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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO

THE FEDERATIVE REPUBLIC OF BRAZIL

FOR

**THE SUSTAINABLE DEVELOPMENT PROJECT FOR AGRARIAN REFORM
SETTLEMENTS IN THE SEMI-ARID NORTH-EAST**



TABLE OF CONTENTS

CURRENCY EQUIVALENTS	iii
WEIGHTS AND MEASURES	iii
ABBREVIATIONS AND ACRONYMS	iii
MAP OF THE PROJECT AREA	iv
LOAN SUMMARY	v
PROJECT BRIEF	vi
PART I THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY	1
A. The Economy and Agricultural Sector	1
B. Lessons Learned from Previous IFAD Experience	3
C. IFAD's Strategy for Collaboration with Brazil	3
PART II THE PROJECT	4
A. Project Area and Target Group	4
B. Objectives and Scope	5
C. Components	5
D. Costs and Financing	7
E. Procurement, Disbursement, Accounts and Audit	9
F. Organization and Management	9
G. Economic Justification	10
H. Risks	11
I. Environmental Impact	12
J. Innovative Features	12
PART III LEGAL INSTRUMENTS AND AUTHORITY	12
PART IV RECOMMENDATION	12
ANNEX	
SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT	13



APPENDIXES

I. COUNTRY DATA	1
II. PREVIOUS IFAD LOANS TO BRAZIL	2
III. LOGICAL FRAMEWORK	3
IV. OBJETIVOS, COMPONENTES, ACTIVIDADES Y PARÁMETROS PRODUCTIVOS Y FINANCIEROS (OBJECTIVES, COMPONENTS, ACTIVITIES AND PRODUCTION AND FINANCIAL PARAMETERS)	6
V. ORGANIZATION AND MANAGEMENT	7



CURRENCY EQUIVALENTS

Currency Unit	=	Brazilian Real (BRL)
USD 1.00	=	BRL 1.15
BRL 1	=	USD 0.87

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 hectare (ha)	=	13.3 <i>tarefas</i> (ta)
1 <i>tarefa</i> (ta)	=	0.33 hectare (ha)
1 pound (lb)	=	450 grams (gr)
1 <i>arroba</i> (@)	=	15 kilogram
1 quintal (qq)	=	45.3 kilogram

ABBREVIATIONS AND ACRONYMS

BN	Banco do Nordeste (Bank of the North-East)
CONTAG	Confederação Nacional dos Trabalhadores na Agricultura (National Confederation of Agricultural Workers)
IDB	Inter-American Development Bank
INCRA	Instituto Nacional de Colonização e Reforma Agraria (Agrarian Reform and Colonization Institute)
MEEPF	Ministro de Estado Extraordinario da Política Fundiaria (Special State Ministry for Land Policy)
MST	Movimento dos Trabalhadores Rurais sem Terra (Movement of Landless Farmers)
PMU	Project Management Unit
PPRDI	Private and Public Rural Development Intermediaries
S&L	Savings and Loan

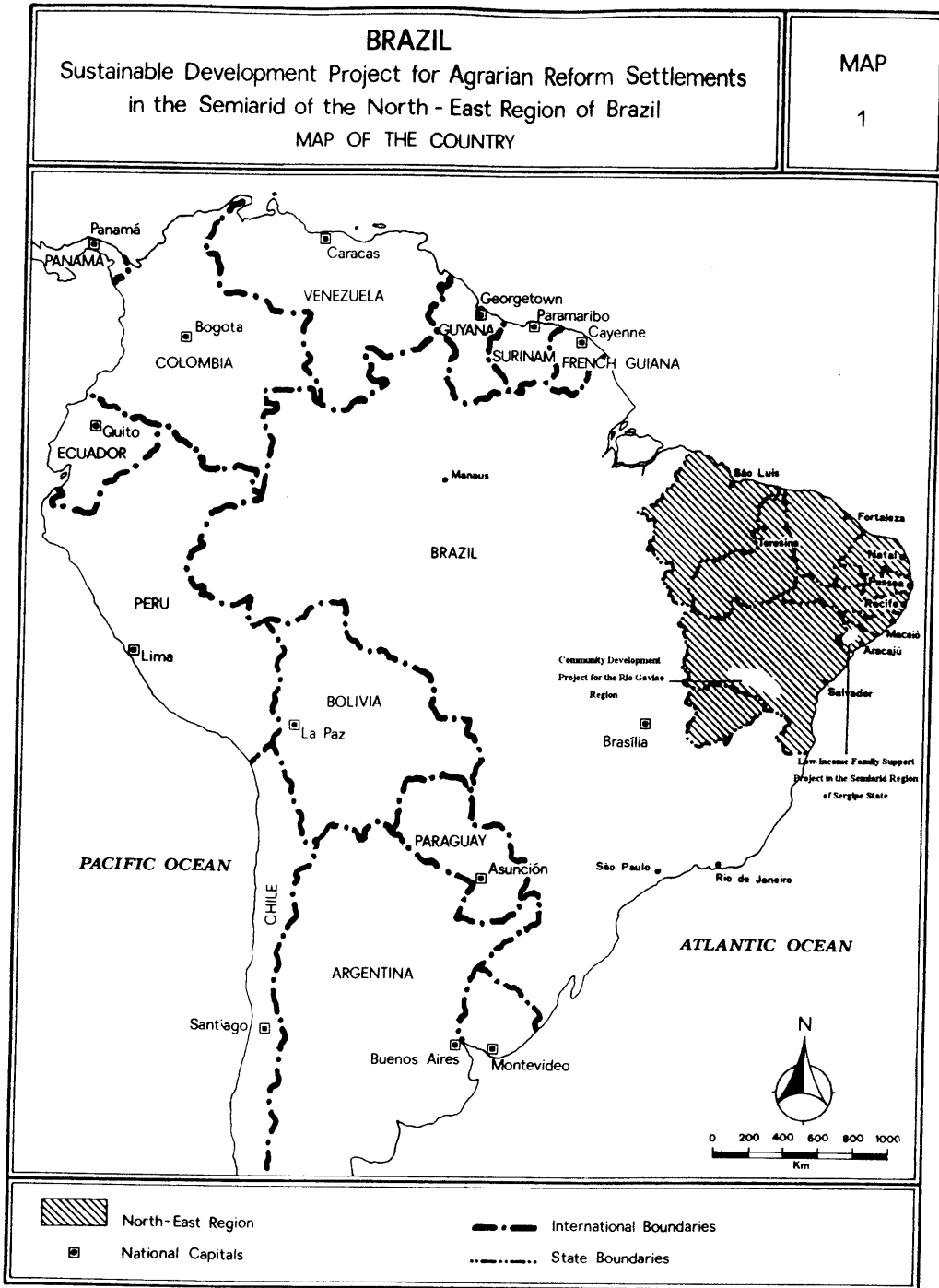
GOVERNMENT OF THE FEDERATIVE REPUBLIC OF BRAZIL

Fiscal Year

1 January - 31 December



MAP OF THE PROJECT AREA



Source: Appraisal Mission

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.



FEDERATIVE REPUBLIC OF BRAZIL

**SUSTAINABLE DEVELOPMENT PROJECT FOR AGRARIAN REFORM
SETTLEMENTS IN THE SEMI-ARID NORTH-EAST**

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Federative Republic of Brazil
EXECUTING AGENCY:	Special State Ministry for Land Policy (MEEPF) and the Agrarian Reform and Colonization Institute (INCAR)
TOTAL PROJECT COST:	USD 93.5 million
AMOUNT OF IFAD LOAN:	SDR 17.8 million (equivalent to approximately USD 25.0 million)
TERMS OF IFAD LOAN:	18 years, including a grace period of three years, with an interest equal to the reference interest rate per annum, as determined by the Fund annually
COFINANCIER:	None
CONTRIBUTION OF THE BORROWER:	USD 65.5 million
CONTRIBUTION OF BENEFICIARIES:	USD 3.0 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	Directly supervised by IFAD



PROJECT BRIEF

Who are the beneficiaries? The project area consists of about 60 municipalities in the semi-arid zone of five states of the North-East Region: Ceara, Paraiba, Pernambuco, Rio Grande do Norte and Sergipe. It comprises some 250 agrarian reform settlements. The target group consists of about 23 000 families with monthly income of less than two basic salaries (about USD 235 equivalent), derived from agriculture, livestock production, small business and rural wages. The direct beneficiaries will be about 15 000 families, most of them located in federal or state agrarian reform settlements; the remainder are smallholders living in neighbouring areas. About 2 700 beneficiary families are headed by women.

Why are they poor? The main features of the project area's poverty profile are as follows: the lowest socio-economic indicators of the country (housing, sanitation, education, health services, employment, etc.); restriction of water supply associated with severe soil and climatic constraints of the semi-arid north-east; limited agriculture and production experience and microentrepreneurial skills; the lack of access to production technologies adapted to semi-arid conditions and existing financial resources; few linkages to local and regional markets; and the almost complete absence of quality support services in adult education, training and production development. Despite Brazilian constitutional guarantees, there are countless forms of discrimination with respect to women that aggravate the poverty conditions of women-led households.

