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The World Bank .

Report No: ICR1657

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-73290)

ON A

LOAN IN THE AMOUNT OF
US\$ 35 MILLION

TO THE

STATE OF MINAS GERAIS

FOR A

RURAL POVERTY REDUCTION PROJECT

January 20, 2011

Sustainable Development Department
Brazil Country Management Unit
Latin America and Caribbean Region

CURRENCY EQUIVALENTS
(Exchange Rate Effective July 31, 2010)

Currency Unit =
R\$1.00 = US\$ 0.5693
US\$ 1.00 = R\$ 1.7564

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

BB	Bank of Brazil
BN	Bank of the Northeast
CA	Community Association
CAS	World Bank Country Assistance Strategy
CDD	Community-Driven Development
CMDRS	<i>Conselho Municipal de Desenvolvimento Rural Sustentável/ Sustainable Rural Development Municipal Council</i>
EMATER-MG	Minas Gerais State Company for Technical Assistance and Rural Extension
FUMAC	Municipal Community Scheme
GOB	Federal Government of Brazil
HDI	UN Human Development Index
IBGE	Brazilian Institute for Geography and Statistics
IDENE	<i>Instituto de Desenvolvimento do Norte e Nordeste de Minas Gerais/ Minas Gerais Northern and Northeastern Development Institute</i>
IEF	<i>Instituto Estadual da Floresta /State Forestry Institute</i>
MC	Municipal Council
MIS	Management Information System
NGO	Non-Governmental Organization
NRDP/PAPP	Northeast Rural Development Program
PAC	State Community Scheme
PRONAF	Brazilian Federal Program to Support Family Agriculture
R- NRDP	Reformulated Northeast Rural Development Program
RPAP	Rural Poverty Alleviation Program
RPRP	Rural Poverty Reduction Program
SEBRAE	Brazilian Agency for Micro and Small Enterprise Assistance
SEDVAN	<i>Secretaria de Estado Extraordinário para o Desenvolvimento dos Vales do Jequitinhonha e Mucuri e Norte de Minas Gerais/ Special State Secretariat for Development of the Jequitinhonha/Mucuri Valleys and Northern Minas Gerais</i>
SEPLAG-MG	<i>Secretaria de Estado de Planejamento e Gestão/ Minas Gerais State Secretariat of Planning and Management</i>
SP	Subproject
STU	State Technical Unit

Vice President	: Pamela Cox
Country Director	: Makhtar Diop
Sector Manager	: Ethel Sennhauser
Project Team Leader	: Edward Bresnyan
ICR Team Leader	: Edward Bresnyan

BRAZIL: Rural Poverty Reduction Project – Minas Gerais

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A. Basic Information

Country:	Brazil	Project Name:	Rural Poverty Reduction Project – Minas Gerais
Project ID:	PE-P052256	Loan Number(s):	IBRD-73290
ICR Date:	January 20, 2011	ICR Type:	Core ICR
Lending Instrument:	SIL	Borrower:	State of Minas Gerais
Original Total Commitment:	USD 35 M	Disbursed Amount:	USD 35 M
Revised Amount:	USD 35 M		

Environmental Category: B

Implementing Agencies: Secretariat of Planning and Management (SEPLAN-MG); *Instituto de Desenvolvimento do Norte e Nordeste de Minas Gerais (IDENE)*

B. Key Dates

Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	10/10/2000	Effectiveness:	03/31/2006	03/31/2006
Appraisal:	08/05/2005	Restructuring(s):	10/31/2008	10/31/2008
Approval:	09/06/2005	Mid-term Review:	05/09/2008	05/09/2008
		Closing:	07/31/2010	07/31/2010

C. Ratings Summary**C.1 Performance Rating by ICR**

Outcomes:	Satisfactory
Risk to Development Outcome:	Low
Bank Performance:	Satisfactory
Borrower Performance:	Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

Bank	Ratings	Borrower	Ratings
Quality at Entry:	Satisfactory	Government:	Satisfactory
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Satisfactory
Overall Bank Performance:	Satisfactory	Overall Borrower Performance:	Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators

Implementation Performance	Indicators	QAG Assessments (if any)	Rating
Potential Problem Project at any time (Yes/No):	No	Quality at Entry (QEA):	N/A
Problem Project at any time (Yes/No):	No	Quality of Supervision (QSA):	N/A
DO rating before Closing/Inactive status:	Satisfactory		

D. Sector and Theme Codes

	Original	Actual
Sector Code (as % of total Bank financing)		
General agriculture, fishing and forestry sector	-	65%
Other social services	85%	20%
Power	-	-
Roads and highways	-	-
Sub-national government administration	10%	10%
Central Government administration	5%	5%
Water supply	-	-
Theme Code (as % of total Bank financing)		
Municipal governance and institution building	33%	33%
Participation and civic engagement	17%	17%
Rural markets	17%	33%
Rural services and infrastructure	33%	17%

E. Bank Staff

Positions	At ICR	At Approval
Vice President:	Pamela Cox	Pamela Cox
Country Director:	Makhtar Diop	(Acting) Letitia A. Obeng
Sector Manager:	Ethel Sennhauser	John Redwood
Project Team Leader:	Edward William Bresnyan	Luis O. Coirolo
ICR Team Leader:	Edward William Bresnyan	-
ICR Primary Author:	Túlio Barbosa	-

F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document)

The Project aimed to assist the State of Minas Gerais to reduce high levels of rural poverty by: (a) improving well-being and incomes of the rural poor through better access to basic socio-economic infrastructure and services and support for productive activities, using proven community-driven development (CDD) techniques; (b) increasing the social capital of rural communities to organize collectively to meet own needs; (c) enhancing local governance by greater citizen participation and transparency in decision-making, through creation and strengthening of Community Associations and Municipal Councils; and (d) fostering closer integration of development policies, programs and projects at the local level, by assisting Municipal Councils to extend their role in seeking funding, priority-setting and decision-making over resource allocation, and by assisting government to measure the efficiency and impact of its programs to reduce rural poverty in rural space.

Revised Project Development Objectives (as approved by original approving authority)

The PDO was not revised.

(a) PDO Indicator(s)

(a) FBO Indicator(s)				
Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 : No. of families benefited from subproject (SP) investments.				
Value quantitative or Qualitative)	Zero	93,000	—	93,900
Date achieved	09/07/2005	09/07/2005	-	07/31/2010
Comments (incl. % achievement)	<u>Achieved.</u> Although the number of financed SPs was lower than the original target (1,730 vs. 1,860), the number of beneficiary families was fully attained. The number of families per SP was greater than originally envisaged at appraisal.			
Indicator 2 : Increase in wellbeing and incomes of Project beneficiaries.				
Value quantitative or Qualitative)	Zero	No target	—	Increased wellbeing
Date achieved	09/07/2005	09/07/2005	-	07/31/2010
Comments (incl. % achievement)	<u>Achieved.</u> Improved quality of life was cited by 70% of beneficiaries. Income generation, employment opportunities, improved health/hygiene were cited by 57%, 43% and 70%, respectively. 76% of the beneficiaries noted access to potable water supply.			
Indicator 3 : Increase in social welfare of rural communities.				

Value quantitative or Qualitative)	Zero	No target	-	Social welfare benefits substantial
Date achieved	09/07/2005	09/07/2005	-	07/31/2010
Comments (incl. % achievement)	<u>Achieved.</u> > 70% of families linked increased community social welfare to the financed SPs. Focus groups for 16 SPs cited: (i) improved working conditions; (ii) shorter distances and time saving for women; (iii) income generation opportunities.			
Indicator 4 : Increase in Social Capital Index (SCI) of Municipal Councils (MCs).				
Value quantitative or Qualitative)		No target	-	SCI not measured; strong qualitative evidence for social capital growth among MCs.
Date achieved	09/07/2005	09/07/2005	-	07/31/2010
Comments (incl. % achievement)	<u>Achieved.</u> The majority of CAs perceive the importance of the CMDRSs in finding collective solutions to their problems. The restructured CMDRSs became participatory, deliberative vehicles for the democratic and transparent uptake of public policies.			
Indicator 5 : No. of MCs participating in priority-setting and decision-making on resource allocation of Project and non-Project-funded development activities.				
Value quantitative or Qualitative)	Zero	No target	-	188 (100%)
Date achieved	09/07/2005	09/07/2005	-	07/31/2010
Comments (incl. % achievement)	<u>Achieved.</u> The CMDRSs are a single municipal decision-making body (adjusted to satisfy requirements of the Project in terms of beneficiary representation), dealing with and deciding on demands from small farmers and rural communities.			
Indicator 6 : Increase in total Project and non-Project financing allocated through the MCs.				
				<i>Luz para Todos</i> used the MCs to finance 106,485 rural connections, while PRONAF financed 23,417 investment contracts, amounting to US\$ 618,400 and US\$143,300 respectively.
Value quantitative or Qualitative)	Zero	No target	-	
Date achieved	09/07/2005	09/07/2005	-	07/31/2010

Comments (incl. % achievement) Achieved. IDENE leveraged the MCs to link SPs to others (e.g., electricity, investment capital) provided by *Luz para Todos* and PRONAF, allowing significant, but unmeasured, savings of Bank loan resources and additional financed productive SPs.

Indicator 7 : No. of communities graduated from the program.

Value (quantitative or Qualitative)	Zero	No target	-	Graduation in terms of productive SPs
Date achieved	09/07/2005	09/07/2005	-	07/31/2010
Comments (incl. % achievement)	<u>Achieved.</u> Only 3% of the CAs with productive subprojects had more than one SP financed. Therefore, the concept of graduation of these CAs was observed for the remaining 97%.			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 : Number and type of SPs implemented.				
Value (quantitative or Qualitative)	Zero	1,860	-	1,730
Date achieved	09/07/2005	09/07/2005	-	07/31/2010
Comments (incl. % achievement)	<u>Achieved.</u> Financed SPs was 93% of target. The number of beneficiary families was fully achieved. Average SP cost at appraisal was US\$20,552 and cost per beneficiary family, US\$411; at closing, these averages were US\$23,892 and US\$442, respectively.			
Indicator 2 : Number of SPs operating and maintained 1 and 2 years after completion.				
Value (quantitative or Qualitative)	Zero	No target	-	Strong indications of satisfactory O&M
Date achieved	09/07/2005	09/07/2005	-	07/31/2010
Comments (incl. % achievement)	<u>Achieved.</u> 98% of community leaders interviewed confirmed that SPs met community demands. 83% agreed that works were implemented as expected. 87% said that equipment was procured per the Op. Man.; 83% confirmed that its effective use by beneficiaries.			
Indicator 3 : Cost-effectiveness and quality of basic infrastructure and social SPs.				
Value (quantitative or Qualitative)	Zero	No target	-	Strong indications of satisfactory cost-effectiveness and quality
Date achieved	09/07/2005	09/07/2005	-	07/31/2010
Comments	<u>Achieved.</u> Project design promotes cost effectiveness and quality: demand-			

(incl. % achievement)	led priority-setting; competitive contracting and community execution. Evaluation studies confirmed price efficiency. High majority of SPs are technically sound and of good quality.			
Indicator 4 : Economic efficiency and financial viability of productive SPs.				
Value (quantitative or Qualitative)	Zero	No target	-	Strong evidence of economic efficiency and financial viability of productive SPs.
Date achieved	09/07/2005	09/07/2005	-	07/31/2010
Comments (incl. % achievement)	<u>Achieved.</u> Cost-benefit ratios (at discount rate of 10%) were ≥ 1.7 in the three SP types analyzed (i.e., water supply, farm mechanization and milk cooling units). IRRs were 35% or greater and proved robust under sensitivity analysis.			
Indicator 5 : Number of CAs vs. total communities in Project area.				
Value (quantitative or Qualitative)	Zero	No target. However for a target of 1,860 SPs it is estimated that 1,722 CAs would have benefited.	-	1,647 CAs, without repetition, had approved and financed SPs, representing 45% of the total communities in Project area.
Date achieved	09/07/2005	09/07/2005	-	07/31/2010
Comments (incl. % achievement)	<u>Achieved.</u> Given the relatively small size of the Project, its coverage of 44% of 3,760 communities in the Project area with SPs financed is considered quite satisfactory.			
Indicator 6 : Growth in the number of CAs.				
Value (quantitative or Qualitative)	Zero	No target	-	The number of CAs increased from 94 in 2006 to 1,647 in 2010 (at closing)
Date achieved	09/07/2005	09/07/2005	-	07/31/2010
Comments (incl. % achievement)	<u>Achieved.</u> The number of CAs receiving SP financing grew from 94 to 1,647 (2006-2010), without repetition within each year and between years.			
Indicator 7 : Percentage of women in MCs and CAs.				
Value (quantitative or Qualitative)	Zero	No target	-	23% of CAs are headed by women
Date achieved	09/07/2005	09/07/2005	-	07/31/2010
Comments (incl. % achievement)	<u>Achieved.</u> Of 1,728 CAs, 23% are led by women and most of these women are also members of the MCs. It is known that many women occupy other posts, such as Treasurer, confirmed by the Physical Performance Review			

and the Qualitative Study of Perceptions.

Indicator 8 : MC resource utilization (indicative vs. actual).

Value (quantitative or Qualitative)	Zero	US\$ 22.22 million of loan proceeds	-	US\$ 31.0 million of loan proceeds
Date achieved	09/07/2005	09/07/2005	-	07/31/2010
Comments (incl. % achievement)	<u>Achieved.</u> At loan signing, 64% of the loan proceeds were allocated to MCs' decisions on SPs. At closing, the percentage grew to 88%, as a result of deactivation of the PAC and FUMAC-P subprograms (Component 1).			

Indicator 9 : Number of CAs formally graduated.

Value (quantitative or Qualitative)	Zero	No target	-	908 CAs with productive SPs <i>de facto</i> graduated.
Date achieved	09/07/2005	09/07/2005	-	07/31/2010
Comments (incl. % achievement)	<u>Achieved.</u> <i>De facto</i> graduation applied only to CAs after one productive SP, while remaining eligible for other types of SPs. 107 CAs received more than one infrastructure/social SP due to MC targeting processes.			

Indicator 10 : Number of CAs without SPs participating in MCs.

Value (quantitative or Qualitative)	Zero	No target	-	Not all CAs with seats on their MCs had SPs financed.
Date achieved	09/07/2005	09/07/2005	-	07/31/2010
Comments (incl. % achievement)	<u>Achieved.</u> IDENE estimates that some 282 CAs with seats (and voting rights) in the MCs did not benefit with SP financed for their members.			

G. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions cum.)
1	05/20/2006	Satisfactory	Satisfactory	0.09
2	11/21/2006	Satisfactory	Satisfactory	3.68
3	05/28/2007	Satisfactory	Satisfactory	5.55
4	11/09/2007	Satisfactory	Satisfactory	16.56
5	06/13/2008	Satisfactory	Highly Satisfactory	24.92
6	11/26/2008	Satisfactory	Satisfactory	27.70
7	06/02/2009	Satisfactory	Satisfactory	32.45
8	11/17/2009	Satisfactory	Satisfactory	35.00

H. Restructuring (if any)

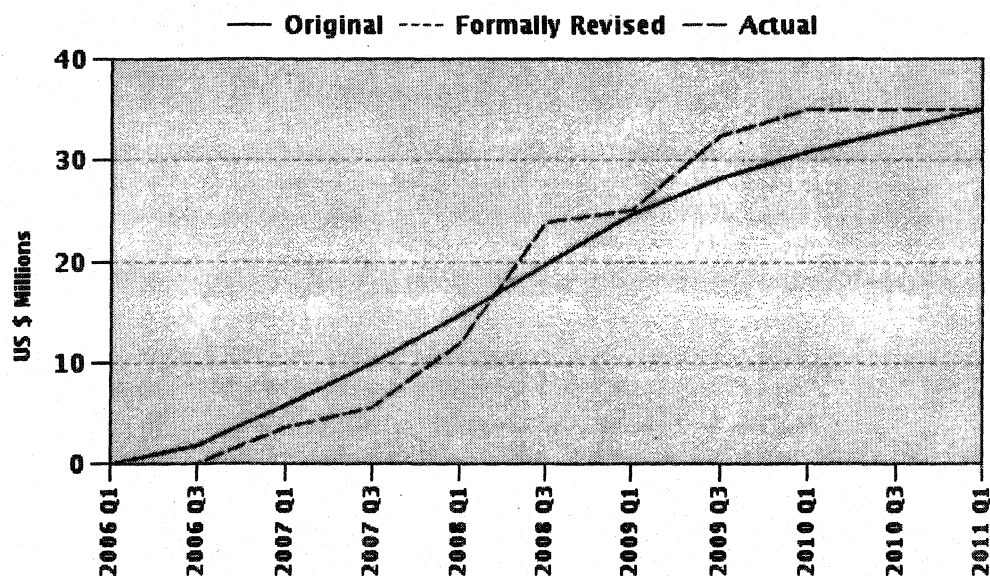
Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
10/31/2008	No	S	HS	25.4 million	<p>Reallocation of loan proceeds: (i) a total of US\$11.430 M comprising US\$6.45 M from Category 1(a) PAC Grants, US\$1.7 M from Category 1(c) FUMAC Pilot Grants, US\$1.05 M from Category 3 (Training for Parts B and C of the Project), and US\$2.23 M from Category 7 (Unallocated) reallocated to <u>Category 1(b) FUMAC Grants for a total of US\$31.95 M;</u></p> <p>(ii) a total of US\$0.6 M comprising US\$0.2625 M from Category 5 (Front End Fee) and US\$0.3375 M from Category 7 (Unallocated) reallocated to <u>Category 2 (Consultants' services for Parts B and C of the Project) for a total of US\$2.0 M; and</u></p>

(iii) a total of US\$0.1625 M comprising US\$0.08 M from Category 4(a) Incremental operational costs and US\$0.0825 M from Category 7 (Unallocated) reallocated to Category 4(b) Project supervision and monitoring costs for a total of US\$0.4125 M

I. Disbursement Profile

Disbursement Summary (amounts in millions) In USD ▾						
Loan	Status	Currency	Amount	Disbursed	Undisbursed	Cancellations
<u>IBRD-73290</u>	Closed	US Dollars	35.00	35.00	0.00	0.00

Disbursement Summary (in US \$ Millions)



1. Project Context, Development Objectives and Design

1.1 Context at Appraisal

1.1.1 This Implementation Completion Report (ICR) describes the experiences, achievements and lessons of the Rural Poverty Reduction Project in the Brazilian State of Minas Gerais (RPRP-MG). The Project (Loan 7329-BR) was implemented from March 20, 2006 (date of loan effectiveness) to July 31, 2010. The total cost of the Project was US\$46.8 million, of which US\$35.0 million were Bank-financed under a Specific Investment Loan, while US\$11.8 million comprised counterpart contributions from the State (US\$7.0 million) and beneficiary communities (US\$4.8 million). The Project proposal was appraised on August 5, 2005, the loan was approved on October 5, 2006, and the loan closed on July 31, 2010.

1.1.2 The State of Minas Gerais, particularly its regions of *Norte de Minas*, *Vale do Jequitinhonha* and *Vale do Mucuri*, forms part of the Brazilian Northeast, the region of Brazil with the highest incidence of rural poverty. Statewide, at Project appraisal, some 631,000 rural households earned less than US\$2.50 per day - or less than US\$1 per person per day - and most of these households were in the Project area. Additionally, some 50% of poor rural households lacked adequate water supply, about 35% were without sanitation services, and 25% had no access to electricity, compared, respectively, with 3%, 1% and 1% for all urban households in Minas Gerais, and 44%, 30% and 19% for rural Brazil as a whole at that time. GDP per capita in the proposed Project area was less than half that of Minas Gerais as a whole, infant mortality was 29% above the average level for the State, and the percentage of the population without formal education was 86% above the corresponding statewide figure.

1.1.3 Bank-financed, community-driven development (CDD) in Northeast Brazil began in 1985 under a component of the Northeast Rural Development Program (NRDP) which financed small-scale, demand-driven productive investments for poor rural communities (*Apoio às Pequenas Comunidades Rurais* --APCR). In late 1993, drawing on lessons from the APCR and similar schemes, the NRDP was reformulated into a full-scale, community-based development program (R-NRDP), which featured decentralized decision-making and community counterpart financing responsibilities. Subsequently the R-NRDP ushered in the follow-on Rural Poverty Alleviation Projects (RPAPs) in the Northeast states, beginning in 1995/96, succeeded by a third generation of similar sub-national projects - the Rural Poverty Reduction Program (RPRP), operational since 2001. Subsequent evaluation of these CDD projects confirms that not only have they been an effective model for rural poverty reduction, but they have also evolved into a key tool of the Northeast States to promote organized decentralization, local development and community participation.

1.1.4 **Government's Strategy and Actions Taken.** The cumulative experience of the Northeast Program (i.e., R-NRDP, RPAP and RPRP) provided a springboard for the Government of Minas Gerais to advance to a new level of development impact in its rural space. Besides improving the well-being of a much larger number of rural communities through better access to essential infrastructure and services, the main contribution of the RPRP-MG would be to test strategies to extend the reach of the Municipal Councils (MCs), by progressively involving them in proactively seeking funding from and participating in priority-setting and decision-making on

resource allocation over a much wider range of Federal, State and local programs. While the R-NRDP in Minas Gerais covered the municipalities of *Norte de Minas*, the RPRP-MG further extended coverage to the similarly poor regions of *Vale do Jequitinhonha* and *Vale do Mucuri*, located in the northeastern part of the State. The Project embodied innovative actions to conceive regional development based on participation of beneficiaries in this process, recognizing the proactive capability of the target population in thinking on and acting toward their own development while promoting the potential of community social organization. According to IDENE, the current State administration provides an environment conducive to public policies with civil society's participation, reinforcing credibility and turning feasible, therefore, the planned implementation of programs and projects, with clearly defined targets in order to reach the objectives and goals desired by society.

1.1.5 In Minas Gerais, the R-NRDP (1992-1996) was not followed immediately by the RPAP or RPRP, as occurred in other Northeast States, noting upfront that: (i) the Bank began discussions with the State on a subsequent project in 1997; and (ii) the State's fiscal imbalances precluded forward progress until 2003, when it came into compliance with the Federal Fiscal Responsibility Law.

1.1.6 The results and the experience gained from the implementation of the RPAPs in the other Northeast States were relevant, however, to Minas Gerais and were used in the design of its RPRP-MG. Notwithstanding the extended lag in obtaining the RPRP-MG, the State remained engaged in CDD through: (i) its participation in the Bank-financed Land-Based Poverty Alleviation Project (*Crédito Fundiário*); (ii) IDENE's continued involvement in Northeast Program events (particularly quarterly meetings of RPRP project coordinators); and (iii) the implementation of some State-financed poverty reduction activities following the CDD methodology. Furthermore, the Government of Minas Gerais maintained the same basic technical team that executed the R-NRDP; this same team, to a large extent, was responsible for RPRP-MG implementation. The policy and institutional framework in Brazil and Minas Gerais was and continues to be supportive of these objectives and did not inhibit Project viability.

1.1.7 **Bank involvement.** Under the RPRP-MG, the Bank assisted the State to increasingly shift focus on strengthening the linkages between Community Associations (CAs), their representative MCs, local government, other public programs, financial institutions and markets. By serving as facilitator, the Bank played an important role in supporting the State's institutionalization of the Project-supported MCs into Municipal Councils for Sustainable Rural Development (CMDRSs), key partners in the local development process. The Bank was also catalytic in helping to consolidate the participatory and transparent resource allocation at the local level, and ensure that these processes continue beyond the life and scope of the RPRP, when external support would be gradually phased out or redirected to other aspects of poverty reduction (e.g., the ongoing Minas Gerais SWAp). Several strategic choices were made in Project design, such as: (i) stimulating improvements in both social welfare and local economic activity; (ii) a community-based approach; (iii) local integration of programs, policies and actions, catalyzed by the establishment of the Special Secretariat for the Development of *Vale do Jequitinhonha*, *Mucuri* and *Norte de Minas Gerais* (SEDEVAN); (iv) targeting a minimum level of funding to each participating rural municipality in the Project area, with proportionally higher levels targeted to the poorest municipalities with the greatest needs, as determined by the United

Nations Human Development Index (HDI); (v) environmental preservation and protection; (vi) rigorous monitoring and evaluation; and (vii) use of information technology.

1.2 Original Project Development Objectives (PDO) and Key Indicators (*as approved*)

The Project aimed to assist the State of Minas Gerais to reduce high levels of rural poverty by: (i) improving well-being and incomes of the rural poor through better access to basic socio-economic infrastructure and services and support for productive activities, using proven community-driven development techniques; (ii) increasing the social capital of rural communities to organize collectively to meet own needs; (iii) enhancing local governance by greater citizen participation and transparency in decision-making, through creation and strengthening of Community Associations and Municipal Councils; and (iv) fostering closer integration of development policies, programs and projects at the local level, by assisting Municipal Councils to extend their role in seeking funding, priority-setting and decision-making over resource allocation, and by assisting the government to measure the efficiency and impact of its own programs to reduce rural poverty in rural space.

Key performance indicators:

Sub-PDO (a)

- number of families benefited from subproject investments; and
- increase in social welfare and incomes of rural communities.

Sub-PDO (b)

- increase in social capital index of Project Municipal Councils.

Sub-PDO (c)

- number of Municipal Councils participating in priority-setting and decision-making on resources; and
- allocation of Project and non-Project funded development activities.

Sub-PDO (d)

- increase in total Project and non-Project financing allocated through Municipal Council mechanism;
- number of communities graduated from the program; and
- community associations successfully linked to other financing sources.

1.3 Revised PDO (*as approved by original approving authority*) and Key Indicators, and reasons/ justification

The PDO was not revised under the Project. Key performance indicators also remained unchanged.

1.4 Main Beneficiaries

The RPRP-MG sought to benefit 93,000 poor rural families (26% of the rural poor population in the Project area), primarily smallholders, tenants, sharecroppers, and landless laborers. The Project targeted 188 of the total 853 municipalities statewide, focusing on the regions of *Norte de Minas*, *Jequitinhonha*, and *Vale do Mucuri*. Funds for the SPs were allocated among municipalities in proportion to their rural population and level of poverty (i.e., HDI-M).

1.5 Original Components (as approved)

The total project cost was US\$46.8 million, of which the Bank loan financed US\$35.0 million.

Component 1 - Community Subprojects – (US\$ 40.7 million, of which US\$ 30.5 million Bank-financed) financed matching grants to rural CAs for approximately 1,860 socio-economic infrastructure and productive SPs (up to US\$50,000 each) identified by these groups as priority investments that would improve community well-being and benefit around 93,000 families. After SP technical approval by the State Technical Unit (STU), project funds were disbursed directly to the CAs, which managed SP implementation, operation and maintenance. This component included three subprograms - PAC, FUMAC and FUMAC-P.

- *State Community Schemes (PAC)*. Under the PAC subprogram, rural communities were to submit their investment proposals directly to the STU, which would screen and approve them and release funds to the beneficiary CAs. It was retained as an option which communities could occasionally use in cases where MCs were not functioning properly. PAC was expected to account for about 23% of the component cost.
- *Municipal Community Schemes (FUMAC)*. Under FUMAC, decision-making on investment proposals was delegated by the State to Project MCs, composed of community members and representatives of civil society and municipal authorities. A majority of MC voting members (i.e., at least two-thirds) were potential Project beneficiaries or representatives of civil society. The MCs discuss and seek to build consensus on priorities and approve community proposals, in the context of an indicative annual budget amount determined by the STU. After STU review of the MCs' recommendations (for consistency with guidelines in the Project Operational Manual), Project funds were disbursed directly to the CAs. This subprogram was expected to account for about 72% of total community subproject costs.
- *Pilot Municipal Community Funds (FUMAC-P)*. The FUMAC-P was a more decentralized variant of FUMAC piloted under the RPAP with high-performing MCs in other Northeast States. The STU was to establish an annual budget envelope, according to a distribution formula based on clear and measurable criteria (i.e., HDI). Based on this budget, MCs would submit an Annual Operating Plan (*Plano Operativo Anual*) for STU review. Upon approval, funds would be transferred to the MC, which would then be responsible for managing its distribution to CAs and assisting them with SP implementation. It was expected that about 5% of total component resources would be used under the FUMAC-P.

Component 2 - Institutional development (US\$ 3.30 million, of which US\$3.30 million Bank-financed) supported technical assistance and training to increase the capacity of implementing

entities including MCs, CAs and the STU. It also included funds for technical assistance to support the State of Minas Gerais in addressing state modernization, particularly in promoting the integration of state-level policy for poverty reduction and strengthening the management capacity of the state to better monitor the impact of its public expenditures to reduce poverty in the rural space. This component also supported the expansion of information technology to increase transparency and to connect CAs and MCs to markets.

Component 3 - Project administration (US\$ 1.4 million, of which US\$0.85 million Bank-financed), included supervision, monitoring, impact evaluation and incremental costs (excluding salaries) of the Project.

