



The World Bank

PY - Market Access for Agricultural Products Project (P168153)

Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 07-Feb-2020 | Report No: PIDA26025

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

Country Paraguay	Project ID P168153	Project Name PY - Market Access for Agricultural Products Project	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date 10-Feb-2020	Estimated Board Date 19-Mar-2020	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) Republic of Paraguay	Implementing Agency Ministry of Agriculture and Livestock Production	

Proposed Development Objective(s)

The objective of the Project is to enhance access to markets by Agricultural Producers' Organizations and Indigenous Communities through investment subprojects inserted in value chains in selected parts of the Borrower's territory.

Components

Capacity Building and Institutional Strengthening
Enhancing Market Access through Productive Alliances
Overall Coordination, Management and Monitoring and Evaluation

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

Total Project Cost	110.00
Total Financing	110.00
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	10.00
Borrower/Recipient	5.88
Local Beneficiaries	4.12

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **The agricultural sector has significantly contributed to GDP growth and poverty alleviation over the last 15 years.** During the period between 2004 and 2016, Paraguay's average GDP growth was 4.7 percent per year, which was higher rate than other countries in the region¹, along significant reductions in poverty levels. Since, 2003, poverty and extreme poverty levels were reduced by 44 and 54 percent, respectively, mainly due to an average annual rate of income levels increase of 5.7 percent for the 40 percent of the population with lower per capita incomes. 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 (20 percent of GDP if agrobusiness is included), which is among the highest in the region.
2. **Strong duality in agriculture.** Paraguay has a large rural population with extensive rural poverty comprised of a lagging subsistence farms, in parallel to a vibrant, commercially-oriented, and capitalized agricultural industry (individuals, cooperatives and corporations), which is reaching export markets with increasing success. 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.
3. **Agricultural Contribution to Exports.** Agricultural products constitute the bulk of Paraguay's exports, reaching around 75 percent of all exports. The main agricultural exports of around US\$5 billion per year (average 2015-2017; FAOSTAT) are concentrated mostly on soybeans and beef. On the other hand, Paraguay is a net importer of a variety of horticultural products, milk and dairy products in the order of US\$50 million per year (average 2015-2017). These values show a strong positive trade balance for the agricultural sector, due to its relative international competitiveness, however, this has not been fully exploited yet.
4. **Paraguay enjoys many natural advantages which provide great potential for driving economic growth through the development of a diversified and resilient agricultural development.** Paraguay must overcome the inter-linked challenges of creating economic opportunities, while conserving its natural endowments and improving

¹ *Indicadores del Desarrollo Mundial, Banco Mundial.*



resilience to climate change. In addition, Paraguay is highly vulnerable to impacts of climate change, particularly because of its dependence on climatic conditions of few agricultural exports, which has caused drought and flooding episodes with significant impacts on agriculture and the overall economy. These climate change risks combined with limited diversification, poor soil and water resources management, are increasing the country's vulnerability to extreme weather events.

Sectoral and Institutional Context

- 1. The bulk of the rural population, part of which are poor subsistence farmers and 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 agricultural-based activities, individually or in an organized way. The impressive growth of capitalized commercial 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. In addition, their capacity to mitigate against and adapt to observed and anticipated climate risks is extremely limited.
- 2. Global experience has demonstrated that integrating value addition opportunities and removing barriers to accessing markets for agriculture creates economic opportunities for the rural 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 35,000 households who have benefited from the Sustainable Rural Development Project (PRODERS, P088799²). By selling their surpluses either in local fairs and open markets, through institutional markets, or by linking themselves to local industries, subsistence and transition producers have significantly enhanced their earnings and almost 19,000 of them were able to rise above the poverty threshold.
- 3. There is untapped potential to enhance outcomes through linkages with supply chains, enabling the transition of large proportion of rural producers toward greater and more sustainable value-added production systems.** Paraguay's food system has formal supply chains with larger potential, such as horticulture, fruits, milk, organic yerba mate for export, 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, weak infrastructure, knowhow and/or organization, as well as increasing climate change impacts.
- 4. Main constraints faced by small and medium-sized producers.** Besides large highly-capitalized farmers and private corporations, representing the very successful part of the economy and responsible for the majority of the exports, there is another important segment of the rural population with high potential to increase its contribution to the economic growth. However, it has been challenging for large sectors of small and medium-sized farmers to meet demand requirements, including supplying consistent quantities of quality goods that comply with sanitary and phytosanitary standards and are delivered on time. Larger commercial farmers have access to land, capital, technology and updated market information that allow them to gain sustainable access to profitable markets. On the contrary, the segment in the middle of the spectrum of farmers are less capitalized, have low technology adoption and limited access to information, together with reduced aggregation that limits their volume of supply. These are all constraints to provide quality products to satisfy continuously changing and

