
Federative Republic of Brazil

**Capacity Development for Overcoming Hunger and
Mitigating the Effects of Rural Poverty and Extreme
Poverty (PPF II)**

Negotiated financing agreement

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Negotiated financing agreement

Capacity Development for Overcoming Hunger and Mitigating the Effects of Rural Poverty and Extreme Poverty (Paulo Freire Project II or PPF II)

(Negotiations concluded on 25 November 2024)

Loan No: _____

Project name: Capacity Development for Overcoming Hunger and Mitigating the Effects of Rural Poverty and Extreme Poverty ("Paulo Freire Project II" or "PPF II" or the "Project") (*Projeto de Desenvolvimento de Capacidades para Superação da Fome e Mitigação dos Efeitos da Pobreza e Extrema Pobreza Rural - Projeto Paulo Freire II*)

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

and

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

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

WHEREAS the Borrower has requested a loan from the Fund for the purpose of financing the Project described in Schedule 1 to this Agreement;

WHEREAS IFAD and the Kingdom of Spain have entered into a Framework Co-financing Agreement dated 22 September 2020 (the "Framework Co-financing Agreement"). The Project shall be co-financed by the Instituto de Crédito Oficial ("ICO") of the Government of Spain. The Borrower and ICO will enter into a negotiation of a financing agreement for a loan of up to ninety-two million Euro (EUR 92 000 000) and a grant of up to four million Euro (EUR 4 000 000) through the Secretariat of International Cooperation (SECI).

WHEREAS the Fund has agreed to provide financing for the Project;

NOW THEREFORE, the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2) and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of December 2022 (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein, unless the Parties shall otherwise agree in this Agreement.
3. The Fund shall provide a loan to the Borrower (the "Loan" or "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

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

Section B

1. The amount of the Borrowed Resources Access Mechanism (BRAM) loan is eight million Euros (EUR 8 000 000).

2. The Loan is granted on ordinary terms and shall have a maturity period of eighteen (18) years, including a grace period of three (3) years, starting from the date as of which the Fund has determined that all general conditions precedent to withdrawal have been fulfilled in accordance with Section 4.02(b) of the General Conditions.

3. The Loan Service Payment Currency shall be in Euros.

4. The first day of the applicable Fiscal Year shall be January 1.

5. Principal and interest shall be payable on each 15 May and 15 November.

6. There shall be a Designated Account opened and held in the name of the Borrower in Euros, for the exclusive use of the Project. The Borrower shall inform the Fund of the officials authorized to operate the Designated Account.

7. There shall be a Project Account in Brazilian Real (BRL) for the benefit of the Government of the State of Ceará in a bank selected by the Borrower.

8. The Borrower shall provide counterpart financing for the Project in the amount of twenty-five million Euros (EUR 25 000 000), which shall include the payment of taxes and duties and of which two million thousand Euros (EUR 2 000 000) is considered as counterpart funding towards the IFAD Loan.

Section C

1. The Lead Project Agency shall be the Secretariat for Agrarian Development (SDA) of the State of Ceará or its successor with the same attributions and legal competencies, subject to prior approval by the Fund for the purposes of the Project.

2. A Mid-Term Review will be conducted as specified in Section 8.03 (b) and (c) of the General Conditions; however, the Parties may agree on a different date for the Mid-Term Review of the implementation of the Project.

3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement and the Financing Closing Date shall be six (6) months later, or such other date as the Fund may designate by notice to the Borrower.

4. Procurement of goods, works and services financed by the Financing shall be carried out in accordance with the provisions of the Borrower's procurement regulations, to the extent such are consistent with the IFAD Procurement Guidelines.

Section D

1. The Loan shall be administered by the Fund.

2. FIDA will carry out supervision of the project as cooperating institution on behalf of Spanish Agency for International Development Cooperation (AECID) based on a co-financing agreement signed between the Kingdom of Spain and IFAD.

