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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 31-Oct-2023 | Report No: PIDIA00325

BASIC INFORMATION

A. Basic Project Data



Project Beneficiary(ies) Brazil	Region LATIN AMERICA AND CARIBBEAN	Operation ID P175723	Operation Name Mato Grosso Sustainable Development of Family Farming
Financing Instrument Investment Project Financing (IPF)	Estimated Appraisal Date 24-Jul-2023	Estimated Approval Date 05-Feb-2024	Practice Area (Lead) Agriculture and Food
Borrower(s) State of Mato Grosso	Implementing Agency State Secretary for Family Agriculture (SEAF)		

Proposed Development Objective(s)

To improve the access to markets, climate resilience, and land and environmental management of selected family farmers in the State of Mato Grosso and in case of an Eligible Crisis or Emergency, respond promptly and effectively to it.

Components

- Component 1: Climate-smart economic inclusion
- Component 3: Project management and coordination
- Component 2: Improved land and environmental management
- Component 4: Contingency Emergency Response Component

PROJECT FINANCING DATA (US\$, Millions)**Maximizing Finance for Development**

Is this an MFD-Enabling Project (MFD-EP)?

Is this project Private Capital Enabling (PCE)?

SUMMARY

Total Operation Cost	100.00
Total Financing	100.00
of which IBRD/IDA	80.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**



International Bank for Reconstruction and Development (IBRD)	80.00
Non-World Bank Group Financing	
Counterpart Funding	20.00
Borrower/Recipient	20.00

Environmental And Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

- Brazil’s economy continues to recover, with Gross Domestic Product (GDP) growing at 2.9 percent in 2022, propelled by a successful COVID-19 vaccination campaign, rising demand for services, and fiscal stimulus.** The labor market improved through 2022, including for women and youth, as unemployment fell to 7.9 percent by December 2022 (down from a peak of 11.1 percent in December 2021). Persistent inflation (5.6 percent as of February 2023) has prompted the tightening of monetary policy rate (13.75 percent as of February 2023) to anchor 2023-24 inflation expectations. Improved revenues, gradual economic recovery and elevated prices of commodities boosted fiscal results in 2022, with the 12-month primary surplus of the public sector reaching 1.2 percent of GDP and public debt declining to 72.9 percent of GDP as of January 2023 (a 5.4 percentage point reduction).
- With the economic recovery, poverty is expected to have gone down from 28.4 percent in 2021 to 25 percent in 2022, responding to increased job opportunities and expansion of the *Bolsa Família* cash transfer program.** A real increase in the minimum wages combined with a major overhaul of the *Bolsa Família* and a planned introduction of additional benefits to families with children are expected to drive poverty down to 23.9 percent in 2023. Further reduction may occur as the economy recovers but despite the social gains of earlier decades, poverty and disparities remain prominent in the lives of many Brazilians in the absence of stronger investments in human capital among the less well-off.
- Brazil faces significant climate change impacts compounded by deforestation and land degradation.** Climate change is altering temperature and rainfall patterns in the country, resulting in reduced water availability and extended droughts, and could push another 800,000 to 3 million Brazilians into extreme



poverty as soon as 2030. Continued deforestation in the Amazon and Cerrado biomes remains a matter of urgency, as it has increased land-use emissions, which are the main source of greenhouse gas (GHG) emissions in Brazil. Strengthening resilience to climate change and protection of natural assets, especially the fragile ecosystems of the Amazon and Cerrado, is essential for environmentally sustainable economic growth.

4. The Brazilian State of Mato Grosso plays a significant role in the national economy of Brazil. Mato Grosso, located in the Central Western part of the country, is Brazil's third largest State by area (903,357 km²) and home to about 3.6 million people (1.7 percent of the Brazilian population in 2021). In 2020, Mato Grosso's GDP growth was stable (0.1 percent year-on-year) compared with the sharp drops in 26 states plus the Federal District related to the pandemic. While Mato Grosso contributed only 2.3 percent to the national GDP in 2020, it contributed 13.5 percent of the national agriculture GDP; within Mato Grosso, agriculture accounted for 25.7 percent of State GDP in 2020. The State's GDP-per-capita (as of 2020) is the third highest among all Brazilian states at BRL 50,663.

