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Enabling poor rural people
to overcome poverty

President's report

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

Carirí and Seridó Sustainable Development Project (PROCASE)

Executive Board — Ninety-eighth Session
Rome, 15-17 December 2009

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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Abbreviations and acronyms

EMATER	State Technical Assistance and Extension Services Enterprise
EMEPA-PB	Paraíba State Agricultural Research Enterprise
PMU	project management unit
PRONAF	National Programme for the Strengthening of Family Agriculture
SECTMA	Secretariat of Science, Technology and Environment
SEDAP	Secretariat of Agricultural Development and Fisheries
SETDE	Secretariat of Tourism and Economic Development

Recommendation for approval

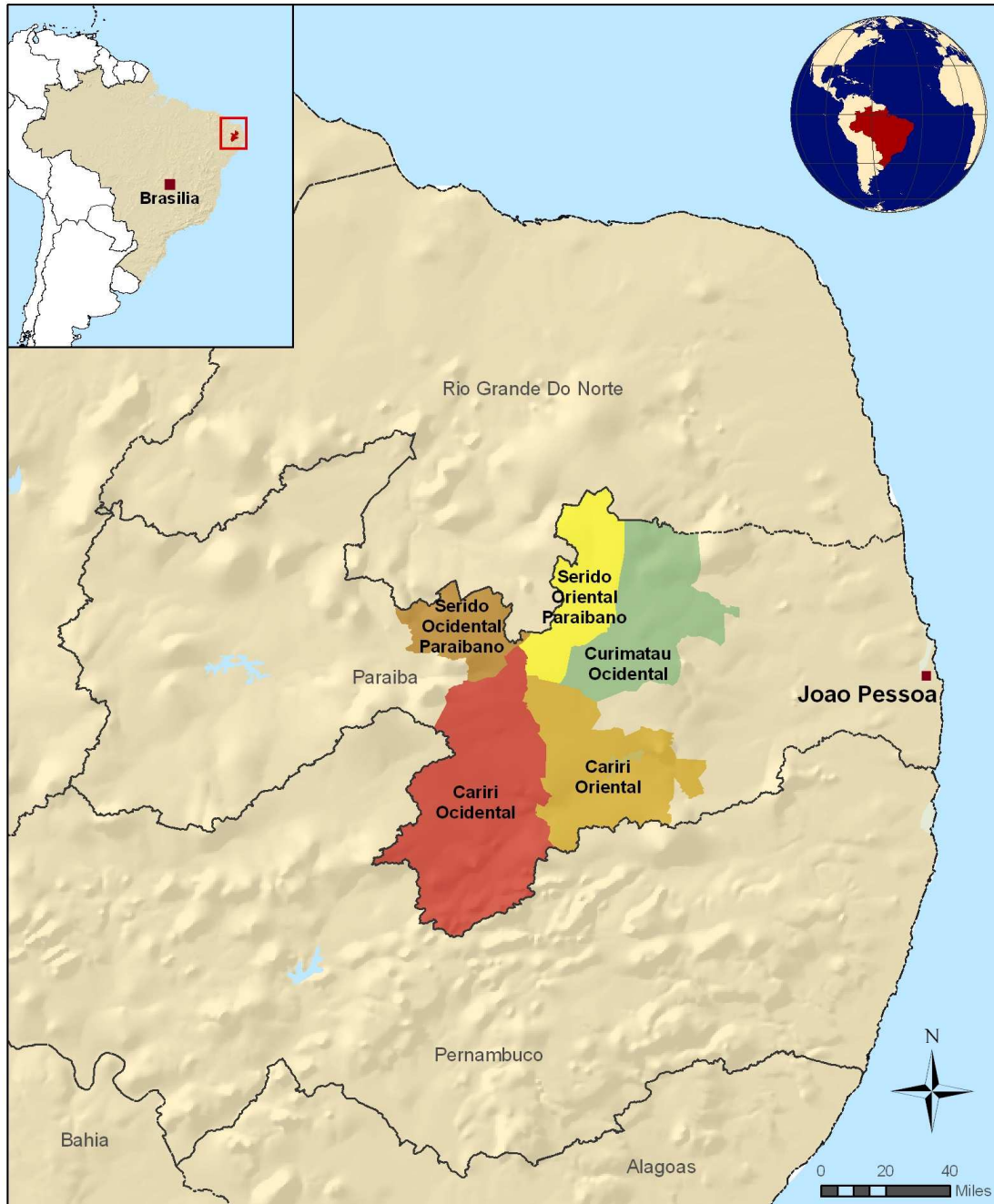
The Executive Board is invited to approve the recommendation for the proposed financing to the State of Paraíba of the Federative Republic of Brazil for the Cariri and Seridó Sustainable Development Project (PROCASE), as contained in paragraph 38.

