Technical Cooperation Document

I. Basic Information for the TC

Country/Region:	Brazil
▪ TC Name:	Sustainable Rural Development – Phase II MATOPIBA Kick-Off Project
▪ TC Number:	BR-T1371
▪ Team Leader/Members:	Barbara Brakarz, Project Team Leader (CCS/CBR); Octavio Jorge Damiani Marti Co-team Leader (CBR/RND); Mariana Parra (CCS/CBR); Angelo Angel (CSD/CCS); Cristina Marzo (LEG/SGO); Daniel Hincapie (ORP/PTR); Adriana Almeida Da Cruz (CBR/CCS); Claudia Veiga da Silva (CSC/CBR); Carlos Ignacio Carpizo Riva Palacio (CSC/CBR); Carlos Güiza (CSD/CCS); Juan C. Gomez (CCS/CCS)
▪ Taxonomy:	Client Support
▪ Date of TC Abstract:	June 30, 2017
▪ Beneficiary:	Ministry of Agriculture, Livestock, and Food Supply (MAPA).
▪ Executing Agency and contact:	Inter-American Development Bank
▪ Donors providing funding:	Low Carbon Agriculture for avoided deforestation and poverty reduction (LCA)
▪ IDB Funding Requested:	US$340,000
▪ Local Counterpart funding:	N/A
▪ Disbursement period:	12 months
▪ Required start date:	August 2017
▪ Types of consultants:	Firms and individual consultants
▪ Prepared by Unit:	CCS
▪ Unit of Disbursement Responsibility:	CBR
▪ Included in Country Strategy: ▪ TC included in CPD:	Yes No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and Innovation; Climate Change and Environmental Sustainability

II. Objectives and Justification of the TC

2.1 The objective of this Technical Cooperation (TC) is to support the Brazilian Ministry of Agriculture (MAPA) in the production of relevant information, data and evidence to guide the design and implementation of the Phase II of the Program *Rural Sustentável:* Low-Carbon Agriculture for Avoided Deforestation" (PRS-II), intended as a continuation of the Project Specific Grant – BR-X1028 funded by the Department for Environment, Food and Rural Affairs of the Government of the United Kingdom (DEFRA). The main result of this TC is to produce the most suitable operational and executing arrangements for the next large-scale projects under the LCA Fund as indicated in the attached Result Matrix.

2.2 Even though Brazil's Federal Government has been able to significantly reduce deforestation rates by 82% from 2004 to 2014, an increase in the activity has been registered during the last three years, which, among other factors, has motivated the Federal Government to strengthen its commitment to reduce deforestation and mitigate its greenhouse gas (GHG) emissions. As part of its commitment, the Brazilian Government has set as one of its Nationally Determined Contributions

(NDC) targets, under the Paris Agreement, to reduce 37% of its GHG emissions by 2025, with the ultimate intention of reducing such emissions 43% by 2030.

2.3 Despite this effort, many of the actions taken to reach the established emissions targets are focused mostly on the Amazon biome leaving behind other important Biomes like the Cerrado and Caatinga, which are being deforested mainly by agricultural practices that cause land degradation and force small and medium farmers to expand their agricultural frontier. Currently, only 8% of the Cerrado and 5% of the Caatinga biomes are under conservation units, compared to 44% in the Amazon. Major policies like the Brazilian Forest Code protect 80% of the farmland in the Amazon, while protected areas in other biomes range from 20% to 35%[1], stimulating their deforestation and agriculture expansion. For instance, the deforestation in the MATOPIBA region escalated 61% between 2000 and 2014

2.4 According to a recent study conducted by NASA, EMBRAPA[2] and IPAM (Amazonia Research Institute), almost half of the GHG emissions from the Cerrado - 45%, comes from the MATOPIBA[3] region, which had more than 870 million tons of CO2 emitted between 2003 and 2013. This is equivalent to 5% to 7% of reduced deforestation in the Amazon in the same period. Considered as the last agriculture frontier in Brazil, there is an urgent need in the MATOPIBA region to develop sustainable agriculture practices that promote sustainable development, increase productivity and develop agricultural activities that enhance resiliency to climate change.

