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Enabling poor rural people
to overcome poverty

President's report

Proposed loan to the State of Paraíba of the Federative Republic of Brazil for the

Carirí and Seridó Sustainable Development Project (PROCASE)

Note to Executive Board representatives

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For: Approval

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Abbreviations and acronyms

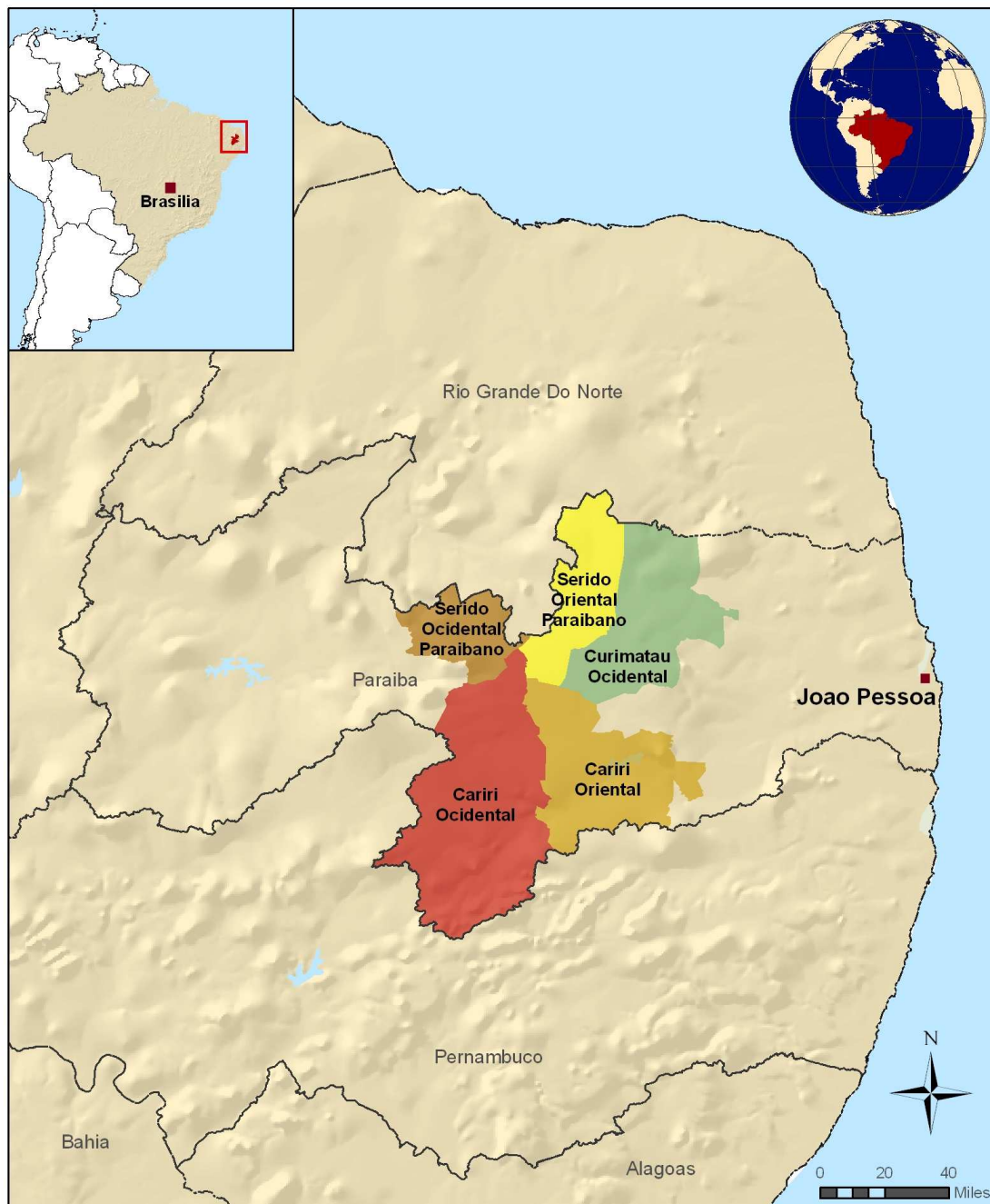
EMATER	State Technical Assistance and Extension Services Enterprise
EMEPA-PB	Paraíba State Agricultural Research Enterprise
PMU	project management unit
PRONAF	National Programme for the Strengthening of Family Agriculture
SECTMA	Secretariat of Science, Technology and Environment
SEDAP	Secretariat of Agricultural Development and Fisheries
SETDE	Secretariat of Tourism and Economic Development

Map of the project area

Brazil

Cariri and Seridó Sustainable Development Project (PROCASE)

Territories of the project area



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD

State of Paraíba of the Federative Republic of Brazil

Cariri and Seridó Sustainable Development Project (PROCASE)

Financing summary

Initiating institution:	IFAD
Borrower:	State of Paraíba of the Federative Republic of Brazil
Executing agency:	Secretariat of Agricultural Development and Fisheries
Total project cost:	US\$49.69 million
Amount of IFAD loan:	SDR 16.10 million (equivalent to approximately US\$25 million)
Terms of IFAD loan:	18 years, including a grace period of three years, with an interest rate equal to the reference interest rate per annum as determined by the Fund semi-annually
Contribution of borrower:	US\$15.50 million
Contribution of beneficiaries:	US\$9.19 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

1. In December 2009, the Executive Board considered the project proposal to the State of Paraíba of the Federative Republic of Brazil for the Carirí and Seridó Sustainable Development Project (PROCASE), contained in document EB 2009/98/R.36/Rev.1 and adopted the following resolution:

“RESOLVED: that the Fund shall make a loan on ordinary terms to the State of Paraíba of the Federative Republic of Brazil in an amount equivalent to fifteen million five hundred and fifty thousand special drawing rights (SDR 15,550,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.”
2. The Executive Board approved the loan to be guaranteed by the Federative Republic of Brazil, subject to the completion of negotiations within six months of Board approval and on the condition that any important variations to the terms presented to the ninety-eighth session be brought to the attention of the Board at a future session.
3. However, negotiations were concluded on 21 October 2010, which is beyond the deadline established by the Executive Board as a mandatory condition for approval of the proposed financing.
4. Therefore, the Executive Board is invited to re-approve the recommendation for the proposed financing to the State of Paraíba of the Federative Republic of Brazil for the Carirí and Seridó Sustainable Development Project, as contained in paragraph 38, noting that the only substantial change to the terms presented to the Board is the amount in SDR, due to exchange rate fluctuations.