What will the project do for them? The project will contribute to the sustainable improvement of social and economic conditions of poor agrarian reform settlers and neighbouring smallholders. First, the project will strengthen beneficiary awareness and entrepreneurial management skills and beneficiary economic organizations through the following: a basic adult education programme; a systematic training programme, including gender sensibilization for decision making processes and participation in economic activities; and a social investment fund. Second, it will increase on a sustainable basis beneficiary income by: improving agricultural and small business management skills, along with production and marketing linkages through the contracting of private and public rural development intermediary support services; testing and validating semi-arid production technologies, water storage and management development, marketing, small agro-industries and rural enterprises support; and creating a production investment fund. Finally, it will improve access to and rational use of existing financial services and credit lines through operational support and specific arrangements with the financial agent. It will promote, test and implement innovative financial services adapted to the beneficiaries' socio-economic characteristics.

How will the beneficiaries participate in the project? The project is designed with a participatory demand-driven annual planning process of project investments and activities as well as with a private-sector delivery of training, organizational and technical services. Social and production investment funds will cofinance beneficiary initiatives. On-farm testing and validation programmes of semi-arid technologies will be carried out jointly with the beneficiaries and field agents. The beneficiaries will have representatives in the project steering committee and mechanisms to elect representatives will be part of organizational strengthening support. The beneficiaries will directly monitor training programme results and project activities.



**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
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THE FEDERATIVE REPUBLIC OF BRAZIL
FOR THE
SUSTAINABLE DEVELOPMENT PROJECT FOR AGRARIAN REFORM
SETTLEMENTS IN THE SEMI-ARID NORTH-EAST**

I submit the following Report and Recommendation on a proposed loan to the Federative Republic of Brazil for SDR 17.8 million (equivalent to approximately USD 25.0 million) on ordinary terms to help finance the Sustainable Development Project for Agrarian Reform Settlements in the Semi-Arid North-East. The loan will have a term of 18 years, including a grace period of three years, with an interest rate equal to the reference interest rate per annum as determined by the Fund annually. It is proposed that this IFAD-initiated project be supervised by the Fund for its innovative features in the challenging generation of new policies and models for agrarian reform and the need for IFAD's close interface with the Federal Government.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. Brazil is the largest country in Latin America (8.5 million km²) and has the greatest number of inhabitants in the region (157 million in 1995). The rural sector comprises 35 million inhabitants or 22% of the total population. Because of specific federal development programmes and for administrative reasons, the country is divided into five regions: North, North-East, Centre, South-East and South. The North-East Region comprises states within the so-called *poligono da seca*, the "polygon of droughts".

2. After more than thirty years of steady economic growth, there was a period of strong economic fluctuation and very high inflation (upwards of 13 000% in 1994). With the introduction of the "Plan Real" in 1994, annual inflation was lowered to less than 10% in 1997. The Government sped up the trade liberalization process begun in 1990 and continued the already initiated structural reforms. Particular emphasis was placed on the following areas: administrative reform; poverty alleviation; social security restructuring; the privatization of state companies and public utilities; and tax reform and other institutional reforms aiming at creating a favourable environment for investment.

3. **The agricultural sector.** Transformations in the economic development model have caused changes in the role of the agricultural sector while a new set of policies has introduced different responsibilities for public and private institutions and organizations. The Federal Government has explicitly put into effect these policies in order to obtain significant changes in both the agrarian structure and in the composition of agricultural output. The Government has reoriented its strategies and resources toward the smallholder sector by promoting: (i) land distribution; (ii) local decision-making, with a crucial role given to the municipalities for the allocation of public resources for agricultural production-support services; (iii) increased farmer participation in local planning processes, with

¹ See Appendix I for additional information.



support services provided under demand-driven mechanisms; and (iv) promotion of private-sector involvement, with initiatives consistent with local and state market opportunities.

4. **Rural poverty.** Poverty in Brazil is still a persistent and pervasive socio-economic phenomenon. Brazil has the largest rural poor population of the Western Hemisphere, about 20 million people, or 30% of the Latin America and the Caribbean region. In terms of income below the poverty line, that is where monthly income is below two basic salaries, or a USD 235 equivalent for a family of 4.7 members, about 42% of Brazil's population is poor. This proportion is higher in rural areas where 66% of the rural population or 20 million people are poor. The North-East Region has the largest proportion of rural poor (some 12 million people or 60% of the rural poor in Brazil), with the lowest social indicators of the country in housing, sanitation, education and health services, and employment. To date, the impact of the agrarian reform process and the Government's relatively recent support to the smallholder sector have not yet been realized in the improvement of income and/or living conditions for rural families.

5. **The agrarian reform.** In 1995 the Government began an ambitious national agrarian reform programme with a commitment to providing access to agricultural land to 280 000 rural landless families by the end of 1998. Actions related to farm expropriation and transfer to landless farmers or land purchasing were accompanied by appropriate funding from the Government, as well as a loan from the World Bank. A Special State Ministry for Land Policy (MEEPF) was appointed and landless political organizations such as the Movement of Landless Farmers (MST) and the National Confederation of Agricultural Workers (CONTAG) participated in an ample dialogue at the federal and state levels in agrarian reform committees. To accelerate and consolidate the process, the Congress approved a set of laws and is presently discussing additional legislative proposals providing a new legal frame to land ownership. By June 1998, about 200 000 families, the beneficiaries of the agrarian reform process, were located in some 1 500 settlements for a total area of 8.8 million ha. In the North-Eastern Region states, agrarian reform benefited about 78 000 families in 700 settlements, covering an area of 2.3 million ha. The region shows a higher rate of growth than the national average.

6. The agrarian reform process in Brazil presents the following trends and characteristics. A successful and accelerated land distribution programme is effectively distributing land property to agrarian reform-beneficiary families, but yet the combination of illiteracy, very low educational levels, limited agricultural production experience and the microentrepreneurial skills of the agrarian reform beneficiaries have generated a weak and fragile human context for the development of family agriculture. Slow and uneven social and production development of agrarian reform settlements, particularly of those located in the semi-arid area of north-eastern states, are becoming a source of unsatisfied social demands. Both the Special Credit Programme for the Agrarian Reform and the Technical Assistance to Agrarian Reform Settlements Project show insufficient coverage and low effectiveness. As a consequence, several projects have been initiated by MEEPF and the Agrarian Reform and Colonization Institute (INCRA), including the Inter-American Development Bank's (IDB) Agrarian Reform Settlements Consolidation Project and the MEEPF pilot project to improve development strategies for the settlements. Given the need to accelerate the consolidation of agrarian reform settlements and their graduation into family agriculture areas, the IFAD project will be fully integrated into present programmes, but clearly differentiated by its specific intervention in the poorest areas of the semi-arid north-east.



B. Lessons Learned from Previous IFAD Experience

7. **Operations.** Thus far, IFAD has approved three loans to Brazil for single state-focused projects: (i) Ceara Second Rural Development Project (IFAD Loan 051-BR), closed December 1987; (ii) Low-Income Family Support Project in the Semi-Arid Region of Sergipe State (IFAD Loan 344-BR), approved December 1993 with a closing date in December 2000; and (iii) the Community Development Project for the Rio Gavião Region (IFAD Loan 404-BR), approved December 1995, with a loan closing scheduled for December 2002.

8. **Lessons learned.** With a new IFAD approach focusing on Federal Government-supported agrarian reform beneficiaries, there are limited lessons to be learned from past and current IFAD experiences in Brazil. Yet, IFAD's experience in the semi-arid areas of the north-east does provide the following important lessons: the need to strengthen and institutionalize the beneficiaries demand-led participative project actions; the need for suitable technical packages to be transferred to the beneficiaries; the need to incorporate water supply facilities and water management schemes; and the requirement for emergency preparedness when cyclical droughts occur.

C. IFAD's Strategy for Collaboration with Brazil

9. **The country's policy for poverty eradication.** Over the last five years, the Government presented and applied a set of high priority policies oriented to alleviating rural poverty and supporting the smallholder sector. Programmes were directed to giving marginal small farmers and landless people access to land and production-support services and credit.

10. **The poverty eradication activities of other major donors.** The World Bank and IDB are the most active lending institutions providing loan resources for poverty eradication in state-run projects in the North-East Region. Currently in its final stage, the World Bank's North-East Smallholder Support Development Project initiated in 1990, covered all North-East states, and invested USD 500 million in irrigation and agro-industrial infrastructure, technical assistance and credit. By 1994, World Bank and IDB loans have supported federal agrarian reform programmes through *Cedula da Terra* (land market) and IDB's Agrarian Reform Settlements Consolidation Project, a land purchasing and settlement infrastructure programme.

11. **IFAD's strategy for collaboration with the country.** Based on the Country Strategic Opportunities Paper (1997), IFAD reviewed and reformulated the institutional strategy and operational guidelines for Brazil. These included: (i) priority to the North-East Region, which has the highest concentration of rural poverty; (ii) support to beneficiaries from the agrarian reform process; (iii) a project design that prioritizes: beneficiary participation; decentralization of project formulation and execution; and demand-driven approaches for private-support services delivery and protection of environment; and (iv) additional operational guidelines to include the following: support for adult literacy and vocational training; promotion of rural non-agricultural activities; development of innovative financial services at a later stage; and gender sensitivity. While continuing to work on strategic partnerships with other multilateral financial institutions operating in the country, IFAD's projects should include a focus on development, innovation and value added to ensure the Fund's distinction.