Map of the project area

Brazil

Cariri and Seridó Sustainable Development Project (PROCASE)

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.

Map compiled by IFAD

State of Paraíba of the Federative Republic of Brazil

Cariri and Seridó Sustainable Development Project (PROCASE)

Financing summary

Initiating institution:	IFAD
Borrower:	State of Paraíba of the Federative Republic of Brazil
Executing agency:	Secretariat of Agricultural Development and Fisheries
Total project cost:	US\$49.69 million
Amount of IFAD loan:	SDR 15.55 million (equivalent to approximately US\$25 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\$15.50 million
Contribution of beneficiaries:	US\$9.19 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Proposed loan to the State of Paraíba of the Federative Republic of Brazil for the Carirí and Seridó Sustainable Development Project (PROCASE)

I. The project

A. Main development opportunity addressed by the project

1. The rationale behind this project in Paraíba's semi-arid region is the following: (i) the high incidence of rural poverty; (ii) the region's underexploited economic potential; (iii) the insufficient development of market-oriented rural businesses over the last two decades as a result of the prioritizing of social infrastructure; and (iv) serious environmental problems. The project is therefore designed to exploit the region's economic potential to develop sustainable employment and income opportunities for the target group. Production-oriented interventions will be aligned with improvements to natural resource management and complemented by the development of human and social capital.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide a loan to the State of Paraíba of the Federative Republic of Brazil in the amount of SDR 15.55 million (equivalent to approximately US\$25 million) on ordinary terms to help finance the Carirí and Seridó Sustainable Development Project (PROCASE). 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 Paraíba is managed under the strict financial policy of the Federal Government of Brazil. The federal government authorized the State Government of Paraíba to borrow US\$25.0 million from IFAD and expressed its intention to sign a guarantee agreement. The State of Paraíba 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 Paraíba and channelled to the executing and coexecuting agency. Applications for withdrawals from the IFAD loan will be made by the person/s designated by the state government.

Supervision arrangements

6. The project will be directly supervised by IFAD.

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

7. No exceptions are foreseen.

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 IFAD guidelines; (ii) direct supervision and implementation support by IFAD; and (iii) transparent mechanisms for allocating financial resources to beneficiaries, including safeguards against elite capture.

C. Target group and participation

Target group

9. The project's target population consists of approximately 28,000 poor rural households, including 25,000 poor small farmers and 3,000 landless rural households dedicated to handicrafts, small-scale mining and other activities. Of these, around 11,000 rural households are living in conditions of extreme poverty.

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. Emphasis will be placed on the adoption of appropriate measures to effectively reach disadvantaged groups such as women, youth and Afro-descendants. The targeting strategy will adopt complementary mechanisms depending on the activities: (i) a demand-led approach through self-targeting; (ii) supply-led approach through a selective targeting process based on eligibility criteria; and (iii) inclusive targeting.

Participation

11. The participation of project beneficiaries is foreseen through several mechanisms: (i) participatory identification and formulation of productive projects; (ii) self-evaluations by beneficiaries; (iii) involvement of poor producers' representatives in the project steering committee; and (iv) progressive involvement of beneficiary representatives in planning and evaluation workshops.

D. Development objectives

Key project objectives

12. The project's overall goal is to contribute to the development of the rural economy and to reduce the extreme poverty levels of the rural population – men, women and youth – living in the semi-arid region of Paraíba. The purpose of the project is to improve, in a sustainable manner, farm and off-farm incomes, employment opportunities, productive assets, organizational capacities and environmental practices of project beneficiaries in Paraíba's semi-arid region.
13. Specific objectives are to: (i) develop human and social capital; (ii) improve smallholder production and support their market competitiveness; (iii) combat desertification and promote sustainable management of the *caatinga* biome;¹ and (iv) strengthen the institutional framework and extension system in the project area.

Policy and institutional objectives

14. 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 principle is to focus on strengthening existing public agencies and producers' organizations in order to ensure institutional sustainability.

IFAD policy and strategy alignment

15. The project's objectives and approach are aligned with IFAD policies and the Strategic Framework 2007-2010. The project is fully consistent with the current country strategic opportunities programme, as its core features include: (i) a focus on the semi-arid area; (ii) a target group composed of poor rural farm and non-farm producers and workers, with special attention to women, youth and Afro-descendants; (iii) the development of farm and off-farm income and employment opportunities; (iv) a natural resources management component that complements the productive development; and (v) knowledge management related to coexistence in semi-arid conditions.

