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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
RURAL PRODUCTIVITY PROJECT
LOAN 7439-PA

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TO THE
REPUBLIC OF PANAMA

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Sustainable Development Department
Latin America and the Caribbean Region

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ABBREVIATIONS AND ACRONYMS

ANAM	National Environmental Authority
IFR	Interim Financial Reports
MIDA	Ministry of Agricultural Development
MEF	Ministry of Finance (Ministerio de Economía y Finanzas)
PIU	Project Implementing Unit
PDO	Project Development Objective
RPA	Rural Productive Alliance

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**REPUBLIC OF PANAMA
RURAL PRODUCTIVITY PROJECT**

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REPUBLIC OF PANAMA
RURAL PRODUCTIVITY PROJECT
LEVEL II RESTRUCTURING PAPER

A. SUMMARY

1. In letters dated July 9, 2012 and August 17, 2012, the Ministry of Economy and Finance requested the World Bank to proceed with the restructuring of Loan 7439 PA. This loan finances the Panama Rural Productivity Project (P064918), and co-finances the GEF Grant TF56628 for the Panama Rural Productivity and Consolidation of the Atlantic Mesoamerican Biological Corridor Project (P083045). This Level Two restructuring of the IBRD Loan would provide for (i) the reformulation of two of the Project's Development Objective (PDO) indicators to better reflect and quantify the targets of the Project; (ii) a first 18-month extension of the Closing Date from January 31, 2013 to July 31, 2014; and (iii) a reallocation of Loan proceeds.

2. The proposed changes would allow the Project to: (i) fully reach its Development Objective of "contributing to increased productivity among organized rural small-scale producers, through their participation in productive alliances, while ensuring the sustainable use of natural resources and the conservation of globally important biodiversity"; (ii) use and disburse all the loan funds; (iii) provide the necessary funding to all the rural productive alliances that have been working with the project on preparing investment plans and are waiting for funds for their sub-projects; and, (iv) strengthen the post-funding support services to the beneficiaries, which would complement the sub-projects investments. In addition, the reallocation of funds would allow the strengthening of the monitoring and evaluation activities and project management and enhance the sustainability of the investments.

3. The reformulation of two of the PDO Indicators will also lead to the improvement of the reporting on the impact by the Project Implementation Unit (PIU), especially in the areas of sustainability and environmental impact.

B. PROJECT STATUS

4. The Project has two implementing agencies: (i) the Ministry of Agricultural Development (MIDA) for Component 1 (Support for Productive Alliances), Component 2 (Productive Alliances), and Component 4 (Project Management and Monitoring and Evaluation), in the amount of US\$29.4 million, out of the US\$39.4 million loan, and (ii) the National Environmental Authority (ANAM) for Component 3 (Environmental Subprojects and Strengthening of the National Protected Areas System) for the remaining US\$10 million. Each agency has its own Project Implementation Unit and its own Results Framework.

5. **MIDA-related activities.** The Loan was approved on March 21, 2007 and became effective on November 1, 2007. Progress towards the achievement of the PDO and Implementation Progress are both Moderately Satisfactory, and all project flags have

been removed in the past 12 months. In 2010, after a period of weak implementation in the first two years of the Project execution, due to institutional instability and to a consequent lack of national financing, the Project has picked up pace significantly. In 2011, the Project disbursed its allocated budget for 2011 of about US\$3 million, and in the first four months of 2012 it disbursed almost US\$2 million. As of October 22, 2012, 58% of MIDA-related funds have been disbursed. Following the promising results of 2010 and in 2011, the Ministry of Finance (MEF) increased the budget allocation to the project and fully funded the 2012 request from the Ministry of Agriculture, leading the Project activities to resume at full pace. The current draft of the national budget for 2013 also includes the full requested allocation which would allow all remaining funds to be disbursed by the proposed new Closing Date of the Loan.

