
President's report

Proposed loan

Federative Republic of Brazil

Climate Resilience, Food Security and Nutrition in the Semi-arid Northeast of Brazil Project (PDHC III)

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Action: The Executive Board is invited to approve the recommendation contained in paragraph 78.

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Map 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 | 08-03-2024

Financing summary

Initiating institution:	IFAD
Borrower:	Federative Republic of Brazil
Executing agency:	Ministry of Agrarian Development and Family Farming
Total project cost:	US\$155.0 million
Amount of IFAD loan (BRAM):	US\$35.0 million
Terms of IFAD loan:	Ordinary, with a maturity period of 18 years and a grace period of 3 years, at an interest rate equal to the IFAD reference interest rate including a variable spread
Contribution of borrower:	US\$100.0 million
Contribution of beneficiaries:	US\$20.0 million
Amount of IFAD climate finance:	US\$26.5 million

I. Context

A. National context and rationale for IFAD involvement

National context

1. Brazil is the largest country in South America in terms of both territory (8.54 million km²) and population (203 million inhabitants). The northeast region is home to 54.6 million people, or 26.9 per cent of the population. An upper-middle-income country, in 2022 Brazil was the twelfth largest economy in the world, with GDP of US\$1.9 trillion, average per capita income of US\$8,140 and a GINI index of 0.518. The Human Development Index (HDI), which had gradually risen to 0.766 in 2018, fell back to 0.754 in 2021.
2. The northeast has the worst socioeconomic indicators in the country. In 2019, the region's contribution to GDP was only 13 per cent, and the unemployment rate was 16 per cent, higher than in any other region. In the semi-arid northeast, the largest poverty hotspot in Latin America, 50 per cent of the population suffers from multidimensional poverty, and 82 per cent of the municipalities have a low HDI.
3. The pandemic increased food insecurity, affecting 125.2 million people across the country in 2022. Of these, 33 million were in a situation of hunger, with almost 50 per cent concentrated in the north and northeast regions (25.7 per cent and 21 per cent respectively). Hunger is still present in almost 20 per cent of Brazilian rural households.
4. The latest agricultural census (2017) confirmed that the country's 3.9 million family farms, including 1.4 million in the semi-arid region, make up the predominant farming system, occupying 23 per cent of the land, accounting for 23 per cent of the total value of agricultural production and employing 67 per cent of those working in the sector (around 10 million people). Less than 1 per cent of family farmers are registered as organic producers, while in 2017 some 23.4 per cent used pesticides. An increase in pesticide use of 17.6 per cent was recorded between 2006 and 2017. Some 92 per cent of family farmers in the northeast do not receive technical assistance and rural extension (ATER).
5. The proportion of the population living in poverty and extreme poverty in the project area is significantly higher than in the rest of the country. While 29.4 per cent of the population is poor or extremely poor countrywide, in the project area this proportion exceeds 45.7 per cent (more than 14 million people). Despite having higher education levels than men, the average income of women is lower (86.5 per cent of the men's) in the northeast.

Special aspects relating to IFAD's corporate mainstreaming priorities

6. In line with IFAD's mainstreaming commitments, the project has been validated as:
 - Nutrition-sensitive
 - Youth-sensitive
 - Prioritizing Indigenous Peoples
 - Including adaptive capacity
7. The project is aligned with all cross-cutting commitments under the Twelfth Replenishment of IFAD's Resources (IFAD12), adopting a youth-sensitive, nutrition-sensitive and climate-focused approach and prioritizing Indigenous Peoples. It will strengthen the social inclusion of traditional peoples and communities, women, youth and the LGBTQIAPN+ community, promoting their participation to increase their capacities and empower them. The project activities address the major climate challenges facing the semi-arid region with solutions for adaptation.

8. **Nutrition.** In the northeast in 2021/2022, 83.6 per cent of smallholder families faced some degree of food insecurity, as many were not able to return to pre-pandemic conditions. In addition, malnutrition is a major problem in the region. According to the Ministry of Health, 64.7 per cent of the population in the project area were overweight. Some 7.7 per cent of children under five were overweight, 6.9 per cent were obese, 3.8 per cent were underweight and 4.8 per cent were stunted, indicative of chronic malnutrition.
9. **Gender.** Gender inequality is widespread in the project area, with rural areas being most resistant to advances in women's autonomy and rights. In the patriarchal family model that persists in rural Brazil, women's crucial contribution to food production and the social dimension of family farming has historically been considered merely complementary to men's work. In addition to the undervaluation of their productive labour, women's care for the family and household chores is made invisible. Women also face constraints in accessing and managing natural, social and monetary resources. Only 24 per cent of family farms in the project area are run by women, and only 3 per cent by young women under 35.
10. **Youth.** Some 33.2 per cent of young Brazilians (aged 15 to 29) live in poverty, with the majority being Afro-descendant. Around 25 per cent of young people in the northeast neither study nor work, with young women of African descent having the highest percentages of being out of school and unemployed. Rural areas do not offer attractive job opportunities for young people, as they combine low-income generation capacity and precarious working conditions. Rural young people encounter challenges in establishing their working life in rural areas, prompting them to pursue improved conditions in urban centres.
11. **Traditional peoples and communities.** Indigenous Peoples and traditional communities, such as Quilombola communities, are particularly vulnerable due to historical exclusion and racism, their high dependence on natural resources, the marginalization of their ways of life, exclusion from public policies and poor access to services, including health, education, sanitation, infrastructure and ATER services. Some 72 per cent of the Indigenous families in the project area are poor or extremely poor. Extreme poverty affects Indigenous Peoples six times more than the overall Brazilian population.
12. **Adaptation to climate change.** The Brazilian semi-arid region is among the South American regions most vulnerable to climate change. The total amount of climate finance granted by IFAD to this project is estimated to be at least US\$26,449,000 – US\$12,883,000 for adaptation and US\$13,566,000 for mitigation, representing 76 per cent of IFAD's total financing.

Rationale for IFAD involvement

13. The IFAD-Brazil partnership is based on a successful history, mainly in the semi-arid northeast region. It has focused on reducing rural poverty, introducing innovative approaches with rural communities and specific groups such as women, youth and traditional peoples and communities. The IFAD funding represents a small portion of the total rural public spending in rural development, and the Government has access to alternative sources of funding. However, both the Federal and State Governments turn to IFAD in recognition of its understanding of the country and its institutions, its technical expertise and its role as a promoter of policy dialogue, sustainability and innovations for improving and expanding pro-poor policies.
14. The Climate Resilience, Food Security and Nutrition in the Semi-arid Northeast of Brazil Project (PDHC III) is the third phase of IFAD's successful collaboration with the Federal Government and builds on the lessons learned in the previous phases and during IFAD's 25 years of experience in the Brazilian semi-arid region. The main reasons for the request by the Ministry of Agrarian Development and Family Farming (MDA) for the third phase are: (i) the decline in social, poverty, nutrition and food security indicators in recent years; (ii) the reactivation of public policies

for family farming; and (iii) the potential for applying PDHC approaches and experience to increase smallholder capacities and policy linkages in order to reduce rural poverty.

B. Lessons learned

15. The targeting of PDHC II was successful, as it benefited smallholder farmers living in poverty and extreme poverty, especially women. However, the selection of beneficiaries did not prioritize groups of families, associations or other organizations, and the territorial approach adopted in phase I was discontinued in phase II. As a result, the beneficiaries were geographically dispersed over large areas, which required technicians to travel long distances. A territorial and community-based approach could have minimized these problems and made the project more cost-effective.
16. In the second phase of PDHC, training of ATER teams used the products from innovative project partnerships, including with the Brazilian Agricultural Research Corporation (EMBRAPA) and the National Institute of the Semi-Arid (INSA). This training was carried out in the second half of the implementation phase, contributing to the consolidation and application of project-specific knowledge. This successful approach will be replicated and enhanced in phase III, with comprehensive planning from the project's start.
17. PDHC II provided innovative and targeted technical assistance to Quilombola communities. This approach will be maintained in PDHC III and extended to other target groups, such as rural youth, women, Indigenous Peoples and other traditional communities and LGBTQIAPN+ people.
18. The project management unit (PMU), based at the MDA in Brasilia, played a key role in ensuring that PDHC II was fully integrated into the MDA structure and aligned with federal policies and programmes, thus enabling interministerial collaboration. However, it will be necessary to improve the monitoring of decentralized agreements and field activities.
19. IFAD grant-funded projects, such as the Semear International programme empowering rural women with agroecological logbooks, played an essential role in developing the PMU's capacities in knowledge management (KM) and South-South and Triangular Cooperation (SSTC), and introducing innovations. Using these capacities, in phase III KM will be planned in advance to document good practices, extract lessons learned and inform improvements in the work process during project implementation. The PMU will lead in the strategic selection of KM products from its partnerships. The IFAD Country Office in Salvador was essential to ensure policy engagement with the MDA, supervision and implementation support, as well as the identification and design of phase III.
20. Priority should be given during the start-up phase to the selection and signing of agreements with implementing agencies with clauses on disbursements aligned with implementation of activities and incorporating clear reporting requirements.
21. The implementation of a supplementary financial system that allows for monitoring the budget by category and component and automated generation of International Financial Reporting Standards (IFRS) could be a condition for first disbursement or of special covenants to comply within six months of entry-into-force.