1.6 Revised Components: The original components were not revised.

1.7 Other significant changes

1.7.1 Reallocation of Funds: In October 2008, loan resources originally allocated to the PAC and FUMAC-P subprograms were reallocated to FUMAC, as follows:

(i) a total of US\$11.43 million comprising US\$6.45 million from Category 1(a) PAC Grants, US\$1.7 million from Category 1(c) FUMAC Pilot Grants, US\$1.05 million from Category 3 Training for Parts B and C of the Project, and US\$2.23 million from Category 7 (Unallocated) were reallocated to Category 1(b) FUMAC Grants for a total of US\$31.95 million;

(ii) a total of US\$0.6 million comprising US\$0.2625 million from Category 5 (Front-end Fee) and US\$0.3375 million from Category 7 (Unallocated) were reallocated to Category 2 Consultants' services for Parts B and C of the Project for a total of US\$2.0 million; and

(iii) a total of US\$0.1625 million comprising US\$0.08 million from Category 4(a) Incremental operational costs and US\$0.825 million from Category 7 (Unallocated) reallocated to Category 4(b) Project supervision and monitoring costs for a total of US\$0.4125 million.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

Soundness of background analysis:

2.1.1 The reduction of poverty and inequality were benchmarks of the Bank's country assistance efforts, and the Northeast region was a primary focus area for well-targeted anti-poverty programs to improve human and physical capital. The analytical basis and justification rested on the documented successes and lessons of similar operations across the Northeast region, including Minas Gerais, since 1993. Further, the Bank had financed studies, analytical work, and state economic memoranda to identify the dimensions, characteristics and causes of rural poverty and to develop strategic options for policy and programmatic actions. In general terms, rural poverty is fostered by a relatively weak natural resource base vulnerable to frequent droughts, low labor productivity, high levels of illiteracy and poor quality and coverage of education, relatively large family size and poor access to basic infrastructure and services. The Project was

seen as an instrument for intensifying the economically viable small farm sector in the Northeast region, as a factor in stimulating growth of the rural non-farm sector and, through the provision of basic infrastructure, as a safety net for poor rural communities in drought-prone areas with natural resource deficits.

2.1.2 The Project was consistent with the CAS for FY04-07 (27043-BR, dated November 10, 2003), which called for successive projects under the Northeast CDD program to finance basic infrastructure for the rural poor, support income-generation activities, and promote closer integration of State and Federal rural initiatives in participating municipalities.

2.1.3 Lessons learned from the previous Minas Gerais Project (NRDP) and other Northeast States reflected in the Project design of the RPRP-MG were as follows:

- (i) *Decentralization* of investment decision-making and implementation from Federal to State and local governments and to CAs ensures efficient program administration and superior outcomes.
- (ii) *Participation* by beneficiaries in the selection, financing, execution, and O&M of SPs ensures that investments meet genuine community needs, generating cost savings, and increasing community 'ownership', thus leading to improved sustainability of investments.
- (iii) *Poverty targeting mechanisms* that are simple, verifiable and based on objective criteria, foster transparency, minimize political interference in project resource allocation and ensure that project resources reach the poorest areas.
- (iv) *Supervision* is an indispensable determinant of success and sustainability.
- (v) A user-friendly *monitoring and evaluation system* facilitates the subproject evaluation process, provides feedback and necessary information to improve targeting and efficiency, and is an essential management and planning tool.
- (vi) *Environmental protection criteria*, including a detailed environmental checklist to optimize the criteria and procedures - and their application - aid in evaluating environmental impact of subprojects.
- (vii) *Technical assistance* enhances the ability of CAs and MCs to identify, prepare and implement SPs, thereby augmenting their capacity to compete for investment funds.
- (viii) *Productive subprojects* require more rigorous selection, preparation, technical assistance and supervision criteria
- (ix) *An expanded role of MCs in local planning* can promote integration between local governments and other projects and programs by providing information to councils on alternative sources of grant and credit financing.

Assessment of project design:

2.1.4 **Objectives:** Project objectives were rational, given the conditions on the ground in Minas Gerais, were aligned with country and sector strategies, and remained consistent with the Borrower's rural priorities. The higher level PDO - not expected to be measured within the life of the Project - sought a direct impact on rural poverty through four sub-PDOs for which the Project could reasonably be held accountable. A decade of piloting, scaling up and evaluation of the CDD projects in various Northeastern States provided assurance that the PDO was achievable,

albeit ambitious. The integration objective was innovative and challenging to implement and measure, reflecting the Borrower's interest in leveraging support for the target population using the Project's established institutional mechanisms. Objectives were considered measurable, although income results were understood to require a longer maturation and at end-project, were expected to be preliminary. Overall, Project objectives were consistent with the Borrower's known technical and institutional capacity at appraisal of the operation.

2.1.5 Indicators: Key Project Performance Indicators (KPIs) stemmed from the four sub-PDOs. Due to the inherent nature of the social capital and local governance sub-PDOs, their associated KPIs lacked a clear numerical definition. Graduation called for CAs receiving a productive SP to be graduated from further productive matching-grants after its execution. A community can have more than one CA and a CA can comprise just part of a community. Furthermore, the CA owns the subproject, not the community.

2.1.6 Components and organization: Project components were few, clearly-formulated and appropriate for achieving project objectives, largely due to their internal flexibility, which permitted innovations and additional activities within the broad outline and methodology.

2.1.7 Organization and Decentralization: The established STU (IDENE) under its parent secretariat *Secretaria de Estado Extraordinário para o Desenvolvimento dos Vales do Jequitinhonha e Mucuri e Norte de Minas Gerais*/ Special State Secretariat for the Development of the *Jequitinhonha Mucuri* Valleys and Northern Minas Gerais, satisfactorily performed its coordination role. The definition of a management model that guaranteed efficiency with agility and responsiveness to community demands proved successful. These new practices represented important advances for Project performance, relative to the predecessor R-NRDP (Loan 2861-BR, 1993-1996).

2.1.8 Although IDENE's Headquarters are located in the capital city of Minas Gerais (Belo Horizonte), project management demonstrated a high standard of transparency and commitment to participation. This was made possible by the decentralization of project management and the maintenance of eight previously-created Regional Offices (ROs) in strategic locations in the project area: (i) Northern Minas covers 89 municipalities, which are overseen by the ROs for Montes Claros, Janauba, Januaria and Salinas; (ii) Vale do Jequitinhonha covers 64 municipalities overseen by the ROs of Diamantina, Aruçuai, Jequitinhonha; and (iii) Mucuri covers 35 municipalities which are overseen by the RO of Teófilo Otoni), each staffed with multidisciplinary teams. This decentralization enabled greater flexibility in Project performance, given the ROs' autonomy to perform actions and procedures locally. The proximity of technical assistance also reduced delays in SP processing and strengthened the CAs' ability to manage their SPs. Another effect of decentralization was enhanced SP supervision. The ROs facilitated greater dialogue with rural communities benefited by the Project and deepened knowledge of local development challenges and corresponding options.

2.1.9 Strategic choices: The Project stimulated improvements in social welfare and local economic activity through several strategic choices: (i) decisive effort to stimulate communities to organize themselves into CAs and, through participation, obtain investments needed for their development and wellbeing; (ii) along the same line, adopted the MCs as forums for decisions

on community demands in a sharing environment with other projects and programs; (iii) support productive activities, technical assistance and investments, in both social and economic infrastructure/services; (iv) responsive community-based approach to offer better prospects of sustainability; (v) boosting partnerships in the context of MCs; (vi) a more precise poverty targeting framework (more project funds allocated to the poorest municipalities); (vii) rigorous monitoring and evaluation; (viii) updated information technology to increase transparency; and (ix) a decisive option to allocate funds for each municipality (based on two criteria: rural population and HDI), inform the MCs and enforce its implementation.

2.1.10 Graduation: Graduation was a new design element intended for CAs with a financed productive SP. This instrument proved to be redundant as more than 97% of these CAs received only one productive SP, therefore were graduated from the financing of a second productive SP but remained eligible for the financing of other types of infrastructure and social SPs.

2.1.11 Integration: Under the Project the MCs were encouraged to expand their input into broader local planning to achieve better integration of policies and programs and improve the local impact of public resources available for poverty reduction. The State's decision to opt for the use of the MCs opened a vital space and opportunity for the integration of programs and projects in all municipalities (see Box 1).

Box 1: Adapting existing institutions for Community-Driven Development: the Municipal Councils for Sustainable Rural Development (CMDRS)

Although the preparation of the RPRP-MG opted for the FUMAC model – as was the case in other Northeast Brazil CDD projects -- IDENE and SEDVAN took a path different from these other projects, where the original FUMACs evolved over time into mainstreamed (i.e., institutionalized) municipal development councils with participation of representatives from other programs and projects. Minas Gerais decided to leverage the existing CMDRSs from the outset of project implementation, with IDENE/SEDVAN advocating municipality-by-municipality for increased representation of the Project's intended beneficiaries from the original 50% with voting rights to at least 70%. By end-2008, all CMDRS had been restructured.

Multiple benefits arose from this political and administrative decision: (i) the immediate availability of "seed social capital" in the form of 188 CMDRSs across all targeted municipalities; (ii) harmonized discussions across different projects and programs (e.g., PRONAF, Luz para Todos, RPRP-MG) in the CMDRS among a common representative base; (iii) the nature of investments financed by these participating projects and programs induced rational decisions in terms of taking advantage of the complementarity among them, therefore leading to savings and increased efficiency of use of scarce public funds; (iv) additional investments, beyond time saving in the foregone creation of parallel project municipal councils, were simple but important: mobilization, organization and training of community associations to actively participate in the CMDRSs; (v) the Project's Regional Offices could play a more efficient role in assisting community associations and in following up on the works of the CMDRSs; and (vi) the successful implementation of the RPRP-MG led the State of Minas Gerais to transform SEDVAN into a permanent state secretariat, further institutionalizing poverty reduction and rural development in the Project area.

2.1.12 Adequacy of Government's commitment: Government was fully committed to the Project's objectives and methodology. Although a moderate potential concern at appraisal, the State maintained adequate counterpart funding throughout project implementation. Although

changes in both the State Government and the STU had occurred during Project implementation, this did not impact negatively on Project performance. Blanket coverage of the FUMAC subprogram and the reallocation of funds originally assigned to the PAC and FUMAC-P subprograms to FUMAC further attests to the State's resolve toward decentralized approaches to reducing rural poverty and the Project's ability to promote social integration of actions through other programs.

2.1.13 Risk Assessment: Risks were correctly identified in the PAD, based on previous experiences with similar projects in Minas Gerais and other Northeast states. However, some additional risks could have been highlighted to allow a better appreciation of the project context and to plan appropriate mitigation measures:

- (i) Political change risk, such as post-election State government changeover, was known to be disruptive in Brazil, particularly in the Northeast, and effective mitigation measures were known from previous experience;
- (ii) Potential management and supervision dysfunction, due to the distance of IDENE headquarters in Belo Horizonte from the Project area was avoided by the strengthened ROs;
- (iii) Potential coordination dysfunction between SEDVAN and the SEPLAG did not materialize; an attitude of mutual cooperation prevailed at all times; and
- (iv) Potential risk of failure in developing broader evaluation and monitoring studies to advise on course of corrective and adjustment actions, mitigated by carrying out more expeditious studies (e.g., Physical Performance Review, Mid-term Report, case studies – see Annex 5).

2.2 Implementation

2.2.1 Overview: Among the outstanding features of RPRP-MG implementation, the following deserve recognition: (i) opting to adapt the existing CMDRSs, which required their restructuring, particularly in terms of beneficiary representation; (ii) albeit the good results achieved with the restructured CMDRSs, this space for shared decisions required specific training on participation and awareness raising; (iii) additionally, beneficiaries required training in subproject financial management; (iv) a major challenge faced by Project administration was to maintain and make enforceable the adoption of project fund allocation for each municipality (based on municipal HDI and rural population), and do not allow shift of funds from one municipality to another in response to differing pace of implementation; instead, effort was made to stimulate and assist the CMDRSs and associations falling behind schedule; and (v) steady pace of growth of subproject evaluation, financing and implementation, which led to full loan disbursement in September 2009, almost one year ahead of closing.

2.2.2 IDENE, the Project STU, maintained eight ROs strategically located in the Project Area, covering all 188 municipalities. This decentralization of management has enabled greater flexibility and agility in project performance and consequently facilitating disbursements and subproject supervision in the field. Changes in Project administration did not cause any lapse in the pace and quality of project implementation. The core technical team and its institutional memory remained intact.

2.2.3 Mid-term review. A Project mid-term review took place in May 2008. The mission found project performance was satisfactory and found no need for substantive changes in the way the Project had been executed. Recommendations were restricted to operational procedures aimed to improve project performance and assure the PDO attainment.

2.2.4 Major factors affecting implementation and their resolution/outcome

Project implementation was affected by the following major factors, many of them favorable:

(a) State government commitment, partnership within government and “Management Shock”

The strong and continuous political support from the state government, including adequate provision of counterpart funds, the very cooperative environment between The State Secretariat of Planning (SEPLAG) and SEDEVAN, and the strategy behind the “Management Shock”, all favored project implementation.¹ In this context, the Project was systematically monitored by SEPLAG through which IDENE had to demonstrate attainment of agreed targets.

(b) Ten years without a rural poverty reduction project (i.e., RPAP, RPRP) and features of the Project area

Despite the long period of time between the R-NRDP and the RPAP-MG, the participation of IDENE in the implementation of the Market-assisted Land Reform Projects (*Cédula da Terra* and *Crédito Fundiário*), which used the CDD approach and covered a limited number of municipalities in the Project area, led IDENE to carry out both an intensive and an extensive program of mobilization/organization and training of CAs and MCs in all 188 municipalities. The challenge was particularly demanding to face and overcome due to the extension of the area to be covered and the economic and social conditions of the target population, composed of the poorest rural communities and families in the State of Minas Gerais. A key measure to face successfully these challenges was the strengthening of the decentralized eight ROs, strategically located in the Project area and the restructuring of CMDSSs in all 188 municipalities, as previously described.

(c) High demand for productive subprojects.

Although seen as a welcome evolution of the Northeast Program by the CAs, the high demand for productive SPs imposed additional challenges to Project administration. Key measures adopted to mitigate the challenge were technical assistance from both the ROs and by EMATER (which in many instances had costs borne by the State, without financing from the Bank loan), for SP preparation, appraisal and implementation.

¹ *Management shock* means a public policy put forth by the government of Minas Gerais in 2003 (under the Neves administration) which sought: to promote development through: (i) reduction of budgetary deficits; (ii) reorganization and modernization of the State's institutional apparatus; and (iii) implementation of new and innovative management models.

(d) Definition and enforcement of resource budget allocation for each municipality.

