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Enabling poor rural people
to overcome poverty

President's report

Proposed financing to the State of Ceará of the Federative Republic of Brazil for the

Productive and Capacity Development in the State of Ceará – Paulo Freire Project

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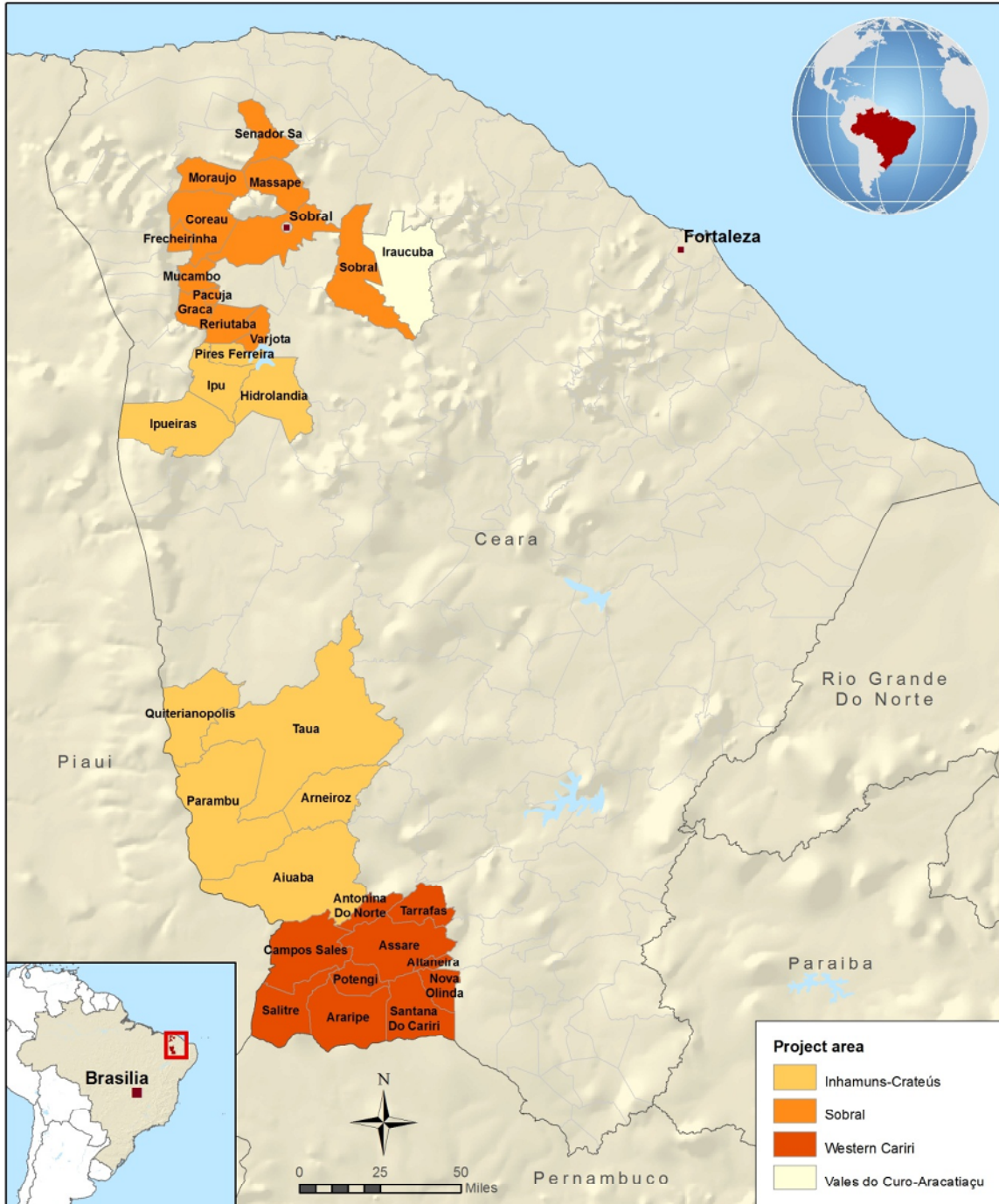
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Abbreviations and acronyms

BNB	Bank of the North-East of Brazil
IPECE	Institute of Research and Economic Strategy of the State of Ceará
PAA	Food Acquisition Programme
PMU	project management unit
PNAE	National School Feeding Programme
PRONAF	National Programme in Support to Family Agriculture
SDA	Ceará State Secretariat of State of Agrarian Development

Map of the project area

State of Ceará of the Federative Republic of Brazil Productive and Capacity Development in the State of Ceará – Paulo Freire Project



02-05-2012



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 Ceará of the Federative Republic of Brazil

Productive and Capacity Development in the State of Ceará – Paulo Freire Project

Financing summary

Initiating institution:	IFAD
Borrower:	State of Ceará of the Federative Republic of Brazil
Executing agency:	Secretariat of State of Agrarian Development
Total project cost:	US\$94.9 million
Amount of IFAD loan:	SDR 20,624,403 (equivalent to approximately US\$32.0 million) from the IFAD performance-based allocation system (PBAS)
Amount of Spanish Food Security Cofinancing Facility Trust Fund (Spanish Trust Fund) loan:	EUR 5,948,482 (equivalent to approximately US\$8.0 million)
Terms of IFAD loan:	18 years, including a grace period of 3 years, with an interest rate equal to the reference interest rate per annum as determined by the Fund semi-annually
Terms of Spanish Trust Fund loan:	18 years, including a grace period of 3 years, with an interest rate equal to the reference interest rate per annum as determined by the Fund semi-annually
Contribution of borrower:	US\$40.0 million
Contribution of beneficiaries:	US\$14.9 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the State of Ceará of the Federative Republic of Brazil for the Productive and Capacity Development in the State of Ceará – Paulo Freire Project, as contained in paragraph 41.