II. Project description

A. Objectives, geographical area of intervention and target groups

22. The project goal is to contribute to reducing rural poverty and food and nutrition insecurity in family farming. The development objective is to generate more sustainable, biodiverse food systems that strengthen family farmers' resilience to

climate change. The project seeks to improve income, food security and nutrition by strengthening family farmers' capacities to produce healthy food. It will also seek to reduce gender, generational and ethnic-racial inequalities through access to public policies, technological innovations and resources that promote sustainable, biodiverse and climate-resilient food systems, and contribute to create new jobs and sources of income.

23. The project area will cover the semi-arid region of the nine northeastern states and the state of Minas Gerais, totalling 10 states, with a population of 30.9 million, including 51 per cent women and 23 per cent young people aged 15 to 29. Some 284,000 Indigenous Peoples and 560,000 Quilombola live in the project area, including 22.6 per cent and 8.2 per cent on approved Indigenous lands and titled Quilombola territories, respectively.
24. The project will benefit 90,000 smallholder families (around 315,000 people), of which 60 per cent will have a Single Registry profile. At least 50 per cent of the beneficiaries will be women, 30 per cent young people and 7 per cent members of traditional peoples and communities.
25. The project's main target groups are: (i) family farmers living in poverty and extreme poverty; (ii) rural women; (iii) rural youth; (iv) traditional peoples and communities; (v) land reform settlers; and (vi) the LGBTQIAPN+ community.
26. The project will follow a territorial approach with a geographical focus to avoid the dispersion of interventions and promote integration between public policies, social participation and federative coordination. It will focus on one to three priority territories (group of municipalities) in each participating state.
27. The livelihoods of family farmers living in poverty and extreme poverty rely on low productivity farming, mainly for self-consumption with the sale of some surpluses, extractive practices and small animal husbandry. Among family farmers, the target subgroups will be land reform settlers, women and young people.
28. Women will represent at least 50 per cent of the project beneficiaries (45,000 families with activities focused on women). The project will prioritize the poorest and most vulnerable women. To reduce the gender gap in the target group, the project will develop specific activities for women, in particular families headed by women, women from traditional peoples and communities, and young women.
29. Young people between the ages of 15 and 29 will represent at least 30 per cent of the total number of project beneficiaries (27,000 families with activities focused on young people), half of whom will be women. Youth inclusion will be integrated in the project activities, using successful approaches from the Brazil portfolio, such as support to family farming schools and scholarships.

B. Components, outcomes and activities

Component 1. Promoting food security and nutrition from an agroecological perspective

30. This component aims to improve families' income, food security and nutrition by strengthening the productive capacity of family farmers, and to strengthen family farming organizations so that they can absorb, transform and market surplus production. It will use an agroecological territorial approach. The technical assistance to be provided by the project, including ATER for family farmers, virtual technical assistance for rural organizations, training and exchanges will serve to raise capacities and to induce technological innovations in the field.
31. The project will provide decentralized technical assistance services through public and private entities contracted by the National Agency for Technical Assistance and Rural Extension (ANATER).

32. Market access capacities will be strengthened by technical assistance for rural organizations, including to access certification and marketing labels, and by small investments in processing equipment to help farmers' organizations in the processing of smallholder produce.
33. A virtual technical assistance pilot, complementary to face-to-face technical assistance, will increase the farmers' access to relevant on-time information.

Component 2. Capacity-building, innovation and dissemination

34. This component aims to create an environment conducive to improving and updating the knowledge and skills of the technical assistance professionals, teachers from rural educational institutions and some beneficiaries, to promote the agroecological transition and sustainable and nutritious agrifood systems.
35. Capacity-building for young people will receive a special focus, especially for the Family Training Centres by Alternance (CEFFAs) by providing teaching grants for students and teachers, organizing awards, learning routes and exchanges, and through partnerships with other local research and educational institutions.
36. Moreover, KM, SSTC and policy dialogue will be supported to provide relevant first-hand information to family farmers and their organizations, networks of young people and women farmers, networks of technical assistance technicians and organizations, specialized rural teachers, and managers of rural development and poverty reduction policies.

Component 3. Project management and monitoring and evaluation (M&E)

37. To ensure efficient implementation, a PMU within the MDA will coordinate the planning, coordination and monitoring of project activities, and ensure the evaluation of project results. It will also be administratively responsible for managing agreements with partner entities, procurement, financial management and audits.

C. Theory of change

38. PDHC III will work along two interconnected development pathways to achieve its objectives. The expected outcome of the first pathway is that rural families, young people, women, traditional peoples and communities, and rural organizations increase their production of healthy food and improve nutrition and market access through resilient and diversified production systems. This will be achieved through: (i) provision of participatory agroecological technical assistance services (face-to-face and virtual), linked to pro-poor public support programmes, such as productive inclusion grants (Fomento programme) and cisterns; (ii) capacity-building for the most vulnerable groups, focusing on the utilization of agroecological and nutritional education; (iii) organizational strengthening and empowerment of rural communities; and (iv) strengthening the capacities of producers' organizations to add value to rural production and access the market under better conditions.
39. The expected result of the second pathway, through the development of ATER and institutional capacities, will be an environment conducive to transforming sustainable food systems for the groups supported in the first stage. It will also seek to support and generate spaces for policy dialogue and the dissemination of knowledge products, innovations and research relevant to family farming. This will be achieved by: (i) improving and updating the knowledge and skills of ATER in participatory methodologies, agroecological production adapted to climate change, food security and nutrition, gender empowerment and market access; (ii) strengthening the educational offer of the CEFFAs in areas such as agrobiodiversity and agroecological production, conservation, rescue and reuse of native crop seeds; (iii) promoting the co-creation and dissemination of innovations, technologies and applied research for technicians, producers and their organizations, and cooperatives; (iv) creating specific programmes for rural youth

that emphasize agroecology, sustainability and entrepreneurship; and (v) supporting spaces for social participation, coordination and monitoring of public policies.

D. Alignment, ownership and partnerships

40. By adopting an approach focused on climate adaptation, nutrition, gender and youth, as well as a focus on rural populations in situations of poverty and vulnerability, the project is aligned with IFAD12 priorities and commitments. It aligns with the three goals set forth in the IFAD Strategic Framework 2016–2025 and the cross-cutting priorities linked to gender, youth, Indigenous Peoples, nutrition and climate change.
41. PDHC III will contribute directly to Sustainable Development Goals (SDGs) 1 (no poverty), 2 (zero hunger), 12 (responsible consumption and production), 13 (climate action) and 15 (life on land), by supporting agroecological, resilient and sustainable production systems of family farmers living in poverty and extreme poverty and promoting a consistent food security and nutrition strategy. By developing activities for rural education and the socio-productive inclusion of young people, women, traditional peoples and communities, and LGBTQIAPN+ people, and facilitating their access to other public policies, the project also contributes directly to SDGs 4 (quality education), 5 (gender equality) and 10 (reduced inequalities). Finally, by offering social technologies for access to water and basic sanitation, it directly supports SDGs 2 (zero hunger), 6 (clean water and sanitation), 12 (responsible consumption and production) and 13 (climate action).
42. The project is completely in line with IFAD's country strategy in Brazil as outlined in the country strategic opportunities programme (COSOP) in force until mid-2024, and the new COSOP to be presented to the Executive Board in the second half of 2024, as it aims to strengthen and transform family farming systems in the northeast through approaches that are environmentally sustainable and resilient, and guarantee families' food security and nutrition. The focus on the protection, recovery and sustainable economic exploitation of the Caatinga biome aligns with the promotion of adaptation to climate change and biodiversity preservation sought under the new COSOP. The MDA has contributed to the preparation of the new COSOP, ensuring alignment with PDHC III and the MDA's federal policies.
43. The project is strongly linked to the agendas of the Federal and State Governments for combating hunger and poverty, and promoting rural development. In particular, it is fully aligned with the new multi-year plan (PPA) for the period 2024–2027 and with the priority programmes of the MDA and the Ministry of Social Development and Fight against Hunger (MDS).