2.5 Small and medium-sized farmers in Brazil are skeptical to develop new practices, but IDB projects such as "*Low Carbon Agriculture and Avoided Deforestation to Reduce Poverty in Brazil*" have demonstrated that these communities are receptive to new practices once they observe real improvements, which can be replicated in the MATOPIBA region. These cases are useful to demonstrate and inform traditional communities, small and medium-sized enterprises in rural areas (Rural SME's), about the importance of biomes such as Cerrado and Caatinga to develop a new inclusive economic agribusiness model in the region. The operations to be financed by the fund entail working closely with these SME's to build trust and provide assistance to them during the implementation phase of the low carbon technologies.

2.6 This TC will ensure that PRS-II is designed and implemented effectively to promote sustainable low-carbon land use and forest management in Rural SME's, while preserving natural resources and reducing deforestation in the MATOPIBA region.

2.7 The operation's components for the PRS-II will assist the Brazilian Government, through MAPA, to promote sustainable rural development and avoid deforestation by providing support to Rural SME's in the MATOPIBA region. To implement low-carbon agricultural technologies and practices, this second phase will: (i) provide access to information from demonstration units and rural credit lines; (ii) build capacity thought technical assistance; and (iii) improve access to finance and conditional cash transfers to successful farmers. These actions are aimed at filling knowledge gaps and improve rural SMEs' technical capacity, access to credit and available incentives.

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[1] http://www.brasil.gov.br/meio-ambiente/2012/11/entenda-as-principais-regras-do-codigo-florestal.

[2] EMBRAPA - Brazilian Agriculture Research Agency is linked to the Ministry of Agriculture.

[3] MATOPIBA region is formed by Maranhao, Tocantins, Piaui and Bahia states. It has three biomes, with Cerrado biome (Brazilian savannah) covering 90,9% of the region.

2.8 The operation is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (AB-3008) and is aligned with the development challenge of productivity and innovation, as research will identify the key areas of investment for the PRS-II, boosting productivity in rural areas through the improvement of labor training in sustainable agriculture practices and informing rural development policies. The operation is also aligned with the cross-cutting theme of climate change and environmental sustainability, as the preservation of biomes in the MATOPIBA region significantly contribute to the capture and storage of CO2. Additionally, the operation contributes to the Corporate Results Framework 2016 2019 (GN 2727 4) (CRF) by providing training to rural communities in the sustainable use of natural capital,[4] enhancing their economic opportunities and providing sustainable food security.

III. Description of Activities/Components and Budget

3.1 **Component I. Lessons learned from Phase I and prioritization of areas of intervention (US$142,000).** This component will develop two comprehensive reviews: (i) best practices and lessons learned from the PRS-I "Low Carbon Agriculture and Avoided Deforestation to Reduce Poverty in Brazil" (BR-X1028); and (ii) an assessment of the MATOPIBA region to select the specific areas of intervention based on a study of microregions (geographic approach) and municipalities (Geopolitical approach).

3.2 In order to conduct both studies, the TC will first review the project's design and outcomes and advance interviews with relevant stakeholders from PRS-I including government levels (federal, state and municipal), rural community and project beneficiaries, institutions in the agriculture sector such as MAPA, SENAR[5] and EMBRAPA, Banco do Brazil[6] (climate finance incentives for Rural SMEs) and national programs like "Programa Nacional de Fortalecimento da Agricultura Familiar" (PRONAF), "Financiamento para Investimentos que Promovam o Desenvolvimento das Atividades Rurais "(PRONAMP) and "Plano ABC - Agricultura de Baixa Emissão de Carbono" (ABC)[7]. Then the project along with relevant stakeholders will define the criteria for the selection of intervention municipalities, including but not limited to logistics for production flows and deforestation risk zones in endangered municipalities, economic potential and size of properties and ABC technologies in use (recovery of degraded pasture, integration of crop-livestock-forestry, no-tillage, expand planted forests, enhance biological nitrogen fixation or increase technology to produce energy from animal manure).

