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Enabling poor rural people
to overcome poverty

State of Piauí of the Federative Republic of Brazil

President's memorandum

Semi-arid Sustainable Development Project in the State of Piauí (Viva o Semi-Árido)

Extension of the time limit for signature of the loan agreement

Note to Executive Board representatives

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Rome, 20-21 September 2012

For: Approval

Recommendation for approval

Given the relevance of this project for the poorest areas of the State of Piauí and taking into consideration the State Administration's commitment to the project, it is recommended that the Executive Board approve a six-month extension – to 15 March 2013 – of the time limit for signing the loan agreement and guarantee agreement for the Semi-arid Sustainable Development Project in the State of Piauí (Viva o Semi-Árido).

President's memorandum

Semi-arid Sustainable Development Project in the State of Piauí (Viva o Semi-Árido)

Extension of the time limit for signature of the loan agreement

I. Background

1. At its ninety-seventh session in September 2009, the Executive Board approved a loan of SDR 12,770,903 (equivalent to approximately US\$25.0 million) to the State of Piauí of the Federative Republic of Brazil on ordinary terms, to help finance the Semi-arid Sustainable Development Project in the State of Piauí (Viva o Semi-Árido). The project is in line with IFAD's intervention strategy, as outlined in its country strategic opportunities programme, approved in September 2008.
2. **Key project objectives.** The project's overall goal is to contribute to reducing the poverty and extreme poverty levels of the rural population living in the semi-arid region of Piauí. The purpose is to improve the farm and off-farm income, employment opportunities and productive assets of the poor rural households in this region. The specific objectives are to: (a) improve poor producers' agricultural and non-agricultural production and access to markets and value chains; (b) strengthen capacity of the target population, particularly young people, to generate income and access labour markets; and (c) strengthen the capacity of key rural institutions.
3. **Loan signature.** The time limit for the signature of the loan agreement will expire on 15 September 2012 (an extension of one year was granted in September 2011).
4. The State Government needs the authorization of the Ministry of Finance and the Senate to sign the financing agreement. This authorization has been delayed because of the following factors: (a) in order to obtain such authorization, the State has to comply with the conditionality established by the Federal Government involving the preparation of a number of documents and compliance with the Fiscal Responsibility Law – the State's compliance with this law became effective recently because the State had to implement a number of fiscal reforms; (b) the State Legislative Assembly of Piauí had to modify the law that authorizes the Governor to sign the financing agreement, in order to state that the loan would be provided in special drawing rights instead of United States dollars, as established in the original law; the new law was approved by the State Assembly and published in the Official Gazette on 11 July 2012; (c) the recent institutional reform carried out by the State Administration, under which, in July 2012, the Governor created a new Superintendency of Technical and Financial Cooperation, which assumed the role of coordinating with international financiers, including the IFAD loan process

(previously, the State Secretariat of Planning had this responsibility); and (d) the municipal elections being held in Brazil in 2012, which will slow down administrative processes.

II. Status of loan signature

5. The Latin America and the Caribbean Division (LAC) has continued to follow up closely with the country authorities in view of the urgent need for loan signing, loan effectiveness and project start-up. This included direct support to the State and a number of meetings – held during 2011 and 2012 – between IFAD and the Government of Piauí. IFAD was represented at these meetings by the LAC Director, the country programme manager and the country programme officer, while the State of Piauí was represented by the Governor, the Secretary of Finance, the Secretary of Planning, the Superintendent of Technical and Financial Cooperation and the President of the Rural Extension Agency (EMATER). In all these meetings, the Government of Piauí clearly expressed its commitment to the project and emphasized the project's relevance to the State's rural poverty reduction policy.
6. More recently the Governor of the State of Piauí sent an official letter to IFAD, dated 7 August 2012, requesting a new extension in the time limit for this loan signing. The Governor explained that the process had been delayed for a number of reasons, including the Senate recess in July-August, which had made it impossible to obtain authorization from the Federal Government and from the Senate; and the municipal elections in 2012, which were slowing down administrative processes. The letter also noted that the documentation required to comply with the Federal Government's conditionality – which was needed in order for the State to become eligible to receive the authorization to sign the loan – was at a very advanced stage and would soon be submitted for approval by the Senate. The letter of the Governor also reiterated State Government's keen interest in the IFAD loan to finance the development of the semi-arid region of the State.

III. Recommendation

7. Based on the information and rationale provided above, it is recommended that the Executive Board approve an extension of six months – to 15 March 2013 – of the time limit for signing the loan agreement and guarantee agreement for the Semi-arid Sustainable Development Project in the State of Piauí (Viva o Semi-Árido).