E. Costs, benefits and financing

Project costs

44. Total project cost is US\$155 million for six years. Around 96 per cent of the costs correspond to investment costs, and 4 per cent to recurring costs.

Table 1
Project costs by component and financier
(Thousands of United States dollars)

<i>Components by financier</i>	<i>IFAD loan</i>		<i>Federal Government direct</i>		<i>Federal Government indirect</i>		<i>Beneficiaries</i>		<i>Total</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
1. Promoting food security and nutrition from an agroecological perspective	24 382	69	7 337	73	89 334	99	20 000	100	141 053	91
2. Capacity-building, innovation and dissemination	4 739	14	1 359	14	168	-	-	-	6 266	4
3. Project management and M&E	5 879	17	1 304	13	498	1	-	-	7 681	5
Total	35 000	100	10 000	100	90 000	100	20 000	100	155 000	100

Table 2
Project costs by expenditure category and financier
(Thousands of United States dollars)

<i>Category and financier</i>	<i>IFAD loan</i>		<i>Federal Government direct</i>		<i>Federal Government indirect</i>		<i>Beneficiaries</i>		<i>Total</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
I. Investment costs										
A. Goods, services, equipment and materials	8 250	24	1 808	18	29 109	32	-	-	39 167	25
B. Workshops, meetings and training	3 269	9	948	9	168	-	-	-	4 385	3
C. Grants and subsidies	-	-	-	-	55 135	61	20 000	100	75 135	48
D. Technical assistance and studies	19 293	55	6 368	66	5 090	6	-	-	30 751	20
Total investment costs	30 812	88	9 124	91	89 502	99	20 000	100	149 438	96
II. Recurrent costs										
E Salaries and operating costs	4 188	12	876	9	498	1	-	-	5 562	4
Total recurrent costs	4 188	12	876	9	498	1	-	-	5 562	4
Total project costs	35 000	100	10 000	100	90 000	100	20 000	100	155 000	100

Table 3

Project costs by component and project year (PY)

(Thousands of United States dollars)

<i>Component and project year</i>	<i>PY1</i>		<i>PY2</i>		<i>PY3</i>		<i>PY4</i>		<i>PY5</i>		<i>PY6</i>		<i>TOTAL</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
1. Promoting food security and nutrition from an agroecological perspective	44	3	29 632	93	53 035	96	36 034	92	14 082	85	8 228	74	141 055	91
2. Capacity-building, innovation and dissemination	36	3	967	3	1 206	2	1 458	4	1 413	9	1 186	11	6 266	4
3. Project management and M&E	1 252	94	1 378	4	917	2	1 437	4	1 075	6	1 620	15	7 679	5
Total	1 332	100	31 977	100	55 158	100	38 929	100	16 570	100	11 034	100	155 000	100

Financing and cofinancing strategy and plan

45. IFAD will provide a loan of US\$35 million (22.6 per cent of the total costs) through the Borrowed Resources Access Mechanism (BRAM). The Federal Government's contributions will come from two sources: US\$10 million in direct resources in cash from the MDA to the project (6.5 per cent of the total) and US\$90 million (58 per cent of the total) in indirect resources through the participation of other ministries and government agencies that are fully aligned with the project objectives and work with the target population.
46. The beneficiaries' contribution is estimated at US\$20 million (13 per cent of the total), partly through subsidized credit lines under the National Programme for the Strengthening of Family Farming (PRONAF) accessed by family farmers and partly in kind in the form of labour and local materials.

Disbursement

47. A designated account in United States dollars will be established to receive disbursements from the IFAD loan. A designated account in Brazilian real (BRL) will be opened to receive funds from the IFAD designated account based on signed exchange contracts. A pooled BRL account will be established to receive the funds from the IFAD BRL account and direct counterpart funds from the Government. The pooled account will be used to make payments to suppliers and transfers of funds to project partners.
48. Disbursement arrangements will be communicated in the financial management and financial control arrangements letter.

Summary of benefits and economic analysis

49. The project's expected financial results were estimated on the basis of nine production models for investments in agroforestry systems and in ATER and linked non-reimbursable funds (Fomento programme), market access capacities and virtual technical assistance. All models proved to be profitable, with a financial internal rate of return of between 12 and 40 per cent, with the highest returns realized by the agroecological system for fodder, poultry, sheep and goat farming.
50. The economic analysis considered a 20-year period and a discount rate of 12 per cent per year. These results demonstrate the economic viability of the project, with an economic internal rate of return of 21.4 per cent and an economic net present value of US\$10.2 million.

Exit strategy and sustainability

51. The project's close alignment with MDA priorities creates favourable conditions for strong government ownership of its activities and commitment during and after implementation. Several factors will contribute to this: (i) the intensive knowledge co-creation and training programme for beneficiaries and ATER technical teams; (ii) the dissemination of contextualized agroecological practices for the semi-arid region and the strengthening of market access; (iii) interministerial collaboration and alignment, mainly with MDS, but also with the Ministry of Agriculture and Livestock (MAPA) and EMBRAPA, the Ministry of Science, Technology and Innovation (MCTI) and INSA, the Ministry of the Environment and Climate Change (MMA) and its Office of Coordination to Combat Desertification, as well as MDA agencies such as ANATER; (iv) partnerships with civil society and producers' organizations; (v) partnerships with other international organizations; (vi) encouraging social participation in the design, planning, implementation and M&E of the project; and (vii) KM, policy dialogue and SSTC to expand and give continuity and scale to the project's activities.
52. The sustainability of the support to production systems will depend on increasing the production of healthy food, diversification in production, nutrition and income (by reducing costs and improving prices and sales conditions), and greater resilience to climate change and shocks. Another factor expected to contribute to

sustainability is the process of participatory territorial planning in response to the demands of the different actors and target groups.

53. An integrated approach of training, capacity-building and the creation of an environment conducive to innovation will be applied to develop institutional, community and producers' organization capacities. PDHC III will promote agroecological production and sustainable productive intensification, encompassing knowledge on natural resource management and recovery. Improving nutrition capacities and knowledge, together with participatory methods of social, ethnic-racial, gender and youth inclusion, will contribute to achieving strong ownership and social inclusion.
54. The PMU will elaborate a sustainability plan, which will be monitored from the second year of implementation.

III. Risk management

A. Risks and mitigation measures

55. The overall inherent project risk is moderate, as is the residual risk.

Table 4

Overall risk summary

<i>Risk areas</i>	<i>Inherent risk rating</i>	<i>Residual risk rating</i>
Country context	Moderate	Low
Sector strategies and policies	Moderate	Low
Environment and climate context	Substantial	Moderate
Project scope	Moderate	Low
Institutional capacity for implementation and sustainability	Substantial	Moderate
Financial management	Substantial	Moderate
Project procurement	Moderate	Moderate
Environment, social and climate impact	Substantial	Moderate
Stakeholders	Moderate	Moderate
Overall	Moderate	Moderate

56. The inherent financial management risk is rated as substantial, with the following principal risks: (i) lack of oversight on decentralized operations carried out in a large geographic area involving a significant number of partner entities and subcontractors; and (ii) use of auxiliary spreadsheets for IFAD financial reporting with the attendant risk of human error. The financial management risk will be reduced to moderate by including the following conditions for first disbursement in the financing agreement: (i) no objection to project implementation manual, including adequate provisions for supervision of decentralized implementation; and (ii) the implementation of a complementary reporting system allowing for automated generation of IFAD reporting.

B. Environment and social category

57. The environmental and social risk category is moderate, considering that the mitigation measures for the identified risks associated with habitat conversion, the introduction of invasive species and investments in small-scale livestock systems are well known. These include the exclusion of any habitat conversion from potential subprojects, a negative list of exotic invasive species, adoption of best practices for pasture management and effluent treatment. They are not expected to pose a challenge for the project implementation teams.
58. There are social risks posed by the presence of Indigenous Peoples and traditional communities with their own knowledge and ways of life. A Free, Prior and Informed Consent (FPIC) plan has been elaborated, supported by national regulations on the subject, to strengthen the processes of effective participation of Indigenous Peoples

and traditional communities in planning and executing project activities. Moreover, a preliminary gender, youth, social inclusion and nutrition strategy has been developed, to mitigate any risk related to the inclusion, benefit and empowerment of the target groups and to guarantee the effective participation of these groups. It will be updated regularly during implementation.

C. Climate risk classification

59. The climate risk category is considered substantial due to: (i) the vulnerability and exposure of the target group to the effects of climate variability; (ii) the still limited access of the project's target group to policies and instruments that can reduce this vulnerability; and (iii) the danger of extreme events adversely affecting the project investments.
60. Measures to mitigate these risks include the project's agroecological approach, which will result in greater resilience of production systems to climate variability. In addition, the activities planned within the scope of technical assistance will increase the beneficiaries' access to climate and meteorological information and public policies aimed at both emergency response to possible climate shocks and climate adaptation.

