



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 12-Nov-2018 | Report No: PIDISDSC25297

**BASIC INFORMATION****A. Basic Project Data**

Country Paraguay	Project ID P168153	Parent Project ID (if any)	Project Name Productive Alliances Project (P168153)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date Jun 03, 2019	Estimated Board Date Oct 08, 2019	Practice Area (Lead) Agriculture
Financing Instrument Investment Project Financing	Borrower(s) Republic of Paraguay	Implementing Agency Ministry of Agriculture and Livestock Production	

Proposed Development Objective(s)

To enhance access to markets and adoption of climate risk management approaches by project beneficiaries in a sustainable manner.

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	120.00
Total Financing	120.00
of which IBRD/IDA	100.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	100.00
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Non-World Bank Group Financing

Counterpart Funding	20.00
Municipalities of Borrowing Country	1.00
Local Farmer Organizations	19.00



Environmental and Social Risk Classification

Substantial

Concept Review Decision

Track I-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Over the past decade, the expansion of export-oriented agriculture production has significantly contributed to GDP growth and poverty alleviation.** During the period 2004 and 2016, Paraguay's average growth was 4.7 percent per year, with high volatility. Key drivers of growth were the agriculture and hydroelectric power sectors. Crops alone contributed to one-quarter of total growth, with expanded agriculture (comprising backward and forward linkages) contributing a higher share to overall GDP growth. Agricultural products constitute the bulk of Paraguay's exports. There is a strong duality in the sector with a significant share comprised of a lagging subsistence farming component, but in parallel there is a vibrant and substantial commercially-oriented agricultural industry segment (individuals, cooperatives and corporations), which engage in value chains such as soybean and meat. Capitalized agriculture uses about 70 percent of the country's productive area. Since 2003, the boom in export-oriented production has contributed to a significant fall of national poverty rates: 45 to 20 percent in urban areas, and 58 to 36 percent in rural areas. These prosperous years have also resulted in an increase in income for the bottom 40 percent and in the expansion of the middle class, which currently comprises 38 percent of Paraguay's population.

2. **However, a large rural population accompanied by extensive rural poverty are among the salient features of Paraguay.** In 2017 Paraguay's population was estimated at 7 million inhabitants, with 40 percent of the population – roughly 2.8 million-- living in rural areas. This represents the highest percentage of rural population of any country in South America, and among the highest in all of Latin America. About 97 percent of Paraguay's population live in the Eastern Region, roughly 40 percent of the total territory, whereas only 3 percent of the population reside in the Western Region (Chaco). Most of the total poor live in rural areas, with a fair share engaging in agriculture-related activities, with informality as the hallmark.

3. **To build on the gains during the past decade in terms of growth and poverty alleviation, Paraguay must focus on creating sustainable economic opportunities for the poor and vulnerable population.** Approximately 60 percent of Paraguay's population are considered either poor or vulnerable, that is, they are at risk of falling back into poverty. Indigenous peoples, slightly under 116,000 inhabitants –a 2 percent of the total Paraguayan population, are one of the most vulnerable population groups. Indigenous peoples are essentially rural and have very limited access to basic infrastructure and services. For instance, not more than 6 percent of indigenous households are connected to a supply system of potable water. Among indigenous groups, monolingual Guaraní speakers are particularly disadvantaged. Another important vulnerable group is made up of subsistence producers and small or medium-sized producers in transition to commercial schemes. This group forms the end of a spectrum of farmers, which as noted above, at the



other end, includes the highly capitalized farmers and corporations. This group of producers who are primarily poor and vulnerable, comprise at least 200,000 households; they are particularly affected by the lack of access to markets, finance, technology, land, human capital, and connectivity, and are harshly impacted by extreme weather events and the risks posed by climate change. They have not succeeded in keeping up with the pace of modernization of Paraguay's agriculture, led by the large farmers and corporations. A third group that is considered vulnerable is the youth. Half of the young people that neither study nor work reside in rural areas, with many of them performing unpaid family labor in agriculture-based activities gender. Despite the progress made in Paraguay in recent years, creating economic opportunities for these groups is an unfinished agenda. Efforts must focus on improving incomes and reducing vulnerability through creating conditions to enable opportunities for self-employment and access to jobs, which are indispensable for reducing poverty in Paraguay.

