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Executive Board – Eighty-seventh Session

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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON PROPOSED FINANCIAL ASSISTANCE TO THE

STATE OF BAHIA
OF THE
FEDERATIVE REPUBLIC OF BRAZIL

FOR THE

RURAL COMMUNITIES DEVELOPMENT PROJECT IN THE
POOREST AREAS OF THE STATE OF BAHIA

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CURRENCY EQUIVALENTS

Currency unit	=	Brazilian real (BRL)
USD 1.00	=	BRL 2.4
BRL 1.00	=	USD 0.0416

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 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

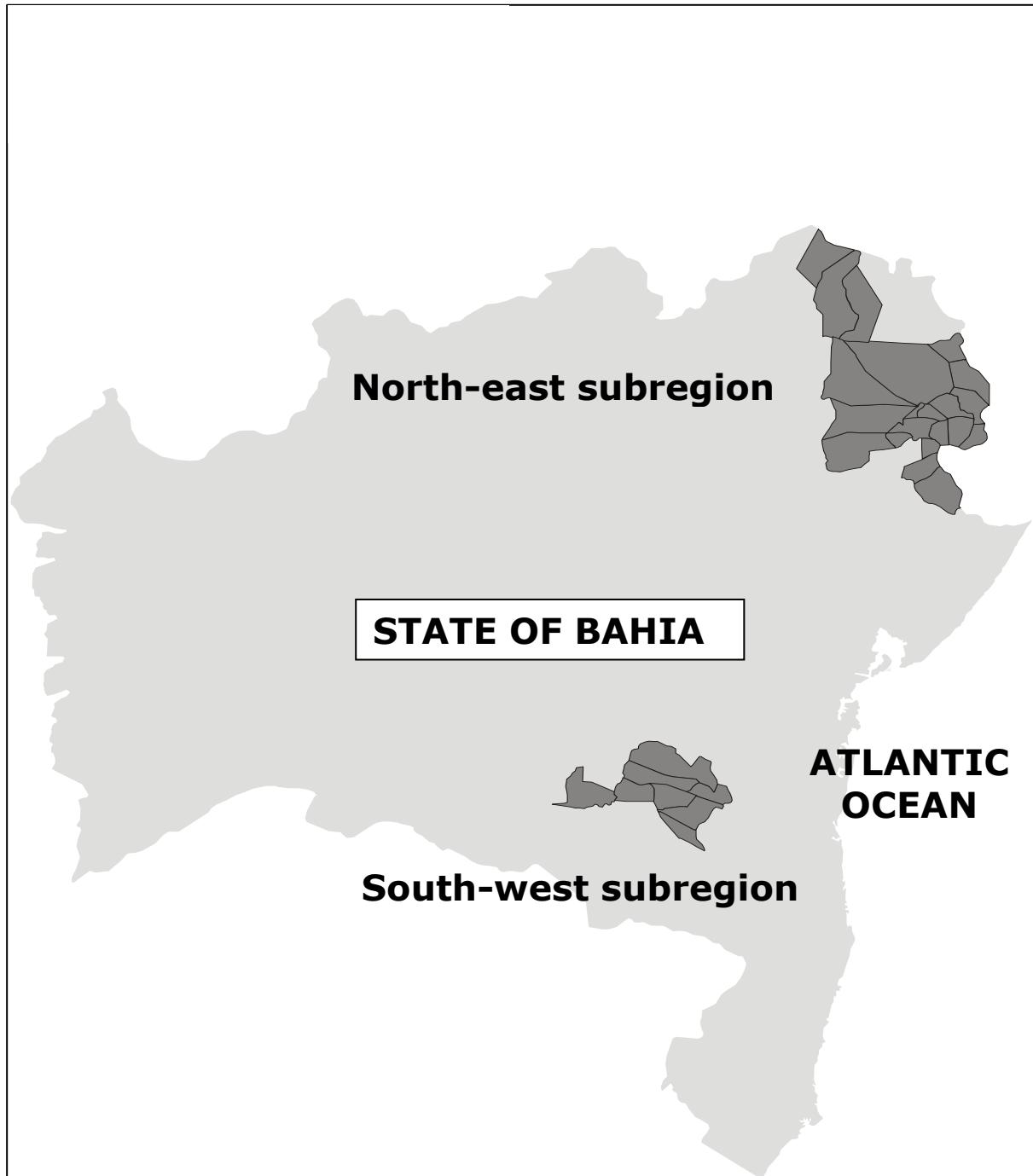
CAR	Regional Action and Development Agency of the State of Bahia (Companhia de Desenvolvimento e Ação Regional)
PROGAVIAO	Community Development Project for the Rio Gaviao Region

GOVERNMENT OF THE STATE OF BAHIA OF THE FEDERATIVE REPUBLIC OF BRAZIL

Fiscal Year

1 January – 31 December

MAP OF THE PROJECT AREA



Source: Bahia Regional Development and Action Company

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.

**STATE OF BAHIA
OF THE
FEDERATIVE REPUBLIC OF BRAZIL**

**RURAL COMMUNITIES DEVELOPMENT PROJECT IN THE POOREST AREAS
OF THE STATE OF BAHIA**

FINANCING SUMMARY

INITIATING INSTITUTION:	IFAD
RECIPIENT:	State of Bahia of the Federative Republic of Brazil
LEAD PROJECT AGENCY:	Secretariat of Planning of the State of Bahia through the Regional Action and Development Agency
TOTAL PROJECT COST:	USD 60.5 million
AMOUNT OF IFAD FINANCING:	Loan: SDR 20.8 million (equivalent to approximately USD 30.0 million) Grant: USD 500 000
TERMS OF IFAD LOAN:	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
CONTRIBUTION OF RECIPIENT:	USD 29.4 million
CONTRIBUTION OF BENEFICIARIES:	USD 600 200
APPRaising INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services

PROJECT BRIEF

Who are the beneficiaries? The target group is estimated at 223 600 poor and extremely poor rural inhabitants (over 49 000 households) living in 32 municipalities in the semi-arid region of the State of Bahia. Over 90 000 people aged 14-65 (close to 26 000 households), mainly family farmers and the landless, will benefit from project activities, 35 000 directly and 55 000 indirectly. Indirect beneficiaries are those benefiting from the project's social, productive and environmental investments and works in selected territories. During its first years of operation, the project will also support beneficiaries of the first-phase project, the Community Development Project for the Rio Gaviao Region, who live in 14 municipalities of the state's south-west subregion, allowing them to consolidate their activities.

Why are they poor? In the semi-arid region of north-east Brazil, there is a high correlation between rural poverty and unfavourable agro-ecological conditions. The project area is characterized by poor soils and a semi-arid climate with periodic droughts. Family farmers and the landless in Brazil's North-East Region are the poorest and also the largest group affected by rural poverty in the country. Their poverty stems mainly from lack of access to land, education and training opportunities, basic and social infrastructure, appropriate technologies and markets.

What can beneficiaries expect from the project? The project's development goal is to reduce poverty levels significantly among communities in the semi-arid region of the State of Bahia. Its general objective is to improve the social and economic conditions of rural poor communities through environmentally sustainable social and economic development that is at the same time gender-equitable and responsive to young people's needs. Specifically, the project will seek to: (i) strengthen the human and capital resource base of the beneficiary population and empower members of beneficiary social and economic organizations; (ii) improve the labour skills of rural young men and women; (iii) create and consolidate market-oriented, competitive and sustainable economic, agricultural and non-agricultural business organizations of the rural poor; (iv) ensure the sustainable conservation and use of the natural resource base of the semi-arid region of Bahia; (v) improve the social and productive infrastructure; and (vi) reduce gender inequities and improve the income-earning capacities of rural women. The project's social and cultural investment fund will finance the implementation of projects designed and managed by social and cultural organizations. Productive and market development will be achieved through: (i) technical assistance and market development services; (ii) support services for potential young entrepreneurs; and (iii) support for environmental management initiatives linked to organizations' business plans. The project will also support two non-reimbursable investment funds: the productive capitalization investment fund and the environmental conservation and management investment fund.

How will beneficiaries participate in the project? Project beneficiaries will be involved in the planning, management and supervision of territorial development activities, which will lead to the gradual empowerment of rural civil society, particularly rural poor people and their economic organizations. The project will provide training to representative beneficiary groups improving their ability to express their views and negotiate with municipal and departmental development programmes. Feedback mechanisms will be established linking small-scale farmers and contracted support organizations with the project management unit and technical staff. The project will support the participation of beneficiary representatives in departmental and municipal environmental councils, which will be implemented and/or strengthened as part of the project's operational and decision-making structure. Beneficiaries will also participate in the project's monitoring and evaluation system as part of social audit practices.

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STATE OF BAHIA OF THE FEDERATIVE REPUBLIC OF BRAZIL
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RURAL COMMUNITIES DEVELOPMENT PROJECT IN THE
POOREST AREAS OF THE STATE OF BAHIA**

I submit the following report and recommendation on proposed financing assistance to the State of Bahia of the Federative Republic of Brazil comprising a loan for SDR 20.8 million (equivalent to approximately USD 30.0 million) on ordinary terms and a grant for USD 500 000 to help finance the Rural Communities Development Project in the Poorest Areas of the State of Bahia. The loan, guaranteed by the Federative Republic of Brazil, 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 will be administered by the United Nations Office for Project Services as IFAD's cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. Brazil is the largest and most populated country in Latin America, with a land area of 8.5 million km² and a population of 176 million in 2003. The rural sector comprises 37 million inhabitants, or approximately 21% of the total population. The country has a federal government and is composed of a federal district and 26 states. Bahia is the largest state in Brazil's North-East Region and it has the largest rural poor population in the country.
2. **Economic performance.** Following a long period of economic and financial instability, the situation in Brazil began to change in 1994 when structural reforms were introduced with a view to fiscal deficit equilibrium and public debt reduction, an increase in national economic efficiency and social security programmes, the privatization of public enterprises and services, and tax reform. The Government has maintained commitments with international financial institutions and, in 2004, Brazil's primary surplus of 4.6% of GDP exceeded targets. GDP has since increased by 5.2% and exports have reached a record USD 105 billion. Despite its rapidly growing economy, Brazil is second only to South Africa in the world ranking of income inequality.
3. Brazil has achieved positive results in improved living conditions for its population: (i) infant mortality decreased from 50 per 1 000 live births in 1990 to 33 per 1 000 live births in 2000; (ii) net enrolment in basic education rose from 84% of the population in 1991 to 97% in 2002; and (iii) 89% of the population had access to an improved water source in 2003, up from 73% in 1986. Despite these impressive advances, more than 25% of the population lives on less than USD 2 per day, and 13% lives on less than USD 1 per day. Notwithstanding past development programmes, Brazil's North-East Region contains the single largest concentration of rural poverty in Latin America, with 49% of the population classified as poor.