12. **Project rationale.** The general strategy of the project is framed by the Government's current policies and priorities for consolidating its national agrarian reform and rural poverty alleviation programmes, along with IFAD's country strategy and operational guidelines. Thus, the project's general approach supports the Government's poorest beneficiaries of the land distribution programme, who are located in the semi-arid zone of the North-East Region. While working at the federal level with MEEPF and INCRA, the project will develop links and coordination schemes with state and municipal governments, and other multilateral financial institutions operating in the



country. The present project focuses on poverty eradication and marginal areas and includes innovative features that will ensure: (i) the Fund's clearly differentiated identity from other projects, programmes and donor activities; and (ii) the validation of strategies and methodologies that will improve INCRA's actual operational schemes.

13. The project area is characterized by a set of restrictions that affect the development of agrarian reform settlements and smallholders. At the same time, some favourable elements offer opportunities for sustained development. The most important restrictive elements are the following: (i) high incidence of illiteracy and lack of production experience and entrepreneurial skills in the agrarian reform beneficiaries; (ii) limited quality and coverage of current agricultural development support programmes; and (iii) restrictive agro-ecological and climatic setting. A potential for development is indicated by: (i) the Government's high priority policies for poverty alleviation; (ii) accessibility to land ownership for the landless poor; (iii) availability of credit for agrarian reform beneficiaries and smallholders; (iv) presence of grass-roots organizations; (v) availability of agricultural production technologies for the semi-arid zone; and (vi) presence of important agricultural markets in the coastal cities of the project area.

PART II - THE PROJECT

A. Project Area and Target Group

14. **Project area.** As a result of the selection of municipalities for the high concentration of agrarian reform settlements and poverty level of the rural population within the *poligono da seca*, the semi-arid north-east, the project area consists of about 60 municipalities grouped in 16 clusters located in the semi-arid zone of the states of Ceara (6), Paraiba (2), Pernambuco (4), Rio Grande do Norte (2) and Sergipe (2). It comprises some 250 federal agrarian reform settlements.

15. The project area is subject to cyclical, severe regional droughts. Risk of drought incidence varies within states and municipalities because of the presence of microclimates, river courses and topographical variations. Yearly intervals for drought occurrence range from seven to ten years for most locations. The project area climate is tropical, with local variations from tropical humid to semi-arid. Annual average temperature is 27.4°C with an average maximum of 32.6 °C in October and on average a minimum of 22.5 °C in July. Annual evapotranspiration coefficient ranges from 1 087.6 to 2 210.5 mm. The rainy season lasts from December to May with a yearly rain distribution that makes for a six to seven-month dry season. A large portion of the area comprises low quality soils and the region is under constant climatic vulnerability.

16. **Target group.** The semi-arid zone is the least developed part of the North-East Region. The incidence of rural poverty exceeds 80%, critical poverty affects more than 50% of the population and social indicators are below the regional average with dramatic unemployment and underemployment rates. While the national average income of families living in agrarian reform settlements reaches Brazil's 3.70 minimum salaries per month, those families located in the semi-arid zone reach only one minimum monthly salary per family, including all possible sources of income. Agrarian reform beneficiaries in the semi-arid north-east clearly fall in to the category of the rural poor.

17. The project target group comprises about 110 000 inhabitants (23 000 poor families) located in 250 federal and state agrarian reform settlements and in the neighbouring smallholdings. They have a monthly family income of less than two of Brazil's basic salaries (currently USD 235 equivalent), derived from the following: small agriculture; livestock production; small manufacturing of agricultural and non-agricultural products; and seasonal agricultural and non-agricultural wage labour, obtained independently or by groups or associations. The project's direct beneficiaries are 15 000 families, located in federal agrarian reform settlements, plus neighbouring (within the same



municipality) state agrarian beneficiaries and smallholders. The distribution of direct beneficiaries comprises 10 500 federal (70%) and 2 250 state (15%) agrarian reform beneficiaries and 2 250 smallholders (15%), located in neighbouring areas of settlements. Of the 15 000 beneficiary families, about 2 700 or 18% are headed by women. Additionally, the project will directly benefit another 2 200 women who run on their own an agricultural enterprise, small microenterprise or marketing activity.

B. Objectives and Scope

18. **Objectives and scope.** The overall project goal is the sustainable improvement of social and economic conditions of poor agrarian reform beneficiaries and neighbouring smallholders in the semi-arid zone of the North-East Region. The project's general objective is to improve the capabilities and involvement in the local market of beneficiary families, to enable them to manage more efficiently and sustainably productive activities in agriculture, marketing, microenterprise and small-scale agro-industry. Additionally, it will permit them to use financial services within the normal market procedures. Specific objectives are to: (i) provide access for families to educational and training programmes, marketing, agricultural and microenterprise support services, and financial resources; (ii) improve the social and production infrastructure of the family and settlements; (iii) promote a gender-balanced approach to project activities, providing equal opportunities and access to women to production support programmes; (iv) consolidate rural development at the municipal level; (v) promote rational use and conservation of natural resources; and (vi) validate strategies for the sustainable socio-economic development of agrarian reform settlements and smallholders in the semi-arid zone.

19. **Methodology.** The project methodology is based on: (i) systematic education and training programmes for beneficiaries; (ii) privatization of support services through competitive selection of private and/or public organizations to provide demand-led services; (iii) systematic training of and quality control to contracted service organizations; (iv) a gender-balanced approach to rural development; (v) financing and implementation of beneficiaries' agricultural and/or small enterprise production projects with support from contracted rural development private services; and (vi) coordination of activities with municipal development councils.

C. Components

20. The project will consist of three components: (i) training and organization; (ii) production and marketing development; and (iii) financial services. Two non-refundable social and production investment funds will be established. Project duration will be six years. Field activities will be implemented by competitively contracted private and public rural development intermediaries (PPRDI). Selected institutions will be required to institute: (i) mandatory composition of its field staff; (ii) intensive "training for trainers" programme; (iii) quality-control supervision; and (iv) monitoring and evaluation of performance by the project management unit (PMU) and beneficiaries.

21. **Training and organization.** The general objective is to develop and strengthen the beneficiaries' awareness and their entrepreneurial management skills. Education and training will allow men and women beneficiaries to relate to and actively participate in local production and labour markets, and to manage their family's agricultural and small business production. It will also develop and consolidate a balanced gender participation in production, social and economic activities, while strengthening PPRDI's staff capacity in entrepreneurial management skills and sense of business opportunities in local, municipal and state-market sectors. More efficient dialogue and training of beneficiaries will result.



22. Specific component field activities will be implemented through PPRDI with support from second level support institutions. Planned training and organization activities include: (i) a beneficiaries' basic education programme, in cooperation with United Nations Educational, Scientific and Cultural Organization's Basic Adult Education Programme and coordination with the National Education Programme for the Agrarian Reform and municipal governments; (ii) instruction for trainers; (iii) training of beneficiaries to develop entrepreneurial, technical, and labour skills for the local market; (iv) gender sensibilization and training in gender-oriented field methodologies; and (v) support and consolidation of beneficiaries' civil and economic organizations.

23. A non-refundable social investment fund will be established in order to do the following: improve the living conditions of the beneficiaries and settlements; strengthen beneficiary organizations; promote social integration within the settlement; and reinforce settlement relations with municipal governments and rural development councils. The social investment fund will be cofinanced by beneficiaries and municipal rural development councils.

24. **Production and marketing development.** The general objective is the sustainable increment of beneficiaries' income through improvements in agricultural and small business management skills, productivity production and marketing linkages through an innovative and participative demand-led extension service. In addition, it will prioritize the identification of local and state market opportunities and linkages, and test and validate semi-arid adapted agricultural production technologies, including water storage and management.

25. Component operational strategies will be implemented in accordance with the following sequential scheme: (i) market opportunity studies and diagnosis; (ii) participative physical and production planning of settlement and family plots; (iii) selected crop and livestock product evaluation; (iv) testing of water storage and management technologies to minimize seasonal and cyclical drought risks; (v) preparation of agricultural and microenterprise projects through a participative demand-led scheme, with support from contracted PPRDI, based on market opportunities and available technologies; (vi) evaluation, selection and presentation of projects for loan approval; (vii) implementation of financed projects with support from PPRDI; and (viii) consolidation of production, marketing and business-oriented groups and/or organizations that aim at more efficient market linkages.

26. A non-refundable production investment fund, oriented to support agricultural, marketing and microenterprise production investment for the poorest segments of the target group will be established. The fund will be used for small family and settlement water-conservation works (70%), marketing investments (20%) and small business enterprise financing (10%). Eligibility criteria include: (i) the family and settlement poverty level; (ii) location; and (iii) marketing and/or small business investment projects for women and youth.

27. **Financial services.** The general objective is to improve the access to and rational use of Bank of the North-East (BN) financial instruments by project beneficiaries and promote and test new and innovative financial services adapted to their socio-economic characteristics. Beneficiaries will be promoted from BN's anonymous target group to individual "client" status through training and direct involvement in credit presentation and approval procedures.

28. Component strategies have been established at two operative levels: (i) access to and efficient use of currently available (BN) credit lines; and (ii) the launching of the savings and loan (S&L) cooperatives programme. Activities will include: (i) participatory preparation of settlement and family plot development projects; (ii) establishment of settlement and family simplified accounting plans, required in cases of settlement loans re-lended to individual families; (iii) utilization of different credit lines available at BN in order to maximize its financial advantages; and (iv) the direct participation of

beneficiaries in BN operations. In order to evaluate, promote and test on a pilot scale the establishment of beneficiary-initiated and operated S&L cooperatives, a two step operational scheme is proposed. An evaluation and feasibility study of S&L cooperatives in the project area will be carried out as a first step, and based on its results, an initial group of cooperatives will be created.