Proposed financing to the State of Ceará of the Federative Republic of Brazil for the Productive and Capacity Development in the State of Ceará – Paulo Freire Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. The Brazilian economy has shown steady growth in recent years. However, national growth rates mask huge regional discrepancies. Poverty is concentrated in the north-east region (which is Latin America's largest poverty pocket) and, within this region, is particularly acute in the semi-arid zones. About 55 per cent of the country's rural population live below the poverty line. This percentage increases to 66 per cent in the north-east region (with 37 per cent of rural people living in extreme poverty) and to more than 75 per cent in some states in the region.
2. Agriculture has played a strategic role in the economic development of Brazil. The agriculture sector, however, is split unequally between a highly developed export-oriented sector and a far larger family farm sector. In the state of Ceará, family farms represent almost 90 per cent of rural establishments, but occupy just 44 per cent of the land area.
3. A poverty reduction project in Ceará can be justified for various reasons. (i) State poverty rates are higher than the national average, despite there being good productive potential in the state, which could be catalysed through production enhancement, processing and capacity-building. (ii) Environmental degradation is a major concern, and needs to be countered with a mix of productive and sustainable natural resource management activities. (iii) The country's policy context is favourable, with various government programmes for financing family farmers and for public purchase of food from family farmers. Most programmes are, however, underutilized, mainly because they are not widely known and can be difficult to access.

B. Rationale and alignment with government priorities and RB-COSOP

4. Combating rural poverty is one of the top priorities of the government of Ceará. The design of the proposed project is fully consistent with national and state rural poverty reduction policies, particularly the Brasil sem Miséria (Brazil without Extreme Poverty) Programme, National Programme in Support to Family Agriculture (PRONAF), the Food Acquisition Programme (PAA) and the National School Feeding Programme (PNAE), both involving public purchase of food produced by family farmers. The project is also closely aligned with the priorities of the Ceará State Secretariat of Agrarian Development (SDA) and will contribute significantly to attaining the objectives of SDA's Rural Development Plan.
5. The project will address the objectives set out in IFAD's Strategic Framework 2011-2015 of improving the food and nutrition security of poor rural people, raising their incomes and strengthening their resilience. It is closely aligned with the guidelines of IFAD's results-based country strategic opportunities programme (RB-COSOP) for 2008-2013, which recommends a continued focus on the semi-arid north-east

region, working with state governments in the region, and support to farming and off-farm activities, with particular attention to income generation.

6. IFAD's prior experience in Brazil has served as a benchmark in the preparation of the present project. Particularly noteworthy are the lessons learned from the Dom Hélder Câmara Project (which ended in 2010). The project had activities in eight territories located in six states in the north-east region including Ceará, and involved a highly successful partnership between IFAD and the federal Ministry of Agrarian Development.

II. Project description

A. Project area and target group

7. The project will be implemented in Ceará, a state in Brazil's north-east region. The project area covers about 23,530 square kilometers of state land (15.8 per cent) spanning 31 municipalities in four territories. According to the 2010 census, 755,839 people live in the project area, 85 per cent of whom are classified as poor. A total of 271,374 people (36 per cent) are rural and, of these, 43 per cent live in extreme poverty. Children and young people (0-25 years) account for the largest segment (59 per cent) of the state's extremely poor population (both urban and rural), and the project has accordingly given priority to meeting some of the needs of this age group.
8. The project will target about 84 per cent of the rural population in the project area, or approximately 60,000 poor rural households (228,000 people). In line with the IFAD Policy on Targeting, the target group will consist of small rural producers with and without land, working at farming and/or off-farm rural activities, with the will and potential to develop sustainable productive activities that have growth potential. Particular attention will be paid to the most marginalized and vulnerable communities, including the Afro-Brazilian Quilombolas, rural women, young people and landless households.

B. Project development objective

9. **Key project objectives.** The project's goal is to reduce poverty and raise the living standards of family farmers in the project area. Its development objective is to contribute to rural poverty reduction in the semi-arid region of Ceará by developing human and social capital and enhancing the productive base, both agricultural and non-agricultural, with the ultimate aim of generating income and employment, particularly for women and young people. The project will (i) increase the capacities of rural people and their organizations to identify, prioritize and solve their problems, develop leadership and participate in local decision-making processes; (ii) support the establishment and strengthening of productive initiatives led by beneficiary organizations by increasing these organizations' capacities and skills to develop rural businesses, and facilitating their access to markets (including public purchases in institutional markets) and to public policies related to family agriculture; and (iii) foster the development of sustainable production – farm and off-farm – to increase community and household productivity, by creating income-earning and job opportunities while adopting agroecological practices and promoting the sustainable management of natural resources.
10. **Policy and institutional objectives.** One of the project's main purposes is to develop public and private institutional capacity to provide adequate technical and managerial services that will enhance the capacity of poor rural people. The underlying principle is to focus on strengthening public and private agencies and producers' organizations in order to contribute to their institutional sustainability.

C. Components/outcomes

11. The project has two technical components, as follows:
 - (a) **Component 1: capacity-building.** The project will strengthen the collective and individual capacities needed to promote the sustainable development of beneficiary households and communities. This will include: (i) building capacity to access state-supported programmes, particularly rural finance and food

purchase programmes; (ii) strengthening local initiatives and leadership development; (iii) developing capacity for production and for the sustainable management of natural resources; (iv) supporting organizational development and training in rural business management and marketing; (v) providing training for young people in economic activities and land access; (vi) enhancing the capacity of technical assistance providers; and (vii) encouraging participation through social mobilization. A key activity under this component will be the participatory formulation and implementation of development and business plans. Development plans will provide a general framework for various activities, some of which will be contained in the business plans financed by the project (see component 2), while others could be financed by other sources.

- (b) **Component 2: productive development and environmental sustainability.** Through this component, the project will finance demand-driven productive development initiatives aimed at productivity increases and value addition, which will result in enhanced access to markets, income generation and employment creation. This will be done through implementation of commercially viable business plans prepared under component 1. The project will focus on agricultural and off-farm businesses, including activities aimed at land regeneration and the adoption of good agroecological practices. To this end, it will (i) support activities to strengthen production, value addition and commercialization of agricultural and non-agricultural products; (ii) provide incentives to innovative initiatives; and (iii) promote activities to protect and regenerate the natural resource base.