5. However, poverty and inequality within Mato Grosso persist. Despite Mato Grosso's high GDP-per-capita, income inequalities remain a challenge in the State. Rural areas in Mato Grosso record poverty levels nearly four times those of urban areas (27 percent versus 7 percent, respectively).¹ More than 50 percent of the State's Gross Value Added (GVA) is concentrated in only 20 of its 141 municipalities (Plano Estadual da Agricultura Familiar - PEAFT MT, 2017). Income is concentrated in those municipalities which produce export commodities, notably in the Cerrado biome. Indigenous Peoples, *Quilombolas*, and other Traditional Peoples and Communities ("PIQCT" per the Brazilian acronym) are highly present in poorer rural areas of Mato Grosso, which contain 87 Indigenous Lands (belonging to more than 44,000 indigenous peoples of different ethnicities), and 71 *Quilombola* communities.

Sectoral and Institutional Context

6. Mato Grosso is a critical agricultural production and agribusiness hub for Brazil. Brazil is a major agricultural producer and global food exporter, among the world's leaders in the production of soybeans, poultry, beef, cotton, corn, and orange juice. Altogether the agriculture sector (including livestock) accounts for about 8.4 percent of the country's GDP, 16.2 percent of total employment, and 40 percent of total exports.² Within Brazil, Mato Grosso is the number one State producer of cereals, legumes and oilseeds, accounting for 28 percent of national output of these products in 2019 (CONAB, 2019). Soybeans and corn (largely for cattle feed) produced in Mato Grosso make up more than 90 percent of national output and utilized more than 15 million hectares for their production in the 2019/2020 harvest. Mato Grosso also leads the country in beef production with 1.2 million tons in 2018, and accounts for a significant share of national sugarcane and cotton production (IMEA, 2018). Altogether, Mato Grosso is the country's largest agriculture exporter, reaching US\$ 16.6 billion in exports in 2019 or 17.3 percent of the total national agricultural exports (MDIC, 2019).

7. Mato Grosso's agriculture sector is tightly linked to national efforts to manage natural resources and reduce deforestation, which has increased in recent years. Mato Grosso is unique due to its coverage of three important ecological biomes: Amazon (rainforest), Cerrado (savannah) and Pantanal (wetland). The natural resources contained in these biomes provide water cycling, pollination, habitats, and other critical ecosystem

¹ PNUD Brasil 2013, Ipea e Fundação João Pinheiro. <http://www.atlasbrasil.org.br/2013>.

² World Bank Group. 2016. *Brazil Systematic Country Diagnostic*.



services throughout the country. These ecosystem services are at the same time critical inputs to agricultural production, and thus underpin the local rural economy as a direct source of income and employment in the food and agriculture sector.³ Agriculture is also a historic driver of deforestation, which – mirroring national trends – decreased in Mato Grosso from 11.8 thousand Km² in 2004 to 757 Km² in 2012 (a 94 percent reduction) but then increased to 2.3 thousand Km² in 2021 (a 199 percent increase compared to 2012). Mato Grosso also has the second largest cumulative deforestation rate among Legal Amazon States, with a total of 150.2 thousand Km² since 1988, just below the State of Pará with 166.6 thousand Km².⁴

8. The States' agriculture sector is also both vulnerable to climate change and a significant contributor to greenhouse gas (GHG) emissions. Studies on the agriculture and livestock sectors in Mato Grosso estimate that the State will experience increasing temperatures and decreasing precipitation over the next few decades.⁵ Forest fires also pose a serious threat to agricultural production in Mato Grosso, jeopardizing the State's natural capital base and forest-dependent – often PIQCT – livelihoods. At the same time, agriculture is also a significant contributor to greenhouse gas emissions. At the national level, Brazil's agriculture sector (including livestock) accounts for slightly more than one third of total national GHG emissions. When combined with land-use change and forestry – largely driven by agriculture – the sector accounts for over 60 percent.⁶ Given its leading role in the national agriculture sector and deforestation rates (see above paragraph), Mato Grosso is a significant contributor to such national agriculture sector emissions.

