligibility criteria

- 3.16 It is essential that activities funded under this program be shown to satisfy environmental criteria, since so many of the illegal crop eradication zones are in environmentally sensitive areas. These criteria will be as follows:
- a. For protected areas, only activities involving management plans and studies or research designed to protect the environment and utilize its biodiversity for science and technology will be allowed. Regional corporations having jurisdiction over these zones will receive support to bolster their capacity to monitor and supervise these environments.
 - b. In buffer zones, studies and pilot production projects (preferably in the field of forestry) will be allowed if they are consistent with the use capability of the area's natural resources. The rural development component in these buffer zones will be kept to the minimum necessary so that they will not become staging areas for migratory flows into protected zones.
 - c. In farm areas and zones being set aside for campesinos, agricultural and rural development projects will be promoted to boost efficiency and productivity, provided they foster rational use of natural resources. Steps will be taken to improve the economic infrastructure in these somewhat smaller areas in line with their producing potential.
 - d. In small built-up areas in larger rural settings, projects will be permitted that will provide more of the physical infrastructure and utilities required for human habitation, with due regard to the fact that some areas from which drug crops are being eradicated are being abandoned because they afford no other viable livelihood.
 - e. The possibility of resettlements of people forced out of protected areas by the eradication effort will be studied.
 - f. In the case of indigenous communities, projects must aim to restore the balance between the traditional economy of native communities and the surrounding market economy, which has been disrupted by the cultivation of illicit crops; strengthen their

institutions, and assist in territorial normalization processes.

H. Economic eligibility criteria

- 3.17 The economic criteria that projects must satisfy to be eligible for funding under the program are tied in to the multiple objectives pursued by the national policy for the regions targeted by the program. The core requirement is that projects must be able to be fitted into operating plans worked out with the PLANTE. Furthermore, only investment projects that include a viable operating and maintenance plan may receive funding; this will be gauged when the project proposal is submitted. The only exception to this rule would be proposals for staffing of existing health care or education infrastructure. And even here, project proposals must include a plan for financing the facility after the program ends.
- 3.18 Once it is ascertained that a project is viable from a strategic and maintenance standpoint, the next step will be an economic appraisal, to make certain that the project would yield an internal rate of return of at least 12%. This requirement is necessary to minimize the risk of supporting investment projects that will not be productive. To simplify the process, no such appraisal will be required for construction projects under US\$250,000 in total. In the case of road upgrading, rehabilitation and maintenance projects, a further requirement will be that the cost not exceed US\$12,000 per kilometer. These thresholds will serve as initial guidelines for project selection, and will be updated during the course of the program based on the experience gained.

I. Local investment projects

- 3.19 Local investment projects will be grouped into packages, in lieu of the traditional system of funding projects one by one. The configuration of the project packages will be based on two essential features: (i) the operating plan (municipal development plan, "life plan" in the case of indigenous groups, or equivalent); and (ii) an agreement between the PLANTE and the local entity, approved by the local Rural Development Council or equivalent. The municipal interlocutor for liaison with the PLANTE will be the mayor. For indigenous-community projects, liaison will be with the council or association of indigenous councils in each region.
- 3.20 The two-year program of cofinanced local investment projects will be carried out by means of an agreement between the DRI Fund, as executing agency for the cofinancing funds, and the eligible entity. Under this agreement, the DRI Fund will undertake to cofinance the program as agreed with the PLANTE and the entity. The entity, in turn, will pledge to satisfy the criteria and conditions agreed to with the PLANTE and the DRI Fund.

- 3.21 Funds under these agreements with local entities will be disbursed through the DRI Fund, following PLANTE guidelines and under its supervision. The local entity will be in charge of tendering and contracting processes, with technical support from the PLANTE where necessary. These processes will be supervised by the DRI Fund and the PLANTE to ensure compliance with Colombian legislation and the specific terms and conditions of the program's Operating Regulations. The local entity, assisted by the PLANTE coordinator, will commission audit (oversight) services for the project, which will submit the reports and data required for the internal evaluation and monitoring system.
- 3.22 FONADE will administer funding for projects in which local entities do not receive cofinancing. It will process PLANTE requests following the procedures set out in the PLANTE-FONADE administration agreement.
- 3.23 The DRI Fund will disburse funds to eligible local entities in the percentage specified in the cofinancing agreement. The entities will allocate these funds according to the approved operating program, adding the necessary counterpart contribution as applicable.
- 3.24 The remaining funds will be disbursed as progress is achieved, measured against the local program using the prescribed monitoring and evaluation indicators. Where applicable, funds for each cofinanced program will be incorporated into the local government budget and deposited in a bank account in the name of the eligible entity or municipality.

