

Document: EB 2009/97/R.23/Rev.2
Agenda: 11(d)(i)
Date: 22 April 2010
Distribution: Public
Original: English

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Enabling poor rural people
to overcome poverty

President's report

Proposed loan to the State of Piauí of the Federative Republic of Brazil for the

Semi-arid Sustainable Development Project in the State of Piauí (Programa de Desenvolvimento Sustentável no Semi-Árido — Viva o Semi-Árido no Estado de Piauí)

Executive Board — Ninety-seventh Session
Rome, 14-15 September 2009

For: **Approval**

Note to Executive Board members

This document is submitted for approval by the Executive Board.

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Contents

Abbreviations and acronyms	ii
Recommendation for approval	iii
Map of the project area	iv
Financing summary	v
I. The project	1
A. Main development opportunity addressed by the project	1
B. Proposed financing	1
C. Target group and participation	2
D. Development objectives	2
E. Harmonization and alignment	3
F. Components and expenditure categories	3
G. Management, implementation responsibilities and partnerships	4
H. Benefits and economic and financial justification	4
I. Knowledge management, innovation and scaling up	5
J. Main risks	6
K. Sustainability	6
II. Legal instruments and authority	6
III. Recommendation	6
Annex	
Negotiated financing agreement	7
Appendices	
I. Key reference documents	
II. Logical framework	

Abbreviations and acronyms

CCSA	Coordenadoria de Convivência com o Semiárido (Semi-arid Coordination Office)
EMATER	State Technical Assistance and Extension Services Enterprise
M&E	monitoring and evaluation
PRONAF	National Programme for the Strengthening of Family Agriculture
SEDUC	Secretariat of Education
SEPLAN	Secretariat of Planning and Coordination
SETRE	Secretariat of Labour and Entrepreneurship

Recommendation for approval

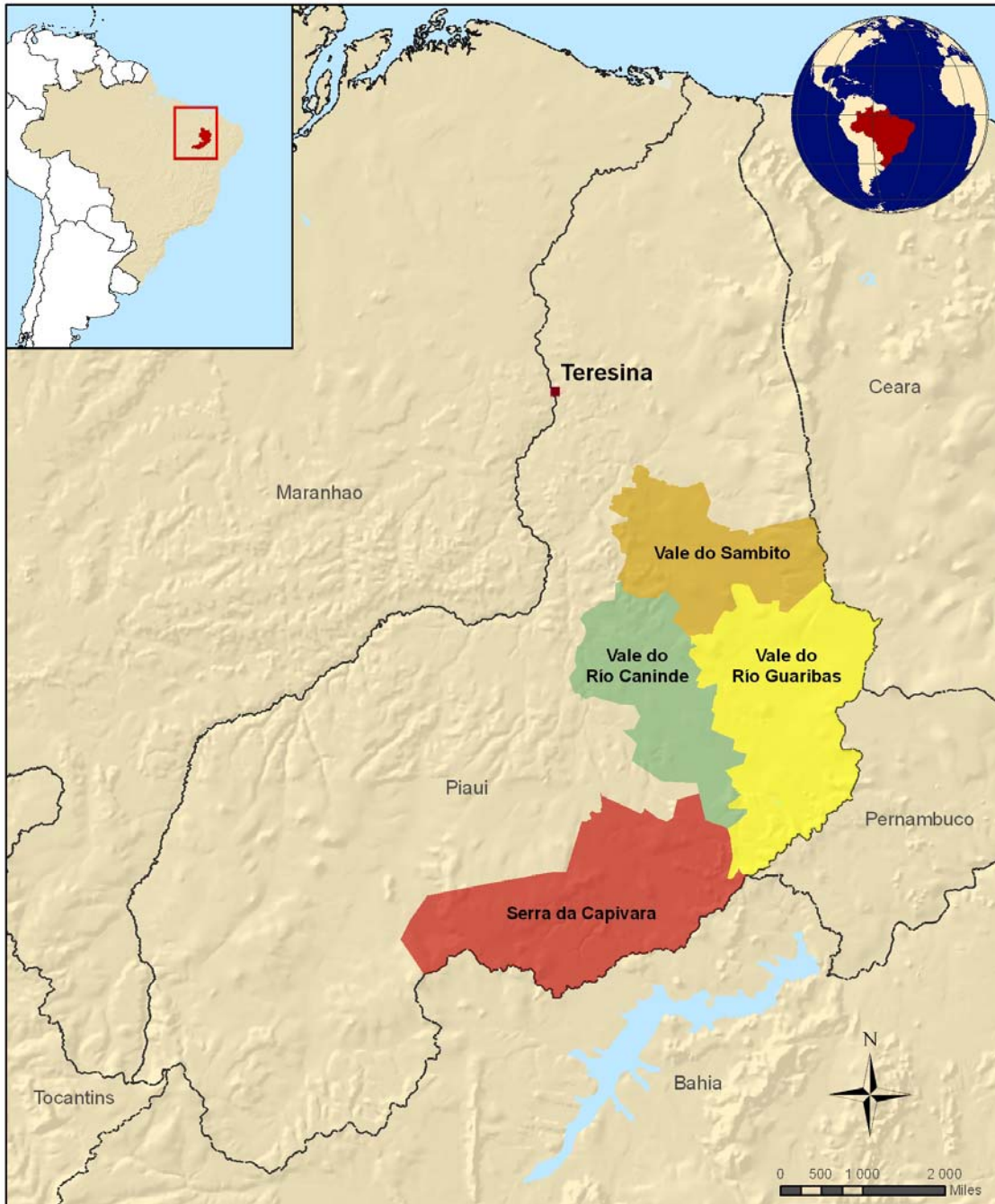
The Executive Board is invited to approve the recommendation for the proposed financing to the State of Piauí of the Federative Republic of Brazil for the Semi-arid Sustainable Development Project in the State of Piauí (Programa de Desenvolvimento Sustentável no Semi-Árido — Viva o Semi-Árido no Estado de Piauí), as contained in paragraph 40.