Section E

1. The following are designated as additional grounds for suspension of this Agreement:
 - (a) The Project Implementation Manual (PIM) and/or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior agreement of the Fund and the Fund, after consultation with the Borrower, has determined that it has had, or is likely to have, a material adverse effect on the Project.
2. The following are designated as additional conditions precedent to withdrawal:
 - (a) The Guarantee Agreement shall have been duly signed, and the signature thereof by the Guarantor shall have been duly authorised by all necessary administrative and governmental authorities;
 - (b) The IFAD no objection to the PIM shall have been obtained;
 - (c) The Project Designated Account and the operational accounts shall have been opened;
 - (d) The Project Management Unit (PMU) shall have been established and the following members appointed: (i) project coordinator; (ii) a financial management specialist; and (iii) a procurement specialist;
 - (e) The ICO Loan Agreement shall have entered into full force and effect;
 - (f) The right of the Borrower to withdraw the proceeds of the ICO Loan or Grant has not been suspended, cancelled or terminated, in whole or in part, or the ICO Loan has become due and payable prior to the agreed maturity thereof provided that the Parties could not have reached an agreement on a mutual solution.
3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

Estado do Ceará
Av Alberto Nepomuceno, 02 – Centro
Fortaleza – CE – CEP: 60055-000
E-mail: gabinete@sefaz.ce.gov.br; cedip@sefaz.ce.gov.br

Copy to:

Secretaria do Desenvolvimento Agrário - SDA
Av. Bezerra de Menezes, 1820 - São Gerardo
Fortaleza - CE - CEP: 60.325-901
E-mail: sda@sda.ce.gov.br; ppf2.sda@sda.ce.gov.br

For the Fund:

The President,

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

4. The Parties commit to share with the Secretaria de Assuntos Internacionais e Desenvolvimento do Ministério do Planejamento e Orçamento – SEAID copies of all communication related to this Agreement.

5. The Parties accept the validity of any qualified electronic signature used for the signature of this Agreement and recognise the latter as equivalent to a hand-written signature.

This Agreement has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

THE STATE OF CEARÁ
OF THE FEDERATIVE REPUBLIC OF BRAZIL

Date: _____

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Alvaro Lario
The President

Date: _____

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* 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 (PCTs); and v) LGBTQIAPN+. It shall benefit approximately 80,000 family farming families (around 320,000 people), of which at least 50% will be represented by women, 15% by young people and 5% by PCTs.

2. *Project area.* The Project area will cover 74 municipalities in the semiarid region of the State of Ceará. The selection of the municipalities is based on the Municipal Alert Index (IMA), which integrates 12 indicators to measure the vulnerability of municipalities in climatic, agricultural, and social assistance dimensions and also considers the area of the other IFAD projects in Ceara (PCR/P/Sertão Vivo and PDHC III).

3. *Goal.* The goal of the Project is to reduce rural poverty, food insecurity and malnutrition in family farming.

4. *Development Objective.* The Development Objective is to increase the sustainability of production systems and the resilience of family farmers.

5. *Components.* The Project shall consist of the following Components:

5.1 *Component 1: Rural development with environmental sustainability based on agroecology*

5.1.1 The component will implement investments in family farming with high potential for improving income through development, diversification, adaptation of production capacity and market access. Activities will be carried out to promote and encourage the adoption of agroecological practices, through Technical Assistance and Rural Extension (ATER) complemented with tools based on Information and Communication Technologies (ICTs), as well as favouring the conservation and preservation of natural resources. At a territorial level, the Project will work with Local Rural Development Plans (PDRL) with investments in productive development, restoration and environmental sustainability. At the level of family farming organizations, Business Plan investments will be made in processing units, including assistance via Specialized Technical Assistance (STA) to be contracted by the PMU to ensure improved business management, marketing, and sustainability. The component will also finance environmental and land regularization activities mainly aimed at traditional peoples and communities.

5.2 *Component 2: Access to water, sanitation, and social technologies*

5.2.1 The aim of this component is to make investments in the areas of water, household sewage and renewable energy, at family or community level. Whether for community or family use, the investments will guarantee consistent and high-quality access to water for human consumption or agricultural production, as well as reducing soil and water contamination with waste produced in family units. Efficient water use practices and technologies will be systematically implemented to adapt to climate change. At the community level, activities include collective water supply systems, community reuse of grey water and recycling of household waste. At the household level, activities include social technologies for capturing and storing rainwater, toilet module, grey water reuse eco-efficient stoves, biodigesters and support investments in micro-enterprises to provide machinery, services or products to assist in the small-scale agroecological production.