¹ See Appendix I for additional information.

4. **Agricultural sector.** More than 75% of Brazil's agricultural production is concentrated in the South and Centre-East Regions, followed by the North-East with 13% and the Centre-West with 8%. Of the 4 million farms counted in the last agricultural census, about 500 000 are considered the core of Brazil's agricultural economy (including 40 000 holdings covering almost 35% of the country's total agricultural area); 1 million are market-oriented medium-sized and small farms; and 2.5 million are very small farms and mostly dedicated to subsistence production. Changes in the economic development model have affected the agricultural sector, and new policies have devolved greater responsibility to private institutions and civil organizations.

B. Lessons Learned from Previous IFAD Experience

5. The implementation of IFAD projects in Brazil has yielded both general and project-specific lessons. Political, economic, social and institutional changes over the last decade have underscored the need for flexible project design that can adjust efficiently to changing operational requirements. Experience has also shown that a mix of public and private activities is required to address infrastructure issues that have a strong impact on the quality of life of the rural poor in crucial areas such as water security. At the same time, projects that have empowered the rural poor through training and participatory activities, ensuring that they manage and own sustainable development processes, have significantly improved the general situation of women and promoted rural families' self-esteem. In the Community Development Project for the Rio Gaviao Region (PROGAVIAO), also in Bahia state, family farm schools have opened up new social and economic opportunities for children and young people. Training programmes and technical assistance have been wide-ranging and have helped develop human and social capital in communities that previously had few such opportunities. The most successful project components have generally been those promoting agricultural development production. Appropriate technologies and practices adopted for semi-arid crops and livestock have been widely used thanks to effective and well-managed credit programmes, thereby contributing to the development of sustainable production systems on family farms.

C. IFAD's Strategy for Collaboration with Brazil

6. **Brazil's policy for poverty eradication.** The Government has given high priority to implementing programmes aimed at reducing rural poverty and supporting the "family agriculture"² sector. Federal initiatives include: (i) the *Fome Zero* (Zero Hunger) programme, guaranteeing an adequate food supply for the poor; (ii) the *Bolsa Família* (Family Allowance) programme, a national scheme providing direct subsidies to families who keep their children in school; (iii) credit support to small farmers through the National Programme for the Development of Family Agriculture and its subsidiary Family Agriculture Agro-Industrialization Programme; (iv) the land reform programme; (v) credit and non-banking financial service programmes; and (vi) the *Luz para Todos* (Light for Everybody) rural electricity programme. Since the 1990s, the Government has adopted policies and implemented specific programmes for rural areas, giving the landless poor access to land and effecting changes in the structure of the agrarian economy and in agricultural output. Strategies and resources directed to the smallholder sector aim at promoting: (i) land distribution; (ii) local decision-making in the allocation of public agricultural support services; (iii) increased farmer participation in local planning processes; and (iv) private-sector involvement in promoting access to local, national and foreign markets. Rural poverty reduction programmes run by the Bahia state government include support to the land reform process, rural social investments, and irrigation and water management policies and programmes, among others.

7. **Poverty eradication activities of other major donors.** The World Bank and the Inter-American Development Bank (IDB) are the two development institutions most actively involved in providing loans for poverty eradication in Brazil's North-East Region. The World Bank is

² "Family agriculture" is the term used in Brazil for the peasant farmer sector.

cofinancing the *Bolsa Família* programme, which targets both the urban and the rural poor. It is also implementing, in the north-eastern states of Brazil, several rural poverty reduction projects that provide financial resources to community associations and grass-roots organizations to finance small-scale social and productive projects. The World Bank has just approved the Bahia State Integrated Project: Rural Poverty, a social investment project for rural areas in Bahia. The IDB is financing (i) the Self-Sufficiency Agrarian Reform Settlements Project, which aims at establishing a system for strengthening rural settlements and (ii) the Global Credit Program for Microenterprises in Northeastern Brazil, which will support the CrediAmigo programme of Banco do Nordeste do Brasil. It does not, however, have specific rural development or poverty reduction projects in Bahia.

8. IFAD's strategy in Brazil. IFAD's current country strategies, defined in its country strategic opportunities paper (COSOP), include: (i) focusing on the semi-arid North-East Region, which has the country's highest concentration of rural poor; (ii) supporting the agrarian reform settlements created by the land reform programme; and (iii) supporting the Government's policy to develop and consolidate the family agriculture sector. IFAD generally aims to: (i) form strategic partnerships with the federal and state governments while seeking to involve municipal governments, the private sector and grass-roots organizations in project activities; (ii) strengthen human and social resources; (iii) create new approaches in the delivery of agricultural and non-agricultural technical and financial support services; and (iv) encourage off-farm activities, labour and enterprise development through support to established and new rural enterprises.

9. Project rationale. The IFAD-financed PROGAVIAO, launched in 1997, is due to end in early 2006. Following an IFAD interim evaluation mission in December 2003, IFAD and the Bahia state government signed an agreement at completion point, which recommended that "work be continued under a second phase through a new project in an appropriate area of Bahia having a baseline situation very similar to the one encountered at the beginning of PROGAVIAO, combining infrastructure and production-related actions with community and social development. Under such conditions, it would be possible to tap the project's positive implementation experience, as well as the institutional capacity and technical human resources generated during the period."

10. The Rural Communities Development Project in the Poorest Areas of the State of Bahia builds on and scales up PROGAVIAO's successful experience. Its general strategy, rationale and design fall squarely within the current poverty reduction and rural development policies and priorities of the Federal Government and the Bahia state government, and are in line with the Strategic Framework for IFAD 2002-2006 and the Fund's country strategy and operational guidelines. In particular, the project tackles rural poverty by empowering the rural poor and their organizations, and by promoting economic development and natural resource rehabilitation and conservation. Its design includes three cross-cutting elements: (i) social and economic development of rural youth; (ii) gender equity; and (iii) environmental sustainability.

11. The development of market-oriented agricultural production has been given priority in the project design. While parts of the semi-arid region of Bahia have favourable conditions for agriculture in terms of soil and climate, they are limited by the lack of permanent water sources. Integrated natural resource management at the micro-watershed level can improve the storage and management of water resources, providing adequate conditions for the sustainable production of semi-arid crops and, in some areas, of vegetables and annual and perennial fruits. The project will therefore give priority to the construction of earth dams, water collection through watershed management, reforestation of slopes, and infiltration ditches, among other investments. It will focus on value-added productive chains and/or production clusters, which will support more profitable agricultural and non-agricultural productive activities. Agricultural productive clusters will include: goats (meat and milk); livestock (small-scale production of cheese and by-products); vegetables (organic products); fruit (with particular preference for cashew nut plantations); sisal (fibre mats and carpets for export); cassava (meal and starch); apiculture (packed honey and by-products); and medicinal plants, among

others. Non-agricultural productive clusters will focus on the region's traditional handicrafts (leather, woodcarving, fabrics).

12. Bahia is the largest producer of a traditional semi-arid crop: the castor bean plant. New research in the area of organic fuels indicates that castor oil is the best substance for producing bio-diesel because, unlike other vegetable oils, it is soluble in alcohol and does not require heat to transform it into fuel (see Appendix V). These findings have created new prospects for increasing castor bean planting in semi-arid regions as a high-value-added cash crop, with additional income possibilities if beans are processed into crude castor oil by small farmer associations or cooperatives.

PART II – THE PROJECT

A. Project Area and Target Group

13. **Project area.** The project area was defined using two basic criteria: (i) incidence of rural poverty at the municipal level, based on Brazil's municipal human development indicators; and (ii) territorial continuity. Two well-defined subregions were selected: (i) the north-east subregion, which comprises 23 municipalities and is one of the poorest areas of Bahia; and (ii) the south-west subregion, comprising nine municipalities close to the current PROGAVIAO project area. Agro-ecological and social conditions in both subregions are similar, belonging to the *sertão* ecosystem with its characteristic natural vegetation cover, the *caatinga*. The climate is essentially tropical, ranging from semi-arid to arid, characterized by periodic droughts. In agreement with the Bahia state government, the project will, for a period of one to two years, continue and consolidate selected activities in the 13 municipalities of PROGAVIAO.

14. **Target group.** The total population of the 32 selected municipalities is 415 000. The target group, estimated at 223 600 people, will consist of people whose incomes are under the country's current poverty and extreme poverty lines.³ The total beneficiary population is estimated at over 90 000 people. Direct beneficiaries comprise 35 000 people aged 14 to 65 (22 000 men, 3 000 young men, 7 000 women and 3 000 young women) who are involved in agricultural production and rural microenterprises, including landless farmers and agricultural wage labourers. Some 55 000 people will benefit indirectly from the project's social, productive and environmental investments.

15. **Gender inequity and the situation of rural youth.** The project's gender strategies aim to reduce poverty and gender inequity in rural communities in the semi-arid region by: (i) increasing women's equitable access to project-supported economic activities; (ii) implementing activities to reduce the training gap between rural men and women; and (iii) supporting the full participation of rural women in economic organizations. All project activities will have a proactive gender stance and will include, among others, systematic gender-training programmes, domestic time-saving investments and activities, and training in leadership and self-esteem for women. Young people in rural areas typically have limited schooling, no or little access to land, and few or no work opportunities. Often migration to urban areas is the only coping strategy left to them. The project will provide them with skills training and promote activities that identify and strengthen their entrepreneurial capacities.