D. Debt sustainability

61. Brazil's debt sustainability risk is assessed as moderate. Brazil's debt is high and projected to rise further in the coming years, with debt stabilizing around 97 per cent of GDP in 2032. The debt trajectory remains highly sensitive to shocks to borrowing costs and real GDP growth, and the materialization of fiscal risks, in particular the sizable stock of judicial claims, the postponement of settling court-ordered payments and delays in tax litigation.¹

IV. Implementation

A. Organizational framework

Project management and coordination

62. A PMU will be set up under the responsibility of the Secretariat for Land Governance, Territorial and Socio-Environmental Development (SFDT) of the MDA. SFDT has sound experience with project implementation from the previous phases of PDHC. As under phase II, an international technical cooperation agency will be responsible for administering the contracts for staff, consultants and services.
63. Three governance spaces will be established for information and participation purposes: (i) a territorial committee will be set up in each project territory as a space for social control, dialogue on the community demands and their alignment with the project activities, and articulation with other public policies, programmes and projects; (ii) a regional committee will be established for disseminating information and discussing the project's activities between the 10 participating states and the organizations representing family farmers at a regional level; and (iii) an executive committee will be made up of representatives of the units of the MDA and other federal bodies with a prominent role in the project, to act as a mechanism for monitoring and coordination actions between the different areas of the MDA and the Federal Government.

Financial management, procurement and governance

64. **Financial management.** A dedicated PMU will be established in SFDT within the MDA structure with at least two dedicated finance staff responsible for financial management. The implementation approach is decentralized with partner entities to be hired for implementation of project activities, which will require close coordination and oversight by the PMU. The financial management capacity of the partner entities and the flow of funds will be assessed during the contracting phase

¹ Source: IMF Article IV Consultation July 2023.

before issuance of no objections by IFAD to the agreements signed with partner entities.

65. All projects implemented by government entities are subject to Law no. 4.320/64, which establishes the norms and principles for budgeting, accounting, and financial management within the public sector. The project will make use of the Integrated System of Federal Government Financial Administration (SIAFI) for payment processing, budget monitoring in accordance with government chart of accounts and asset tracking. A complementary system will be implemented to allow for IFAD reporting by category and component.
66. **External audit.** The project's annual financial statements will be prepared in accordance with national accounting standards for government entities, which are aligned with the International Public Sector Accounting Standards (IPSAS). Project financial statements will be audited by the Office of the Comptroller General of the Union, which has a specialized unit that meets the audit requirements of international financial institutions in accordance with the International Standards of Supreme Audit Institutions (ISSAI). Audited financial statements will be submitted to IFAD no later than six months after the end of every fiscal year as per general conditions.
67. **Procurement.** PDHC III will have a large part of its execution decentralized to partner government entities that will carry out procurement. They will use national procurement rules but comply with IFAD policies on fraud and corruption, sexual harassment and the use of self-certification for vendor eligibility. Another part of the procurement activities will be executed by the PDHC PMU with the support of the Inter-American Institute for Cooperation on Agriculture (IICA), following IFAD procurement guidelines. Both the PMU procurement team and IICA have the required experience and knowledge to fulfil their activities. The PMU has been trained by IFAD and IICA has participated in several projects following IFAD procurement framework. The PMU will plan and implement all procurement activities of the project in the Online Project Procurement End-to-End System (OPEN) and register all contracts in the contract monitoring tool.

Target group engagement and feedback and grievance redress

68. During the design, consultations were held with government departments and secretariats and regional policy forums. In addition, consultations were held with civil society organizations through the National Council for Rural Sustainable Development (CONDRAF) and with potential partners such as EMBRAPA and INSA.
69. A stakeholder engagement plan has been prepared to provide for wide participation in project planning and reporting moments to ensure the results and sustainability of project interventions. It centres on the three governance spaces set out above.

Grievance redress

70. A project grievance redress mechanism will be set up by the MDA using the MDA's consolidated system for handling complaints through the existing ombudsman channel. Complaints will be resolved confidentially and in a timely manner, protecting the whistleblowers, as per the national legislation. The project will keep a record of complaints and grievances, seeking to extract lessons to prevent conflicts and promote greater efficiency and social sensitivity.

B. Planning, monitoring and evaluation, learning, knowledge management and communications

71. The PMU will prepare an M&E plan at the start of the project, and finetune the project planning using the annual workplan and budget (AWPB) process, involving all professionals. The AWPB will set out annual physical and financial targets aligned with the logical framework and IFAD's mainstreaming criteria. They will be tracked in ANATER's management system for ATER and the PMU's monitoring system, and

reported in the semi-annual progress reports. The project will conduct baseline, midterm and impact surveys.

Innovation and scaling up

72. Project-led innovations include digital services that can reach many farmers with timely services tailored to their needs, including digital technical assistance, and rural education. The PMU will prepare and implement a KM and communication plan to capture and disseminate the project experiences, including through thematic studies.

C. Implementation plans

Implementation readiness and start-up plans

73. The ongoing phase II will provide a sound basis for staff and services continuity, including familiarity with IFAD systems, thus contributing to a rapid start-up once ratification has been provided by the National Senate. IFAD will also prepare a start-up mission and provide for retroactive financing to support the start-up process.

Supervision, midterm review and completion plans

74. The project will be supervised directly by IFAD. The following missions are foreseen: start-up, annual supervision and implementation support missions, midterm review and completion. The IFAD Country Office in Salvador will continue to play a crucial role in implementation support, supervision and completion.

V. Legal instruments and authority

75. A financing agreement between the Federative Republic of Brazil and IFAD will constitute the legal instrument for extending the proposed financing to the Borrower. A copy of the negotiated financing agreement will be made available subsequently.
76. The Federative Republic of Brazil is empowered under its laws to receive financing from IFAD.
77. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

78. 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 Federative Republic of Brazil in an amount of thirty-five million United States dollars (US\$35,000,000) from BRAM financing, and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Alvaro Lario
President

Negotiated financing agreement

(to be presented to the Executive Board representatives)

Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Outreach	1 Persons receiving services promoted or supported by the project				Project M&E System	Annual	Project M&E Unit	Continuity of public policies and programmes that support rural poverty reduction.
	Males - Males	0	18000	45000				
	Females - Females	0	18000	45000				
	Young - Young people	0	10800	27000				
	Indigenous people - Indigenous people	0	2520	6300				
	Total number of persons receiving services - Number of people	0	36000	90000				
	1.a Corresponding number of households reached				Project M&E System	Annual	Project M&E Unit	
Households - Households	0	36000	90000					
1.b Estimated corresponding total number of households members				Project M&E System	Annual	Project M&E Unit		
Household members - Number of people	0	126000	315000					
Project Goal Contribute to reduce rural poverty and improve food security and nutrition for family farming	Poverty reduction (multidimensional)				Impact Survey	Baseline, Mid-term and End of Project	Independent consultancy firm	Continuity of public policies and programmes that support rural poverty reduction/ Non-occurrence of acute drought episodes.
	Percentage of reduction - Percentage (%)	0	10	30				
Development Objective	1.2.4 Households reporting an increase in production				Impact Survey		Independent consultancy firm	Continuity of public policies and programmes that support

Increase the sustainability of production systems and the resilience of family farmers in the North-east	Total number of household members - Number of people	0	47600	119000	Baseline, Mid-Term, and End of Project	rural poverty reduction/ Non-occurrence of acute drought episodes.	
	Households - Percentage (%)	0	80	80			
	Households - Households	0	13600	34000			
	1.2.8 Women reporting minimum dietary diversity (MDDW)				Impact Survey	Baseline, Mid-Term, and End of Project	Independent consultancy firm
	Women (%) - Percentage (%)	0	50	50			
	Women (number) - Females	0	4250	10625			
	Households (%) - Percentage (%)	0	50	50			
	Households (number) - Households	0	8500	21250			
	Household members - Number of people	0	29750	74375			
	Women-headed households - Households	0	4250	10625			
	2.2.1 Persons with new jobs/employment opportunities						
	Males - Males	0	140	350			
	Females - Females	0	140	350			
	Young - Young people	0	84	210			

