Public Disclosure Authorized

Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 28-Jul-2022 | Report No: PIDC34155

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Brazil	P175723		Mato Grosso Sustainable Development of Family Farming (P175723)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
LATIN AMERICA AND CARIBBEAN	Feb 06, 2023	May 29, 2023	Agriculture and Food
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Mato Grosso State Department of Finance (SEFAZ MT)	State of Mato Grosso	

Proposed Development Objective(s)

Increase the access to markets and climate resilience of selected family farmers and improve land and environmental management in the State of Mato Grosso.

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project 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	Concept Review Decision
Substantial	Track II-The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **While Brazil successfully mitigated the impacts of the pandemic on the poor, poverty rates rose again in 2021 and are projected to remain at similar levels through 2023.** Virus containment measures, across the world and domestically, constituted simultaneous global supply and demand shocks, leading to a contraction of the Brazilian economy by 3.9 percent in 2020. However, the roll-out and subsequent acceleration of the vaccination campaign are contributing to the normalization of daily life and economic activity. Still, poverty is estimated to have risen to about 18.7 percent in 2021.

2. **Growth in Gross Domestic Product (GDP) is expected to slow in 2022 as high inflation, monetary tightening and indebtedness diminish consumer purchasing power – in particular for food commodities in the context of the Russia-Ukraine Crisis (RUC) – and limit the available credit in the economy.** GDP is expected to grow moderately to 0.7 percent in 2022 and mildly accelerate until 2024 on the back of easing inflation and reduced uncertainty post-elections. Persistent inflationary pressures (12.1 percent in April 2022), high interest rates (12.75 percent as of May 2022), two-digit unemployment rate (11.1 percent in March 2022), the erosion of the confidence on the federal spending rule and the potential fuel tax cuts, are translating into higher risk premiums and increasing the domestic financing costs for the government and the private sector.

3. **While the State of Mato Grosso plays a significant role in the national economy of Brazil, inequalities in income and other livelihood benefits within the state persist.** While Mato Grosso is home to only about 3.4 million people (1.6 percent of the Brazilian population), its GDP-per-capita (as of 2016) is the fourth highest among all Brazilian states at US$10,700. However, inequality in income and other livelihood benefits remains a significant challenge, with rural areas recording poverty levels nearly four times those of urban areas (27 percent versus 7 percent, respectively).[1] Indigenous Peoples, quilombolas, and other Traditional Peoples and Communities ("PIPCT" per the Brazilian acronym) are also highly present in Mato Grosso, which contains 87 records of Indigenous lands (belonging to more than 44,000 indigenous peoples of different ethnicities), and 71 remaining quilombo communities (in addition to other Traditional Peoples and Communities).

Sectoral and Institutional Context

4. **The food and agriculture sector plays a critical role in the Brazilian economy.** 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] Brazil is among the world's leaders in the production of soybeans, poultry, beef, cotton, corn, and orange juice, being the third biggest exporter of agro-food products after the European Union and the United

[1] PNUD Brasil 2013, Ipea e Fundação João Pinheiro. http://www.atlasbrasil.org.br/2013.
[2] World Bank Group. 2016. *Brazil Systematic Country Diagnostic*.

States. Two-thirds of the total value of agricultural production are crop products, and one-third livestock products. The main product in Brazilian exports is soybeans (grain, meal, and oil), which represent almost 50 percent of the agro-food exports.

5. **The Brazilian State of Mato Grosso is a critical agricultural production and agribusiness hub for Brazil.** Agribusiness and primary production make up 50.5% and 20.1% of the State's GDP, respectively, generating considerable foreign exchange and boosting the state economy. Mato Grosso is the largest national producer of cereals, legumes and oilseeds, accounting for 28% of national output of these products in 2019 (CONAB, 2019). Soybeans and corn (largely for cattle feed) make up more than 90% of this 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 of output 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% of the total national agricultural exports (MDIC, 2019).