² PRODERS is financed by two World Bank Loans: an initial Loan of US \$37.5 million and an additional finance of US \$100 million. The Project was approved on January 29, 2008 and the additional finance was approved on December 5, 2014. During its implementation, the project went through implementation ups and downs, with issues that add to the complexity of assessing project performance. The project is still ongoing, with a closing date of November 30, 2020.



demanding markets.

5. **One of the main barriers faced by small and medium-size farmers trying to establish linkages with buyers is their limited ability to deliver the required quantity of produce in a timely and consistent schedule.** Most farms lack the inputs, equipment, infrastructure, and farm management skills (including production planning, crop management knowledge, and post-harvest handling capacity) to become reliable suppliers to supermarket chains, hotels and industry. Also, the limited aggregation of produce reduces smallholders' access to remunerative markets (and a more stable income), complicates buyers' purchasing operations, and creates a disincentive to buy locally. Poor communication and coordination between supply and demand complicate the planning of farm production and create uncertainty for buyers and sellers.
6. **Paraguayan agro-processing industry is not entirely well developed.** Several small and medium enterprises (SMEs) produce a range of products, but difficulties in obtaining financing on affordable terms limit the investments in infrastructure, equipment, and inputs required to scale up and generate consistent profits. Many agribusiness entrepreneurs lack technical skills and knowledge to develop viable business plans, make the required investments, develop a network of reliable farmer-suppliers, and comply with the quality, food safety, and certification standards enabling them to penetrate profitable local or overseas markets.
7. **Gender gaps.** In the 2018 "Gender Equality Index" (GEI, part of the UNDP Human Development Index), which measures women's disadvantage in reproductive health, empowerment and the labor market, Paraguay ranked 10 among the 11 South American countries listed, and 126 out of 177 worldwide. Access to economic opportunities is a key gender gap in Paraguay. Gender gaps are most evident in patterns of employment and incomes, access to resources, control over assets and decision-making, access to justice and freedom from violence, particularly in rural areas. While 16.7% of men above 15 years of age have no income, this increases to 34.7% in the case of women. This disparity increases even more in rural areas, where 15.9% of men have no income versus 39% of women.
8. **The sectoral agenda is led by the Ministry of Agriculture and Livestock in partnerships with its decentralized institutions.** The Ministry of Agriculture and Livestock Production (MAG) 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 (CAH), among others.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The objective of the Project is to enhance access to markets by Agricultural Producers' Organizations and Indigenous Communities through investment subprojects inserted in value chains in selected parts of the Borrower's territory.

Key Results

PDO Level Indicators. The main PDO indicators are the following:



PDO Theme	Result Indicators
Enhance access to markets	Increase gross value of sales (in real terms) by beneficiary organizations, disaggregated by agricultural producers' organizations and indigenous communities. (percentage)
	Beneficiaries' organizations that continue realizing sales in accordance to their respective subproject, at project closing. Disaggregated by agricultural producers' organizations and indigenous communities. (percentage).
General	Individuals directly benefitting from the Project, disaggregated by gender and ethnicity. (number)
	Farmers reached with agricultural assets or services(CRI), disaggregated by gender and ethnicity. (number).

D. Project Description

Component 1: Capacity Building and Institutional Strengthening (Total Cost US\$ 38.37 million; IBRD loan US\$ 33.38 million; GOP Counterpart US\$4.99 million).