This strategy adopted by IDENE was crucial to eliminate planning uncertainties and risks for CAs and MCs. In the end, the decision facilitated project implementation and loan disbursement.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

2.3.1 Management Information System. At appraisal, the MIS then used by the RPRP in the State of Bahia offered what seemed to be a good template for the RPRP-MG; IDENE adapted it as a base for the Minas Gerais MIS. During the first months of project implementation, it became clear that further MIS adjustments were needed. Given the proprietary nature of the software (i.e., copyright protection), these adjustments proved time-consuming and rather expensive. As such, IDENE decided to contract the development and use of a new MIS, which is currently in use. Its performance is considered satisfactory, although some shortcomings remained, such as: (i) the MIS does not have the capability to automatically generate the Interim Financial Reports; and (ii) it is not accessible online by all ROs.

2.3.2 The RPRP-MG was well monitored through indicators established for the State's *Programa Estado para Resultados* (State Program for Results), whose objectives are: (i) make feasible a coordinated State Action in the Results Areas, defined in the *Plano Mineiro de Desenvolvimento Integrado –PMDI 2007/2023* (Minas Integrated Development Plan); (ii) align State Government strategic actions, in such a way as to allow an articulated performance of State agencies and entities in charge of management of Structural and Associated Projects; (iii) stimulate the achievement of objectives and targets in the Results Areas, Structural and Associated Projects (where the RPRP-MG is included); (iv) follow up/monitor and evaluate results of public policies implemented by the State public administration (the RPRP-MG is monitored monthly by SEPLAG); and (v) offer public information on targets and results related to government strategic management in order to contribute to follow up by civil society.

2.3.3 Evaluation studies. Despite strong appreciation by the State and IDENE of the need for impact evaluation, protracted delays in its competitive contracting made it unfeasible to execute. Relative lack of knowledge of IDENE in following the Bank's guidelines on the matter, coupled with low demonstrated interest of prospective consulting firms in responding to an announced request for proposals, are the main reasons for this outcome. As a result, IDENE carried out other studies of project implementation, such as: (i) a Physical Performance Review (TecnoMetrica, July 2010); (ii) a *Estudo Qualitativo das Percepções e impressões dos beneficiários para avaliação dos efeitos diretos e indiretos dos subprojetos do PCPR na vida dos seus beneficiários* (Qualitative Study of Perceptions) [SEDEVAN/IDENE, July 2010] and (iii) a series of case studies to estimate economic and financial estimates of the Project. Annex 5 summarizes these studies; detailed economic and financial estimates are found in Annex 3.

Safeguard and Fiduciary Compliance

2.3.4 Safeguards - Environmental Management Plan. Experience under the previous R-NRDP in Minas Gerais was reviewed during project preparation and confirmed that few SPs would have the potential for adverse environmental impact. The Project was a Category B throughout its implementation, indicating that its potential environmental impact on human populations and ecologically important areas was considered modest. Although not required at the time of project preparation and approval, a simplified Environmental Management Plan-EMP (PGA – *Plano de Gerenciamento Ambiental*) was developed by IDENE in line with the Bank's environmental guidelines. This had the objective of improving the identification and mitigation measures for the potential adverse effects on the environment, described in detail in the checklists used for SP assessment, thereby assuring the compliance of SP proposals with environmental codes and increasing the probability of sustainability.

2.3.5 SP agreements signed between IDENE and CAs contain an environmental clause, compliance with which is consistently monitored by IDENE. Such compliance monitoring is assisted by specialized consultants and technicians from state agencies, providers of technical assistance (such as EMATER), and beneficiaries as executors.

2.3.6 Indigenous Peoples' Participation: At the time of project preparation, appraisal and approval, an Indigenous Peoples' Plan was not required. Nevertheless, starting in May 2008, IDENE established a task force, which prepared a proposal for indigenous participation in the Project. The task force identified SPs which would benefit indigenous and *Quilombola* communities, maintained contacts with *Centro de Documentação Eloy Ferreira da Silva (Cedefes)*, analyzed secondary data/information sources, which later, with the Bank's contributions and recommendations, led to the preparation of an "Orientation Guide". The project area encompasses 59 indigenous communities composed of five ethnic group across seven municipalities (Pankararu, Pataxó, Aranã, Maxakali e Xakriabá), with a total estimated population of 9,536. By loan closing, the municipality of São João das Missões – home to the Xakriabá – had benefited from eight SPs for a total of R\$ 557,000, and 698 families.

2.3.7 Although no specific plan had been established to assist them, 25 Quilombola communities were benefited with SPs for some 1,300 families at an investment of about R\$ 1.4 million. The concentration of Quilombola communities is in the north and northeast regions of the state (243 communities across 67 municipalities).

2.3.8 Financial Management. Financial management performance was generally satisfactory throughout Project implementation. Financial management supervision missions consistently rated the Project as Satisfactory. The overall result of the final financial management supervision (2010) was positive and concluded that the STU's financial management arrangements remained Satisfactory. The FM risk associated with the Project continued to be Moderate.

2.3.9 Audit. Audit performance was generally satisfactory. Management Letters (*Carta Gerencial*) found the Project's internal control systems to be satisfactory. The Bank team followed up closely with the Borrower on auditors' recommendations and there were no audit issues pending at project closing.

2.3.10 Procurement. Procurement Post-Review missions generally rated procurement risk as average and overall procurement performance as satisfactory. During the last post-review (May 2010), the Bank confirmed adequate procedures for acquisition and contracting were being applied by IDENE and the CAs. The Bank praised IDENE's successful efforts to guide and orient CAs on how to adequately formalize their procurement files and associated contracts in order to contain the required relevant documents in an orderly presentation.

2.4 Post-completion Operation/Next Phase

2.4.1 Transition arrangements to regular operations in the context of the Project mean: (i) SP execution; (ii) its formal release to the beneficiary CA - which, legally owns the investment; and (iii) its operation under pre-established rules and procedures agreed under contract between the CA and STU.

2.4.2 Operation and Maintenance: The responsibility for SP operation and maintenance can be attributed to three different actors: (i) CAs, when the SP is for collective use, (ii) families benefited when the civil work and/or equipment under the SP is used exclusively by the beneficiary family; and (iii) public organizations, when municipal governments or concessionaires of the state government assume SP management after its implementation. O&M performance under the Project was good and the sustainability outlook is positive. O&M procedures were mandatory in SP proposals and mandatory criteria for their approval. Technical assistance for designing O&M under the SPs was generally available. Evidence suggests that the importance of O&M is well-understood by communities. Norms and procedures are in place for productive SPs, including payment of user fees. Sustainability of SPs is likely to be satisfactory, with user fees being paid where relevant. After reaching access to basic infrastructure (water, electricity) communities are moving on to income generating activities.

2.4.3 Next Phase: The new phase of the Project, under the Bank-supported Minas Gerais Sector Wide Approach - SWAp will follow the same approach of the concluded project, i.e., implemented via MCs and the pre-establishment of financial resources for each municipality (based on HDI-M and rural population). The State of Minas Gerais has fully budgeted the ongoing project.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

Rating: **High overall relevance**

3.1.1 The project development objective remains relevant and continue to be consistent with the Country Partnership Strategy (CPS 42667-BR, 2008-2011, discussed by the Board in May 2008; Progress Report April 2010), explicitly via the challenge of reducing endemic poverty in Brazil's Northeast region, including the targeted area of Minas Gerais, particularly the Jequitinhonha region, through economic inclusion to strengthen communities' productive potential and activities to foster their economic integration. Basic infrastructure delivered cost-effectively to poor rural communities is essential for their economic inclusion, as is the social capital formation

promoted by the project's participatory institutions, i.e., CAs, MCs, and by the design of the SP cycle itself whereby CAs prepare, implement, operate and maintain their own investments. The integration objective has high potential to boost impact and be a key element in regional approach to scaling-up productive activities. Project design remains relevant and appropriate for these objectives, and demonstrates flexibility to incorporate innovative elements as needed.²

3.2 Achievement of Project Development Objectives

3.2.1 Data provided in this ICR are derived from diverse sources. Results from a number of studies show that project objectives were achieved or have high potential for achievement, and that outcomes were positive. Results of key Project-financed studies are summarized in Annexes 3 and 5. As stated in section 1.2, the Project aimed to assist the State of Minas Gerais to reduce high levels of rural poverty by: (a) improving well-being and incomes of the rural poor through better access to basic socio-economic infrastructure and services and support for productive activities; (b) increasing the social capital of rural communities to organize collectively to meet own needs; (c) enhancing local governance by greater citizen participation and transparency in decision-making, through creation and strengthening of community associations and Municipal Councils; and (d) fostering closer integration of development policies, programs and projects at the local level, by assisting Municipal Councils to extend their role in seeking funding, priority-setting and decision-making over resource allocation, and by assisting the government to measure the efficiency and impact of its own programs to reduce rural poverty in rural space.

Objective 1: *Improving well-being and incomes of the rural poor through better access to basic socio-economic infrastructure and services and support for productive activities, using proven community-driven development techniques.*

3.2.2 This objective was achieved.

- The number of beneficiary families was fully accomplished (93,000 planned and 93,900 achieved without repetition);
- As stated above, although the number of financed SPs was substantially achieved (93% of the original target – 1,730 vs. 1,860), the number of beneficiary families was fully attained, as the number of families per subproject was greater than originally envisaged.
- Productive SPs responded for 54% of total, while infrastructure accounted for 30% and social the remaining 16%. 80% of families interviewed declared satisfaction with the productive SPs.

² According to IDENE, "Community subprojects financed by the RPRP-MG ...represent innovative actions from the point of view of regional development based on beneficiaries' direct participation in the process. Community participation, in addition to the investments embodied in the subprojects, contributes to the organization, creation and strengthening of community social capital". (IDENE, November 13, 2010).

- As per infrastructure SPs, 76% of the interviewed beneficiaries stated that the financed SPs satisfied the communities' needs, generating additional income for 57% and employment for 43%. Improved living conditions were acknowledged by 70% of the families.
- Regarding social welfare, focus groups for 16 SPs strong cited outcomes such as: (i) improved working conditions; (ii) shortening of distances and time saving for women with family care responsibilities; and (iii) new income generation opportunities. On water supply SPs, 79% of the beneficiaries interviewed stated that they now receive the needed quantity of water, while 75% now receive good quality water and 86% on a regular basis. 30% informed that there was a meaningful reduction in water-borne diseases; for 61% there was improved hygiene and 32% acknowledged improved conditions for food preparation.
- The majority of the financed community social centers became multi-purpose facilities for training events and production (e.g., handicrafts, sweets, soaps).

Box 2: Forging rural economic inclusion under the RPRP-MG

Productive subprojects (54% of total SPs) were, for the most part, technically simple with localized market exposure. While some 20% of productive SPs aimed to bolster food security for the implementing CA (e.g., manioc mills and grain processing), the remaining 80% had stronger commercial and income-generation objectives (e.g. farm mechanization; dairy, fruit, and honey production). Lessons learned from which future projects may benefit are as follows:

- (i) Small scale grant-financed productive SPs require, in addition to a justified and detailed physical plan common to all other SP types (i.e., infrastructure and social), a **business plan** (including technical and financial analyses), **up-front marketing arrangements, technical assistance and training for the operational phase**.
- (ii) While infrastructure and social SPs can be sustainable on the basis of payment for the services consumed, productive SPs require a strategy to face market exposure (for both inputs and outputs).
- (iii) Beneficiaries need to get it right the first time under a one-time seed capital grant designed to jump-start employment and income generation, in addition to using the experience to qualify for future financing from lending institutions; Some established programs, like PRONAF and SEBRAE, as well as commercial banks, are openly available to support demands for financing/technical assistance for subsequent phases of successful productive SPs.
- (iv) Given that CA graduation from additional productive SPs occurs after the implementation of its first productive SP, it is imperative that this "one-shot" subsidy demonstrate *ex ante financial feasibility* (i.e., an acceptable IRR under market conditions, not subsidy) to maximize its success.
- (v) In view of the foregoing, the private sector, including firms, banks and technical assistance providers, should be encouraged to participate early in the SP cycle.
- (vi) Successful productive SPs generate multiple benefits for municipalities (e.g., employment generation, fiscal revenues. Even the poorest municipalities should see these initiatives as opportunities for constructive partnerships, such as via provision of some types of infrastructure and of education, health, sanitation and technical assistance services.

Objective 2: *Increasing the social capital of rural communities to organize collectively to meet own needs.*

3.2.3 This objective was achieved.

- 98% of community leaders interviewed declared that SPs financed were in response to demands from the communities; 83% declared that constructions/works were completed as expected; 87% that equipment procurement was in accordance with procedures outlined in the subproject agreement and the Project operational manual; 83% informed that the equipment is being used by the beneficiaries; 86% that they adequately satisfy their needs; 85% acknowledged that SPs positively impacted their communities while 59% acknowledged that SPs brought opportunities for additional sources of income and employment generation.
- 82% of families interviewed stated that the financed SPs fully or partially satisfied their needs; 88% informed that the SPs fully or partially satisfied the needs of the communities.
- From a technical perspective, outside evaluators stated that, in general terms, there was a correspondence between the approved technical SPs and their implementation.
- Regarding social empowerment, the majority of association members now perceive the importance of the CAs in the search for collective solutions to the problems communities face. Community leadership plays an important role in inducing participation; benefits received by beneficiaries induce to motivation for participation. It can be firmly stated that the financed SPs led to an intensification of the CAs' social capital.

Objective 3: *Enhancing local governance by greater citizen participation and transparency in decision-making, through creation and strengthening of community associations and Municipal Councils.*

3.2.4. This objective was achieved.

- *188 (100% of the municipalities in project area) MCs were restructured as CMDRSs, to improve representation, overall function, targeting and decision-making.*
- *Rationalization in the use of public resources.* 188 CMDRSs were established, deciding on the use/allocations of funds to 100% of SPs, starting with community prioritization.
- *The Project established and trained 1,827 people (presidents and treasurers representing 100% of CAs in training events) most or even all of which are members of the 188 participatory MCs.* All CAs with approved SPs received training in diverse subjects designed to promote participation, transparent decision-making and effective investment management.
- *While MCs' level of sophistication and maturity varied, an increasing number were routinely discussing a range of public programs and issues affecting rural life, e.g., employment, youth migration, and natural resource issues.* 100% of MCs were actively seeking resource leveraging opportunities for member CAs under the Project's integration goals.

- Surveys showed that CAs saw their MCs as links to the State Government and as sources of information, highlighting the need for MCs to stay well-informed about Project rules, objectives and responsibilities, and especially about criteria for the selection and priority ranking of community demands.