	Total number of persons with new jobs/employment opportunities - Number of people	0	280	700				
	3.2.1 Tons of Greenhouse gas emissions (tCO2e) avoided and/or sequestered				Impact Survey - Carbon-Balance Tool (EX-ACT)	Baseline, Mid-term and End of Project	External consultant	
	Hectares of land - Area (ha)	0	0	536				
	tCO2e/20 years - Number	0	0	-10318				
	tCO2e/ha - Number	0	0	-79.4				
	tCO2e/ha/year - Number	0	0	-3.97				
	3.2.2 Households reporting adoption of environmentally sustainable and climate-resilient technologies and practices				Impact Survey	Baseline, Mid-Term, and End of Project	Independent consultancy firm	
	Total number of household members - Number of people	0	29750	74375				
	Households - Percentage (%)	0	50	50				
	Households - Households	0	8500	21250				
Outcome C1. Family farmers, young people and rural organizations improve their production systems, nutrition and capacities	1.2.2 Households reporting adoption of new/improved inputs, technologies or practices				Impact Survey	Baseline, Mid-Term, and End of Project	Independent consultancy firm	Maintenance of public policies and access conditions to credit and public procurement/ Non-occurrence of acute drought episodes/ Technical assistance responds to family farmer's needs.
	Total number of household members - Number of people	0	35700	89250				
	Households - Percentage (%)	0	60	60				
	Households - Households	0	10200	25500				

	<p>2.2.3 Rural producers' organizations engaged in formal partnerships/agreements or contracts with public or private entities</p> <table border="1"> <tr> <td>Number of POs - Organizations</td> <td>0</td> <td>11</td> <td>28</td> </tr> <tr> <td>Women in leadership position - Females</td> <td>0</td> <td>33</td> <td>84</td> </tr> </table>	Number of POs - Organizations	0	11	28	Women in leadership position - Females	0	33	84	Impact Survey	Baseline, Mid-Term, and End of Project	Independent consultancy firm													
Number of POs - Organizations	0	11	28																						
Women in leadership position - Females	0	33	84																						
	<p>Households reporting increased sales to public and private markets</p> <table border="1"> <tr> <td>Households - Number</td> <td>0</td> <td>8500</td> <td>21250</td> </tr> <tr> <td>Households - Percentage (%)</td> <td>0</td> <td>50</td> <td>50</td> </tr> </table>	Households - Number	0	8500	21250	Households - Percentage (%)	0	50	50	Impact Survey	Baseline, Mid-Term, and End of Project	Independent consultancy firm													
Households - Number	0	8500	21250																						
Households - Percentage (%)	0	50	50																						
<p>Output C1. Families and young people are trained, receive inputs and social technology on water storage for a diversified and environmentally sustainable production</p>	<p>3.1.1 Groups supported to sustainably manage natural resources and climate-related risks</p> <table border="1"> <tr> <td>Total size of groups - Number of people</td> <td>0</td> <td>17000</td> <td>42500</td> </tr> <tr> <td>Groups supported - Groups</td> <td>0</td> <td>850</td> <td>2125</td> </tr> <tr> <td>Males - Males</td> <td>0</td> <td>8500</td> <td>21250</td> </tr> <tr> <td>Females - Females</td> <td>0</td> <td>8500</td> <td>21250</td> </tr> <tr> <td>Young - Young people</td> <td>0</td> <td>5100</td> <td>12750</td> </tr> </table>	Total size of groups - Number of people	0	17000	42500	Groups supported - Groups	0	850	2125	Males - Males	0	8500	21250	Females - Females	0	8500	21250	Young - Young people	0	5100	12750	Project M&E System	Annual	Project M&E Unit	<p>Droughts or climate change are managed with appropriate adaptation measures/ Access to rural credit/ Agricultural products' prices remain favorable for family farmers.</p>
	Total size of groups - Number of people	0	17000	42500																					
	Groups supported - Groups	0	850	2125																					
	Males - Males	0	8500	21250																					
	Females - Females	0	8500	21250																					
	Young - Young people	0	5100	12750																					
	<p>1.1.4 Persons trained in production practices and/or technologies</p> <table border="1"> <tr> <td>Total number of persons trained by the project - Number of people</td> <td>0</td> <td>17000</td> <td>42500</td> </tr> <tr> <td>Men trained in crop - Males</td> <td>0</td> <td>3400</td> <td>8500</td> </tr> <tr> <td>Women trained in crop - Females</td> <td>0</td> <td>3400</td> <td>8500</td> </tr> </table>	Total number of persons trained by the project - Number of people	0	17000	42500	Men trained in crop - Males	0	3400	8500	Women trained in crop - Females	0	3400	8500	Project M&E System	Annual	Project M&E Unit									
	Total number of persons trained by the project - Number of people	0	17000	42500																					
	Men trained in crop - Males	0	3400	8500																					
	Women trained in crop - Females	0	3400	8500																					

Young people trained in crop - Young people	0	2040	5100			
Men trained in livestock - Males	0	5100	12750			
Women trained in livestock - Females	0	5100	12750			
Young people trained in livestock - Young people	0	3060	7650			
Total persons trained in crop - Number of people	0	6800	17000			
Total persons trained in livestock - Number of people	0	10200	25500			
Families who receive information about public policy				Project M&E System	Annual	Project M&E Unit
Households - Number	0	4000	10000			
Collective organizations benefited aiming to add value and access to markets				Project M&E System	Annual	Project M&E Unit
Organizations - Number	0	28	70			
Families receiving Technical Assistance (TA), Fostering (Fomento), agroecological systems and Virtual Technical Advice (VTA)				Project M&E System	Annual	Project M&E Unit
Fostering (Fomento) - Number	0	16000	40000			
Agroecological Systems - Number	0	1000	2500			
VTA - Number	0	2000	5000			
Families that receive public policies to support production				Project M&E System	Annual	Project M&E Unit
Water - Number	0	4440	11100			

	PAA - Number	0	5424	13560			
	PRONAF - Number	0	8000	20000			
	Garantia Safra - Number	0	1400	3500			
	1.1.8 Households provided with targeted support to improve their nutrition				Project M&E System	Annual	Project M&E Unit
	Total persons participating - Number of people	0	17000	42500			
	Males - Males	0	8500	21250			
	Females - Females	0	8500	21250			
	Households - Households	0	17000	42500			
	Household members benefitted - Number of people	0	59500	148750			
	Indigenous people - Indigenous people	0	1190	2975			
	Young - Young people	0	5100	12750			
Outcome C2. Enabling environment and developed capacities to support the generation of sustainable, diversified and inclusive food systems	Policy 3 Existing/new laws, regulations, policies or strategies proposed to policy makers for approval, ratification or amendment				Qualitative surveys administered to relevant stakeholders	Mid-Term and End of Project	Independent consultancy firm
	Number - Number	0	2	4			
	SF.2.1 Households satisfied with project-supported services				Impact Survey	Baseline, Mid-Term, and End of Project	Independent consultancy firm
	Household members - Number of people	0	88200	220500			
Households (%) - Percentage (%)	0	70	70				
							Open-spaces for debate and policy-making maintenance

	Households (number) - Households	0	25200	63000					
	SF.2.2 Households reporting they can influence decision-making of local authorities and project-supported service providers				Impact Survey	Baseline, Mid-Term and End of Project	Independent consultancy firm		
	Household members - Number of people	0	88200	220500					
	Households (%) - Percentage (%)	0	70	70					
	Households (number) - Households	0	25200	63000					
Output C2. Innovations developed, systematized and disseminated locally and internationally to young people, ATER technicians, public managers and family farmers	Policy 1 Policy-relevant knowledge products completed				Project M&E System	Annual	Project M&E Unit	Maintaining partnerships with recognized research institutions/ Products made according to family farmers' needs	
	Number - Knowledge Products	0	27	67					
	Training in food security, gender, agroecology and climate-resilient agriculture				Project M&E System	Annual	Project M&E Unit		
	TA technicians - Number	0	200	500					
	Females - Number	0	4000	10000					
	Policy 2 Functioning multi-stakeholder platforms supported				Project M&E System	Annual	Project M&E Unit		
	Number - Platforms	0	22	22					
	Social participation workshops at territorial level				Project M&E System	Annual	Project M&E Unit		
	Workshops - Number	0	64	159					
	CEFAS with innovative teaching materials and strengthened capabilities in food safety				Project M&E System	Annual	Project M&E Unit		
	Lunch ladies - Number	0	1000	2500					
	Students - Number	0	4000	10000					
Organization of events, exchanges, learning and routes of KM/SSTC				Project M&E System	Annual	Project M&E Unit			
Events - Number	0	46	115						