9. While agriculture and agribusiness in Mato Grosso are major providers of incomes and economic growth in the State, these benefits are concentrated in a limited number of municipalities that produce export commodities. Agribusiness and primary production make up 50.5 percent of Mato Grosso's GDP, generating considerable foreign exchange and underpinning its economy. However, Mato Grosso's family farms confront significant inequalities in capturing economic and other livelihood benefits from the sector. In Brazil, "family farms" are defined according to Brazil's Farming Law (Law 11.326/2006).⁷ Mato Grosso is estimated to contain 81,635 such family farms, which make up at minimum 69 percent of the total farms in the State, and likely more (IBGE, 2017). Family farmers operate in more than 15 production chains, with milk, cassava, fruit, honey, rubber, coffee, annatto, black pepper, handicrafts, and ecotourism among the most prominent. PIQCTs make up an estimated 1.1 percent of family farming populations as evidenced by records under Federal Law No. 2006 of Indigenous lands, quilombola communities, and other designations such as Conservation Units that are beneficiaries of family farming public policies. Altogether, municipalities with low Gross Value Added (GVA) are also those where primarily family farmers, including PIQCTs, reside.

³ World Bank Group. 2016. *Brazil Systematic Country Diagnostic*.

⁴ [PRODES – INPE](#).

⁵ Existing and Future Climate Vulnerability for the Production of Soy, Corn, Cotton, and Beef in the State of Mato Grosso; EIRELI-ME, 2020.

⁶ According to SEEG, in 2020, Brazil's net GHG emissions were of 1.525 GtCO₂e. Agriculture and livestock emitted a net 577 MtCO₂e (or 38 percent of total GHG emissions), while land-use change and forest sector emitted 362 MtCO₂e (combined, the sectors accounted for 61 percent of the total GHG emissions). https://plataforma.seeg.eco.br/total_emission. The latest official data available from the MCTIC's SIRENE in 2016 provides similar results (<https://www.gov.br/mcti/pt-br/acompanhe-o-mcti/sirene/emissoes/emissoes-de-gee-por-setor-1>).

⁷ Law 11.326 (2006) defines family farmers as follows: (i) does not have under any tenure regime an area of more than four fiscal modules; (ii) predominantly relies on its own family labor; (iii) household income predominantly originates in the family farm; and (iv) family members operate the farm.



10. Family farming populations suffer from lack of inclusion in the agriculture sector due to myriad socio-economic challenges, contributing to their vulnerability to climate change. According to data from the 2017 Agricultural Census for Family Agriculture, family farms utilize basic agricultural technologies at considerably low rates. Underlying these low rates is a limited access to inputs, technical assistance, and credit. Inefficient processes for the land and environmental regularization of their lands aggravates these problems, as many family farmers are unable to comply with the administrative demands of the financial and commercial systems (including difficulties in offering guarantees to financiers). As a result, family farmers are largely uncompetitive vis-à-vis the markets and often not linked to economic, productive, or commercial organizations such as cooperatives and associations. As a consequence of these hindering factors, family farmers are unable to adopt more sustainable and climate resilient practices, making them particularly vulnerable to the increasing impacts of climate change in Mato Grosso.

11. Within the family farming populations, the leadership roles of women in family farming are particularly constrained. The large majority of family farms in Brazil are run by men (86 percent), despite both male and female family farmers having similar levels of formal education and experience (Helfand et al. 2015). Mato Grosso shows similar numbers, with an estimated 82 percent of farms run by men (IBGE 2017). Women-run family farms in Mato Grosso are around 30 percent smaller in size than male-run family farms, and account for only 13.5 percent of family farming area in the State. Women family farmers also have less access than men to agricultural extension, opportunities to participate in technical meetings and seminars, productive assets, producer associations, and markets. Female family farmers are accordingly overrepresented among lower income groups, including family farmers earning less than BRL 23,000 (approximately 4,500 USD) annually (62 percent of women family farmers, versus 48 percent of men) and subsistence farmers (36 percent of women family farmers, versus 26 percent of men) (IBGE 2017). These data show that women family farmers face worse conditions than men, even with the most economically vulnerable groups.