Objective 4: *Fostering closer integration of development policies, programs and projects at the local level, by assisting Municipal Councils to extend their role in seeking funding, priority-setting and decision-making over resource allocation, and by assisting the government to measure the efficiency and impact of its own programs to reduce rural poverty in rural space.*

3.2.5 This objective was achieved.

An outstanding feature of the Project was the decision to use restructured CMDRSs instead of an isolated municipal council for Project decisions on financing of community SPs. This decision and consequent implementation allowed a complete integration in all 188 municipalities of the Project and other programs and projects – such as Luz para Todos and PRONAF – using a common approach. Approximately R\$ 1.09 billion (equivalent to US\$761.7 million) were implemented by these two programs using the CMDRSs as forums for discussing the financing of rural electrification and provision of investment credit to small farmers. This provided a privileged environment for Project beneficiaries to complement and integrate investments financed by the Project and those provided by these programs.

3.3 Efficiency

3.3.1 A financial and economic analysis was performed drawing on data from a case study of 22 SPs representing the dominant types of infrastructure and productive SPs (i.e., water supply and farm mechanization, respectively) and collectively corresponding to about 45% of all subprojects financed by the RPRP-MG. Results are shown below with details in Annex 3.

3.3.2 Cost-benefit ratios (applying a discount rate of 10%) were equal to or greater than 1.7 in the three SP types analyzed (i.e., water supply, farm mechanization and milk cooling units). In calculating Internal Rates of Return (IRRs), the base scenario (IRR-1) draws on actual data collected post-implementation from the respective CAs, assuming a time horizon of 10 years. Sensitivity analysis (IRR-2) refines this analysis and assumes a 20% cost increase and a simultaneous 20% reduction in SP benefits. In all cases, IRRs of 13% or higher were obtained (see Table 1). In sum, evidence suggests that financial returns are robust for these SPs, even under very conservative assumptions.

Table 1. Main financial and economic results of subprojects*

Subproject type	PV Benefits (R\$)	PV Costs (R\$)	B/C ratio	IRR-1	IRR-2
Water supply	62,242,059	11,8762,054	5.2	83%	53%
Farm mechanization	1,816,790	1,031,712	1.2	35%	13%
Milk cooling units	270,754	162,725	1.7	58%	21%

*Values extrapolated to the total number of water supply subprojects at the time of the data collection for the case study (oct/november 2008), while for the other two types estimates were restricted to the samples.

3.4 Justification of Overall Outcome Rating

Rating: **Satisfactory**

3.4.1 The overall outcome rating of *Satisfactory* is justified based on:

- The relevance of Project objectives and design to the needs of the rural sector in one of the poorest areas of the State of Minas Gerais and the wider Northeast region.
- Attainment of more than 100% of the target for beneficiary families.
- Satisfactory outcomes for the PDO substantiated by studies of beneficiary wellbeing, employment, incomes and social capital formation.
- Preliminary indications of SP economic and financial efficiency and sustainability.
- Evidence of substantial institutional development in MCs and CAs, particularly in view of the decision taken to use the structure of CMDRSs and maintenance of regional offices covering the entire Project area (188 municipalities).
- Project STU's (IDENE) efficient administration, which led to disbursement of 100% of loan proceeds almost one year ahead of its closing date.
- Strong evidence of physical sustainability of financed SPs through completion, operation and O&M rates and practices.
- Successful integration experience in the context of the CMDRSs.
- Strong political and financial support from the State government, which decided to continue the Project in the context of the Minas Gerais SWAp (Loan 7547-BR).

3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

3.5.1 Poverty impact: The Project's impact on rural poverty reduction is suggested by project studies showing improved family income and wellbeing (see Annexes 3 and 5). The dominance of productive and infrastructure investments have positioned a large number of poor rural families for more complex productive activities in the future. Social capital formation has also prepared beneficiaries to demand access to a range of Federal and State programs. Their organizational levels and membership in CMDRSs increase their potential to receive and benefit from other services, programs and policies.

3.5.2 Targeting: The Project was accurately targeted, as demonstrated by allocation of 95% of project funds to the financing of community SPs in municipalities with an average HDI-M below the average for the entire project area (0.659) (Mucuri, Norte and Jequitinhonha - 0.644, 0.649 and 0.650, respectively). On the other hand, municipalities in the Central Region, with average HDI-M of 0.693 received only 5% of the funds. The targeting appropriateness can also be seen in comparing the average allocation per municipality between the regions with lowest (Mucuri) and highest (Central) average HDI-M: USD 226,537 vs. USD 177,352 (see Table 2).

Table 2: Indicative funds for subproject finance, by region

Region	# of municipalities	Average HDI-M	Total Funds allocated USD million	Funds/ municipality USD
Mucuri	36	0.644	8.155	226,538
Norte	89	0.649	20.084	225,660
Jequitinhonha	52	0.650	11.929	229,408
Central	11	0.693	1.950	177,353
Total	188	0.659	42.118	224,042

3.5.3 Gender: Women's direct involvement in CA leadership gained traction over time, due to the IDENE's mobilization strategy. The Project demonstrated the capacity of the CDD model to include and empower women, contrary to the view that women participate but have no power. Under the Project, 23% of CAs were led by women, who also played leadership roles in many MCs.

3.5.4 Ethnic Groups: Indigenous Peoples Participation: The Project did not have an Indigenous People's Plan because it was not required at the time of project preparation, appraisal and approval. Nevertheless, starting in May 2008, IDENE established a small task force, which prepared a proposal for indigenous people's participation in the Project. The task force identified SPs which would benefit indigenous and *Qulombola* communities, maintained contacts with the *Centro de Documentação Eloy Ferreira da Silva (Cedefes)*, analyzed secondary data/information sources, which later, with the Bank's contributions and recommendations, led to the preparation of an "Orientation Guide". In the project area, there are 59 indigenous communities comprised of 5 ethnic groups (Pankararu, Pataxó, Aranã, Maxakali e Xakriabá) across 7 municipalities, with a total estimated population of 9,536. By project closing, the community of Xacriabá, in the municipality of São João das Missões, implemented eight subprojects totaling R\$ 557,000 that benefited 698 families.

3.5.5 As per the **Quilombolas**, although no specific plan had been established to assist them, 25 communities were benefited with SPs for some 1,300 families at an investment of about R\$ 1.4 million. The concentration of Quilombola communities is in the north and northeast regions (243 in 67 municipalities).

(b) Institutional Change/Strengthening

3.5.6 IDENE is an experienced agency with a professional and stable technical and administrative core team. Its decentralized management mode, including the eight ROs, encouraged community involvement in the selection and definition of priority actions, project execution and management of public funds.

3.5.7 IDENE, although based in Belo Horizonte, was able to build a pattern of management that features the integration, transparency and capacity for joint action, counting on roles played by the ROs. This pattern is responsible for its satisfactory performance in project implementation.

3.5.8 Evidence of its institutional development can be seen in its ability to surmount the difficulties associated with project administration turnover, coordinate a complex series of institutional partnerships on behalf of the Project, while maintaining the pace of disbursements in a manner such that loan proceeds were fully disbursed almost one year ahead of the Project's closing date.

(c) Other Unintended Outcomes and Impacts (positive or negative)

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

3.6.1 The Project financed a survey-based Physical Performance Review, several sets of case studies and a Borrower Completion Report. The following briefly summarizes key findings of the four evaluations with a more detailed presentation in Annexes 3 and 5.

3.6.2 **TecnoMetrica (2010).** This Physical Performance Review used quantitative and qualitative data from community leaders and associations for SPs implemented under the RPRP-MG. The survey was conducted in 115 municipalities, across the regions of the project area, covering 174 communities. The sample comprised 203 SPs: 1,746 families and 6,357 persons were interviewed. 98% of community leaders interviewed declared that SPs financed were in response to demands from the communities. 83% declared that constructions/works were done as expected. 87% noted that acquisition of equipment was also done in accordance with the subproject agreements and the Project operational manual. 83% informed that the equipment was being used by the beneficiaries and 86% that they adequately satisfy their needs. 85% acknowledged that SPs produced positive impact on the communities while 59% acknowledged that SPs brought opportunities for additional income and employment. 82% of families interviewed stated that the financed SPs fully or partially satisfied their needs. On the other hand, 88% informed that the SPs fully and partially satisfied the needs of the communities.

3.6.3 From a technical perspective, outside evaluators found a correspondence between the approved technical SPs and their execution. 80% of families interviewed declared their satisfaction with the productive SPs while on the social front, the majority of community social centers financed served multiple purposes (e.g., training events, production, temporary renting. Last but not least, beneficiaries reacted very positively in matters such as improved working conditions, shortening of distances, time saving by women with family care and development of other income generation opportunities.

3.6.4 **Qualitative Study of Perceptions (*Estudo Qualitativo das Percepções e impressões dos beneficiários para avaliação dos efeitos diretos e indiretos dos subprojetos do PCPR na vida dos seus beneficiários*)** [SEDEVAN/IDENE, July 2010]. Main themes addressed: (i) identification of improvements in the well-being and living conditions of the population benefited (directly and indirectly) by the Project; (ii) identification of the relevance of the SPs on creation of employment and income generation opportunities; (iii) identification of the extent to which SPs are contributing to the autonomy of the beneficiaries through social empowerment and their capability to search for solutions to the problems they face; (iv) evaluate the development of associative possibilities – the communities' social capital; and (v) understand the power relationships involving political behavior of the beneficiaries.

4. Assessment of Risk to Development Outcome

Rating: Low

4.0.1 Sustainability: Factors likely to promote sustainability include:

- Extensive evidence that community O&M practices are satisfactory and appropriate for the SPs financed, and that the importance of O&M is well-understood.
- Evidence of social capital formation which can be leveraged for more complex and diverse investment activities, e.g., more complex productive subprojects.
- MCs restructured and adopted as the project decision body at the municipal level turned operational in all 188 targeted municipalities.

4.0.2 Environmental management: SP environmental integrity is supported by the following:

- Established environmental screening processes for all proposals, with access through co-participation arrangements and environmental expertise in specific cases.
- Standard subproject designs for all commonly demanded SPs, with design features for potential environmental issues, e.g., waste disposal for manioc mills.
- In-house environmental professionals hired by IDENE.
- Environmental awareness built into training programs for CAs.
- Close attention to environmental compliance during Bank supervision missions including physical inspection of subprojects in the field.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

Rating: Satisfactory

5.1.1 The rating is based on the following:

Positive elements:

- Excellent Bank/Client collaboration during project preparation, particularly after almost 10 years since the closing of the previous R-NRDP.
- Calibration of project design with the lessons of previous similar projects in other Northeast states and relevance to the Borrower's rural priorities/strategy.
- Support adoption of CMDRSs by the Project (i.e., restructured MCs) and the strengthening of the ROs, both leading to a higher pace of loan disbursement.
- Incorporation of innovative elements designed to strengthen impact, improve targeting and respond to Bank concerns about appropriate use of grant financing.

Negative elements:

- Excessive number of impact indicators.

(b) Quality of Supervision

(including of fiduciary and safeguards policies)

Rating: **Satisfactory**

5.1.2 The rating is based on the following:

Positive elements:

- Supervision missions were timely, well-prepared and documented. The Project absorbed 48 weeks of supervision. Bank supervision missions included randomized field visits to CAs, CMDRSs and SPs, particularly important in view of long distance separating IDENE's headquarters in Belo Horizonte and the project area (188 municipalities).
- Adequate support to IDENE's decision to finance a greater number of productive SPs.
- Aide Memoires were focused on key elements of project design and objectives, including fiduciary and safeguards performance. Time-bound actions expected of the Borrower were followed up and outcomes reported.
- Mid-term review was timely, comprehensive and all findings/recommendations were discussed with the STU, with documented follow-up.
- Consistent focus on Financial Management and Procurement supervision/follow-up.

Negative elements:

- Inability to lead IDENE to carry out a Physical Performance Review at an earlier stage such as by mid-term.

(c) Justification of Rating for Overall Bank Performance

Rating: **Satisfactory**

5.1.3 Overall Bank performance is rated **Satisfactory** based on the Appendix A of the ICR Guidelines (OPCS, August 2006, and updated June 05, 2007). Although the Project Team's supervision performance was strong, it was not sufficient to lead IDENE's completion of the programmed contracting of an impact evaluation study.

5.2 Borrower Performance

(a) Government Performance

Rating: **Satisfactory**

5.2.1 The Borrower's performance during preparation and implementation is rated Satisfactory based on the following:

Positive Elements:

- Successive State Governments were committed to the Project and its objectives as an integral element of their regional and rural strategies.
- Provision of counterpart funding was timely and adequate.
- Government underscored its commitment by intensifying the focus on the most vulnerable groups and on productive SPs.
- Despite project administration turnover, the quality and pace of project implementation did not change.

- Government aggressively pursued preparation and negotiation of a follow-on project within the frame of the Minas Gerais SWAp.

(b) Implementing Agency or Agencies Performance

Rating: **Satisfactory**

5.2.2 The Satisfactory rating reflects performance whereby IDENE:

Positive Elements:

- Maintained its technical and operational staffing, over potentially disruptive effects of project management turnover.
- Adoption of CMDRSs (i.e., restructured MCs) and the strengthening of the ROs, both leading to a higher pace of loan disbursement and achievement of all project objectives and targets.
- Pursued and successfully spurred community demand for productive SPs.
- Initiated financing of demands coming from indigenous and from *Quilombola* (Afro-descendent) ethnic communities.
- Maintained a cooperative and committed relationship with the Bank throughout.

Negative Elements:

- Lack of impact evaluation study.

(c) Justification of Rating for Overall Borrower Performance

Rating: **Satisfactory**

5.2.3 The overall Borrower performance is rated Satisfactory.

6. Lessons Learned (beyond those noted on Productive SPs in Box 2 above)

The CDD approach promotes social capital formation. The Project's demand-drivenness improves local governance by giving poor rural communities a unique set of experiences involving collective action, priority-setting, decision-making, and investment financial management, operation and maintenance. Social capital under this and similar projects is both a benefit in its own right and an element in the success of participatory rural poverty reduction.

Adapting existing institutions can accelerate implementation and bolster sustainability. By working with existing CMDRSs in the project area and successfully increasing their representation among potential project beneficiaries, both the quality and targeting of public resources (Project and non-Project) improved, while leveraging complementary funding and deepening the investment stock needed for faster rural poverty reduction

Small scale grant-financed productive ventures, in contrast to community infrastructure, require a business plan (including technical and financial analyses), up-front marketing arrangements and formal training for the operational phase. Beneficiaries need to get it right the first time under a one-time grant financing opportunity designed to jump-start both

employment and income generation. Engaging the financial sector is also pivotal in order to successfully graduate successful productive endeavors to future formal lending (i.e., loans).