D. Costs and Financing

29. **Costs.** Total project cost has been estimated at US [redacted] million (July 1998 prices). Baseline costs amount to USD 91.5 million and physical and price contingencies represent respectively about 1% of total baseline costs. The foreign exchange percentage was estimated at about 4% of baseline costs. Project costs will be phased over six years of implementation.

TABLE 1: SUMMARY OF PROJECT COSTS^a
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Cost
Training and organization	8 587.4	560.8	9 148.2	6	10
Training	2 326.5	23.5	2 350.0	1	2
Basic education	1 123.0	--	1 123.0	--	1
Gender-oriented support	902.5	47.5	950.0	5	1
Social investment fund	2 700.0	--	2 700.0	--	3
Component coordination	1 535.4	489.8	2 025.1	24	2
Production/marketing development	27 151.5	1 927.6	29 079.1	7	32
Technology validation	2 137.5	112.5	2 250.0	5	2
Production/marketing support services	13 869.0	729.9	14 599.0	5	15
Production investment fund	6 678.8	--	6 678.8	--	7
Marketing studies	1 545.0	515.0	1 545.0	25	2
Component coordination	2 921.1	570.1	3 491.2	16	4
Financial services	41 452.8	50.5	41 503.3	0	45
S&L cooperative development	841.5	8.5	850.0	1	1
Credit	39 930.5	--	39 930.5	0	44
Component coordination	680.8	42.0	722.7	6	1
Project execution unit	10 254.9	1 511.7	11 766.6	13	13
PMU	3 059.0	541.5	3 600.6	15	4
State supervision units	5 339.6	854.8	6 194.3	14	7
Monitoring	1 356.2	115.4	1 471.7	8	2
Evaluation	500.0	--	500.0	--	1
Total baseline costs	87 446.6	4 050.6	91 497.2	4	100
Physical contingencies	893.0	94.8	987.9	10	1
Price contingencies	911.2	85.8	997.0	9	1
Total project costs	89 250.8	4 231.3	93 482.1	5	102

^a Discrepancies in totals are due to rounding.

30. **Financing.** The project's financial structure consists of the following: an IFAD loan of USD 25.0 million (26.7% of total project cost); a government counterpart contribution from MEEPF and INCRA in the amount of USD 25.6 million; USD 39.9 million [redacted] totaling USD 65.5 million (or 70.1%); and a beneficiary contribution of USD 3.0 million (or 3.2%).

TABLE 2: FINANCING PLAN^a
(USD '000)

Components	IFAD		Government				Beneficiaries		TOTAL		Foreign Exchange	Local Excluding Taxes	Duties and Taxes
			MEEP/INCRA		BN								
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
Training and organization	4 214.8	45	4 246.5	46	-	-	864.0	9	9 325.3	100	585.0	7 774.6	965.6
Training	1 679.1	-	719.6	-	-	-	-	-	2 398.8	-	23.9	2 015.0	359.8
Basic education	457.7	-	686.5	-	-	-	-	-	1 144.2	-	-	972.6	171.6
Gender-oriented support	678.2	-	290.6	-	-	-	-	-	968.9	-	48.4	775.1	145.3
Social investment fund	810.0	-	1 026.0	-	-	-	864.0	-	2 700.0	-	-	2 700.0	-
Component coordination	589.6	-	1 523.6	-	-	-	-	-	2 113.2	-	512.5	1 311.8	288.8
Production/marketing development	16 611.9	55	11 380.0	38	-	-	2 137.2	7	30 129.1	100	2 018.2	24 181.2	3 929.6
Technology validation	1 606.3	-	688.4	-	-	-	-	-	2 294.7	-	114.7	1 950.5	229.4
Production/marketing support services	10 713.8	-	4 591.3	-	-	-	-	-	15 304.4	-	765.2	11 784.3	2 754.7
Production investment fund	2 003.6	-	2 537.9	-	-	-	2 137.2	-	6 678.8	-	-	6 678.8	-
Marketing studies	1 059.9	-	1 059.9	-	-	-	-	-	2 119.8	-	529.9	1 208.2	381.5
Component coordination	1 228.9	-	2 502.3	-	-	-	-	-	3 731.3	-	608.3	2 559.1	563.7
Financial services	780.9	2	894.8	2	39 930.4	96	-	-	41 606.2	100	53 289.0	41 345.8	207.1
S&L cooperative development	636.7	-	272.9	-	-	-	-	-	909.6	-	9 097.0	736.8	163.7
Credit	-	-	-	-	39 930.4	-	-	-	39 930.4	-	-	39 930.4	-
Component coordination	144.2	-	621.9	-	-	-	-	-	766.1	-	44 192.0	678.5	43.4
Project execution unit	3 392.3	27	9 029.0	73	-	-	-	-	12 421.4	100	1 574.7	9 331.4	1 515.2
PMU	1 069.1	-	2 700.4	-	-	-	-	-	3 769.6	-	555.7	2 740.3	473.5
State supervision units	1 517.4	-	5 014.5	-	-	-	-	-	6 531.9	-	892.1	4 879.3	760.5
Monitoring	550.3	-	1 058.6	-	-	-	-	-	1 609.0	-	126.8	1 292.9	189.2
Evaluation	255.3	-	255.3	-	-	-	-	-	510.7	-	-	418.7	91.9
Total project cost	25 000.0	27	25,550.4	27	39 930.4	43	3 001.2	3	93 482.1	100	4 231.3	82 633.2	6 617.6

^a Discrepancies in totals are due to rounding.



E. Procurement, Disbursement, Accounts and Audit

31. **Procurement.** Goods and services financed by IFAD will be procured in accordance with the Fund's guidelines. Vehicles and equipment will be procured through local competitive bidding. Private rural development agencies, training and technical assistance services will be contracted through local bidding, with procedures acceptable to IFAD and in agreement with the Government purchasing of services regulations. Civil engineering works costing less than USD 30 000 will be contracted directly. Irrigation infrastructure costing over USD 30 000 will be contracted through local bidding with procedures acceptable to IFAD.

32. **Disbursements.** Disbursements for operating costs, salaries, and civil engineering work costing less than USD 10 000 will be contrary to statements of expenditures. Civil engineering projects costing more than USD 10 000 and payment to local contractors involved in training and development activities, and technical assistance will require detailed documentation. A special account in United States dollars will be opened at the Central Bank of Brazil in the name of the project. Upon effectiveness and receipt of borrower's application, IFAD will advance USD 2.5 million as initial deposit to the special account. A project account in local currency will be opened in BN into which counterpart funds will be paid annually. This account will be replenished at the beginning of each year. The project completion date will be 30 June 2005. The closing date of the loan will be 31 December 2005.

33. **Accounts and auditing.** Immediately upon loan effectiveness and prior to initial deposit in the special account, the project will set up its accounting and internal control systems which will be installed by a specialized accounting firm. Accounting will be by component, category and government expense-classification procedures. A qualified audit firm financed by the project will be selected to IFAD's satisfaction, to perform annual financial and management audits. Project agencies will keep separate accounts for project-related expenditures. The audited project accounts and audit report, including separate opinion on the statements of expenditure and the special account, will be submitted to IFAD no later than six months after the close of the project's financial year.

F. Organization and Management

34. **Beneficiary participation.** During project implementation, agrarian reform beneficiaries and smallholders will be involved in identifying, selecting and prioritizing their demands for the following social and production investments: settlement physical planning; technical assistance services; training; and marketing and microenterprise ventures. Gender-balanced beneficiary representatives will be elected to participate in the project's municipal, state and steering committees.

35. **Project organization.** MEEPF and INCRA will be responsible for the execution of the project. A steering committee will be established, to be chaired by a representative from MEEPF. It will be composed of representatives from the following: INCRA; BN; the Rural Development Secretariat of the Ministry of Agriculture and Food Supply; the state governments; and five representatives elected by the beneficiaries, one per participating state. The committee will be responsible for approval and supervision of annual operating plans and budgets, along with overall project guidance.

36. A PMU with financial and administrative autonomy will be established in the project area with responsibilities and authority delegated by MEEPF and INCRA. The PMU will consist of a project director, three component coordinators, a planning and monitoring officer and technical advisers in semi-arid agriculture, marketing and gender. MEEPF will select a project director to IFAD's satisfaction.

37. In order to coordinate and supervise project activities in the five participating states, a state supervision unit will be created in each of them, staffed by a state coordinator and municipal



supervisors. The latter will be responsible for monitoring the contracted PPRDI and coordinating with the municipal governments. The project will operate through municipal and state coordinating committees, which will include representatives of beneficiary groups, PPRDI and BN branches. In the case of state committees, representatives of INCRA and the state secretariats of agriculture will participate. Beneficiary initiatives will be selected using participatory procedures². Municipal committees will review and approve projects presented by families, settlements, interest groups or organizations. Municipal plans will be aggregated into state annual plans, later structured by PMU into annual working plans, for their submission to the steering committee.

38. **Gender considerations.** Gender-related experiences and recommendations raised and analysed in IFAD's regional seminars will be implemented and monitored by the project specialist. In all opportunities created by the project, gender parity will be observed. Among contracted PPRDI, 30% of social and extension field staff will be women. Specialized, non-governmental organizations will undertake a training programme in gender-related matters for project and contracted PPRDI staff.