Map of the project area

Brazil

Piauí Semi-arid Project

Territories of the project area



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

IFAD Map compiled by IFAD

State of Piauí of the Federative Republic of Brazil

Semi-arid Sustainable Development Project in the State of Piauí (Programa de Desenvolvimento Sustentável no Semi-Árido — Viva o Semi-Árido no Estado de Piauí)

Financing summary

Initiating institution:	IFAD
Borrower:	State of Piauí of the Federative Republic of Brazil
Lead/Executing agencies:	Secretariat of Planning (lead agency) ^a and Coordenadoria de Convivência com o Semiárido (Semi-arid Coordination Office) (executing agency) ^b
Total project cost:	US\$39.14 million
Amount of IFAD loan:	SDR 12,770,903 (equivalent to approximately US\$20.0 million)
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 semi-annually
Contribution of borrower:	US\$12.47 million
Contribution of beneficiaries:	US\$6.67 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

^a Institutional representation of the Government and official counterpart of IFAD for this project.

^b In charge of day-to-day project execution and will host project management unit.

Proposed loan to the State of Piauí of the Federative Republic of Brazil for the Semi-arid Sustainable Development Project in the State of Piauí (Programa de Desenvolvimento Sustentável no Semi-Árido — Viva o Semi-Árido no Estado de Piauí)

I. The project

A. Main development opportunity addressed by the project

1. The high incidence of rural poverty, environmental vulnerability and significant economic potential in the semi-arid region of the State of Piauí constitute the main rationale for the project. In the last two decades, important progress has been made in supplying social infrastructure through federal and state programmes, and through a poverty reduction project funded by the World Bank, but support for realizing the economic potential of rural workers without assets and small-scale farmers has been much less significant. Such is the underlying thrust of the proposed project, which is designed to tap into the economic potential existing in the project area in order to develop sustainable employment and income opportunities for the target group. Interventions of an economic nature will be aligned with action to improve natural resources management and complemented with “contextualized learning” and technical education activities, as part of an integrated approach to the development process.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide a loan to the State of Piauí of the Federative Republic of Brazil in the amount of SDR 12,770,903 (equivalent to approximately US\$20.0 million) on ordinary terms to help finance the Semi-arid Sustainable Development Project in the State of Piauí (Programa de Desenvolvimento Sustentável no Semi-Árido — Viva o Semi-Árido no Estado de Piauí). 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 semi-annually.

Relationship to the IFAD performance-based allocation system (PBAS)

3. The allocation defined for Brazil under the PBAS is US\$50.41 million over the 2007-2009 allocation cycle.

Country debt burden and absorptive capacity of the State

4. The external debt of the State of Piauí is managed under a strict financial policy of the Brazilian federal government. The federal government authorized the state government of Piauí to borrow from IFAD for an amount of US\$20.0 million and expressed its will to sign a guarantee agreement. Thus the State of Piauí has adequate capacity to absorb and service the proposed loan.

Flow of funds

5. IFAD loan proceeds will be deposited into an account operated by the state government of Piauí and channelled to the Coordenadoria de Convivência com o Semiárido (CCSA)¹, as the main executing agency, and to the State Technical Assistance and Extension Services Enterprise (EMATER), the Secretariat of Education (SEDUC) and the Secretariat of Labour and Entrepreneurship (SETRE) as co-executing agencies. Applications for withdrawals from the IFAD loan will be made by the person/s designated by the state government.

¹ Semi-arid Coordination Office.

Supervision arrangements

6. The project will be directly supervised by IFAD.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

7. The provisions of section 4.08(a)(ii) of the General Conditions shall not apply to this agreement, that is, as an exception, the expenses set out in paragraph 2 of schedule 2 of the project financing agreement shall be considered eligible expenditures notwithstanding the fact that they are not incurred during the project implementation period.

Governance

8. The following planned measures are intended to enhance the governance aspects of the IFAD loan: (i) annual independent audits in accordance with international auditing standards and the IFAD Guidelines on Project Audits; (ii) direct supervision and implementation support provided by IFAD; and (iii) transparent mechanisms for allocating financial resources to potential beneficiaries, including the participation of experienced institutions, representatives of beneficiaries and safeguards against elite capture.

C. Target group and participation**Target group**

9. The geographical coverage of the project includes the 89 municipalities of the semi-arid region of the State of Piauí. The potential target group of the project is composed of approximately 70,000 poor rural households, of which almost 40,000 are living under conditions of extreme poverty. Most of them are small-scale farmers and their livelihoods are based on a combination of farm and off-farm activities.

Targeting approach

10. The project's targeting strategy is in line with the IFAD Policy on Targeting and reflects the lessons learned in previous IFAD interventions. To this effect, emphasis will be placed on the adoption of appropriate measures to effectively reach disadvantaged groups such as women, young people and Afro-descendants. The targeting strategy will adopt complementary mechanisms in the conduction of the different activities: (i) a demand-led approach through self-targeting; (ii) supply-led approach through a selective targeting process based on pre-defined eligibility criteria; and (iii) inclusive targeting. The demand-led and supply-led approaches will be applied jointly in the implementation of the productive development component and technical education, while contextualized learning activities will employ inclusive targeting.

Participation

11. The participation of project beneficiaries is foreseen through several mechanisms: (i) participatory value chain analysis and diagnosis to identify the potential economic activities; (ii) participatory self-evaluations by beneficiaries and project staff, in order to adjust activities of the project in a way that takes into account their experiences and needs; and (iii) participation of beneficiary representatives in the project consultative council, the executive board of the productive investment fund, and project annual planning workshops.

D. Development objectives**Key project objectives**

12. The overall goal of the project is to contribute to the reduction of the levels of poverty and extreme poverty among the rural population – men, women and young people – living in the semi-arid region of Piauí. The project aims specifically at improving farm and off-farm incomes, employment opportunities and the productive assets of rural poor households living in the semi-arid region of Piauí.

13. Specific objectives are: (i) improve poor producers' agricultural and non-agricultural production and their access to markets and value chains by providing them with adequate technical assistance and financial resources, and strengthening their social and productive organizations; (ii) strengthen the capacities of the target population, particularly the young people, to generate income and access to labour markets, through the dissemination of specific semi-arid environment-related knowledge and the promotion of vocational and technical education; and (iii) strengthen the capacities of key rural institutions to develop technical assistance systems, and implement rural development policies in the semi-arid region.