Decentralized project management improves responsiveness to beneficiaries. By delegating responsibilities to regional technical offices, the RPRP-MG markedly increased its visibility and accountability to potential beneficiary families. The proximity of assistance activities - including technical and legal support to community subprojects - reduces processing times, strengthens the CAs' management capacity and increases the quality and frequency of IDENE supervision of overall project implementation.

CDD can effectively target and empower poor rural women. Experience in Minas Gerais and elsewhere shows unequivocally that demand-driven mechanisms not only enable women to access the benefits of community investments, but provide important leadership/learning opportunities for women through the community associations.

CDD is appropriate for ethnic groups and indigenous peoples. The Project demonstrated, albeit on a small scale, that participatory, demand-driven mechanisms are consistent with the cultural practices of these groups and that they can manage the subproject cycle, including its participatory mechanisms, effectively.

7. Comments on Issues Raised by the Borrower

- The Borrower's letter of December 29, 2010 (Annex 7b), expressed broad consensus with the Bank's Project assessment as detailed in this ICR, which also takes into account, along with other documents, the findings of the Borrower Completion Report prepared by IDENE (September 2010).
- The Borrower noted its satisfaction in fully disbursing the USD 35.0 M Bank loan and having met (and in some cases, surpassed) the PDO and intermediate targets. Counterpart finance on the part of the State remained consistent, while the fresh approach to public sector administration (i.e., *Management Shock*) proved a key factor in the Project's success.
- The Borrower concurs with the overall rating of Satisfactory, noting the ICR's confirmation of the relevance of the project design, evidence of quality and sustainable community subprojects and the strong benefits targeting that was both planned *ex ante* by IDENE and achieved at project closing.
- Local participation of organized civil society, coupled with the constructive engagement of municipal government and the restructuring of the CMDRSs substantially contributed to these outcomes.
- Finally, the Borrower reminds the Bank of: (i) the importance of IDENE (and SEDVAN) in advancing poverty reduction in Northern Minas Gerais; and (ii) the partnership with the Bank in promoting inclusive and participatory rural development.

Annex 1. Project Costs and Financing

(a) Project Cost by Component (in USD Million equivalent)

Components	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)*	Percentage of Appraisal
Community Subprojects	41.15	47.90	116%
Institutional Development	3.10	2.45	79%
Administration, Supervision, M&E	1.20	0.51	43%
Total Baseline Cost	45.45	50.86	112%
Physical Contingencies	0.60	0.00	
Price Contingencies	0.40	0.00	
Total Project Costs	46.45	50.86	109%
Front-end fee IBRD	0.35	0.09	26%
Total Financing Required	46.80	50.95	109%

* Including counterpart provided by beneficiaries

(b) Financing

Source of Funds	Appraisal Estimate (USD millions)	Actual Estimate (USD millions)	Percentage of Appraisal
Borrower	11.80	15.95*	135%
International Bank for Reconstruction and Development	35.00	35.00	100%

* Including counterpart provided by beneficiaries

Annex 2. Outputs by Component

2.1 The following discusses physical outputs by each project component:

2.2 **Component 1 – Community Subprojects:** This component was expected to finance 1,860 matching grants to rural CAs for socio-economic infrastructure and productive SPs (up to US\$50,000 each) identified by these groups as priority investments that would improve community well-being for some 93,000 families. Community SPs were identified, executed, operated and maintained by beneficiary communities, acting through their legally-constituted CAs. After SP approval by the STU, project funds are disbursed directly to the CAs, which manage SP implementation, operation and maintenance. SPs were expected to be financed under three subprograms - PAC (State Community Schemes), FUMAC (Municipal Community Schemes) and FUMAC-P (Pilot Municipal Community Funds) - of varying degrees of decentralization and autonomy. PAC was expected to absorb about 23% of all SP cost (up to US\$9.3 million.); FUMAC about 72% (US\$ 29.4 million) and FUMAC-P about 5% (US\$2.4 million). PAC was the least decentralized while FUMAC-P was the most advanced in giving each CMDRSs its own budget envelop to manage.³

2.3 Although planned, IDENE decided not to use the PAC and FUMAC-P delivery mechanisms. PAC became viewed as retrograde, in the face of the positive experiences with the municipal councils, while FUMAC-P proved intractable due to issues surrounding the transfer of funds from the Municipal Council to respective community associations.⁴ As a consequence, in October 2008, loan resources originally allocated to the PAC and FUMAC-P subprograms were reallocated to FUMAC, as follows: (i) a total of US\$11,430,000 comprising US\$6,450,000 from Category 1(a) PAC Grants, US\$1,700,000 from Category 1(c) FUMAC Pilot Grants, US\$1,050,000 from Category 3 Training for Parts B and C of the Project, and US\$2,230,000 from Category 7 Unallocated reallocated to Category 1(b) FUMAC Grants for a total of US\$31,950,000; (ii) a total of US\$600,000 comprising US\$262,500 from Category 5 Fee and US\$337,500 from Category 7 Unallocated reallocated to Category 2 Consultants' services for Parts B and C of the Project for a total of US\$2,000,000; and (iii) a total of US\$162,500 comprising US\$80,000 from Category 4(a) Incremental operational costs and US\$82,500 from Category 7 Unallocated reallocated to Category 4(b) Project supervision and monitoring costs for a total of US\$412,500. This, in essence, mainstreamed the FUMAC mechanism.

³ Under FUMAC, in the context of the CMDRSs, community associations participate in with 2/3, majority membership of beneficiaries and civil society, and 1/3 of municipal authorities and other entities. The Councils meet regularly to debate community subproject proposals and set priorities, based on predetermined by IDENE annual budget determined. Approved subprojects are sent to the IDENE for final technical and environmental analysis and approval. Funds are transferred directly to the beneficiary association. Based on previous experience of other NE states, IDENE decided to devolve FUMAC-P to the original FUMAC design. According to information collected by IDENE, the main reason for failure of FUMAC-P was that the NE State Governments never felt comfortable with the decentralization of actual funds management to these Councils. Further, some FUMAC-P tended to finance very small subprojects designed to reach the maximum number of communities, resulting in low and localized impact. Finally, under PAC, community associations submit subproject proposals directly to the State Technical Unit which transfers funds directly to the associations for approved subproject. There is no representative Municipal Council. It is the least decentralized and studies have shown, has the least impact on social capital formation. IDENE, based on his own earlier experience and on lessons collected from other states decided, upfront, dedicate effort to assist the creation and development of councils in all 188 municipalities.

⁴ Under Brazilian law, as Municipal councils were not legally constituted entities, they could not receive subproject funds from the STU for subsequent transfer to community associations.

2.4 At loan closing, the number of financed SPs (1,730) was 93% of the target. The number of beneficiary families was fully met. The number of families per SP was greater than originally envisaged (54 vs. 50). Productive SPs responded for 54% of total, while infrastructure accounted for 30%, and social, the remaining 16%. The average SP cost at appraisal was US\$20,552 and cost per beneficiary family US\$411; at loan closing, these averages were US\$23,892 and US\$442, respectively. As such, the 8% increase in the average beneficiaries per SP was accompanied by an increase of 16% in the average cost of the SP but by an increase of only 8% in the average cost per beneficiary family. For details on costs distribution (planned vs. actual), see Annex 1.

2.5 **Demand:** Project success depended on the wide mobilization of rural communities, their organization into CAs and the subsequent expression of their investment priorities in the context of the CMDRSs. Dissemination and mobilization used various methods (e.g., radio, pamphlets) to reach all targeted municipalities and communities, even the most distant from urban centers requiring a substantial institutional effort to bring information and motivate the rural people to participate in the Project. IDENE project management was decentralized through the creation of the ROs. The institutionalization of MCs, through their consolidation into the CMDRSs, allowed greater interaction with rural communities that stood to benefit from the Project and the knowledge of the potential and the problems of each region. This mobilization effort yielded an aggregate SP demand of at least 1,730 proposals.⁵

2.6 **Types of subprojects:** The following tables (2a and 2b) provide information and data on the 1,730 financed SPs. As shown on Table 2a, productive SPs responded for 54% of the total, while infrastructure accounted for 30%, and social, 16%. Water supply (infrastructure) was the most demanded/financed SP type, while the others are scattered over a large number of categories. In general, the productive SPs, although large in numbers, are relatively unsophisticated, but many subject to market exposure (even local). As noted in this ICR [see Annex 5]: (i) productive and social development SPs are contributing significantly to the economic development of the families/CAs. Notwithstanding difficulties in delivering the products to the markets, in 100% of the cases investigated there was acknowledgement of significant income increases; (ii) social SPs (e.g., community social centers), demonstrated multi-purpose functionality (e.g., training events, non-farm production, temporary rental); (iii) with the advent of the productive SPs, there were significant changes in the positions occupied by rural workers: as a consequence of their increased income and social prestige, they have tended to become "small farmers and businessmen", whose activities are more market-oriented; (iv) women started playing a fundamental role, in most of the cases, in the organization and management of CAs; (v) major impact was with children of association members, who became stimulated to pursue more education, continuing their studies; and (vi) in general, CAs met monthly to exchange ideas on problems they face, discuss new projects and review planning and strategies for projects under implementation.

⁵ The project's MIS does not register SPs which have not been approved/recommended by the CMDRSs. Therefore, actual data on total SP demand is not available.

Table 2a: Distribution of financed subprojects by types and corresponding total investment, cost/subproject, number of beneficiary families and cost per family

Subproject Types	# of financed subprojects	Total financing (US\$ million)	Cost/subproject (US\$)	# of beneficiary families ('000)	Cost /family (US\$)
Productive (P)	936	24,92	26,617	56.17	443.8
Infrastructure (I)	519	10,06	19,383	22.19	453.3
Social (S)	275	6,48	24,06	15.55	416.9
Total	1,730	41,44	23,96	93.91	441.3
* Actual averages in US\$ were \$23,892 and \$442.45, respectively					

Table 2b: Main types of single subprojects financed.

Types of Subproject	Type	#	Subprojects	Type	#
Water supply	I	429	Livestock dairy production	P	31
Mechanical farm cultivation	P	244	Honey production	P	28
Community Social Center	S/P	188	Multiuse storage facility	P	28
Farm implements (machinery)	P	155	Bridge	P	17
Manioc flour mills	P	123	High value production	P	15
Milk cooling units	P	92	Fruit processing units	P	15
House improvement	S	88	Daycare facility	S	13
Sugarcane brick candy <i>rapadura</i>	P	57	Fish production	P	8
Grain processing units	P	44	Others	I,P,S	119
Clothing and/or handcraft	P	36	Total		1,730

2.7 **Targeting:** The Project was accurately targeted, as given by the fact that 95% of project funds destined for SP financing were allocated to municipalities in the regions with average HDI (Mucuri, Norte and Jequitinhonha - 0.644, 0.649 and 0.650, respectively) below the average for the entire project area (0.659). Conversely, municipalities in the Central Region, with average HDI of 0.693 received only 5% of the funds. The targeting appropriateness can also be seen by comparing the average allocation per municipality between the regions with lowest (Mucuri) and highest (Central) average HDI: USD 226,537 vs. USD 177,352 (see table 2.c). The matter of fact is that HDI-M is low all around the entire project area.

Table 2c: Number of municipalities, per Regions, and corresponding averages of HDI-M and Funds per municipality

Region	# of municipalities	Average HDI-M	Total Funds allocated USD million	Funds/ municipality
Mucuri	36	0.644	8.155	226,538
Norte	89	0.649	20.085	225,669
Jequitinhonha	52	0.650	11.929	229,408
Central	11	0.693	1.951	177,353
Total	188	0.659	42.120	224,043

2.8 **Integration:** By opting to use the fold the MCs into the CMDRSs, IDENE had a unique opportunity to share decisions and link investments financed by the RPRP-MG with others (e.g., electricity, investment capital) provided by *Luz para Todos* and PRONAF, among others. This decision and consequent implementation allowed a complete integration in all 188 municipalities of the Project and these programs using a common approach. Approximately R\$ 1.09 billion (US\$762 million) were implemented by these two programs using the CMDRSs as focal points for discussing rural electrification and the provision of investment credit to small farmers. This provided a privileged environment for Project beneficiaries to complement and integrate investments financed by the RPRP-MG with those provided by these programs and meant significant, but not measured, savings of loan funds, which could then be reoriented toward productive SPs.

2.9 Performance results at end-project for Component 1 are shown in Table 2d below:

Table 2d: Component 1 - Project Performance Indicators at end-project

Components and Activities	Institution Responsible	Target	Actual EOP	% Achieved (OT/Actual)
1. Community Subprojects	CAs	1,860	1,730	93%
Infrastructure (#)		n.a	519	-
Productive (#)		n.a	936	-
Social (#)		n.a	275	-
Total Beneficiaries (Families)	IDENE/MC	93,000	93,900	101%
Community assns. benefited (#)		1,722	1,647	96%
Municipal Councils created (#)		188	188	100%
FUMAC (#)		n.a	188	-
FUMAC-P (#)	IDENE	n.a	0	-
Municipalities benefited (#)		188	188	100%

2.10 **Component 2 -- Institutional Development:** financed technical assistance and training to build capacity in implementing entities, including the CAs, MCs and IDENE. This component financed training for CAs, MCs and STU project technicians, in addition to technical assistance and information dissemination. Technical assistance and specialized consultancies were financed for CAs and MCs to build and consolidate their participatory decision-making processes and their role in overseeing subprojects execution. This component financed some 22 training events for CAs, the MCs and IDENE. The specific objectives of the training were the following: (a) discuss the roles to be played by the presidents and the treasurers of the beneficiary CAs and the presidents of the CMDRSs; (b) the correct use of SP funds received and guidance on how to prepare the statements of expenses; and (c) explanation of the clauses of the subproject agreements signed between the CAs and IDENE. Seven technical events, attended by 293 regional staff, were held in the eight regions and Belo Horizonte in which subjects such as monitoring of project implementation and CAs' statement of expenses were discussed. In all, these events had a participation of some 3,245 people (See Table 2e).