¹ *Caatinga* is a dry forest biome of north-eastern Brazil, characterized by xeric shrubland and thorn vegetation, primarily small, thorny trees that shed their leaves seasonally.

E. Harmonization and alignment

Alignment with national priorities

16. The objectives of the project are fully in line with those of the State of Paraíba's Multi-year Plan 2008-2011. The plan reflects the strong commitment of the state government to the reduction of rural poverty, coexistence with the semi-arid conditions, mitigation of the desertification process, and the sustainable use of natural resources.

Harmonization with development partners

17. The proposed project is designed to coordinate its activities, directly or indirectly, with almost all the major development players currently operating in the State of Paraíba. These include, among others, federal government programmes such as the National Programme for the Strengthening of Family Agriculture (PRONAF) and the World Bank-funded Paraíba Rural Poverty Reduction Project (COOPERAR).

F. Components and expenditure categories

Main components

18. The project has five components: (i) social and human development (5.1 per cent of base cost); (ii) productive development and competitive market insertion (80.5 per cent); (iii) sustainable management of natural resources (6.5 per cent); (iv) institutional development (2 per cent); and (v) the project management unit (5.9 per cent).

Expenditure categories

19. There are six expenditure categories: (i) investment funds (62 per cent of base cost); (ii) equipment and vehicles (2 per cent); (iii) training (11 per cent); (iv) agreements and contracts for technical services (4 per cent); (v) salaries (16 per cent); and (vi) operating costs (4 per cent).

G. Management, implementation responsibilities and partnerships

Key implementing partners

20. The executing agency will be the Secretariat of Agricultural Development and Fisheries (SEDAP), while the co-executing agencies will be (i) the State Technical Assistance and Extension Services Enterprise (EMATER); (ii) the Paraíba State Agricultural Research Enterprise (EMEPA-PB); (iii) the Secretariat of Tourism and Economic Development (SETDE); and (iv) the Secretariat of Science, Technology and Environment (SECTMA).
21. The project will establish a project steering committee chaired by the Secretary of SEDAP and composed of representatives of relevant secretariats, rural poor producers, territorial forums and civil society organizations.

Implementation responsibilities

22. As executing agency, SEDAP will set up a project management unit (PMU) that will be responsible for operation planning and monitoring, establishing and monitoring agreements with coexecuting agencies, transferring resources and preparing periodic reports. The PMU will decentralize project management through six EMATER regional offices, where the technical teams will be strengthened and will include staff from each coexecuting agency.
23. The Steering Committee will be responsible for reviewing and approving the annual workplan and budget and official reports to be sent to IFAD and to governmental authorities. The committee will also intervene in strategic decisions for project implementation.

Role of technical assistance

24. To ensure proper identification of economic opportunities and efficient implementation of the business plans, the project will strengthen the existing technical assistance and extension system. Partnerships will also be promoted among public extension and research agencies, private organizations and producers' organizations by means of existing private networks and systems and the provision of support to the public extension system.

Status of key implementation agreements

25. SEDAP will establish agreements with the coexecuting agencies EMATER, EMEPA-PB, SETDE and SECTMA, which will receive resources to implement project activities in their respective operational areas. Results-based agreements and/or contracts will also be established with other agencies and institutions such as universities, producers' organizations and civil society organizations.

Key financing partners and amounts committed

26. The total project cost is US\$49.69 million over six years. The sources of financing are IFAD (50.3 per cent), the State of Paraíba (24.3 per cent), PRONAF (7 per cent) and the beneficiaries (18.4 per cent).

H. Benefits and economic and financial justification

Main categories of benefits generated

27. Preliminary estimates show that about 18,500 poor rural households will benefit directly from the project as follows: (i) 14,000 small producers (family farmers, small-scale miners and artisans) through the productive development and competitive market insertion component; (ii) 500 producers through the sustainable management of natural resources component; and (iii) 4,000 rural young people through the social and human development component. Additionally, 10,000 pupils will participate in educational activities dealing with coexistence in semi-arid conditions. It is estimated that approximately 7,800 women will directly benefit from the productive development and technical education activities.

Economic and financial viability

28. Ten systems representing farm and non-farm activities have been developed in line with the agroecological characteristics and economic potential of the project area, and the project is expected to have a significant impact on the productivity of these systems. On this basis, the economic rate of return has been estimated at 21.5 per cent, while the net present value has been estimated at US\$68.3 million at the opportunity costs of capital of 4.2 per cent.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

29. The project will develop a knowledge management and communication strategy, as it holds potential for knowledge-sharing and networking at the state and regional level. It will promote exchange among IFAD operations, projects funded by other donors, national programmes, regional institutions and other relevant stakeholders, especially in the semi-arid area. The PMU will conduct specific knowledge-sharing activities and project staff based in local offices will facilitate the flow of information to producers' organizations and other local stakeholders.