Proposed loan to the State of Paraíba of the Federative Republic of Brazil for the Carirí and Seridó Sustainable Development Project (PROCASE)

I. The project

A. Main development opportunity addressed by the project

1. The rationale behind this project in Paraíba’s semi-arid region is the following: (i) the high incidence of rural poverty; (ii) the region’s underexploited economic potential; (iii) the insufficient development of market-oriented rural businesses over the last two decades as a result of the prioritizing of social infrastructure; and (iv) serious environmental problems. The project is therefore designed to exploit the region’s economic potential to develop sustainable employment and income opportunities for the target group. Production-oriented interventions will be aligned with improvements to natural resource management and complemented by the development of human and social capital.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide a loan to the State of Paraíba of the Federative Republic of Brazil in the amount of SDR 16.10 million (equivalent to approximately US\$25 million) on ordinary terms to help finance the Carirí and Seridó Sustainable Development Project (PROCASE). The loan will have a term of 18 years, including a grace period of three years, with an interest rate equal to the reference interest rate per annum as determined by the Fund semi-annually.

Relationship to the IFAD performance-based allocation system (PBAS)

3. The allocation defined for Brazil under the PBAS is US\$50.41 million over the 2007-2009 allocation cycle.

Country debt burden and absorptive capacity of the State

4. The external debt of the State of Paraíba is managed under the strict financial policy of the Federal Government of Brazil. The federal government authorized the State Government of Paraíba to borrow US\$25.0 million from IFAD and expressed its intention to sign a guarantee agreement. The State of Paraíba has adequate capacity to absorb and service the proposed loan.

Flow of funds

5. IFAD loan proceeds will be deposited into an account operated by the State Government of Paraíba and channelled to the executing and coexecuting agency. Applications for withdrawals from the IFAD loan will be made by the person/s designated by the state government.

Supervision arrangements

6. The project will be directly supervised by IFAD.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

7. No exceptions are foreseen.

Governance

8. The following planned measures are intended to enhance the governance aspects of the IFAD loan: (i) annual independent audits in accordance with international auditing standards and IFAD guidelines; (ii) direct supervision and implementation support by IFAD; and (iii) transparent mechanisms for allocating financial resources to beneficiaries, including safeguards against elite capture.

C. Target group and participation**Target group**

9. The project's target population consists of approximately 28,000 poor rural households, including 25,000 poor small farmers and 3,000 landless rural households dedicated to handicrafts, small-scale mining and other activities. Of these, around 11,000 rural households are living in conditions of extreme poverty.

Targeting approach

10. The project's targeting strategy is in line with the IFAD Policy on Targeting and reflects the lessons learned in previous IFAD interventions. Emphasis will be placed on the adoption of appropriate measures to effectively reach disadvantaged groups such as women, youth and Afro-descendants. The targeting strategy will adopt complementary mechanisms depending on the activities: (i) a demand-led approach through self-targeting; (ii) supply-led approach through a selective targeting process based on eligibility criteria; and (iii) inclusive targeting.

Participation

11. The participation of project beneficiaries is foreseen through several mechanisms: (i) participatory identification and formulation of productive projects; (ii) self-evaluations by beneficiaries; (iii) involvement of poor producers' representatives in the project steering committee; and (iv) progressive involvement of beneficiary representatives in planning and evaluation workshops.

D. Development objectives**Key project objectives**

12. The project's overall goal is to contribute to the development of the rural economy and to reduce the extreme poverty levels of the rural population – men, women and youth – living in the semi-arid region of Paraíba. The purpose of the project is to improve, in a

sustainable manner, farm and off-farm incomes, employment opportunities, productive assets, organizational capacities and environmental practices of project beneficiaries in Paraíba's semi-arid region.

13. Specific objectives are to: (i) develop human and social capital; (ii) improve smallholder production and support their market competitiveness; (iii) combat desertification and promote sustainable management of the *caatinga* biome;¹ and (iv) strengthen the institutional framework and extension system in the project area.

Policy and institutional objectives

14. One of the specific objectives is to strengthen the capacities of key rural institutions to develop technical assistance systems and implement rural development policies in the semi-arid region. The underlying principle is to focus on strengthening existing public agencies and producers' organizations in order to ensure institutional sustainability.

IFAD policy and strategy alignment

15. The project's objectives and approach are aligned with IFAD policies and the Strategic Framework 2007-2010. The project is fully consistent with the current country strategic opportunities programme, as its core features include: (i) a focus on the semi-arid area; (ii) a target group composed of poor rural farm and non-farm producers and workers, with special attention to women, youth and Afro-descendants; (iii) the development of farm and off-farm income and employment opportunities; (iv) a natural resources management component that complements the productive development; and (v) knowledge management related to coexistence in semi-arid conditions.

E. Harmonization and alignment

Alignment with national priorities

16. The objectives of the project are fully in line with those of the State of Paraíba's Multi-year Plan 2008-2011. The plan reflects the strong commitment of the state government to the reduction of rural poverty, coexistence with the semi-arid conditions, mitigation of the desertification process, and the sustainable use of natural resources.