Table 2e: Training events

Type	Local	Date	# of participants	
			Assoc., Municipalities rep.,; Rural Workers Unions, CMDRS, EMATER and ONGs	IDENE staff
Awareness raising / Mobilization	Araçuaí	30/11/2005	45	
Awareness raising / Mobilization	Diamantina	06/12/2005	90	
Awareness raising / Mobilization	Janaúba	24/11/2005	45	
Awareness raising / Mobilization	Januária	23/11/2005	72	
Awareness raising / Mobilization	Jequitinhonha	29/11/2005	54	
Awareness raising / Mobilization	M. Claros	05/12/2005	99	
Awareness raising / Mobilization	Teófilo Otoni	28/11/2005	108	
Awareness raising / Mobilization	Salinas	07/12/2005	51	
Project presentation	B. Horizonte	05/10/2005		50
Technical working meeting	Teófilo Otoni	26 a 28/06/2007		53
SOE workshop	Montes Claros	02 e 03/10/2007		20
SOE workshop	Diamantina	04 e 05/10/2007		20
Signing of Agreements and SOE	B. Horizonte	24/05/2007	354	
Signing of Agreements	B. Horizonte	06/12/2006	101	
Signing of Agreements and SOE	B. Horizonte	26/06/2008	622	
Signing of Agreements and SOE	Araçuaí	27/09/2007	130	
Signing of Agreements and SOE	Corinto	03/12/2007	55	
Signing of Agreements and SOE	Itambacuri	11/12/2007	144	
Signing of Agreements and SOE	M. Claros	20/09/2007	165	
Signing of Agreements and SOE	Salinas	07/12/2007	185	
Signing of Agreements and SOE	Teófilo Otoni	28/09/2007	154	
Signing of Agreements and SOE	Janaúba	24/08/2007	38	
Technical working meeting	Diamantina	21 e 22/07/2010		50
Technical working meeting	M. Claros	11 a 13/08/2010		50
Signing of Agreements and SOE	Diamantina	17 a 19/06/2009	120	
Signing of Agreements and SOE	M. Claros	09 a 11/06/2009	280	
Technical working meeting	M. Claros	11/10/2006		50
		TOTAL	2,912	293

2.11 Component 3 – Administration, Supervision, Monitoring and Evaluation: financed the costs (excluding salaries) of project administration and coordination including supervision, monitoring and impact evaluation.

2.12 This component supported project coordination and activities to monitor project performance and results. Incremental operational costs (excluding salaries) of IDENE further improved supervision and strengthened project operation. This was particularly important in view of relatively large distance between IDENE's headquarters and the Project area. The component financed the upgrading of the project MIS, as well as public information outreach to disseminate understanding about Project's objectives, benefits, rules and methodology. The component also financed technical working meetings of the ROs, one of the main instruments for improving Project working plans and their implementation (Table 2f).

Table 2f: Working Meetings for ROs technical staff

Where	When	Nº Participants
Belo Horizonte	05/10/2005	50
Teófilo Otoni	26 a 28/06/2007	53
Diamantina	21 e 22/07/2010	50
Montes Claros	11 a 13/08/2010	50
Montes Claros	11/10/2006	50
TOTAL		293

Performance results for Component 3 were as follows:

Component/Activities	Responsible Institution	Observation
3. Project Administration, Supervision, Monitoring and Evaluation		
Supervision		
Subprojects	IDENE	Permanent and continuous activity carried out by RO technical staff
Municipal Councils	IDENE	Same as above
Annual Operating Plans (POA)		
Consolidation & preparation, Project POA	IDENE	1 per year during Project implementation
Monitoring Reports		
Monthly disbt. summaries and MIS update	IDENE	Carried out as planned
Annual, semi-annual reports	IDENE	Same as above
External studies	IDENE/ contracted firms	Audit reports
Evaluation studies		
Physical Performance Study	IDENE	Carried out by contracted consulting firm
Impact/Results evaluation		
Case Studies	IDENE	1 carried out by IDENE technical staff
Perception study	IDENE	1 carried out by consultant

Annex 3. Economic and Financial Analysis

3.1 As stated in the Borrower's Completion Report, "since its beginning, the Project is striving to satisfy demands from the poorest rural communities in the regions covered by IDENE/SEDVAN, with the objective of contributing to reduce rural poverty through generation of employment and income in addition to the search for improvement in the quality of life and wellbeing of the beneficiary families."

3.2 The RPRP-MG financed 1,730 community SPs, benefiting some 93,900 families, across 188 municipalities and organized in 1,647 CAs. the following categories constituted fully three-fourths of these SPs: water supply, farm mechanization, community social center, farm implements (machinery), manioc flour mills, milk cooling units and house improvement (see Table 3a).

3.3 The Project was subject to a Physical Performance Study and a Perception study; the main findings of these studies are summarized in Annex 5. An end-of-project impact evaluation study was not conducted; however, 22 case studies of implemented SPs - with field data collection - were compiled to estimate indicative economic and financial results of the Project, of which only the cases of water supply, farm mechanization and milk cooling units are presented in this Annex. Additionally, a comparative analysis is done of the known results of similar SP types (e.g., water supply, in the case of Minas Gerais) in other rural CDD projects in Northeast Brazil (see Table 3c).

Table 3a. RPRP-MG: Main types of community subprojects financed

Subproject type	Type	#	Subproject type	Type	#
Water supply	I	429	Livestock dairy production	P	31
Farm mechanization	P	244	Honey production	P	28
Community Social Center	S/P	188	Multi-use storage facility	P	28
Farm implements (machinery)	P	155	Bridge	P	17
Manioc flour mills	P	123	High value production	P	15
Milk cooling units	P	92	Fruit processing units	P	15
House improvement	S	88	Daycare facility	S	13
Sugarcane brick candy <i>rapadura</i>	P	57	Fish production	P	8
Grain processing units	P	44	Others	I,P,S	119
Clothing and/or handicraft	P	36	Total		1,730

Methodology: Case Studies

3.4 A case study approach was adopted, based on the main SP types (i.e., water supply; farm mechanization, house improvement, sugarcane brick candy, manioc flour mills and milk cooling) and the community associations demanding, executing and operating them. Of 22 sampled SPs, six water supply, eight farm mechanization and two milk cooling were selected for financial analysis. Statistical extrapolations for the entire SP universe were not intended, but there was a certain comfort level in exploring the results obtained for four basic reasons: (i) the apparent homogeneity (i.e., representativeness) of the units comprising the universe by SP type ; (ii) the intentional decision to include SPs considered by knowledgeable people to be moderately successful, that is, the sampled units were not limited exclusively to very successful subprojects; (iii) the STU took care to select SPs

considered "typical"; and (iv) the communities composing the sample were geographically-dispersed.

3.5 IDENE technicians conducted the field research and interviewed beneficiaries, CA leaders and those knowledgeable of SPs and their histories. Questionnaires were tailored to the nature of each SP type studied, with questions permitting both open and closed responses.

3.6 Net present values (NPV), benefit/costs ratios (B/C) and Internal Rates of Return (IRR) for each SP type sampled were estimated. Cost and benefits streams were built on the basis of actual field data collected. IRRs were estimated using a 10-year period and the NPV was calculated using a 10% discount rate. Two IRRs were estimated: (i) IRR-1, using actual average values of the variables defined (see below) to measure costs and benefits; and (ii) IRR-2, reflecting a sensitivity analysis by assuming 20% higher costs and a simultaneous 20% reduction in revenues/benefits. All monetary values are expressed in Brazilian Reais.

3.7 Costs and benefits identified for each SP type were the following:

- **Water supply with household connection and cisterns:** Total initial investment; annual operating costs; revenue for water consumption and membership fee (proxy for willingness to pay for unmeasured benefits); value of time of family members freed from having to fetch water; value of incremental employment generated by water availability; value of reduced water-borne diseases and incremental investments.
- **Farm mechanization:** Total initial investment; annual operating costs; revenue from membership fees (proxy for willingness to pay for unmeasured benefits); and increased income (based on data provided by the Perception Study for this SP type), under the following additional assumptions: (i) income is net of revenue of a wage worker, as proxy for pre-SP income; and (ii) use of farm machinery, including tractor, responds to 20% of the post-SP family income.
- **Milk cooling units:** Total initial investment; annual operating costs; beneficiary payment to the CA for the service (cooling), as proxy for willingness to pay for unmeasured benefits; savings resulting from avoidance of losses of milk which occurred when there was no cooling service; and net increase of income resulting from increased milk production and improved quality (commanding a higher price).

3.8 The results of the exercise are shown in Table 3b. Given the strong limitations of the sampling procedures, though compensated in part by the manner in which the units were selected and interviewed, (see 3.4 above), the results serve mainly as indicators of the magnitude of possible real value.

Table 3b. Main financial and economic results of subprojects *

Subproject type	PV Benefits (R\$)	PV Costs (R\$)	B/C ratio	IRR-1	IRR-2
Water supply	62,242,059	11,8762,054	5.2	83%	53%
Farm mechanization	1,816,790	1,031,712	1.2	35%	13%
Milk cooling units	270,754	162,725	1.7	58%	21%

* Values extrapolated to the total number of water supply subprojects at the time of the data collection for the case study (oct/november 2008), while for the other two types estimates were restricted to the samples.

3.9 The findings above suggest that financial returns are robust for all three SP types under very conservative assumptions (shown by the sensitivity analysis – IRR-2). Regarding water supply (as shown in other studies such as Binswanger 2005), its positive impact on beneficiaries' wellbeing is widely recognized, despite the inability to fully quantify this impact in the exercise. The approach here seems to yield very high financial returns for water supply, milk cooling and farm mechanization.

Comparative analysis of results of MG and other States for similar projects

3.10 A comparison of financial returns to investments in two SP types (i.e., water supply and farm mechanization), common and similar in seven individual States with RPRPs (see Table 3c) suggests that Minas Gerais is faring quite well in water supply and in the same level of other states in farm mechanization.

Table 3c. Estimated Internal Rates of Returns (%), for comparable subproject types

Subproject type/ States ¹	NE	PE	PB	PI	CE	BA	MG	SE
Water supply	-	53	30	3	18	21	53	57
Sanitation	-	8	-	-	-	-	-	-
Farm tractor	38	39	-	35	-	39	35	25
Honey	17	54	-	63	-	-	-	-

¹ Northeast Region (NE). Pernambuco (PE), Paraíba (PB), Piauí (PI), Ceará (CE), Bahia (BA), Minas Gerais (MG) and Sergipe (SE)

Sources: NE (van Zyl study); for PB, PI, CE and SE see corresponding ICRs; for BA and MG, own estimations by ICR Primary Author.

Annex 4. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit
Lending		
Anna Roumani	ET Consultant	LCSER
Claudio Mittelstaedt	ET Consultant	LCOAA
Edward Bresnayan	ET Consultant	LCSER
Irani Escolano	Procurement Analyst	LCSE
João Barbosa de Lucena	Consultant	LCSRE
Jose Augusto Carvalho	Consultant	LEGLA
Luis Coirolo	Lead Sector Specialist, Team Leader	LCSRE
Luiz Gazoni	Lead Procurement Specialist	LCOPR
Mariana Montiel	Senior Council	LEGLA
Marta Molares-Halberg	Lead Council	LEGLA
Raimundo Caminha	Consultant	LCSRE
Túlio Barbosa	Consultant	LCSRE
Supervision/ICR		
Alberto Coelho Gomes Costa	E T Consultant	LCSSO
Anna F. Roumani	Consultant	LCSAR
Edward Bresnayan	Project and ICR TTL Senior Rural Development Specialist	LCSAR
Emilio H. Rodriguez	Consultant	LCSPT
Estela Maria Souza Costa Neves	Consultant	LCSAR
Fabson Vogel	Financial Management Specialist	LCSFM
Joao Barbosa-De Lucena	Consultant	LCSAR
Joao Vicente Novaes Campos	Financial Management Specialist	LCSFM
Jorge A. Munoz	Lead Rural Development Specialist	LCSAR
Luciano Wuerzius	Procurement Specialist	LCSPT
Maria de Fatima de Sousa Amazonas	Senior Rural Development Specialist	LCSAR
Raimundo N. Caminha	Consultant	LCSAR
Túlio Barbosa	Consultant	LCSAR

(b) Staff Time and Cost

Stage of Project Cycle		Staff Time and Cost (Bank Budget Only)	
		No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending			
	FY98	0	2.97
	FY99	0	0
	FY00	0	0
	FY01	0.4	0
	FY02	10.41	37.45
	FY03	12.34	56.31
	FY04	4.98	14.34
	FY05	0	6.85
	FY06	1.3	7.06
	FY07	0	0
Total:		29.43	124.98
Total:			
Supervision/ICR			
	FY06	10.5	20.04
	FY07	8.83	51.22
	FY08	10.68	42.84
	FY09	8.76	38.77
	FY10	5.27	19.43
	FY11	4.20	37.31
Total:		48.24	209.61

Annex 5. Beneficiary Survey Results

5.1 **TecnoMetrica (2010)** used quantitative and qualitative data for SPs implemented under the RPRP-MG and interviews with community leaders and associations. The survey was conducted in municipalities, across the regions of the project area. Samples comprised 203 subprojects and 1,746 families; 6,357 persons in all were interviewed.

5.2 Findings were as follows:

- 98% of community leaders interviewed declared that financed SPs were in response to communities' demands;
- 83% declared that constructions/works were done as expected;
- 87% that acquisition of equipment was also done in accordance with the subproject agreements (*convênios*) and the Project Operational Manual;
- 83% informed that these equipment are being used by the beneficiaries and 86% stated that they adequately satisfy their needs;
- 86% acknowledged that SPs produced positive impact on the communities while 59% acknowledged that they brought opportunities for additional sources of income and employment generation;
- 82% of families interviewed stated that the financed SPs fully or partially satisfied their needs;
- 88% informed that the SPs fully or partially satisfied the communities' needs;
- Outside evaluators stated that, in general terms, there was a correspondence between the approved technical SPs and their execution in the field.
- 80% of families interviewed declared satisfaction with the productive SPs.
- On the social front, the majority of community social centers financed became multi-use facilities (e.g., training events, non-farm production, and temporary rental).
- Finally, beneficiaries reacted very positively in matters such as: (i) improved working conditions, (ii) shortening of distances, (iii) time saved by women with child care; and (iv) the development of other income generation opportunities.

5.3 *Estudo Qualitativo das Percepções e impressões dos beneficiários para avaliação dos efeitos diretos e indiretos dos subprojetos do PCPR na vida dos seus beneficiários (Qualitative Study of Perceptions)* [SEDVAN/IDENE, July 2010]. Main themes addressed: (a) identification of improvements in the wellbeing and living conditions of the population benefited (directly and indirectly) by the RPRP-MG; (ii) identification of SP relevance in employment creation and income generation opportunities; (iii) identification of the extent to which SPs are contributing to the autonomy of the beneficiaries through social empowerment and their capability to search for solutions to the problems they face; (iv) evaluate the development of associative possibilities – the communities' social capital; and (v) understand the power relationships involving political behavior of the beneficiaries.

5.4 The study was based on the selection, for sampling purposes, of communities with productive and social SPs to the extent the former address issues of income generation and the latter, social development. Two communities were randomly selected (one for productive and another for social development) for each of the eight areas covered by the regional offices; as such, sixteen SPs were selected.