1. **Sub-component 1.1: Capacity building of Beneficiary Producers' Organizations.** The main goal of this subcomponent is to help remove barriers that prevent potential beneficiaries, organizations of farmers and communities of indigenous peoples, from taking advantage of investment opportunities. This subcomponent will support carrying out of capacity building activities to address critical factors to facilitate effective access to markets and sustainable integration with formal and lucrative value chains, and to support the preparation of Investment Subproject proposals, all through, *inter alia*: (a) the carrying out of studies and analysis in support of value chains, the identification of promising business and recommended technologies and practices; (b) the carrying out of workshops, training courses and the dissemination of Project information aimed at increasing knowledge of Agricultural Producers' Organizations and Indigenous Communities on business opportunities and modern practices, and promoting their technical and managerial capacities; (c) the preparation of education material; (d) the provision of Scholarships; (f) the provision of support for the Project's communication strategy and the carrying out of Project dissemination campaigns; (g) the provision of technical assistance to Agricultural Producers' Organizations and Indigenous Communities to, *inter alia*, identify possible competitiveness and market opportunities, value chains and business opportunities, and to formulate Investment Subproject proposals for establishing Productive Alliances.
2. **Sub-component 1.2: Public Sector Institutional Strengthening.** This subcomponent has the objective to strengthening the institutions and systems of public sector agencies (mainly in the orbit of the Ministry of Agriculture) that are pivotal to promoting access to markets. By doing so, the project will contribute to creating an environment conducive for improving partnerships between organized producers and firms, as well as supporting the implementation of the subprojects. In particular, institutional strengthening of MAG and INDI will be supported through, *inter alia*: (a) the carrying out of capacity building activities, studies and diagnosis and the provision of technical assistance to address key bottlenecks for the development of selected value chains, including, *inter alia*, the carrying out studies to identify constraints for expanding financial services to the agricultural sector, and to propose solutions for improving policy and regulatory framework reforms; (b) the provision of support for the development and dissemination of new agricultural technologies and practices to increase competitiveness and enhance resiliency to climate change; (c) the improvement, rehabilitation and/or construction of facilities and the acquisition of equipment and vehicles necessary for effective Project implementation and institutional development; (d) the design and/or establishment and/or operation and/or improvement of supervision, monitoring, integrated management, agrometeorological and information systems, including, *inter alia*, the design and establishment of a system to improve interconnectivity among MAG's



departments and decentralized agencies to enhance sharing of information and support planning and decision making; (e) the provision of support for improving productive inclusion opportunities for Indigenous Communities (including, *inter alia*, the provision of support for land tenure regularization); (f) the provision of Scholarships; and (g) the promotion of the coordination and the provision of support for the carrying out of joint activities with agencies of the agricultural sector related to Project implementation.

Component 2: Enhancing Market Access through Productive Alliances (Total cost US\$ 61.22 million; IBRD loan US\$ 57.1 million; Beneficiaries' Counterpart Funding US\$4.12 million).

3. The objective of this component is to promote the development of organizations of small and medium-sized farmers and indigenous communities participating in "Productive Alliances" (PA). The PAs will operate competitively in selected value chains, with strengthened and more reliable linkages with buyers and markets and increased capacity to manage climate risks. Project financing will support the implementation of competitive and climate-resilient investment subprojects for business investments and ventures established by beneficiary agricultural and community organizations, agents and buyers. The component will help tackling the following constraints: (i) Limited aggregation of small/medium size producers and lack of coordination among stakeholders along the value chains; (ii) Low productivity and limited market integration; and (iii) Climate vulnerability and low adaptive capacity of targeted stakeholders.
4. The component will provide of support for enhancing market access through promoting the development of Productive Alliances, including, *inter alia*, the provision of support for the implementation of Investment Subprojects through, *inter alia*: (a) the carrying out of activities for the stimulation of access to financial services; and (b) the provision goods, works, non-consulting services and consulting services and/or Matching Grants to Beneficiaries under Investment Subprojects.
5. The activities under this component will contribute to the project's net carbon balance through: sequestration from afforestation and/or restoration of degraded areas and the transition from degraded lands to perennials (agro-forestry, orchards, gardens, tree crops, etc.); and through emission reductions from improved management of agro-forestry, livestock and improved cropping systems. The project will support the adoption of technologies and climate smart practices contributing to enhancing climate resilience and the expected adoption of these technologies will be prioritized when assessing the proposals for selection of the ones to be financed.

