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Enabling poor rural people
to overcome poverty

**State of Piauí of the Federative
Republic of Brazil**

**Semi-arid Sustainable Development
Project in the State of Piauí
(Viva o Semi-árido)**

Information note

Executive Board — Ninety-ninth Session
Rome, 21-22 April 2010

For: **Information**

Note to Executive Board members

This document is submitted for the information of the Executive Board.

To make the best use of time available at Executive Board sessions, representatives are invited to contact the following focal points with any technical questions about this document before the session:

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Semi-arid Sustainable Development Project in the State of Piauí (Viva o Semiárido)

1. In September 2009, the Executive Board considered the project proposal contained in document EB 2009/97/R.23/Rev.1 and adopted 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 eight hundred thousand special drawing rights (SDR 12.8 million) and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.
2. The Executive Board approved the loan to the State of Piauí of the Federative Republic of Brazil, to be guaranteed by the Federative Republic of Brazil, for which negotiations had not been finalized prior to the Board's consideration, subject to the completion of negotiations within six months of Board approval and the condition that any important variations to the terms presented to the ninety-seventh session be brought to the attention of the Board at a future session.
3. Annex I contains modifications to the President's report on the Semi-arid Sustainable Development Project in the State of Piauí (Viva o Semi-Árido) (documents EB 2009/97/R.23/Rev.1 and EB 2009/97/R.23/Add.1). For ease of reference the changes to the text of the report are shown in boldface.
4. In accordance with the Executive Board approval, negotiations were concluded on 11 February 2010 and a copy of the negotiated financing agreement and guarantee agreement are included as annex II.

Modifications to the President's report on the Semi-arid Sustainable Development Project in the State of Piauí (Viva o Semi-Árido)

Title page

The name of the project should read:

"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**)"

Page iii, Recommendation for approval

The paragraph should read:

"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."

Page v

The name of the project should read:

"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**)"

Page v, Financing summary

"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**"

Page 1

The title should read:

"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**)"

Page 1, paragraph 2

The paragraph should read:

"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**."

Page 2, paragraph 7

The paragraph should read:

“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.”

Page 6, paragraph 40

The resolution should read:

“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.”

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
Brasil

Facsimile Number: + (5561) – 2020-5006

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.

A. 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.

B. 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.

C. 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

D. 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)