B. Objectives and Scope

16. The project's development goal is to significantly reduce poverty and extreme poverty levels in the semi-arid communities of State of Bahia. Its objective is to improve the social and economic

³ Families with incomes below double the minimum wage (at present, annual family household income below USD 2 040 or annual per capita income below USD 455).

conditions of rural poor communities through environmentally sustainable social and economic development that promotes gender equity and the participation of young people in the rural labour force. Specific objectives include: (i) empowering the rural poor and their grass-roots organizations by improving their capacity to participate in local, municipal and territorial social and economic development processes; and (ii) improving the target population's income-generating capacities, transforming subsistence economic activities into profitable agricultural and non-agricultural rural businesses that sustainably use the natural resources of the semi-arid region.

C. Components

17. Project activities have been organized around two main operational components: (i) human and social capital development; and (ii) productive and market development; and a project management unit, which will foster attention to cross-cutting themes (gender, rural youth, and environmental and natural resources management), be responsible for administrative and monitoring and evaluation activities, and coordinate implementation of the components.

18. **Human and social capital development.** The component's objectives are to: (i) achieve effective and coordinated participation of social and economic organizations in local, municipal and territorial development planning and in decision-making relating to social and productive investments; (ii) improve the capabilities of the rural poor, particularly women, to carry out participatory diagnostics to identify social and economic constraints and opportunities, and to plan strategies accordingly; (iii) improve the labour skills and income-earning capacities of young men and women; and (iv) create opportunities for the rural poor to develop and strengthen their cultural identities. To achieve these objectives, the project will (i) strengthen beneficiaries' social and economic organizations; (ii) use participatory diagnostic planning and implementation methodologies; (iii) link communities and their organizations with local and state governments; and (iv) carry out comprehensive and systematic training programmes for beneficiaries, service providers and the staff of local and state public-sector institutions.

19. Four subcomponents are planned: (i) **Participatory territorial planning.** The project will provide training in participatory diagnosis and planning, gender equity, group and cooperative formation, and leadership and entrepreneurial skills. It will also offer training for service providers, project staff and other local actors, enabling them to improve their knowledge base and standardize their methodologies. (ii) **Labour skills training.** Following labour market demand analysis to define priority training areas, the project will award young people with scholarships to public and private institutions. (iii) **Organizational strengthening.** To build the capacities of beneficiaries' social and economic organizations to participate in local, municipal and territorial social and economic development processes, the project will provide these organizations with support services enabling them to prepare participatory social, economic and environmental diagnoses, and community, territorial and, when required, municipal strategic development plans. (iv) **Social and cultural investment fund.** This fund will be established to finance projects designed and directly managed by local organizations under project supervision and auditing. It will finance social infrastructure and investments such as water storage and water systems for household use, solar energy, latrines, and improvement of communal spaces and surroundings. It will also support the rediscovery and re-evaluation of ancient traditions, consolidate the cultural heritage of the semi-arid region and build the self-esteem of rural communities and their youth population. Funds will be awarded on a competitive basis and approved by a territorial development committee.

20. **Productive and market development.** The component's specific objective is to ensure that beneficiaries' economic organizations can systematically access rural technical support services in order to successfully implement agricultural, forestry, processing and handicraft business initiatives. The component's thrusts include: a business approach to ensure the long-term growth and investment capacity of beneficiaries' economic activities; participation and empowerment by directly involving

beneficiaries in strategic business decisions; innovation through systematic research into new market opportunities for traditional products; business sustainability through profitable activities; and environmental sustainability through rational natural resource management and conservation. The component will consist of: (i) technical assistance; (ii) support for young entrepreneurs; (iii) productive and environmental investment funds; and (iv) an environmental management unit.

21. To facilitate small-scale farmers' and microentrepreneur organizations' market-oriented decisions, the project will support the establishment and operation of regional market units to: (i) provide market intelligence services; (ii) systematically promote beneficiaries' businesses in local and regional fairs, buyer-producer negotiation tables and visits to markets, using local culture as a differentiating factor; and (iii) promote business partnerships between beneficiaries' organizations and private firms or institutions involved in non-traditional products. The project will develop an innovative technical assistance scheme that will provide: (i) support for the formulation of participatory business plans by providing the assistance of business promoters specialized in the productive chain; (ii) support for the implementation of business plans, through regular services provided by technical teams coordinated by the business promoters and composed of professionals from different backgrounds – e.g. agronomists, business managers, industrial engineers – capable of assisting beneficiaries' organizations in tackling the various challenges identified in the business plans; and (iii) complementary specialized support provided by short-term experts. The project will implement a programme focused on developing young people's entrepreneurial potential. Using exercises and games designed to actively involve young people, it will provide training in the various skills needed to start and run a business, and encourage participants to identify a business initiative with existing adult organizations or to create their own organizations.

22. Local organizations that have a project-supported business plan will be able to access a productive capitalization investment fund. Their requests, which could include investments in private or public goods and have different ceilings and cofinancing requirements, will initially be evaluated for their market feasibility, and then for: (i) their potential to create employment and reduce poverty; (ii) their profitability; (iii) the commitment of applicants as evidenced by cofinancing and willingness to repay part of the investment into a community fund; (iv) the proportion of participating rural women and youth; and (v) business and environmental sustainability. The environmental conservation and management investment fund will finance environmental conservation activities linked to the implementation of business plans, and investments in natural resource rehabilitation and management aimed at increasing awareness of environmental issues or reducing and/or preventing environmental damage. Applications to both investment funds will be approved by the territorial development committee.

23. Within this component, a pilot programme, financed by an IFAD grant, will test innovative technologies and management schemes to be run by organized small rural producers for the integrated production and transformation of castor beans into crude oil, to supply the country's bio-diesel market. The possibility of exporting to external markets will also be explored.

D. Costs and Financing

24. The total project cost, including physical and price contingencies, has been estimated at USD 60.5 million, which is to be financed as follows: an IFAD loan of USD 30.0 million (covering 49.6% of total costs); an IFAD grant of USD 500 000 (0.8%); a contribution from the Bahia state government of USD 29.4 million (48.6%); and beneficiaries' in-kind contribution of USD 600 200 (1.0%). Project costs will be phased over six years. Of the total base costs of USD 57.6 million, the human and social capital development component has been allocated USD 16.8 million (29%), and the productive and market development component USD 37.0 million (64%). The project management unit has been allocated USD 3.8 million (7%), including USD 804 900 for the monitoring and evaluation unit and USD 1.3 million for the gender unit.

25. The IFAD grant will provide funding for the castor bean pilot programme to enable selected economic organizations to test improved production technologies and crude castor oil processing alternatives. All grant funds will flow directly to the target group in the form of technical assistance and investments in production and processing.

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

Component	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
Human and social capital development	15 016.1	1 797.0	16 813.1	11	29
Participatory territorial planning	1 645.0	103.5	1 748.6	6	3
Labour skills training	3 360.0	1 440.0	4 800.0	30	8
Organizational strengthening	1 611.0	253.5	1 864.6	14	3
Social and cultural investment fund	8 400.0	-	8 400.0	-	15
Productive and market development	33 392.4	3 601.8	36 994.1	10	64
Technical assistance	11 298.4	3 058.9	14 357.3	21	25
Support for young entrepreneurs	1 048.6	449.4	1 498.0	30	3
Productive and environmental funds	20 200.0	-	20 200.0	-	35
Environmental management unit	845.3	93.5	938.8	10	2
Project management unit	3 381.4	374.9	3 756.3	10	7
Project management	1 651.9	48.1	1 700.0	3	3
Monitoring and evaluation unit	689.1	115.8	804.9	14	1
Gender unit	1 040.4	211.1	1 251.4	17	2
Total base costs	51 789.8	5 773.7	57 563.3	10	100
Physical contingencies	769.0	281.7	1 050.8	27	2
Price contingencies	1 498.2	388.0	1 886.2	21	3
Total project costs	54 057.1	6 443.4	60 500.5	11	105

^a Discrepancies in totals are due to rounding.

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

Component	IFAD Loan		IFAD Grant		Bahia State Government		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
Human and social capital development	8 904.8	50.4			8 769.1	49.6			17 673.9	29.2	2 008.5	14 831.4	833.9
Participatory territorial planning	993.8	53.5			869.2	46.7			1 863.0	3.1	107.2	1 681.8	74.0
Labour skills training	2 702.0	50.0			2 702.0	50.0			5 404.1	8.9	1 621.2	3 134.4	648.5
Organizational strengthening	1 009.0	50.3			997.9	49.7			2 006.8	3.3	280.1	1 615.3	111.5
Social and cultural investment fund	4 200.0	50.0			4 200.0	50.0			8 400.0	13.9		8 400.0	
Productive and market development	19 057.1	49.2	499.9	1.3	18 599.4	48.0	600.2	1.5	38 756.6	64.1	4 020.9	32 938.2	1 797.5
Technical assistance	7 861.8	49.5	199.9	1.3	7 834.3	49.3			15 896.0	26.3	3 424.3	10 924.8	1 546.9
Support for young entrepreneurs	824.3	50.0			824.3	50.0			1 648.6	2.7	494.6	956.2	197.8
Productive and environmental funds	9 844.4	48.7	300.0	1.5	9 455.4	46.8	600.2	3.0	20 200.0	33.4		20 200.0	
Environmental management unit	526.7	52.0			485.3	48.0			1 012.0	1.7	102.0	857.2	52.7
Project management unit	2 038.5	50.1			2 031.5	49.9			4 070.0	6.7	414.0	3 423.4	232.6
Project management	916.1	50.3			905.3	49.7			1 821.4	3.0	50.8	1 711.1	59.5
Monitoring and evaluation unit	432.7	49.4			442.9	50.6			875.6	1.4	127.7	682.9	65.0
Gender unit	689.7	50.2			683.3	49.8			1 373.0	2.3	235.5	1 029.3	108.1
Total	30 000.5	49.6	499.9	0.8	29 400.0	48.6	600.2	1.0	60 500.5	100.0	6 443.4	51 193.1	2 864.0

^a Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

26. **Procurement.** Procurement of goods and civil works will be subject to the provisions of IFAD's Procurement Guidelines as they may be amended from time to time. The services of consultants and service providers will be procured in accordance with procedures approved by IFAD. Contracts estimated to cost USD 500 000 equivalent or more will be awarded through international competitive bidding procedures, contracts between USD 100 000 equivalent and less than USD 500 000 through local competitive bidding, contracts between USD 5 000 equivalent and less than USD 50 000 through local shopping, and contracts for less than USD 5 000 through direct purchase. Loan-funded contracts for services to be provided by specific implementation partners, including public interest organizations, that have unique qualification and experience with rural poor communities in the semi-arid region of Bahia may be awarded through direct contracting to IFAD's satisfaction.