Policy and institutional objectives

14. As mentioned above, one of the specific objectives is to strengthen the capacities of key rural institutions to develop technical assistance systems and implement rural development policies in the semi-arid region. The underlying strategic principle is to focus strengthening actions on existing public agencies and private organizations, in order to ensure institutional sustainability as one of the main outcomes of the project.

IFAD policy and strategy alignment

15. The project's objectives and approach are aligned with IFAD policies and the IFAD Strategic Framework 2007-2010. In particular, the project is fully consistent with the country strategic opportunities programme designed in 2008, as its core features would be: (i) the focus on the semi-arid area; (ii) the target group composed of rural poor farm and non-farm producers and workers, with special attention being paid to women, young people and Afro-descendants; (iii) the productive thrust aimed at generating farm and off-farm income and employment opportunities; (iv) the agroecological thrust focus on the fight against desertification, which complements the productive thrust; (v) the institutional thrust focus on strengthening territorial governance organizations and extension/technical assistance systems; and (vi) the project would promote knowledge management related to coexistence with semi-arid conditions.

E. Harmonization and alignment

Alignment with national priorities

16. The objectives of the project are fully in line with those of the State of Piauí's strategic state development plan for 2008-2011. The project's components and activities are aligned with the actions prioritized in the plan that relate to the strengthening of value chains, technical assistance and extension services, support for family farming, professional education, coexistence with semi-arid conditions and sustainable management of natural resources.

Harmonization with development partners

17. The proposed project is designed to coordinate its actions, directly or indirectly, with almost all the major development players currently operating in the State of Piauí, and with federal government programmes such as the National Programme for the Strengthening of Family Agriculture (PRONAF). In particular, the project will coordinate its action with the World Bank-funded Rural Poverty Reduction Project – Piauí.

F. Components and expenditure categories

Main components

18. The project has four components: (i) social and human development (11 per cent of base cost); (ii) productive development (75 per cent); (iii) institutional strengthening (2 per cent); and (iv) project management unit and monitoring and evaluation (M&E) (12 per cent).

Expenditure categories

19. There are six expenditure categories: (i) financial funds (54 per cent of base cost); (ii) equipment and vehicles (2 per cent); (iii) training (11 per cent); (iv) agreements and contracts for technical services (2 per cent); (v) salaries (25 per cent); and (vi) operating costs (6 per cent).

G. Management, implementation responsibilities and partnerships**Key implementing partners**

20. These will be: (i) the Secretariat of Planning (SEPLAN) as lead agency; (ii) CCSA as executing agency; and (iii) EMATER, SEDUC and SETRE as co-executing agencies.
21. The existing Agricultural Policy and Rural Development Council of the State of Piauí, established by the state government, will assume the role of project consultative council. It is chaired by the secretary for rural development and includes representatives of the private sector, civil society organizations and relevant secretariats.

Implementation responsibilities

22. CCSA will host the project management unit and will be responsible for project operations and management, including the setting up and management of covenants with co-executing agencies, together with follow-up of their activities. As part of its role, CCSA will prepare the project annual workplan and budget and will report on project activities, accounting and financial management to IFAD and to the state government.
23. SEPLAN will approve the annual workplan and budget, review and clear the official reports to IFAD and governmental authorities, and support the necessary political articulations at the federal, state and municipal level, and with international counterparts.

Role of technical assistance

24. One of project's main aims is to contribute to current efforts by the federal and state governments to strengthen the public and private technical assistance and extension system. In this sense, the project will provide rural poor producers with services focused on: (i) improving the productivity of both primary and processed agricultural and non-agricultural production; (ii) organizational and management capacities of producers' organizations; and (iii) marketing capacities of producers' organizations. The project will put a strong emphasis on the institutional strengthening and capacity-building of producers' organizations and their members to ensure post-project sustainability.

Status of key implementation agreements

25. CCSA will establish covenants with EMATER, SEDUC and SETRE as co-executing agencies, which will receive resources to execute the project activities related to their respective operational areas. Results-based agreements and/or contracts will also be established with other programmes, agencies and development stakeholders such as universities, producers' apex bodies and civil society organizations, particularly for the provision of technical assistance and extension services.

Key financing partners and amounts committed

26. The total project cost is US\$39.14 million over seven years. The sources of financing are IFAD (51 per cent), the State of Piauí (25 per cent), PRONAF (7 per cent) and the beneficiaries (17 per cent).

H. Benefits and economic and financial justification**Main categories of benefits generated**

27. Preliminary estimates show that: (i) about 22,000 small-scale farmers would directly benefit from technical assistance services; (ii) out of this number, about 18,000 would also benefit from the financing of on-farm investments, including

approximately 8,500 who would benefit from the financing of 110 collective agroprocessing facilities and 2,500 beneficiaries who would receive technical assistance and investments for the establishment of small irrigated orchards; (iii) approximately 1,000 beneficiaries would receive technical assistance and financing for the development of handicrafts and small-scale rural businesses; (iv) more than 12,000 children would benefit from the “contextualized learning” programme as about 1,500 teachers would be trained in this approach; and (v) approximately 5,740 young beneficiaries would receive technical and entrepreneurship training, of whom at least 60 per cent would be young women.

28. It is estimated that approximately 13,300 women would benefit from the productive development component: 3,300 would directly benefit from technical assistance and financing for handicraft and agroprocessing activities, and 10,000 would benefit as part of the targeted rural households, especially in the bee-keeping and cashew value chains.

Economic and financial viability

29. Ten models representing farm systems and non-agricultural rural activities have been developed in line with the agroecological characteristics and economic potential of the project area. On this basis, the economic rate of return has been estimated at 26.0 per cent, while the net present value has been estimated at US\$58.0 million at the opportunity costs of capital of 4.2 per cent.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

30. The project’s communication and M&E units will work together in the development of a knowledge management and communication strategy, as the project has potential for knowledge sharing and networking at the regional and international levels. In line with the COSOP, the project will promote exchanges among IFAD operations, projects funded by other donors, national programmes, regional institutions and other relevant stakeholders involved in the rural development of the north-east, especially in the semi-arid area. CCSA will conduct specific knowledge sharing events and activities such as exchange and field visits, case studies, systematization of experiences, thematic and/or territorial consortiums and specific communication material. Project staff based in local offices will promote and support dialogue and information flows at the local level with producer’s organizations and other stakeholders.