J. Procurement

- 3.25 Goods will be purchased and construction contracts awarded in accordance with the procedures set out in Annex B to the loan contract. International competitive bidding will be compulsory for any purchase of goods over US\$350,000 and for construction works over US\$2.5 million. These thresholds have been chosen because procurement items above these levels have elicited bids from foreign suppliers and contractors in similar projects in Colombia. Procurement below these thresholds will be governed by Colombian legislation, which is concordant with the Bank's procedures.

K. Advance of funds

- 3.26 To expedite the workings of the program, and in light of the planned disbursement timetable, it is recommended that up to US\$18 million (20% of the loan funds) be made available as an advance.

L. Financial statements

- 3.27 Annual financial statements on the program are required throughout the disbursement period and must be submitted within 120 days following the end of the fiscal year (December 31). All statements must have been audited by the Office of the Comptroller General of the Republic or by a specialized independent firm acceptable to the Bank.

M. Evaluation and monitoring system

- 3.28 The program's evaluation and monitoring system will be carried out by the management unit in the executing agency (the PLANTE). The PLANTE will hire auditors or overseers for the projects as provided in the program's Operating Regulations, who will submit the reports and data required for the evaluation and monitoring system.
- 3.29 The program will also have external auditors, independent of the PLANTE, to monitor the technical side of rural development activities and environmental performance. These auditors will track progress on the program and make technical recommendations to the Bank and the PLANTE. Apart from their functions of monitoring and formulating recommendations for annual programming meetings, these audit services are to expedite the second phase of disbursements of the Bank's loan, making complete and timely monitoring of the program possible for the government and the Bank. The audits will focus on use of the program funds, from an administrative and financial standpoint; extent and forms of beneficiary participation; population density of environmentally fragile areas in entities that have been the site of program activities; and effectiveness and efficiency of program expenditure.
- 3.30 The program will be supervised by the Bank's Country Office in Colombia, with support from the project team. This will require annual meetings between the PLANTE, DRI Fund, FONADE and the Bank, to be held by the end of November each year. These annual meetings will review reports prepared by the PLANTE and the external auditors; the reports must be distributed at least 10 working days prior to the annual meeting. The purpose of these meetings will be to track progress on the program and work out the operating plan for the next year.
- 3.31 Indicators for use in monitoring and evaluation of the program will be established once baselines have been determined for each municipality, whereupon specific targets will be set. The indicators to be used in gauging the program's progress have already been selected, and are set out in the Logical Framework for the operation.

N. Readiness of the program

- 3.32 The government has prepared this operation using funds of its own and nonreimbursable funding from the Bank, with technical assistance from the Japanese government. Work also was done with programs of the United Nations Drug Control Programme, to learn from those agencies' experience and investment projects they have prepared.
- 3.33 The proposal is being presented to the Committee of the Whole with eight municipal operating programs completed, with well-defined quantitative targets. The PLANTE and the Bank have agreed on a draft set of Operating Regulations and terms of reference for consultants and studies.
- 3.34 Using its own funds and Japanese technical assistance funding, the government will increase the number of municipalities with which the program would operate in the first year, and will complete post-loan-approval processes. Within three months after the loan's approval, the government is to have the PLANTE management support unit in operation; engage independent financial, technical, and environmental audit services for the first year of the program; give legal effect to the Operating Regulations; and complete investment programs for four additional municipalities, bringing to 12 the municipalities with programs approved by the respective local rural development councils or equivalent. The total of 12 municipalities will be representative of the Andean and Amazon regions; they must have signed agreements with the PLANTE and the respective cofinancing agreements with the DRI Fund. Also available will be a final version for execution of projects with indigenous communities, and with a heavy preinvestment component.

