Environmental and Social Review Summary
Concept Stage
(ESRS Concept Stage)

Date Prepared/Updated: 01/31/2019 | Report No: ESRSC00213
BASIC INFORMATION

A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Region</th>
<th>Project ID</th>
<th>Parent Project ID (if any)</th>
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<tbody>
<tr>
<td>Paraguay</td>
<td>LATIN AMERICA AND CARIBBEAN</td>
<td>P168153</td>
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Project Name: Productive Alliances Project

Practice Area (Lead) | Financing Instrument | Estimated Appraisal Date | Estimated Board Date |
Agriculture          | Investment Project Financing | 7/15/2019 | 10/8/2019 |

Borrower(s): Ministry of Finance, Republic of Paraguay
Implementing Agency(ies): 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.

Financing (in USD Million)

<table>
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<tr>
<th>Total Project Cost</th>
<th>Amount</th>
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<td>120.00</td>
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B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?
No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]
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.

D. Environmental and Social Overview

D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]

The project will have national coverage, but activities will be tailored to fit the diverse ecological and productive contexts. Paraguay is a diverse country, so the project activities will consider differing regional/local aspects such as strategic value chains, prevalence of indigenous communities and smallholders, and the existence of potential partners such as anchor firms, public purchasers, cooperatives, and local NGOs. Paraguay is rich in natural endowments as rainfall, fertile soil, and forest are abundant, which combined with high-quality inputs and comparatively low costs have given the country a comparative advantage in agriculture and livestock. As a landlocked country, Paraguay’s rivers are an important characteristic in its geography. The Paraguay River divides East and West into two strikingly different regions - Eastern Paraguay/Paraguay Oriental, known as the Paraneña region, and Western Paraguay/Paraguay Occidental, known as the Chaco region. Eastern Paraguay is mostly flat with a maximum elevation of 842 meters above sea level. Western Paraguay, by contrast, is almost entirely a plain that slopes east towards the Paraguay River, with a maximum elevation of 380 meters above sea level. Around 65 percent of the soil of the Eastern Region is fertile and well-drained, and thus excellent for crops and pasture. Western Paraguay’s soil is less fertile and sandier, thus better for cattle farming. The Chaco, an area which has not been covered by the Bank-financed Sustainable Agriculture & Rural Development project (PRODERS, P088799), covers more than 60 percent of Paraguay’s total land area and bears very specific characteristics. It counts with a sparse and disperse population that over the last decades has expanded the agricultural frontier and promoted heavy deforestation rates with an estimated annual forest loss of approximately 240,000 hectares. Due to a lack of fresh groundwater in most of the Chaco, excluding the North and the West, the Ministry of Agriculture and Livestock (MAL) and partner institutions will need to assess and manage agricultural water usage carefully.

D.2. Borrower’s Institutional Capacity

Institutional capacity of the Ministry of Agriculture and Livestock (MAL) to implement the Bank ESSs will be assessed by the Bank during the next preparation period prior to the project appraisal, and a detailed institutional strengthening plan will be prepared and agreed upon accordingly to be financed under component 3. MAL has knowledge of World Bank safeguards due to more than 10-year experience in implementing PRODERS. At this stage, however, it is not likely that the specialists in charge of the implementation of the PRODERS safeguards would continue in the new project. Thus, MAL will need to assign/contract capable professionals to lead ES risks and impact management. MAL will need to prepare an Environmental and Social Management Framework (ESMF) following terms of reference (ToRs) satisfactory to the Bank. Regarding social aspects, although MAL has years of experience working with the Bank, including dealing with Bank’s Indigenous Peoples’ policy, this has been done by external consultants to MAL. Thus, uncertainty on the human resources that MAL will use to work with vulnerable and excluded social groups – among them Indigenous Peoples and Afro-descendants, jointly with new social features of this project, pose the need for a detailed institutional capacity assessment. The Bank team will provide close support to MAL in the preparation of the project while building capacity and securing achievement of development outcomes materially consistent with the applicable ESF objectives.

II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS
A. Environmental and Social Risk Classification (ESRC)

Environmental Risk Rating

The environmental risk is rated Substantial at the Concept stage, yet the nature and scale of negative environmental risks and impacts of the project activities is expected to vary from moderate to even low, taken the project design is geared to reduce both environmental risks and negative direct, indirect and cumulative impacts of rural smallholder production in Paraguay, as well as their prevailing exposure to environmental risks and degradation. The project is intended to promote climate-smart productive systems to prevent and recover environmental degradation and deforestation, yet the latter in Paraguay has mainly been due to expansion of the agricultural frontier by large commercial farmers. Focus will also be placed on increasing vulnerable producers’ resilience to face increasing climate risks, including drought.