Component 3: Project Coordination, Management and Monitoring and Evaluation (Total Cost US\$10.16 million; IBRD loan US\$ 9.27 million; GOP Counterpart funding US\$0.89 million).

6. This component will provide support to MAG for Project coordination, management, monitoring, evaluation and communication, including, *inter alia*: (a) the provision of support for inter-institutional coordination and Project administrative and fiduciary management; (b) the carrying out of: (i) Project internal controls; (ii) Project audits; (iii) Investment Subprojects semi-annual audits; and (iv) environmental and social risk management activities; (c) the design and operationalization of a computerized management and monitoring information system for Investment Subprojects; (d) the establishment and operation of a Technical Review Committee; (e) the implementation of a citizen engagement mechanism and a grievance redress mechanism; (f) the monitoring and evaluation of results; (g) the carrying out of Project-related studies, including mid-term review studies and the Project's final impact evaluation; (h) the strengthening of cross-cutting areas within MAG; (i) the design and implementation of a communication strategy, including, *inter alia*, the carrying out of campaigns to improve transparency and enhance dissemination of Project information, Project results and lessons learned; and (j) the provision of technical assistance to analyze and prepare potential interventions to facilitate access to markets.



Legal Operational Policies

Triggered?

Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

Specific sub-project investments will be identified during project implementation. MAG has therefore prepared and disclosed an advanced draft Environmental and Social Management Framework (ESMF) that includes an Environmental and Social Assessment (ESA) on January 20, 2020. E&S risks and impacts were assessed at a framework level to identify key risks and impacts and provide measures to manage them in line with the mitigation hierarchy. Further, the ESMF establishes the entry points of E&S considerations throughout the subproject cycle, where E&S aspects were analyzed in an integrated way as required particularly when successful project implementation requires behavioral changes by vulnerable, low capacity smallholder producers. The scale and type of the subprojects under component 2 will be subject to site-specific screening prior to approval to evaluate potential risks and mitigations. The approval of these sub-projects will be linked to specific monitoring activities by the E&S Unit. Most of sub-projects are expected to be small-scale, community-driven development subprojects that involve matching grant schemes. Potential value chains to be supported include : (i) vegetables (tomatoes, onions, potatoes, carrots, beets, peppers, lettuce); (ii) aromatic and medicinal plants; (iii) fruits (citrus fruits, passion fruits, banana, pineapple, etc.); (iv) milk and milk products; (v) small animals (chicken, sheep); (vi) honey production; (vii) yerba mate; (viii) flowers; (ix) cattle; (x) grains (beans, corn, sesame, etc.); (xi) cassava; and (xii) organic sugar cane. Potential areas of interventions and types of support were analyzed in terms of risks and mitigation measures. A checklist for subproject screening has been prepared; this will facilitate the early identification of risks and management measures required. The outline for the preparation of specific E&S management plans for subprojects have been prepared as well as guidelines for assessing mitigation measures presented and gap- filling measures needed for specific environmental requirements if they arise. A list of activities not eligible for funding by the project have also been included.

Social aspects considered in the ESA include, among others: (i) barriers for targeted vulnerable groups to participate in Project activities and access to its benefits including cultural and economic barriers to participating in innovation partnerships under Component 2; (ii) risks of creating or exacerbating conflicts with stakeholders who may have developed patronizing political and economic relations with smallholder farmers and/or Indigenous Peoples and risks of elite capture of Projects benefits; (iii) risks or impacts associated with land and natural resource tenure and use; (iv) risks of child and adolescent labor associated with the proposed subprojects; (v) barriers to developing an inclusive and culturally adequate stakeholder engagement strategy.