Development innovations that the project will promote

31. The main innovative features of the project in the State of Piauí are: (i) the recognition of the unavoidable migration processes and the allocation of resources for technical education aimed at better preparing young people to face labour markets; (ii) the enhancement of rural productive activities linked to markets following a value-chain approach, instead of prioritizing social and basic infrastructure, as in previous projects in the north-eastern region of Brazil; and (iii) the combination of technical assistance, investment financing on grant basis and utilization of existing short-term credit facilities.

Scaling up approach

32. The project will phase in its interventions in line with the different value chains and progressively adjust and scale up its operations depending on the results achieved. The proposed project approach has the potential to be replicated and scaled up in other territories of the State of Piauí, and in other states of the north-eastern region with similar potential and constraints. Particular attention will be paid to promoting knowledge sharing activities with other IFAD funded projects, in order to replicate and scale up successful experiences.

J. Main risks

Main risks and mitigation measures

33. The project faces three main risks: (i) more severe droughts than usual; (ii) institutional and management limitations for the execution of the project; and (iii) slack markets. The planned mitigation measures include, respectively: (i) technical assistance and investments at farm level for the proper management of water resources for irrigation, human and animal consumption; (ii) IFAD direct supervision, adequate training of the staff of CCSA and co-executing agencies and posting a senior technical adviser during the first two years of project execution; and (iii) design of business plans including market assessment before investments, and the strengthening of the marketing capacities of producers' organizations.

Environmental classification

34. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

K. Sustainability

35. The proposed project is based on an existing institutional framework and has been designed as a tool to complement and enhance existing policies and programmes that will continue to be carried out by permanent public and private organizations after project closure. Post-project sustainability would also be ensured by the development of autonomous grass-roots associations.
36. Financing mid- and long-term productive investments and technical assistance for rural poor producers is a major concern of the federal and state governments, especially in the north-eastern semi-arid area, as a way to reduce poverty and foster economic growth. Therefore, the availability of funds in the mid and long term for poor producers is dependent upon the willingness of federal and state governments to carry on supporting family agriculture, by ensuring the availability of financial resources and strengthening the technical assistance and extension systems.

II. Legal instruments and authority

37. A project financing agreement between the State of Piauí of the Federative Republic of Brazil and IFAD, and a separate guarantee agreement between the Federative Republic of Brazil and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as an annex.
38. The State of Piauí of the Federative Republic of Brazil is empowered under Brazilian law to receive financing from IFAD, and the Federative Republic of Brazil is empowered under Brazilian law to guarantee the loan.
39. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

III. Recommendation

40. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall make a loan on ordinary terms to the State of Piauí of the Federative Republic of Brazil in an amount equivalent to twelve million seven hundred seventy thousand nine hundred and three special drawing rights (SDR 12,770,903) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement: "Semi Arid Sustainable Development Project in the State of Piauí (Programa de Desenvolvimento Sustentável no Semi-Árido – Viva o Semiárido no Estado de Piauí)"

(Negotiations concluded on 11 February 2010)

Loan Number: _____

Project Title: Semi Arid Sustainable Development Project in the State of Piauí (Viva o Semi-Árido) (the "Project") (*"Programa de Desenvolvimento Sustentável no Semi-Árido – Viva o Semiárido no Estado de Piauí"*)

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

And

The State of Piauí (the "Borrower") of the Federative Republic of Brazil (each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.
4. The Loan is to be guaranteed by the Federative Republic of Brazil (the "Guarantor") on terms and conditions set forth in an agreement, of even date, to be entered into by the Fund and the Federative Republic of Brazil (the "Guarantee Agreement");

Section B

1. The amount of the Loan is twelve million seven-hundred-seventy thousand and nine-hundred and three Special Drawings Rights (SDR 12 770 903).
2. The Loan is granted on ordinary terms, and shall have a maturity period of eighteen (18) years, including a grace period of three (3) years starting from the date that the Fund has determined that all general conditions precedent to withdrawal have been fulfilled (Section D 2 below). The Borrower shall repay the principal amount of the Loan in 30 equal semi-annual consecutive installments; the final installment may vary due to rounding.
3. The Loan Service Payment Currency shall be USD.

4. The first day of the applicable Fiscal Year shall be 1st January.
5. The Loan shall be subject to interest on the principal amount of the Loan outstanding at a rate equal to the IFAD Reference Interest Rate.
6. Payments of principal and interest shall be each 15 May and 15 November.
7. There shall be a Project Account for the benefit of the Project, where Loan proceeds and counterpart resources shall be allocated, in the name of the Project Executing Agency *Coordenadoria de Convivência com o Semi-Árido* (CCSA) in a Bank acceptable by the Fund.
8. The Borrower shall provide counterpart financing for the Project in the amount of approximately USD 9 671 000 (including taxes); out of this amount, up to USD 400 000, totally financed by the Borrower and not reimbursed from the loan, will be incurred before the entry into force of the Loan for the following expenses: Equipment, vehicles, courses and workshops, divulgation materials, technical assistance services, studies, salaries and operation expenses.

Section C

1. The Lead Project Agency shall be the *Secretaria de Estado do Planejamento* (SEPLAN) and the Executing Agency shall be the *Coordenadoria de Convivência com o Semi-Árido* (CCSA).
2. The following, *inter alia*, are designated as additional Project Parties: *Secretaria de Estado da Educação e Cultura* (SEDUC), *Secretaria de Estado do Trabalho e Empreendedorismo* (SETRE) and *Instituto de Assistência Técnica e Extensão Rural do Estado do Piauí* (EMATER-Piauí).
3. The Project Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement and the Financing Closing Date shall be established as specified in the general conditions.

Section D

The Loan will be administered and the Project will be supervised by IFAD.

Section E

The following provisions of the General Conditions shall not apply to this agreement: as an exception to section 4.08 (a)(ii) the expenses set out in paragraph 2 of Schedule 2 shall be considered Eligible Expenditures notwithstanding the fact that they are not incurred during the Project Implementation Period.