Despite these environmentally positive design objectives, the Substantial risk is due to (i) an overall limited consideration of environmental sustainability in the agriculture sector in Paraguay over the past decades; (ii) the need for longer-term work with remarkable field presence with low(er)-capacity producers to achieve behavioral changes in terms of environmental management; (iii) uncertainty on the location of the subproject investments and thus their environmental sensibility; and (iv) an overall low capacity in Paraguay, including pending capacity assessment on environmental management within MAL.

Social Risk Rating

Social risk is rated Substantial. Overall low institutional capacity of MAL to adequately address the new social features of this project might hinder achievement of the proposed PDO to enhance the linkages to markets for Indigenous Peoples (IP), afro-descendants and smallholder producers in a sustainable manner. Although MAL has years of experience on Bank’s IP’s policy, this has been done by external consultants. Thus, lack of institutionalization of knowledge that could have been acquired through the current operation PRODERS, and new features of the project, such as proposing to form alliances between systematically excluded social groups and organizations with more assets will require specific arrangements and measures. IPs in Chaco might have different challenges when compared to those working with PRODERS. IPs of Chaco are very diverse and located in disperse areas that not only suffer from droughts and floods but have often scarce transport connectivity. If not properly managed under adequate arrangements, prompting collaboration between these communities with cooperatives and firms that have always been seen as exploiting IPs can lead to diverse issues such as elite capture of project benefits.

Assessment of social risks will also include labor and working conditions - particularly those related with child and adolescent labor in productive activities, disability constraints and special needs of gender and age per each of the foreseen activities, eventually taking of land for infrastructure works, and the stakeholder engagement plan jointly with a solid grievance redress mechanism (GRM).

A detailed assessment of the above cited possible social risks and MAL institutional capacity to adequately manage them will be conducted during preparation, and tailored measures will be proposed to be considered in the project design as well in the frameworks and institutional strengthening plan to be supported under component 3 of the project.

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered
B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

MAL will prepare an Environmental and Social Management Framework (ESMF) that will include an Environmental and Social Assessment (ESA). ES risks and impacts will be assessed at framework level to identify measures to manage them in line with the mitigation hierarchy. Further, the ESMF will establish the entry points of ES considerations throughout the subproject cycle, where ES aspects will be 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 consideration as the project preparation proceeds, but most of them are expected to be small-scale, community driven development projects that involve matching grant schemes. Social aspects to be considered in the assessment include, among others: i) barriers of targeted vulnerable groups to participate in project activities and access its benefits, including disabled; ii) cultural and economic barriers to participate in innovation partnerships under subcomponent 2a; iii) risks of creating or exacerbating conflicts with stakeholders who may have developed patronizing political and economic relations with smallholder farmers and/or IPs and afro-descendants; iv) risks of elite capture of projects benefits; v) risks or impacts associated with land and natural resource tenure and use; vi) risks of child and forced labor for the sort of proposed subprojects; vii) risks to IPs intangible cultural heritage as a result of adopting innovative technologies; and viii) barriers to develop an inclusive and culturally adequate stakeholder engagement strategy. The ESA will also develop a strategic social assessment of IPs in Chaco region and a stakeholder analysis to be considered in the Stakeholder Engagement Plan (SEP). The SEP will cover consultations on the ESMF that will be disclosed before project appraisal.

Areas where reliance on the Borrower’s E&S Framework may be considered:

Reliance on the Borrower’s social legal framework will be considered for three standards: ESS2 (Labor and Working Conditions), ESS7 (Indigenous Peoples) and ESS8 (Cultural Heritage). Paraguay’s regulations in these areas are in line with the objectives of said Standards, although their enforcement should be considered in the general assessment of low enforcement of law in Paraguay. Thus, the Bank will focus its related assessment on the institutional framework and enforcement capacity. Borrower’s Framework on other standards as ESS1 and ESS5 (Land Acquisition, Restrictions on Land Use and Involuntary Resettlement) present clear gaps in enforcement capacity and scope of coverage and procedures, respectively. These gaps will be addressed in the ESMF and a Resettlement Framework (RF) that will guide assessment and management of resettlement issues during the project implementation.

