

**COLOMBIA PRODUCTIVE PARTNERSHIPS SUPPORT PROJECT – P041642**

**PROJECT REVIEW**

(January 12/07)

**I. Introduction and Background**

1. The Colombia (Rural) Productive Partnerships Support Project was approved by the Board for \$32 million on January 22, 2002 and became effective on May 15, 2002. Because of fiscal constraints and an inherent disbursement lag in the implementation of the project, the Government requested in 2004 to reduce the loan amount from US\$32 million to US\$22 million to enable the Government to use the total loan amount by loan closing date. The present loan disbursement stands at US\$16million or 73 percent. The present loan closing date is September 30, 2007. To date 117 productive partnerships have been approved, more than 10,490 small farmers families have benefited from the project, and the project's geographical coverage has reached 28 out of 32 Departments.

2. The purpose of this review is to evaluate the present project's performance thus far. This project review will assess: (i) quality at entry; (ii) outcome; (iii) implementation record and results to date; (iv) lessons learned; (v) sustainability and institutional development aspects; and (vi) the likely benefits of scaling up (repeating) the project.

**II. Present Project's Performance**

3. **Quality at Entry.** The PDO<sup>1</sup> of the project is to generate income, create employment and promote social cohesion of poor rural communities in an economic and environmental sustainable manner through the development and implementation of a demand-driven productive partnership scheme with the private sector<sup>2</sup>. In achieving this objective it is expected that the project contributes to (i) reactivating the rural economy; (ii) improving the welfare of poor rural inhabitants, and (iii) generating an enabling environment for social co-existence.

4. No Quality at Entry Assessment was carried out at the time of project preparation. The project responded well both to the CAS and to priorities of the National Government. The 1997 CAS<sup>3</sup> put forward a development agenda which aimed to ensure that Colombia achieved its full economic growth potential and focused on reducing poverty, improving

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<sup>1</sup> Project Appraisal Document No 23246-CO, December 14, 2001

<sup>2</sup> A collaborative arrangement between a small farmer organization and an agribusiness enterprise that aims to reduce technical, commercial, financial and/or social risks related to the pursuit of productivity and income gains in a particular value-chain.

<sup>3</sup> CAS Report No. 97-233, 11/06/97 and CAS Progress Report No.R99-201, 18/11/99

social conditions and ensuring sustainable development. Within that agenda the CAS identified areas of strategic importance where the Bank should play a catalytic role in assisting Colombia's development process.

5. The project contributed to these strategic areas by: (i) promoting rural development by improving production of permanent and transitory crops and strengthening the capacity of rural organizations leading to increased income and employment opportunities and ultimately to improved standards of living for rural households; (ii) enhancing social cohesion by strengthening farmer organizations and their relationship with commercial private sector, establishing informal conflict resolution mechanisms that reduce violence; (iii) ensuring sustainable development by promoting the production of crops best suited to the local natural resources and utilizing more efficient agricultural practices helping reduce pressures on environmentally fragile lands; and (iv) developing human capital by helping low-income farmers improve knowledge in agricultural production, develop business skills and enhance their ability to form and operate cooperatives.

6. The project is also responding well to the rural policy framework established by the GOC<sup>4</sup>. This framework pursued integration of the rural sector in the national economy through policies that generate favorable conditions for increasing its competitiveness, equality and sustainability, while taking into account its diversity and complexity. Four pillars were promoted: (i) investments in the sector; (ii) agriculture technology development; (iii) rural development (land distribution, viable family farms, rural micro-enterprises, subsidized housing for low income rural households), and (iv) foreign and domestic trade.

7. The Ministry of Agriculture and Rural Development (MADR) attempted to integrate this rural policy framework into the value chain approach, realigning the institutional framework in accordance with the new focus based on sector competitiveness agreements with the private sector. The application of instruments and allocation of incentives becomes more demand-driven and properly aligned with sub-sector specific constraints. Public resources available to implement rural policies leveraged contributions from the private sector.

8. Project design was adequate to achieve the PDO. Project components and activities have resulted valuable for achieving project goals and results. However, project design underestimated: (i) the difficulty to form partnerships in terms of time and conditions required to build trust among stakeholders with different interests and level of education; (ii) the lack of sufficient quality technical assistance to prepare and supervise subprojects at the territorial level and to provide long term assistance to consolidate partnerships; and (iii) the challenge to outreach and motivate the commercial private sector to participate in the project.