Section F

1. The following is designated as additional ground for suspension of the right of the Borrower to request withdrawals from the Loan: The Project Implementation Manual, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project, and the Borrower has not taken any measure to remedy the situation.

2. (i) The following are designated as additional (general) conditions precedent to withdrawal:

- (a) the Guarantee Agreement shall have been duly signed, and the signature and performance thereof by the Guarantor shall have been duly authorised and ratified by all necessary administrative and governmental action;
- (b) the IFAD no objection to the final version of the Project Implementation Manual shall have been obtained;
- (c) the IFAD no objection to the establishment of the Project Management Unit (PMU)/CCSA shall have been obtained;
- (d) the Designated Account and one or more Project Accounts shall have been opened; and
- (e) the flow of funds and management financial procedures shall have been defined.

2. (ii) The following is designated as additional (specific) condition precedent to withdrawal in respect of expenditures under the Project Investment Fund category: the IFAD no objection to the Productive Investment Facility (PIF – *Conta de Investimentos Produtivos*) regulations and the IFAD no objection to the establishment and composition of the PIF Executive committee shall have been obtained.

3. Any amendment to this Agreement shall be granted only if the Guarantor communicates to the Fund its concurrence to such amendment.

4. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund: The President of IFAD International Fund for Agricultural Development Via Paolo di Dono 44 00142 Rome, Italy	For the Borrower: Governor do Estado do Piauí Av. Antonio Freire 1450 - Centro – CEP 64001 Teresina PI
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Copies to:

SEAIN – Secretaria de Assuntos Internacionais do
Ministério do Planejamento, Orçamento e Gestão
Esplanada dos Ministérios – Bloco K – 5º Andar
Brasília – DF 70040-906
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Coordinadoria de Convivencia com o Semi-Árido

Secretaria de Planejamento do Estado de Piauí

Secretaria de Fazenda do Estado de Piauí

This agreement, dated _____, has been prepared in the (English) language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

For the Fund
(insert name and title)

For the Borrower
(insert name and title)

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project's target population is constituted by approximately 75 000 rural households living under poverty conditions in the following 4 territories in the State of Piauí: *Vale do Sambito, Vale do Rio Guaribas, Vale do Rio Canindé and Serra da Capivara* (the "Project Area"). Within this target population, the direct beneficiaries are estimated at 22 000 poor rural households.

2. *Goal.* The Project *overall goal* is to contribute to reduce poverty and extreme poverty levels of the rural population – men, women and youth – living in the semi-arid region of Piauí. The *purpose* of the Project is to improve the farm and off-farm income, employment opportunities and productive assets of the poor rural households living in semi-arid region of Piauí.

3. *Objectives.* The specific objectives of the Project are: (a) Improve poor producers' agricultural and non agricultural production and access to market and value chain, by providing them adequate technical assistance and financial resources, and strengthening their social and productive organizations; (b) Strengthen target population's capacities, particularly to the young, to generate income and access to labour markets, through the dissemination of specific semi-arid environment related knowledge as well as the promotion of vocational and technical education; (c) Strengthen key rural institutions' capacities to develop technical assistance systems and design and implement rural development policies in the semi-arid region.

4. *Components.* The Project shall consist of the following Components: (1) Productive development; (2) Social and human development; (3) Institutional strengthening; and (4) Project Management Unit and Monitoring and Evaluation System.

L. Component 1: Productive Development

5. The objective of this component is to improve poor producers' -agricultural and non agricultural- production, and access to market and value chain, by providing them adequate technical assistance, access to productive assets and financial resources, and strengthening their social and productive organizations. The activities will mainly consist in: (a) integrated support to the sustainable participation of small producers in specific production chains including support to farm production, processing and marketing; (b) Promotion of a wide use of sustainable technologies adapted to the semi-arid, including agro-forestry systems, small irrigated orchards and improved water conservation systems for individual or community use; and (c) Support to agriculture and non-agriculture associative businesses and micro-enterprises of target group members.

5.1. *Organization and promotion of beneficiaries' groups and associations.* This subcomponent aims at fostering collective action of producers' groups and community organizations so as them to access to goods and services that they would not access individually. It will strengthen producers' groups and community organizations' capacities related to economic and social management, rural development planning, project formulation, management of collective assets, accounting, administrative and legal information and leadership, among others. This sub-component will be implemented by the *Instituto de Assistência Técnica e Extensão Rural do Estado do Piauí* (EMATER-Piauí).

5.2. *Technical assistance, extension services and training.* The Project will finance the provision of technical assistance and extension services, focusing on the following issues:

- (a) Improving productivity of both primary and processed agricultural and non-agricultural production by transferring and diffusing enhanced techniques and technologies, especially those adapted to the semi-arid conditions. It will particularly strengthen the knowledge transfer from the research centres to the technical assistance organizations;
- (b) Improving organizational and management capacities of producers' groups, including associative governance, co-operative business management, accounting and financial management;
- (c) Improving marketing capacities of producers' organizations including:
 - (i) market intelligence to identify market opportunities and define penetration strategy;
 - (ii) negotiation and management of input and output marketing contract;
 - (iii) management of market-oriented supply chain (including standards and quality requirements, product packaging, etc.);
 - (iv) management and dissemination of market information, and (v) promotion and advertisement, etc.

This sub-component will be implemented by the Instituto de Assistência Técnica e Extensão Rural do Estado do Piauí (EMATER-Piauí).

5.3. *Financing of productive investments.* The producers will require investments as well as adequate processing and marketing facilities. The subcomponent will finance these investments on a grant basis. This will include, *inter alia*, the financing of farm level investments (such as small goat and sheep breeding infrastructures, new settlement or rehabilitation of plantations, irrigation material, small dams, etc.), as well as small processing plants and other facilities (such as "casas do mel", cajuina plants, slaughterhouses, etc.). Both financing of on-farm and collective investments will be channelled through producers' organizations which will be supported by the local development agents, extensionists and other service providers in organizing participatory diagnosis workshops to identify the key aspects of the economic opportunities. The producers' groups will then be supported in designing "business plans".