12. Family farmers also operate in a fragile base of natural resources, with agricultural expansion and unsustainable practices driving forest loss and jeopardizing the natural resources that underpin their agricultural production. According to the State's estimates, while family farms are generally characterized by a relatively favorable environmental performance, they are still responsible for an estimated 20 percent of total deforestation in the State. In Mato Grosso, with the support from the World Bank's Development Policy Lending (P164588) disbursed in 2020, the State has significantly strengthened its capacity to combat deforestation and forest fires as prior actions included the enactment of a decree reestablishing the State's Plan for Prevention and Control of Deforestation and Forest Fires (PPCDIF/MT). The decree included several measures that enabled early warning systems and swift response.⁸ However, due to poor coordination among federal agencies, the State's measures have proven insufficient to properly address the size of the challenge. Given that commodity price increases are rekindling conflicts over land and natural resources, especially in

⁸ The new plan provided for (i) the creation of an integrated monitoring center (the first of its kind in Brazil) to monitor and control legal and illegal deforestation, timber extraction, the quality of water, air, and soil, and all the information regarding the licensing process for investments with environmental impact; (ii) replacement of the existing obsolete satellite monitoring system through the adoption of a state-of-the-art satellite system, in coordination with the National Institute for Spatial Research (INPE), providing information within 48 hours; (iii) training and capacity building of key operational partners, such as the Brazilian Institute of the Environment and Renewable Natural Resources (Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis – IBAMA), Polícia Militar Ambiental and Delegacia de Meio Ambiente, and (iv) confiscation of machinery from deforested areas, preventing them to be reused in other areas.



Brazil's Amazon and Cerrado biomes, the country might face challenges in reducing deforestation to meet its climate and environmental commitments.

13. Critically, the ability of family farmers to improve the resilience and sustainability of their production is hindered by the costs and labor required to comply with the Forest Code. Brazil's Native Vegetation Protection Law, known as the Brazilian Forest Code, obliges landholders to register their landholdings in the Rural Environmental Cadaster (Cadastro Ambiental Rural – CAR), to maintain a percentage of private rural landholdings as native vegetation (Legal Reserves – Reservas Legais), and to maintain Areas of Permanent Preservation (Áreas de Preservação Permanente, APPs) with minimum conservation standards. However, on-farm compliance with the Forest Code depends significantly on regularization services provided by Land Administration institutes (from the executive and judiciary government branches) at State or Federal levels and the Secretariat for the Environment of each State. In the context of Mato Grosso, farmers without land titling by the State Land Administration Institute (INTERMAT) and subsequent registration in the Forest Code compliance system of the State Secretariat for Environment (SEMA) (*Sistema Mato-Grossense de Cadastro Ambiental Rural – SIMCAR*⁹) are not permitted to access public rural development programs, including credit programs such as the National Plan for Family Farming (*Programa Nacional de Fortalecimento da Agricultura Familiar – PRONAF*). Family farmers without this access to public support policies and programs are less able to invest in the on-farm improvements that would enable compliance with the Forest Code and maximize the environmental and climate benefits of their production.

14. Family farmer compliance with the Forest Code is further hindered by inefficiencies, lack of resources, and poor coordination among the State's land and environmental regularization processes. Inefficiencies and lack of resources within INTERMAT cause delays in the regularization of State-owned Settlements. In addition, inefficient legal processes and coordination among judicial and executive powers constrains processes to resolve conflicts over land rights. Moreover, inefficiencies in the SIMCAR can leave administrative processes pending for long periods, especially for the Settlements which contain large concentrations of family farmers and small properties. Critically, surveys by the State Research, Assistance and Rural Extension Company of Mato Grosso (EMPAER) show that even family farmers who are titled and registered in the SIMCAR often lack the technical knowledge and capacity to comply with the Forest Code requirements in a way that also generates net financial benefits for their family farming livelihoods. This acts as a further deterrent to land and environmental regularization in the State.