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<sup>4</sup> Colombia National Development Plan 1998-2002, National Planning Department, February 1999.

9. The project's implementation arrangements were well defined and were flexible to facilitate partnerships between agribusiness and small farmer organizations and to implement economically feasible and sustainable subprojects. The implementation structure of the project defined (i) a public sector role in the orientation and coordination of the project at the national level, and in the promotion of the project at the regional level through the Departmental Agriculture Secretariats; (ii) a decentralized execution of project activities under the umbrella of the private sector through the participation of NGOs and consulting firms (technical assistance providers) in the preparation, management and supervision of partnerships; and (iii) an ample range of stakeholders participation at the local level with different roles, competences and capacities to support the partnerships.

10. Operational procedures were compiled in a subprojects manual, which has served other Bank projects (e.g. Peace and Development, National Protected Areas GEF Project). The manual provided transparent rules of the game, clear eligibility criteria for the identification of beneficiaries and allocation of resources, an efficient flow of funds scheme through a trust company that disbursed to a trust account managed by farmers, and adequate supervision arrangements. A Project Implementation Unit (PIU) assumed project coordination but worked relatively separate from the MADR structure, not making the best use of other technical resources available at the Ministry's Productive Chain Directorate and its institutional set up at the local level.

11. **Outcome.** An external impact evaluation<sup>5</sup> report was prepared in October 2006. The report confirms that the project has a significant positive impact on farmer income, employment and has social benefits that need to be further enhanced over time. The institutional capacity building impact is also very positive. However, the current PDO indicators do not exactly coincide with the original PDO indicators included in the PAD. Original PDO indicators were too ambitious for the project, some were not realistic and others were very hard to measure. In consequence, the scope of the PDO indicators has been adjusted during implementation and one indicator measuring the institutional capacity building has been added.

12. Because of initial lack of evidence of impact, the PDO rating was put at Moderately Satisfactory in 2004 awaiting better quality data. From January to July 2006, a more intensive and sophisticated methodology was used to capture income and employment differences between the Project beneficiaries and control groups. The impact evaluation report clearly demonstrated the project's positive impact on income and employment. On the basis of this impact evaluation report, the PDO rating was upgraded from Moderately Satisfactory to Satisfactory.

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<sup>5</sup> Productive Partnerships Support Project, Impact Evaluation Report, Econometría, Bogotá, October 2006.

13. PDO indicators and progress to date:

- a) *At the end of a partnership cycle at least 70% of producers participating in productive partnerships have increased their income by 10% compared to the baseline of each partnership. A study of 17 partnerships indicates an average income increase of at least 20%.*
- b) *At the end of the project, employment in at least 70% of the partnerships will have increased by 10%. Study of 17 partnerships indicates an average increase of on-farm employment of about 20%. The partnerships also liberate family members for labor outside the farm.*
- c) *100 productive partnerships are formalized, consolidated, are operating in a sustainable manner and contain conflict resolution schemes. 117 partnerships have been approved; 90 productive partnerships are formalized, 63 are under implementation and 27 have finished their implementation. All partnerships count with a conflict resolution scheme incorporated in the partnership agreement. The consolidation of the partnerships continues to be a work in progress and a challenge for the project; only in a later stage it will be possible to assess their level of consolidation and sustainability.*
- d) *At the end of the project at least 70% of the producer associations will have attained an adequate social partnerships index measuring cohesion and partnership principles. Social impact analysis shows that partnerships will need more time to be socially sustainable. The time needed to achieve social cohesion and trust among partners is usually longer than the time needed to prepare and implement technical plans, and require intense and long term accompanying by specialized organizations. In more general terms, the qualitative analysis provided by the impact evaluation shows that intense cooperation between the private business sector and small impoverished farmers. This has stimulated social cohesion in the rural areas and has contributed indirectly to the peace and social co-existence by giving the rural people participating in the project a higher sense of personal security.*
- e) *Five (5) regional management organizations (NGOs, consulting firms) with the capacity to structure and follow-up productive partnerships; and ten (10) NGOs specialized and capable of monitoring and assisting productive partnerships. Eight Regional Management Organizations (OGRs) have demonstrated capacity to structure, evaluate and follow-up productive partnerships, five of them demonstrating strong capacity; and more than 60 Local Management Organizations (OGAs) are accompanying and providing managerial support to partnerships, 30 of which have demonstrated high capacity to accomplish these tasks.*