Productive Investment Facility (PIF - Conta de Investimentos Produtivos). The financial resources to be allocated to producers' organizations will be channelled through a Productive Investment Facility (PIF - *Conta de Investimentos Produtivos*). *Coordenadoria de Convivência com o Semi-Árido (CCSA).*

It will be managed by the PMU and will count with an Executive Committee that will assess and approve and/or reject investment proposals above a threshold to be established in the Project Implementation Manual (PIM).

5.4. *Access to short-term credit.* The implementation of improved technologies for the different activities may need additional resources for financing incremental operative costs. The project will support, through technical assistance activities and partnerships, the links with providers of financial resources in order to facilitate producers' access to short-term credit.

M. Component 2: Social and Human Development

6. This component will support youngsters in gaining new skills and developing small farm and off-farm businesses by supporting and expanding the access to semi-arid environment related knowledge, as well as vocational and technical education.

6.1. *Semi-arid-Contextualized Education.* The subcomponent will support the generation and diffusion of the semi arid knowledge in rural and agro-technical schools, as well as producers' organizations. The subcomponent will be implemented by SEDUC.

6.2. *Vocational education and technical training of rural youngsters.* It will support the insertion of youngsters, particularly women and Quilombolas, in rural and non-rural labour market and generation of small rural businesses linked to the value-chain of the semi-arid region. SETRE will be responsible for executing this sub-component.

6.3. *Communication and dissemination.* This sub-component will carry out several activities of communication and dissemination of knowledge on the semi-arid thematic including technical, productive, economic and cultural issues and activities. It will be implemented by the CCSA.

N. Component 3: Institutional Strengthening

7. The component aims at strengthening CCSA and other key institutions related to technical assistance systems, technical training and education for the development of the project area. Beside the different training for institutional development foreseen under the other components, several studies and short-term consultancies would be financed in order to: (a) strengthen key capacities of the executing (CCSA) and co-executing agencies to support different management systems and ensure a proper project implementation, (b) allow the exchange of experiences between different IFAD funded projects in the state and in the country. The CCSA will implement this component

O. Component 4: Project Management Unit and M&E System

8. The Project will finance the establishment and operations of the Project Management Unit (PMU) within the CCSA; in addition to the central office located in the CCSA, the PMU will also include five regional offices located in the Project Area. The Project will also finance the implementation of the Monitoring and Evaluation System, which will be linked to the Evaluation System of the Government of Piauí, currently managed by SEPLAN.

II. Implementation Arrangements

The Lead Project Agency

1. The State Secretariat of Planning (SEPLAN) of the Borrower, in its capacity as Lead Project Agency, shall have overall responsibility of the Project. SEPLAN will not be in charge of the day-to-day Project implementation, which will rely on the Project Executing Agency *Coordenadoria de Convivência com o Semi-Árido* (CCSA). SEPLAN will be responsible for the approval of Annual Working Plan and Budgets, the approval of Project Activities Reports, and will also support the necessary articulations of the Project at political level with the federal, state and municipal public sectors, as well as with international counterparts. SEPLAN will not be in charge of the day-to-day Project implementation.

The Project Management Unit (PMU)

2. The Project Management Unit (PMU) will be formally established within the CCSA. The PMU will centralize the Project management operations which include, among other

tasks, planning, monitoring, transferring resources to co-executing agencies and responsible for the preparation of reports concerning Project activities.

3. The PMU shall include a Project Director, a Senior Technical Advisor for, at least, the first two years of the Project execution, an Administration and Financial Manager, an Administration Officer, a Financial Officer and a Legal Advisor. In the technical area, the PMU will have a Productive Development Component Coordinator, a Social and Human Development Component Coordinator, a Monitoring and Evaluation Coordinator and five Regional Project Coordinators, as detailed in the Implementation Manual of the Project.

4. The Project Director and the staff of the PMU will be selected following a selection process agreed with the Fund, and will be appointed by the *Coordenadoria de Convivência com o Semi-Árido (CCSA)*. The terms of reference and the professional requirements for the Project Director and the PMU staff will be agreed upon with the Fund.

Regional Offices

5. The CCSA will establish five Regional Offices located in the Project Area (i.e. one in *Vale do Sambito*; two in *Vale do Rio Guaribas*; one in *Vale do Rio Canindé* and one in *Serra da Capivara*). These offices will have the main responsibility of the Project implementation in the field and will be coordinated by a Regional Project Coordinator to be contracted by the CCSA.

6. Each regional office will consist at least of: (a) a Regional Project Coordinator who will be part of the PMU, (b) an Agronomist and an Agricultural Extensionist from EMATER, (c) an Education Technician from SEDUC; and (d) a Professional Education Technician from SETRE. These offices will operate at local level and closely co-ordinate with the local EMATER offices, under the supervision of the Project Director. These regional offices will maintain a close articulation with the territorial councils supported by the state and federal government, so as to ensure a close collaboration and articulation with the local governing bodies, civil society organizations and development stakeholders. The participation of all the co-executing agencies in these offices aims to ensure a day-to-day coordination among them. Each co-executing agency will appoint technicians whose professional profile matches with the project requirement.

The Project Consultative Council (PCC)

7. The existing Piauí's Agricultural Policy and Rural Development Council, established by the State Government, will play the role of Project Consultative Council and will carry out strictly "consultative functions" on the Project implementation activities. The PCC will review and make suggestions to the proposed Annual Working Plan and Budget, and comment the Implementation Reports. The Project Director will provide the PCC with all relevant information.

8. The composition of the Agricultural Policy and Rural Development Council is already defined. It is chaired by the State Secretary of Rural Development and composed by representatives of private sector, civil society organizations all relevant line Secretariats, as well as other public and private stakeholders.

The Productive Investment Facility (PIF – *Conta de Investimentos Produtivos*)

9. The management of the PIF, for the Productive Development component, will be carried out under specific rules and procedures to be formalised in PIF Regulations included in the Project Implementation Manual. The PIF will establish an Executive

Committee chaired by the Secretary of Rural Development. Its main functions will be those of reviewing, appraising and approving or rejecting the financing of proposed investments for project beneficiaries. The Project Director will be the technical secretary for this entity.