IV. INSTITUTIONAL EVALUATION

A. The National Alternative Development Plan

- 4.1 Colombia's National Alternative Development Plan (known by the acronym PLANTE) will coordinate execution of the proposed program. The PLANTE is a program operating out of the Office of the President of the Republic, headed by a Director appointed by the President. The PLANTE began operating in June 1995, but its formal creation as a Presidential Program took effect in March 1996 under Decree 472. The PLANTE does not implement projects directly, but rather fosters geographically focused action on the part of existing institutions and with available funds to rekindle development in zones from which illicit drug crops are being eradicated.
- 4.2 The advisory committee of the PLANTE coordinates its operations at the most senior institutional level. Its members are the Director of the Administrative Department of the Office of the President of the Republic, the Minister of Agriculture and Rural Development, the Minister of Justice, the Minister of the Environment, the Director of the National Planning Department, the National Director of the Narcotics Bureau, the Director of the National Police, the Presidential Advisor on Social Policy, and the Executive Manager of the Social Solidarity Network. The advisory committee is aided by a technical committee made up of representatives from entities engaged in issues of importance to alternative development, such as the DRI Fund and the Colombian Agricultural Reform Administration (INCORA).
- 4.3 The PLANTE's financial plan for the period 1995-1998 calls for US\$300 million in funding, of which US\$150 million will be provided by Colombian sources. The PLANTE simply coordinates and promotes activities by agencies and entities using their own budgets. In 1995, it helped direct resources under other programs to some 7,000 families that signed up voluntarily for the alternative development program.
- 4.4 For 1996, the PLANTE was given a small budget of its own totaling US\$7.6 million to bolster other programs, in addition to the US\$30 million provided for five departments targeted by the PLANTE by financing facilities or bodies with mandates in alternative development zones and issues (such as the Social Investment Fund, DRI Fund, Urban Development Institute, and INCORA), and US\$65.3 million in marketing and lending operations (IDEMA and FINAGRO-Caja Agraria, including US\$12.1 million for subsidies).
- 4.5 Although the PLANTE has a staff of 64, including regional coordinators, it will require substantial strengthening in order to effectively coordinate the execution of this program, to be able to assist municipalities, continually monitor the program and prepare

the periodic reviews with the Bank. To keep from creating a permanent bureaucracy for this purpose, the PLANTE will be bolstered by the technical management unit discussed in chapter III of this proposal.

B. Cofinancing Facility for Rural Investment

- 4.6 The Cofinancing Facility for Rural Investment (DRI Fund), created in 1976, now has the status of "national agency" with autonomous administration and its own budget. The Fund had to reconfigure its functions as a result of changes introduced in the 1991 Constitution; specifically, its regional offices were dismantled and it was folded into the National Cofinancing System created under Decree 2132/92.
- 4.7 The DRI Fund is carrying through a rural development program financed by the World Bank and the IDB, with attention to sectoral, income, social, gender, and community involvement areas. This program transfers grant funding to cofinance projects of local governments. The funds must be spent on goods and services associated with productive projects in rural areas - including those that are home to indigenous peoples - to reduce poverty levels and consolidate the country's political administration system. Central to this program is the participation of cofinancing bodies, executing agencies and the communities helped by the projects. The participatory process itself is coordinated through local rural development councils (Law 101 of 1993) or other bodies through which consensuses can be built in subnational political entities for identifying and ranking projects included in municipal or departmental plans.
- 4.8 The target population of the DRI Fund are local, departmental or other subnational political entities, campesino organizations, farming communities and rural communities generally - especially those whose economy is based on tenant farming or very small farmsteads, indigenous communities or settlement zones. Though any entity of the aforementioned kind in Colombia is eligible for cofinancing under DRI Fund programs, in practice the Fund targets areas with the highest levels of poverty and weakest investment capabilities.
- 4.9 In preparation for a new phase of its program, the DRI Fund is mapping out a restructuring designed to remedy certain operational shortcomings. Chief among these are cumbersome mechanisms and inflexible conditions for prospective beneficiaries to gain access to cofinancing, because the program runs under the framework of the National Cofinancing System; the inefficient process whereby agreements are negotiated, and delays in disbursing funds to eligible subnational entities; weak communication channels for sharing information between the Fund's various bodies and offices; lackluster results of the policy to provide institutional strengthening for local governments and communities benefiting

under the program; and, lastly, no opportunities for continuing training programs for the Fund's technical officers.

- 4.10 The Fund's sole source of funding are national budget allocations. Aggregate appropriations from 1991 to 1993 were US\$119 million, with a cumulative execution rate of 67%. During budget years 1991 through 1995, the DRI Fund provided cofinancing for 10,868 projects (3,616 in 1995).
- 4.11 In disbursing program monies to eligible entities, the DRI Fund will draw upon its experience and expertise and operate on the basis of agreements with municipalities and indigenous communities, as is its standard practice. However, its usual procedures will be streamlined, since (i) the country's budget laws have brought together in one facility - the DRI Fund itself - all of the monies available for subnational and other eligible entities in PLANTE zones through the National Cofinancing System; and (ii) special arrangements have been adopted whereby funds can be disbursed to such entities under an agreement, the requirement of prior departmental review and approval being waived. Nevertheless, the DRI Fund needs strengthening to perform its role in the proposed program. Personnel added for this purpose will receive special indoctrination to familiarize them with the program's rationale, the Operating Regulations and, generally, the rules and procedures governing the program.