4. **Paraguay enjoys many innate advantages which provide it with a great potential for driving pro-poor growth through the development of a resilient and responsible agro-industrial sector. To do so however, it must overcome the inter-linked challenges of creating economic opportunities while conserving its natural endowments and improving resilience to climate change.** Recent growth in Paraguay has taken a toll on its natural resource base. For example, logging and clearing land for crops, cattle ranching, and charcoal/biomass have resulted in extensive forest degradation and deforestation. Combined with lack of planning around soil and water resources management, this is contributing to increasing the vulnerability to extreme weather events. It is critical that the expansion of agro-industrial productive activities and the creation of jobs go hand in hand with sound management of Paraguay's rich natural capital comprising, fertile soils, abundant water, and pastures and forest resources; in addition, the enhancement of its capacity to develop and implement a strategy for integrated management of climate change risks are all keys to securing the basis of long term growth and development for the generations to come.

Sectoral and Institutional Context

5. **The bulk of the rural poor and vulnerable population, a good part of which are indigenous peoples, rely on agriculture to make a living.** In 2017, 76 percent of households in rural areas were engaged in family farming or small, informal agri-based activities, individually or in an organized way. If looking only at indigenous peoples, 71 percent of households rely on agriculture along with forestry, hunting and freshwater fishing. The impressive growth of capitalized agriculture has not translated into significant benefits for smallholders, who are left far behind in terms of per capita income and other socio-economic indicators, even when compared to rural households that do not rely on agriculture. Such subsistence and transition producers tend to combine agriculture with multiple sources of income such as off-farm labor, migration and remittances as a coping mechanism; but, on-farm production and associate income constitutes a key source of income which is critical for overall sustenance of these households. In addition, their capacity to mitigate against and adapt to climate risks is extremely limited. In 2011 agricultural households in rural areas were found to be more than twice as likely to report a negative shock than non-agricultural households. Exposure to climate or other shocks can push vulnerable households back to or further into poverty since the economic gains in years with good sales can be drawn down with just one season of severe drought .

6. **Global experience demonstrates that building resilience against natural disasters and climate change, integrating value addition opportunities and removal of barriers to accessing markets for agriculture creates economic opportunities for the rural poor and vulnerable population.** Recent evidence in Paraguay confirms that vulnerable rural inhabitants can lift themselves out of poverty and begin to prosper when they receive assistance in accessing markets and technology. It is the case of about 25,000 households who have benefited from the Sustainable Rural Development Project (PRODERS, P088799). By selling their surpluses in open-air markets or through farm-gate



intermediaries, subsistence and transition producers have significantly enhanced their agricultural earnings and half of them were able to rise above the poverty threshold, according to the measurement of June 2018 in relation to the baseline.

7. **There is untapped potential to enhance outcomes through linkages with formal supply chains, to enable transition of subsistence and transition producers toward greater value addition.** Paraguay's food system has formal supply chains with larger potential, such as organic yerba mate for export, horticulture for supermarket, and nutrition-rich grains and beans as inputs for processed foods. Empirical experience in Paraguay indicates, however, that multiple barriers prevent rural producers from becoming providers in more modern chains, especially due to the lack of critical assets, infrastructure, knowhow and/or organization. In this regard, women find it particularly difficult to access financial services and technology. Only 30 percent of the credits issued by the Enabling Agricultural Credit Office (in Spanish "Crédito Agrícola de Habilitación") and 5 percent in the case of the Livestock Fund (in Spanish "Fondo Ganadero") are assigned to women. It is almost universally challenging for smallholders to meet demand requirements, including supplying consistent quantities of quality goods that comply with sanitary and phytosanitary standards and are delivered on time.

8. **Fostering sustainable and inclusive value chain integration has become a priority for the current administration.** The National Development Plan of Paraguay (2014-2030) seeks to shift the overarching orientation of the national economy towards a knowledge-based approach, with diversified and competitive sectors, and increased technology adoption. Creating opportunities for the most vulnerable population groups and reducing inequalities are essential elements of the Plan. Building on the same in 2016, Paraguay submitted its Intended Nationally Determined Contribution (INDC) to the United Nations Framework Convention on Climate Change. Paraguay's INDC identifies agriculture, forestry, land use and land use change as strategic sectors for adaptation and mitigation actions. More recently, the administration of President Abdo, who took office in August 2018, has committed to take family farming to the next level. To do so, the Government is promoting technology adoption and long-lasting linkages with competitive markets, so that producers improve their income in the short and medium-term and acquire economic and climate resilience in the long term.