Harmonization with development partners

17. The proposed project is designed to coordinate its activities, directly or indirectly, with almost all the major development players currently operating in the State of Paraíba. These include, among others, federal government programmes such as the National Programme for the Strengthening of Family Agriculture (PRONAF) and the World Bank-funded Paraíba Rural Poverty Reduction Project (COOPERAR).

F. Components and expenditure categories

Main components

18. The project has five components: (i) social and human development (5.1 per cent of base cost); (ii) productive development and competitive market insertion (80.5 per cent); (iii) sustainable management of natural resources (6.5 per cent); (iv) institutional development (2 per cent); and (v) the project management unit (5.9 per cent).

Expenditure categories

19. There are five expenditure categories: (i) equipment and vehicles (2 per cent); (ii) training – courses and workshops (12 per cent); (iii) agreements and contracts for technical services (4 per cent); (iv) financial facility (62 per cent); (v) recurrent costs (20 per cent).

¹ *Caatinga* is a dry forest biome of north-eastern Brazil, characterized by xeric shrubland and thorn vegetation, primarily small, thorny trees that shed their leaves seasonally.

G. Management, implementation responsibilities and partnerships

Key implementing partners

20. The executing agency will be the Secretariat of Agricultural Development and Fisheries (SEDAP), while the co-executing agencies will be (i) the State Technical Assistance and Extension Services Enterprise (EMATER); (ii) the Paraíba State Agricultural Research Enterprise (EMEPA-PB); (iii) the Secretariat of Tourism and Economic Development (SETDE); and (iv) the Secretariat of Science, Technology and Environment (SECTMA).
21. The project will establish a project steering committee chaired by the Secretary of SEDAP and composed of representatives of relevant secretariats, rural poor producers, territorial forums and civil society organizations.

Implementation responsibilities

22. As executing agency, SEDAP will set up a project management unit (PMU) that will be responsible for operation planning and monitoring, establishing and monitoring agreements with coexecuting agencies, transferring resources and preparing periodic reports. The PMU will decentralize project management through six EMATER regional offices, where the technical teams will be strengthened and will include staff from each coexecuting agency.
23. The Steering Committee will be responsible for reviewing and approving the annual workplan and budget and official reports to be sent to IFAD and to governmental authorities. The committee will also intervene in strategic decisions for project implementation.

Role of technical assistance

24. To ensure proper identification of economic opportunities and efficient implementation of the business plans, the project will strengthen the existing technical assistance and extension system. Partnerships will also be promoted among public extension and research agencies, private organizations and producers' organizations by means of existing private networks and systems and the provision of support to the public extension system.

Status of key implementation agreements

25. SEDAP will establish agreements with the coexecuting agencies EMATER, EMEPA-PB, SETDE and SECTMA, which will receive resources to implement project activities in their respective operational areas. Results-based agreements and/or contracts will also be established with other agencies and institutions such as universities, producers' organizations and civil society organizations.

Key financing partners and amounts committed

26. The total project cost is US\$49.69 million over six years. The sources of financing are IFAD (50.3 per cent), the State of Paraíba (24.3 per cent), PRONAF (7 per cent) and the beneficiaries (18.4 per cent).

H. Benefits and economic and financial justification

Main categories of benefits generated

27. Preliminary estimates show that about 18,500 poor rural households will benefit directly from the project as follows: (i) 14,000 small producers (family farmers, small-scale miners and artisans) through the productive development and competitive market insertion component; (ii) 500 producers through the sustainable management of natural resources component; and (iii) 4,000 rural young people through the social and human development component. Additionally, 10,000 pupils will participate in educational activities dealing with coexistence in semi-arid conditions. It is estimated that approximately 7,800 women will directly benefit from the productive development and technical education activities.

Economic and financial viability

28. Ten systems representing farm and non-farm activities have been developed in line with the agroecological characteristics and economic potential of the project area, and the project is expected to have a significant impact on the productivity of these systems. On this basis, the economic rate of return has been estimated at 21.5 per cent, while the net present value has been estimated at US\$68.3 million at the opportunity costs of capital of 4.2 per cent.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

29. The project will develop a knowledge management and communication strategy, as it holds potential for knowledge-sharing and networking at the state and regional level. It will promote exchange among IFAD operations, projects funded by other donors, national programmes, regional institutions and other relevant stakeholders, especially in the semi-arid area. The PMU will conduct specific knowledge-sharing activities and project staff based in local offices will facilitate the flow of information to producers' organizations and other local stakeholders.

Development innovations that the project will promote

30. The project has several innovative features: (i) priority is given to the development of women and young people's ability to access labour markets and/or develop rural businesses; (ii) the emphasis on promotion of rural productive activities linked to markets instead of prioritizing social and basic infrastructure; (iii) allocation of funds for natural resource conservation and combating desertification; (iv) use of knowledge management and monitoring and evaluation systems as tools for knowledge dissemination; and (v) the combination of technical assistance, investment financing on a grant basis and existing short-term credit facilities for rural business development.

Scaling up approach

31. The project will phase in its interventions and progressively adapt and scale up its operations according to the results achieved. The proposed project approach has the potential to be replicated and scaled up in other territories of the State of Paraíba, and in other states with similar potential and constraints. Particular attention will be paid to promoting knowledge-sharing activities with other IFAD-funded projects.

J. Main risks

Main risks and mitigation measures

32. The project will face three main risks related to climatic, market and institutional issues. The planned mitigation measures include: (i) technical assistance and investments for the management of water resources; (ii) the design of business plans, including market assessment, before investment, and the strengthening of the marketing capacities of producers' organizations; (iii) IFAD direct supervision, adequate training of the PMU and coexecuting agency staff; and (iv) legal instruments with adequate provisions to ensure that the designation of staff and eventual replacement are undertaken to IFAD's satisfaction.