6. **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 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[4] – decreased in Mato Grosso from 11.8 thousand Km^2 in 2004 to 757 Km^2 in 2012 (a 94% reduction) but then increased to 2.3 thousand Km^2 in 2021 (a 199% increase compared to 2012)[5].

7. **The States's agriculture sector is also both vulnerable to climate change and a significant contributor to GHG emissions and deforestation**. 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.[6] Forest fires also pose a serious threat to agricultural production in Mato Gross, threatening the State's natural capital base and forest-dependent – often PIPCT – 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 greenhouse gas emissions (GHGs). When combined with land-use change and forestry – largely driven by agriculture, the sector accounts for over 60 percent.[7]

8. **While agriculture and agribusiness in Mato Grosso are major providers of incomes and economic growth in the State, family farmers – including PIPCTs engaged in agriculture – confront significant inequalities in capturing economic and other livelihood benefits from the sector.** In Brazil, "family farms" ("AF" per the Brazilian acronym)

[3] World Bank Group. 2016. *Brazil Systematic Country Diagnostic.*
[4] Deforestation in Brazil has picked up considerably in the past years, reverting significant gains in the previous decade. Deforestation in the Legal Amazon region reduced dramatically from its peak of 27.8 thousand Km^2 in 2004 to 4.6 thousand Km^2 in 2012 (a 84% reduction). Since then, annual deforestation rates constantly increased, reaching 13.2 thousand Km^2 in 2021 (a 190% increase compared to 2012).
[5] In the 9 municipalities in Mato Grosso with the largest areas deforested, the rates of deforestation increased. Almost all of these municipalities were in the Amazon. According to MAPBIOMAS (2021), the area deforested in these nine municipalities increased from 64,106 to 76,544 ha, or from 32% to 43% of total deforestation in Mato Grosso.
[6] Existing and Future Climate Vulnerability for the Production of Soy, Corn, Cotton, and Beef in the State of Mato Grosso; EIRELI-ME, 2020.
[7] According to SEEG, in 2020, Brazil's net GHG emissions were of 1.525 $GtCO_2e$. Agriculture and livestock emitted a net 577 $MtCO_2e$ (or 38% of total GHG emissions), while land-use change and forest sector emitted 362 $MtCO_2e$ (combined, the sectors accounted for 61% 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).

are those farms that fulfill four criteria as set out in Brazil's Farming Law (Law 11.326/2006).[8] The State of Mato Grosso is home to 81,635 such family farms[9], which make up 69% of the total farms in the State (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. PIPCTs are also highly present among family farming populations as evidenced by records under Federal Law No. 2006 of Indigenous lands, quilombolo communities, and other designations such as Conservation Unites that are beneficiaries of family farming public policies.

9. **AF/PIPCT 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, the use of basic agricultural technologies, such as limestone application, fertilization and irrigation were carried out in only 11%, 24% and 4% of family farms, respectively. Underlying these low rates is a limited access to inputs, technical assistance, and credit. Only 15 percent of family farms in Mato Grosso are estimated to practice mechanized agriculture (tractor and implements), only 13 percent receive technical assistance services (IBGE, 2017), and only 16 percent access rural credit (with lower percentages characterizing PIPCTs). Lack of 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.[10] As result, AF/PIPCT are largely uncompetitive vis-à-vis the markets and many are unable to adopt more sustainable and climate resilient practices, making them particularly vulnerable to the increasing impacts of climate change in Mato Grosso.

10. **The ability of AF/PIPCTs to improve the sustainability and climate-smartness of their production is hindered by challenging requirements to comply with environmental legislation.** Brazil's Native Vegetation Protection Law (Law No. 12.651/2012), known as the Brazilian Forest Code[11], mandates minimum conservation standards for private landholdings. This represents a cornerstone of Brazil's approach to promote climate change mitigation and adaptation through its agriculture, forest, and land use sector. However, for many family farmers to develop a sustainable agriculture system and comply with the Forest Code, they need to invest. At the same time, access to credit is limited because they do not comply.