9. **The sectoral agenda is led by the Ministry of Agriculture and Livestock Production in partnerships with its decentralized institutions.** The Ministry of Agriculture and Livestock Production (MAL) focuses on producers, for whom agriculture represents a critical source of income (see beneficiaries for a more specific classification). It is responsible for the sectorial policy and is at the helm of a set of decentralized sectoral institutions such as the Paraguayan Institute for Agricultural Technology (IPTA, in Spanish "Instituto Paraguayo de Tecnología Agraria"), the National Service for Quality and Safety in Vegetables and Seeds (SENAVE, in Spanish "Servicio Nacional de Calidad y Sanidad Vegetal y de Semillas"), and National Service for Animal Quality and Health (SENACSA, for "Servicio Nacional de Calidad y Salud Animal"), and the aforementioned Enabling Agricultural Credit Office. To fulfill its mandate, the MAL not only formulates the national policy, but also carries out projects at the grassroot level with finance of the International Fund for Agriculture and the Interamerican Bank for Development.

Relationship to CPF

10. The Concept Note has been drafted at the time of preparation of the Country Partnership Framework (CPF) for the period FY19-23. By appraisal of the project, the CPF will have been approved by the World Bank Board of Directors.



11. The Strategic Country Diagnostic (SCD) completed in June 2018 flagged the following three structural challenges for Paraguay: (i) concentration of inputs, production, exports, income and political influence; (ii) informality of production, labor, land and trade; and (iii) inefficient provision of public services. To address them in the CPF, the SCD proposed four policy priority areas: (i) accountable institutions, the rule of law, and business environment; (ii) quality of public services; (iii) natural wealth management; and (iv) human capital. The proposed project is mainly aligned with policy areas (i) and (ii).

C. Proposed Development Objective(s)

To enhance access to markets and adoption of climate risk management approaches by project beneficiaries in a sustainable manner.

Key Results (From PCN)

Increase in the volume of sales of project beneficiaries, disaggregated by gender, youth, and Indigenous (“access to market indicator”);

Percentage of project beneficiaries (producers, cooperatives and agro-enterprises) in operation 1 year after the completion of the investment subproject (“sustainable access to market indicator”);

Number of beneficiaries adopting climate smart practices promoted by the project, disaggregated by, among others, gender, youth, and ethnicity (“access to climate risk management approaches indicator”).

D. Concept Description

12. **The project will contribute to creating long-term economic opportunities for the rural poor and vulnerable population by applying a two-fold approach:** i) intervene at the grass-roots level via capacity building and subprojects (components 1a and 2a/b) focused on improving access to markets and resilience to extreme weather events and climate change; and ii) improve critical institutions, systems, and infrastructure (component 1b and 2c). In the short and medium term, the project will put into operation an inclusive agribusiness model: productive alliances. Producers will enhance their income-generating capacity by becoming more engaged in business activities, while incorporating more climate resilient technologies and approaches. In the long term the project will spark the creation of both on-farm and off-farms jobs and strengthen resilience.

13. **The project will have national coverage.** Because Paraguay is a diverse country, activities will be tailored to fit the diverse ecological and productive contexts. Prioritization criteria for specific activities will be determined.

14. **Project beneficiaries will include the following categories:**

- rural indigenous communities; afro-descendants. Participation by women and youth will also be prioritized
- organized rural smallholder producers from any of the following categories used for family farming policies in Paraguay: subsistence, transitional or capitalized producers,
- producer cooperatives, small- and medium-sized agro-entrepreneurs, and other partner institutions;
- and selected public institutions.

Based on the experience of comparable interventions in Paraguay and other countries and counting a household as a



single beneficiary once it receives any type of support, the project will benefit over 30,000 poor and vulnerable rural households, with the target figures for both women-headed households and young producers to be determined later. Beneficiaries of investment support will be selected on a competitive basis (see component 2) and using screening mechanisms that ensure that the benefits reach the poor and vulnerable groups. This operation will adopt a customized approach to targeting indigenous peoples and afro-descendants, drawing upon the experience of PRODERS. Beneficiaries of PRODERS will be eligible for this project, provided they meet the specific criteria for each type of support.

15. **Four critical changes will distinguish this project from PRODERS:** (i) promoting activities that ultimately help the beneficiaries profit from business opportunities –this project will take up where PRODERS left off in terms of promoting market access ; (ii) including calls for proposals and co-financing schemes (with counterpart contributions mainly in cash) for subproject investments to strengthen ‘buy in’ and sustainability of investments; (iii) capitalizing on the capacity and engagement of a larger spectrum of partners (alliances at various levels); and (iv) integrating a risk management approach across the board in order to minimize the shocks of extreme climate events, while investing in resilience against climate change and enhance the sustainability of project outcomes.

16. **The project will address the gender gaps that are critical to attaining the PDO, namely** (i) increasing women’s access to resources and technology; (ii) strengthening the earning-generating capacity of women; and (iii) fostering the participation of women in critical institutions.