5.3 *Component 3: Knowledge management and cooperation to adapt to climate change and combat desertification in the semi-arid region (INOVA CLIMA)*

5.3.1 This component will be entirely financed by a grant. It will promote capacity-building among family farmers and ATER teams, environmental education to ensure food security and better nutrition in rural communities, and sustainable and inclusive technologies and innovations adapted to the semi-arid environment. Replicable pilot projects will be developed and exchanges organized, following the model of South-South and Triangular Cooperation. Component 3 also aims to provide support to the PMU to strengthen the State of Ceará's institutional capacity to implement the project and other public policies.

6. *Project Management and Monitoring and Evaluation (M&E)*: The Borrower will be responsible for carrying out all the necessary project management activities to ensure efficient implementation through a Project Management Unit (PMU), under the responsibility of the Secretariat for Agrarian Development (SDA). The M&E system will support the planning, monitoring and evaluation of results, and Knowledge Management and South-South and Triangular Cooperation (SSTC) will enable the preparation of materials/systematizations.

II. Implementation Arrangements

7. *Lead Project Agency*. The Secretariat for Agrarian Development (SDA) will be the Project's executing agency. The PMU will be housed at the SDA, in Fortaleza, and will take on the Project's implementation, management and monitoring activities. To guarantee the Project's presence in the field, its focal points will be based in the regional offices or outposts of the Technical Assistance and Rural Extension Company of Ceará (EMATERCE).

8. *Additional Project Parties*. The State Technical Assistance and Rural Extension Company (EMATERCE) and the Ceará Institute for Agrarian Development (IDACE) will be in principle additional Project Parties for the Project or their successor with the same attributions and legal competencies, subject to prior approval by the Fund for the purposes of the Project.

9. *Strategic Management Committee*. This committee will provide technical assistance and general support to the PMU in the main strategic decisions. It will include representatives from the SDA's coordinating departments, EMATERCE, the Agrarian Development Institute of Ceará (IDACE) and the Supply Centres of Ceará (CEASA-CE).

10. In order to inform its deliberations and increase capillarity and articulation with territorial, state, regional and national public policies, the Project will participate in two other governance spaces:

10.1 At a territorial level, the existing civil society-based Micro-Regional Forums for Life in the Semiarid will act as Regional Committees, monitoring the activities and providing support for the Project to run smoothly, always seeking complementarities and synergies with other initiatives.

10.2 At the municipal level, the Municipal Committees for Coexistence with the Semiarid, which already operate in the municipalities of the Semiarid of Ceará and support the implementation of programs and policies for coexistence with the semiarid region, will act as local committees to monitor the implementation of the Project, carry out social checks and balances and support the mobilization of the communities and families for participation in the Project.

11. *Project Management Unit (PMU)*. The PMU's key staff, exclusively dedicated to the Project, will include: i) Project Coordinator, ii) Manager Component 1; iii) Manager Component 2; iv) Manager Component 3; iv) Procurement and Contracts Specialist, vi) Financial Management Specialist, vii) Monitoring and Evaluation (M&E) Specialist, viii) Gender and Diversity Specialist; ix) Youth Specialist; x) Knowledge Management and Communications Specialist xi) Social, Environmental and Climate Safeguards (SECAP) Specialist.

12. *Monitoring and Evaluation (M&E)*. The Project will include equipment, systems and consultancies needed for administration and planning, monitoring and evaluation and learning. The PMU will use the M&E system developed in phase I of the Project, and adjust the system to the needs of phase II will be made at the start of the first year of the Project.

13. *Financial Management*: Within the SDA a dedicated Project Management Unit (PMU) will be established responsible for project implementation under the guidance of SDA Planning Coordination (CODIP) and Financial Administrative Coordination (COAFI) with two dedicated finance staff. PMU staff will be responsible for financial management of the project in particular: (i) Maintaining accurate and complete accounting records ii) Ensuring adequate levels of internal control; (iii) Submitting the quarterly IFRS and presentation of justifications of expenditure disbursement requests based on the same; (iv) Preparation of annual financial statements; and (v) Coordinating timely submission of external audit including all funding sources and in accordance with Handbook for Financial Reporting and Auditing of IFAD-Financed Projects. The funds needed to implement the project will be included by SDA in the Annual Budget Law (LOA) and in the Multi-Year Plan (PPA) The project will be subject to public sector Law No. 4.320/64, which establishes the norms and principles for budgeting, accounting and financial management. Payments will follow the workflows and built-in controls in the Integrated System of Planning and Financial Administration of Ceará (SIAFE-CE) system and oversight of SDA's Financial department.