15. Looking forward, leadership among younger generations of family farmers is limited as youth migrate to urban areas, constraining the survival over time of investments in on-farm innovations that would improve the resilience and sustainability of family farming. The percentage of Brazil's population living in rural areas has shown a steady decline since the 1970s, with steeper declines for individuals under 29 years of age (IBGE, 2010). The resulting lack of succession in rural areas can create uncertainty regarding the survival of agricultural businesses and activities, potentially disincentivizing investment in sustainable production models with longer term payoffs. Younger farmers have been shown to be more likely to adopt conservationist agricultural practices in particular, given the long time periods over which the investments are realized (Kassie

⁹ The Mato Grosso Rural Environmental Cadaster (*Sistema Mato-Grossense de Cadastro Ambiental Rural – SIMCAR*), adopted in 2017, aims at verifying whether properties comply with the Brazilian Forest Code. Following validation of property information by the State Secretariat for the Environment (SEMA) and if an environmental liability is detected, properties can enter a process of environmental regularization which entails a Terms of Conduct Adjustment (TAC) with the State Public Prosecutor (*Ministério Público do Estado*).



et al., 2009). Literature has also shown that older farmers tend to be more resistant to the adoption of innovations, including in sustainable models of agriculture production, in the first place (Leonard et al. 2017). As the probability of non-succession appears to be related to the possibility of greater income in urban centers, increased leadership opportunities for youth in family farming is an important pathway toward addressing Mato Grosso's agri-environmental challenges.

16. Mato Grosso has committed to an ambitious agenda for addressing these challenges, as shown by a strong framework of strategies, policies, and plans that aim to invest in family farming in a manner that is environmentally sustainable, climate-smart, and inclusive. Key among these are the 2015 Produce, Conserve and Include Strategy (PCI), the State's 2018 Action Plan for the Prevention and Control of Deforestation and Forest Fires (PPCDIF MT), and the State's 2017 Policy for Sustainable Rural Development of Family Agriculture and Plan for Family Agriculture of Mato Grosso (PEAF MT). The PCI Strategy aims to increase production while reducing deforestation, improving forest management, and reducing rural poverty and inequality. The PPCDIF MT aims to reduce deforestation and forest fires in the State through command-and-control actions, territorial planning, and the promotion of sustainable activities. Finally, the PEAf MT establishes priorities and action strategies for the Government, civil society, and the private sector for the sustainable development of family farming in Mato Grosso.

17. This high-level policy framework in support to family farming has not yet been translated into investments. Building on the priorities set out in the PCI, PPCDIF/MT, and PEAf MT, the proposed project will invest in the development of family farming in a manner that helps to address the sustainability, climate change, and family farmer inclusion challenges facing Mato Grosso. This approach will complement other projects such as the Mato Grosso Fiscal Adjustment and Environmental Sustainability Development Policy Loan (P164588), which presents measures that focus primarily on the environmental issue of the large-scale agricultural sector (i.e. the 'Produce' and 'Conserve' axes of the PCI Strategy); the proposed project will focus on the 'Inclusion' axis as well, catalyzing investments that increase agriculture sector benefits for family farming populations while improving their sustainability and resilience to climate change.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To improve market access, climate resilience, and land and environmental management of selected family farmers in the State of Mato Grosso and in case of an Eligible Crisis or Emergency, respond promptly and effectively to it.

Key Results

- Increase in gross value of sales by family farmers participating in approved subprojects (Percentage; disaggregated by PIQCT, women, youth)
- Family farmers (members of supported organizations) adopting climate-smart agricultural practices and technologies (Number; disaggregated by PIQCT, women, youth; to be included as CRI "Farmers adopting improved agricultural technology")
- Family farmers (members of supported organizations) benefited with improved environmental and land regularization services (Number; disaggregated by gender and PIQCT).