5.5 Among the results, the following merit mention: (i) both productive and social development SPs are contributing significantly to the economic development of the families/CAs. Notwithstanding difficulties in delivering the products to the markets, in 100% of the cases investigated there was acknowledgement of significant income increases; (ii) with development of productive SPs, there are significant changes in the positions occupied by rural workers: as a follow on of increased income and social prestige, they tend to become “small farmers and businessmen”, whose activities are market-oriented; (iii) women started playing a fundamental role, in most of the cases, in the organization and management of CAs; (v) major impact was with children of association members, who became stimulated to pursue more education, continuing their studies; and (vi) in general, associations meet monthly to exchange ideas on problems they face, discuss new projects and plan for projects being implemented.

Annex 6. Summary of Borrower's ICR and Comments on Draft ICR

A. Borrower Completion Report (Executive Summary)

6.1 The Rural Poverty Reduction Project – RPRP-MG, under Loan Agreement 7329-BR, aimed to support, on a matching grant basis, productive, social and basic infrastructure investments in response to demands from the poorest rural communities living in the jurisdiction area of the IDENE/SEDVAN⁶ System – the project STU – contributing to rural poverty reduction through income and employment generation and improvement of wellbeing and quality of life of the beneficiary families. Additionally, the Project pursued the objective of strengthening community associations and the CMDRSs to make them active participants in the discussions on their own demands and in defining priorities on the use of project funds and of municipal public policies, therefore improving social capital.

6.2 The State government's and the World Bank's premise of decentralization turned the RPRP into a rather challenging project to implement because it required transparent processing and strong participation of organized civil society. It can be concluded that state management created a favorable scenario for the implementation of public policies acceptable to and shared by society, thereby strengthening credibility and allowing the definition of targets to satisfy society's demands. Even considering all favorable conditions for the implementation of these actions, poor effectiveness could result if human capital, professionalism, qualification, coordination capability and the search for an emotional intelligence had not been taken into consideration as these elements provide commitment to the major client: the society.

6.3 The operating model adopted by the RPRP-MG to support the rural population assumed that mechanisms that include increased civil society participation tend to generate better results as enhanced social capital and increase the communities' capacity to mobilize internal and external resources to enable their development. In this sense, the financing of community subprojects is presented as a catalytic instrument for community mobilization and organization.

Physical and Financial Performance of Subprojects

6.4 In the period from 2006 to 2010, 1,730 subprojects were implemented. In this period, the RPRP-MG benefited 93,900 families or some 328,600 persons across 1,647 community associations in 188 municipalities of the project area. Project records show that 23% of the all community associations benefited in that period were coordinated by women.

6.5 It took no more than 3 years, since the beginning of implementation, to reach 82% of the target for financed subprojects and 90% of the 90,000 target for beneficiary families (Table 6a). It is estimated that by end 2008 about 84% of loan funds for subprojects had already been disbursed (actual plus committed).

⁶ IDENE, created by State Law n° 14.171, dated January 15, 2002 and by *Delegated Law* n° 78, dated January 29, 2003, January 2003, is an autonomous institution under the *Gabinete da Secretária de Estado Extraordinário para o Desenvolvimento dos Vales do Jequitinhonha e Mucuri e do Norte de Minas – SEDVAN*.

Table 6a. Number of financed subprojects, total financing and number of beneficiary families, by year

Year	# of financed subprojects	Total financing (BRL million)	# of beneficiary families ('000)
2006	101	5.1	7.8
2007	830	42.3	49.3
2008	485	23.6	24.3
2009	248	10.8	10.6
2010	66	1.5	1.9
Total	1,730	83.3	93.9

6.6 At loan closing, the number of financed subprojects was 93% of the original target. The number of beneficiary families was fully accomplished. The number of families per subproject was greater than originally envisaged (54 vs. 50). Productive subprojects responded for 54% of total, while infrastructure accounted for 30%, and social, the remaining 16%. The estimated subproject average total cost at appraisal was the equivalent to US\$20,552 and cost per beneficiary family US\$411 and at closing the averages were US\$23,892 and US\$442, respectively. Therefore, the 8% increase in the average number of beneficiary per subproject was accompanied by an increase of 16% in the average cost of the subproject but by an increase of only 8% in the average cost per beneficiary family (see Table 6b)

Table 6b. Distribution of financed subprojects by types and corresponding total investment, cost/subproject, number of beneficiary families and cost per family (Amounts in BRL)

Subproject Types	# of financed subprojects	Total financing (BRL million)	Cost/ subproject	# of beneficiary families ('000)	Cost /family
Productive (P)	936	50.10	53,500	56.17	892.0
Infrastructue (I)	519	20.22	38,960	22.19	911.2
Social (S)	275	13,03	48,360	15.55	837,9
Total	1,730	83.3	48,150*	93.91	887.0*
* Actual averages in US\$ were \$23,892 and \$442.45, respectively					

6.7 Except for water supply (infrastructure), the other subprojects are scattered over a large number of different subprojects, notably the productive, as shown in Table 6c.

Table 6c. Main types of single subprojects financed.

Types of Subproject	Type	#	Subprojects	Type	#
Water supply	I	429	Livestock dairy production	P	31
Mechanical farm cultivation	P	244	Honey production	P	28
Community Social Center	S/P	188	Multiuse storage facility	P	28
Farm implements (machinery)	P	155	Bridge	P	17
Manioc flour mills	P	123	High value production	P	15
Milk cooling units	P	92	Fruit processing units	P	15
House improvement	S	88	Daycare facility	S	13
Sugarcane brick candy	P			P	
<i>rapadura</i>		57	Fish production		8
Grain processing units	P	44	Others	I,P,S	119
Clothing and/or handcraft	P	36	Total		1,730

Advances and Innovations

Management

6.8 IDENE innovated in many project management aspects such as: (i) linking the community subprojects along three fundamental strategies: income generation; social development and basic infrastructure reconstruction to face drought, a common occurrence in the project area; (ii) prior to financing subprojects, an effort was made to develop and organize community associations and CMDRSs; (iii) the latter were chosen to be the project local decision *focal point*, an environment shared with decisions on other projects and programs; (iv) subsidiary but essential for CMDRSs' choice was their restructuring, in particular increasing the representativeness of the project beneficiaries (to 1/3 with voting rights); (iv) budgetary allocation and enforcement for each of the 188 municipalities; (v) maintenance and strengthening of the eight Regional Offices, strategically located in the project area; (vi) SEPLAG-MG monitoring, with whom results agreements were signed.

6.9 The empowerment of the CMDRSs, supported by the RO staff, led to significant participation of rural communities in deciding on the application of resources within the municipalities, promoting transparency and reducing political interference in project management. An important result of this process was that 100% of subprojects financed were discussed in the CMDRSs, from the prioritization made by the communities.

Training of Community Associations and CMDRSs

6.10 Some 22 training events for community associations and CMDRSs, involving a total of 2,912 representatives took place from November 2006 to August 2010. The specific objectives of the training were: (i) discuss the roles to be played by the presidents and the treasurers of the beneficiary associations; (ii) the roles to be played by the presidents of the CMDRSs; (iii) the importance of the Project and its directives; (iv) the correct use of funds received and guidance on how to prepare the statements of expenses; (v) explanation of the clauses of the agreements signed between the associations and IDENE. Seven technical events, attended by 293 regional

staff, were held in the region and Belo Horizonte in which subjects such as monitoring of project implementation and associations statement of expenses were dealt with.

Quilombolas and Indigenous communities

6.11 Even without a specific plan (not required at the time of project preparation and approval) the Project benefited 1,300 Quilombola families in the North and Northeast regions, where 243 Quilombola communities live, involving funds of about R\$ 1.4 million (US\$797,000), with financing of sixteen productive, three social and six infrastructure subprojects.

6.12 Likewise (without a specific plan), the Project benefited 698 families of the Xacriabá indigenous ethnical group (municipality of São João das Missões), which received financing for eight subprojects, involving funds of about R\$ 557,000 (US\$317,100).

Studies Results Assessment - Indicator of Sustainability

6.13 According to result studies (EDF and "Perceptions"), 70% of families, investment in infrastructure fulfilled their needs; income generating and employment opportunities acknowledged by 57% and 43%, respectively. Improvement in quality of life is recognized by 70% of the beneficiaries. Access to water supply provided resulted in approval by 76% of the beneficiaries (quantity of water availability by 79%, quality by 75% and regularity of supply by 86%). Improvement in health and hygiene conditions was acknowledged by 70% of families. At least 5,585 and 17,210 families gained access to services of infrastructure and water supply, respectively. More than 70% of these families recognized the increase of social welfare in their communities.

6.14 Currently, the majority of CA members have a real perception of the importance of their associations for the search of collective solutions to problems they face. This is fundamental for democratic and transparent public policies.

B. Borrower Letter Commenting on Bank's Draft ICR



Ofício nº 129 /IDENE/GB/10

Belo Horizonte, 29 de dezembro de 2010.

Senhor Gerente,

Em atendimento à solicitação de V.Sa., revisamos a versão preliminar da Conclusão da Implementação e Relatos dos Resultados Finais do PCPR/MG I, elaborado por esse Banco Mundial, apresentamos as seguintes considerações:

O Relatório apresentado baseou-se de forma fidedigna nas informações repassadas pelo Idene. Para além das informações transmitidas, o próprio Banco, por meio de Missões e acompanhamentos de alguns subprojetos, foi capaz de elaborar informações que consolidaram uma avaliação bastante satisfatória a respeito do desempenho do Projeto de Combate à Pobreza Rural – PCPR/MG.

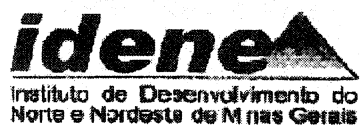
Segundo o Relatório, apesar de iniciais, os resultados apontam para a positividade dos subprojetos na promoção do bem-estar, na geração de renda e desenvolvimento das capacidades associativas das comunidades rurais da área de abrangência do PCPR/MG. Os resultados positivos alcançados não seriam possíveis, segundo o relatório, caso não houvesse uma soma de fatores que vão desde o modelo de gestão descentralizado do Projeto, passando pela capacidade de trabalho dos responsáveis, até o importante papel dos beneficiários, representados pelas Associações e o papel que estas desempenham nos Conselhos Municipais de Desenvolvimento Rural Sustentável – CMDRS's. O sucesso do Programa também conta com a importante participação do Banco e da sua visão relacionada a um modelo inclusivo e participativo de gestão dos subprojetos, destacando a participação dos beneficiários, como também dos representantes públicos das Prefeituras locais como fundamentais para o fortalecimento dos Conselhos e para uma apropriação local dos mecanismos de desenvolvimento.

Ilmo. Sr.
Edward W. Bresnayan, Jr.
Gerente do Projeto
Banco Mundial – BIRD
Brasília – DF

Contudo, no que tange à gestão, o relatório avalia como sendo bastante positiva a adequação e comprometimento do governo do Estado com os objetivos e a metodologia pactuadas. O Estado manteve sua adequada contrapartida na implementação do projeto e apesar das mudanças ocorridas no governo e na forma de gestão dos recursos (Fumac), segundo o relatório, estas mudanças atestaram para o fato de o estado perceber a importância da descentralização para uma ação capaz de reduzir a pobreza rural através da promoção e integração social. De acordo com o relatório, a atitude cooperativa e o envolvimento entre a SEPLAG e a SEDVAN, assim como as estratégias do Choque de Gestão favoreceram sobremaneira a implementação do Programa.

Além disso, consideramos extremamente relevante o reconhecimento do Banco Mundial a respeito do importante papel do Idene, via PCPR/MG, no processo de institucionalização dos Conselhos Municipais de Desenvolvimento Rural Sustentável, o que foi fundamental para o fortalecimento das comunidades rurais e consequentemente, para o desenvolvimento dos subprojetos, assim como de outros programas que passaram a ser debatidos no interior destes conselhos, contribuindo enormemente para o fortalecimento das comunidades no enfrentamento dos problemas cotidianos.

Diante do exposto, e com vistas a concluir de forma satisfatória o Projeto de Combate à Pobreza Rural, o Idene toma como muito positivo o relatório apresentado pelo Banco Mundial que soube de forma aprofundada e bastante detalhada, apresentar as principais realizações do Projeto de Combate à Pobreza Rural – PCPR, acentuando suas inovações e resultados de forma coerente com os objetivos iniciais, que nortearam seu processo de execução.



Na certeza da atenção especial de V.Sa., antecipamos os nossos agradecimentos e colocamo-nos à disposição para qualquer outro esclarecimento que se fizer necessário.

Atenciosamente,

WALTER ANTÔNIO ADÃO
Diretor-Geral do IDENE

Annex 7. List of Supporting Documents

1. Project Appraisal Document (PAD), Report No. 33165-BR August 5, 2005.
2. Project Mid-Term Review (*Relatório de Revisão de Meio Termo*) Mission. The World Bank, May 4-9, 2008.
3. Report on Project Performance (*Relatório de Atividades*), IDENE, August, 2009
4. Report on Project Performance (*Relatório de Atividades*), IDENE, October, 2010
5. Note on the Rural Poverty Reduction Project (*Nota da SEDVAN sobre o Projeto de Combate à Pobreza Rural do Estado de Minas Gerais*), SEDVAN, October, 2010
6. Physical Performance Study – (*Avaliação do Desempenho Físico do PCPR/MG*), TecnoMétrica, Campinas, July, 2010.
7. Study on perceptions and impressions: direct and indirect effects of PCPR subprojects on the lives of the beneficiaries (*Percepções e impressões em estudo: efeitos diretos e indiretos dos subprojetos do PCPR na vida dos seus beneficiários*), SEDVAN/IDENE, July, 2010.
8. Borrower Completion Report – (*Relatório Final do Projeto de Combate a Pobreza Rural*) SEDVAN/IDENE, September, 2010.
9. Rural Poverty Reduction in Northeast Brazil: An Evaluation of Community-driven Development, Binswanger, Amazonas, Barbosa, Costa, Menezes, Pazello and Romano. World Bank 2009.
10. Rural Poverty Reduction in Northeast Brazil: Achieving Results through Community Driven Development. Coirolo Luis; Lammert Jill. World Bank 2009.
11. Case Studies – Subprojects Financed under Additional Financing (*Estudo de Casos – Análise de Impactos de Suprojetos do PCPR/MG*), IDENE/World Bank, November, 2010.
12. Implementation Status Reports (ISRs)
13. Supervision Aide Memoires
14. Loan and Guarantee Agreements
15. Fiduciary Supervision Records (Financial Management and Procurement)

