

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC17920

Project Name	Paraiba Sustainable Rural Development (P147158)
Region	LATIN AMERICA AND CARIBBEAN
Country	Brazil
Sector(s)	General agriculture, fishing and forestry sector (40%), Agro-industry, marketing, and trade (10%), General water, sanitation and flood protection sector (40%), Public administration- Agriculture, fishing and forestry (10%)
Theme(s)	Rural markets (40%), Rural services and infrastructure (20%), Micro, Small and Medium Enterprise support (10%), Rural non-farm income generation (10%), Water resource management (20%)
Lending Instrument	Investment Project Financing
Project ID	P147158
Borrower(s)	State Government of Paraiba
Implementing Agency	SEPL (Secretaria de Planejamento e Coordenação Geral)
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	23-Dec-2014
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Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Brazil has experienced remarkable growth since 2000 and remained relatively resilient during the 2008 financial crisis. After recovering in 2010, economic growth has slowed down, entering recession in 2014 as global commodity demand and prices and domestic demand decelerated. While losing relative importance in the economy, the agricultural sector has grown significantly over the last few decades, and more than 25 percent from 2007 to 2012. Agriculture and livestock contribute 5.5 percent of Gross Domestic Product (GDP) but taking into account inputs, transformation, production, and distribution, the agriculture sector is responsible for generating about 22.6 percent of the Country's GDP. The sector provides for 30 percent of the country's exports and 19 percent of

its employment. Family farms comprise 84 percent of the 5.2 million farms, occupy 24 percent of the farmland and are accountable for 38 percent of the value of agricultural production.

Sectoral and Institutional Context

Paraíba is the sixth smallest state in Brazil by area and the 15th by population (3.5 million). It is also one of the poorest. 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 per cent and 8.1 per cent, respectively, that is, 1.1 and 1.8 times the rates for Brazil as a whole. Poverty rates in rural areas are double than in urban areas. More than 70% of the state is located in the "drought polygon", that is, dryland areas characterized by poor soils, low and irregular precipitation, and recurrent drought. Partly as a result, Paraíba is the fifth major administrative unit of emigration in Brazil, with a net rate of migration of -3.92 per thousand.

Scarcity of water resources, and institutional and market failures have limited access to improved water supply. There are several limitations on the use of available water resources due to watershed vulnerability to drought events (quantitative aspects) and due to restrictions related to water quality (hard water and water salinity levels). Chronic water scarcity is responsible for the high incidence of waterborne diseases as well as constrained crop and livestock productivity. In 2010, 77 per cent of the population of Paraíba had access to piped water, with significant differences between urban (94%) and rural (19%) areas. The rest of the rural population obtains drinking water from wells or water fountains inside their property (16%), water trucks and rainfall collection systems (27%) or other sources away from homes (37%). Only 1.5 per cent of the rural population has access to adequate sanitation services.

The agricultural sector contributed with 5.7 per cent of total value added in Paraíba in 2009, in line with the rest of Brazil; however, sector value added in the state has declined by more than half since its peak in 1994. Its agriculture did not recover from the loss of fiber markets (sisal and cotton) to synthetic substitutes and pests in the 1970s and 1980s, and the closure of most of the sugar mills in the 1990s, further reducing opportunities for producers in agro-processing chains. Agriculture remains an important source of employment and income for most of the 0.9 million people who live in rural areas. Most crop and livestock producers are smallholders and land concentration is high: 70.6 per cent of the farms are smaller than 10 hectares and 94.7 have less than 100 hectares. The remaining 4.7 per cent occupy 60.7 per cent of the land.

Agro-climatic variability and drought compound risks in the sector. 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. In addition to quantitative limitations, there are restrictions related to water quality (hard water and water salinity levels), particularly in the drylands. Only 6.8 per cent of the farms in the state have access to irrigation, the key mitigating agronomic input under these conditions, and 1.4 per cent of the farms occupy 48.4 per cent 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 Sertão and Borborema regions, is greater due to their higher sensitivity and lower adaptive capacity. Farm size, soil quality, water restrictions, low productivity and repeated exposure to drought are key determinants of rural household vulnerability. 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 seem to be able to escape these trends .