39. **Monitoring and evaluation.** Within PMU, a monitoring unit will be created. The unit will perform two management functions: (i) deliver management information to the project director, component coordinators and the steering committee; and (ii) ensure feedback mechanisms and performance information to the beneficiaries. Social auditing will be the major source for a management information system designed to improve the decision-making process of PMU. A baseline study will be subcontracted to a national and local specialized institution to define beneficiary demands and gender-specific indicators and benchmarks identified during appraisal. Furthermore, it will establish gender-differentiated indicators of performance. Project evaluation activities will be under the responsibility of MEEPF's Studies and Evaluation Nucleus, which will directly contract, as required, independent national and local entities. They will carry out periodic evaluation of activities, along with mid-term and final evaluation. Evaluation studies should focus on project results and performance of the demand-driven approach. The periodic evaluation system will be based on performance indicators that are gender, space and time specific.

G. Economic Justification

40. **Beneficiaries.** The project will strengthen the sustainable development of 250 federal and state agrarian reform settlements, and the neighbouring smallholders located in 60 municipalities of the semi-arid north-east. It will be actively involved with trained leaders in their local development efforts, improving production technologies and strengthening links to local and state markets and participation in municipal development plans and programmes.

41. It is estimated that at least 12 000 families will directly benefit from agricultural and technical assistance programmes, and water conservation and management works and credit, including at least 2 700 women heads of household. Additionally, 3 000 agrarian reform beneficiaries and smallholder wives will benefit from productive economic activities supported by training, credit and marketing. By the end of the project, 8 400 men and women beneficiaries will have completed a year-long basic education programme and will have developed reading, writing and mathematical skills. The total beneficiary population will have attended training courses in the following: awareness; management of family and settlement organizations; agricultural production; small enterprise management; and marketing and other non-agricultural subject matters of their interest. The social investment fund will benefit a total of 15 000 families, while the production investment fund will benefit 6 000 families with non-refundable production investments in small water conservation works.

42. **Settlements and small farmer organizations.** The project will develop and strengthen existing and newly created rural organizations, which will participate in the planning, management and

² See Appendix V.



evaluation of settlement and family production project activities. It will also strengthen their role in the municipal development process. By the end of the project, all participating settlements will have completed their physical and production medium-term planning with future investment projects in agricultural production, small enterprises, marketing and transformation. Formal market-oriented cooperatives and/or small businesses will be created for production, marketing, small rural industries and services. Beneficiaries will be linked and actively participate in municipal development plans.

43. **Developmental support delivery system.** At the end of the project, PPRDI will be in place, with experienced and trained personnel in participative, demand-led social and agricultural extension practices. Field methodologies will be shared with INCRA's state and municipal rural extension programme.

44. **Municipal rural development.** The project will deepen the municipal government's capacities to establish rural development plans through the following: the systematic training of members of the municipal rural development councils; coordination of local projects; improvement of markets; and the complementary financing of social and production infrastructure by the social and production funds.

45. **Agricultural development.** Four agricultural development models for families and settlements have been designed corresponding to agro-ecological locations (*caatinga* and low valleys), access conditions (roads and markets), and water availability. These include: (i) steer fattening in flat dry highland *caatinga* (29% of beneficiaries); (ii) small milk production and rain-fed crops in lowland *caatinga* (42% of beneficiaries); (iii) small milk production, rain-fed and irrigated crops in lowland *caatinga* with possibilities of water harvesting and storage (24% of beneficiaries); and (iv) irrigated produce and rain-fed cotton with 1 ha with permanent irrigation (5% of beneficiaries). Results of the economic analyses of models yielded internal rate of return values of 17.7%, 20.0%, 27.5% and 82.1% for the respective four models. Gross income increments range from 205% in Model One to 412% in the irrigated Model Four. Production and economic results are in accordance with the biological and climatic potential of each location; they are an objective representation of the potential and limitation of semi-arid agriculture.

46. **Market development.** The project will improve local and state markets for agricultural products by identifying marketing opportunities, improving storing and handling infrastructure and training beneficiaries. Within the settlements, commodity-oriented, production, marketing and/or agro-industry interest groups will be organized and trained as base organizations for rural market-oriented enterprises, cooperatives or formal producer associations.

47. **Economic and financial analysis.** The project's overall economic indicators show an internal rate of return of 17.0% with an opportunity cost of capital of 12%. The benefit/cost ratio is 2.1 with a net present value calculated at USD 38.0 million. Financial and economic indicators of the project were also submitted to a sensitivity analysis. A decrease of 10% in project incomes could reduce the internal rate of return to 16.4%.

H. Risks

48. The project's main risks may be summarized as follows. First, institutional changes could produce modifications in the present MEEPF institutional frame. However, INCRA and BN participation in the project will assure a permanent and stable institutional horizon. Second, the project's proposed organizational efforts of the agrarian reform settlement could present contradictions with MST and CONTAG's political organizational strategies. Thus, organizational efforts will be conducted in close coordination with local MST and CONTAG officials. Third, based on the project area's climatic pattern, chances for a major drought occurrence during the life of the project do exist. To meet the threat, risk-reducing water management and storage technologies will be implemented, used in conjunction with an appropriate selection of semi-arid adapted crops that will be linked to emergency



preparedness and drought-contingency plans. Finally, there are environmental risks that include fire wood harvesting, natural vegetation clearing and soil loss and erosion. However, the proposed technologies incorporated into production models are environmentally safe and conservative. The PMU will closely monitor semi-arid technologies.

I. Environmental Impact

49. The project has been tentatively classified as Category B, based on the fact that identifiable, potential impact can be addressed through environmentally sensitive recommendations and interventions. Investments and actions made under the project's environmental policies will alleviate and help in recovering some of the areas threatened with potential degradation. Agricultural technical assistance will be consistent with safe practices in terms of soil, water and vegetation conservation, and the regulated use of pesticides and chemicals. Recommendations for semi-arid *caatinga* landscape conservation and management will be utilized in association with extension recommendations. Therefore, caution will be taken when providing assistance to rainfed crop cultivation and cattle, and sheep and goat herd management in order to avoid deforestation, overgrazing, soil compaction and erosion.

J. Innovative Features

50. Innovations in the project's operational scheme include: (i) the introduction of basic education for beneficiaries, joined to training for awareness and entrepreneurial skills as the corner stone of project intervention; (ii) the establishment of a mandatory basic composition and qualifications for contracted staff; (iii) mandatory and systematic training of field staff; (iv) quality control supervision field operations by contracted technical agencies, and monitoring by PMU staff and beneficiaries; (v) linking agricultural extension activities and development to local and state market opportunities; and (vi) designing gender-oriented policies to be implemented at all project levels.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

51. A Loan Agreement between the Federative Republic of Brazil and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

52. The Federative Republic of Brazil is empowered under its laws to borrow from IFAD.

53. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

54. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Federative Republic of Brazil in various currencies in an amount equivalent to seventeen million eight hundred thousand Special Drawing Rights (SDR 17 800 000) to mature on and prior to 1 March 2017 and to bear an interest rate equal to the reference interest rate per annum as determined by the Fund annually, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan
President



SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

1. The Government of Brazil (the Government) will carry out the project or cause the project to be carried out by PMU and the various project partners (including INCRA, BN, the United Nations Education, Science and Culture Organization (UNESCO), the Brazilian Agricultural Research Enterprise (EMBRAPA), the Institute for Agricultural Research of Pernambuco (IPA), the Brazilian Support Service for Small and Microenterprises (SEBRAE), and any such other agencies which shall be selected from time to time by the borrower), in accordance with the loan agreement. To this end, the Government will enter into or cause PMU to enter into the following agreements, all of which will be submitted to IFAD for its review prior to execution:
 - (a) a management agreement with INCRA respecting its role and responsibilities in the carrying out of this project;
 - (b) an implementation agreement with BN respecting its participation in the financial services part of the project; and
 - (c) service agreements with each of the project partners for the execution of the project.
2. The Government will cause PMU to open and thereafter maintain in BN a project account, held in the currency of the Government (Brazilian Real), into which the Government will deposit an initial amount corresponding to the counterpart funds for project year (PY) 1 from its own resources, and shall thereafter every year replenish the project account by depositing the required local counterpart funds to be provided by the Government as estimated in the Annual Work Plan and Budget (AWPB). The project director and the project administrator will be authorized to jointly operate the project account.
3. The project will be executed by the Government through its Cabinet of MEEPF, together with INCRA.
4. The project director will be selected by the Government to IFAD's satisfaction. The position will require a person with formation in either agronomics, economics or the social sciences, with at least ten years experience in rural development programmes in the North-East region of Brazil.
5. The Government will establish a project steering committee with composition and terms of reference acceptable to IFAD.
6. The Government will cause the training and organization, production and marketing development, and financial services components of the project to be implemented through service agreements as described in paragraph 1 above.
7. The Government will cause the establishment of state supervision units and state coordinating committees in each of the five states of the project area. The Government will also cause municipal coordinating committees to be set up at the local level.
8. The Government will ensure that independent entities will be contracted to carry out periodic evaluation of project activities, along with mid-term and final evaluation. Evaluation studies will focus on project results and performance of the demand-driven approach. The evaluation system will be based on performance indicators that are gender, space and time specific.



ANNEX

9. The Government will ensure that a baseline survey will be subcontracted to a specialized institution to define beneficiary demands and gender-specific indicators and benchmarks identified during appraisal. Furthermore, it will establish gender-differentiated indicators of performance.