12. In addition, project management, and monitoring and evaluation (M&E) will be covered by the project.

III. Project implementation

A. Approach

13. **Project approach.** The project will organize its activities on the basis of four axes: (i) activities for the rural population in general; (ii) community development activities; (iii) activities aimed at strengthening economic organizations (cooperatives, producers' organizations, associative enterprises, etc.); and (iv) activities for young people.

B. Organizational framework

14. **Key implementing partners.** SDA will be the project's executing agency. The project will coordinate with private and governmental organizations that, in partnership with SDA, promote rural development, including: (i) the Ceará State Secretariat of Planning and Management, especially its Institute of Research and Economic Strategy (IPECE); (ii) the Technical Assistance and Rural Extension Agency of Ceará State (EMATERCE); (iii) the World Bank-financed São José III project; (iv) government-led programmes such PRONAF, PAA, PNAE and the Safra crop insurance programme; (v) the Bank of the North-East of Brazil (BNB); and (vi) the Brazilian Agricultural Research Agency (EMBRAPA).
15. **Implementation responsibilities.** SDA will have technical and executive responsibility for implementing the project. In particular, it will be responsible for: (i) ensuring that the funds assigned for project execution are included in the State's annual budget; (ii) coordinating, as needed, with federal, state and municipal government institutions; and (iii) implementing the project in accordance with the terms negotiated and the provisions of the project implementation manual. A project management unit (PMU) will be established within SDA, with financial and administrative autonomy to implement the project. The PMU will consist of a central team in Fortaleza (the state capital) and four local teams in decentralized SDA offices in the project area. The central team will have overall responsibility for technical, operational, financial and administrative management; it will be directly responsible for coordination, planning, institutional liaison, technical analysis and

monitoring of approved investment proposals; and it will guide the local teams in all stages of project implementation.

16. The SDA has a Strategic and Operational Management Committee, which brings together heads of all the thematic and operational areas, and operates as a strategic discussion and decision-making body. This Committee will have the following responsibilities relating to the project: (i) ensuring coordination between the project and other activities implemented by SDA, including the São José III project cofinanced by the World Bank; (ii) overseeing project implementation; (iii) approving the project implementation manual and the annual workplans; and (iv) analysing and commenting on project activity reports, midterm reviews and annual audit reports. The committee will also facilitate coordination with programmes such as the Brazil without Extreme Poverty, PRONAF and the Safra crop insurance programme, and will facilitate agreements with these programmes, as required.

C. Planning, monitoring and evaluation, and learning and knowledge management

17. The PMU will be responsible for M&E and will forge a strategic partnership with IPECE to avail itself of the Institute's technical strengths in this area. The agreement with IPECE will encompass cooperation on the design of the M&E system; preparation of field questionnaires; processing of data; specific training courses; and preparation of reports, studies and analytical information. The M&E system will be practical and simple, will maximize the existing systems in Ceará, and will be fully compatible with IFAD's Results and Impact Management System (RIMS). It will be an important management tool, will facilitate greater project accountability and will be participatory in nature, paving the way for beneficiary involvement.
18. The PMU will also be responsible for activities supporting learning, and management and dissemination of the knowledge generated by the project. A permanent process will be established for the gathering and dissemination of experiences and success stories and for other knowledge management activities (such as learning exchanges, field visits, seminars and workshops). The project will establish close links with and participate in the activities of the ongoing IFAD-funded Knowledge Management Programme in the Semi-arid North-east of Brazil. This will broaden the project's outreach, especially with regard to its innovative initiatives.

D. Financial management, procurement and governance

19. SDA has extensive experience in implementing projects financed by international financing institutions. It will be responsible for the budget, financial management, procurement and reporting of project accounts, in conformity with national regulations and the agreement with IFAD. IFAD funds will flow into a designated account at the bank used by the Government of Ceará for its international operations, and then to the project account as required. To that end, the PMU's finance and administrative officers will coordinate with the Planning and Management Coordination Office, which is responsible for SDA's financial management.
20. The following planned measures are intended to enhance the governance aspects of the IFAD financing: (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. The project will be subject to internal audits by the Ceará State Secretariat of the Controller and Complaints Commissioner (SECON) and to external audits by the State Auditing Office (TCE).

E. Supervision

21. The project will be supervised directly by IFAD.

IV. Project costs, financing, benefits

A. Project costs

22. The total project cost is estimated at US\$94.9 million equivalent to 166.1 million Brazilian Reais (R\$) over a six-year period, at the exchange rate of US\$1 = R\$1.75, prevailing during the period when the project was designed.
23. The capacity-building component (component 1) accounts for 35 per cent (US\$33.1 million) of the total project cost. It includes the costs of capacity-building and training for access to public programmes, technical assistance to prepare and execute development and business plans, leadership and producer training, social mobilizers to promote community organizations, upgrading of the qualifications of technical assistance providers, and training of young people for economic activities and access to land. Component 2, aimed at productive development and environmental sustainability, accounts for 52 per cent (US\$49.9 million) of the total project cost. It will finance individual and associative investments in productive activities that have development potential, to be carried out by 20,000 households. Project management accounts for 11 per cent (US\$10.4 million) of the total project cost and will finance the salaries and operating costs of the PMU. Finally, M&E represents 2 per cent (US\$1.6 million) of the total cost.

B. Project financing

24. IFAD will finance from resources under its PBAS about 33.7 per cent of project costs through a loan of approximately US\$32.0 million and from resources under the Spanish Trust Fund, about 8.4 per cent of project costs through a loan equivalent to approximately US\$8.0 million. The State of Ceará will provide cofinancing of US\$40.0 million (42 per cent); and beneficiaries will contribute US\$14.9 million (16 per cent). IFAD will finance part of each category and subcategory of expenditure, except for the purchase of equipment and vehicles, which will be fully financed by the Government of Ceará. IFAD will not finance taxes or levies, which will be paid in full by the Government of Ceará. The beneficiaries' contribution will cofinance the productive investments under component 2.
25. The table below shows project costs by category of expenditure and source of financing.