Given these factors, a recent Bank study concluded that increasing farm income does not provide a pathway out of poverty for most family farmers in the Northeast . Agricultural production still constitutes the main source of income for most of the farmers in Paraiba, but for the majority it provides only for basic consumption: 51.1 per cent of the agriculture workers in Paraiba work for self-subsistence or are unremunerated . But not all smallholders face endowment restrictions that limit their productive potential. As in the rest of Latin America, an estimated 20 per cent of smallholders are deemed to have the potential to engage successfully in commercially demanding value chains . In Paraiba these will most likely be found amongst the farms located outside the semi-arid region, the 41,872 farms with 10-100 hectares and the 64,250 individuals (17.2 per cent of the agricultural labor force) who declare they work independently (conta própria). They confront other constraints, often finding themselves marginalized from dynamic markets due primarily to diseconomies of scale which marginalize them from input and output markets, as well as poor access to technical assistance and credit. As a consequence, smallholder producers have difficulties supplying products to value chains managed by large-scale wholesalers and agro-processing firms. Differences between resource endowments, livelihood strategies and risk profiles call for differentiated approaches to rural development and poverty reduction.

Policy responses have been more successful at increasing adaptive capacity than reverting resource degradation and improving smallholders' access to markets. Paraiba does not have an explicit policy for rural water and sanitation or a state plan for irrigation. Rural investments in water access are carried out by separate federal and state agencies. The agency in charge of providing drinking water and wastewater collection and treatment in the state (CAGEPA) does not work in rural areas, leaving an important gap in supporting community-based systems. 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 Paraiba farmers enrolled in the program almost tripled, and in 7 of those years more than 60 per cent of them received compensation payments . Additional support for rural households is provided through conditional cash transfers (Bolsa Familia), which close to 45% per cent of the State population receives. These transfers reduce susceptibility to climate events, smooth out consumption and reduce livestock and seed stock drawdowns during droughts, allowing for quicker recovery and providing an opportunity to improve resilience.

Three additional programs which form part of the Brasil Sem Miséria strategy create important opportunities for smallholder farmers. The National Program to Strengthen Family Agriculture (PRONAF) provides subsidized loans for small farmers in a range of modalities, including specific credit lines for women and youth, actions focused on the semi-arid region, and expansion of agroecological practices. PRONAF constitutes the main source of finance for Paraiba's smallholders . Public procurement programs generate significant opportunities for smallholder farmers. The Food Acquisition Program (PAA) is designed to improve market access by financing purchases by government institutions of small farmer products. With a R\$ 838 million budget in 2012, it reached almost 200,000 farmers in all of Brazil and has a special milk program targeted at the Northeast. The National School Meals Program (PNAE), created in 2009, with a 2012 budget of R\$ 3.5 billion, of which at least 30% must be used to procure products from family farmers, offers greater predictability than private sector purchasers. By reducing uncertainty and risks, these programs permit smallholder farmers greater latitude for innovation and productive investment.

Public procurement programs constitute an important source of additional demand for smallholders, who are often excluded from commercially demanding value chains because of information asymmetries and scale diseconomies, but their reach is limited. Neither PRONAF nor other private lines of credit are available for farmer associations and cooperatives, greatly limiting the opportunities for smallholder farmers who undertake collective action to overcome constraints imposed by small scale production.

Availability and security of water resources is expected to worsen with climate change, increasing risks to the population and agricultural production. Adaptation measures are required to reduce vulnerability and increase the resilience of rural households, communities and agricultural production systems. At the same time, organizations of smallholder farmers that have an adequate resource endowment and are willing to assume risks require support to introduce technological and organizational innovations that will allow them to compete in demanding markets.

Relationship to CAS

The proposed project is fully in line with The World Bank Group's Country Partnership Strategy (CPS) 2012-2015. In the agricultural and natural resource management (NRM) sectors, the proposed project would support two key challenges outlined in the CPS: (a) seizing opportunities for innovative and integrated approaches to climate-smart, inclusive economic growth, focusing on rural productivity; and (b) addressing the competitiveness issues that Brazil faces in agriculture and natural resources management. The proposed project would also support the other two CPS pillars by contributing to an Equitable Brazil by contributing to poverty reduction, improved nutrition and food security, as well as increasing access to basic infrastructure in rural areas. It would contribute to a Sustainable Brazil through the promotion of environmentally and socially sustainable production systems. The project has a dual focus: on extreme poverty through its vulnerability reduction activities, and on shared prosperity through its support for productive alliances.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The proposed development objective is to reduce household vulnerability and improve smallholder access to markets in Paraiba's rural areas.

