

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA46803

Project Name	Paraiba Sustainable Rural Development (P147158)
Region	LATIN AMERICA AND CARIBBEAN
Country	Brazil
Sector(s)	General agriculture, fishing and forestry sector (58%), Agro-industry, marketing, and trade (10%), General water, sanitation and flood protection sector (32%)
Theme(s)	Rural markets (30%), Rural services and infrastructure (32%), Micro, Small and Medium Enterprise support (8%), Climate change (30%)
Lending Instrument	Investment Project Financing
Project ID	P147158
Borrower(s)	Government of the State of Paraiba
Implementing Agency	Secretaria da Agricultura Familiar e do Desenvolvimento do Semiárido-COOPERAR
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	21-Dec-2015
Date PID Approved/Disclosed	22-Dec-2015
Estimated Date of Appraisal Completion	22-Jan-2016
Estimated Date of Board Approval	31-May-2016
Appraisal Review Decision (from Decision Note)	The review authorized the team to appraise the project.
Other Decision	Overall project risk was set at High because of changes in the following risk ratings: (i) the rating for Sector strategies and policies was changed from Low to Moderate, given the uncertainty over the timing of the establishment of state-wide technical support for rural community water systems. Institutional capacity for implementation was raised to High as the implementing agency's strengths lie in its capacity to engage with rural communities and familiarity with Bank operations, but project design requires a shift from an established CDD model to operating differentiated lines of intervention, implying significant changes in its staffing and procedures.

I. Project Context
Country Context

1. Brazil experienced a decade of economic and social progress, from 2003- 2013, in which over 26 million people were lifted out of poverty and inequality was reduced significantly (the Gini Coefficient fell 6% to 0.54 in 2013). The income of the bottom 40% of the population grew on average 6.1% (in real terms) between 2002 and 2012, compared to 3.5% for the total population.
2. There are now risks of these social gains being reversed in coming years. GDP growth in Brazil has slowed from 4.5% in 2006-10 to 1.6% over 2011-14 and has turned negative in 2015. Inflation remains high, ending 2014 at 6.4% and reaching 7.7% in early 2015. As a result, the reduction in poverty and inequality shows signs of stagnating since 2013. To address the current macro imbalances and revitalize growth, the government has announced a policy mix of fiscal consolidation, monetary tightening, removal of administered prices and increased tolerance for a depreciated exchange rate.
3. Brazil also faces a severe water shortfall in the Northeast, Southeast and Mid-West regions. Water availability is critical beyond direct users in the water, energy, and agricultural sectors. The current situation affects the water-energy-food allocation planning and the productivity and competitiveness of several sectors.
4. Brazil still faces major challenges in tackling poverty, vulnerability and social exclusion, and this is nowhere more striking than in the Northeast region generally and its rural areas in particular. Throughout Brazil, poverty remains more deeply entrenched in rural areas (53%) than in large metropolitan cities (20%) and smaller urban centers (26%). In terms of broad geographic distribution, some 52% of all Brazil's poor reside in the Northeast region and the majority of these are inhabitants of rural areas, villages and small towns, where economic activity revolves largely around agriculture and associated services.

Sectoral and institutional Context

The State of Paraíba, located in the Northeast region of Brazil, occupies an area of 56,469.47 km², of which more than 70% is located in the “drought polygon”--drylands characterized by poor soils, low and irregular precipitation and recurrent droughts. Partly as a result, Paraíba is the fifth major administrative unit of emigration in Brazil, with a net rate of -3.92 per thousand. Its per capita GNP in 2011 was R\$ 8,740, compared to R\$ 12,800 for Brazil. Paraíba's poverty and extreme poverty reach 28.2 and 8.1 percent, respectively, that is, 1.1 and 1.8 times the rates for Brazil as a whole. Poverty rates are more than double in rural than in urban areas, with women more than twice as likely to be poor than men (see Table 1). As in the rest of Brazil, the prevalence of malnutrition and food insecurity has substantially decreased in the last four decades in Paraíba. According to IBGE's 2002/3 Nutrition, Paraíba's height-for-age and weight-for-height indices for males are below national and northeast estimates, while the indices for women and rural areas are higher than national and regional averages.