14. *Audits*. The Project accounts will be audited annually by the Ceará State Courts of accounts

15. *Project Implementation Manual (PIM)*. Project implementation will be in accordance with this Agreement and the PIM. The Borrower will finalize the development of Project Implementation Manual (PIM) for the Fund's consideration and approval. In case of discrepancy between this Agreement and the PIM, the Agreement will prevail. Any change or modification in the PIM will require IFAD's prior no-objection.

Schedule 2*Allocation Table*

1. *Allocation of Loan Proceeds.* (a) The Table below sets forth the component to be financed by the Loan:

| Component | IFAD Loan Amount Allocated (Expressed in EUR) | Percentage |
|---|---|-------------------|
| 1. Rural development with environmental sustainability based on agroecology | 8 000 000 | 100% net of taxes |
| TOTAL | 8 000 000 | |

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

- (i) Rural Development with environmental sustainability based on agroecology: Eligible expenditure under component 1 including Technical Assistance and Rural Extension.

Schedule 3

Special Covenants

I. General Provisions

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan/Grant Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. Within six (6) months of entry into force of this present Agreement, the Project will:
 - a) conclude any relevant contractual arrangements with the additional Project Parties of this present Agreement that will structure the collaboration, define roles, responsibilities and duties with regards to implementation, financial management, and financial reporting;
 - b) obtain the no objection by IFAD to the Terms of Reference for the selection process of third sector entities for technical assistance services (ATER); and c) implement a complementary automated financial reporting system which allows for tracking of budget versus expenditure by category and component for all funding sources and the automated generation of the interim financial reports (IFRs) required by IFAD for justification of expenditure and requests for disbursement.

2. *Planning, Monitoring and Evaluation.* The Borrower shall ensure that (i) a Planning, Monitoring and Evaluation (PM&E) system shall be established within twelve (12) months from the date of entry into force of this Agreement.

3. *Gender.* The Borrower shall ensure that the Project will adopt a gender transformative approach.

4. *Indigenous People Concerns.* The Borrower shall ensure that the concerns of IPs are given due consideration in implementing the Project and, to this end, shall ensure that:
 - (a) the Project is carried out in accordance with the applicable provisions of the IFAD's Policy on Indigenous Peoples (2022) with its focus on the empowerment of traditional communities (PCTs).
 - (b) indigenous people are adequately and fairly represented in all local planning for Project activities;
 - (c) IP rights are duly respected;
 - (d) IP communities, participate in policy dialogue and local governance;
 - (e) The terms of Declarations, Covenants and/or Conventions ratified by the Borrower on the subject are respected;
 - (f) The Project will not involve encroachment on traditional territories used or occupied by indigenous communities.

5. *Anticorruption Measures.* The Borrower shall comply with IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations.

6. *Sexual Harassment, Sexual Exploitation and Abuse.* The Borrower and the Project Parties shall ensure that the Project is carried out in accordance with the provisions of the IFAD Policy on Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse, as may be amended from time to time.

8. PPF II will use IFAD systems in the implementation and management stage of contracts and procurement.

9. The Key Project Personnel, unless otherwise agreed with IFAD, shall be employed or designated by the PMU, as required, with qualifications, experience and terms of reference satisfactory to IFAD. Key Project Personnel shall be seconded to the PMU in the case of government officials, or recruited under a consulting contract following the individual consultant selection method in the IFAD Procurement Handbook, or any equivalent selection method in the national procurement system that is acceptable to IFAD. The designation of Key Project Personnel is subject to IFAD's prior review. Any contract signed for Key Project Personnel shall be compliant with the national labour regulations.