Key Results (From PCN)

The following possible outcome indicators would be used to measure achievement of project objective:

- Reduction in the incidence of waterborne diseases.
- Clients who have adopted an improved agricultural technology promoted by the project (number) [core indicator].
- Increase in smallholder volume of sales under alliances.
- Increase in the level of occupation and employment in alliance partners.
- Alliance purchasers who increase procurement of goods from smallholders.
- Direct project beneficiaries (number), of which female (percentage) [core indicator] .

III. Preliminary Description

Concept Description

Beneficiaries:

Key beneficiaries are rural households, organized in community associations (CA), and family farmers, associated in a variety of producer organizations (PO). The project intends to empower them through their organizations in order to identify, prioritize and manage vulnerability reduction subprojects and productive alliances, respectively. Capacity varies greatly among these organizations so the project would deploy a well-targeted communications campaign and a variety of training and technical assistance activities designed to build capacity and reduce information asymmetries. Secondary beneficiaries include: (i) private agribusiness enterprises and government entities who may enter into partnerships with producers under alliances; and (ii) the entities that may participate in and manage state-wide services promoted by the project. Special efforts will be made to ensure Quilombola and Indigenous groups are adequately informed of project procedures and benefits in order to promote their participation. No identifiable group would be negatively affected by project activities.

Component 1: Institutional Strengthening.

This component aims to strengthen the institutions that implement project investments and take charge of their operation and maintenance. It would encompass: (i) support for the identification and preparation of vulnerability reduction subprojects and alliance business plans; (ii) provision of training and technical assistance to community associations and producer organizations for subproject administration and management; (iii) setting up a supra-local system for rural water and sanitation, and a state-wide agricultural risk information system. Subcomponents include:

Demand generation. This subcomponent would provide support for:

- A communications campaign to provide information to communities, smallholders and their organizations, municipal associations, service providers and potential buyers of products and services on: (i) project objectives and procedures (identification of demands, rules of access to funds, procurement modalities and public access to information); (ii) approved, postponed and rejected subprojects and alliances; (iii) Community Association (CA) and Producer Organization (PO) best-practice exchanges; and (iv) project results.
- Organization and administration of calls for proposals for vulnerability reduction subprojects and productive alliances.
- Technical assistance to CAs and Municipal Associations (MA) for the preparation of subprojects and to PAs and their business partners for the preparation of productive alliances and related PO subprojects. For alliances, technical assistance could include networking, and brokerage or match-making support to establish linkages between interested POs and purchasers of agricultural and artisanal goods and services.

Capacity building of Community Associations and Producer Organizations. The subcomponent would finance the following activities:

- Technical assistance to CAs and POs to set up or strengthen institutional arrangements and capacities for the organization of service provision to its members and buyers of their products and services, and the sustainable management of investments. Support for the formalization of smallholder POs may also be provided for pre-approved alliances.
- Training in subproject administration for CA and PO leaders on project rules and procedures, including financial management, procurement, safeguards and organizational accountability and transparency.
- Managerial training of CAs on cost recovery mechanisms, operations and maintenance and

linkages to state-wide rural water and sanitation system.

- Training of POs on business processes (administration of common infrastructure and services, accounting, audits and access to finance), as well as management of information on agricultural risk, safety and market regulations, input and output markets and prices.
- Administration of a registry of institutional and private providers of goods and services for CAs and POs.

State-wide services. The subcomponent would finance support for two key institutions to improve resilience of rural productive and sanitation systems:

- Strengthening of the rural sanitation system. While communities and their associations can build the capacity to manage their systems of water supply and sanitation, there is wide agreement that of the need for a supracommunal entity--at state or other level--to support associations when they face issues that go beyond the current activities of operation and maintenance, such as repair and replacement of equipment or analysis of water quality. The management model that includes the identification of such organization, its duties, requirements, financial resources and the type of financing, among others, would be assessed during project preparation.
- Creation of an agro-climatic risk information system. Given the level of risk associated with water availability in Paraiba, the project would provide support for setting up a system to generate, systematize and disseminate data and information on weather projections and their potential effects on regional water availability and agricultural production systems. The institutional model that includes the location of such organization, its relations to existing providers and users of information, financial requirements and sources of financing would be assessed during project preparation. This activity will be developed in close coordination with other regional initiatives such as the development of a drought index for the NE region of Brazil.