**14. Project's implementation record and results.** The project implementation (IP Rating) has been satisfactory over the whole project period. The project has complied with all fiduciary, environmental and social safeguards. The Bank has carried out

regular financial management and procurement reviews, which did identify only very minor problems that have been addressed. The annual financial audits have been timely and provided clean opinions on the project's financial management. There is an environmental screening of the activities of each new partnership. Each partnership has an environmental management plan that is incorporated in the operational plans of the partnerships and is monitored by the project team. Each partnership undergoes a social analysis on the basis of which a social development plan is prepared, implemented and monitored during implementation. The project is also addressing the needs of indigenous people and Afro-Colombians; women play a very important part in the partnerships and their management.

15. The implementation pace has been slower than anticipated because of the Government's rigor in its intentions to finance only economically, socially and environmentally viable partnerships, and because of some public sector finance and legal regulations for transferring funds from the public to the private sector. An adequate monitoring system has been established. The monitoring data still need to be fully integrated into a management information system. Project management performance indicators have been reached. All loan covenants that are due have been complied with.

**16.** The Project has had remarkable achievements until now:

a) 117 productive partnerships have been approved.

b) 63 partnerships are under implementation.

c) 27 partnerships have completed the activities financed by the modular incentive and have graduated.

d) 17 partnerships are in the pre-investment phase.

e) 10,490 small farm families have benefited from the project with an average investment of US\$1.678 per beneficiary.

f) USD\$17.6 million of modular incentive have been committed, for a total cost of productive partnerships of USD\$70.4 million.

17. The number of expressions of interest and the number of subprojects profiles presented and qualifying, far exceed the output targets. The PIU has received 840 expressions of interest (target: 500) of which six percent come from Afro-Colombian and indigenous organizations. The number of qualifying subproject profiles presented to the PIU are 491 (target: 300). The number of pre-investment studies carried out (144; target 150) is somewhat lower than estimated because a more rigid selection process reduced the number of studies for "non-viable" partnerships. The estimated rates of return of partnerships under implementation exceed the targeted 15 percent internal rate of return.

18. The project has reached 28 departments out of 32 in the country, spreading the entrepreneurial culture in the rural areas. Moreover, the productive partnership model and methodology developed under the project has inspired the productive strategy of other projects (e.g. IBRD Peace and Development Project) and is being used by some regional administrations (Departments of Antioquia and Norte de Santander). Other departments have allocated their own budget to promote productive partnerships following the project's model of intervention and operational manual (Department of Risaralda).

19. **Lessons learned.** Project implementation has provided several lessons:

(i) **Length of the subproject cycle.** The subproject's cycle has proven to be long, complex and costly in terms of transaction costs. This has sometimes discouraged the participants resulting in no compliance with the agreements reached during preparation, and in the need to restructure the partnerships due to changes in market conditions. The simplification of the methodology and shorter project cycles are important challenges for the continuation of the project. The long period between subprojects submission and the first disbursement (some subprojects have reached the peak of 18 months between these two stages of the subproject's cycle) needs to be reduced. More flexible arrangements have already been put in place: e.g. (i) better scheduling of the competitive invitations to present proposals to avoid bunching at the processing stage; (ii) additional technical support to the private sector intermediaries (OGRs) in order to expedite the appraisal of partnership proposals; (iii) introduction on a pilot basis of a decentralized decision-making process at the regional level; (iv) elimination of some unnecessary legal requirements; and (v) simplification of procedures to facilitate the legalization of contractual arrangements. This has contributed to an important reduction in time, but further efforts are needed.

(ii) **Quality of the pre-investment studies.** The quality of the pre-investment studies ensures a greater probability of success and sustainability of the partnerships. Quality of the partnerships has steadily improved through the improved quality of the feasibility studies and the risk analyses. During implementation, the terms of reference of the pre-investment studies have been regularly reviewed to better respond to the specificity of each partnership (type of product, scope of the agribusiness, capacity of the partners, pre-existing data), and to improve the quality of the studies.