10. The Government will ensure that, with reference to the social investment programme of the project, the participatory and gender-oriented diagnostic will generate a demand for works and services to improve beneficiaries' living conditions. Based on this demand, social projects will be prioritized, selected and approved by the beneficiaries themselves at the settlement or community level, then reviewed at municipal and state level before final approval and incorporation into the AWPB by PMU. The regulations and procedures for the operation of the social investment programme will be defined in the manual for social projects, which will be elaborated during the first six months of project implementation.

11. The Government will ensure that productive investment projects will be financed under the productive investment programme of the project, mainly in the areas of irrigation, commercial and agro-industrial infrastructure. The regulations and procedures for the operation of the productive investment programme will be defined in the manual for productive projects, which will be elaborated in the first six months of project implementation.

12. The Government will ensure that a qualified audit firm will be selected to the satisfaction of IFAD in order to perform annual financial and management audits. Project contracted agencies will keep separate accounts for project-related expenditures. The audited project accounts and audit report will include a separate opinion on the statements of expenditure and the special account, which will be submitted to IFAD no later than six months after the close of each financial year of the project.

13. The following are the additional conditions precedent to the effectiveness of the loan agreement:

- (a) a steering committee will have been established according to the criteria set out in the loan agreement;
- (b) a PMU will have been established according to the criteria set out in the loan agreement;
- (c) a qualified and experienced project director will have been appointed on terms and conditions acceptable to IFAD according to the criteria set out in the loan agreement;
- (d) the management agreement with INCRA will have been executed in the manner and form set out in the loan agreement; and
- (e) the implementation agreement with BN will have been executed in the manner and form set out in the loan agreement.

14. The following are the additional conditions precedent to the disbursement of the loan with respect to the field support services under the production and marketing development part of the project:

- (a) the regulations governing the tender contracts of PPRDI will be established to the satisfaction of IFAD; and
- (b) the manual governing the operation and administration of the project will have been prepared to the satisfaction of IFAD.

COUNTRY DATA

BRAZIL

Land area (km² thousand) 1995 1/	8 457	GNP per capita (USD) 1996 2/	4 400
Total population (million) 1996 1/	161	Average annual real rate of growth of GNP per capita, 1990-96 2/	2.0
Population density (people per km²) 1996 1/	20	Average annual rate of inflation, 1990-96 2/	675.4
Local currency	Brazilian Real (BRL)	Exchange rate: USD 1 =	BRL 1.15
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1980-96 1/	1.8	GDP (USD million) 1996 1/	748 916
Crude birth rate (per thousand people) 1996 1/	21	Average annual rate of growth of GDP 1/ 1980-90	2.7
Crude death rate (per thousand people) 1996 1/	7	1990-96	2.9
Infant mortality rate (per thousand live births) 1996 1/	36	Sectoral distribution of GDP, 1996 1/	
Life expectancy at birth (years) 1996 1/	67	% agriculture	14.0
Number of rural poor (million) 1/	11	% industry	35.9
Poor as % of total rural population 1/	32.6	% manufacturing	23.4
Total labour force (million) 1996 1/	72	% services	50.0
Female labour force as % of total, 1996 1/	34.7	Consumption, 1996 1/	
Education		General government consumption (as % of GDP)	16.1
Primary school gross enrolment (% of relevant age group) 1995 1/	112.0	Private consumption (as % of GDP)	65.7
Adult literacy rate (% of total population) 1994 3/	18.7	Gross domestic savings (as % of GDP)	18.2
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1992 3/	2 387	Merchandise exports, 1996 1/	47 164
Index of daily calorie supply per capita (industrial countries=100) 1992 3/	77	Merchandise imports, 1996 1/	53 736
Prevalence of child malnutrition (% of children under 5) 1990-96 1/	7.0	Balance of merchandise trade	-7 590
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 1990-95 1/	7.4	before official transfers, 1996 1/	-27 921
Physicians (per thousand people) 1994 1/	1.4	after official transfers, 1996 1/	-24 300
Access to safe water (% of population) 1990-96 3/	78	Foreign direct investment, 1996 1/	9 889
Access to health service (% of population) 1990-95 3/	90	Government Finance	
Access to sanitation (% of population) 1990-96 3/	18	Overall budget surplus/deficit (including grants) (as % of GDP) 1995 1/	-9.4
Agriculture and Food		Total expenditure (% of GDP) 1995 1/	37.4
Food imports as percentage of total merchandise imports 1996 1/	10.7	Total external debt (USD million) 1996 1/	179 047
Fertilizer consumption (hundreds of grams per ha of arable land) 1994-96 1/	894	Total external debt (as % of GNP) 1996 1/	3.4
Food production index (1989-91=100) 1994-96 1/	117	Total debt service (% of exports of goods and services) 1996 1/	41.1
Land Use		Nominal lending rate of banks, 1996 1/	n.a.
Agricultural land as % of total land area, 1994 4/	29.0	Nominal deposit rate of banks, 1996 1/	26.4
Forest area (km ² thousand) 1995 1/	5 511		
Forest area as % of total land area, 1995 1/	65.2		
Irrigated land as % of cropland, 1994-96 1/	4.9		

n.a. not available.

Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 19982/ World Bank, *Atlas*, 19983/ UNDP, *Human Development Report*, 19974/ World Bank, *The World Development Indicators CD-ROM*, 1998

PREVIOUS IFAD LOANS TO BRAZIL

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
Ceara Second Rural Development Project	World Bank: IBRD	World Bank: IBRD	O	4 Dec 80	17 Jun 81	31 Dec 87	L - I - 51 - BR	SDR	15 600 000	79.7%
Low-Income Family Support Project in the Semi-arid Region of Sergipe State	IFAD	UNOPS	O	2 Dec 93	16 Oct 95	30 Jun 02	L - I - 344 - BR	SDR	12 900 000	44.7%
Community Development Project for the Rio Gaviao Region	IFAD	UNOPS	O	7 Dec 95	3 Dec 96	30 Jun 03	L - I - 404 - BR	SDR	13 500 000	16.2%

Note: O = Ordinary



LOGICAL FRAMEWORK

NARRATIVE SUMMARY	GENDER SPECIFIC INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS AND EXTERNAL RISKS
<p>Development Objectives Sustainable improvement of the rural poor's social and economic conditions in the semi-arid zone of the North-East Region of Brazil.</p>	<ul style="list-style-type: none"> - Increased monetary income (women , men) - Degree of recapitalization of family farm enterprise or microenterprise - Rural employment created (seasonal, permanent) - Decrease in percentage of families below the poverty line - Fewer unmet basic necessities 	<ul style="list-style-type: none"> - Mid-term, final and ex-post evaluations 	<ol style="list-style-type: none"> 1. The Government of Brazil continue prioritisation of rural development and eradication of poverty within the market oriented development strategy 2. The Government continue the development strategy of the Agrarian Reform
<p>Project Objective Poor beneficiary families with improved management capability and involvement in the local market are managing efficiently and sustainable production activities in agriculture, marketing, microenterprise and small scale agroindustry and utilize financial services within the normal market procedures.</p>	<p>Improved production and productivity</p> <ul style="list-style-type: none"> - Risk of drought effects reduced - Increased production with water storage, management and irrigation - Increased animal production - Increased price margins negotiated by farmers - Increase of products in local markets - Degree of integration in the national market - Increased microenterprises profits - Percentage of beneficiaries in new economic pursuits - Degree of production investment - Degree of utilization of credits for production investments - Degree of management capabilities of beneficiary families and organizations - Degree of participation of organizations in the planification and development process of the rural areas within the municipalities - Degree of suitable use of Caatinga vegetation 	<ul style="list-style-type: none"> - Mid-term, final and ex-post evaluations - Participatory rural appraisal - Process documentation by PMU - Specific studies 	<ol style="list-style-type: none"> 1. Community initiatives are not interfered with by political leaders or local authorities. 2. Political change does not negatively impact PMU. 3. The municipalities support the project strategy. 4. The distance between the areas of intervention (five states) hasn't any negative effect for the efficient execution of the project activities. 5. Private intermediate entities identify themselves with the project philosophy and development strategy.