II. SECAP Provisions

1. For projects presenting high or substantial social, environmental and climate risks, the Borrower shall carry out the implementation of the Project/Programme in accordance with the measures and requirements set forth in the Environmental, Social and Climate Management Frameworks (ESCMFs), Environmental, Social and Climate Management Plans (ESCMPs), Free, Prior and Informed Consent (FPIC) Plans, FPIC Implementation Plans, Indigenous Peoples Plans (IPPs), and Pesticide Management Plans (the "Management Plan(s)"), as applicable, taken in accordance with SECAP requirements and updated from time to time by the Fund.

2. The Borrower shall not amend, vary or waive any provision of the Management Plan(s), unless: (i) agreed in writing by the Fund and (ii) Borrower has complied with the requirements applicable to the original adoption of the Management Plan(s).

3. The Borrower shall disclose the relevant Management Plan(s) with Project stakeholders and interested parties in an accessible place in the Project -affected area, in a form and language understandable to Project -affected persons and other stakeholders. The disclosure will take into account any specific information needs of the community (e.g. culture, disability, literacy, mobility or gender).

4. The Borrower shall cause the Lead Project Agency to ensure that all bidding documents and contracts for goods, works and services contain provisions that require contractors, sub-contractors and suppliers to comply at all times in carrying out the Project with the standards, measures and requirements set forth in the SECAP 2021 Edition and the Management Plan(s), if any.

5. This section applies to any event which occurs in relation to serious environmental, social, health & safety (ESHS) incidents (as this term is defined below) or labor issues to Project-affected persons or adjacent populations during Project implementation that, with respect to the relevant IFAD Project:

- (i) has direct or potential material adverse effect;
- (ii) has substantially attracted material adverse attention of outside parties or created material adverse national press/media reports; or
- (iii) gives rise to material potential liabilities.

In the occurrence of such event, the Borrower shall:

- Notify IFAD promptly;
- Provide information on such risks, impacts and accidents;
- Consult with Project -affected parties on how to mitigate the risks and impacts;
- Carry out, as appropriate, additional assessments and stakeholders' engagements in accordance with the SECAP requirements; and

- Adjust, as appropriate, the Project -level grievance mechanism according to the SECAP requirements; and
- Propose changes, including corrective measures to the Management Plan(s) (if any), in accordance with the findings of such assessment and consultations, for approval by IFAD.

Serious ESHS incident means serious incident, accident, complaint with respect to environmental, social (including labor and community), health and safety (ESHS) issues that occur in the context of Project. Serious ESHS incidents can comprise incidents of (i) environmental; (ii) occupational; or (iii) public health and safety; or (iv) social nature as well as material complaints and grievances addressed to the Borrower (e.g. any explosion, spill or workplace accident which results in death, serious or multiple injuries or material environmental contamination, accidents of members of the public/local communities, resulting in death or serious or multiple injuries, sexual harassment and violence involving Project workforce or in relation to severe threats to public health and safety, inadequate resettlement compensation, disturbances of natural ecosystems, discriminatory practices in stakeholder consultation and engagement (including the right of indigenous peoples to free, prior and informed consent), any allegations that require intervention by the police/other law enforcement authorities such as loss of life, sexual violence or child abuse, which (i) have, or are likely to have a material adverse effect; or (ii) have attracted or are likely to arouse substantial adverse attention of outside parties or (iii) create substantial adverse media/press reports; or (iv) give, or are likely to give rise to material potential liabilities).

6. The Borrower shall cause the Lead Project Agency contractors, sub-contractors and suppliers to ensure that the relevant processes set out in the SECAP 2021 Edition as well as in the Management Plan(s) (if any) are respected.

7. Without limitation on its other reporting obligations under this Agreement, the Borrower shall provide the Fund with:

- Reports on the status of compliance with the standards, measures and requirements set forth in the SECAP 2021 Edition, ESCMPs and the management plan (if any) on a semi-annual basis - or such other frequency as may be agreed with the Fund;
- Reports of any social, environmental, health and safety incidents and accidents occurring during the implementation of the Project and propose remedial measures. The Borrower will disclose relevant information from such reports to affected persons promptly upon submission of the said reports; and
- Reports of any breach of compliance with the standards, measures and requirements set forth in the SECAP 2021 Edition and the Management Plan(s) (if any) promptly after becoming aware of such a breach.

8. In the event of a contradiction/conflict between the Management Plan(s), if any, and the Financing Agreement, the Financing Agreement shall prevail.