ESS10 Stakeholder Engagement and Information Disclosure

The project design with a detailed Stakeholder Engagement Plan (SEP) and GRM will be disclosed and consulted with key stakeholders from the project preparation throughout implementation. These instruments will have tailored components for indigenous and afro-descendant (the latter is still to be assessed) peoples that will aim to design culturally appropriate processes that are respectful to their traditional mechanisms. Consultation activities will be held with project affected and interested parties in locations that will be identified with MAL as the project preparation proceeds. Stakeholders will include, among others, Agricultural Advisory Council of MAL (production trade unions and the cotton business chamber); Family Farming Advisory Council of MAL (producers’ organizations, commercial and industrial chambers, representatives from departments and municipalities); Rural Association of Paraguay; SENAVE (National Service of Quality and Plant and Seed Health); DEAG (Directorate of Agrarian Extension); SENACSA (National Service for Animal Health and Quality); INDERT (National Institute for Rural and Land...
Development); IPTA (Paraguayan Institute of Agricultural Technology); indigenous and afro-descendants’ organizations, cooperatives, universities, NGOs and media. Main characteristics of the GRM will include clear procedures for managing claims and its design will be guided by principles such as: (a) availability for beneficiaries and stakeholders respecting their sociocultural characteristics and needs; (b) known procedures and timeline for analyzing and resolving claims; and (c) affordability for the GRM users. The GRM will be supported by ICT as appropriate. Regarding ESS2, there will be a specific GRM for all workers and contracted workers. Related to IPs and afro-descendant, the GRM will be tailored and include measures respectful to their culture, such as the use of indigenous languages and adoption of their own conflict resolution mechanisms, among others.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions
MAL will develop Labor Management Procedures (LMP) applicable to the project based on ToRs in accordance with the requirements of ESS2. Procedures will consider five different groups: i) direct workers; ii) contracted workers; iii) primary supply workers; iv) community workers under financed subprojects in general; and v) community IP workers under financed subprojects in particular. Within the subcomponents of the project, there is a concern related to potential child labor, particularly in family farms. A study of UNICEF from 2016 reveals that a large percentage of children in Paraguay needs to work daily to survive and help their families – and many of them are even exposed to dangerous working conditions. The study highlights that the most affected areas are rural, where 39.6 percent of children are involved in child labor. Underage males are those who work most (32.8 percent), while only 19.7 percent of girls and adolescents need to work. Regarding financing subprojects with IP participation in Chaco, there is a concern related to forced labor. Since 2010, the Ministry of Justice and Labor, trade unions and indigenous organizations have been working with the objective of combating forced labor among IPs in the Paraguayan Chaco. However, fear and lack of knowledge about their labor rights continue preventing most indigenous workers from asserting their rights. Therefore, the ESA will pay attention to risks of child and forced labor to include preparation of the necessary mechanisms in the Environmental and Social Commitment Plan (ESCP) to prevent, monitor and remedy them under financed subprojects, while building the MAL and other partner institutions’ capacity to prevent, identify and address use of child and/or forced labor. The LMP will include measures to avoid discrimination and grant equal opportunities, and measures related to occupational health and safety. A GRM will be provided for all direct workers and contracted workers to raise their concerns.

ESS3 Resource Efficiency and Pollution Prevention and Management
The project will require close attention to sustainable and efficient use of resources and preservation of ecosystem services required for sustained agricultural production. Access to water will need careful assessment in the Chaco region where water is an extremely limited resource. Yet no subproject is expected to imply high water demand, development of detailed water balances might result useful, if not critical, particularly in the driest parts of Chaco. Preparation of water balances at least at a pilot scale will be considered during project preparation. In every case, opportunities for improvement in water use efficiency will be identified and implemented, and specific water use, measured by volume of water used per unit production, will be assessed. Need for assessment of potential cumulative impacts of water use upon communities, other users and the environment will need to be determined on
a case by case basis, and the Bank will support MAL in identifying and implementing appropriate mitigation measures. Regarding pollution, the project design is geared to reduce agricultural discharge to surface water through runoff of pesticides, fertilizers and manure, or leaching of nitrogen into groundwater. The project is not expected to imply major potential for air pollution, disturbance by noise or other forms of pollution. Organic waste will be managed as a productive asset and other waste management implemented based on the 4Rs principle on reduction, reuse, recycling and recovery. Regarding hazardous materials and minimization of adverse impacts on human health and environment, focus is expected to be in integrated pest management (IPM) as the project is expected to allow procurement and use of low toxic pesticides. The ESMF will define institutional responsibilities and guide IPM and preparation of management plans at subproject level as needed, including sufficient budget. As part of a climate-smart agriculture approach, minimizing GHG emissions will be considered at value chain/subproject level.