(iii) **Working with private technical assistance providers.** Working with NGOs and consulting firms has been hampered by the lack of capable organizations and skilled personnel at the sub-national level. In consequence, the project has trained and strengthened the capacities of the TA providers, resulting in an important investment in human and social capital favoring the preparation, management and supervision of productive partnerships at the territorial level. This has reduced costs and has accelerated and improved the process of preparation and supervision of partnerships. In addition, the institutional capacity built at the regional level has enhanced the possibilities to de-concentrate the project management to the regional level and to expand its activities in a more efficient way.

(iv) **Capacity building at partnership level.** In order to achieve sustainable partnerships, long term follow-up and assistance of partnerships needs to be guaranteed. A one year technical assistance by local management organizations (OGAs), has proven to be too short and insufficient to build the managerial capacity of the producer associations to such a level that they are sustainable. During implementation the duration of the technical assistance has been adjusted. But the strengthening of the entrepreneurial orientation and skills of the farmer organizations needs more emphasis. Moreover, the capacities of the OGAs to transfer knowledge and skills to farmer organizations continues to be an important challenge that also needs to be better addressed through training during the follow-up project.

(v) **Working with the agribusiness sector.** Traditionally, commercial private companies distrust the public sector, disregard public operations due to their complexity and avoid risks associated with working with unknown and un-experienced small farmers associations. The latter is aggravated in some cases by the context of conflict and violence in rural areas. The commitment of the commercial private sector continues to be weak. The outreach strategy to the private sector, motivating the participation of commercial enterprises, could have been better and should be a important feature of the follow-up project. Strengthening the market-orientation of the partnerships and increasing the responsibility of the commercial sector in the preparation and management of partnerships remains also a challenge. IFC's involvement in the project through a technical assistance program, to promote the linkages between big private sector enterprises and small farmer associations, will contribute to the project's private sector strategy.

(vi) **Complementarity with other rural development interventions.** The project can benefit of complementary activities from other operations and programs, and project beneficiaries can benefit from accessing other available instruments and facilities (special credit lines, social protection programs, technical assistance, regional production chains meetings, etc.). The need to create more co-operation and synergies with other rural development programs and projects, as well with local and regional private and public institutions, should be considered in order to further enhance the project's impact and the sustainability of the partnerships.

(vii) **Adhering to the rules of the game.** Strict adherence to the rules of the game and the competitive selection process of the partnerships has given a substantial level of credibility to the project in rural areas and reduced political involvement in the decision-making process. The decision to further de-concentrate the Project might trigger the risk of political interference in the project cycle. Closer supervision and a much stronger monitoring and evaluation system would need to be put in place in the next phase.

(viii) **Reduced use of the financial incentive.** Partnerships can benefit from the Modular (financial) Incentive to finance up to 40% of the investment costs of a productive subproject. However, during the partnerships' preparation process, other sources of financing are generally identified (from the private sector, the local administrations, others), resulting in a lower use of the modular incentive (in average

60% of the allowed incentive). This encourages the project to continue the preparation of high quality appraisal studies, minimizing the need of the public financing and leveraging more private sector funds, including access to credit. However, small farmers will continue to have constraints to be considered “subject of credit” by financial institutions. This justifies a continuation of this project and the provision of the modular incentive. At the same time, the availability of the modular incentive reduces the need for the farmers to comply with the banking sector’s requirements for credit. The design of the proposed follow-up project will need to include mechanisms that provide incentives for the farmer organizations and those who formulate the partnerships to obtain credit from financial institutions. One such mechanism is to link the level of the modular incentive to the amount of bank credit.

(xi) **Monitoring and Evaluation**. Substantial efforts to measure impacts on income, employment and social coherence, requiring a sophisticated and costly methodology (multiple surveys and complex data processing), were made to provide evidence on the project’s achievement of its development objectives. The impact studies have been an expensive exercise for the Government. One of the lessons learned here is to avoid putting partial income increase or employment increase targets in the PDO indicators. Another lesson is that setting up monitoring schemes through management information systems in a PIU is more difficult than one generally envisages during appraisal. Monitoring systems are complex and need special expertise that is hard to find. Realistic and measurable indicators are indispensable but should take into consideration the cost of measuring them.