C. Fondo Financiero de Proyectos de Desarrollo (FONADE)

- 4.12 The Development Projects Fund (FONADE) was created by Decree 3068 of December 16, 1968, as a national public agency. Its specific mandate is to promote, finance and administer public- and private-sector preinvestment studies, dovetailing its sectoral objectives and geographic coverage with the policies and priorities in each national administration's development plans. In December 1992, by virtue of Decree 2168, it became a State commercial and industrial corporation, with authority to operate as a financing agency.
- 4.13 In its new form of State commercial and industrial corporation, FONADE is attached to the National Planning Department and is overseen by the Office of Banking Supervision. State commercial and industrial corporations are agencies created or authorized by law which engage in industrial or commercial activities, operating under private law except as otherwise provided in the law. They have full legal status, administrative autonomy and separate capital, all of it in the form of common public funds, assets and property, the product of or returns on same, and the proceeds of taxes and other imposts and earmarked levies.
- 4.14 FONADE has as its principal purpose to act as an agent in the development-project cycle by financing and managing studies, and by coordinating and funding the preparatory phase of development projects. Its basic functions are to conclude agreements for

financing and discount operations to produce studies and carry out development projects; transact credit operations in Colombia and abroad, subject to specific rules; mobilize domestic savings by issuing bonds or executing trust, guarantee, agency or payment contracts for this purpose; sign trust agreements to administer funds made available by third parties to finance programs in pursuit of their corporate purpose; provide surety and guarantees for loans to finance project preparation, and project management arrangements, according to priorities and conditions determined by its board of directors; compile, update, and provide access to the National Consultants Roster; and conclude contracts to promote scientific, technological and environmental activities, and other contracts in pursuit of its purpose.

- 4.15 The governing authority of FONADE is its board of directors, whose members are the Director of the National Planning Department, as chairman, the Deputy Director of the National Planning Department, and FONADE's Manager and General Counsel. FONADE is currently working in 270 municipalities, executing projects involving development plans, institutional development, education sector and health plans, the beneficiary targeting system (SISBEN), productive projects, and meetings with investors to promote projects. FONADE provides preinvestment assistance for infrastructure projects for water and basic sanitation, the environment, and roads, and for institutional strengthening.
- 4.16 According to its comparative balance sheet at August 31, 1996, FONADE had a total net worth of US\$48 million, with assets equivalent to US\$66 million and a surplus of US\$2 million.
- 4.17 FONADE has the expertise required to administer funds for the type of preinvestment consulting contracts required under this program, but does not have enough staff to assure its smooth operation. Therefore, personnel will be hired for this purpose and given special indoctrination to familiarize them with the program's rationale and Operating Regulations and, generally, with the rules and procedures governing the program.

V. FEASIBILITY AND RISKS

A. Feasibility

1. Engineering feasibility

- 5.1 The projects will be feasible from an engineering standpoint because, as the samples examined show, they are very simple in nature and are designed in accordance with standard practices. An additional measure of technical feasibility is ensured by the prospective beneficiaries' interest and their knowledge of local priorities. The program has been structured around projects requested by the local communities.
- 5.2 The process used to analyze projects for the first period of operation, adjusting and screening them in line with sustainable plans for eradication zones, will assure that works to be financed incorporate the best possible technical options for the conditions under which they are to operate. To prepare for project programming and execution in the subsequent years, the program will set in place a central management unit, which will screen all technical plans, with strong support from consultants at the local level, to review, flesh out, analyze, and propose projects, as packages forming part of a plan.
- 5.3 The review of a sample of possible projects for year 1 of the program led to the rescaling of some projects and the discarding of others in sites that are not concordant with the PLANTE's eradication objectives or are not environmentally viable. There were eight municipalities for which it was possible to complete the exercise of matching large reviewed project pipelines against sustainability requirements and the projects' fit with the general alternative development rationale.
- 5.4 Year 1 of the program includes viable projects for 12 municipalities. It also includes the reviewed list of PLANTE indigenous-community projects plus numerous prefeasibility activities. Operating programs for subsequent years will follow the same method of identification, formulation, screening, incorporation into local government plans, and ex ante appraisal.

2. Institutional viability

- 5.5 The viability of the institutional arrangements proposed is ensured by the simple program implementation design. The management capabilities of the PLANTE and of the two agencies through which disbursements will be channeled (DRI Fund and FONADE) will be strengthened by services contracted for the life of the program. This support is essential; the PLANTE, in particular, could not carry out the program without reinforcement of this sort.

Accordingly, the Bank will closely monitor the hiring of these services and the program's management performance.