Outputs		
<p>1. Management and organizational capability at local, settlement and household level created.</p>	<ul style="list-style-type: none"> - Number of beneficiary groups or organizations averaging x% hombres and y% mujeres - Number of beneficiaries with reading and writing skills - Number of beneficiaries trained in agricultural production aspects, marketing, microenterprise, business administration, vocational skills, etc. - Degree of articulation of beneficiary groups in the rural development committee 	<ul style="list-style-type: none"> - Information systems of the planning and monitoring unit - database of the training programme and technical assistance
<p>2. Technical services for production agricultural activities, irrigation, microenterprises and marketing are carried out in response to client demand and capability.</p>	<ul style="list-style-type: none"> - Number of families familiarized with new technical agricultural innovations - Degree of knowledge of the messages spread by the extension or support services - Number and quality of extension and support services - Number of families familiarized with new water storage and irrigation techniques and their operational procedures - Number of families with access to an improved water storage and irrigation system - Number of microenterprises created, supported and trained - Number and types of microenterprise networks - Availability of market information for agricultural and non- agricultural production - Number of new marketing channels - Degree of gender-oriented technical services 	<ul style="list-style-type: none"> - Information systems of the planning and monitoring unit - information and documentation by the extension and support services - Monitoring information of the financial and credit component
<p>3. Rural financial services and credit lines suitable for the socio-economic conditions of the beneficiaries are offered gradually reflecting real market conditions</p>	<ul style="list-style-type: none"> - No of disbursements for agricultural and non-agricultural production activities - Rate of repayment - Rules, regulations and procedures defined and accepted by the financial institutions - Number of credit and saving cooperatives created - Number of alternatives local credit outlets 	<ul style="list-style-type: none"> - Monitoring and evaluation formats - Agreements - Minutes of meetings
<p>4. A management system for the project is functioning, integrating the private sector, federal and state institutions, the municipalities and the beneficiary organizations.</p>	<ul style="list-style-type: none"> - The annual plan of operation agreed by consensus at the end of each year - Planning and implementation gap decreased 10% annually - Number of agreements signed with executing institutions - Governmental and non-governmental institutions involved in planning, implementation and evaluation of project activities, completed 90% of signed contracts - External evaluations performed - Degree of gender orientation of the project services 	<ul style="list-style-type: none"> - Documentation of the planning and monitoring unit



Principal Activities

Training and Organization Component

- 1.1 To promote the creation and consolidation of beneficiary organizations with management and business skills
- 1.2 To transfer reading and writing skills
- 1.3 To elaborate and provide management techniques, modalities and methodological instruments
- 1.4 To train beneficiaries in technical, economic, management and administrative aspects
- 1.5 To train beneficiaries according to the needs they have themselves defined in production issues, marketing, micro-enterprise, business administration, etc.
- 1.6 To transfer negotiation and empowerment techniques and knowledge
- 1.7 To support the capability of articulation for participating actively in the rural development committees and the development process of the municipalities
- 1.8 To assist the beneficiaries with the elaboration of local development plans

Productive Services and Commercialization Component

- 2.1 To train personal with adequate management and technical skills of the support and extension institutions
- 2.2 To introduce new irrigation techniques suitable for the different ecological conditions
- 2.3 To identify and develop market opportunities
- 2.4 To establish sustainable market channels
- 2.5 To offer production agricultural techniques
- 2.6 To identify and offer opportunities for microenterprises
- 2.7 To establish horizontal and vertical production chains
- 2.8 To establish a community development fund for production investment
- 2.9 To offer technical assistance to formulate production projects

Principal activities

Financial Services Component

- 3.1 To establish the conditions, rules and procedures to utilize the existing credit lines
- 3.2 To implement, evaluate and adjust the operational procedures for credit disbursement and reimbursement
- 3.3 To carry out feasibility studies and evaluations to promote credit cooperatives in the municipalities
- 3.4 To study alternatives for local credit outlets
- 3.5 To enable the creation of rural credit cooperatives

Project Management

- 4.1 To establish agreements about administrative procedures with MEPF and INCRA
- 4.2 To select and contract public and private entities to support communities and beneficiary groups to develop their own initiatives
- 4.3 To prepare the annual operation plan
- 4.4 To implement an evaluation and monitoring system
- 4.5 To implement an administrative and financial system for the different components of the project
- 4.6 To establish coordination and cooperation mechanisms with public and private agencies
- 4.7 To realize coordination meetings and procedures with the public and private entities participating in the project
- 4.8 To coordinate project activities with the Ministry of Agriculture, the Rural Development Committees and other relevant development institutions
- 4.9 To establish a coordination and communication system with the regional project offices
- 4.10 To take action for improving the technical and methodological skills of all involved parties of the project
- 4.11 To provide technical and methodological instruments for all involved parties to face gender issues
- 4.12 To provide favorable conditions for integration of women into project activities

OBJETIVOS, COMPONENTES, ACTIVIDADES Y PARÁMETROS PRODUCTIVOS Y FINANCIEROS



OBJETIVO GENERAL

Contribuir a mejorar las condiciones de vida de beneficiarios de la reforma agraria y pequeños productores pobres mediante el incremento de sus ingresos a través del aumento de la productividad y el mejoramiento de la infraestructura social y productiva

OBJETIVOS ESPECÍFICOS

- (1) La oferta de servicios de alfabetización, capacitación y asistencia técnica, orientados por las demandas de los beneficiarios, para la ejecución de iniciativas y proyectos productivos y sociales y sociales
- (2) El acceso de los beneficiarios a actuales líneas de crédito del Gobierno y de servicios financieros locales a través de mecanismo ágiles y acordes a sus demandas y potencialidades de capitalización
- (3) El funcionamiento de los Fondos de Inversión Social y Productivo para la realización de inversiones de tipo productivo y social
- (4) El buen desempeño del sistema gerencial del proyecto, contemplando la integración del sector público federal y estadual, privado y las organizaciones de base

COMPONENTES		1	2	3	4	5	6	Total		USD millón	IFAD %	GOB %	Benef. %
A. Capacitación y Organización													
Programa de Alfabetización		800	2300	2300	2020	980		8 400	COMPONENTES				
- Capacit. en Gestión y Comercializ.	Beneficiarios hombres y mujeres participan de capacitación en gestión.	2 250	3 750	5 250	3 750	-	-	15 000	1. Capacitación y Organiz.	9.33	45	46	9
- Programa de Capacitación en Género		81	117	145	122	152	40	657	2. Desarr. Prod.&Comerc.	30.13	55	38	7
	Beneficiarios(as) capacitados en género, No.	2 250	3 750	5 250	3 750	-	-	15 000	3. Servicios Financieros	41.60	2	98	--
- Programa de Capacitación Productiva		2 250	3 750	5 250	3 750	-	-	15 000	4. Unidad Ger. de Proyecto	12.42	27	73	--
- Fortalecimiento a la organización			100	147	100	50	50	447	COSTO TOTAL	93.48	27	70	3
- Capacitación en Gestión	<i>Contrato Servicios de Capacitación en Gestión (USD'000)</i>	200	556	560	564	361	156	2 397	CATEGORIAS				
- Fondo de Inversiones Sociales	<i>Desembolsos del Fondo de Inversión Social (USD'000)</i>		400	540	680	680	400	2 700	A. CRÉDITO	39.93	-	100	-
									B. FONDOS DE INVERSIÓN	9.38	30	32	38
B. Desarrollo Productivo y Comerc.									C. MAQUINARIA Y EQUIPO	1.33	40	60	-
- Servicios de Apoyo al Desarrollo Productivo	<i>Contratos de servicios de transferencia de tecnología (USD'000)</i>	427	1 505	2 491	3 601	3 627	3 653	15 304	D.CAPACITACIÓN	3.36	40	60	-
	<i>Contratación de servicios capacitación en producción y gener. tecnol. (USD'000)</i>	301	556	458	462	361	156	2 294	E. SERVICIOS DE APOYO	21.88	70	30	-
	Consultorías de especialistas en temas productivos, No.	16	38	66	66	54	26	266	F. ASISTENCIA TÉCNICA	5.83	50	50	-
	Transferencia de tecnología a beneficiarios, No.	2 250	3 750	5 250	3 750	-	-	15 000	G. OPERACIÓN	11.77	90	10	-
	Ensayos de Validación y Prueba de Tecnología, No.	30	60	80	80			250	TOTAL	93.48	27	70	3
- Servicios de Apoyo a la Comercializ. y a la pequeña agroindustria	<i>Estudios de Comercialización (000)</i>	299	500	545	404	266	105	2 119	TRANSFERENCIA A LOS BENEFICIARIOS				
- Formación de organizaciones económicas agrícolas y agroindustriales	Cooperativas, empresas y asociaciones formales constituidas, No.	-	100	147	100	50	50	447	Indirecta	18%			
- Obras de manejo de agua	Construcción de pequeños reservorios y represas subterráneas, No.	952	2 334	2 342	2 342	1 577		9 547	General	14%			
- Fondo de Inversiones Sociales	<i>Desembolsos del Fondo de Inversión Productiva (USD'000)</i>	498	1 431	1 646	1 646	1 247	210	6 678	Total	32%			
C. Servicios Financieros									BENEFICIOS DE LA PRODUCCIÓN AGROPECUARIA				
- Acceso beneficiarios al crédito		0	0	0	0	12000	12000	12 000	Incrementos en la producción (USD'000)				
									Incrementos en las jornadas trabajadas (miles)				
- Fortalecimiento Institucional	Capacitación de Funcionarios del BN y de dirigentes de organ. locales de A&C	15	30	60	60	60	--	225	Ingresos de la familias - año meta- (USD)				
	Creación y Fortalecimiento de instituciones financieras locales, No.	--	--	4	6	6	--	16	3 246				
- Programas de Crédito	<i>Requerimientos netos de crédito (USD'000,000)</i>	2.95	10.69	14.39	9.53	2.38	--	39.93	ANÁLISIS ECONÓMICO				
D. Unidad Gerencial del Proyecto									ESCENARIO				
- Administración y Gerencia	<i>Gastos de operación de la Unidad Gerencial del Proyecto (USD'000)</i>	990	662	660	534	492	430	3 768	Base	TIR	B/C		
	<i>Gastos de operación de las Unidades Estaduales de Coordinación (USD'000)</i>	644	1 334	1 237	1 195	1 083	1 038	6 531	Benef. -10%	17%	2.13		
- Seguimiento	<i>Costos de seguimiento (USD'000)</i>	193	205	257	316	318	320	1 609	Costos +10%	16%	2.03		
- Evaluación	<i>Estudio de base, medio término y evaluación ex-post (USD'000)</i>	200			154		156	510	Atraso Incorp. Benef. 2 años	15%	2.01		
	Incorporación de Beneficiarios del Proyecto	2 250	3 750	5 250	3 750	-	-	15 000					
	<i>Total gastos anuales (sin incluir contingencias)</i>	8311	19781	24774	20908	12153	7554	93 481					