Possible intermediate indicators:

- Vulnerability reduction subprojects approved for financing (number).
- Productive alliances approved for financing (number).
- Rural water management system in operation.
- Agro-climatic risk information system in operation.

Component 2: Vulnerability Reduction.

The aim of this component is to increase resilience to the effects of water scarcity, drought and climate variability. It would finance CA subprojects (works, goods and services) on a matching grant basis for (i) access to water and sanitation, (ii) strengthening of agricultural production systems, and (iii) spot improvement of feeder roads.

Access to drinking water and sanitation. The subcomponent would finance community water supply systems, simplified/local sanitation systems or sanitary facilities, and water reuse systems. The focus on potable water supply systems will favor complete systems--that include abstraction, treatment, storage and distribution of water--over simple systems of water supply that do not include door-to-door delivery, and both of these over individual household systems.

Agricultural systems resilience. The sub-component would finance: (i) improvements in supply and storage of water for agriculture and livestock production (simple irrigation systems, small water collection infrastructure); (ii) promotion of agricultural practices that are resistant to drought, including storage and post-harvest infrastructure; and (iii) management of natural resources to

improve adaptation to short- and medium-term climate variability. The final list of technologies and practice to be supported will depend on the results of a systematization being carried out as part of project preparation.

Spot improvement of feeder roads. This component would finance community-level, small works that ensure year-round access to the municipal and state road networks. No new road construction would be financed. Focus would be on improvement of existing roads, including drainage works, fords and small bridges as well as minor road surface improvements.

Possible intermediate indicators:

- For access to water: People provided with access to improved water sources under the project (number) [core indicator].
- For agricultural systems resilience: Number of communities which implement adaptation initiatives (subprojects).
- For feeder roads: Number of communities which secure year-round access to the road network.
- Sub-projects or investments for which arrangements for community engagement in post-project sustainability and/or operations and maintenance are established (percentage) [core indicator].

Component 3: Productive Alliances.

The component aims to establish partnerships between POs and purchasers. It would finance PO subprojects included in business plans agreed with purchasers. The component will also finance managerial and business development services for alliances during the implementation phase of their business plans, and for at least one additional year of operations. It includes the following subcomponents:

Productive alliance investments. Financing would be provided on a matching grant basis to POs to implement subprojects designed on the basis of business plans agreed with their business partners. The objective of each subproject would be to reach the product specifications (quantity, quality, delivery, etc.) agreed and established in the business plan. Subproject financing can include expenditures at the level of both individual producers and their organizations, and may include technical assistance services, agriculture inputs, equipment, production facilities (nurseries, greenhouses), value addition investments (post-harvest processing and storage, packaging), as well as other minor infrastructure specific to the needs of the productive alliance. During preparation the team will explore the possibility of including technical assistance financing for private sector partners to facilitate access to bank loans or to reorganize business and production processes.

Technical assistance for alliance implementation. The subcomponent would finance technical assistance services for each alliance in order to: (i) strengthen PO capacity to manage business processes (procurement, accounting, information processing and administration of member services, etc.); (ii) support and help consolidate the relationship between POs and buyer-partners; and (iii) collect information for project monitoring and evaluation.

Possible intermediate indicators:

- Producer organizations which reach the product specifications agreed in the marketing agreement or business plan (number and % of financed alliances).
- Purchasers who comply with the terms of their alliance agreements (%).

Component 4: Management, Monitoring and Evaluation.

This component would support the following: (i) project coordination and management; (ii) activity monitoring, evaluation and impact assessment; (iii) fiduciary administration, internal controls and audits; (iv) safeguards management; (v) a citizen's engagement mechanism, and (vi) project-related studies .

Possible intermediate outcome indicators:

- Baseline data collection carried out systematically.
- Grievances registered related to delivery of project benefits that are actually addressed (percentage) [core indicator].

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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	

V. Financing (in USD Million)

Total Project Cost:	79.86	Total Bank Financing:	50.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			29.86
International Bank for Reconstruction and Development			50.00
Total			79.86

VI. Contact point

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