The services sector generates the majority of revenues in Paraíba, accounting for 74% of the state's GDP (2011), and is driven by public services and trade. Cropping and livestock raising, which represent 5.7% of the state's economy, are mainly based on sugarcane, fruits (such as pineapple, banana, coconut, among others), cassava (manioc), maize and beans, and cattle production. In spite of its current relatively low share in the state economy, agriculture remains an important source of employment and income for the largest part of the rural population. In effect, about 0.9 of the 3.7 million inhabitants of Paraíba live in rural areas (IBGE, Census 2010) and of those it can be estimated that between 74% and 92% are involved in agriculture. Small-scale, family farms predominate. According to the Agricultural Census of 2006, there were 167,272 farms in Paraíba, of which 92% had less than 50 hectares.

Chronic water scarcity, coupled with poor sanitation, intensifies the high incidence of waterborne diseases and constrains crop and livestock productivity. Water constraints, coupled with institutional and market failures, have limited the competitiveness of rural communities as well as their access to improved water supply. Limitations on the use of available water resources include watershed vulnerability to drought events (quantitative aspects) and restrictions related to water quality (hard water and high salinity levels). In 2013, only 25 percent of the rural households in Paraíba had access to adequate sanitation and only 54 percent had access to piped water. This contrast with the state-wide average of 71 percent access to adequate sanitation and 89 percent access to piped water, reflecting the great disparities between urban and rural areas. Recent rigorous evidence for the Brazilian semi-arid suggests that droughts are robustly correlated with higher infant mortality, lower birth weight, and shorter gestation periods, and are greatly minimized when piped water and sanitation infrastructure is sufficiently developed.

8. Agro-climatic variability and drought compound agricultural risks. Irregular precipitation (heavy rainfall, followed by extensive drought) recurs on average 1 in every 5 years, and severe drought every 10 years. As a result, agricultural sector volatility is four times greater than total GDP volatility. Only 6.8 percent of the farms in the State have access to irrigation, the key mitigating agronomic input under these conditions, and 1.4 percent of the farms occupy 48.4 percent of the irrigated area. Exposure to weather events affects all agricultural producers in the state. Its economic impact is greater on large farms producing sugar cane and fruit in the coastal areas (Mata Paraibana) but the impact on the livelihoods of smallholders and family farmers, who tend to be located in the drier and more fragile semi-arid regions (Sertão and Borborema), is greater due to their higher sensitivity and lower adaptive capacity. Coping strategies of smallholders often lead to vicious cycles of unsustainable intensification or expansion into marginal areas, further resource degradation and increased susceptibility to climate stress. Few areas in the semi-arid region seem to be able to escape these trends.

Differences between resource endowments, livelihood strategies and risk profiles call for differentiated approaches to agricultural development and poverty reduction. Given the unequal distribution of land, water constraints and agro-climatic risks, it is not surprising that a recent Bank study concluded that increasing farm production alone does not provide a pathway out of poverty for most family farmers in the Northeast. In Paraíba, 86.3% of the farms possess less than one fiscal module, an approximation to the minimum land area deemed necessary for economic viability. Agricultural production still constitutes the main source of income for most of the farmers in Paraíba, but for more than half the agriculture workers it merely provides for self-subsistence. However, not all smallholders face endowment restrictions that limit their productive potential. As in the rest of Latin America, an estimated 20 percent of small-scale producers have the potential to engage successfully in commercially demanding value chains. In Paraíba these will most likely be found amongst the farms located outside the semi-arid region, the 11,472 establishments in all regions with 1-4 fiscal modules, and the 64,250 individuals (17.2 percent of the agricultural labor force) who declare they work independently (conta própria). These farmers confront other constraints, often finding themselves marginalized from dynamic markets due to diseconomies of scale, as well as poor access to infrastructure, information (technical assistance) and credit. As a consequence, smallholder producers have difficulties supplying products to dynamic value chains managed by aggregators and agro-processing firms.