6. The PIU has completed the agreed action plan to enhance the performance and impact of the project: it has conducted a review of the existing portfolio of projects/investments, eliminating and restructuring sub-projects that were not satisfactory, and selecting a current portfolio of sub-projects that are expected to use all the remaining loan funds efficiently and productively. The PIU has also strengthened its Monitoring and Evaluation staff and system, and in 2012, for the first time since effectiveness, has been able to report on three out of the four PDO indicators, which further indicate that the project's objectives remain reachable. The PIU has improved significantly its compliance with the Bank's Safeguards and has appropriately strengthened its focus on fiduciary and compliance issues as well. An audit firm has been hired to conduct a review of the fiduciary activities of the MIDA sub-projects to ensure compliance with Project requirements.

7. As of mid-2012, the MIDA-related activities have completed the following: 121 alliances working with 4,400 producers and representing close to US\$20 million of grants were at various levels of preparation, including 59 sub-projects under implementation (representing matching grants totaling US\$11 million) and another 10 sub-projects about to receive their initial grant (totaling about US\$1.6 million). The final approval of the remaining sub-projects will take place shortly after the extension of the closing date to allow sufficient time for implementation.

8. **ANAM-related activities.** The loan provides US\$10.0 million of co-financing to a US\$6.0 million GEF Grant TF56628 to ANAM. The Grant was approved by the Board on June 15, 2006, and became effective on January 2007, 10 months before the loan effectiveness date. Progress towards the achievement of the Grant PDO is Moderately Satisfactory. However, implementation progress is rated Moderately Unsatisfactory, in line with the ratings given to Financial Management, Procurement, and Safeguards compliance. The implementation of this component suffered severe delays in the first two years of the project. Since June 2011, Project performance has shown substantial progress, with all activities of the action plan established during the Mid-Term Review carried out. The action plan included (i) the hiring of the vacant positions in the PIU, (i.e. procurement, social and environmental specialists, accountant, and subprojects coordinator), (ii) the update of the accounting register (needed because of the lack of an accountant since December 2010), (iii) a new Annual Operating Plan, (iv) the resumption of disbursements to sub-projects that had been put on hold because of the change of management in ANAM and (v) the submission of overdue audit report and IFRs.

Disbursements accelerated considerably to reach US\$7.0 million (or 70%) of the IBRD Loan and US\$5.5 million (or 90.96%) of the Grant amount.

9. As of mid-2012, the ANAM-related activities have completed the following: (a) 36,126 ha of forests and other natural ecosystems of global biodiversity significance in buffer zones of Protected Areas under effective conservation, reaching 72% of the target; (b) 308 environmental investments or subprojects under execution in 6 departments, 26 municipalities and 2 *Comarcas* that represent 88% of the target; (c) technical assistance provided to help communities better commercialize their products; (d) 8 co-management agreements in Protected Areas negotiated and established (vs. a target of 12); (e) local environmental educational programs strengthened; (f) ongoing specific studies for the establishment of a payment for environmental services (PES) mechanism; (g) a monitoring system for biodiversity implemented, and (h) communication strategy implemented.

C. PROPOSED CHANGES

Project Outcome Indicators

10. During the Mid-Term Review, the Bank Team and MIDA agreed that two of the four PDO indicators would need to be reformulated because they were either too vague in their definition or impossible to measure. As requested by the Government, two new measurable indicators are being proposed which aim to keep the spirit of the two original indicators.

Ind. #	Objective of Indicator	Formulation of Original Indicator	Proposed New Indicator	Reason for change
2	Measure sustainability of alliances	By the end of the Project, at least 40% increase in net revenues for the participating rural productive alliances.	At least 75% of the productive alliances continue to operate one year after having received the support of the project and have a functioning revolving fund.	As a large number of alliances started their operation as “new businesses”, their starting profit was zero (or negative) and therefore a 40% increase could not be computed.
4	Measuring environmental impact	By the end of the Project, 10% reduction in area under annual crops and cattle in project area on land appropriate for forestry uses.	By the end of the Project, 10 percent of sub-project area, as an effect of the project, was converted to tree plantation for multiple sustainable uses.	Original formulation of the indicator was not clear. Mainly, it is not sure what would have had to replace the annual crops and cattle production.