Environmental classification

33. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

K. Sustainability

34. Post-project sustainability will be ensured by the following elements: (i) the existing institutional framework, which is strongly committed to the development of semi-arid areas; (ii) the project has been designed to serve as a complementary tool for existing policies and programmes, which will continue to be implemented by permanent public and private organizations after project closure; (iii) the development of autonomous

grass-roots associations; and (iv) the strong commitment of the federal and state governments to reducing rural poverty and supporting family agriculture, which should ensure the availability of resources in the medium and long term.

II. Legal instruments and authority

35. A project financing agreement between the State of Paraíba of the Federative Republic of Brazil and IFAD, and a separate guarantee agreement between the Federative Republic of Brazil and IFAD will constitute the legal instruments for extending the proposed financing to the borrower. A copy of the negotiated financing agreement and of the guarantee agreement is attached in the annex.
36. The State of Paraíba of the Federative Republic of Brazil is empowered under Brazilian law to receive financing from IFAD, and the Federative Republic of Brazil is empowered under Brazilian law to guarantee the loan.
37. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

III. Recommendation

38. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall make a loan on ordinary terms to the State of Paraíba of the Federative Republic of Brazil in an amount equivalent to sixteen million and one hundred thousand special drawing rights (SDR 16,100,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement: "Cariri and Seridó Sustainable Development Project (PROCASE)"

(Negotiations concluded on 21 October 2010)

PROJECT FINANCING AGREEMENT

Loan Number: _____

Project Title: Cariri and Seridó Sustainable Development Project (PROCASE) (the "Project")

Projeto de Desenvolvimento Sustentável do Cariri e Seridó - PROCASE

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

The State of Paraíba (the "Borrower") of the Federative Republic of Brazil

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Preamble

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2). The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, (the "General Conditions") and amended on 17 September 2010, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement, the terms defined in the General Conditions shall have the meanings set forth therein.

2. The Fund shall provide a Loan to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions set forth in this Agreement.

3. The Loan is to be guaranteed by the Federative Republic of Brazil (the "Guarantor") on terms and conditions set forth in an agreement, of even date, to be entered into by the Fund and the Federative Republic of Brazil (the "Guarantee Agreement").

Section B

1. The amount of the Loan is sixteen million one hundred thousand special drawing rights (SDR 16 100 000).

2. The Loan is granted on ordinary terms, and shall have a maturity period of eighteen (18) years, including a grace period of three (3) years starting from the date that the Fund has determined that all general conditions precedent to withdrawal have been fulfilled (Section E paragraph 2 below). The Borrower shall repay the principal amount of the Loan in 30 (thirty) equal semi-annual consecutive instalments; the final instalment amount may vary due to rounding.

3. The Loan Service Payment Currency shall be USD.
4. The first day of the applicable Fiscal Year shall be January 1st.
5. The Loan shall be subject to interest on the principal amount of the Loan outstanding at a rate equal to the IFAD Reference Interest Rate.
6. Payments of principal and interest shall be payable on each 15 May and 15 November.
7. There shall be a Project Account for the benefit of the Project, where Loan proceeds and counterpart resources shall be allocated, in a Bank acceptable by the Fund.
8. The Borrower shall provide counterpart financing for the Project in the amount of approximately USD 12 101 000 (including taxes).

Section C

1. The Lead Project Agency, who shall also assume responsibility for executing the Project (Executing Agency), shall be the "Secretaria de Estado do Desenvolvimento da Agropecuária e da Pesca - SEDAP" (Secretariat of Agricultural Development and Fisheries) of the Borrower.
2. The following, *inter alia*, are designated as additional Project Parties: the State entity in charge of agricultural research and the State entity in charge of technical assistance and rural extension.
3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement and the Financing Closing Date will be established as specified in the General Conditions.

Section D

The Loan will be administered and the Project will be supervised by the Fund.

Section E

1. The following is designated as an additional ground for the suspension of the right of the Borrower to request withdrawals from the Loan: The Project Implementation Manual (PIM), or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior agreement of the Fund and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project, and the Borrower has not taken any measures to remedy the situation.
2. The following are designated as additional (general) conditions precedent to withdrawal:
 - (a) the Guarantee Agreement shall have been duly signed, and the signature thereof by the Guarantor shall have been duly authorised by all necessary administrative and governmental action;
 - (b) the IFAD no objection to the final version of the Project Implementation Manual shall have been obtained;
 - (c) the IFAD no objection to the establishment of the PMU shall have been obtained; and

- (d) the Project Account shall have been opened; and
- (e) the no objection of IFAD to the appointment of the Project Coordinator shall have been obtained, bearing in mind his/her professional qualifications and experience.

3. Any amendment(s) to this Agreement shall only be made by mutual agreement between the Borrower and the Fund, after having obtained the Guarantor's concurrence to such amendment, including the Project Completion Date and the Financing Closing Date.

4. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

The President
International Fund for
Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

For the Borrower:

The Governor of the State of Paraiba
Palácio da Redenção
Praça Presidente João Pessoa s/n Centro
58013-140 – João Pessoa-PB, Brasil

This agreement, dated _____, has been prepared in the English language in six (6) original copies, three (3) for the Fund, two (2) for the Borrower and one (1) for the Guarantor.

For the Fund
(insert name and title)

For the Borrower
(insert name and title)

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project's target population is constituted by approximately 18,500 households whom will directly benefit from the project: 14,000 small producers (family farmers, small miners and artisans) through the Productive Development Component, 450 through the Sustainable Management of Natural Resources Component, 50 small producers' representatives to be trained within the Institutional Development Component, 4,000 rural youngsters to be benefited by the fellowship programme included in the Human and Social Capital Development Component; additionally, approximately 10,000 pupils will participate in the educational activities regarding coexistence with the semi arid environmental conditions. The project area is constituted by 55 municipalities which compose the microregions of Cariri Oriental, Cariri Occidental, Seridó Oriental, Seridó ocidental e Curimataú Occidental.