Table

Total project cost, by category of expenditure and source of financing
(Thousands of United States dollars)

Category of Expenditure	IFAD		Government of Ceará		Beneficiaries		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Component 1: Capacity-building	20,209	61	12,855	39	0	0	33,063	35
Component 2: Productive development and environmental sustainability	17,465	35	17,465	35	14,923	30	49,853	52
Project management	2,006	19	8,400	81	0	0	10,406	11
• Equipment and vehicles	0	0	375	100	0	0	375	0.4
• Personnel	1,845	20	7,378	80	0	0	9,223	9.7
• Operating costs	162	20	647	80	0	0	809	0.9
Monitoring and evaluation	320	20	1,280	80	0	0	1,600	2
TOTAL	40,000	42	40,000	42	14,923	16	94,923	100

C. Summary benefit and economic analysis

26. **Main categories of benefits generated.** Under component 1, some 60,000 households (around 228,000 persons) will benefit from capacity-building and training activities enabling them to access state-run programmes; of these, 24,000 households will also benefit from technical assistance and social mobilization activities, and 12,000 households from specialized technical assistance services. In addition, 1,200 young households will receive specialized technical assistance to

enable them to develop economic activities and access land. The project will also provide support and training to technicians with a view to upgrading their capacity to provide good-quality technical assistance services. Under component 2, about 20,000 households will benefit directly from financing for investments and technical assistance in starting up new businesses or improving existing ones. A further 10,000 households already benefiting from project-supported technical assistance will access credit (mainly from PRONAF channelled through BNB) to finance productive investments. The project will not provide working capital financing, but the technical assistance channelled through component 1 will support producers in gaining access to other financing sources that may do so.

27. The productive, economic and financial analyses performed during project design indicate that the average income of beneficiary households could be increased by 30 per cent at the end of the project. Among other indicators, it is also expected that, by project end, targeted households will have increased their assets by 30 per cent; 70 per cent of beneficiaries of technical assistance and investments will have access to public programmes; 80 per cent of family enterprises and business plans financed by the project will be operating sustainably; 70 per cent of all productive investments apply agroecological practices; 80 per cent of beneficiary organizations have been strengthened and are sustainable; and at least 50 per cent of the direct beneficiaries are women or young people. As a result, by project end, extreme poverty will have been reduced by 35 per cent in the project area, which is clearly the most important indicator of expected benefits.
28. **Economic and financial viability.** Six models representing farm and non-farm activities were developed during project design, in line with the agroecological characteristics and economic and financial potential of the project area. The project is expected to have a significant impact on the productivity and income generated by these systems. On this basis, the financial internal rate of return has been estimated at an average of 35 per cent. One of the key socio-economic indicators is the increase in net household income, which on average will rise by 66 per cent.

D. Sustainability

29. The project is based on an existing and sustainable institutional framework in which the executing agency (SDA) is a permanent government institution in the State of Ceará. The presence of pro-poor public policies and programmes at the state and federal levels increases the likelihood that the project's impact will be positive and sustainable. The capacities to be enhanced through the project's component 1 will remain after the project's close, contributing to the sustainability of the productive development investments supported by the project. Moreover, once the project has closed, most activities will continue to be carried out by SDA, other government bodies, NGOs, producers' organizations and others.

E. Risk identification and mitigation

30. **Main risks and mitigation measures.** The project faces the following risks: (i) a changed political environment following elections in October 2014; however, this is mitigated by a reasonably strong and stable institutional set-up and will also be addressed by IFAD through a close relationship with counterparts and follow-up to project activities; (ii) cumbersome and complex bureaucratic processes which delayed the start-up of previous projects, a risk that will be mitigated by the institutional strength of the Government of Ceará and IFAD experience with previous projects; (iii) insufficient number of qualified services providers to ensure the technical assistance services needed for project success, which will be mitigated by enhancing service providers' skills, included as one of the main activities of component 1; (iv) volatility in agricultural prices, to be mitigated through improvement in the quality of primary production and its processing, which will allow farmers to face market fluctuations under better conditions; (v) the impacts of climate change given that the project will be implemented in a semi-arid zone affected by recurrent drought, for which the main mitigation measures are the investments in small-scale irrigation systems and prioritizing of the sustainable

natural resources management and agroecological practices included in component 2.

31. **Environmental classification.** Environmental actions will be focused on sustainable agriculture, adoption of tested agroecological practices, natural resource management, and waste water and residues management. The project is considered to be of low environmental risk, and is therefore classified as a Category B project in line with IFAD's environmental assessment procedures.

V. Corporate considerations

A. Compliance with IFAD policies

32. The project's objectives and approach are aligned with IFAD's policies and its Strategic Framework. The project is also fully consistent with the current RB-COSOP, in that its core features include: (i) a focus on semi-arid areas; (ii) a target group composed of poor rural farm and non-farm producers and workers, with special attention to women and young people; (iii) development of farm and off-farm income-generating and employment opportunities; and (iv) knowledge management.

B. Alignment and harmonization

33. The project is designed to coordinate its activities with several of the main development players currently operating in Ceará, among which: (i) federal government programmes such as PRONAF and public purchase programmes such as PAA and PNAE; (ii) SDA, particularly its strategy as set out in the Sustainable and Solidarity Rural Development Plan for 2012–2015; (iii) the World Bank-financed São José III project; and (iv) BNB.