- 5.6 Cofinancing monies will be disbursed to local government entities through the DRI Fund, under PLANTE guidelines and supervision. The budgets that would otherwise have been executed by each of the agencies in the National Cofinancing System in the eradication areas have been moved over to the DRI Fund. In addition, it has been decided that this Fund will operate under a special arrangements in which prior departmental approval will not be required, thereby speeding up project execution. The institutional arrangements envisaged for the program are therefore satisfactory, especially when considered in conjunction with the proposed reinforcement of local governments and indigenous communities. By the same token, preinvestment activities will be carried out by FONADE, which has experience in developing contracts in this area and will, moreover, have support and guidance from a central management group to coordinate the program.

3. Financial feasibility

- 5.7 The program is financially feasible, since the needed budget resources and local counterpart funds will be forthcoming. However, in light of constraints associated with the government's annual cash management program, actual budget appropriations could severely limit availability of the funds necessary. In their communications with the Bank, PLANTE authorities have indicated that because of the high priority attached to the present operation, it is hoped that the actual percentage appropriation will be higher than was received by the cofinancing system in the past which, in the best case, stood at just 43% of the amount budgeted.
- 5.8 The likelihood that municipalities will be able to come up with the necessary cofinancing resources (5% of the total) is strong, since the projects are relatively small, are generated through community consensus, and are grouped into cohesive plans. The planned support for the local level will make for consistency in the program, including long-term strengthening and the requirement that projects be capable of generating sufficient funds to defray the cost of operating and maintaining the new infrastructure.

4. Economic feasibility

- 5.9 The economic viability of prospective year 1 projects was ascertained by application of criteria being prescribed in the Operating Regulations.
- 5.10 The project team reviewed a list of 162 projects in 19 PLANTE municipalities and 9 indigenous communities. Over 90% of these were for infrastructure (primarily roads and electricity). The projects examined cover a total population of 589,000 and would represent an investment of over US\$42 million (US\$71 per capita).

- 5.11 To begin with the road projects, these works are essential if an alternative economic base is to be created, to the extent that they would comprise a network connecting municipalities and departments, which will be one of the core eligibility requirements. The illegal crops being eradicated have a high unit value and a huge unit profit margin, whereas the norm in agriculture is to have to haul tons of product with slim unit margins. Making production areas more accessible – and accessible more times of the year – and lowering operating and maintenance costs will yield internal rates of return varying from 14% to 28%. These can drop to 10%-12% if investment costs rise by 30% or if reductions in operating costs were 20% less than anticipated.
- 5.12 The road projects examined were especially sensitive to changes in operating costs or demand growth when their per-kilometer cost exceeded US\$12,000. Accordingly, proposals with unit costs above that figure will have to be reviewed closely, as was done for the eight municipalities examined.
- 5.13 Most of the energy projects reviewed involve stringing transmission lines over moderate distances, with user connection costs below US\$850 and long-run marginal costs ranging from US\$7 to US\$80/kWh, which is deemed reasonable. Potentially attractive projects such as mini-stations or solar plants are more problematic: their long-run marginal costs easily exceed US\$100/kWh, and can top US\$500/kWh in the case of solar energy. Such ventures would only be viable where it was prohibitively expensive to expand existing networks, and they thus would have to be justified on other than economic grounds or by estimating willingness to pay (of which there are strong indications).
- 5.14 Other infrastructure projects (particularly water and basic sanitation) are justified on a least-cost basis, according to the DRI Fund's experience in Colombia. Here too there are strong indications that communities are willing to pay and to guarantee the operation and maintenance of systems, which will be made a requirement in the respective contracts and financing arrangements.

5. Environmental viability

- 5.15 The program will benefit the environment by fostering the sustainable use of natural resources. Population pressures will be eased in areas with fragile soils, and the restoration of national parks and buffer zones that had been taken over by drug crop operations will be expedited.
- 5.16 While the program itself will be environmentally beneficial, the net effect of growing and then eradicating drug crops is debatable. On the one hand are the adverse effects of the massive introduction of illicit growing operations into environmentally sensitive areas, with all of the environmental problems that follow in its wake. On the other hand, small farmers who grow these crops eke out a living

with minimal cleared acreage. And unless eradication campaigns are nationwide and sustained, a program deployed in one area may simply trigger migrations into equally sensitive areas.