Integrated project matrix

Overall Summary

Risk Category / Subcategory	Inherent risk	Residual risk
Country Context	Moderate	Low
Fragility and Security	Low	Low
Macroeconomic	Substantial	Moderate
Governance	Moderate	Low
Political Commitment	Low	Low
Sector Strategies and Policies	Moderate	Low
Policy Development and Implementation	Moderate	Low
Policy alignment	Low	Low
Environment and Climate Context	Substantial	Moderate
Project vulnerability to climate change impacts	Substantial	Moderate
Project vulnerability to environmental conditions	Substantial	Moderate
Project Scope	Moderate	Low
Technical Soundness	Moderate	Low
Project Relevance	Low	Low
Institutional Capacity for Implementation and Sustainability	Substantial	Moderate
Monitoring and Evaluation Arrangements	Moderate	Low
Implementation Arrangements	Substantial	Moderate
Project Financial Management	Substantial	Moderate
Project External Audit	Moderate	Moderate
Project Accounting and Financial Reporting	Substantial	Moderate
Project Internal Controls	Substantial	Substantial
Project Funds Flow/Disbursement Arrangements	Substantial	Substantial
Project Budgeting	Substantial	Moderate
Project Organization and Staffing	Substantial	Moderate
Project Procurement	Moderate	Moderate
Public Procurement Processes	Low	Low
Capability in Public Procurement	Low	Low
Accountability and Transparency	Substantial	Substantial
Legal and Regulatory Framework	Moderate	Moderate
Environment, Social and Climate Impact	Substantial	Moderate
Vulnerability of target populations and ecosystems to climate variability and hazards	Substantial	Moderate
Greenhouse Gas Emissions	Moderate	Moderate
Physical and Economic Resettlement	Low	Low
Community health, safety and security	Low	Low
Labour and Working Conditions	Moderate	Moderate
Indigenous People	Moderate	Moderate
Cultural Heritage	Low	Low

Risk Category / Subcategory	Inherent risk	Residual risk
Resource Efficiency and Pollution Prevention	Moderate	Moderate
Biodiversity Conservation	Moderate	Low
Stakeholders	Moderate	Moderate
Stakeholder Grievances	Moderate	Moderate
Stakeholder Engagement/Coordination	Low	Low
Overall	Moderate	Moderate
Country Context	Moderate	Low
Fragility and Security	Low	Low
Risk: The economic fragility of recent years, combined with the drastic effects of a pandemic, has led to high unemployment rates and an exponential increase in the population living below the poverty line in Brazil. This figure, which stood at 9.5 million people in August 2020, tripled to more than 27 million in February 2021. There has also been a considerable increase in the number of food insecure people, especially in the North and Northeast regions. In 2021, food and nutrition insecurity affected 68% of households in the Northeast region.	Low	Low
Mitigations: Project activities will help the target population cope with climatic, economic, and environmental shocks. In addition to activities aimed at improving the capacity of family farmers to recover from external shocks, the Project's interventions are aimed at ensuring food and nutrition security, poverty reduction and minimizing the economic losses of the target groups related to external shocks. The Project is nutrition-sensitive, with the central objective of improving food and nutrition security of the most vulnerable populations.		
Macroeconomic	Substantial	Moderate
Risk: Difficulty in mobilizing the federal government's counterpart.	Substantial	Moderate
Mitigations: World Bank data shows the following situation: in July 2023, the 12-month primary deficit of the non-financial public sector reached 0.8% of GDP, from a surplus of 1.3% in 2022. Public debt reached 74.1% of GDP in July 2023. In the medium term, the budget outlook is expected to be anchored in the new fiscal framework, which foresees maintaining the primary surplus from 2024 and stabilizing the debt by 2026. Brazil's growth is expected to fluctuate between 1.3% and 2.4% over the next four years. The design period coincided with the preparation of the 2024-2027 Multiannual Plan, in which the Project is mentioned as a priority activity of the MDA, guaranteeing budget provision for a counterpart. In addition, the counterpart funds will come from various sources, mainly from other MDA and MDS programs, thus diversifying the sources and reducing the risk. In addition to the counterpart sources identified during the design process, an effort was made to identify other possibilities that could be used in the event of difficulties in mobilizing the sources mentioned in the budget.		
Governance	Moderate	Low
Risk: The Project Management Unit, based in the Secretariat for Land Governance, Territorial, and Socio-Environmental Development (SFTD), does not have sufficient structure and support to carry out its functions.	Moderate	Low

Mitigations: The lessons learned from the implementation of phase II have been incorporated into the design of the PMU, thus contributing to stronger governance. The institutional arrangements with the main partners will be defined considering these lessons learned and to ensure the best possible governance by the PMU. A Project management committee will also be established, which will be a space for applying good governance.		
Political Commitment	Low	Low
Risk: Considering that the Project meets a demand from the Brazilian government and, in particular, the MDA, there is a high level of commitment, and PDHC III will be the main instrument for combating rural poverty in the semiarid Northeast and Minas Gerais.	Low	Low
Mitigations: The MDA and its main secretariats were directly involved in the different phases of the Project. The MDS, one of the Project's strategic partners, was also involved in the design and has a high degree of adherence to the objectives and methodology of PDHC III, thus mobilizing another key ministry in the fight against rural poverty.		
Sector Strategies and Policies	Moderate	Low
Policy Development and Implementation	Moderate	Low
Risk: In the current context and considering that PDHC III is being drawn up considering the new priorities of the central government, there are no difficulties with the Project proposal not being representative of these priorities, the beneficiary population, and the main programs. However, these new guidelines have yet to be initiated and implemented.	Moderate	Low
Mitigations: Working in partnership with the MDS (Development programs and access to water), universities, research institutes (EMBRAPA, INSA), rural training institutes and civil society organizations should help to strengthen and ensure that the Project is aligned with other lines of government activities. Within the MDA, in addition to the SFTD, other secretariats such as the Secretariat for Supply, Cooperativism and Food Sovereignty will be important partners, contributing to the implementation of strategic guidelines. The Project will focus on knowledge management, valuing the results of the monitoring and evaluation system, good practices and lessons learned. These will form the basis for policy dialog, so that the Project's experience can contribute to improving public policies to combat rural poverty. In addition, specific items for the Project could be included in the annual budgets of priority programs, especially those of partner ministries and agencies.		
Policy alignment	Low	Low
Risk: The risk that PDHC III is not aligned with key policies.	Low	Low
Mitigations: The design period coincided with the preparation of the Multiannual Plan 2024-2027 in which the Project is mentioned as a priority activity of the MDA, strengthening strategic alignment with key ministries (MDS, MMA, MAPA/Embrapa) and federal government priorities (combating rural poverty and hunger including nutritional issues, access to water, strengthening the capacities of rural women, youth and PCTs, agroecological approach and preservation of natural resources). These alignments with the main policies of the Brazilian government are in line with IFAD's priorities. The activities that will be developed in the policy dialog axis will be another means of ensuring the Project's alignment with the main policies in force.		
Environment and Climate Context	Substantial	Moderate
Project vulnerability to climate change impacts	Substantial	Moderate

<p>Risk: The semiarid region of the Northeast and Minas Gerais is very vulnerable to climate change. The main climate stress factors are decreasing rainfall, rising temperatures and more frequent, longer, and more severe droughts. Within the scope of the proposed Project, the activities of promoting food and nutritional security from an agroecological perspective and the sustainable use of biodiversity, within component 1, are particularly vulnerable to climatic conditions. The impacts of climate change can cause a number of negative shocks for the population, including reduced water and food security. These changes in climate will cause significant losses in the productivity of some key crops for family farmers, such as cassava, beans, bananas, and corn.</p>	Substantial	Moderate
<p>Mitigations: Production activities for self-consumption and commercialization associated with the conservation and restoration of natural resources in an agroecological approach (polyculture systems with plants and animals adapted to the social and environmental conditions of the Caatinga together with training for producers and extension workers) are in themselves a practical measure, already widely tested and sufficient for mitigating the climatic risks that could affect these agro-sylvo-pastoral activities. Investing in cisterns will also increase the capacity to store water for production, creating a buffer against droughts.</p>		
Project vulnerability to environmental conditions	Substantial	Moderate
<p>Risk: Given the Project's area of execution - the semiarid region of the Northeast and Minas Gerais, farmers face adverse soil conditions (shallow, with little organic matter and subject to erosion and desertification processes) and restrictions on water availability (quality and quantity), which can affect the productive activities supported by the Project. Some traditional practices of clear-cutting, slash and burn, and overgrazing are accentuating the negative effects of any environmental restrictions on the Project's activities.</p>	Substantial	Moderate
<p>Mitigations: Measures to mitigate these risks include measures to adapt to environmental conditions, within the paradigm of "Coexistence with the Semiarid", which has already been widely established within the agroecological approach proposed and implemented in previous phases of the PDHC. These measures generally consist of: 1) promoting polyculture (biodiverse) production systems with plant and animal species that are better adapted or resilient to climatic extremes; 2) promoting management practices that promote soil and water conservation; 3) training producers to implement and manage these agroecological systems. These activities are provided for in the Project and have already been successfully implemented in previous phases, reducing the residual risk.</p>		
Project Scope	Moderate	Low
Technical Soundness	Moderate	Low
<p>Risk: There is a technical risk in implementation due to the MDA's current capacities, as the Project's activities require strong coordination and integrated planning. This is the third phase of a successful project.</p>	Moderate	Low
<p>Mitigations: I) Project design based on the lessons learned in previous phases I and II will serve to mitigate possible risks; ii) the establishment of an effective management and coordination structure within the PMU and the appointment of PMU staff, as well as iii) the definition of the management agency that will facilitate the recruitment of consultants; iv) forging alliances with important partners, such as ANATER, EMBRAPA and the MDS; v) ensuring capacity building and training for third-party suppliers and, especially, for technical assistance providers; and vi) ensuring that an instrument is developed and implemented to monitor decentralized agreements (i.e. TEDs).</p>		
Project Relevance	Low	Low