27. **Loan and grant disbursements.** A special account denominated in United States dollars, where IFAD will deposit loan proceeds, will be opened at a bank acceptable to IFAD. Withdrawals from the loan account will be made upon presentation of supporting documentation acceptable to IFAD, or against certified statements of expenditure in respect of eligible expenditures in such amounts as IFAD may designate from time to time. The grant will be disbursed in instalments into an account opened at a bank acceptable to IFAD. The first instalment will be disbursed upon submission of an annual workplan and budget (AWP/B) acceptable to IFAD. Subsequent instalments will be disbursed upon submission of AWP/B, implementation and financial progress reports and statements of expenditure covering at least 75% of previous advances. With a view to facilitating early project start-up and continuing and consolidating under the project selected activities in the project area of PROGAVIAO, provision has been made for retroactive financing to be available up to USD 1.4 million for expenditures incurred before the effective date but after 1 January 2006.

28. **Accounts and auditing.** The Bahia state government will maintain separate records and financial accounts in respect of the loan and the grant. Accounting will be by category of expenditure and by component and according to state government expense classification procedures. Contracted service providers will keep separate accounts for project-related expenditures. The Auditor-General of the Bahia state government will undertake an annual audit of both the loan and grant accounts. The audited accounts and related audit reports, including separate opinions on the certified statements of expenditure and the operation of the special account, will be submitted to IFAD not later than six months after the end of each financial year.

F. Organization and Management

29. The Secretariat of Planning of the State of Bahia will assume responsibility for overall project implementation through the Regional Action and Development Agency (CAR). The project will be located within CAR's administrative structure and will have the same management structure as PROGAVIAO. The project will be guided by a steering committee, which will approve and supervise annual operating plans and budgets, and provide overall project guidance. A project management unit (PMU) will be established, with technical, financial and administrative authority delegated by CAR. It will report directly to the steering committee and will be responsible for managing and supervising day-to-day operations, and for planning and supervising project activities. The PMU will have a central office in Salvador and two regional offices, one in the north-east subregion (Ribeira do Pombal) and the other in the south-west subregion (Vitória da Conquista). The central PMU will consist of a project coordinator, four technical support units (project management, monitoring and evaluation, gender and environmental management) and two component coordinators. Women will fill at least 30% of all professional project positions. Regional offices will be composed of a regional coordinator and a multidisciplinary team with specialists in human and social capital development, productive and market development, and gender and environmental management.

30. The project will organize a three-level beneficiary participation structure: (i) social and productive organizations; (ii) territorial development committees; and (iii) networks of agricultural and microenterprise rural business organizations sharing common business chains. Local authorities and civil society organizations present in the area will participate in the territorial development committees, as recommended by IFAD's interim evaluation mission.

31. **Implementation.** Building on the experience of PROGAVIAO, CAR will enter into an implementation agreement for service providers contracting and management with the Workers' Cooperative of the South-west of Bahia or other entities, to the satisfaction of IFAD. All social, productive, market and environmental fieldwork will be implemented by contracted NGOs, civil society organizations and public institutions. Preference will be given to well-established organizations with local presence and demonstrated social, productive and environmental outreach capabilities, including, among others, the Brazilian Agricultural Research Enterprise, the Brazilian Support Service to Micro and Small Enterprises, and the Bahia Association of Community Schools and Rural Families. Contracted organizations will act as direct links with rural communities for participatory diagnosis, planning and implementation of social, productive and environmental activities. The project will provide systematic training for current and new service providers. It will enter into formal partnerships with international organizations (Fiorello H. La Guardia Foundation), national/regional development projects (such as the World Bank's Bahia State Integrated Project: Rural Poverty, other IFAD-financed projects), and Brazilian and international private processing and export enterprises. The United Nations Office for Project Services will be the cooperating institution.

G. Economic Justification

32. The project will strengthen the social and productive infrastructure resource base of 35 000 direct beneficiaries (men and women) – rural poor farmers, landless farmers and rural youth – located in the north-east and south-west subregions of the semi-arid region of Bahia. Activities stimulating social and economic development of the region will indirectly benefit 55 000 people, who will capitalize on the coordinated social and productive investments brought about by the consolidated development planning of communities and selected territories. Better access to water supply, electricity, education, rural health, basic services and cultural programmes will improve the living conditions and self-esteem of rural poor individuals, households and communities.

33. The project will build human resource capacities in the project area by offering social and economic organizations systematic organizational and management training. It will focus on young rural women and men, implementing a methodical labour skills training programme for 4 000 rural youth, enhancing their income-generating capacities and improving their self-esteem. In addition, 2 000 young men and women will receive training to develop and implement their own rural businesses. The social and cultural investment fund will help communities reclaim the cultural heritage of the semi-arid region, thereby strengthening the self-esteem of rural inhabitants, particularly young women and men.

34. **Market development.** The project will improve linkages between beneficiaries and local, regional and national markets by identifying market opportunities; improving storage, processing and handling infrastructure; training beneficiaries; and consolidating production and processing market chains. Negotiating tables between producers' associations and industrial private processors, packers and exporters will enhance the negotiating and marketing skills of local economic organizations. Within groups, organizations and communities, the project will support and train commodity-oriented productive, marketing, processing and/or agro-industrial apex groups so that they can promote business-oriented organizations, rural market enterprises, cooperatives and formal producer associations.

35. **Rural business development strategy.** An estimated 29 000 men and women will benefit directly from the project's marketing and technical agricultural assistance programmes, including at least 7 500 adult women (25%). The diffusion of productive technologies will be linked to market and price information to enhance new and current income opportunities. Economic organizations' production, marketing and processing systems will be improved using an integral approach, with consideration given to introducing new high-income annual and perennial cash crops and improving the production, processing and marketing technologies of existing and traditional crops. A total of 24 000 families will directly benefit from non-reimbursable productive investments – including small irrigation projects, classification, market infrastructure and environmental and natural resource conservation investments – and improve their income-generating capacities. The project will provide market, management and technology support to microenterprises and handicraft manufacturing, strengthening the marketing strategies and abilities of microentrepreneurs and artisan associations.

H. Risks

36. Project risks are related to: (i) lack of efficiency, coordination and political enforcement in the implementation of federal and state poverty eradication programmes, which could limit intra-sector coordination and investments in poor municipalities in the project area; and (ii) contradictions related to political differences among federal, state and municipal authorities, which could affect the stability of project activities. The project's strategy to overcome these risks is twofold: (i) active and systematic political dialogue at the state and federal levels related to pro-poor strategies and activities; and (ii) active dialogue in the two subregions of the project area through periodical forums, organized with the participation of state and local authorities and beneficiary organizations, opening up adequate space for participatory and transparent coordination and operational mechanisms, supported by participatory monitoring and evaluation of project activities (social auditing).

I. Environmental Impact

37. The project has been classified in Category B based on the fact that potential identified impacts can be addressed through environmentally sensitive activities. Ongoing environmental activities by the Bahia Secretariat of Environment and Water Resources will provide some complementary coverage of the project's activities and investments in natural resource protection and watershed management in the project area. Also, the Sustainable Land Management Project in the Semi-Arid Sertão, financed by the Global Environment Facility (GEF), will provide technical tools and methodological insights in the areas of management and conservation of the natural *caatinga* vegetation. Project financial resources allocated through the environmental conservation and management fund will help reduce soil erosion, improve watershed management and restore biodiversity. Project-financed business plans will include an environmental evaluation and a set of proposed activities aimed at minimizing negative impacts on natural resources and the local environment. Investments will finance soil, water and natural vegetation management, which will increase water infiltration and conservation, reduce soil erosion, improve watershed management, reduce solid and liquid waste from microenterprises, and increase environmental awareness among stakeholders.

J. Innovative Features

38. The project has six innovative design and operational features. It will: (i) use territorial planning as a tool for participatory and coordinated social and productive investments in the semi-arid region; (ii) develop promising market-oriented semi-arid crops for expanding internal and external markets, including the castor bean plant, which can be used in bio-diesel production; (iii) create linkages with private-sector companies, as a way to increase beneficiaries' incomes; (iv) focus on developing the potential of rural youth through systematic training in the job skills required by regional and national labour markets and the entrepreneurial abilities needed to initiate their own

business ventures and lead local social and economic development processes in the long run; (v) strengthen the cultural heritage and identity of the population of the semi-arid region, particularly rural youth, through the use of a social and cultural investment fund; and (vi) scale up the successful experiences of the PROGAVIAO project to a wider geographical area and further develop business-related assistance and promotion services.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

39. A financing agreement between the State of Bahia of the Federative Republic of Brazil and IFAD, a separate guarantee agreement between the Federative Republic of Brazil and IFAD, and a separate grant agreement between the State of Bahia of the Federative Republic of Brazil, the Federative Republic of Brazil and IFAD will constitute the legal instruments for extending the proposed financing to the recipient. A summary of the important supplementary assurances included in the negotiated financing agreement is attached as an annex.