B. Benefits

- 5.17 Although the assessment of a sample of projects shows that they yield acceptable economic returns, the chief benefits of the program lie in its addressing a social emergency in areas resistant to governance. Specifically, it will reduce the risk that campesinos in eradication areas might go back to growing the illicit crops because they have no viable lawful alternative or because the State is present only in a policing and interdiction capacity.
- 5.18 The proposed program is consistent with the Bank's strategy for Colombia. In accordance with the country paper for Colombia (GN-1886), two of the three elements of this strategy are particularly relevant for the program: (i) support for direct investment in the social sectors as a means of alleviating poverty and raising the standard of living of the population; and (ii) strengthening capacity in public institutions in order to make public spending more efficient. This program targets population groups which at present have little stake in the mainstream economy, and bolsters governance and investment efficiency in marginalized areas. The program is explicitly recognized in the country paper, which refers to the importance of support for decentralization and bolstering of the State's presence in areas of illegal activity (paragraph 4.15) and to Bank support for alternative development (paragraph 4.24).
- 5.19 The program will benefit rural dwellers in municipalities from which illicit crops are being eradicated. In particular, it will benefit at least 30,000 families of small farmers with up to three hectares each under drug crops, along with other campesinos who are not involved in this activity but reside in these areas. The pre-eradication population of these regions includes a floating population of day laborers and tradespeople involved in some capacity in the drug trade, who will not be beneficiaries of the program.
- 5.20 The municipalities being targeted are in rural areas, and are among Colombia's poorest. In the overwhelming majority (92%) of them, only 40% of the population has access to running water, 34% to electricity, and 19% to sewers and basic sanitation. Particular support is planned for indigenous communities, which have been especially affected by illegal crop growing activities.

C. Risks

- 5.21 Risk that crops will not be eradicated. If economic conditions for illicit substances remain attractive or the government is unable to

sustain the eradication effort, attempts to rebuild social capital and reverse environmental damage will be to little avail. And if the eradication effort is less than all-out, it could end up displacing illegal activities toward other equally environmentally vulnerable locations. At any event, the program will make a useful contribution to local infrastructure, without aggravating the problem of environmentally-unsustainable land settlement. The program will be carried through in two phases: funding for the second phase will not be committed until it has been shown that a substantial portion of the loan proceeds have been spent for purposes concordant with the program's rationale.

- 5.22 Risks associated with program execution. Project completion could be delayed, and investment projects might not be completed, if local entities are unable to generate investment proposals, if central agencies are slow to respond, or if too much red tape is created. At the local level, municipalities and indigenous entities will be helped to prepare plans and projects. At the central level, the PLANTE has no project execution experience. All cofinancing funds have been consolidated in the DRI Fund, and will be disbursed under agreements with the local governments and indigenous authorities, on the basis of prior accords with the PLANTE, which will coordinate and supervise the process. The PLANTE will be given a management unit and will provide feedback into the execution process through independent audit reports. To streamline the processing of project proposals, funding will be provided not for individual projects but for integrated packages of projects. Lastly, the requirement of prior clearance of projects by intermediate bodies at the departmental level has been done away with. However, the annual cash management program restrictions remain in force, and agencies are being able to expend far less than their original budgets.
- 5.23 Risks associated with development, agricultural, or land-use policies that induce campesinos to move onto land which cannot sustain agriculture. Even if drug crops were to be completely eradicated, it is still possible that the process of haphazard encroachment onto environmentally sensitive land might continue. Even if this did not trigger the massive flows of settlers that illegal crop cultivation attracted, it would still harm the soil and wildlife – the more so given the meager production potential of such areas in the first place.
- 5.24 Risk of neglecting other regions and population groups. The focus on emergency support in PLANTE zones could divert attention from other longstanding rural development concerns, with the risk of neglecting other areas which are no better off in terms of income or meeting basic needs. The Bank is considering a new stage of support for rural development.

**LOGICAL FRAMEWORK
ALTERNATIVE DEVELOPMENT PROGRAM**

OBJECTIVES	INDICATORS <u>1/</u>	MEANS OF VERIFICATION	ASSUMPTIONS
GENERAL Help in the effective eradication of illicit crops in an environmentally, financially and economically sustainable way			Government's eradication policies do not push the population toward hitherto unfarmed areas
PROPOSE (goal of projects) Fostering of sustainable productive and social development in municipalities from which drug crops are being eradicated	X% of PLANTE municipalities have implemented their development plans by the time the program ends X% of the 30,000 target families have found viable legitimate alternatives by the time the program ends		Government continues or steps up policing and interdiction efforts International conditions favoring cultivation of illicit crops do not prevail Government's eradication policy does not push the population toward hitherto unfarmed areas
OBJECTS: Institution-strengthening and community development Technology and production Restoration of the environment Rural development infrastructure Resettlement Support for indigenous peoples			
PROJECT 1 Institution-strengthening and community development			
PROPOSE Strengthen municipal management and administrative capacity and tax administration	Tax revenues and level of services offered by the municipality have risen from X to Y by year Z Execution period for projects has been reduced from X to Y weeks by year Z	Municipal budgets Progress reports	