Risk: Non-relevant risk that the Project's objectives and interventions are not fully aligned with IFAD's or the country's development priorities, including the current COSOP (2016-2022) and the new COSOP (2024-2032). The Project corresponds to the central challenges of rural development and its design is also aligned with federal policies and priorities.	Low	Low
Mitigations: Mitigation measures will be taken through contact dialogue with the federal government and the full involvement of stakeholders during design and implementation, including the Forum of State Secretaries, civil society, and farmers' organizations. The involvement of other federal partners, such as EMBRAPA and the MDS, will also serve to ensure that mitigation measures are implemented.		
Institutional Capacity for Implementation and Sustainability	Substantial	Moderate
Monitoring and Evaluation Arrangements	Moderate	Low
Risk: The decentralized execution of the Project brings risks in relation to the monitoring of activities in the field since it is up to the partner/contracted entities to carry out the accounting of activities and families (including their breakdowns) and inform the PMU.	Moderate	Low
Mitigations: The activities carried out through the ANATER partnership will be monitored through the "ATER Management System" (SGA), a system under the responsibility of ANATER, which was used in PDHC II and was improved through investment in the previous project. The activities carried out by the other partnerships will be monitored through the "Monitoring System (MS)", which enables financial and physical management of these partnership instruments. This system is pre-operational and needs to be adjusted to be fully operational.		
Implementation Arrangements	Substantial	Moderate
Risk: (i) The execution of the Project by various government entities through decentralized agreements (TED) is the main risk identified. If there is no proper coordination and monitoring by the PMU, this could lead to delays and problems in implementation. ii) There is also a risk that the capacities of the Project executing agency will be insufficient for proper and effective management of the Project, leading to delays and lower quality of execution. iii) The proper arrangement to enable the hiring of consultants and PMU staff is another major risk. It will be necessary to find the appropriate means to hire consultants and staff for the PMU.	Substantial	Moderate
Mitigations: (i) Establish a PMU by identifying the core team and determining the TORs; ii) Determine, at an early stage, the instrument to be adopted to hire consultants and the PMU team; and iii) Adopt a monitoring mechanism in the implementation of the Decentralized Execution Terms (TEDs).		
Project Financial Management	Substantial	Moderate
Project External Audit	Moderate	Moderate
Risk: External audits which do not comply with requirements IFAD Handbook for Financial Reporting and Auditing of IFAD-Financed Projects in particular incomplete financial statements and missing reference to accounting standards applied	Moderate	Moderate
Mitigations: Agreement with Federal Court of Accounts on planning and terms of reference external audit and accounting standard to be used for preparation of project financial statements		
Project Accounting and Financial Reporting	Substantial	Moderate

Risk: (i) Lack of discipline around submission of financial reporting (IFRs) and corresponding justifications to IFAD; (ii) Use of auxiliary spreadsheets to monitor budgets versus execution by Component, category and Funding source as per requirement IFAD and for the preparation of IFRs with high risk of human errors; (iii) Incomplete recording and lack of supporting documentation to substantiate indirect government counterpart funding.	Substantial	Moderate
Mitigations: (i) Emphasis during start-up phase in induction session teams on the importance of compliance with reporting requirements as communicated in the FMFCL; (ii) Implementation of a complementary automated reporting system to generate budget versus actual reports by component, category and funding source and IFRs based on data from SIAFI system to avoid human errors and delays in reporting as a condition for first disbursement; Include in the PIM the requirement of a minimum quarterly review of Budget versus actual and explanation of variances in management Team and sign off on IFR by Project coordinator; (iii) Establish and document in the PIM clear criteria for recording and valuation of both direct and indirect counterpart funding from government;		
Project Internal Controls	Substantial	Substantial
Risk: (i) Lack of oversight on decentralized operations carried out in a large geographic areas involving a significant number of partner entities/subcontractors; (ii) Failure to include in contracts with implementing partners entities/subcontractors relevant clauses on disbursements proportional to implementation of activities, reporting requirements and justification of expenditure;	Substantial	Substantial
Mitigations: (i) Further development of the PIM to ensure adequate supervision of decentralized implementation. (ii) Review by IFAD and required No Objections by IFAD of d contracts signed between PDHC III and the partner entities/subcontractors ;(iii) All contracts signed between PDHC III and partner entities/subcontractors contracts to include IFAD's anti-corruption and anti-harassment clauses.		
Project Funds Flow/Disbursement Arrangements	Substantial	Substantial
Risk: (i) Delays in disbursement of direct Government counterpart funding causing delays in implementation; (ii) delays in signing of agreements with partner entities/subcontractors causing delays in disbursements to farmers organizations for implementation of investment plans;	Substantial	Substantial
Mitigations: (i) Close Coordination with Treasury to ensure timely disbursement of direct Counterpart funding; (ii) Prioritize selection and signing of agreements with partner entities/subcontractors in start-up phase with clauses on disbursements aligned with implementation of activities and clear reporting requirements incorporated.		
Project Budgeting	Substantial	Moderate
Risk: (i) Contribution of Beneficiaries not included in AWPB;) (ii) Detailed costs estimates used for AWPB not documented for future reference which does not allow for proper analysis of budget versus actuals. (iii) No consistent monitoring of Budget versus actuals is carried out resulting in failure to take corrective action to optimize use of resource.	Substantial	Moderate

Mitigations: (i) Ensure all funding sources including indirect Govt counterpart funding and beneficiary contributions are included in the AWPB submitted for No Objection to IFAD as a condition for first disbursement; (ii) Document assumptions used for preparation of AWPB for future reference and analysis.; (iii) implement a practice of monthly budget versus actuals review between Finance Manager and Project Director and include explanation of variances in quarterly IFRS submitted to IFAD		
Project Organization and Staffing	Substantial	Moderate
Risk: Insufficient finance staff in SFDT to assume responsibility for the project and delays in contracting of dedicated finance positions to the project	Substantial	Moderate
Mitigations: Recruitment of at least 2 dedicated staff to the financial management of the project and hiring of the finance manager as a condition for first disbursement.		
Project Procurement	Moderate	Moderate
Public Procurement Processes	Low	Low
Risk: The bidding process for the project will generally be simple, with the majority being purchases of productive items and services or logistics. ANATER, a government agency with expertise in this area, will primarily provide technical assistance services. The government bodies and the third-sector entities that will be contracted to support the tenders have the technical capacity to comply with the National Law.	Low	Low
Mitigations: The PMU will monitor partner entities to ensure processes comply with national legal requirements and IFAD Policy. It will continue to monitor the project's procurement and contracting through the MAC spreadsheet, which was already used in the previous phase of the project.		
Capability in Public Procurement	Low	Low
Risk: Some government entities co-executing the PDHC do not have enough staff in the bidding sector to handle the project, so it is necessary to outsource procurement to a third-sector entity with this capacity. These third-sector entities performed satisfactorily in the previous phase of the project.	Low	Low
Mitigations: IFAD will analyze each government partnership established, its capacity to bid, and the capacity of the third-sector entities that may be contracted to procure. The PMU will continue with the alignment carried out in the previous phase with the partners, implementing the training/workshops necessary for these entities to be able to serve the project properly.		
Accountability and Transparency	Substantial	Substantial
Risk: The diversity of government entities and third sector organizations that may become partners in the Project, considering the large number of procurement processes that will be required to carry out the planned activities, may make it difficult to maintain responsibility for the use of resources and the expected transparency.	Substantial	Substantial
Mitigations: The Project team will need to maintain good management and monitoring of the procurement processes carried out, taking advantage of the lessons learned to create more mechanisms to guarantee the fairness of the processes, such as workshops or training for each entity that establishes a direct or indirect partnership with the Project, including clarifications on the supervisions/audits they will undergo.		
Legal and Regulatory Framework	Moderate	Moderate