40. The State of Bahia of the Federative Republic of Brazil is empowered under Brazilian law to receive a grant and to borrow from IFAD, and the Federative Republic of Brazil is empowered under Brazilian law to guarantee the loan.

41. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD.

PART IV – RECOMMENDATION

42. I recommend that the Executive Board approve the proposed financial assistance in terms of the following resolution:

RESOLVED: that the Fund, on the guarantee of the Federative Republic of Brazil, shall make a loan to the State of Bahia of the Federative Republic of Brazil in various currencies in an amount equivalent to twenty million eight hundred thousand special drawing rights (SDR 20 800 000) to mature on or prior to 15 May 2024 and to bear an interest rate equal to the reference 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.

RESOLVED FURTHER: that the Fund shall provide a grant to the State of Bahia of the Federative Republic of Brazil in an amount of USD 500 000 and 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.

Lennart Båge
President

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**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES
INCLUDED IN THE NEGOTIATED FINANCING AGREEMENT**

(Loan negotiations concluded on 12 April 2006)

1. The Government of the State of Bahia of the Federative Republic of Brazil (the Government) has requested a loan for the purpose of financing the Rural Communities Development Project in the Poorest Areas of the State of Bahia. The loan is to be guaranteed by the Federative Republic of Brazil on terms and conditions set forth in an agreement (the “guarantee agreement”) to be entered into by IFAD and the Federative Republic of Brazil.
2. IFAD intends to extend a grant to the Government in the amount of USD 500 000 to finance activities under component B of the project. Subject to prior authorization from the Federative Republic of Brazil, the Government will enter into an agreement with IFAD to define the terms and conditions of the grant.
3. The Government will make the proceeds of the loan available to the CAR in accordance with the annual workplan and budget (AWP/B), the CAR subsidiary agreement and its customary national procedures for development assistance to carry out the project.
4. In addition to the proceeds of the loan, the Government will make available to the CAR and each other project party, promptly as needed as well as in accordance with the AWP/Bs and the CAR subsidiary agreement, such funds, facilities, services and other resources as may be required from time to time to carry out the project. Without limiting the generality of the above, the Government will make available to the CAR during the project implementation period counterpart funds from its own resources in an aggregate amount of USD 30 million in accordance with its customary national procedures for development assistance. For such purpose, the Government will make budgetary allocations for each fiscal year equal to the counterpart funds called for in the AWP/B for the relevant project year and make such allocations available to the CAR.
5. The Government and the CAR will enter into an agreement (the CAR subsidiary agreement), which will provide, among other things, that the Government will transfer loan proceeds and other resources to the CAR, that the CAR will declare its commitment to the goals and purposes of the project and that, in furtherance of such goals and purposes, the CAR will undertake to carry out the project in accordance with the project financing agreement. The Government will submit a draft of the CAR subsidiary agreement to IFAD for its comments and approval before its signature.
6. The lead implementation partner will have unique qualifications and experience, and will be identified and selected by the CAR, in accordance with the procurement procedures set forth in the project financing agreement, and approved by IFAD. The lead implementation partner will enter into an agreement with the CAR (the “lead implementation agreement”), which will provide, among other things, that:
 - (a) the lead implementation partner will undertake the implementation of project activities. To this end and in accordance with the procurement procedures set forth in the project financing agreement, the lead implementation partner will contract services providers such as NGOs, civil society organizations, public institutions as well as individuals to implement social productive, market and environmental fieldwork activities. Preference will be given to organizations with local presence and demonstrated social, productive and environmental outreach capabilities. All contracts with organizations will specify that such organizations are acting as direct links with rural communities for participatory diagnosis, planning and implementation of social, productive and environmental actions;

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- (b) the Government will transfer loan proceeds and other counterpart resources to the lead implementation partner;
- (c) the lead implementation partner will declare its commitment to the goals and purposes of the project and, in furtherance of such goals and purposes, the lead implementation partner will undertake to carry out the project in accordance with the project financing agreement.

The Government will submit a draft of the lead implementation agreement to IFAD for comments and approval before its signature.

7. As soon as practicable after the date of the project financing agreement but in no event later than 30 days after the effective date, the Government will open – and thereafter maintain in a bank proposed by the Government and accepted by IFAD – a current account denominated in local currency for project operations (the “project account”). The executive director, the financial manager and the treasurer of the CAR will be fully authorized to operate the project account, and two authorized signatures will be required to make any withdrawal from the account, one being that of the executive director.

8. IFAD may suspend, after notification to the Government to remedy within a specific period of time, in whole or in part, the right of the Government to request withdrawals from the loan account upon the occurrence of any of the events set forth below, **provided, however**, that if the audit required has not been satisfactorily concluded within 12 months of the financial reporting date, IFAD will suspend the right of the Government to request withdrawals from the loan account:

- (a) the project implementation manual, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the project;
- (b) the CAR subsidiary agreement, or any provision thereof, has been violated or has been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such violation or waiver, suspension, termination, amendment or other modification has had, or is likely to have, a material adverse effect on any portion of the project;
- (c) the lead implementation agreement, or any provision thereof, has been violated or has been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such violation or waiver, suspension, termination, amendment or other modification has had, or is likely to have, a material adverse effect on any portion of the project;
- (d) IFAD has determined that the material benefits of the project are not adequately reaching the target group, or are benefiting persons outside the target group to the detriment of target group members;
- (e) in consultation with the Government, a repeal, invalidation, suspension, amendment or other change to any national law may result in detriment of any of the terms and conditions of the project financing agreement.

9. As part of maintaining sound environmental practices, the project parties will maintain appropriate pest management practices under the project and, to that end, the Government will ensure that pesticides procured under the project do not include any pesticide either proscribed by the

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International Code of Conduct on the Distribution and Use of Pesticides of the Food and Agriculture Organization of the United Nations, as amended from time to time, or listed in Tables 1 (Extremely Hazardous) and 2 (Highly Hazardous) of the World Health Organization's Recommended Classification of Pesticides by Hazard and Classification 1996-1997, as amended from time to time.

10. The Government will ensure that monitoring and evaluation under the project will be used as a management tool to identify problems and make corrections and also enhance impact by developing systems that are more responsive to beneficiaries' needs. To that end, the Government will ensure that the monitoring and evaluation system includes: (a) internal monitoring of implementation progress; (b) participation of stakeholders through a participatory process; and (c) impact evaluation through the participatory stakeholders surveys and targeted studies. The monitoring and evaluation specialist of the project management unit (PMU) will be responsible for the monitoring and evaluation of the project. Implementation partners including technical service providers will be responsible for periodic reporting to the regional offices.

11. The Government/lead project agency will insure project personnel against health and accident risks to the extent consistent with its national laws and customary practice.

12. The Government will ensure that gender equity considerations are integrated into all project activities during the project implementation period. Project gender strategies will aim to reduce poverty through the active participation of women in economic organizations, thus reducing gender inequity in rural communities of the semi-arid region. The Government will ensure the following: (a) increase women's equitable access to project economic activities; (b) implement actions to reduce the training gap between rural men and women; and (c) support full participation of rural women in economic organizations. The Government will ensure that gender operational activities include, among other things, systematic and permanent gender training programmes; domestic time-saving investments and actions; training in leadership and self-esteem for women beneficiaries; and a proactive gender stance in all project activities. The Government will ensure that the project implements two action lines oriented to rural youth: (a) labour skills training; and (b) support to identify and consolidate entrepreneurship capacities of young men and women.

13. Conditions precedent to disbursement

- (a) No withdrawal will be made until: the lead implementation agreement has been approved by IFAD; a copy of such agreement, as signed by the CAR and the lead implementation partner, substantially in the form so approved and certified as true and complete by a competent officer of the CAR, has been delivered to IFAD; the signature and performance thereof by the CAR and the lead implementation partner have been duly authorized or ratified by all necessary administrative and governmental action; and all conditions precedent to the effectiveness thereof have been fulfilled.
- (b) No withdrawals will be made until the project implementation manual has been duly approved by IFAD.
- (c) No withdrawals will be made in respect of expenditures under category 3 (Investment), until the territorial development committees have been duly established.

14. **Conditions precedent to effectiveness.** The project financing agreement will become effective subject to the fulfilment of the following conditions precedent:

- (a) a project coordinator has been duly appointed by the lead project agency and approved by IFAD;

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- (b) the project steering committee has been duly established;
- (c) the PMU has been duly established;
- (d) the Government has made the budgetary allocation of counterpart funds for the first project year;
- (e) the CAR subsidiary agreement has been approved by IFAD in draft; a copy of the signed CAR subsidiary agreement, substantially in the form so approved and certified as true and complete by a competent officer of the Government, has been delivered to IFAD; the signature and performance thereof by the Government and the CAR have been duly authorized or ratified by all necessary corporate, administrative and governmental action; and all conditions precedent to the effectiveness thereof (other than the effectiveness of the financing documents) have been fulfilled;
- (f) the guarantee agreement has been duly signed, and the signature and performance thereof by the Government and the Federative Republic of Brazil have been duly authorized and ratified by all necessary administrative and governmental action;
- (g) the project financing agreement has been duly signed, and the signature and performance thereof by the lead project agency have been duly authorized or ratified by all necessary administrative and governmental action;
- (h) a favourable legal opinion, issued by the legal department of the Ministry of Finance or other legal counsel approved by IFAD and in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