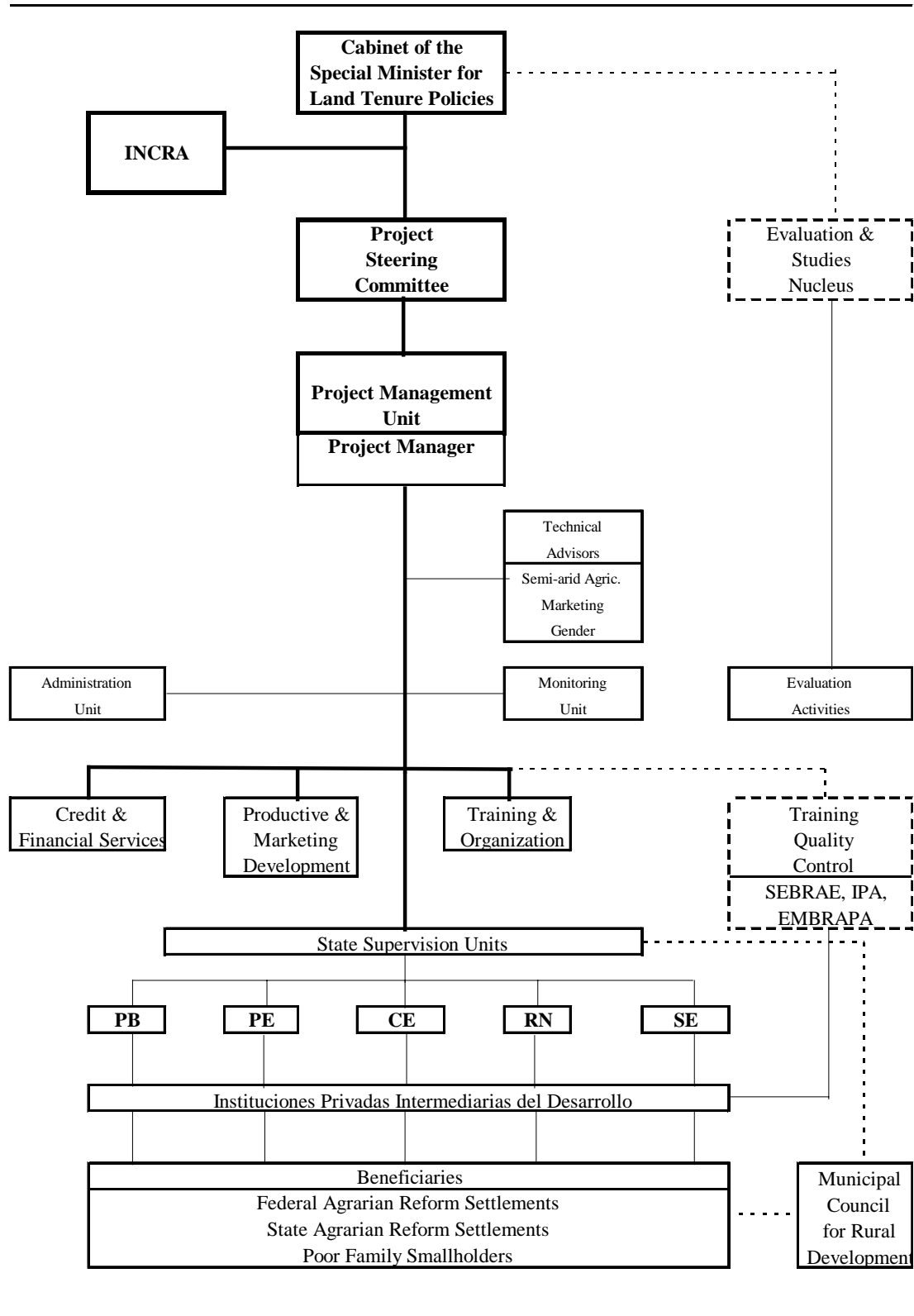


ORGANIZATION AND MANAGEMENT

1. The Cabinet of MEPF will be the executing institution responsible for the implementation of the project. The MEPF's role will be supported by INCRA and BN. Even though both institutions will participate as members of the project steering committee, specific letter agreements will be signed. These will detail INCRA's participation and cooperation in selected settlements of the project area, BN's role in project budget resource administration and the credit program. The MEPF will create an administratively autonomous project management unit (PMU).
2. A steering committee will be organized, composed of the following: a representative of MEPF as chairperson; representatives from INCRA and the General Directorate of Rural Development of MAA; and representatives from state governments and project beneficiaries, one from each participating state. The committee will be responsible for approval and supervision of annual operating plans and budgets, and overall project guidance. It will ensure that global objectives are being met and that the investment activities are being implemented properly within national and IFAD policies and provincial planning strategy.
3. A PMU with financial and administrative autonomy will be established within the project area with responsibilities and authority delegated by MEEPF/INCRA. A project director will be nominated by MEEPF, to IFAD's satisfaction. The PMU will consist of the project director and three component coordinators. The project director will be supported by a monitoring officer, an administrator and a technical support unit. Through an administrative service agreement with an international organization, again to IFAD satisfaction, PMU staff will be selected and contracted. Administration of PMU's operative costs will also be included in the service agreement.
4. In order to coordinate and supervise project activities in the five participating states, a state supervising unit will be created in each of them and staffed by a state coordinator and municipal supervisors. The later will be responsible for monitoring contracted private/public rural development intermediaries (PPRDI) and coordination with municipal governments. The PMU will operate through municipal and state coordinating committees, which will include representatives of beneficiary groups, PPRDIs and BN branches. In the case of the state committees, representatives of INCRA and the state secretariats of agriculture will participate. Beneficiary initiatives will be selected using participatory procedures. Municipal committees will review and approve projects presented by families, settlements, interest groups or organizations. Municipal plans will be coordinated and added to elaborate state annual plans, which will be later structured by PMU into annual operating plans. Plans will be reviewed and approved annually by the steering committee.
5. During project implementation, beneficiaries will be involved in identifying, selecting and prioritizing their demands for production and social investments, technical assistance services, training, and microenterprise ventures. Gender-balanced community initiatives and social and production activities will have priority. A gender-balanced beneficiary representation will be elected to participate in the project's municipal coordinating committees and in the steering committee. The composition of both committees assures adequate decision-making capacity of beneficiaries.
6. The project has been designed with a monitoring unit located at PMU, while evaluation activities will be the responsibility of the evaluation and studies nucleus (NEE) of MEPF. At the beginning of the project implementation, NEE will prepare and present IFAD its evaluation proposal indicating: (i) the proposed evaluation mechanisms to be implemented; (ii) the basic characteristics of periodical evaluation studies; and (iii) a training program oriented to beneficiaries for their participation in monitoring and evaluation activities.



Project Organization Chart



**Project's Settlement and Family Project Preparation/Implementation Methodology**

Stages	Description	Intermediate Product	Responsibles	External Support
1. Basic education and training	Training in awareness ⁽¹⁾ and basic reading and writing skills	Literate beneficiaries aware of settlement/local options and opportunities	Settlements, groups and organizations CPRDIs ⁽²⁾	External assistance, support and quality control
2.- Identification of production and marketing opportunities	Settlement participative discussion and selection of production and marketing opportunities	Prioritized list of production and marketing opportunities	Settlements, groups and organizations CPRDIs ⁽²⁾ , PMU state supervision municipal council	Technical assistance support selection of production and marketing opportunities
3.- Physical planning of settlement and family plots	Settlement participative discussion and approval of settlement physical and production plan	Settlement and family plots physical and production planning completed	Settlement, groups and organizations leaders CPRDIs ⁽²⁾	Technical assistance support preparation of settlement physical planning
4.- Pre-feasibility/feasibility	Selected community social and production initiatives prepared as pre-feasibility feasibility proposals	Portfolio of settlements social and production initiatives at prefeasibility feasibility level	Settlement, groups and organizations leaders CPRDIs ⁽²⁾	Technical assistance available on request for social or production initiatives
5.- Initiatives/Projects Evaluation and Selection	Initiatives as project proposals are prioritized and selected for each municipality and state	Project's operative plan prepared based on selected communities initiatives presented as projects for FIC or credit financing	State supervision committee settlements, groups representatives, BN, PMU staff	
6.- Approval of Annual Operative Plan	PMU present the annual operative plan-POA to steering committee	POA is analysed, discussed and approved by the steering committee	steering committee	
7.- Selected Family and Settlements Project Financing	Selected projects are presented to BN to access PROCERA PRONAF, other lines	Production settlement and family projects are approved for financing	BN PMU State supervision	Technical assistance support evaluation of production credits
8.- Organization of marketing groups	Groups/organizations implement marketing strategies	Settlements/families organized for marketing	Settlement, groups and organizations leaders, CPRDIs ⁽²⁾	Technical assistance support marketing initiatives
9.- Monitoring of implemented initiatives and projects	Initiatives/projects are monitored	Monitoring reports are analysed by state units and PMU. Corrective actions taken as necessary	PMU Monitoring unit Selected settlement members	

⁽¹⁾ See Section V. Project Rationale and Objectives⁽²⁾ Contracted Private Rural Development Intermediaries-CPRDIs