D. Project Description

18. **Strategic approach.** The proposed operation is an Investment Project Financing (IPF) with a total project cost of US\$100.0 million to be implemented over a six-year period. The total financing consists in an IBRD loan of US\$80.0 million and counterpart funding from the State of Mato Grosso in the amount of US\$20.0 million.

19. **Geographic focus.** The project's geographic and beneficiary targeting approach resulted in the identification of 61 municipalities as eligible for project support for business plans under component 1. Under component 2, 35 of the State Settlements in Mato Grosso will be eligible for project support to improve land regularization and 11,000 families will benefit from environmental regularization.

20. **Beneficiaries.** The direct project beneficiaries are an estimated **15,000** family farmers and their respective POs participating under project components 1 and 2. These 15,000 direct beneficiaries include an estimated 9,000 participating under component 1 and an estimated 12,900 family farmers participating under component 2; an estimated 6,900 beneficiaries are expected to participate under both components.

21. **Component 1 – Climate-smart economic inclusion: USD 61.0 million (USD 60.0 million IBRD, USD 1.0 million Government of Mato Grosso).** The purpose of component 1 is to support the climate resilience of family farmers in Mato Grosso and improve their market linkages to sustain resilient production models over time. Support under this component will be provided through an adaptation of the “productive alliance” model¹⁰ that aims to increase the adoption of climate-smart agriculture (CSA) practices and technologies in the context of family farmers in Mato Grosso and the climate challenges and market opportunities they face. Under this productive alliance approach, selected producer organizations (POs) will participate in pre-investment activities (subcomponent 1.1) to develop business plans for the adoption of CSA practices and technologies under “CSA Family Farming Business Plans,” benefitting an estimated 9,000 family farmers and PIQCTs. The component will then provide matching grants (through Subproject Agreements) to support the implementation of approved CSA Family Farming Business Plans (subcomponent 1.2).

22. To enhance inclusion under this component, the project will finance two grant windows with different conditions tailored to the needs of POs with different levels of organization, business experience, and preparedness for commercial activities: “Commercial” family farming POs (formal, well-structured, and experienced POs and members with active and regular activity in formal markets) and “Emerging” family farming POs (formal POs and members with technical potential to achieve a considerable surplus production, but with surplus production currently deficient due to low productivity, poor organization and management, or deficient production quality standards). In addition, to support the inclusion of historically marginalized groups, minimum percentages of subprojects both led by and with overall participation by PIQCTs, women, and youth will be targeted across the windows.

¹⁰ The productive alliance model traditionally refers to a business relationship (alliance) between a group of producers, technical assistance provider, commercial financial institution, and identified market or buyer. These parties enter into a joint business plan to meet a market demand while improving productivity, value addition, market position, and sales on a benefit-sharing basis. The participation of buyers is critical to the productive alliance model, as buyers provide the market linkages and may continue to do so after project support has ceased. The WB has successfully implemented the productive alliances model in several agricultural operations across the LAC region ([link](#)).



23. Component 2 – Improved land and environmental management: USD 19.0 million (USD 13.0 million IBRD; USD 6.0 million Government of Mato Grosso). The purpose of component 2 is to increase the generation of environmental benefits, including for climate resilience and mitigation, of family farming in Mato Grosso. This will be achieved through investments in land and environmental management that (i) address key institutional barriers for family farmers to finance on-farm investments in climate-resilient models of production such as those promoted under component 1 as well as compliance with the Forest Code (subcomponent 2.1), and (ii) strengthen the monitoring and control of carbon-emitting forest fires and forest degradation and deforestation in family farming areas and PIQCT communities (subcomponent 2.2). Key expected outcomes from this component are 12,900 family farmers and PIQCTs benefitting from improved interinstitutional coordination among the Secretariat of Family Agriculture (SEAF), the Mato Grosso Secretariat for the Environment (SEMA), the Land Institute of Mato Grosso (INTERMAT), and the Mato Grosso General Comptroller of Justice Office (*Corregedoria-Geral da Justiça de Mato Grosso – CGJ*)¹¹ to deliver land and environmental services. These services in turn enable family farmers to access public finance, which many require in order to adopt practices to reduce the incidence of forest fires and prevent forest degradation and deforestation in family farming areas and PIQCT communities.