APPENDIX I

COUNTRY DATA

BRAZIL

Land area (km² thousand) 2003 1/	8 459	GNI per capita (USD) 2003 1/	2 720
Total population (million) 2003 1/	176.60	GDP per capita growth (annual %) 2003 1/	-1.4
Population density (people per km²) 2003 1/	21	Inflation, consumer prices (annual %) 2003 1/	15
Local currency	Brazilian Real (R\$)	Exchange rate: USD 1.00 =	BRL 2.4
Social Indicators			
Population (average annual population growth rate) 1997-2003 1/	1.3	Economic Indicators	
Crude birth rate (per thousand people) 2003 1/	19	GDP (USD million) 2003 1/	492 338
Crude death rate (per thousand people) 2003 1/	7	Average annual rate of growth of GDP 1/ 1983-1993	2.4
Infant mortality rate (per thousand live births) 2003 1/	33	1993-2003	2.3
Life expectancy at birth (years) 2003 1/	69	Sectoral distribution of GDP 2003 1/	
Number of rural poor (million) (approximate) 1/	n/a	% agriculture	6
Poor as % of total rural population 1/	n/a	% industry	19
Total labour force (million) 2003 1/	82.29	% manufacturing	11
Female labour force as % of total 2003 1/	36	% services	75
Education			
School enrolment, primary (% gross) 2003 1/	149 a/	Consumption 2003 1/	
Adult illiteracy rate (% age 15 and above) 2003 1/	14 a/	General government final consumption expenditure (as % of GDP)	19
Nutrition			
Daily calorie supply per capita	n/a	Household final consumption expenditure, etc. (as % of GDP)	59
Malnutrition prevalence, height for age (% of children under 5) 2003 2/	11 a/	Gross domestic savings (as % of GDP)	22
Malnutrition prevalence, weight for age (% of children under 5) 2003 2/	6 a/	Balance of Payments (USD million)	
Health			
Health expenditure, total (as % of GDP) 2003 1/	8 a/	Merchandise exports 2003 1/	73 084
Physicians (per thousand people) 2003 1/	2 a/	Merchandise imports 2003 1/	50 665
Population using improved water sources (%) 2000 2/	87	Balance of merchandise trade	22 419
Population with access to essential drugs (%) 1999 2/	0.49	Current account balances (USD million)	
Population using adequate sanitation facilities (%) 2000 2/	76	before official transfers 2003 1/	884
Agriculture and Food			
Food imports (% of merchandise imports) 2003 1/	7	after official transfers 2003 1/	4 016
Fertilizer consumption (hundreds of grams per ha of arable land) 2003 1/	1 303 a/	Foreign direct investment, net 2003 1/	10 144
Food production index (1989-91=100) 2003 1/	119	Government Finance	
Cereal yield (kg per ha) 2003 1/	3 375	Cash surplus/deficit (as % of GDP) 2003 1/	n/a
Land Use			
Arable land as % of land area 2003 1/	7 a/	Total expenditure (% of GDP) 2003 1/	n/a
Forest area as % of total land area 2003 1/	64 a/	Total external debt (USD million) 2003 1/	235 431
Irrigated land as % of cropland 2003 1/	4 a/	Present value of debt (as % of GNI) 2003 1/	54
		Total debt service (% of exports of goods and services) 2003 1/	64
		Lending interest rate (%) 2003 1/	67
		Deposit interest rate (%) 2003 1/	22

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database CD ROM 2005

2/ UNDP, *Human Development Report*, 2004

PREVIOUS IFAD FINANCING IN BRAZIL

 IFAD	Project and Portfolio Management System								CTY080
	Previous IFAD Projects								03 Aug 2005 - 16:22

Region PL
 Country Brazil

Project	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
51 Ceara Second Rural Development Project	World Bank: IBRD	World Bank: IBRD	O	04 Dec 80	17 Jun 81	31 Dec 87	L-I-51-BR	SDR	15 600 000	80%
258 Smallholder Technological Development Project in the Cerrado	IFAD	UNOPS	O	19 Apr 90		31 Dec 97	L-I-258-BR	SDR	13 500 000	
							L-I-259-BR	SDR	3 300 000	
344 Low-income Family Support Project in the Semi-arid Region of Sergipe State	IFAD	UNOPS	O	02 Dec 93	16 Oct 95	30 Jun 03	L-I-344-BR	SDR	12 900 000	100%
493 Community Development Project for the Rio Gaviao Region	IFAD	UNOPS	O	07 Dec 95	03 Dec 96	30 Jun 06	G-I-29-BR	USD	10 000	100%
							G-I-29-BR	USD	7 500	95%
							L-I-404-BR	SDR	13 500 000	100%
1101 Sustainable Development Project for Agrarian Reform Settlements in the Semi-Arid North-East	IFAD	IFAD	O	03 Dec 98	21 Dec 00	30 Jun 07	L-I-494-BR	SDR	17 800 000	27%
1194 North-East Rural Family Enterprise Development Support Project	IFAD	UNOPS	O	02 Dec 04			L-I-649-BR	SDR	15 450 000	

LOGICAL FRAMEWORK

OBJECTIVES	INDICATORS ¹	MEANS OF VERIFICATION	ASSUMPTIONS
Development Goal To significantly reduce poverty and extreme poverty levels of semi-arid communities of the State of Bahia	<ul style="list-style-type: none"> • <i>36 600 households with improved assets ownership, disaggregated by sex</i> • <i>40% reduction in child malnutrition, disaggregated by sex</i> • <i>4 000 households with sustainable access to an improved source of water</i> 	<ul style="list-style-type: none"> • Results and Impact System (RIMS) benchmark, mid-term and terminal studies 	
Objective of the project To improve the social and economic conditions of rural poor communities by promoting environmentally sustainable and gender-equitable social and economic development	<ul style="list-style-type: none"> • <i>36 600 households with improved food security</i> • <i>35 000 persons receiving direct project services</i> • <i>240 groups² with women leaders</i> • <i>875 groups operational/functional, by type</i> • <i>6 640 jobs available in small and medium enterprises</i> • <i>3 000 young people integrated into the labor market</i> • <i>270 enterprises are operating after three years</i> 	<ul style="list-style-type: none"> • Mid-term evaluation, project completion report, systematization studies • M&E reports • Geographic Information System (GIS) mapping 	<ul style="list-style-type: none"> • Poverty mitigation policies are fostered by the federal and state governments

¹ RIMS indicators are in italics.

² Groups are equivalent to economic or social organizations (in terms of RIMS indicators) and are located in the communities. Economic organizations are equivalent to small and medium enterprises.

<p>Human and social capital development component</p> <p>Output 1</p> <p>Rural poor and their grass-roots organizations are empowered in their capacities to participate in local, municipal and territorial social and economic development processes</p> <p>Innovative pilot experience in the castor oil chain (grant)</p> <p>Output 2</p> <p>A pilot experience of a sustainable agribusiness in the castor oil economic chain of the PRODECAR area has been developed</p>	<p>Organizational strengthening</p> <ul style="list-style-type: none"> • 1 250 social and cultural projects implemented • 21 250 people belonging to established groups • 500 development plans prepared³ • 425 organizations strengthened in their capacities to participate in development processes • 1 250 leaders strengthened in their capacities to lead development processes • 25 000 people trained by gender and type⁴ <p>Labour skills training</p> <ul style="list-style-type: none"> • 4 000 young people – men and women – trained in labour skills • 35 institutions of service providers trained in technical skills for rural development • PMU consolidated to manage development processes with gender perspective <p>Social and cultural investment fund (SCIF)</p> <ul style="list-style-type: none"> • 566 organizations with projects financed by the SCIF • Type of social investment financed by the SCIF by number of beneficiaries involved and organization <p>Castor oil chain pilot experience</p> <ul style="list-style-type: none"> • 530 small farmers with increased castor bean oil plant production • 775 hectares planted and 885 tonnes of castor bean oil plant produced • 1 cooperative operating in different markets • 3 plants processing 72 tonnes/month each 	<ul style="list-style-type: none"> • Monitoring, evaluation and systematization reports • Participatory diagnostics • Record of interest groups and organizations • Territorial development plans • Municipal development plans • Reports of providers of services • Records of organizations (annual evaluation workshops) • GIS mapping • Labour market demand study • Journals and newspapers • Reports of partners (e.g., Fiorello H. LaGuardia Foundation) 	<ul style="list-style-type: none"> • Local political power does not interfere with project implementation
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³ Plans are equivalent to CAPs in terms of RIMS indicators.

⁴ Type of training are, among others: rural participatory diagnosis and planning with gender perspective, gender equity, leadership and entrepreneurial abilities.

Productive and market development component Output 3 Target population has improved its income-generating capacities, transforming subsistence economic activities into profitable agricultural and non-agricultural rural businesses with proper care of the environment	<p>Market development services</p> <ul style="list-style-type: none"> • 4 networks established and strengthened, by type of cluster • 6 networks strengthened, by type of cluster • % of groups engaged in non-traditional activities with aggregated value, by chain (20% in beekeeping and handicrafts, 30% in fruit/cashews) • 40% of groups having direct access to dynamic markets <p>Technical assistance</p> <ul style="list-style-type: none"> • <i>30 000 people accessing technical advisory services</i> • 875 business plans implemented • <i>450 enterprises established/strengthened</i> • 80% enterprises increasing their gross sales • 6 business demonstrative centres implemented • 87 demonstrative plots implemented • 260 peasants receiving training • 90 entrepreneurs receiving training • 525 organizations having access to existing credit lines, by type of organization and credit line <p>Support services for young men and women with entrepreneurial capacities</p> <ul style="list-style-type: none"> • 2 000 young people accessing support services • 100 initiatives implemented by young persons, by type of business and gender <p>Productive capitalization fund (PCF)</p> <ul style="list-style-type: none"> • 875 organizations having access to the PCF by cluster • Type of investment financed by the PCF by number of beneficiaries involved and cluster • 30 000 direct beneficiaries of the PCF • <i>300 processing facilities established</i> <p>Environmental conservation and management fund (ECMF)</p> <ul style="list-style-type: none"> • 1 000 organizations having access to the ECMF • Type of investment⁵ financed by the ECMF, by number of beneficiaries involved and organization • Degree of use of the GIS in social, productive and environmental planning. 	<ul style="list-style-type: none"> • Monitoring, evaluation and systematization reports • Participatory diagnostics • Different records and plans • Business plans • Municipal development plans • Reports of service providers (business promoters, basic and specialized technical assistance) • Market studies • Records of organizations (annual evaluation workshops) • GIS mapping • Journals and newspapers 	<ul style="list-style-type: none"> • Relative prices of expenses, products and services are stable • Organizations and municipalities develop a long-term vision about proper care of natural resources that will not be significantly modified when authorities are changed
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⁵ Investments could be or not associated to a business plan. Examples are: soil conservation, agro-forestry systems, water source protection, infiltration ditches, protection barriers, micro-watershed management.