Development innovations that the project will promote

30. The project has several innovative features: (i) priority is given to the development of women and young people's ability to access labour markets and/or develop rural businesses; (ii) the emphasis on promotion of rural productive activities linked to markets instead of prioritizing social and basic infrastructure; (iii) allocation of funds for natural resource conservation and combating desertification; (iv) use of knowledge management and monitoring and evaluation systems as tools for knowledge dissemination; and (v) the combination of technical assistance, investment financing on a grant basis and existing short-term credit facilities for rural business development.

Scaling up approach

31. The project will phase in its interventions and progressively adapt and scale up its operations according to the results achieved. The proposed project approach has the potential to be replicated and scaled up in other territories of the State of Paraíba, and in

other states with similar potential and constraints. Particular attention will be paid to promoting knowledge-sharing activities with other IFAD-funded projects.

J. Main risks

Main risks and mitigation measures

32. The project will face three main risks related to climatic, market and institutional issues. The planned mitigation measures include: (i) technical assistance and investments for the management of water resources; (ii) the design of business plans, including market assessment, before investment, and the strengthening of the marketing capacities of producers' organizations; (iii) IFAD direct supervision, adequate training of the PMU and coexecuting agency staff; and (iv) legal instruments with adequate provisions to ensure that the designation of staff and eventual replacement are undertaken to IFAD's satisfaction.

Environmental classification

33. 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

34. Post-project sustainability will be ensured by the following elements: (i) the existing institutional framework, which is strongly committed to the development of semi-arid areas; (ii) the project has been designed to serve as a complementary tool for existing policies and programmes, which will continue to be implemented by permanent public and private organizations after project closure; (iii) the development of autonomous grass-roots associations; and (iv) the strong commitment of the federal and state governments to reducing rural poverty and supporting family agriculture, which should ensure the availability of resources in the medium and long term.

II. Legal instruments and authority

35. A project financing agreement between the State of Paraíba 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 instruments for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is not tabled at this session. The Board is requested to approve the project proposal for the State of Paraíba of the Federative Republic of Brazil subject to the completion of the negotiations of the financing agreement within six months of the Executive Board's approval. A copy of the negotiated financing agreement will be tabled at a future session, as well as any substantive changes to the terms presented to the Board.
36. The State of Paraíba 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.
37. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

III. Recommendation

38. 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 Paraíba of the Federative Republic of Brazil in an amount equivalent to fifteen million five hundred and fifty thousand special drawing rights (SDR 15,550,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Key reference documents

Country reference documents

Carta Consulta approved by the Federative Government of Brazil: *Projeto de Desenvolvimento do Cariri e Seridó: PROCASE*. May 2008.