(x) **Institutional set up**. The project’s implementation unit has operated very well but relatively separate from the MADR structure (although housed in the Ministry). The PIU had also excellent relations with the Secretariats of Agriculture in the Departments. The Project team has made important (but not always successful) efforts to link its activities to the Productive Chains Directorate and benefit from the technical support of this unit. A deeper integration of the project within the Ministry’s structure is recommended for the next phase.

20. **Sustainability and institutional development aspects.** The productive partnership concept, as conceived by the project, empowers stakeholders to take the implementation of the activities in their own hands and to seize the responsibility as agents of their own change. It focuses on the strengthening of producer associations leading to self-management by stakeholders at the local level. The construction of the partnerships is itself a participatory process which involves intense interaction among the partners, capacity building to gain understanding, abilities and negotiation capacity to define the rules of action for the agribusiness. In addition, the enhanced quality of the pre-investment studies; the linkages with private sector through collaborative agreements; the technical assistance received by small farmers; the cost recovery mechanism promoted for the Modular Incentive (that can provide an alternative to better link small farmers with the formal financial sector, thereby contributing to the creation of a more conducive financial environment for future investments), contribute to the sustainability of the partnerships.

21. In terms of institutional capacity, the present Project has trained private sector organizations (local NGOs, consulting firms) in the methodology for development and implementation of productive partnerships. These NGOs are now capable of promoting, preparing, leading and monitoring such partnerships. They are also capable of providing professional technical assistance and training to the farmer organizations and commercial enterprises to maintain successful partnerships. Despite these achievements, the need to strengthen the technical assistance capacity at the territorial level continues, and a way to provide in a cost effective way longer term supervision to productive partnerships subprojects, remain a challenge. The productive partnerships model is being used in other projects (e.g. Colombia Peace and Development Project) as well as by some regional administrations (Departments of Antioquia and Norte de Santander). Other departments like the Department of Risaralda have allocated their own budget to promote productive partnerships following the project's model of intervention and operational manual.

### **III. Likely benefits of Project Scaling-Up.**

22. The Borrower's aim is to promote more productive partnerships (to do more of the same) in a more cost-effective way. The on-going project is already expanding its activities beyond the original outputs. It is training local organization in partnerships management, is initiating the decentralization/de-concentration process, and is simplifying the project cycle procedures. The second project would reach about 25,000 small farmer families, who will be the main beneficiaries of the loan funds. Nevertheless, the project activities will also involve intensive collaboration with medium-sized farmers who have the capacity to respond quickly to what markets want. The project activities will focus in those departments that are relatively poorer, but have potential for development through agriculture.

23. The Borrower intends to use the repeater operation for the following activities:

- a. To expand the number of operating productive partnerships under the project from 100 to 350 and expand the number of beneficiaries from 10,000 families to 35,000 families;
- b. To train private sector organizations (local NGOs, consulting firms) in the methodology for development and implementation of productive partnerships so that at least an additional 10 of those organizations are fully capable of promoting, preparing, leading and monitoring such partnerships, and additional 25 organizations are capable of providing professional technical assistance and training to the farmer organizations and commercial enterprises to maintain successful partnerships;
- c. To integrate the project management (PIU) into the institutional and organizational structure of the Ministry of Agriculture so that by the end of the project period a Directorate in the Ministry of Agriculture is fully responsible for the management of the project activities;
- d. To decentralize decision-making on approval of productive partnerships to five regional instances (Regional Productive Partnerships Intersectoral

- Committees) that will be trained to become fully capable of promoting, selecting, monitoring and evaluating productive partnerships at the regional level;
- e. To simplify the preparation and establishment of productive partnerships so as to shorten their preparation and establishment time to maximum six months after acceptance by the regional instances; and
  - f. To involve the commercial private sector more intensively through a co-operation agreement with the IFC.
- 24.** The Borrower and MADR are committed to the continuation of the project. The MADR has budgeted Col\$6.000 million (USD\$ 2.6 million) to complement Project financing needed in 2007. On September 25, 2006 the Directorate of National Planning has requested a second phase of the Project for a loan amount of US\$30 million.