ESS4 Community Health and Safety

Project actions under components 1 and 2 are expected to decrease community exposure to risks and impacts, including measures to increase adaptive capacity to increasing climate variability and change. The ESA will include identification of necessary measures to improve community health and safety in financed subprojects and define mechanisms to monitor their implementation. Due consideration will be given to promotion of and training on IPM to secure prevention of negative health impacts amongst producers, their families and the adjacent communities. Regarding food security, implementation of subcomponent 1b, and particularly actions to support productive integration in strategic value chains will take into account experiences of Chaco Mennonites cooperatives that certify the quality of meat and dairy products from indigenous communities especially in the control of brucellosis.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

Implementation of subcomponent 2c (small infrastructure subprojects) may result in small scale land acquisition or involuntary resettlement. Since activities under this subcomponent will be defined during project implementation, a Resettlement Framework (RF) for elaboration of specific Resettlement Action Plans as needed, based on ToRs acceptable to the Bank will be prepared and disclosed prior to project appraisal. The ESA, developed under ESS1, will include an analysis of risks and impacts pertaining to land and natural resource tenure and use, including communal land use requirements for both non-indigenous and indigenous lands, since subproject activities/works may involve communal lands. In this process, and as subprojects’ envisioned activities need land, the ESA will consider the relevant legal framework. The Agrarian Statute (Law 1863/2002) defines communal fields as areas for free use by the community, intended for cattle grazing or watering. Communal fields are indefeasible, imprescriptible, indivisible and inalienable and they cannot be used for other purposes than those provided for in the Agrarian Statute. Related to IPs’ communal land, the ESA will assess needs of land for subproject activities, considering the "Statute of Indigenous Communities" (Law 904/81) that establishes a series of guarantees in terms of land tenure and determines that the State will provide free of charge these lands, which will be non-divisible, non-transferable, imprescriptible, non-leasable, likewise exempt from tax. The ESA will also consider provisions of the Statute that foresee the mechanisms for land titling on behalf of the indigenous communities, through the Paraguayan Indigenous Institute (INDI). Findings of the ESA under ESS1 related to land tenure and use will be incorporated into the RF in a screening system to gain information of the geographic location of the activities and land situation and requirements for further assessment as needed in the RAPs. No adverse impacts on land and natural resources subject to traditional ownership or under
customary use or occupation by IPs, nor relocation of IPs, are foreseen. The RF will include previsions for community engagement strategies and GRM in accordance to ESS10 and ESS7.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

Main concerns under ESS6 are sustainable management of living natural resources, e.g. livestock and farmed fish, and preserving/enhancing core ecological functions and services of modified habitats, i.e. areas managed for agriculture and sustainable management of primary production. The ESA will determine the need to apply ESS6 in project areas that include significant biodiversity value e.g. for avifauna or in natural pastures. Potential cumulative impacts of investments in conjunction with other projects will be considered to ensure that the landscape impacts will not exacerbate fragmentation of critical corridors, nor encroach on buffer-zones and core areas of protected habitats, private reserves, and undeclared areas of importance for biodiversity. The ESMF will include a robust screening system to gain a clear understanding of the geographic location of the activities and potential areas of concern related to critical habitats. Subprojects with significant risks and/or adverse impacts on biodiversity and those that would need clearing of any type of forested land will be excluded of financing. It is possible that some of the subprojects particularly related with IPs could be located near natural habitats or legally protected and/or internationally recognized areas of high biodiversity value, even critical habitats. Such cases will need to be identified and assessed by qualified experts prior to any decision on project investments. Any subproject that might impact said areas will need to be managed in compliance with the respective management plan. The ESA will include risk analysis on existing drought-tolerant and disease-resistant plant varieties that subcomponent 2b would most probably promote. A further aspect to be consulted with relevant stakeholders and considered in the ESA is potential use of alien species, attending respective ESS6 requirements and excluding use of any invasive alien species.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