3.3 The information gathered by both analysis will be applied in the design of the activities of the PRS-II,

3.4 **Component II. Financial mechanisms and capacity building for rural producers and local technical assistance agents (US$68,000).** To foster the implementation of low carbon technologies, this component will produce an analysis of the most appropriate financial mechanisms for Rural SMEs in the in the MATOPIBA region and propose a training methodology to better address them. To this extent the

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[4] Country Development Results Indicator Nº 11 of the CRF: "Beneficiaries of improved management and sustainable use of natural capital".

[5] SENAR is the biggest agricultural training entity in Brazil. It is a private entity linked to CNA (Agriculture National Confederation).

[6] Banco do Brasil is a state-owned bank responsible for most of the agriculture financing in Brazil.

[7] Plano ABC - Brazil's Low-Carbon Agriculture (ABC) Plan

component will perform a comparative analysis of traditional credit lines, such as ABC, green finance lines (i.e. CRAs (Agribusiness Credit Rights)) and green bonds to provide a recommendation on the best financial mechanism to be applied.

3.5 The training methodology will be designed from the discussions with the Ministry of Agriculture on the findings of the PRS-I, to fine-tune, research and develop a technical assistance method suitable for the farmers in the selected regions.

3.6 **Component III. Monitoring, Evaluation and Communications Strategy (US$81,000).** To ensure that PRS-II activities achieve the expected impact, consultants will work with MAPA on the establishment of a baseline and methodology to measure success based on the International Climate Fund Key Performance Indicators (KPI). The methodology developed will consider different approaches for low carbon technology evaluation such as the recovery of degraded pasture and crop-livestock-forestry integration and a proposal to monitor GHG mitigation from low carbon agriculture. During PRS-I, the Brazilian Agricultural Research Corporation (EMBRAPA) has led the effort in conjunction with DEFRA and in coordination with the IDB to develop the most accurate KPI methodologies for the biomes Amazonia and Atlantic Forest. The results and lessons learnt from PRS-I will facilitate the design of a more comprehensive methodology to identify baselines and impact indicators for the Biomes Cerrado and Caatinga.

3.7 The component will develop a communications strategy to ensure that stakeholders are aware of the project and the appropriate channels are being used in the most effective way. The strategy will communicate Low-Carbon Agriculture for Avoided Deforestation practices to target government institutions and agencies (at federal, state and municipal levels) and rural SMEs to guarantee their engagement and a greater uptake of low carbon technologies. The communications strategy will also disseminate best practices to regions not attended by the projects, promoting the scale-up of practices and encouraging access to official and market credit lines.

3.8 **Component IV. Design of Phase II project "Low-Carbon Agriculture for Avoided Deforestation" (US$49,000).** Based on the evidence provided by the previous outputs, and to ensure project's activities are customized to the specific region, and delivered with the broadest impact, the design of the PRS-II will be carried out in this final component. Along with the knowledge developed, the component will strengthen the identification and engagement processes with stakeholders, and define the institutional arrangements to better manage the theory of change and monitor project results and its sustainability.

3.9 A project team will coordinate and manage the implementation of this TC and the design of PRS-II, avoiding delays and ensuring that progress and risks are monitored throughout, guaranteeing the production of outcomes.

Indicative Budget (US$)

Component	IDB Funding	Counterpart	Total
Component I. Lessons learned and prioritization of areas of intervention	142,000	0	142,000
Component II. Financial mechanisms and capacity building for rural producers	68,000	0	68,000
Component III. Monitoring, Evaluation and Communications Strategy	81,000	0	81,000
Component IV. Design of Phase II project "Low-Carbon Agriculture for Avoided Deforestation"	49,000	0	49,000
Total	**340,000**	**0**	**340,000**

3.10 The total cost of this operation is US$340,000, which will be financed with resources from the Single Donor Trust Fund Low Carbon Agriculture for avoided deforestation and poverty reduction" (LCA)", from the Department for Environment, Food and Rural Affairs of the Government of the United Kingdom.