Co-executing agencies

10. The co-executive agencies will be the *Secretaria de Estado da Educação e Cultura* (SEDUC), *Secretaria de Estado do Trabalho e Empreendedorismo* (SETRE) and the *Instituto de Assistência Técnica e Extensão Rural do Estado do Piauí* (EMATER-Piauí). The general responsibilities of each co-executing agencies were defined in the description of the components and sub-components above. The co-executing agencies will be part of a working group coordinated by the CCSA. Additional details about the responsibilities of each co-executing agency and the activities to be carried out by the working group will be included in the PIM.

11. The participation of the co-executing agencies will be carried out under specific **Implementation Agreements** concluded between the PMU with each co-executing agency. These agreements will establish the program of work of each co-executing agency, the goals to be achieved, the amount of resources to be transferred from the Project to each co-executing agency and the amount to be contributed by each agency. In the framework of these agreements, each co-executing agency will prepare and agree with the PMU an annual program of work. All the implementation arrangements mentioned above will be detailed in the Project Implementation Manual.

Schedule 2

Allocation Table

1. *Allocation of Loan Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category and the percentages of expenditures for items to be financed in each Category:

Category of expenses	Amount Assigned of the Loan (in SDR)	% of eligible expenses to be financed by IFAD
I. Equipment and Vehicles	455 000	83% of total expenditure or 100% net of taxes
II. Training - Courses and Workshops	1 580 000	77% of total expenditures
III. Agreements and Contracts for Technical Services		
a) Technical Assistance, Audits and Studies and Agreements with Public Institutions	330 000	80% of total expenditures
IV. Financial Funds		
a) Farm and Rural Micro Enterprises Investment Facility	4 364 000	83% of total expenditures
b) Agri-processing Investment Facility	1 120 000	83% of total expenditures
V. Recurrent Costs		
a) Salaries for Extensionists and Local Development Agents (ADL)	3 240 000	100% of total expenditures
b) Operating costs	400 000	46% of total expenditures
VI. Unallocated	1 281 903	
Total	12 770 903	

In the table above "total expenditures" include the contributions of the Borrower and IFAD.

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

- (i) Equipment and vehicles for the PMU and for the co-executing agencies. Include equipment and vehicles like motorcycles, pick ups, sedan vehicles, computers, printers, telephones, photocopiers, scanners, TVs, chicken incubators (for SEDUC), office furniture and other office equipment.
- (ii) Training. Include courses and workshops for PMU staff, co-executing agencies, services providers and project beneficiaries. Divulcation material is excluded.

(iii) Agreements and contracts for technical services. Include agreements and contracts for the provision of technical assistance services, audits, studies and an agreement with the Secretary of Planning for the project external evaluation.

(iv) Financial funds include:

- a. Farm and Rural Micro Enterprises investment fund: no refundable investments in small farms and family enterprises, including plantations, equipment, productive assets, improvements in infrastructure and other investments directly related to the productive activities to be supported by the project.
- b. Agri-processing Investment Fund: no refundable investments in agro industry, mainly infrastructure and equipment.

(v) Recurrent costs.

- a. Salaries, social security and benefits for extensionists and Local Development Agents (ADL). Excludes salaries for PMU staff and co-executing Agencies.
- b. Operating costs: maintenance of equipment and vehicles, insurances, rentals, and office miscellaneous. Exclude gasoline, oil and electricity.

2. Retroactive Financing. The Loan shall retroactively finance up to USD 300 000 for the following maximum amounts by category of expenditures incurred for eligible expenditures as of 1st of May 2010:

Category I: Equipment and Vehicles: up to USD 170 000

Category II: Training: up to USD 50 000

Category III: Agreements and Contracts for Technical Services: up to USD 50 000

Category V (b): Operating costs: up to USD 30 000

GUARANTEE AGREEMENT

[Loan Number: _____]

Project Title: Semi-Arid Sustainable Development Project in the State of Piauí (Viva o Semi-Árido) (the "Project") ("*Programa de Desenvolvimento Sustentável do Semi-Árido – Viva o Semi-Árido no Estado do Piauí*").

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

and

The Federative Republic of Brazil (the "Guarantor")

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

hereby agree as follows:

Section A

1. The following documents collectively constitute an integral part of this Agreement: this document, the Project Financing Agreement (the "Financing Agreement") of even date herewith between the Fund and The State of Piauí of the Federative Republic of Brazil (the "Borrower"), and the Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions"). For the purposes of this Agreement the terms defined in the General Conditions and the Financing Agreement have the respective meanings set forth therein.

2. By the Financing Agreement the Fund has agreed to extend to the Borrower a loan of twelve million seven-hundred-seventy thousand and nine-hundred and three Special Drawings Rights (SDR 12 770 903) on the terms and conditions set forth in the Financing Agreement, but only on condition that the Guarantor agrees to guarantee the payment obligations of the Borrower in respect of such Loan as provided in this Agreement;

3. The Guarantor, in consideration of the Fund's entering into the Financing Agreement with the Borrower, has agreed so to guarantee such payment obligations of the Borrower, and agrees to remain fully bound until full payment of such obligations, provided that the borrower has previously obtained approval of the Guarantor to any modifications or amendments to the "Financing Agreement".

4. The Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and the payment of interest and other charges on, the Loan due under the Financing Agreement.

Section B

1. In the event of default by the borrower, the Fund shall not be required to exhaust its remedies as against the borrower prior to enforcing its rights against the guarantor.

Section C

1. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

<p>For the Fund:</p> <p>The President of IFAD International Fund for Agricultural Development Via Paolo di Dono 44 00142 Rome, Italy</p>	<p>For the Guarantor:</p> <p>Procurador da Fazenda Nacional Procuradoria Geral da Fazenda Nacional, Ministerio da Fazenda Esplanada dos Ministerios, Bloco P, 8° Andar, 70048-900 Brasilia DF, Brasil, Fax (55-61) 3412-1740</p>
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This agreement, dated _____, has been prepared in the (English) language in six (6) original copies, three (3) for the Fund and three (3) for the Guarantor.