17. **The project will mobilize private capital in multiple ways in line with the Maximizing-Finance-for-Development Agenda.** Besides the inclusion of counterpart co-financing in all types of subprojects, the project will promote access to credit for smallholder producers by providing technical assistance to beneficiaries and financial institutions. Credit to small agricultural businesses is often considered risky and poorly profitable for financial institutions. By linking productive alliances that have been successfully implemented to commercial banks that can continue financing their business plans, the project will contribute to reducing the risk exposure of private financial institutions. With this experience, conditions can be put in place to removing barriers to crowding in private sector finance for small rural entrepreneurs.

Component 1: Capacity building (approximately US\$ 20 million IBRD loan)

18. This component will address the need to build both human capital of targeted communities and producer organizations (1a), and to improve critical factors (1b), in order to facilitate access to markets and integration with formal and lucrative value chains. It will fund workshops, courses, field days, study trips, and public events. In addition, the subcomponent will finance the provision of expert assistance, as needed, such as lawyers and the preparation and dissemination of printed and audiovisual education material.

1a Strengthening human capital of targeted communities and strengthening producer organizations

19. This subcomponent will help remove barriers that prevent potential beneficiaries, in particular indigenous peoples and Afro-descendants, from taking advantage of investment opportunities. Furthermore, it will strengthen organizations that have already made investments, so that they are more sustainable.

20. Assistance will cover areas such as legal issues during the formalization of land titles in indigenous communities or pending formal registration of the organization, technical and operational know how around select value chains, as well as management capabilities such as financial literacy, with an emphasis on understanding barriers to credit access notably for women and women’s organizations; creating and administering revolving funds; and monitoring and



assessing results of investments.

21. Moreover, under this subcomponent, the project will disseminate calls for proposals among potential beneficiaries and provide technical assistance to the organizations for preparing the detailed proposals for investments, as described in component 2.

1b Strengthening critical institutions and systems

22. This subcomponent will focus on strengthening the institutions and systems that are pivotal to promoting access to markets, including a risk management and sustainability perspective as well as a gender angle. By doing so, the project will contribute to creating a conducive environment for improved partnerships between organized producers and firms.

23. Attention will be paid to improving the capabilities of the MAL to provide the sector with updated risk-related information and services that mitigate and/or transfer risk. This includes existing climate information services, forecast models, and weather insurance, which will cover both indemnity-based and parametric/index-based insurance. The ministerial Risk Management Unit will lead these activities.

24. Furthermore, the MAL and its dependent institutions will improve their ability to support productive integration in strategic value chains; for instance, studies and technical assistance will be undertaken to identify key constraints as well as policy and systems reforms and financing requirements to enhance Paraguay's capabilities in terms of strengthened traceability systems and food quality governance for select (prioritized) value chains will be undertaken. Actionable roadmaps for implementing the salient recommendations would be developed under the project.

25. In addition, the component will strengthen the existing ministerial centers that serve to collect, store, and sell products for associated farmers (CECOPROA: its name in Spanish "Centros de Comercialización para Productores Asociados"), and replicate the model in at least two additional locations. In this regard, alternatives for crowding-in private financing for building and managing the centers will be analyzed.

26. Finally, the subcomponent will provide support to private firms, with a focus on small- and medium-sized enterprises, to put Supplier Development Programs into operation. These efforts will be complemented by advisory services provided by the International Finance Corporation to its client firms in selected value chains. The project will also examine the possibility to work with select private commercial banks in understanding and where feasible, helping address barriers to formal financing by producers (especially, women, subsistence, small or even medium-sized entities).

Component 2: Investments to foster market access (approximately US\$ 70 million IBRD loan, US\$ 20 million counterpart funding from communities, organizations, and municipalities)

27. Component 2 will provide matching grants to beneficiaries (organizations and institutions) to carry out investment subprojects (productive partnerships, 2a)) complemented by two sets of investments in innovation subprojects and small infrastructure works, 2b and 2c.

28. Investment support under component 2 will be mainly granted on a competitive basis following calls for proposals. Special focus will be paid to promoting access to matching grants for afro-descendants, women farmers and young people. Clear beneficiary profiles and categories, as well as the criteria and process for selection will be elaborated during preparation. A key consideration will be households and individuals that benefit under component 1



in terms of capacity building and technical assistance will be able to apply for investments under component 2. Different levels of counterpart contribution will be established based on categories of beneficiaries. The experience in multiple alliance projects in the region shows that providing counterpart co-financing in cash can help generate buy-in and ownership and contribute to more sustainable outcomes. This finding will be applied appropriately during project design.