<p>Activities of human and social capital development component</p> <ul style="list-style-type: none"> Develop activities with gender equity and sex disaggregation in data collection practices Plan and implement meetings to introduce the project in 29 local governments and 500 groups Plan and implement 500 participatory diagnostics Plan and implement training activities for 500 groups Support 6 strategic territorial development plans Support 29 municipalities in preparation or improvement of municipal development plans. Implement training programmes for 25 000 beneficiaries, by type of programme Implement training programmes for 35 service provider organizations and other actors by type of programme Organize training activities in gender equity for 25 000 organization members Implement technical labour skills programmes for 4 000 young people (50% of whom will be women) Conduct a study on labour market demand for poor young men and women. Conduct evaluation studies to measure degree of absorption of young people in the market (3rd, 4th and 5th year) Create and implement a social and cultural investment fund of USD 8 million to provide financial support for 530 social development and cultural initiatives of the organized communities. <p>Activities of productive and market development component</p> <ul style="list-style-type: none"> Develop activities, with data collection disaggregated by gender equity and sex Develop market development services to: (i) provide a market intelligence and information system for identifying 	<p>opportunities and market analysis; (ii) promote rural businesses, which includes organization/participation in at least 7 fairs per year, 3 negotiation tables, and provision of commercial training support; and (iii) create and consolidate economical social capital by identifying 5 strategic alliances</p> <ul style="list-style-type: none"> Select, contract and train 30 business promoters to assist in the formulation of business plans for the 875 economic organizations. Select, contract and train technical assistance teams according to the needs of the business plans Create and implement an entrepreneur coaching program for young men and women, per cost of USD 1 426 000 Organize 29 youth meetings, one per municipality Create and implement a productive capitalization fund (PCF) of USD 14 million for the 875 economical organizations Coordinate with territorial committees for the evaluation and approval of projects (PCF) Create and implement an environmental conservation and management fund (ECMF) at cost of USD 5.9 million for the economical organizations Select trainees and adequate locations for demonstrative plots and business centres Support the implementation of a GIS Coordinate with available lending programmes in the region and to formulate applications for the 875 economic organizations to access existing credit lines <p>Activities of gender unit (GU)</p> <ul style="list-style-type: none"> Ensure gender balance of PMU Appoint a coordinator and two subcoordinators at regional level. 	<ul style="list-style-type: none"> Provide support for achieving gender balance in any other recruitment process carried out by the PMU Provide PMU staff and other actors with training in gender issues Elaborate reference terms, to carry out recruitment processes, to implement the consultancies proposed and to support them Implement the project's gender strategy in coordination with all the actors involved Carry out at project start a study on gender issues Support 7 250 women producers with investments that reduce women's workload (e.g. improved stoves, adequate washing facilities, childcare centers, water facilities) Provide technical and counseling support to enable 7 250 women to join economic organizations with business plans Assist 750 women in obtaining their identity cards Support participation of 1 250 women in economical promotion events Provide training and counselling support for 580 women enabling them to participate as leaders in economic organizations Coordinate with the M&E unit in implementing an annual forum for dialogue on sustainable development of the semi-arid <p>Activities of Monitoring and Evaluation Unit</p> <ul style="list-style-type: none"> Appoint a coordinator and recruit one assistant Provide support in any other recruitment process Provide training in M&E to all actors involved Elaborate reference terms, to carry out recruitment processes, to implement the consultancies proposed project start and to support them (coordinating with Preval and others) Implement the M&E strategy in coordination with GU Organize the annual forum on dialogue for sustainable development of the semi arid in coordination with PMU, CAR, and other rural development projects in Bahia.
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RIMS Reporting Format PRODECAR

Results and Impact System:

				Benchmark	Mid-term	Completion	Target
Impact indicators	Households that have improved food security	number					6 600
(2nd level indicators)	Households with improvement in household assets ownership index	number					6 000
	Prevalence of child malnutrition (height for age, girls/boys)	percentage					40% of reduction
	Households with sustainable access to an improved source of water	number					4 000

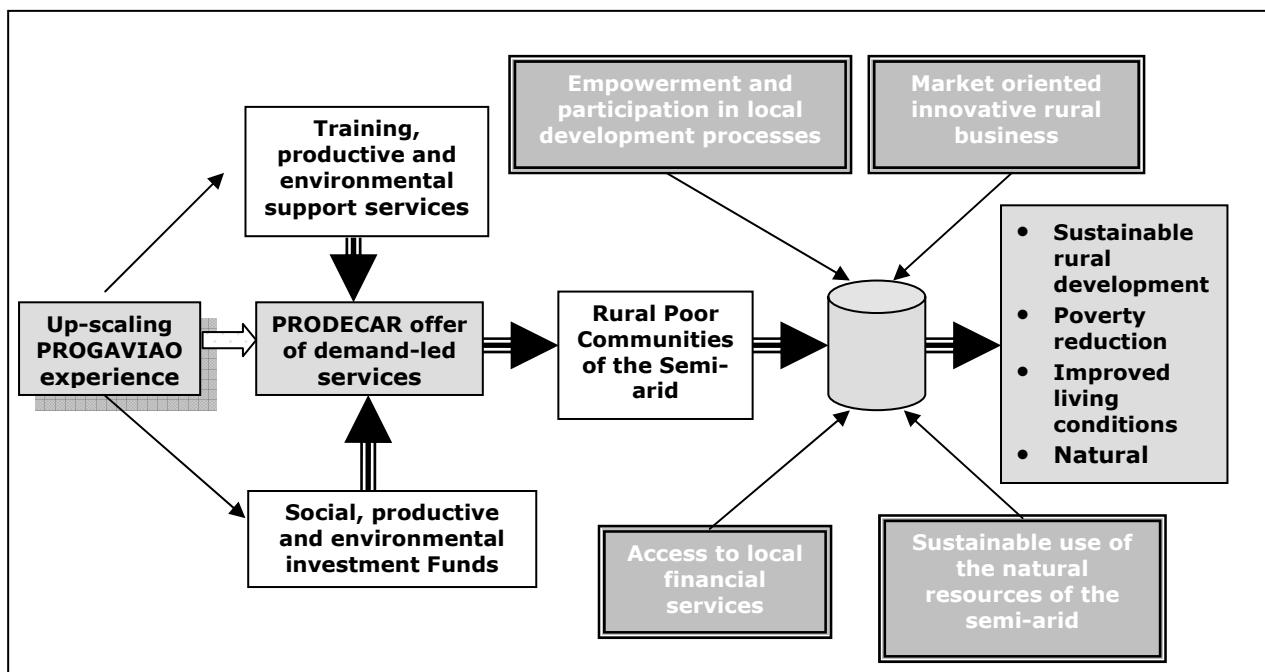
Component/ Output/	Indicator	Unit	Period: First Year			Cumulative		
			AWP&B	Actual	% of AWPB	Appraisal	Actual	% of Appraisal
General	Persons receiving direct project services	number					35 000	
		number/women					10 500	
	Groups operational/functional	number					1 200	
	Jobs generated by small and medium enterprises	number					6 640	
	Groups with women leaders	number					720	
	Enterprises operating after three years	number					420	
C1: Human and Social Capital Development Component								
Output 1:	Development plans prepared	number					400	
	People belonging to groups	number					29 000	
	Community projects implemented by type	number					1 975	
	People trained by gender and type	number					25 000	
C2: Productive and Market Development Component								
Output 2:	Enterprises established / strengthened	number					875	
	People accessing technical advisory services by type of service and gender	number					30 000	
	Processing facilities established	number					300	

PROJECT DESIGN AND CONCEPTUAL FRAMEWORK

Project Design Matrix

Programme Strategic and Operational Axes	IFAD Strategic Framework 2002-2006			Outputs
	Human and Social Assets	Productive Assets and Technology	Financial Assets and Markets	
Human and Social Capital Strengthening	Strengthening the participatory capacity of the rural poor and their organizations Labor skills training for young men and women	Participation in the planning of local social, productive and environmental investments and infrastructure at the territorial level	Development of local financial services and products markets	Empowerment Improved living conditions Improved educational and training levels
Productive and Market Development	Strengthening the income-generating capacity of the poor Training and consciousness raising to natural resource conservation issues	Access to local rural technical support services for production and marketing Access to innovative leading-edge technologies Environmentally sustainable agricultural and non-agricultural productive practices	Access to local rural productive and marketing support services Access to local financial services and programmes Access to better-priced markets through higher quality agricultural and non-agricultural products	Improved income Empowerment Sustainable use and management of the semi-arid region's natural resources Improved water resource management