OBJECTIVES	INDICATORS <u>1/</u>	MEANS OF VERIFICATION	ASSUMPTIONS
COMPONENTS Municipalities trained and with technically viable projects ready for financing by the PLANTE and National Cofinancing System Municipal tax revenues increased Execution of investment programs improved	Number of projects generated and financed with own resources or funding from the System increased by X% by the end of the program Municipally generated revenues increased by X% by end of program Funds sufficient to finance X% of infrastructure operating and maintenance costs Funds sufficient to finance X% of recurring expenses Within planned resources, execution period of projects is reduced by X%	Municipal development plan Municipal budgets Progress reports Progress reports and audits	Problems overcome: inability of local authorities to generate proposals, slow response on the part of central agencies, and excessive red tape Emergency arrangements and operations under this program do not undermine the institutional status of the National Cofinancing System

PROJECT 2
Technology and production

PURPOSE Local economies have been restructured	X% of target families have found viable legitimate alternatives	Reports from UMATA	The Church and other civil society institutions support the reorganization of agriculture and apply moral pressure on parties affected
COMPONENTS Production technologies improved and new crops introduced Pilot projects in community productive investments have been financed and carried out Marketing mechanisms have been established at the regional and national level and are in operation	Use of land planted to legitimate crops increased by X% Area assisted by the project equals X hectares Disbursements of funds established for this purpose Markets (X) have been established and are in operation with regional and national connections by the completion of the program	Progress reports Progress reports	Rational use of natural resources is achieved Technologies introduced are appropriate and accepted by producers Marketing system for agricultural inputs has been established Production and quality are standardized; products traded on commodity exchange

OBJECTIVES	INDICATORS <u>1/</u>	MEANS OF VERIFICATION	ASSUMPTIONS
PROJECT 3 Restoration of the environment			
PURPOSE <p>Populations and economic activities have been reduced in environmental reserves and buffer zones, and the latter have been restored</p>	<p>Population in environmental reserves reduced to zero for all practical purposes. Halt to all farming activities</p> <p>Population in buffer zones is reduced to X_i based on carrying capacity of each zone. Productive activities are very limited and environmentally benign (as defined by environmental studies for this operation) X% of natural ground cover reestablished after Y years</p>	<p>External audits of the program</p>	<p>General conditions are not such as to favor migration to environmentally sensitive zones</p>
COMPONENTS <p>Land-use planning is being carried out</p> <p>Measures adopted for the protection and management of natural resources</p>	<p>Five land-use management plans (covering 25 municipalities) have been prepared and implemented by the end of the program</p> <p>Number of hectares restored and under sustainable management rises from X to Y by year Z</p>	<p>Progress report</p> <p>Progress reports</p>	<p>The eradication process continues to displace people from environmental reserves and buffer zones</p> <p>Land available for resettlement within PLANTE municipalities and elsewhere</p>
PROJECT 4 Rural development infrastructure			
PURPOSE <p>Minimum road infrastructure and services required as catalyst for economic and social development of the municipality has been provided</p>	<p>Time required to reach markets and social services in municipal seat is reduced by X%</p> <p>Running water, basic sanitation and electricity coverage extended to X% of the population by the end of program Index of unmet basic needs reduced to X% by the end of program</p>	<p>Progress reports</p>	

OBJECTIVES	INDICATORS 1/	MEANS OF VERIFICATION	ASSUMPTIONS
COMPONENTS 1. Roads have been repaired and maintained for year-round driving 2. Water, basic sanitation and electricity services have been built and are being provided under a self-sustaining institutional system	Number of km passable year-round increased from X in 1996 to Y in 2000 Water, sanitation and electricity services in villages and municipalities under the program available to X% of population by the time the program ends	Progress reports Progress reports	Projects not being impeded by guerrilla activity or drug trafficking Past failures and delays by institutions in carrying out projects in the program areas have been overcome No guerrilla or drug trafficker interference with infrastructure works
PROJECT 5			
Resettlement projects			
PURPOSE Residents of environmentally sensitive and special management areas have been resettled in areas with sufficient carrying capacity within the municipality or elsewhere	No or very few people (to be determined in each case) living in environmentally sensitive and special management areas, respectively	Progress reports	
COMPONENTS 1. Population movements, their causes and preferences have been studied and preinvestment work commissioned 2. Investments have been made in off-farm infrastructure for resettlements	X number of reports from consultants Value of investments up to \$X	Reports Expense documents and progress reports	Eradication process continues and illicit crop growing is not a viable option Affected campesinos do not migrate to even more environmentally sensitive areas Population movements occur spontaneously Individuals settle in areas with sufficient carrying capacity