2. *Goal.* The Project *overall goal* is to contribute to the development of rural economy and to reduce extreme poverty levels of the rural population living in the semi-arid region of Paraíba. The *purpose* of the Project is, *inter alia*, to improve in a sustainable manner the on-farm and off-farm income, productive assets, organizational capacities and environmental practices of the Project's beneficiaries in Paraíba's semi-arid region.

3. *Objectives.* The specific objectives of the Project are: (a) to develop human and social capital by supporting the technical and vocational training of young people; (b) to improve smallholders' production and to support their market competitiveness, by strengthening participatory extension systems, beneficiaries' organizations, and relevant productive activities and by setting-up co-operative rural industries that add value to local products; (c) to combat desertification and to promote the sustainable management of the caatinga biome in the project area, through adequate environmental education and training, reforestation of the caatinga, dissemination of agro-forestry systems, and knowledge sharing on coexistence with semiarid conditions; and (d) to strengthen the institutional framework of the territories of the project area through the provision of technical assistance and training to councils, forums and other local organizations that can help to improve local development governance and project objectives.

4. *Components.* The Project shall consist of the following Components: (1) Development of Human and Social Capital; (2) Productive Development and Competitive Market Insertion; (3) Sustainable Management of Natural Resources and Combating Desertification; (4) Institutional Development; and (5) Project Management.

Component 1: Development of Human and Social Capital

This component will focus on the development of personal, technical and organizational capacities and skills with special attention to youngsters, women heading households and ethnic groups, particularly *quilombolas*. This component will support young men and women, in acquiring new skills, developing on-farm and off-farm businesses and accessing labour markets in better conditions. This will be achieved by supporting and expanding the access to relevant training and educational facilities existing in the Project Area. The component is basically composed of a "fellowship programme" for youngsters that will finance rural and non-rural activities and support the development of small business plans.

Component 2: Productive Development and Competitive Market Insertion

The Project will focus its support on the following productive activities: (a) goats/sheep dairy and meat production; (b) handicraft's production; (c) capacity building and strengthening of small rural producers' organizations involved in small mining activities; and (d) other value-chains such as sisal, cashew nut and various fruits production and transformation.

In order to ensure a smooth implementation, the Project will phase its intervention by value-chains, taking into account both the level of productive development of the value chain and the maturity of the producers' organizations.

The component will include the following subcomponents:

2.1. *Support to producers' organizations.* The subcomponent aims at fostering the collective/associative action of producers' groups and community organizations so as to allow them to access goods and services they may not access individually. This subcomponent will strengthen producers' groups and community organizations' capacities related to economic and social management, rural development planning, projects' formulation, collective/associative assets management, accounting, administrative and legal information, and leadership.

2.2. *Technical assistance and extension services and training.* The Project will finance the provision of technical assistance and extension services, focusing on the following issues:

- (a) Improving productivity of both primary and processed agricultural and non-agricultural production, by transferring and diffusing enhanced techniques and technologies, especially those adapted to the semi-arid conditions. This subcomponent will particularly strengthen the knowledge transfer from the research centres to the technical assistance organizations.
- (b) Improving the managerial and organizational capacities of producers' groups, including associative governance, cooperative business management, accounting and financial management.
- (c) Improving marketing capacities of producers' organizations including: i) market intelligence to identify market opportunities and define penetration strategies; ii) bargaining and management of input and output marketing contracts; iii) management of market-oriented supply chain, including standards and quality requirements, product packaging, etc.; iv) management and dissemination of market information; and v) promotion and advertisement, amongst others.

2.3. *Agricultural Research and Technology Transfer.* The subcomponent will finance the acquisition of selected embryos of goat and sheep, female goat, sheep to implant the embryos, a travelling caravan for goats and sheep technology transfer, and veterinary inputs. The subcomponent will also finance the implementation of cashew nurseries and workshops on cashew technologies.

2.4. *Productive Investment Facility.* The financial resources to be allocated to producers' organizations will be channelled through a Productive Investment Facility (PIF). The PIF will be managed by the PMU under the supervision of the PIF Executive Board and shall follow specific rules formalized in the Project Implementation Manual (PIM). Investments will be financed on a grant basis, including financing for farm level

investments, as well as processing plants and other facilities. The project will support the producers' cooperatives and apex bodies to ensure an adequate management and ownership of the processing facilities. To this end, the project will focus on strengthening their capacities regarding collective governance, organization, business management and provision of marketing and technical services to their members. The project will also finance investments for water supply such as the drilling and recovery of selected wells for human and animal consumption, the construction of surface and groundwater dams and water infrastructure for small irrigated orchards.

2.5. *Access to Short-term credit.* The implementation of improved technologies for the different activities may require additional resources for financing incremental operative costs. The project will support, through technical assistance activities and partnerships, the links with other providers of financial resources in order to facilitate producers' access to short-term credit.

Component 3: Sustainable Management of Natural Resources and Combating Desertification

The component aims to: (i) support the fight against desertification and promote sustainable management of the Caatinga biome in the project area; (ii) support the dissemination of environmentally sustainable practices within productive activities and value-chains; and (iii) support the rural poor to co-exist and take advantage of the semi-arid environment in which they live.

In order to accomplish these aims, the component will mainly finance: (i) environmental education; (ii) training of extensionists and rural development agents; (iii) reforestation of the caatinga by setting up agro-forestry systems, participative experimental units which could benefit from payment for environmental services, and seed banks of native and exotic species; (iv) support to rural businesses in fulfilling their environmental legislation requirements as part of the business plans implementation; and (v) knowledge sharing with regards to co-existence with semi-arid conditions. The reforestation of the caatinga specifically aims to recover degraded areas and raise the capacity for pasture in small farmers' properties; reforestation will be associated with environmental improvements (erosion control, water conservation systems, etc.) and the reduction of economic vulnerability with the introduction of useful plant species for human or animal consumption.