Project Conceptual Framework

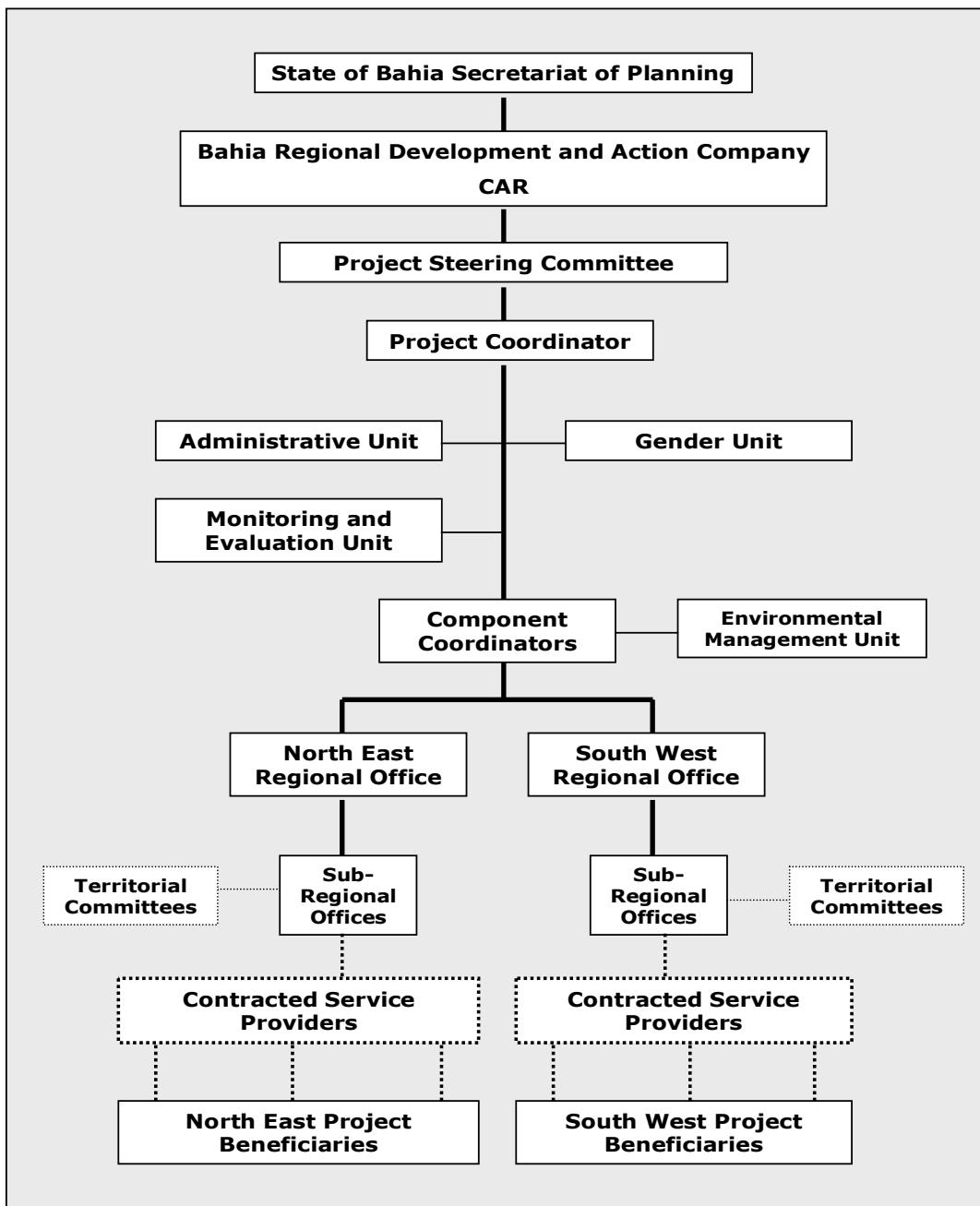


CASTOR BEAN PLANT: NEW PERSPECTIVES FOR AN OLD SEMI-ARID CROP

1. In the search for more environmentally friendly fuels, the use of castor bean⁴ (*Ricinus communis*) oil has proven to have technical and ecological benefits and stands as an opportunity for agricultural development in arid and impoverished areas like northeast Brazil. The oil extracted from the castor bean already has a growing international market, assured by more than 700 uses ranging from medicines and cosmetics to replacing petroleum in plastics and lubricants. Its derivatives are utilized in several industrial activities such as: cosmetics and perfumes; paints, pigments, varnishes and dyes; pharmaceutical products; plastics; textiles chemistry; electronics; paper; special glasses; products for the tanning of leather; optics; and foods. Castor oil is also used in the manufacturing of fiber optics, bulletproof glass and bone prostheses, and is indispensable for preventing fuels and lubricants utilized in aircraft and space rockets from freezing at extremely low temperatures. Last but not least, the by-product of castor oil extraction, the “cake”, is used as a nitrogen-rich fertilizer and the same “cake”, by removing its toxicity, can be used as animal feed.
2. Its major market, however, is beginning to open in the energy field with the growth of bio-diesel. Castor oil is the best substance for producing bio-diesel because it is the only oil that is soluble in alcohol and does not require heat and the consequent energy requirement of other vegetable oils in transforming them into fuel. Bio-diesel, chemically known as methyl ester, is the result of the reaction between any oily acid with ethyl (ethanol) or methyl (methanol) alcohol.
3. In Europe and the United States, nearly two billion liters of bio-diesel are consumed annually, though their oil sources are primarily rapeseed and soy. The European Union has determined that the percentage of bio-diesel in mineral fuel will rise up to 5% by 2010; bio-diesel production in the European Union increased by 35% between 2003 and 2004. Bio-diesel production is developing fast in Germany where mineral diesel with 2% of bio-diesel obtained from colza is distributed. In France, the major worldwide producer with 400 000 tons per year, there are seven bio-diesel refineries. Farmers in Europe and the United States have created national and international associations to promote this alternative fuel, which reduces urban air pollution and emissions of greenhouse gases associated with the burning of fossil fuels.
4. Recent studies indicate that castor oil will be competitive with other vegetable oils in the energy market. Genetic improvements have increased the oil content of the castor bean from 24% to 48%. In comparison, soy is just 17% oil. The plant has also been bred to mature at a shorter height. Whereas the castor-oil plant traditionally reaches three meters in height, making mechanized harvest difficult, there are now varieties that grow to just 1.7 meters.
5. The market for castor oil is considered "unlimited" because its uses continue to multiply. Castor oil is best for making special dyes and for uses in the high technology field, including in nuclear reactors. For decades, Brazil was the world leader in producing and exporting castor oil, but has fallen to third place, behind India and China. Brazilian output of 500 000 tons in the late 1980s fell to less than 120 000 tons last year. Planted areas declined due to marketing conditions dictated by intermediaries linked to industrial groups and lack of options in terms of value-added to production. Brazil's new policies and plans to move towards bio-diesel would jump-start the recovery of the castor-oil crop, however, to conquer the bio-diesel market, two key factors must be resolved: the development of castor bean harvesting and processing equipment; and fluctuations in world castor oil prices.

⁴ The castor bean plant is called “mamona” in Portuguese

ORGANIZATION AND MANAGEMENT



APPENDIX VII

COMMERCIAL VIABILITY OF SELECTED AGRICULTURAL BUSINESSES

1. PRODECAR will focus on traditional and innovative value-added productive chains and/or production clusters that will support more profitable agricultural and non agricultural productive activities. Traditional agricultural productive clusters will include: goats (meat and milk); livestock (very small scale milk production); vegetables and fruits (with particular preference for cashew nut plantations); sisal (*Agave sisalana*), cassava (fresh, meal and starch); and apiculture (packed honey and by products). Non-Agricultural productive clusters are focused on “traditional” semi-arid handy-craft manufacturing (leather, wood carving, fabrics, etc.).

2. Innovative value-added productive chains include, among others: medicinal plants – medicine laboratories and manufacturers; castor bean plant – castor oil and other high value by products; natural gums and tannin – industrial manufacturers; Umbuzeiro (*Spondias tuberosa*) fruit – marmalades, conserves, jams and jellies manufacturers; sisal (*Agave sisalana*) – rug manufacturers. Some of these products have been identified through studies by La Guardia Foundation and through the Appraisal Mission. The Vínculos Project (GTZ, UNCTAD and local Brazilian NGO) supports marketing and distribution in domestic and external markets. All these products have higher prices in external markets and all of them have private exporters interested in linking effective productive chains. Even though, PRODECAR will include all of them as potential innovative rural businesses, particular attention will be given to the development of the castor bean plant (*Ricinus communis*) productive chain (Table 1).

3. Bahia is the largest producer of a traditional crop of the semi-arid: castor bean plant (*Ricinus communis*). New research in the area of oilseed fuels, indicate that castor oil is the best substance for producing bio-diesel because it is the only one that is soluble in alcohol, and does not require heat and the consequent energy requirement of other vegetable oils for transforming them into fuel. This situation has created new scope for increasing castor bean planting in the semi-arid as a cash crop, with additional income possibilities if beans are processed into crude or refined castor oil by small farmers associations or cooperatives. IFAD will provide a country grant of UDS 0,5 for pilot actions in production, transformation and marketing of castor beans and/or crude oil for the country bio-diesel market, and to explore possibilities of other external markets. The Fiorello La Guardia Foundation has supported basic production and market studies and will provide back-stopping for this initiative.

Table 1: Agricultural Promising Productive Clusters

Clusters	Links with private sector	Markets
Castor bean plant	Internal buyers: PETROBRAS, Brazil Eco-diesel External buyers: Biofox (Fox Petroli), Italy; Bakelite, Italy; Bio-diesel Kartnten, Austria; Bionor, Spain; Comlube, Italy; and Red oil, Italy	Bio-diesel; cosmetics and perfumes; paints, pigments, varnishes and dyes; pharmaceutical products; plastics; textiles chemistry; electronics; paper; special glasses; products for the tanning of leather; optics; foods; fiber optics, bulletproof glass and bone prostheses.
Medicinal plants	Internal buyers: Herbarium/ABIFISA External buyers: International Fair Trade Association	Health natural products, vitamins and food additives
Gums and tannin	Internal buyers: Mark, RS External Buyers: Gruppo Silva/Indunor	Varnish, paints, footwear, shoe and leather industries
Cashew nuts (<i>Anacardium Occidentale</i>)	Internal buyers: Coop.Serra do Mel (RN) External buyers: Coop. Serra do Mel (RN)	Snacks and food industry
Preserved umbu (Umbuzeiro fruit)	Internal Buyers: domestic food retailers External Buyers: NGO/La Guardia Foundation	Marmalade, jams and jelly manufacturers