24. Component 3 – Project management and coordination: USD 20.0 million (USD 7.0 million IBRD, USD 13.0 million Government of Mato Grosso). The objective of this component is to provide the PMU with the conditions and information necessary for the effective management and coordination of the project. The component will finance: (i) project management and coordination with partner institutions; (ii) diagnostics to support components 1 and 2;¹² (iii) project monitoring and evaluation (M&E) and impact assessment of project activities; (iv) fiduciary implementation and external audits; (v) environmental and social risk/safeguards oversight and management; (vi) the design and implementation of a project communication strategy and stakeholder engagement strategy, including the Stakeholder Engagement Plan (SEP), Grievance Redress Mechanism (GRM), and beneficiary satisfaction survey; and (vii) improvement of existing information systems and geo-referencing tools including the SEAF Social Indicator System (e-SIEAF) and the Unified State System of Family and Small-Sized Agroindustrial Health ([SUSAF](#)). Specifically, this component will finance goods, training, operational costs, and consulting and non-consulting services.

25. Component 4 – Contingency Emergency Response Component (CERC): US\$ 0.0 million. This component will provide for an immediate response to an Eligible Crisis or Emergency, as needed. In the event of such an emergency (as defined in the Contingency Emergency Response Operational Manual to be prepared and adopted by the Government of Mato Grosso), this component will finance eligible emergency activities and expenditures through the reallocation of funds from the project.

¹¹ The Mato Grosso General Comptroller of Justice Office (CGJ) regulates and inspects the notarial offices (cartórios), used for land registration, and mediates potential land conflicts.

¹² Diagnostics will include for example studies to identify bottlenecks and opportunities for addressing climate change challenges on farm as well as in processing, marketing, and the level of the PO and pilots to geo-reference intervention areas and measure impacts on carbon stocks of project interventions.



Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

1. The environmental risk rating of the project is Moderate, but the social risk rating is Substantial.
2. The project will support the adoption of climate-smart technologies and measures focusing on climate mitigation and adaptation as well as the improvement of production processes and value addition throughout key value chains, through the development of diagnostics and matching grants for investment subprojects (potentially including minor on-farm infrastructure; plantations; energy, soil, water, vegetation and biodiversity conservation measures; provision and utilization of inputs, equipment and tools; and off-farm infrastructure for storage, processing and packaging) to be further detailed during project preparation. The main environmental risks are associated to these subproject interventions in family farms, which may cause limited, temporary and reversible environmental impacts such as erosion, pollution and contamination of soil and/or water from waste and chemicals. To reduce or mitigate these risks, screening criteria for subproject selection were developed and included in the draft ESMF and the project will implement and monitor preventive and mitigation measures identified and described in the project’s ESMF and integrated in procurement documents and approved subproject proposals.
3. Another environmental risk is that support provided to improve production might result in the expansion of production areas over natural habitats, increasing deforestation and environmental degradation. To prevent this risk, the project will provide agronomic technical assistance and capacity building which shall integrate the environmental sustainability measures identified in the ESMF, as well as provide advice on environmental compliance with the national Forest Code. When appropriate, the project may also provide advice to family farmers on the process to obtain environmental certification, generation and sale of carbon credits, or payment for environmental services to access carbon markets, which require the maintenance and/or recuperation of natural areas and can also assist in mitigating this risk.
4. On the social side, the Project is expected to generate positive social and economic benefits to family agriculture and, particularly, the poor small landholders located in areas of low economic dynamism, Indigenous Peoples, Quilombolas and other Traditional Communities in the context of Covid-19 recovery, contributing to reduce rural poverty and avoid rural-urban migration. Project interventions are expected to enhance productivity, increase production and income, and expand the resilience and the coping capacity of these disadvantaged and vulnerable social groups in face of the adverse effects exacerbated by Covid-19 and climate change on their livelihoods, food security and well-being.
5. Nevertheless, four main risks are envisaged: The Project will be intervening within Indigenous Lands and other traditional communities that may have visions of their well-being and aspirations that are distinct from mainstream groups in the national society. Therefore, it needs to ensure proper processes of consultation, engagement and benefit sharing for these Indigenous Peoples, quilombolas and traditional communities as far as the goal of reducing their economic marginalization needs to be adequately balanced with the full respect for their rights, identity, culture, traditional knowledge about the geographically distinct habitats they