Component 4: Institutional Development

This component aims at supporting the improvement of the management capacities and working conditions of the governmental and non-governmental organizations (community associations, cooperatives, NGOs, etc.) involved in project implementation. In this sense, the subcomponent will strengthen the capacity of project stakeholders to formulate and implement rural development projects for the semi-arid region.

The first line of intervention will consist in carrying out training and workshops on issues related to local and territorial development methodologies, local governance and social participation. The second line of activities will consist of improving the capacities of the co-executing and partner agencies in implementing the project, emphasis being given to result-based management, monitoring and evaluation, planning methodologies and the management of agreements and contracts, especially with service providers.

Component 5: Project Management

The project will finance the establishment and operations of the Project Management Unit (PMU) within the SEDAP, as well as the establishment and operations of the Monitoring and Evaluation (M&E) system. The M&E System would be part of the PMU and will be integrated into the Secretariat of Planning M&E system. This Secretary will also supervise the evaluation activities.

II. Implementation Arrangements

1. The Lead Project agency

The Secretariat of Agricultural Development and Fisheries of the borrower (SEDAP), in its capacity as lead project agency, will be responsible for executing the Project. The SEDAP will be responsible for Project management operations including, among other tasks, planning, approval of the Annual Working Plan and Budget (AWPB), monitoring, establishing and monitoring agreements with co-executing agencies, transferring resources, preparing periodic reports concerning Project activities to be sent to IFAD and governmental authorities. The SEDAP will chair the Project Steering Committee.

THE SEDAP will also support the necessary articulations of the Project at the political level including the federal, state and municipal public sector, as well as with international counterparts.

2. The Project Management Unit (PMU)

A Project Management Unit (PMU) will be formally established within the SEDAP, with financial and managerial autonomy framed by existing legal regulations. The PMU will prepare the AWPB, directly execute several activities under the project, and will supervise the effective implementation of the co-executing agencies' work plans. The PMU will decentralize project management through the State entity in charge of technical assistance and rural extension's regional offices located in the territories of Seridó Occidental, Seridó Oriental, Cariri Occidental, Cariri Oriental and Curimataú, which constitute the project area. In these regional offices the technical teams will be strengthened and will include staff from each co-executing agency. These regional offices will coordinate and articulate the field activities with all co-executing and partner agencies, and any other development institutions with which relevant synergies could be developed, as well as with the municipal sustainable rural development councils (conselhos municipais de desenvolvimento rural sustentável).

The PMU will include an administrative and financial manager, an officer responsible for each project component and it will be headed by a Project Coordinator. The Project Coordinator shall be appointed by the SEDAP, as provided in section E Paragraph 2.e) of the Project Financing Agreement. The terms of reference and the professional requirements for the Project Coordinator and the PMU staff will be agreed upon with the Fund. The Project Coordinator shall be responsible for the day to day management of the Project, including planning, monitoring, transferring resources and following-up with the co-executing agencies, and preparing reports concerning Project activities, amongst others.

3. The Project Steering Committee (PSC)

The project will establish a Project Steering Committee (SC) chaired by SEDAP and composed of representatives of State entities and Federal entities. Representatives of the beneficiaries of the project will be invited to participate. The composition of the Steering Committee shall be specified in the PIM. The Steering Committee will intervene in strategic decisions for project implementation. It will also review and make suggestions to the Annual Working Plan and Budget, and comment the official reports of activities.

4. Implementation Coordination

The SEDAP will agree on Implementation Arrangements with the State Secretariats and/or their decentralized bodies in charge of economic development, science, technology, water resources and environment for: (i) the fellowship programme for rural youngsters (component 1); (ii) the capacity building and strengthening of small rural producers' organizations involved in small mining activities (component 2); (iii) the development of the leather industry (component 2); and iv) the execution of the Natural Resources Management Component (component 3).

These arrangements will establish, on general and on annual basis, the responsibilities of each Secretariat, a result-based program of work and the goals to be achieved.

5. Implementation Agreements

The participation of the co-executing agencies will be carried out under Implementation Agreements concluded between the Borrower, through SEDAP, with each co-executing agency. Disbursement of funds to the co-executing agencies will be subject to formalization of the respective implementation agreement. These agreements will include, on a general and on an annual basis, a result-based working plan, the expected results and goals and the financial resources to be provided to these agencies.

The State agency in charge of technical assistance and rural extension will be responsible for the activities related to the development of producers' organizations, the agricultural value-chains and part of the handicraft sector (such as *renda renascença*). It will also execute and supervise the activities linked to the Natural Resources Management Component. It will provide human and technical resources for promoting producers' organizations, organising and co-ordinating the extension teams in every "value chain" to be served by the project, as well as supervise, with SEDAP, the extension services to be provided by private agents.

The State agency in charge of agricultural research and technology transfer will be responsible for the activities related to research and the transfer of technology in the agricultural value chains to be supported by the project.

6. The Executive Board of the Productive Investment Facility.

The management of the Productive Investment Facility (PIF) will be carried out under specific rules and procedures to be formalised in PIF Regulations included in the Project Implementation Manual. The project will set up an Executive Board of the PIF. This Board will be chaired by the SEDAP and shall be composed of members with voting rights. Members without voting rights may be invited to participate. The Project Coordinator will be the Technical Secretary of the Board which will meet at least 3 times a year to analyze and eventually approve business plans, investments proposals, and decide on strategies, priorities, guidelines and other relevant matters for PIF operation, as provided in the PIM.

7. Project Implementation Manual

The SEDAP shall execute the project as provided for in the PIM, which shall provide, amongst others, rules related to the eligibility criteria for beneficiaries, monitoring and evaluation procedures, implementation strategy, the regulations for the PIF and the procedures for the financial management of the project.

The SEDAP may propose modifications to the PIM which will be effective only after the no objection of the Fund.