IPs are targeted by the project as well as afro-descendants (AD), and since the project will initially have national coverage, ESA under the ESS1 will assess all indigenous peoples (IP) and afro-descendants present in Paraguay. There are 115,944 persons (1.8 percent of total population) belonging to 19 IPs from five linguistic families, 91 percent of them living in rural areas in 14 out of the 18 departments that conform Paraguay. There are about 8,000 AD people living in three departments. After a long anonymity, ADs have been demanding economic and social rights since last decade. Component 2 would provide, among other targeted social groups, IPs and ADs and producer organizations with matching grants to carry out investment subprojects and establish partnerships with purchasers. Component 1 will aim at addressing capacity building of communities and producer organizations to help them to take advantage of investment opportunities. Since activities of these components will be defined during project implementation, MAL will prepare an Indigenous Peoples Planning Framework (IPPF), based on ToRs satisfactory to the Bank, to guide elaboration of specific Indigenous Peoples Plans (IPP) during project implementation. The IPPF will be disclosed and consulted before project appraisal. The MAL, as part of the project’s stakeholders’ engagement and IPPF elaboration, will prepare an IP and AD consultation plan that will foresee the adequate and opportune means by which IP and AD organizations and representatives of different ethnic groups jointly with the Paraguayan Indigenous Institute (INDI) can participate in the project’s design access to its benefits. The IPPF will contain the social assessment findings and a screening system to be used in project activities’ annual planning to ensure that where the subprojects will be present, the IPs and ADs in the area are fully included in a culturally adequate manner in project’s activities and can access its benefits through specific IPPs. The IPPF will also take into account lessons learned from the PRODERS.
Indigenous Strategy, including strengthening the institutional arrangements of the MAL by incorporating specialized staff to work with different cultures, respecting different development and decision processes. Since it is not expected that the project would pose circumstances for adversely impacting indigenous cultural heritage, lands or natural resources, it is not planned that the MAL would need to obtain Free, Prior and Informed Consent (FPIC). ESA will confirm this premise, and if not, the FPIC implementation will be detailed in the IPPF. Furthermore, there will be a tailored GRM for IPs and ADs.

**ESS8 Cultural Heritage**

No direct, indirect or cumulative impact on cultural heritage under the project has been identified so far, since the projected activities are not expected to imply material impacts or cause commercial use of tangible or intangible cultural heritage. Nevertheless, related consultation on project activities will be carried out during the ESA to listen to specialists in the matter. Management of cultural heritage at the national level is responsibility of the Ministry of Education and Science, particularly under the Vice Ministry of Culture that was created as an area specialized in planning, administration and evaluation of plans, programs and projects aimed at further developing national arts and culture. Subprojects will be evaluated in terms of their potential impact on cultural heritage and managed accordingly, with specific measures and in consultation with the Vice Ministry of Culture when necessary. The ESA will assess whether the adoption of “innovative technologies” in agroindustry pursued under component 2 may impact intangible cultural heritage of IPs considering their traditional agricultural practices. If ESA results indicate that there are potential impacts on this matter, a proper consultation will be designed and performed to reach FPIC following a process detailed in the IPPF.

**ESS9 Financial Intermediaries**

The institutional arrangements for the matching grants/revolving funds remain to be defined, yet the project is not expected to use any financial intermediary.

### C. Legal Operational Policies that Apply

**OP 7.50 Projects on International Waterways**  
No  
The project will not carry out any investment linked to international waterways as defined in the Policy.

**OP 7.60 Projects in Disputed Areas**  
No  
The project will not be implemented in areas known to involve disputed areas.

### III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered?  
No  

Financing Partners  
N/A

B. Proposed Measures, Actions and Timing (Borrower’s commitments)
Actions to be completed prior to Bank Board Approval:
Preparation and consultation of the following ESF instruments are expected prior to Bank Board Approval:

Stakeholder Engagement Plan (SEP)
Environmental and Social Assessment and Environmental and Social Management Framework (ESA and ESMF)
Indigenous Peoples Planning Framework (IPPF)
Resettlement Framework (RF)
Labor Management Procedures (LMP)

Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):
Based on the ESA, the Environmental and Social Commitment Plan (ESCP) will include measures to address all the identified risks and impacts not covered during project preparation. As this is a Substantial Risk project and the Borrower has limited capacity, the Borrower will retain independent specialists to carry out ESAs.

Preparation and consultation of at least the following ESF instruments will be included in the ESCP:
Subproject-specific ESAs and Environmental and Social Management Plans (ESMP) proportionate to the level of ES risks and impacts.
Indigenous Peoples Plans (IPP)
Resettlement Action Plans (RAP)
Potentially a pilot water balance study in Chaco

C. Timing
Tentative target date for preparing the Appraisal Stage ESRS 08-May-2019

IV. CONTACT POINTS

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| Borrower/Client/Recipient |
| Borrower: | Ministry of Finance |
| Borrower: | Republic of Paraguay |

Implementing Agency(ies)
Implementing Agency: Ministry of Agriculture and Livestock Production

V. FOR MORE INFORMATION CONTACT
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VI. APPROVAL
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Safeguards Advisor ESSA Noreen Beg (SAESSA) Cleared on 31-Jan-2019 at 15:37:27
Practice Manager Preeti S. Ahuja (PMGR) Concurred on 04-Feb-2019 at 14:44:35