are collectively attached to and their natural resource-based livelihoods. Measures are being incorporated in project design to allow them to have an opportunity to adapt to changing conditions and to benefit from Project activities in a manner and a timeframe acceptable to them. This risk will be minimized by the Borrower's full commitment to carry out consultation and engagement processes in culturally appropriate manners to build informed consensus and broad support as a requisite for Project interventions.

6. There is the potential initial reluctance of impoverished small landholders to adopt the new productive technologies and practices and to commit with the recovery of degraded areas as they require behavioral changes. To reduce or mitigate such risks, the Project will provide technical assistance and offer capacity building training and develop a robust communication and awareness raising strategy. There is also a potential risk of exclusion of female small landholders/producers from the financing of micro-grants, the environmental and land regularization interventions and the capacity building and the technical assistance activities because of cultural norms, traditional gender-based roles and discrimination. The project social impacts assessment addresses these issues and the Project's draft ESMF includes a Gender Action Plan aiming to ensure women's views are considered and that women take part in and benefit from Project interventions. As some project activities may be implemented in remote areas, project workers may be exposed to health and safety risks, which were also assessed as part of the draft ESMF. Measures to ensure occupational health and safety were defined in the Project's Labor Management Procedures (LMP). SEA/SH risks (both with regards to female project workers and female members of beneficiary communities) are assessed as being low or moderate. The Project's LMP includes strict measures aimed at preventing and avoiding such risks.

E. Implementation

Institutional and Implementation Arrangements

7. The State of Mato Grosso will be the Borrower for the loan, with the Federative Republic of Brazil serving as the Guarantor. The Secretariat of Family Agriculture (Secretaria Estadual de Agricultura Familiar – SEAF) will be the project implementing agency. SEAF will have the overall responsibility for the implementation of the project, including ensuring that sufficient counterpart resources to implement the project are foreseen in Mato Grosso's budget. A Project Management Unit (PMU) will be established within SEAF. The PMU will be responsible for the management and coordination of project activities including all of the project's fiduciary, safeguards, and monitoring and evaluation aspects, at both central and field levels. The PMU will also be responsible for project communications and stakeholder engagement.

8. Three institutions will assist SEAF to carry out specific project activities under component 2: the Land Institute of Mato Grosso (INTERMAT), the Mato Grosso General Comptroller of Justice Office (CGJ), and the Mato Grosso State Secretariat for the Environment (SEMA). Once the project is effective, SEAF will enter into Cooperation Agreements with INTERMAT, CGJ, and SEMA. The Cooperation Agreements will set out the obligations of each institution to assist in carrying out their respective project activities.

9. SEAF will also recruit **Fundação Uniselva**¹³ as a procurement agent, under a Procurement Agent Agreement, to assist in hiring staff for the PMU and partner institutions and to provide technical assistance and small-scale procurement services for subprojects. The fiduciary capacity of Fundação Uniselva was

¹³ Fundação Uniselva is a non-profit private law entity, created by Law No. 8.958/94, with the objective to provide executive, administrative and financial management support to public entities to execute their projects.



assessed during project appraisal as acceptable to the Bank. The Fundação Uniselva contract will be financed with the counterpart funds of Mato Grosso.

10. Inter-agency coordination and oversight will be facilitated by a project Consultative Committee comprised of representatives of SEAF, INTERMAT, CGJ, SEMA, EMPAER, PCI, the Governor's Office (Casa Civil), and SEFAZ. Component 1 will be furthermore supported by a Subproject Evaluation Committee.

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