Reallocation of Loan Proceeds

11. The reallocation among categories will allow MIDA and ANAM to strengthen the monitoring and evaluation of project activities, particularly the implementation of the productive and environmental subprojects. It will also finance the PIU-related costs associated with the extension of the Closing Date financed under Category 4 and 5 below. Most of the category increases are financed out of unallocated funds and, to a lesser extent, savings incurred during the first years of implementation.

12. The Loan proceeds will be reallocated as follows:

Category of Expenditure	Allocation		% of Financing	
	Current	Revised	Current	Revised
(1) Goods, Works, Non-Consultant services, Training, Consultants' Services, and Operating Costs for Part 1 of the Project	6,400,000.00	5,400,000.00	100%	100%
(2) Goods, Works, and Services for Productive Subprojects under Part 2 of the Project	19,000,000.00	19,000,000.00	100%	100%
(3) Goods, Works, and Services for Environmental Subprojects under Part 3 of the Project	6,000,000.00	5,112,321.43	100%	100%
(4) Goods, Works, Non-Consultant services, Training, Consultants' Services, and Operating Costs for Part 3 of the Project	2,350,000.00	4,527,678.57	100%	100%
(5) Goods, Works, Non-Consultant services, Training, Consultants' Services, and Operating Costs for Part 4 of the Project	3,350,000.00	4,597,885.97	100%	100%
(6) Refund of the Project Preparation Advance	900,000.00	762,114.03	Amount payable pursuant Section 2.07 (a) of the General Conditions	Amount payable pursuant Section 2.07 (a) of the General Conditions
(7) Unallocated	1,400,000.00	0		
TOTAL AMOUNT	39,400,000.00	39,400,000.00		

Closing date

13. The Project suffered considerable implementation delays and high staff turnover (including 5 PIU directors) during the first few years of operation, leading to the Government to decrease the annual budget allocation for the project in the third and fourth year. Since then, as mentioned above, considerable progress has been made in terms of disbursement, general implementation, supervision of safeguards and financing by the Government.

14. An extension of 18 months from January 31, 2013 to July 31, 2014 is necessary to allow the Borrower to conclude successfully the implementation and the monitoring and evaluation of the subprojects. Since this is the Project's first extension and is of 18 months, it will need to be approved by the Country Director. Based on (i) the Project's considerable progress in the last 12-18 months, (ii) the removal of the Project's main bottlenecks (e.g., full funding allocation from the national budget), (iii) a full pipeline of eligible sub-projects whose financing would absorb all remaining funds and (iv) the PIUs recent track record in respecting the Project's implementation schedule (sub-project approval, implementation and monitoring), the extension is expected to allow the project to reach its PDO. The extension would also allow all the sub-projects of producers that have been working with the Ministry of Agriculture to be funded as promised by the Government. All eligible activities to be financed have been agreed previously with the Bank, and will be included in the corresponding Annual Operating Plans for both MIDA and ANAM. Both agencies are in full compliance with the Bank's financial management requirements, and there are no overdue audit reports and IFRs. With the extension of the Closing Date, the amendment will also postpone the delivery of the Project report to be prepared by the Client, established under Section IV.B.2 of Schedule 2, from the original to the new Closing Date.

ANNEX 1:

Project Indicators

Indicator Name		Baseline	Actual(Current)	End Target
By EOP, at least a 25% increase in sales receipts of small-scale producers via PRORURAL-financed productive alliances	Value	Pre-project sales receipts of Rural Producer Associations	18,8%	25% increase in pre-project sales receipts for rural producer associations.
	Date	16-May-2007	20-Apr-2012	31-Jul-2014 ¹
	Comments			
Indicator Name		Baseline	Actual(Current)	End Target
By EOP, at least 40% increase in net revenues for the participating Rural Production Associations via the productive alliance. Proposed revised indicator: At least 75% of the productive alliances continue to operate one year after having received the support of the project and have a functioning revolving fund.	Value			40.00
	Date		20-Apr-2012	31-Jul-2014
	Comments		Indicator to be reformulated through this proposed restructuring.	
Indicator Name		Baseline	Actual(Current)	End Target
By EOP, at least a 20% increase in membership in RPAs for the project area, relative to baseline.	Value		24.00	20.00
	Date		20-Apr-2012	31-Jul-2014
	Comments			
Indicator Name		Baseline	Actual(Current)	End Target
By EOP, 10% reduction in area under annual crops and cattle in project area on land appropriate for forestry uses Proposed revised indicator: By the end of the Project, 10 percent of sub-project area, as an effect of the project, was converted to tree plantation for multiple sustainable uses.	Value		7.00	10.00
	Date		20-Apr-2012	31-Jul-2014
	Comments		Indicator to be reformulated through this proposed restructuring.	
Indicator Name		Baseline	Actual(Current)	End Target
140 RPAs trained and capable of participating in productive alliances.	Value	0	136	140
	Date	18-May-2007	20-Apr-2012	31-Jul-2014
	Comments			

¹ Proposed new Closing Date

Indicator Name		Baseline	Actual(Current)	End Target
By EOP, at least 30 technical service providers (TSPs) trained and certified to provide technical assistance to RPAs and productive alliances.	Value	0	43	At least 30 TSPs
	Date	26-May-2008	20-Apr-2012	31-Jul-2014
	Comments			
Indicator Name		Baseline	Actual(Current)	End Target
At least 100 productive alliances proposed with quality Business Plans according to criteria set forth in Project Operational Manual.	Value	0	121	At least 100
	Date	01-Nov-2007	20-Apr-2012	31-Jul-2014
	Comments			
Indicator Name		Baseline	Actual(Current)	End Target
70 business plans approved by the External Committee	Value	0.00	100.00	70.00
	Date	16-May-2007	20-Apr-2012	31-Jul-2014
	Comments			
Indicator Name		Baseline	Actual(Current)	End Target
60 subprojects under implementation.	Value	0	59	60 subproject
	Date	01-Nov-2007	20-Apr-2012	31-Jul-2014
	Comments		This number includes 4 sub-projects eliminated after execution had started.	
Indicator Name		Baseline	Actual(Current)	End Target
5,000 small-scale producers participating in PRORURAL-financed productive alliances.	Value	0	2992	5,000 small-scale producers
	Date	01-Nov-2007	20-Apr-2012	31-Jul-2014
	Comments			
Indicator Name		Baseline	Actual(Current)	End Target
85% satisfaction among RPAs regarding technical assistance from certified service providers.	Value	n/a	60%	85%
	Date	01-Nov-2007	20-Apr-2012	31-Jul-2014
	Comments			

Indicator Name		Baseline	Actual(Current)	End Target
By EOP, 10% increase in land under perennial crops (previously under annual cropping or pasture) by organized producers in project area.	Value			10.00
	Date		20-Apr-2012	31-Jul-2014
	Comments		n/a	
Indicator Name		Baseline	Actual(Current)	End Target
Annual Operating Plans successfully executed	Value		On-going	yes
	Date	10-Dec-2007	20-Apr-2012	31-Jul-2014
	Comments		In progress	
Indicator Name		Baseline	Actual(Current)	End Target
Satisfactory technical and financial audits of the Project	Value	No	Yes	Yes
	Date	16-May-2007	20-Apr-2012	31-Jul-2014
	Comments			
Indicator Name		Baseline	Actual(Current)	End Target
The M&E system reports satisfactory results for the financed Business Plans.	Value	0	Yes	Yes
	Date	26-May-2008	20-Apr-2012	31-Jul-2014
	Comments		A web based monitoring system (PENTAGON) is operational.	
Indicator Name		Baseline	Actual(Current)	End Target
Quarterly reports completed and sent to Bank	Value	No	On-going	Yes
	Date	16-May-2007	20-Apr-2012	31-Jul-2014
	Comments			