

## PROGRAM FOR MODERNIZATION AND DIVERSIFICATION OF SMALL-SCALE FARMING

(PR-0084)

### EXECUTIVE SUMMARY

<b>Borrower:</b>	Republic of Paraguay	
<b>Executing agency:</b>	Ministry of Agriculture (MAG)	
<b>Amount and source:</b>	IDB: (OC)	US\$ 10,000,000
	Local:	US\$ 2,500,000
	Total:	US\$ 12,500,000
<b>Financial terms and conditions:</b>	Amortization period:	25 years
	Grace period:	5 years
	Disbursement period:	5 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	currency pool
<b>Objectives:</b>	<p>The overall objective of the program is to increase the level and stability of income for participants in the fruit and vegetable chain by: (i) consolidating private centers to provide marketing services to producers to help them market their fruit and vegetable products more efficiently and effectively; and (ii) promoting the production of fruits and vegetables that meet the requirements of different markets.</p>	
<b>Description:</b>	<p>Program design was based on developing and executing CPSC business plans that will help farmers market their fruit and vegetable products competitively. To implement the business plans, three project components are to be executed:</p> <ol style="list-style-type: none"> <li>a. <b>Technology development</b> (US\$5.95 million). This component includes activities and investments aimed at transforming the technology used in the fruit and vegetable production chain, through technical assistance, training, validation and dissemination of technology and marketing.</li> </ol>	

- b. **Investment in infrastructure** (US\$2.55 million). Given the importance of the demonstration effect in the dissemination of new production systems, this component includes nonreimbursable assistance for farmers investing in half shade and irrigation facilities and in the collective production infrastructure for groups of at least five small farmers to enhance operation of their irrigation systems.
- c. **Institutional support** (US\$1.76 million). This component consists of specific training, activities, consulting services and the provision of laboratory equipment for government agencies providing technical assistance for the implementation of business plan activities considered crucial for exports and for increasing competitiveness on both domestic and foreign markets. The government agencies in question are the National Institute of Technology and Standardization (INTN), which is responsible for agroindustrial product quality control and standardization; the Ministry of Agriculture (MAG), through its Plant Protection Directorate (DDV), Marketing Directorate (DC), and Seed Directorate (DISE); and the Ministry of Foreign Affairs (MRE), which supports private sector efforts to open up new business opportunities, through the Export and Investment Promotion Office (PROPARAGUAY). In addition, computer equipment will be purchased, a consulting firm hired, and training provided to strengthen the Planning Directorate (DGP) of the MAG for program monitoring.

**The Bank's  
country and  
sector strategy:**

The Bank's strategy for Paraguay focuses on five areas: (i) the financial sector, with a view to enhancing system performance and supporting the development of capital markets; (ii) reform of the State, in order to increase its efficiency in delivering public services and strengthen governability; (iii) modernization of the productive apparatus, in order to boost efficiency in the economy; (iv) support for social sector development; and (v) assistance for rural areas, in order to reduce poverty and improve living standards for the population, particularly the poor.

The proposed program is consistent with the Bank's strategy with regard to support for rural areas with a view to reducing poverty and improving the standard of living of the population since it promotes modernization and diversification of small farming, and marketing of small farm production, which should help raise income among small farmers in the fruit and vegetable subsector and consequently reduce poverty in rural areas.

- Environmental and social review:** The program will have a positive environmental impact; including improved use of water, fertilizers, and pesticides at the farm level. No significant adverse environmental impact is expected. The program includes mechanisms to evaluate, minimize, and mitigate the minor, short-term adverse environmental impact associated with the investments. An environmental monitoring and follow-up component will be built into program monitoring and follow-up.
- Benefits:** A new approach will be adopted for the production and marketing of small farmer produce and its incorporation into a commercial fruit and vegetable chain. The CPSC will help collect a large enough volume of products to gain competitive access to markets and make it easier for the small farmers to obtain technical assistance services. This will raise the incomes of the participants in the chain and render small farms economically viable. The production of higher quality produce in marketable quantities will in turn generate foreign exchange for Paraguay through exports or import substitution.
- Risks:**
- Delays in procurement of the goods and services for the program.** The Ministry of Agriculture has in the past experienced considerable delays in the award of construction, contracts and the procurement of goods, and consulting services, which has had a negative impact on program execution. Accordingly, and as with other agricultural projects in Paraguay, an agreement will be entered into with the Inter-American Institute for Cooperation on Agriculture (IICA), under which the IICA will procure the goods and services needed for the program.
- Possible fluctuations in the demand for products (varieties) and in medium- and long-term prices.** This risk will be mitigated by hiring an international firm specializing in fruit and vegetable marketing to support the program execution. The firm will identify market and price trends so that farmers can make adjustments and maximize their profits. In addition, the business plans incorporate the findings of previously conducted market studies.
- Special contractual conditions:**
- a. Prior to first disbursement, the borrower must demonstrate that it has: (i) appointed the program director and hired the technical team to assist the program executing unit (paragraphs 3.2 and 3.3); (ii) implemented the Operating Regulations (paragraph 3.9); (iii) entered into an agreement with IICA for IICA to procure the goods and services for the program and administer the program resources (paragraph 3.6); and (iv) submitted the annual work plan for the first year of program execution (paragraph 3.36).

- b. Within six months after the effective date of the loan contract, the borrower must demonstrate that it has: (i) hired the necessary staff for the DGP to carry out program monitoring; and (ii) hired the consulting services to help strengthen the DGP (paragraph 3.7).
- c. Agreements must be signed between PROPARAGUAY, the National Institute of Technology and Standardization (INTN), and the MAG so that PROPARAGUAY and the INTN can participate in the program (paragraph 3.29).

Additional clauses will be agreed upon to ensure mid-term reviews of program execution 18 months and 40 months after the effective date of the loan contract, in order to verify progress achieved (paragraph 3.38).

**Poverty-targeting and social sector classification:**

This operation qualifies as a project promoting social equity, as described in the key objectives for Bank activities set forth in the Report on the Eighth General Increase in Resources (document AB-1704).

**Exceptions to Bank policy:**

See procurement section below.

**Procurement:**

The Bank's current policies will apply for the procurement of goods and the awarding of contracts for consulting services to be financed with program resources. Whenever IDB funds are used, the thresholds above which international competitive bidding will be required will be US\$250,000 for purchase of goods and US\$200,000 for the hiring of consulting services. It is recommended that an exception be made to the open competition procedures be allowed so that Inter-American Institute for Cooperation on Agriculture (IICA) can be hired directly (paragraphs 3.5 and 3.6). The IICA will carry out all procurement of goods and services for the program and will administer the program resources, according to Bank procedures. This exception meets the requirements set forth in section GS-403 of the Procurement Manual.