C. Innovations and scaling up

34. Innovation is a cornerstone of the project and will open up new paths in production, processing and marketing. The project will identify, test and introduce new practices that are innovative in terms of upgrading systems and diversifying existing practices. It will work with beneficiary households to set up learning units, which will serve as tools to promote ideas and training in innovation and will be directly related to the work of components 1 and 2.
35. As regards scaling up, the project will phase its interventions and progressively adapt and scale up its operations according to the results achieved. The project approach could potentially be replicated and scaled up in other parts of Ceará and in other states with similar opportunities and constraints. The project will pay particular attention to promoting knowledge-sharing activities with other IFAD-funded projects and build synergies with IFAD's Knowledge Management Programme for the Semi-arid North-east.
36. The project can be also seen as a scaling-up of the successful IFAD-financed Dom Hélder Câmara project, which was implemented in six states of the semi-arid north-east of Brazil, including Ceará. Scaling-up will be particularly evident in (i) its capacity-building activities targeting both community and economic organizations; (ii) its focus on young people and job creation; and (iii) its inclusive implementation process, involving a broad range of external partners, such as research institutions, private-sector entities and labour unions.

D. Policy engagement

37. The project will participate in discussion platforms, which are essential for exchanging knowledge, sharing experiences and fostering emerging processes. It will establish linkages with other IFAD-funded projects in Brazil to promote a permanent exchange on selected topics and methodologies. The knowledge management products generated by the project will feed into the discussions and activities of IFAD's Knowledge Management Programme in the Semi-arid North-east of Brazil.

VI. Legal instruments and authority

38. A project financing agreement between the State of Ceará 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 IFAD loan and Spanish Trust fund loan (the Financing) to the borrower. A copy of the negotiated financing and guarantee agreements is attached as an annex.
39. The State of Ceará of the Federative Republic of Brazil is empowered under its laws to receive said Financing from IFAD, and the Federative Republic of Brazil is empowered under Brazilian law to guarantee the Financing.
40. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

VII. Recommendation

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

RESOLVED: that the Fund shall provide a loan on ordinary terms to the State of Ceará of the Federative Republic of Brazil in an amount equivalent to SDR 20,624,403 and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a loan on ordinary terms to the State of Ceará of the Federative Republic of Brazil in an amount equivalent to EUR 5,948,482, 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: "Productive and capacity development in the State of Ceará – Paulo Freire Project"

(Negotiations concluded on 29 August 2012 in Brasilia, Brazil)

IFAD Loan Number: _____
Spanish Trust Fund Loan Number: _____

Project Title: Productive and capacity development in the State of Ceará – Paulo Freire Project (the "Project")

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

and

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

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

hereby agree as follows:

WHEREAS the Executive Board of the International Fund for Agricultural Development (the "Fund" or "IFAD"), at its 100th Session, approved the establishment of a Spanish Food Security Co-Financing Facility Trust Fund ("the Trust") and further approved that the Trust, acting through IFAD in its capacity as the Trustee of the Trust, enters into a borrowing agreement with the Kingdom of Spain (Spain);

WHEREAS the Trust is an ancillary activity of the Fund as approved by the Executive Board within the framework of Article 7 Section 3 of the Agreement Establishing IFAD; and

WHEREAS Spain and IFAD, in its capacity as the Trustee of the Trust, have signed the Borrowing Agreement on 28 December 2010.

NOW THEREFORE, the parties hereto hereby agree as follows:

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).

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.

3. The Fund shall provide a financing to the Borrower (the "Financing"), which consists of a Loan from IFAD in SDR and a Loan from the Trust in EURO, which the Borrower shall use to implement the Project in accordance with the terms and conditions set forth in this Agreement.

4. The Financing 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 Financing is composed of:
 - (a) A loan in Special Drawing Rights (SDR) of twenty million six hundred twenty four thousand and four hundred and three SDR (SDR 20 624 403).
 - (b) A loan in Euro of five million nine hundred forty eight thousand and four hundred and eighty two Euros (EURO 5 948 482).
2. The overall Financing (of both loans), in EURO and SDR, 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 Financing in 30 (thirty) equal semi-annual consecutive instalments; the final instalment amount may vary due to rounding.
3.
 - A. The Loan Service Payment Currency for the Loan in SDR shall be USD.
 - B. The Loan Service Payment Currency for the Loan in EURO shall be the EURO.
4. The first day of the applicable Fiscal Year shall be January 1st.
5.
 - A. The SDR Loan shall be subject to interest on the principal amount of the Loan outstanding at a rate equal to the IFAD Reference Interest Rate in SDR.
 - B. The EURO Loan shall be subject to interest on the principal amount of the Loan outstanding at a rate equal to the IFAD Reference Interest Rate in EURO.
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 Financing 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 forty million United States Dollars (USD 40 000 000), which shall include the payment of taxes.

Section C

1. The Lead Project Agency of the Project shall be the Secretariat of Agrarian Development (Secretaria de Desenvolvimento Agrário - SDA) of the Borrower.
2. 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 Financing 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 Financing: 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 PIM shall have been obtained;
- (c) the Project Management Unit (PMU) shall have been established in accordance with the PIM; and
- (d) the IFAD no objection to the appointment of the Project Coordinator shall have been obtained.

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
Trustee of the Spanish Food Security
co-Financing Facility Trust Fund
Via Paolo di Dono 44
00142 Rome, Italy

For the Borrower:

The Governor of the State of Ceara
Av. Barão de Studart, nº 505
Meireles
Fortaleza – Ceará - Brasil
60.120-000

With copies to:

Secretaria do Desenvolvimento Agrário – SDA
Av. Bezerra de Menezes, nº 1820 – São Gerardo
Fortaleza – Ceará – Brasil
60.325-901

Secretaria da Fazenda – SEFAZ
Av. Alberto Nepomuceno, nº 2 – Centro
Fortaleza – Ceará – Brasil
60.060-430

Secretaria de Assuntos Internacionais – SEAIN
Ministério do Planejamento, Orçamento e Gestão
Esplanada dos Ministérios – Bloco K – 5º andar
70040-906 – Brasília – DF – Brazil

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.