11. **The State of Mato Grosso has committed to an ambitious agenda for addressing these challenges, but this high-level policy framework remains to be translated into investments that addresses the nexus of inclusion, sustainability, and climate challenges in its agriculture sector**. Mato Grosso has 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 the State Plan for Family Agriculture of Mato Grosso (PEAF MT). Building on the priorities set out in the PCI, PPCDIF MT, and PEAF MT, the proposed project will invest in the

[8] 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.

[9] Total family farmers are estimated at a larger number, about 104,000. However, the State officials adopt official numbers from IBGE.

[10] Including the difficulties in offering guarantees to financiers.

[11] The Brazilian Forest Code (Law 12.651 of 2012) requires that all private rural landholdings maintain a percentage of native vegetation as Legal Reserves (Reservas Legais, RLs), and that Areas of Permanent Preservation (Áreas de Preservação Permanente, APPs), such as riparian forests along watercourses, steep slopes, mountaintops, etc., also be maintained by landholders. The Forest Code also obliges landholders to register their landholdings in the Rural Environmental Cadaster (Cadastro Ambiental Rural – CAR). This registry contains details on the total area of individual farms, the areas earmarked for alternative land use, APPs and RLs. The percentage to be held as natural vegetation varies from 80 percent in the Amazon biome to 35 percent in the Cerrado biome within the 9 States that make up the "Legal Amazon", to 20 percent in the rest of Brazil. The enforcement of the "Forest Code" establishes economic and financial instruments to achieve these objectives.

development of family farming in a manner that helps to address the sustainability, climate change, and AF/PIPCT inclusion challenges facing the State.

Relationship to CPF

12. **The proposed project is fully aligned with the government's vision and conforms with Focus Areas 2 and 3 of the World Bank Group's Country Partnership Framework (CPF) for Brazil FY18–FY23** (Report no. 113259-BR, discussed by the Executive Directors on July 13, 2017). Under CPF Focus Area 2 (Private Sector Investment and Productivity Growth), the project aims to reduce financial market distortions to improve resources allocation and producers credit access by empowering their organizations to meet market requirement and reducing risks and costs associated to their businesses. Under CPF Focus Area 3 (Inclusive and Sustainable Development), the proposed project aims to promote socioeconomic development of poor rural producers and vulnerable groups through investments that contribute to improved climate resilient agricultural production, environmental compliance, and management and market access of local agrobusinesses.

C. Proposed Development Objective(s)

The proposed Project Development Objective (PDO) is to improve access to climate-smart, sustainable practices and contribute to the economic inclusion of family farmers in the State of Mato Grosso.

Key Results (From PCN)

13. The achievement of the project development objective would be measured through the following proposed indicators:

(a) Increase in gross value of sales (in real terms) by family farmers participating in approved subprojects (Percentage; disaggregated by gender and PIPCT)
(b) Family farmers (members of supported organizations) adopting improved, climate-smart agricultural practices and technologies (Number, CRI – adjusted wording to be reflected in the indicator description; disaggregated by gender and PIPCT)
(c) Family farmers benefited with improved environmental and land regularization processes (Number; disaggregated by gender and PIPCT).

D. Concept Description

14. **Strategic approach.** The proposed operation is an Investment Project Financing (IPF) of US$80.0 million to be implemented over a six-year period.[12] The total project cost is estimated to be US$100.0 million, including US$20.0 million of counterpart funding from the State of Mato Grosso. The proposed project will contribute to improving access to climate-smart, sustainable practices and improving the economic inclusion of family farmers in the State of Mato Grosso. The project will be implemented through four components consisting in a mix of well-targeted technical assistance, tailored financial support to producer organizations (PO)s, and improved public services. The proposed project will benefit from the prior experience of the World Bank in Brazil and from lessons learned from operations with a similar nature elsewhere.