IV. Executing Agency and Execution Structure

4.1 Taking into consideration the lessons learnt from PRS-I (BR-X1028), where the IDB was the executing agency, the project team suggests carrying preliminary assessments to identify the best executing arrangements for the large-scale projects. By being the executor of this kick-off phase, the IDB will be able to reduce the risks encountered during PRS-I and define a more strategic action plan to meet the Fund's requirements. As this TC aims to develop the strategies, mechanisms, stakeholder's involvement, methodologies and potential executing agencies for the upcoming TC(s) under the LCA Fund, it is important for the IBD to manage the activities herein described and take advantage of its institutional capacity and experience gained during PRS-I to ensure the workability of the large-scale design. By considering this approach the project team is seeking to reduce the issues described in Paragraph 6.2 of the Operational Guidelines for Technical Cooperation Products (GN-2629-1).

4.2 As the executing agency, the IDB will follow its procurement policies and guidelines related to hiring processes: (i) individual consultants will be hired in accordance with the guidelines set out in policy AM-650; (ii) consulting firms of an intellectual nature only will be hired in accordance with policy GN-2765-1 and its related Operational Guidelines (OP-1155-4); and (ii) logistics and other related services in accordance with GN-2303-20 (Corporate Procurement Policies). Bank policies will also apply to third parties hired to implement this TC.

4.3 The TC monitoring will seek the success of the timely implementation of the activities, assessing its effectiveness in the long-term and ensuring timely implementation, budget control, delivery and quality of goods and services, and other aspects related to project management. The IDB will deliver quarterly reports, identifying the performance of execution, potential problems, and possible corrective measures.

4.4 Prior to the start of any activity in the country the team leader will be responsible for requesting the non-objection of the corresponding government agency.

V. Project Risks and Mitigation

5.1 The following risks and mitigation actions have been identified: (i) the studies financed by the TC fail to find relevant lessons from the project "*Low Carbon Agriculture and Avoided Deforestation to Reduce Poverty in Brazil*" (BR-X1028). To mitigate this risk, an extensive research will ensure that lessons learned and best practices are collected to feed into the PRS-II; (ii) lack of data obtained from the MATOPIBA region compromises the criteria to choose the municipalities for the intervention. The TC will liaise with relevant government agencies, academia and think tanks to conduct in-field research that would help identify endangered municipalities where urgent action and low carbon technologies are needed. Other projects in the region will be assessed to avoid duplication and ensure complementarity; (iii) lack of baseline information undermines the monitoring of project results. The project team will work with the Ministry of Agriculture and

relevant stakeholders on the establishment of a baseline and methodology prior implementation of activities. This will ensure project success is measured properly; (iv) relevant stakeholders such as EMBRAPA, CNA (National Agriculture Confederation) and SENAR, as well as state governments have expressed in the past they felt left out of the decision-making processes to improve the project's impact and results. The communications strategy will ensure all relevant stakeholders are included in the project and support its implementation from beginning to end. This strategy will also include a component dedicated to the communications with rural producers to ensure the TC maximizes the impacts of the trainings and the technical assistance to increase low carbon technologies uptake.

VI. Environmental and Social Classification

6.1 Per the Environment and Safeguards Compliance Policy of the IDB (OP-703), the operation has been classified as 'Category C' (see the Safeguards Screening Form and the Safeguards Policy Filter).

VII. Required Annexes

Annex I: Letter of Request

Annex II: Results Matrix

Annex III: Terms of Reference

Annex IV: Procurement Plan

SUSTAINABLE RURAL DEVELOPMENT - PHASE II MATOPIBA KICK-OFF PROJECT

BR-T1371

CERTIFICATION

I hereby certify that this operation was approved for financing under **Low Carbon Agriculture for avoided deforestation and poverty reduction (LCA)** through a communication dated June 30, 2017 and signed by Felipe Caicedo (ORP/GCM). Also, I certify that resources from said fund are available for up to **US$340,000** in order to finance the activities described and budgeted in this document. This certification reserves resource for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, represent a risk that will not be absorbed by the Fund.

CERTIFIED BY: **Original Signed** — 07/28/2017

Sonia M. Rivera
Division Chief
Grants and Co-Financing Management Unit
ORP/GCM

Date

APPROVED BY: **Original Signed** — 07/28/2017

Amal Lee Amin
Division Chief
Climate Change Division
CSD/CCS

Date