STATE OF CEARÁ

(name)
Governor

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT
TRUSTEE OF THE SPANISH FOOD
SECURITY CO-FINANCED

(name)
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. **Project Goal.** The project goal is to reduce poverty and raise the standard of living of family farmers in 31 municipalities, across four territories of the State of Ceará. The development objective of the Paulo Freire project is to help reduce rural poverty in the semi-arid region of Ceará, through the development of human and social capital and sustainable production towards income increase from farm and off-farm sources, with priority focus on young people and women.

2. **Objectives.** The specific objectives of the Project are:

- a. To increase the capacity of the rural population and their community and economic organizations to identify, prioritize and solve their problems, develop leaderships and boost their ability to participate in local decision-making processes.
- b. To support the establishment and strengthening of community and family productive initiatives, increasing their capacity and skills to develop rural businesses and gain access to markets – including institutional markets and to public programmes for family farming.
- c. To foster the development of sustainable production – farm and off-farm – to boost the productivity of communities and households, creating income-earning and job opportunities, while adopting and promoting agro-ecological practices and the sustainable management of natural resources.

3. **Project Area and Target Population.** The project area comprises 31 municipalities located in four territories of the semi-arid region of the State of Ceará: (i) Altaneira, Antonina do Norte, Araripe, Assaré, Campos Sales, Nova Olinda, Potengi, Salitre, Santana do Cariri, Tarrafas (territory of Cariri Oeste); (ii) Aiuaba, Arneiroz, Hidrolândia, Ipu, Ipueiras, Parambu, Pires Ferreira, Quiterianópolis, Tauá (territory of Inhamuns-Crateús); (iii) Coreaú, Frecheirinha, Graça, Massapê, Moraújo, Mucambo, Pacujá, Reriutaba, Senador Sá, Sobral rural and Varjota (territory of Sobral); and (iv) Irauçuba (territory Vales do Curu-Aracatiagu). The target population will be small-holder family farmers, with or without land, working in the agricultural or non-agricultural sector, with willingness and potential to develop sustainable agricultural practices and rural businesses.

4. **Components.** The project will have two components, one to build the capacity of individuals and local community and economic organizations (Component 1) and another to support productive development and environmental sustainability (Component 2).

Component 1: Capacity development

5. The objective of the Component is to strengthen collective and individual capacities necessary to promote the sustainable development of beneficiary families and communities in the Project area. This Component will also work on enhancing the capacities of technical assistance providers and will implement a specific line of activities on social mobilization, with the purpose of reinforcing the participation of beneficiary families and ensuring the efficiency of the Project. The activities of this Component will revolve mainly around seven interactive lines: (a) capacity building for access to public policies and programmes; (b) strengthening of local initiatives and leadership development; (c) development of capacity for production and management of natural resources; (d) organizational development and training for rural business management

and marketing; (e) training for young people; (f) building the capacity of technical assistance providers; and (g) social mobilization and control.

Component 2: Productive development and environmental sustainability

6. The objective of the Component is to finance beneficiary demand-driven productive development initiatives supporting activities which allow productivity increase and value-addition, therefore resulting in income generation and employment creation of beneficiary households, within the perspective of sustainable use of natural resources. The activities of this Component will generate productive investment and focus on agricultural and non-agricultural businesses. This Component will also comprise issues concerning climate change, desertification and adaptation to semiarid zones with activities focusing on regeneration of degraded land and adoption of agro-ecological practices. In this regard, Component 2 will center on three main lines of actions: a) supporting activities to strengthen production, value-addition and commercialization of agricultural and non-agricultural products; b) providing incentive to innovation initiatives; and c) promoting activities to protect and regenerate the natural resource base.

II. Implementation Arrangements

Lead Project Agency

7. **The Secretariat of Agrarian Development (SDA)** will be the executing agency of the Project. The Project will benefit from the structure and experience of the SDA, particularly in managing and executing projects to combat rural poverty.

8. In its capacity as executing agency, the SDA will bear technical and executive responsibility for implementing the Project. A Project Management Unit (PMU) will be established in SDA, with financial and administrative autonomy to operate the Project, on the same level of seniority as the coordination offices. Since their activities are complementary, the PMU will act in close cooperation with those offices.

9. The SDA will be responsible for: (i) including the funds assigned for project execution in the state's annual budget; (ii) promoting the institutional coordination needed to implement the Project with the federal, state and municipal governments; and (iii) implementing the Project in accordance with the terms negotiated with IFAD and the provisions of the Project Implementation Manual (PIM).

Project Management Unit (PMU)

10. The PMU's organizational structure shall include a central team headquartered in Fortaleza and four local teams that will operate in the SDA's decentralized offices across the Project area. The central team will consist of six senior professionals who will act in the capacities of: general coordinator, manager for the capacity-building component, manager for the productive development and environmental sustainability component, procurement manager, project monitoring manager and financial manager. In order to support the general coordination of the Project and the management team, senior professionals will be recruited with experience in areas pertinent to the Project and technical officers (secondary education) will be recruited and shall undertake administrative tasks.

11. The central team of the PMU will be under the oversight of the Secretary of Agrarian Development and will be answerable for the technical, operational, financial and administrative management of the Project. The central team of the PMU will be responsible for coordination, planning, institutional liaison, technical analysis and

monitoring of approved investment proposals and will guide the local teams in all stages of Project implementation. The PMU will select and contract organizations that are technically and operationally qualified to directly provide the specific services planned in the Project.

Project management entities

12. **SDA's Strategic and Operational Management Committee**, chaired by the secretary of SDA and composed of the deputy and executive secretaries of SDA and the coordinators of SDA. The committee, which operates as a strategic discussion and decision-making forum of the SDA, will have the following responsibilities relating to the Paulo Freire project: (i) approve the annual work plan and budget and facilitate the agreements necessary for its execution and the attainment of the project's objectives; (ii) approve the project implementation manual; (iii) study and comment on the semi-annual and annual project reports; (iv) study and comment on the auditors' annual reports; (v) study and comment on the project's mid-term reviews; and (vi) promote coordination of the Paulo Freire project with the other programmes and projects coordinated by the State.