Component 1 – Support for sustainable, climate-smart, and inclusive family farming and market access (USD 48.0 million IBRD)

[12] To be aligned with Carta Consulta

15. The purpose of Component 1 is to support sustainable, climate-smart, and inclusive family farming initiatives ("subprojects") in key agricultural value chains for family farmers. Through implementation of these subprojects, family farmers and their organizations will at the same time improve their (i) assets for on-farm and downstream production, (ii) knowledge and experience about climate-smart, sustainable production systems, (iii) market intelligence and capacity to reach, negotiate, and place products in formal markets, and (iv) organizational and management capacity, and ability to access formal financial services.

Component 2 – Strengthening the enabling environment for sustainable, climate-smart family farming (USD 24.0 million IBRD)

16. Component 2 will contribute to strengthening local and state's operational capacities to improve the management and coverage of environmental and land tenure regularization, as their absence pose as barriers to access financing and public policies. Lack of finance may prevent investments of more sophisticated and intensive agriculture and livestock production methods, naturally leading to land expansion and deforestation. To this end, this Component will, in partnership with other agencies, agents and state secretariats, offer support for improved: (i) prevention and control of deforestation and forest fires, (ii) efficiency of environmental and land regularization of family farming and PIPCT establishments, (iii) coordination between different bodies and secretariats, actions and projects that aim to advance the State's PCI Strategy.

Component 3 - Project Management and Governance (USD 8.0 million IBRD)

17. The objective of this Component is to strengthen the organizational, managerial, knowledge and operational capacity of the State and of the main implementing and partner institutions of the Project, as well as the general management and supervision of the Project. It will provide the project management unit with the preconditions, studies and information necessary for the management, implementation, monitoring and evaluation, of the project, as well as for carrying out inter-institutional coordination and partnerships aimed at its successful execution.

Component 4: Contingency Emergency Response Component (CERC) (US$ 0.0 million)

18. This component will provide for an immediate response to eligible emergencies. In the event of such an emergency (as defined in the Contingency Emergency Response Operational Manual to be prepared and adopted by GoMT), this component will finance emergency activities and expenditures through the reallocation of funds from the project.

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

Summary of Screening of Environmental and Social Risks and Impacts

The environmental risk rating of the project is Moderate, but the social risk rating is Substantial.
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.

At this stage, the main environmental risks are associated with 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 would be developed and the project would implement and monitor preventive and mitigation measures to be identified and described in the project´s ESMF and integrated in procurement documents and approved subproject proposals.

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 would provide agronomic technical assistance and capacity building which would 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 obtaining environmental certification, generating and selling carbon credits, or receiving payments for environmental services to access carbon markets, which require the maintenance and/or recuperation of natural areas and would also assist in mitigating this risk.

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 rural poverty reduction and avoided 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. Nevertheless, four main risks are envisaged:

1. 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 need to be 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.
2. 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 these actions require behavioral changes. To reduce or mitigate such risks, the Project would provide technical assistance and offer capacity building training and develop a robust communication and awareness raising strategy.
3. 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 will need to address these issues and the Project’s ESMF shall include a Gender Action Plan aiming to ensure women’s views are considered and that women take part in and benefit from Project interventions.
4. As some project activities may be implemented in remote areas, project workers may be exposed to health and safety

risks, which will also be assessed as part of the ESMF. Measures to ensure occupational health and safety will be 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 will include strict measures aimed at preventing, avoiding and banning such risks.

CONTACT POINT

World Bank

Barbara Cristina Noronha Farinelli, Alexandre Kossoy
Senior Agriculture Economist

Borrower/Client/Recipient

Mato Grosso State Department of Finance (SEFAZ MT)

Implementing Agencies

State of Mato Grosso
Luciano Gomes Ferreira
Superintendente de Agricultura Familiar
lucianoferreira@agriculturafamiliar.mt.gov.br

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Barbara Cristina Noronha Farinelli, Alexandre Kossoy

Approved By

Practice Manager/Manager:		
Country Director:	Paloma Anos Casero	29-Jul-2022