Environmental risks and impacts considered include: (i) potential for improper application, storage, and disposal of pesticides (ii) worker and beneficiary health and safety risks of small- scale agricultural production and within processing facilities, (iii) community health and safety risks from operation of farm machinery and other agricultural activities, (iv) potential for small-scale impacts to critical, natural, or modified habitat from expansion of production activities without proper planning, (v) food safety and animal health concerns, (vi) potential for road accidents related to transport and marketing of products, (vii) potential for land degradation and soil erosion from improper farming techniques, among other potential impacts. Management measures have been included in the ESMF aligned with



best-practices and considering the WBG EH&S General and Agribusiness sector guidelines as well as FAO Code of Conduct for pest management. Projects will be screened and supervised based on procedures included in the ESMF and in the draft operational manual as well as monitoring and evaluation requirements for ongoing investments and overall project footprint to consider cumulative impacts.

The ESA also developed a stakeholder analysis considered in the SEP. The SEP covers consultations on project design, environmental and social risks and impacts, the ESMF and other ESF-related documents that have been disclosed. Consultations were held with key stakeholders during preparation and feedback incorporated into project design and environmental and social instruments.

E. Implementation

Institutional and Implementation Arrangements

1. At the national level, the project will be headed by the Director General in the *Dirección Nacional de Coordinación y Administración de Proyectos* (DINCAP), that is designed by law as the unit in charge of coordination and administration of all projects with foreign funding in the agricultural sector. The Director of DINCAP will have the accounting and financial management function directly reporting to him (Administrative and Financial Unit, Sub-UAF). In addition, DINCAP will establish and Project Management Unit (PMU) within its structure specifically for this project, headed by a General Project Coordinator, for coordination and operational monitoring of project activities through implementation and for overall technical coordination with others MAG'S Directorates/Departments and partner institutions (INDI and others).
2. The establishment of the PMU, including the appointment of a General Project Coordinator and adequate staff required for functioning, satisfactory to the Bank, is a condition for Loan Effectiveness. This includes the TU to be established within DEAG. However, it is expected that the existing PMU for the ongoing PRODERS project will be transformed into the new PMU unit for this project, taking advantage of the current staff with ample experience in project implementation under Bank's policies and procedures.
3. The PMU, headed by the General Project Coordinator, and composed of a team of qualified professionals dealing with general management (planning, coordination, administration, etc.) and technical and normative functions, will be organized in five (5) units reporting to the General Project Coordinator:
 - a. **Administration and Financial Coordination Unit**, to be in charge of all administrative and fiduciary matters of the project, including financial management and procurement;
 - b. **Planning , Monitoring and Evaluation Unit**, to prepare Action Plans, and manage the Monitoring system. Will be responsible for disseminating the procedures and guidelines of the project, as well as preparing the Annual Operational Plan (POA) and executing the monitoring system. Information management will be carried out by establishing a physical and financial information system. It will be responsible for managing the evaluation systems, in coordination with the General Directorate of Planning (DGP), and preparation of all results and impact evaluation reports.
 - c. **Communication and Dissemination Unit**, to disseminate project information and materials. Will coordinate the dissemination of project information and materials to promote understanding and transparency, including the maintenance of a web page, the distribution of promotional videos, folders, posters, etc., and the execution of campaigns to disseminate the project.
 - d. **Institutional Strengthening Unit**, will be in charge of overall coordination of institutional strengthening efforts with all institutions within MAG, as well as other autarchic agencies related to the agricultural sector (e.g., INDI, IPTA, SENACSA, SENAVE, etc.)



- e. **Technical Unit (TU)**, to manage technical assistance operational activities at the field level and related to the execution of the project. This coordinating unit will be located within MAG's Directorate for Agricultural Extension (DEAG), depending functionally on DINCAP's PMU, but under the daily operational coordination of DEAG's Executive Coordinator. DEAG's Executive Coordination is currently responsible for coordinating seven (7) operational technical departments and this TU will be the eighth unit under its responsibility. The TU will carry out implementation of technical activities at the field level of geographic departments, and will have at least three (3) advisors, reporting for him/her, for specific functional guidance relating to:
- i. Environmental management,
 - ii. Social organization and capacity building,
 - iii. Indigenous management.

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APPROVAL

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