13. **Local project committees** will be constituted at the mobilization stage with one Committee per territory with the objective of: (i) discussing the situation in the municipalities and communities selected for the Project; (ii) establishing agreement on community priorities; (iii) supporting the preparation and monitoring of the development plans; (iv) providing transparency in the activities of the Project, allowing for social control; and (v) promoting the necessary coordination for implementation of the development plans and approved business plans. The committees will bring together representatives of rural communities selected to participate in the Project, women from each of the communities, young people from each of the communities, economic and community organizations of family farmers (associations, cooperatives), governmental bodies active in the municipalities responsible for rural development programmes and projects, and organizations representing family farmers, non-governmental organizations, technical assistance providers and the local project teams.

Coordination and policy bodies

14. **State Council for Sustainable Rural Development**, chaired by the Secretary of Agrarian Development (SDA) and bringing together institutions from the public and private sectors, farmers' organizations and relevant partners such as the federal Ministry of Agrarian Development, the Banco do Nordeste, Banco do Brasil, Caixa Econômica, the Agricultural Workers' Federation of the State of Ceará (Federação dos Trabalhadores e Trabalhadoras na Agricultura do Estado do Ceará - FETRAECE) and others. The Council shall promote the planning, execution and monitoring of rural development activities in the State of Ceará. The PMU coordination will participate in this Council, which will act for the Paulo Freire Project as a forum for discussion, exchanges and liaison with other state and federal programmes and projects and civil society initiatives, facilitating inter-agency coordination and fortifying the Project's actions.

Strategic Partners in Implementation

15. The Project will coordinate with private and governmental organizations which promote activities in the area of rural development and are partners of SDA. In this regard, in order to implement the Project, SDA will enter into partnerships with institutions and/or service providers that have operational and technical capacity in areas such as technical assistance services, institutional development, mobilization of rural communities and organizations, production and processing, preparation and implementation of business plans, provision of financial and credit services, market development, and other areas related to the Project activities. Furthermore, SDA will

collaborate with institutions responsible for public policies concerning support to family farming and fight against rural poverty, including, amongst others, those focused on public purchases for family farmers and rural financial services.

In addition to these partnerships, SDA will enter into agreements with the Ceará Secretariat of Planning and Management, which is responsible for the budgeting, planning and coordination of government actions, and which shall support the institutional liaison needed to implement the Project and support the monitoring and evaluation of the results envisaged in the logical framework.

Project Implementation Manual

16. The SDA shall execute the Project as provided for in the PIM, which shall provide among other things: (i) detailed procedures regarding formulation and approval of businesses plans; (ii) eligibility criteria; (iii) guidelines for the design of the business plans; (iv) rules for accessing financial support for productive investment; and v) guidance for the implementation of each Component.

Schedule 2

Allocation Table

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

Category	Loan Amount Denominated in SDR	Loan Amount Denominated in EURO	Percentage of Eligible Expenditures to be Financed
I. Capacity Building	9 384 000	2 753 000	62 % of the total expenditure
II. Productive Development and Environmental Sustainability	8 110 000	2 379 000	51 % of the total expenditure
III. Project Management	931 000	273 000	20 % of the total expenditure
IV. Monitoring and Evaluation	149 000	44 000	21 % of the total expenditure
Unallocated	2 050 403	499 482	
Total	20 624 403	5 948 482	

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

I. Capacity building: this category will finance Component 1 activities, including capacity-building, training and technical assistance for small producers, leadership development, community mobilization, qualification of technical assistance providers and the training of young people for economic activities and access to land.

II. Productive Development and Environmental Sustainability: this category will finance Component 2 activities, aimed towards productive investments.

III. Operating Costs: this category will finance the operation of the PMU.

IV. Monitoring and Evaluation: this category will finance the establishment of the project's M&E system, as well as its periodic updating and management.

Negotiated guarantee agreement: "Productive and capacity development in the State of Ceará – Paulo Freire Project"

(Negotiations concluded on 29 August 2012 in Brasilia, Brazil)

IFAD Loan Number: _____
Spanish Trust Fund Loan Number: _____

Project Title: Productive and capacity development in the State of Ceará – Paulo Freire Project (the "Project")
(Projeto de Desenvolvimento Produtivo e de Capacidades/PDPC – Projeto Paulo Freire)

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 Ceará 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 the Financing Agreement, the Fund has agreed to extend to the Borrower a Financing which consists of a SDR loan of twenty million, six hundred twenty four thousand and four hundred and three Special Drawing Rights (SDR 20 624 403) and a EURO loan of five million, nine hundred forty eight thousand and four hundred and eighty two Euros (EURO 5 948 482), on the terms and conditions set forth in the Financing Agreement.

3. The Guarantor, in consideration of the Fund's entering into the Financing Agreement with the Borrower, has agreed so to guarantee such payment obligations of the Borrower, and agrees to remain fully bound until full payment of such obligations. In cases of amendments to the Financing Agreement, the Borrower must obtain the prior approval of the Guarantor to any modification or amendment 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 Financing due under the Financing Agreement.

Section B

5. 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

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

For the Fund:

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

For the Guarantor:

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

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.