OBJECTIVES	INDICATORS <u>1/</u>	MEANS OF VERIFICATION	ASSUMPTIONS
PROJECT 6 Support for indigenous communities			
PURPOSE "plans" of each native community have been designed and financing provided			
COMPONENTS Support for normalization of territories Traditional economies have been strengthened Legal systems strengthened and in operation	X native reserves demarcated Acreage being used for legitimate crops increased from X to Y by year Z Legal codes have been compiled for X indigenous groups	Progress reports Progress reports Compilations of laws published	

Quantitative indicators under each operating plan to be determined.

ALTERNATIVE DEVELOPMENT PROGRAM (CO-0196) Tentative procurement plan					
MAIN PROCUREMENT ITEMS	IDB (%)	METHOD (*)	PREQUALIFICATION	US\$000	PUBLICATION
CONSULTING SERVICES					
1. Technical audit services (4 contracts, total US\$400,000)	0	LCO	No	100	1st half 1997 and 2nd half 97,98,99
2. Environmental audit services (4 contracts, total US\$400,000)	0	LCO	No	100	1st half 1997 and 2nd half 97,98,99
3. Land-use plans (10 contracts, total US\$5 million)	60	ICO	Yes	500	1st and 2nd half 1997
4. Management and legal support, local governments and indi- genous communities (4 con- tracts, total US\$800,000)	60	ICO	Yes	200	1st half 1997
CONSTRUCTION AND IMPROVEMENTS (various projects in each category, to be determined annually)					
1. Local roads rehabilitation (over 40 lots) Estimated total US\$41 million	60	LCB	Yes	100 to 1,000	1st half each year 1997-2000
2. Erection of power lines (over 20 lots) Estimated total US\$13 million	60	LCB	Yes	100 to 1,000	1st half each year 1997-2000
3. Water supply and basic sanita- tion (over 20 lots) Estimated total US\$13 million	60	LCB	Yes	100 to 1,000	1st half each year 1997-2000
<p>(*) ICO international call for offers LCB local call for bids LCO local call for offers</p> <p>International competitive bidding will be required for:</p> <ul style="list-style-type: none"> consulting services over US\$200,000 goods over US\$350,000 construction work over US\$2.5 million <p>Local competitive bidding will be required for equipment and works below the aforementioned thresholds but over US\$500,000. Under US\$500,000, an open call for offers must be conducted eliciting bids from at least three qualified suppliers. The process will be conducted by a Procurement Committee set up for the purpose.</p> <p>Consulting services costing less over \$50,000 but less than US\$200,000 will require local competitive bidding, likewise with a Procurement Committee. Construction projects, equipment, or consulting contracts under US\$50,000 may be arranged through limited calls for offers, under the oversight of the respective Procurement Committee.</p>					

ANNEX III

ALTERNATIVE DEVELOPMENT PROGRAM (CO-0196)

Phase I goals. Estimation of goals to be attained for accessing phase II financing (*)

	Total investment (US\$1,000)	Goal
MAIN RURAL DEVELOPMENT		
INFRASTRUCTURE (1):		
Road rehabilitation	12,000	800 Kms.
Electricity	12,000 (2)	1,000 families
Water and Sanitation	3,000	300 families (3)
MAIN STUDIES		
a. 3 land planning studies covering 5 major parks areas and 15 municipalities	1,200	
b. fiscal resource base proposals for 12 municipalities	600	
c. preinvestments	1,200	
d. management support to local governments and legal support to amerindian communities	800	

(*) Phase II resources may only be committed after US\$35 million from Bank financing have been disbursed, and US\$22 of said financing have been executed and verified.

The table presents an estimate of minimum total (Bank and local) financed execution that could be completed during phase I, which is expected to require less than two years.

Bank disbursements goal for two years is about US\$39 million.

(1) For municipalities and indian communities.

(2) The unit cost is likely to reach about US\$1,200 as less dense areas are covered.

(3) A major preinvestment effort is required to generate Water and Sanitation projects.

PROPOSED RESOLUTION

COLOMBIA. LOAN No. /OC-CO
ALTERNATIVE DEVELOPMENT PROGRAM

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Colombia, as Borrower, for the purpose of granting it a financing to cooperate in the execution of an alternative development program. Such financing will be for the amount of up to US\$90,000,000 from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Terms and Conditions" and "Special Contractual Conditions" of the Executive Summary of the Loan Proposal.