10. Policy responses have been more successful at increasing adaptive capacity than reverting resource degradation and improving smallholders' access to markets. Hydrological, meteorological and drought impact information for the Northeast generally is uneven and often inaccessible,

hindering early warning and planning efforts. Paraíba does not have an explicit policy, nor an effective planning framework for rural water and sanitation or irrigation. Rural investments for improving access to water supply are carried out by separate federal and state agencies. Paraíba's water agency (Companhia de Água e Esgoto da Paraíba - CAGEPA) responsible for providing drinking water and sanitation services in the state, has traditionally focused on urban areas, leaving an important gap in supporting local and community institutions managing water services in rural areas.. Support for farmers comes mainly through Garantia Safra, a federal compensation mechanism that triggers payouts to enrolled farmers when their municipality registers severe crop losses due to extreme rainfall events (mainly drought). Between 2002 and 2012 the number of Paraíba farmers enrolled in the program almost tripled, and in 7 of those years more than 60 percent of them received compensation payments. Rural extension and technical assistance for smallholders are primarily provided by the state's Empresa de Assistência Técnica e Extensão Rural da Paraíba (EMATER/PB), which reaches a small proportion of smallholders. Key support for rural households is provided through conditional cash transfers (Bolsa Família), which reach close to 45% percent of the state population, are transferred to a woman in the household, and are credited with much of the reduction in malnutrition.

These transfers reduce sensitivity to climate events, smooth out consumption and reduce livestock and seed stock drawdowns during droughts, allowing for quicker recovery. Thus, they also provide an opportunity to further improve resilience by interventions at the level of production systems. Availability and security of water resources is expected to worsen with climate change, increasing risks to the population and agricultural production (see Annex 6). Adaptation measures are required to reduce current vulnerability and increase the resilience of rural households, communities and agricultural production systems.

The Bank has had a long-standing partnership with the Northeast Region and the State of Paraíba, with regular dialogue on State sector strategies and through specific operations. Support to the State of Paraíba has been provided under investment projects focused on poverty reduction, water infrastructure and local governance strengthening, through the Paraíba Rural Poverty Alleviation Project (1997-2006) and the Paraíba Second Rural Poverty Reduction Project—COOPERAR II (2008-2014). The latter carried out 326 basic infrastructure projects (mostly water supply and sanitation), and 161 productive subprojects (such as fruit processing, fish farming, goat and sheep husbandry, handicrafts, cashew nut, honey), benefiting about 27,000 families in some of the poorest municipalities of Paraíba. Building on the results and lessons of these operations, this Project marks a shift in approach from open, community demand-driven rural poverty-reduction approaches, towards differentiated support for both building community resilience and incorporating market-driven approaches to poverty reduction and shared prosperity in Paraíba.

II. Proposed Development Objectives

The project development objective is to improve access to water, reduce agro-climatic vulnerability and increase access to markets of Paraíba's rural inhabitants.

III. Project Description

Component Name

Institutional strengthening

Comments (optional)

Component Name

Water access and agro-climatic vulnerability reduction

Comments (optional)**Component Name**

Productive alliances

Comments (optional)**Component Name**

Project management, monitoring and evaluation

Comments (optional)**IV. Financing (in USD Million)**

Total Project Cost:	80.00	Total Bank Financing:	50.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			30.00
International Bank for Reconstruction and Development			50.00
Total			80.00

V. Implementation

The project will be implemented by COOPERAR, the Project Management Unit established for the Paraiba Second Rural Poverty Reduction Project (P104752), and recently remapped to the newly-created State Secretariat of Family Agriculture and Development of the Semiarid (SEAFDS). SEAFDS will be responsible for providing strategic guidance on the State policies that are relevant to the Project, as well as coordinating with other state secretariats and institutions when necessary to facilitate Project implementation. It will approve the Project's Annual Operating Plan, budget and progress reports.

COOPERAR will be responsible and accountable for overall project management and implementation, including planning, coordination, monitoring and evaluation of all project activities, as well as financial management, procurement, disbursement, and accounting. Project implementation at the local level will be coordinated by COOPERAR's regional units with the support and guidance of COOPERAR's central unit.

Community associations (CA) will identify and operate water supply investments and vulnerability reduction subprojects. Producer organizations (PO) will implement rural alliances in collaboration with private and public purchasers. Capacity varies greatly among these organizations so the project would deploy a well-targeted, gender-differentiated communications campaign and a variety of training and technical assistance activities designed to build capacity and reduce information asymmetries.

Municipal Rural Development Councils will support CAs and POs in the identification of investments and subprojects, and help to stimulate synergies among public and private investments at local level. Day-to-day implementation would focus on the empowerment and self-management of participating organizations. Information related to the project would be disseminated through workshops, publications, and websites.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	
Forests OP/BP 4.36	x	
Pest Management OP 4.09	x	
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10	x	
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37	x	
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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