29. The project will stimulate the access to financial services that can provide funds for subproject implementation and/or continue supporting the alliances once the project ends. To narrow the gender gap regarding access to credit for women, the project will include tailored training for women and provide additional support for women-led businesses. Similar attention will also be paid to participating afro-descendants and youth.

2a Productive partnerships

30. Indigenous and afro-descendent communities and producer organizations will be supported in establishing partnerships with purchasers and preparing business plans that aim to meet the purchasers' requirements in terms of product type, quantity, and quality. These business plans will determine the investments needed either on-farm or off-farm as collective assets, as well as the technical or administrative assistance.

31. Since the project aims for all subprojects to incorporate climate-smart features to enhance their resilience to natural disasters and climate change, beneficiaries will be encouraged to incorporate climate risk management practices, such as small-scale water harvesting and irrigation schemes, soil management or other improved on- and off-farm practices into their business plans, and adopt technologies that, besides boosting yields, are climate-smart and environmentally sound.

32. Purchasers will include the following domestic public and private and potentially international actors: public institutions, such as schools, the military and hospitals, and businesses, such as supermarkets or agri-processors, with a focus on formal supply chains in dynamic markets.

33. The scheme will finance subprojects with agricultural and livestock products, forestry products, such as yerba mate, aquaculture, and rural and ecosystem-based services, including agritourism. It will also support partnerships for both primary and processed products. The subcomponent will promote the participation of women in the organizations and provide customized assistance to women-led alliances. Attention will also be paid to Afro-descendants and youth.

2b Complementary innovation subprojects

34. Indigenous communities and producer organizations will partner with public or private institutions to carry out investment subprojects that aim to pilot, disseminate and adopt innovative technologies, and also to move downstream along value chains by piloting new processing techniques, products/product development and agro-industry based services. These investments seek to stimulate the sector to go beyond traditional agricultural schemes and introduce new products, concepts and activities that can translate into better access to lucrative markets and higher economic benefits in the medium term. Groups of alliances supported under subcomponent 2a will be eligible to this type of support to expand the adoption of technologies such as improved genetic plant varieties at a more regional level.

35. Technologies and practices refer, for instance, to innovative integrated landscape approaches for agricultural products, drought-tolerant and disease-resistant plant varieties, integrated agro-forestry or pastoral-forestry systems, information and communication technologies, and new (green) business models, all of them with either promising or demonstrated benefits. Incentives will be provided for subprojects led by women, afro-descendants and young



producers.

2c Complementary small infrastructure subprojects

36. Municipalities will partner with the MAL to carry out small infrastructure works that are critical to facilitating agro-logistics and access to markets for communities and organizations, such as basic market/fair structures and spaces and storage facilities. The project will support analytical work to examine the opportunity to establish more sophisticated public-private investments in needed infrastructure such as wholesale markets, cold chains and processing plants.

Component 3: Project Coordination, Monitoring and Evaluation (approximately US\$ 10 million IBRD loan)

37. This component will provide support to the MAL for project coordination and management; monitoring, results evaluation, and assessment of project activities; project fiduciary administration, internal controls, and audits; project environmental and social risk management following the new Environment and Social Framework; a citizen engagement mechanism and a grievance redress mechanism; and project-related studies. In addition, this component will finance the strengthening of cross-cutting areas in the MAL, such as financial management and results-based monitoring. It will fund consultants, goods and services need to perform the activities.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

A baseline environmental and social risks and impacts assessment (ESA) will be conducted under ESS1 at a framework level to verify the necessary scope of addressing ESS2-8. ESS2-4 and 6 will require close attention, given several related and critical challenges that include e.g. securing sound labor conditions and considering potential use of child labor, efficient use of living natural resources and all materials, consideration adaptation to increased climate variability and change and minimizing GHG emissions, sustained provision of ecosystem services, prevention of further expansion of the agricultural frontier, contamination and/or overexploitation of water resources, and promotion of biodiversity-friendly productive systems. ESS7 will require careful consideration during project preparation and implementation since the prevalence of indigenous and afro-descendant communities will be a substantial criterion for the selection of subprojects. Based on the lessons learned in PRODERS, the project will adopt a customized approach to targeting Indigenous Peoples (IP, see ESS7 for more details) and the approach will be broadened to afro-descendant communities. ESS9 is the only ESS that is not expected to have relevance for the project, yet the institutional arrangements for matching grants/revolving funds remain to be determined. Due implementation of ESS10 will be critical to promote broad and transparent participation of project-affected and other interested parties and to prevent elite capture.



Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.

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APPROVAL

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