For the Fund
(insert name and title)

For the Guarantor
(insert name and title)

Key reference documents

Country reference documents

Strategic State Development Plan 2008-11 of the State of Piauí

Sustainable Rural Development Territorial Plans of the State of Piauí

Carta Consulta approved by the Federative Government of Brazil: *Programa de Desenvolvimento Sustentavel do Piauí: Viva o Semi-Arido*. May 2008.

IFAD reference documents

Project design document and key files

Results-based COSOP 2008

Administrative Procedures on Environmental Assessment

Logical framework

Narrative	Indicators (RIMS indicators in italics)	Means of Verification	Assumptions and Risks
<p>Goal Poor rural households living in semi-arid region of Piauí reduced poverty levels</p>	<ul style="list-style-type: none"> 20% of households with improvements in household assets ownership index 10% reduction in the prevalence of child malnutrition, by gender (h/a, w/a, w/h)* 	<ul style="list-style-type: none"> Project Baseline Survey Mid-term/final results and impact evaluation National statistical data (IBGE) 	
<p>General objective Poor rural households living in semi-arid region of Piauí sustainably improved their income, employment opportunities and productive assets</p>	<p>22000 poor rural households directly benefited from project services</p> <ul style="list-style-type: none"> At least 75% of beneficiary households increase their average farm and off-farm income by 20% 18% annual increase in volumes and sales of marketed products supported by the project At least 33% increase in net revenues of the small agricultural and non-agricultural businesses 80% small-scale agricultural and non-agricultural businesses supported by the project operate profitably after three years 7 100 new jobs created by the economic activities supported by the project Rural extension institutions are able to attend the 22000 beneficiary households At least 5 systematized development experiences are replicated and/or up-scaled 	<ul style="list-style-type: none"> Project Baseline Survey Mid-term/final results and impact evaluation National statistical data (IBGE) Specific studies of economic local activities Systematization of experiences/case studies Beneficiaries' participatory evaluations Local business register SETRE employment information system Policy and strategy documents produced 	<ul style="list-style-type: none"> Droughts Access to land and regularisation of tenancy continue to be facilitated by Government policies Basic and social infrastructure would continue to be provided by the GOB Targeted markets stable and likely to absorb incremental production
Component 1: Productive development			
<p>Output 1. Beneficiary small producers supported to strengthen their organizations to improve their access to markets and participation in value chain</p> <p>Output 2. Beneficiary small producers access to technical assistance and financial resources to improve their agricultural and non-agricultural production</p>	<ul style="list-style-type: none"> At least 500 producers' organizations strengthened or created 22000 producers (40% are women) trained in agricultural and non agricultural production techniques (disaggregated by production and gender) 18 000 producers received technical assistance and financial resources for individual productive investments (US\$15.6 million) 8 500 producers received technical assistance and financial resources (US\$2.6 million) to create 112 agroprocessing plants 1000 small-scale non-agricultural businesses (handcrafts) received technical assistance and financial resources investments 3 3000 women benefited by the small-scale agricultural (2800) and non-agricultural businesses (500) 18 000 producers have access to financial services for short-term credit from PRONAF or other financial institutions (US\$2.8 million) 21 extensionists and 326 local development agent operational 3 apex bodies supported to strengthen their own technical assistance and extension system 	<ul style="list-style-type: none"> Mid-term and final evaluation Project's MIS and AWPB Technical partners' reports and M&E system Surveys to producers' organizations Beneficiaries' participatory evaluations 	<ul style="list-style-type: none"> Droughts Present policies to rehabilitate public extension services maintained Access to land and regularisation of tenancy continue to be facilitated by Government policies Targeted markets stable and likely to absorb incremental production
Component 2. Human and social development			
<p>Output 3. Young people, especially children, have access to specific knowledge related to semi-arid environment</p> <p>Output 4. Beneficiaries, especially young people, benefited from technical qualification for better insertion in labour market</p>	<ul style="list-style-type: none"> 1500 teachers trained with and applying specific semiarid-related knowledge 12000 children in 100 rural schools attended with actions of diffusion and production of semi-arid adapted technologies and knowledge 64 orchards ("Sistema PAIS") set up in 64 rural schools 300 youngsters (50% are women) received research scholarships to produce semi-arid adapted technologies and knowledge related to value chains 980 youngsters received scholarships to study in agro-technical schools 960 youngsters trained and selected to incubate small rural businesses 3500 people receiving vocational training (50% are women) Communication activities on productive, technical and social issues are undertaken 1 Worker Support Centre set up 	<ul style="list-style-type: none"> Mid-term and final evaluation Project's MIS and AWPB Technical partners' reports and M&E system Systematization and case studies reports Beneficiaries' evaluations 	<ul style="list-style-type: none"> Changes in Government might imply staff turn-over Lack of experience of present CCSA technical teams
Component 3. Institutional strengthening			
<p>Output 5. Rural institutions supported to strengthen their capacities regarding provision of technical assistance and implementation of rural development policies in the semi-arid region</p>	<ul style="list-style-type: none"> 100 government official and staff trained in participative methodologies for identification, formulation and supporting associative productive projects The institutions involved in project execution implement participative methodologies for identification, formulation and supporting associative productive projects 4 thematic and/or consortiums fostered 6 consortiums workshops organized 16 development experiences are systematized 9 case studies are undertaken 	<ul style="list-style-type: none"> Project's MIS and AWPB Technical partners' reports and M&E system Systematization and case studies reports Beneficiaries' participatory evaluations 	<ul style="list-style-type: none"> Local governance and fostering of local participation policies and legislation would be maintained
Component 3. Project management, monitoring and evaluation			
<p>Output 6. Effective project management unit established and operational</p>	<ul style="list-style-type: none"> Each Regional Office is composed by 2 technicians from CCSA, 2 from EMATER, 1 from SETRE and 1 from SEDUC Supervision mission rate project technical and financial management as satisfactory 70% of interventions/activities effectively implemented as planned in AWPB 50% of project staff are women Project MIS and M&E system operational (baseline survey, RIMS, participatory evaluations, etc) 	<ul style="list-style-type: none"> Project's MIS and AWPB Audit reports Supervision reports Technical partners' reports and M&E system 	<ul style="list-style-type: none"> Lack of experience of present CCSA technical teams Changes in Government might imply staff turn-over