8. Taxes

The proceeds of the Loan shall not be used to pay taxes. Taxes shall be covered by the counterpart financing of the Borrower.

Schedule 2

Allocation Table

1. *Allocation of Loan Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category and the percentages of expenditures for items to be financed in each Category:

Category of expenses	Amount Assigned of the Loan (in SDR)	% of eligible expenses to be financed by IFAD
I. Equipment and Vehicles	540 000	83% of total expenditure or 100% net of taxes
II. Training - Courses and Workshops	1 300 000	40% of total expenditures
III. Agreements and Contracts for Technical Services		
(a) Technical Assistance, Audits and Studies and Agreements with Public Institutions	950 000	87% of total expenditures
IV. Financial Facility		
(a) Productive Investment Facility	8 100 000	83% of total expenditures
(b) Environmental Facility	500 000	56% of total expenditures
V. Recurrent Costs		
(a) Payments towards PMU personnel, Extensionists and Local Development Agents (ADL)	2 380 000	51% of total expenditures
(b) Operating costs	720 000	60% of total expenditures
VI. Unallocated	1 610 000	
TOTAL	16 100 000	

(b) The terms used in the Table above are defined as follows:

- i. Equipment and Vehicles for the PMU and for the co-executing agencies, includes: equipment and vehicles like motorcycles, pick ups, sedan vehicles, computers, printers, telephones, photocopiers, scanners, TVs, chicken incubators, office furniture and other office equipment.
- ii. Training includes: courses and workshops for PMU staff, co-executing agencies, services providers and project beneficiaries. Divulgence material is excluded.
- iii. Agreements and contracts for technical services includes: agreements and contracts for the provision of technical assistance services, audits, studies and an agreement with the Secretariat of Planning for the project external evaluation.

- iv. Financial Facility includes:
 - a. Productive Investment Facility: non refundable investments in small farms, family enterprises and cooperative rural industries including plantations, equipment, productive assets, improvements in infrastructure and other investments directly related to the productive activities to be supported by the project. Physical investments in small mining are excluded.
 - b. Environmental Investment Facility: non refundable investments and maintenance of Agro Forestry Systems and Participative Experimental Units.
 - v. Recurrent Costs.
 - a. Payments towards Local Development Agents (ADL), PMU staff and extensionists.
 - b. Operating Costs: maintenance of equipment and vehicles, insurances, rentals, and office miscellaneous. Exclude gasoline, oil and electricity.
2. *Start-up Costs.* Withdrawals in respect of expenditures for start-up costs (equipment, training, technical services, payments toward ADL, PMU personnel and extensionists and operating costs categories) incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of USD 150 000, in the following amounts per category:
- (a) Equipment: up to USD 35 000
 - (b) Training: up to USD 35 000
 - (c) Technical services: up to USD 25 000
 - (d) Payments towards ADL, PMU personnel and extensionists: up to USD 35 000
 - (e) Operating costs: up to USD 20 000

GUARANTEE AGREEMENT

[Loan Number:_____]

Project Title: Carirí and Seridó Sustainable Development Project (PROCASE) (the "Project")

Projeto de Desenvolvimento Sustentável do Carirí e Seridó - PROCASE

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

The Federative Republic of Brazil (the "Guarantor")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Section A

1. The following documents collectively constitute an integral part of this Agreement: this document, the Project Financing Agreement (the "Financing Agreement") of even date herewith between the Fund and The State of Paraíba of the Federative Republic of Brazil (the "Borrower"), and The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, and amended on 17 September 2010 (the "General Conditions"). For the purposes of this Agreement the terms defined in the General Conditions and the Financing Agreement have the respective meanings set forth therein.

2. By virtue of the Financing Agreement, the Fund has agreed to extend to the Borrower a loan of sixteen million one hundred thousand Special Drawing Rights (SDR 16 100 000) on the terms and conditions set forth in the Financing Agreement, but only on condition that the Guarantor agrees to guarantee the payment obligations of the Borrower in respect of such Loan, as provided in this Agreement;

3. The Guarantor, in consideration of the Fund entering into the Financing Agreement with the Borrower, has agreed to guarantee such payment obligations of the Borrower, and agrees to remain fully bound until full payment of such obligations, provided that the Borrower has previously obtained the approval of the Guarantor to any modifications or amendments to the "Financing Agreement".

4. The Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and the payment of interest and other charges on, the Loan due under the Financing Agreement.

Section B

1. In the event of default by the Borrower, the Fund shall not be required to exhaust its remedies against the Borrower prior to enforcing its rights against the Guarantor.

Section C

1. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund

The President
International Fund for
Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy
Brasil

For the Guarantor:

The Minister of Finance
Procuradoria-Geral da Fazenda
Nacional
Esplanada dos Ministérios, Bloco P,
8º andar - 70048-900, Brasília, DF,

Fax (55 61) 3412-1740

This agreement, dated _____, has been prepared in the (English) language in six (6) original copies, three (3) for the Fund and one (1) for the Guarantor and two (2) for the Borrower.

For the Fund
(insert name and title)

For the Guarantor
(insert name and title)

Key reference documents

Country reference documents

Carta Consulta approved by the Federative Government of Brazil: *Projeto de Desenvolvimento do Cariri e Seridó: PROCASE*. May 2008.