FEDERATIVE REPUBLIC OF BRAZIL

(name)
Minister of Finance
Procuradoria-Geral da Fazenda Nacional

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

(name)
President

Logical framework

Productive and capacity development in the State of Ceará – Paulo Freire Project

Results framework	Indicators	Means of verification	Assumptions
<p>GOAL</p> <p>To contribute to the reduction of rural poverty in 31 municipalities in the semi-arid zone in the State of Ceará (CE).</p>	<p>In the project area and at the end of the project:</p> <ul style="list-style-type: none"> • A 35 per cent reduction in extreme poverty by the end of the project, from 43 per cent to 28 per cent (MDG). • 30 per cent increase in the assets of the households benefitted from technical assistance and productive investment (RIMS 3rd level). 	<ul style="list-style-type: none"> • Official statistics from IBGE and IPECE • Baseline study (RIMS) • Final evaluation (RIMS) 	
<p>DEVELOPMENT OBJECTIVE</p> <p>To increase the income and improve the quality of life of the target population through human and social capital development and sustainable productive development, with young people and women as priority targets.</p>	<ul style="list-style-type: none"> • 60,000 family farmers' households and other small rural producers benefit directly from the project, all of them with training to access to public policies for family farmers and 30,000 with technical assistance and investments. (RIMS 1.8.1, 1.8.2) • 80 per cent of the 30,000 households benefiting from technical assistance and productive investment, increase their average income by at least 30 per cent (baseline). • A minimum of 50 per cent beneficiaries are women or young people. 	<ul style="list-style-type: none"> • Baseline study (RIMS) • Final evaluation (RIMS) • Official statistics from IBGE and IPECE • M&E system reports • RIMS reports • Surveys among the target group 	<ul style="list-style-type: none"> • National and state public policies to support family farming are maintained. • National and state economic growth continues. • Target markets are stable and able to absorb the additional production. • The Government continues to provide basic and social infrastructure. • The project applies a good targeting system and implements its activities successfully. • Droughts and climate change are managed with adequate adaptation measures. • Access to working capital through credit lines. • Agricultural prices stay favourable for family farmers
Component 1 – Capacity building			
<p>OUTCOME 1</p> <p>The capacity of farming households and other small producers and their community and economic organizations is strengthened .</p>	<p>In the project area and at the end of the project:</p> <ul style="list-style-type: none"> • 80% of the community and economic organizations have been strengthened and are sustainable (RIMS 2.6.3) • 70% of the beneficiaries of technical assistance and investment access to public policies 	<ul style="list-style-type: none"> • Baseline study (RIMS) • Final evaluation (RIMS) • M&E system reports • RIMS reports • Information from statutory documents of beneficiary organizations. • Registers from the beneficiary organizations 	<ul style="list-style-type: none"> • Availability of good technical assistance services providers. • Technical assistance respond to market requirements. • Interest, participation and social mobilization of the communities and economic organizations. • Current policies to strengthen governmental technical assistance and extension services remain on-going.

<p>Output 1.1 The project beneficiaries and their organizations receive continuous and specialized technical assistance.</p> <p>Output 1.2 Beneficiary organizations are strengthened in production, management and market access.</p> <p>Output 1.3 Rural young people develop their capacities to become entrepreneurs and to access to land.</p> <p>Output 1.4 Providers of technical assistance are better qualified to deliver good-quality services.</p>	<ul style="list-style-type: none"> • 60,000 households receive training for access to public policies for family farmers • 30,000 households benefit from technical assistance (continuous and/or specialised) • 24,000 rural households receive continuous technical assistance on organizational strengthening, farm and off-farm production, business management and market access (RIMS 1.1.9, 1.6.2) • 12,000 rural households receive specialized technical assistance (6,000 receive also continuous technical assistance), of whom at least 1,200 are young households (RIMS 1.2.2, 1.2.3, 1.2.4) • 1,200 community leaders are trained, of whom at least 50 per cent are women or young people (RIMS 1.6.3) • 600 community and economic organizations are strengthened, with appropriate structures, governance and management systems. (RIMS 1.6.4, 1.6.5) • 600 participatory development plans prepared (RIMS 1.6.7) • 600 business plans are prepared and submitted for consideration and financing by the project and other sources, of which about 500 are for community organizations and 100 for economic organizations. (RIMS 1.4.4, 1.4.5) • 1,200 rural young people receive technical assistance to start up economic activities, out of which 400 to settle as farmers and to apply for access to land. • 300 professionals, technical assistance providers, receive training to improve their services (at least 30 per cent women). (RIMS 1.2.1) 	<ul style="list-style-type: none"> • Interviews with beneficiaries about frequency and quality of the technical assistance 	
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Component 2 – Productive development and environmental sustainability			
<p>OUTCOME 2</p> <p>Family farmers and other small producers, become sustainably and rewardingly integrated into value chains and markets.</p> <p>Output 2.1 The project beneficiaries increase their production, productivity, value added, product quality, diversification, innovation and access to irrigation systems.</p> <p>Output 2.2 The project beneficiaries enhance their access to markets, including institutional markets / public purchases, and to public family farming programmes.</p> <p>Output 2.3 Family farmers adopt innovative agro-ecological practices and sustainable production techniques.</p>	<p>In the project area and at the end of the project:</p> <ul style="list-style-type: none"> • 30,000 households benefit from productive investments, of which: <ul style="list-style-type: none"> • 20,000 households benefit from productive investments funded by the project and at least 80 per cent of them are operational by the end of the project. (RIMS 1.6.8) • 10,000 households access to financing for productive investments from other sources rather than the project. • 500 households obtain investments for small irrigation systems. (RIMS 1.1.5) • At least 30 per cent of associative investments are led by women. (RIMS 1.6.6) • An increase of at least 30 per cent in the production volume in households benefiting from productive investment. (RIMS 2.2.2) • 60 per cent of the products resulting from the productive investments undergo value added processes. • At least a 30 per cent increase in the sales of the beneficiaries as a result of the productive investments. • At least 70 per cent of households benefitting from the investments have access to public programmes such as PRONAF (financing), the Safra crop insurance programme and/or institutional markets/ public purchases (PNAE, PAA, PAA Leite). (RIMS 2.3.2) • 70 per cent of the investments apply agro-ecological practices involving soil conservation or sustainable management of the caatinga biome. (RIMS 2.1.5) • 100 per cent of the processing units adhere to environmental waste management standards. 	<ul style="list-style-type: none"> • Baseline study (RIMS) • Final evaluation (RIMS) • M&E system reports • RIMS reports • Official statistics from IBGE and IPECE • Officially registered information from the beneficiary organizations. • Registers of production and sales of beneficiaries • Qualitative studies on the incorporation of new productive technologies and sustainable natural resource management. 	<ul style="list-style-type: none"> • The markets are able to absorb increases in production. • The Government provides basic infrastructure for access to markets. • Interest and participation of communities and economic organizations.