Risk: Most of the execution will be decentralized. The borrower will transfer Project resources to other government entities to carry out most of the planned activities. These government entities will be responsible for tendering the Project's activities in accordance with the national tendering law but will also have to comply with IFAD's anti-corruption and anti-harassment, social and environmental policy, and must report regularly to the PMU. Due to the diversity of government entities, the risk of non-compliance with the IFAD Policy increases, in addition to the fact that some entities do not have the institutional capacity to carry out tenders and will make agreements with third sector foundations that have operational capacity and follow specific national law.	Moderate	Moderate
Mitigations: Governance activities with the government entities that will receive resources should be carried out frequently, including third sector entities that partner with these entities, to align and standardize understandings about the IFAD Policy.		
Environment, Social and Climate Impact	Substantial	Moderate
Vulnerability of target populations and ecosystems to climate variability and hazards	Substantial	Moderate
Risk: The project's target populations and ecosystems are vulnerable to climate variability (periods of prolonged drought and excessive rainfall, which can negatively affect agricultural and forestry productivity). The proposed agroecological practices are a response that has been widely tested (for over 30 years) and proven effective in adapting to this variability.	Substantial	Moderate
Mitigations: The mitigation of this risk is the very promotion of the development of agro-silvo-pastoral and polyculture systems, provided for in component 1, capable of absorbing the shocks caused by climate variability - something that is already part of the socio-environmental context of the semiarid region, which historically suffers from alternating long (several years) periods of drought and intense rainfall. In addition, measures to promote and build structures to capture and store water (cisterns) for human consumption and production are essential to ensure water availability during periods of drought.		
Greenhouse Gas Emissions	Moderate	Moderate
Risk: The Project has some risk of promoting greenhouse gas emissions due to the involvement of small scale livestock, . The proposed natural resource restoration and conservation activities promote both adaptation and mitigation of emissions.	Moderate	Moderate
Mitigations: The proposed natural resource restoration and conservation activities promote both adaptation and mitigation of emissions. The risk of CO2 emissions due to livestock will be mitigated through an integral agro silvo pastoral approach promoted by the project		
Physical and Economic Resettlement	Low	Low
Risk: There is no risk that the project's interventions will cause the physical resettlement of families or significant adverse economic impacts, especially for marginalized groups. The project presents a solid targeting strategy and will promote positive social, physical, cultural, and economic impacts, especially for marginalized groups	Low	Low
Mitigations: N/A		
Community health, safety and security	Low	Low
Risk: There is no risk that the project will have adverse effects on the physical, mental, nutritional, or social health and safety of an individual, group, or population.	Low	Low
Mitigations: N/A		
Labour and Working Conditions	Moderate	Moderate

Risk: The risk that the project may cause exploitative labour practices (e.g. forced or child labour), gender based violence, discriminatory and unsafe/unhealthy working conditions for people employed to work specifically in relation to the project, including third parties and primary suppliers.	Moderate	Moderate
Mitigations: 1) All contracts with contractors, suppliers, and third parties to be financed with IFAD resources will include provisions prohibiting child labor and promoting decent working conditions. 2) The PMU will establish a mechanism to supervise and follow up on project's actions with beneficiaries, considering working conditions issues. 3) Through the Project's complaints and grievances mechanism, stakeholders or society, in general, will be able to submit anonymous complaints regarding abusive labor practices (e.g., forced or child labor), cases of gender-based violence, discriminatory working conditions and unsafe/unsanitary working conditions, which will be addressed and resolved as indicated in the mechanism. Therefore, the project will lead to an improvement in labor and working conditions.		
Indigenous People	Moderate	Moderate
Risk: The risk that the project may cause significant adverse physical, social, or economic impacts on indigenous peoples or threats to or loss of resources of historical or cultural importance to them.	Moderate	Moderate
Mitigations: The project methodology is participatory and demand-driven, with peasant, indigenous, and native communities presenting their development plans and co-creating the project activities in a self-determined development process in accordance with IFAD's Policy on Engagement with Indigenous Peoples (2022). The project will develop a Free, Prior, and Informed Consent Plan (FPIC Plan) and an Indigenous Peoples Plan.		
Cultural Heritage	Low	Low
Risk: There is no risk that the project will cause significant degradation of cultural or physical resources, including threats to or loss of resources of historical, religious, or cultural importance. The project will only work on land already being used for agriculture.	Low	Low
Mitigations: N/A		
Resource Efficiency and Pollution Prevention	Moderate	Moderate
Risk: The Project has no significant risks regarding efficiency in the use of resources and pollution prevention. The agroecological approach proposed for the agro-silvo-pastoral activities eventually supported by the project traditionally does away with the use of agrochemicals/pesticides. Nevertheless, using such substances is common in rural areas, even if not supported by the project. The substantial risk is due to the possible extensive use of animal livestock, but this is a risk that will be mitigated during the project design phase.	Moderate	Moderate

<p>Mitigations: The mitigation measures for this risk are the promotion of agroecology and its pest and disease management practices (Integrated Pest Management - IPM) through the provision of training for extension workers and farmers and the prohibition of the acquisition and use of these substances within the project's. To mitigate the risk of these substances being used by Project beneficiaries on their properties in activities not financed by the project, it is recommended that beneficiaries and extension workers are trained in the proper use of these substances (no use of substances in classes IA and IB, or formulations of products in class II of the WHO classification, respect for shortcomings in the use of products, proper cleaning and disposal of packaging, use of PPE). To prevent the pollution of water bodies due to poor manure management in animal production, the technicians will promote proper management, such as use in composting.</p>		
Biodiversity Conservation	Moderate	Low
<p>Risk: The project's activities do not pose significant risks to biodiversity, either through the significant suppression of natural habitats, the introduction of new invasive species, or the extraction of threatened native species. Nevertheless, some of the project's production activities, such as support for sheep and goat farming, could result in overgrazing with negative impacts on the Caatinga's biodiversity. The activities of component 1 offer an opportunity for mainstreaming the sustainable use of biodiversity, both of wild plants and animals (e.g. Melipona bees), and by valuing varieties of plants and animals already adapted to the social and environmental conditions of the semiarid region (Creole varieties).</p>	Moderate	Low
<p>Mitigations: The agroecological approach proposed by the project has traditionally worked with mainstreaming the valorization of biodiversity to ensure the diversity and resilience (environmental and economic) of agroecosystems in the semiarid region. It is recommended that this aspect of agroecology is emphasized in training and ATER services as a way of increasing the project's reach in this area. Concerning the risks of introducing invasive alien species, the project will follow the relevant lists for each state, ensuring that technicians and procurement specialists are aware of this issue.</p>		
Stakeholders	Moderate	Moderate
Stakeholder Grievances	Moderate	Moderate
<p>Risk: The implementation of the Project may lead to the submission of complaints by various stakeholders involved in or impacted by the Project's activities, thus affecting the continuity of activities and the established schedule. There is a risk that the Project will have ineffective grievance redress processes, leading to unaddressed grievances that jeopardize the achievement of the Project's development objectives.</p>	Moderate	Moderate
<p>Mitigations: The Project will incorporate a clear and effective Grievance Redress Mechanism (GRM) in accordance with IFAD's guidance documents - Framework for Operational Stakeholder Feedback and IFAD Guidelines 2021 on Engagement, Feedback and Redress of Project Target Group Grievances. The procedure includes mechanisms for expressing the complaint or grievance, the response time, and the spheres of resolution. This mechanism should be easily accessible to the population and have a rapid resolution, ensuring that the complaints submitted are quickly analyzed and that the situations are mutually agreed upon to the satisfaction of the parties involved. The Project will also raise awareness among stakeholders about the complaints and grievance mechanisms available. It will also include this information as part of IFAD missions, as well as part of the training of the technical assistance teams that will work with the beneficiaries.</p>		
Stakeholder Engagement/Coordination	Low	Low

<p>Risk: There is a risk that the relevant stakeholders are not identified, that there is inadequate/insufficient disclosure of information and that the key stakeholders invited to be part of the Project show little interest in or commitment to the Project's objectives and activities. Some civil society organizations represent different interests relevant to the Project and were consulted during the design process to ensure buy-in and active involvement of stakeholders.</p>	<p>Low</p>	<p>Low</p>
<p>Mitigations: The MDA will coordinate the participation of stakeholders during the design and implementation of the Project. During the design, several civil society organizations were consulted, as well as various secretariats of the MDA and other ministries, such as the MDS. At the community and family level, the Project will implement a participatory process in defining activities that meet the needs and aspirations of the beneficiaries. The Project will also establish continuous communication, awareness-raising, and coordination with the various partners at different levels (local, regional, and state), starting at the Project preparation stage, and will foster visibility activities with the aim of publicizing and clarifying doubts about the results of the Project's activities, both for the target groups and for the partners involved in implementation. It is essential to promote awareness and participation among local communities, farmers, and other key players to ensure adherence and commitment to the proposed activities.</p>		