Government of Paraíba: Multi-year Plan 2008-2011

Caprinocultura, estudio previo proyecto Paraíba, Sep-08

IFAD reference documents

Project design document and key files

Results-based COSOP 2008

Administrative Procedures on Environmental Assessment

Logical framework

Narrative	Indicators (RIMS in <i>italics</i>)	Means of verification	Assumptions and Risks
Goal Rural economy of Paraíba's semi-arid region developed and poor rural households reduced their poverty levels	<ul style="list-style-type: none"> 20% of households with improvements in household assets ownership index 10% reduction in the prevalence of child malnutrition, by gender (h/a, w/a, w/h)* Gross Domestic Product of Paraíba's semi-arid region grew by 5% 	<ul style="list-style-type: none"> Project Baseline Survey Mid-term and final results and impact evaluation National statistical data (IBGE) 	
Purpose Project beneficiaries in Paraíba's semi-arid region sustainably improved their farm and off-farm income, productive assets, organizational capacities and environmental practices	<p>18 500 households directly benefited from project services</p> <ul style="list-style-type: none"> 75% of beneficiary households increased both average farm and off-farm income by 20% 10% annual increase in volumes and values of marketed products supported by the project, by product 80 % of agricultural and non agricultural businesses operate profitably after three years 4 300 jobs created by the economic activities supported by the project Rural extension institutions are able to attend 15 200 rural poor families 225 hectares of caatinga under good NRM practices At least 80% of the producers' organizations supported by the project participate in territorial forums and councils 	<ul style="list-style-type: none"> Local business register Project Baseline Survey Mid-term and final evaluation Project's Management Information System Co-executing agencies' reports Systematizations of experiences Specific studies on local economic activities Participative beneficiaries' evaluations National statistical data (IBGE) Labour information system 	<ul style="list-style-type: none"> Droughts Land access and tenancy facilitated by GOB Social infrastructure continue to be provided by the GOB Targeted markets absorb incremental production Policies to strengthen public extension services maintained Land access problems
Component 1. Human and social development			
Output 1. Youngsters, men and women, benefited from technical and entrepreneurship education for better insertion in labour market and to develop businesses	<ul style="list-style-type: none"> 4 000 rural poor youngsters <i>juvems</i> (50% of women) receive fellowship (US\$ 400 each) to attend technical and entrepreneurship training 1 200 youngsters (50% of women) benefited from US\$ 400 fellowship to design business plan 80% of the youngsters who designed business plans have access to financing sources to implement their project 	<ul style="list-style-type: none"> Mid-term and final evaluation Project's MIS Co-executing agencies' reports Participative beneficiaries' evaluations 	<ul style="list-style-type: none"> SECTMA does not establish the necessary partnerships to implement the program Technical education programs inadequate to labour market demand
Component 2: Productive development			
<p>Output 2. Rural poor producers supported to improve their organizational capacities, design and implement productive projects and improve their access to markets</p> <p>Output 3. Small producers access to technical assistance and financial resources to improve agricultural and no-agricultural production</p>	<ul style="list-style-type: none"> 11 600 farmers, 1 400 small miners and 1 000 artisans, organized in at least 54 associations and cooperatives, benefited from training and technical assistance on organizational strengthening Producers' associations and cooperatives develop at least 2 second-tier cooperatives to provide marketing and technical assistance services to their members 14 000 small producers (40% of women and 20% of women heading households) trained in agricultural and non agricultural production techniques (disaggregated by production and gender) 32 extension officers supervise 200 local development agents (50% of women) USD 25.8 million from the Productive Investment Fund are allocated to 11 200 small producers through the Business Plans, by production 11 200 small producers receive USD 3.25 million to finance short-term credit (including PRONAF) 36 agricultural and non agricultural businesses supported for better insertion in the markets At least 700 women artisans receive technical assistance and financial resources to develop their businesses 	<ul style="list-style-type: none"> Mid-term and final evaluation Specific studies of local economic activities Project's (MIS) and AWPB Technical partners' reports Systematizations of experiences Beneficiaries' evaluations 	<ul style="list-style-type: none"> Local participation policies maintained Droughts Co-operative mismanagement Grassland expansion in caatinga Negative impacts of mining industries Land access and tenancy facilitated by GOB Policies to strengthen public extension services maintained Targeted markets absorb incremental production
Component 3. Natural resources management and mitigation of desertification			
Output 4. Sustainable management of natural resources promoted, including techniques and knowledge to mitigate desertification process	<ul style="list-style-type: none"> 450 producers trained and financed to establish 450 agro-forestry systems and 30 demo units A pilot system for payments for environmental services to small producers set up At least 80% extension officers and local development agents trained in natural resources management techniques (50% of women) 150 school teachers trained in natural resources management techniques attending 10 000 pupils (50% of women) 	<ul style="list-style-type: none"> Mid-term and final evaluation Specific studies on NRM Project's (MIS) and AWPB Technical partners' reports Systematizations of experiences Beneficiaries' evaluations 	<ul style="list-style-type: none"> Droughts Land access and tenancy facilitated by GOB Present policies to strengthen public extension services maintained
Component 4. Institutional strengthening			
Output 5. Rural institutions supported to strengthen their capacities regarding provision of technical assistance and implementation of rural development policies in the semi-arid region	<ul style="list-style-type: none"> Staff of project partner agencies, representatives from municipal councils and producers' organizations attend 27 training events on territorial planning, rural development and participative local governance 5 successful development experiences systematized 6 consortiums workshops organized 50 small producers' representatives trained on rural development issues (50% of women) 	<ul style="list-style-type: none"> Mid-term and final evaluation Project's (MIS) and AWPB Systematizations of experiences and case studies Policy and strategy documents produced Beneficiaries' evaluations 	<ul style="list-style-type: none"> Local governance and local participation policies and legislation maintained
Component 5. Project management, monitoring and evaluation			
Output 6. Effective project management unit established and operational	<ul style="list-style-type: none"> 3 regional offices are set-up and composed by staff from EMATER, SETDE and SECTMA Supervision mission rate project technical and financial management as satisfactory At least 70% of interventions/activities effectively implemented as planned in AWPB At least 40% of project staff are women Project MIS and M&E system operational (baseline survey, RIMS, participatory evaluations, etc.) 	<ul style="list-style-type: none"> Project's MIS Audit reports Supervision reports Technical partners' reports and M&E system Project AWPB 	<ul style="list-style-type: none"> Changes in Government might imply staff turn-over The PMU is adequately trained to implement the project