Government of Paraíba: Multi-year Plan 2008-2011

Caprinocultura, estudio previo proyecto Paraíba, Sep-08

IFAD reference documents

Project design document and key files

Results-based COSOP 2008

Administrative Procedures on Environmental Assessment

Logical framework

Narrative	Indicators (RIMS in italics)	Means of verification	Assumptions and Risks
<p>Goal Rural economy of Paraiba's semi-arid region developed and poor rural households reduced their 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)* • Gross Domestic Product of Paraiba's semi-arid region grew by 5% 	<ul style="list-style-type: none"> • Project Baseline Survey • Mid-term and final results and impact evaluation • National statistical data (IBGE) 	
<p>Purpose Project beneficiaries in Paraiba's semi-arid region sustainably improved their farm and off-farm income, productive assets, organizational capacities and environmental practices</p>	<p>18 500 households directly benefited from project services</p> <ul style="list-style-type: none"> • 75% of beneficiary households increased both average farm and off-farm income by 20% • 10% annual increase in volumes and values of marketed products supported by the project, by product • 80 % of agricultural and non agricultural businesses operate profitably after three years • 4 300 jobs created by the economic activities supported by the project • Rural extension institutions are able to attend 15 200 rural poor families • 225 hectares of caatinga under good NRM practices • At least 80% of the producers' organizations supported by the project participate in territorial forums and councils 	<ul style="list-style-type: none"> • Local business register • Project Baseline Survey • Mid-term and final evaluation • Project's Management Information System • Co-executing agencies' reports • Systematizations of experiences • Specific studies on local economic activities • Participative beneficiaries' evaluations • National statistical data (IBGE) • Labour information system 	<ul style="list-style-type: none"> • Droughts • Land access and tenancy facilitated by GOB • Social infrastructure continue to be provided by the GOB • Targeted markets absorb incremental production • Policies to strengthen public extension services maintained • Land access problems
Component 1. Human and social development			
<p>Output 1. Youngsters, men and women, benefited from technical and entrepreneurship education for better insertion in labour market and to develop businesses</p>	<ul style="list-style-type: none"> • 4 000 rural poor youngsters jovens (50% of women) receive fellowship (US\$ 400 each) to attend technical and entrepreneurship training • 1 200 youngsters (50% of women) benefited from US\$ 400 fellowship to design business plan • 80% of the youngsters who designed business plans have access to financing sources to implement their project 	<ul style="list-style-type: none"> • Mid-term and final evaluation • Project's MIS • Co-executing agencies' reports • Participative beneficiaries' evaluations 	<ul style="list-style-type: none"> • SECTMA does not establish the necessary partnerships to implement the program • Technical education programs inadequate to labour market demand
Component 2: Productive development			
<p>Output 2. Rural poor producers supported to improve their organizational capacities, design and implement productive projects and improve their access to markets</p> <p>Output 3. Small producers access to technical assistance and financial resources to improve agricultural and no-agricultural production</p>	<ul style="list-style-type: none"> • 11 600 farmers, 1 400 small miners and 1 000 artisans, organized in at least 54 associations and cooperatives, benefited from training and technical assistance on organizational strengthening • Producers' associations and cooperatives develop at least 2 second-tier cooperatives to provide marketing and technical assistance services to their members • 14 000 small producers (40% of women and 20% of women heading households) trained in agricultural and non agricultural production techniques (disaggregated by production and gender) • 32 extension officers supervise 200 local development agents (50% of women) • USD 25.8 million from the Productive Investment Fund are allocated to 11 200 small producers through the Business Plans, by production • 11 200 small producers receive USD 3.25 million to finance short-term credit (including PRONAF) • 36 agricultural and non agricultural businesses supported for better insertion in the markets • At least 700 women artisans receive technical assistance and financial resources to develop their businesses 	<ul style="list-style-type: none"> • Mid-term and final evaluation • Specific studies of local economic activities • Project's (MIS) and AWPB • Technical partners' reports • Systematizations of experiences • Beneficiaries' evaluations 	<ul style="list-style-type: none"> • Local participation policies maintained • Droughts • Co-operative mismanagement • Grassland expansion in caatinga • Negative impacts of mining industries • Land access and tenancy facilitated by GOB • Policies to strengthen public extension services maintained • Targeted markets absorb incremental production
Component 3. Natural resources management and mitigation of desertification			
<p>Output 4. Sustainable management of natural resources promoted, including techniques and knowledge to mitigate desertification process</p>	<ul style="list-style-type: none"> • 450 producers trained and financed to establish 450 agro-forestry systems and 30 demo units • A pilot system for payments for environmental services to small producers set up • At least 80% extension officers and local development agents trained in natural resources management techniques (50% of women) • 150 school teachers trained in natural resources management techniques attending 10 000 pupils (50% of women) 	<ul style="list-style-type: none"> • Mid-term and final evaluation • Specific studies on NRM • Project's (MIS) and AWPB • Technical partners' reports • Systematizations of experiences • Beneficiaries' evaluations 	<ul style="list-style-type: none"> • Droughts • Land access and tenancy facilitated by GOB • Present policies to strengthen public extension services maintained
Component 4. 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"> • Staff of project partner agencies, representatives from municipal councils and producers' organizations attend 27 training events on territorial planning, rural development and participative local governance • 5 successful development experiences systematized • 6 consortiums workshops organized • 50 small producers' representatives trained on rural development issues (50% of women) 	<ul style="list-style-type: none"> • Mid-term and final evaluation • Project's (MIS) and AWPB • Systematizations of experiences and case studies • Policy and strategy documents produced • Beneficiaries' evaluations 	<ul style="list-style-type: none"> • Local governance and local participation policies and legislation maintained
Component 5. Project management, monitoring and evaluation			
<p>Output 6. Effective project management unit established and operational</p>	<ul style="list-style-type: none"> • 3 regional offices are set-up and composed by staff from EMATER, SETDE and SECTMA • Supervision mission rate project technical and financial management as satisfactory • At least 70% of interventions/activities effectively implemented as planned in AWPB • At least 40% 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 • Audit reports • Supervision reports • Technical partners' reports and M&E system • Project AWPB 	<ul style="list-style-type: none"> • Changes in Government might imply staff turn-over • The PMU is adequately trained to implement the project

