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Report No: 47192-BR

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US$78 MILLION

TO THE

STATE OF SÃO PAULO

WITH THE GUARANTEE OF

THE FEDERATIVE REPUBLIC OF BRAZIL

FOR THE

SÃO PAULO SUSTAINABLE RURAL DEVELOPMENT

AND ACCESS TO MARKETS PROJECT

April 21, 2010

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

CURRENCY EQUIVALENTS

(Exchange Rate Effective April 16, 2010)

Currency Unit = Brazilian Real (R$)
US$ 1.00 = R$ 1.78

FISCAL YEAR

July 1 – June 30

ABBREVIATIONS AND ACRONYMS

CATI	*Coordenadoria de Assistência Técnica Integral* – Rural Extension Directorate, State Secretariat of Agriculture and Supply
CBRN	*Coordenadoria de Biodiversidade e Recursos Naturais* – Directorate of Biodiversity and Natural Resources, State Secretariat of Environment
CEPISP	*Conselho Estadual dos Povos Indígenas* – State Council for Indigenous Peoples
CTI	*Centro de Trabalho Indigenista* – Center for Indigenous Work
CPS	Country Partnership Strategy
CPI-SP	*Commissão Pro-Indio do São Paulo*
EIA	Environmental Impact Assessment
EMF	Environmental Management Framework
FEAP	*Fundo de Expansão do Agronegocio Paulista* – São Paulo State Fund for Agribusiness Growth
FUNAI	*Fundação Nacional do Índio* – National Indigenous Peoples Agency
FUNASA	*Fundação Nacional de Saúde* – National Health Foundation
GDP	Gross Domestic Product
GEF	Global Environment Facility
GPV	Gross Production Value
GT-CATI	CATI Working Group for Work with Indigenous Communities
IBGE	*Instituto brasileiro de Geografia e Estatística* – Brazilian Institute of Geography and Statistics
IPM	Integrated Pest Management
IPEA	*Instituto de Pesquisa Econômica Aplicada* – Institute for Applied Economic Research
IPPF	Indigenous Peoples Planning Framework
ITESP	Instituto de Terras de São Paulo
MRDC	Municipal Rural Development Council
PMU	Project Management Unit
PMP	Pest Management Plan
PRONAF	*Programa Nacional de Fortalecimento da Agricultura Familiar* – National Program to Strengthen Family Farming
RAP	Resettlement Action Plan
RRDC	Regional Rural Development Council
RPF	Resettlement Policy Framework
SAA	*Secretaria Estadual de Agricultura e Abastecimento* – State Secretariat of Agriculture and Supply
SAAF	*Sistema de Acompanhamento Físico e Financeiro, CATI*
SEBRAE	*Serviço Brasileiro de Apoio às Micro e Pequenas Empresas* – Brazilian Service for Micro and Small Enterprises

SEFAZ	*Secretaria Estadual da Fazenda* – State Secretariat of Finance
SEP	*Secretaria Estadual de Planejamento* – State Secretariat of Planning
SMA	*Secretaria Estadual do Meio Ambiente* – State Secretariat of Environment
SPLM	São Paulo Land Management Project

Vice President:	Pamela Cox
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Task Team Leader:	Laurent Debroux

BRAZIL
São Paulo Sustainable Rural Development and Access to Markets Project

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BRAZIL

BR-SP SUSTAINABLE RURAL DEVELOPMENT AND ACCESS TO MARKETS

PROJECT APPRAISAL DOCUMENT

LATIN AMERICA AND CARIBBEAN

LCSAR

Date: April 21, 2010 Country Director: Makhtar Diop Sector Manager/Director: Ethel Sennhauser	Team Leader: Laurent Debroux Sectors: General agriculture, fishing and forestry sector (70%); Agricultural extension and research (20%); Agricultural marketing and trade (5%); Agro-industry (5%) Themes: Land administration and management (P); Participation and civic engagement (P); Rural policies and institutions (P); Rural markets (S); Environmental policies and institutions (S)
Project ID: P108443 Lending Instrument: Specific Investment Loan	Environmental screening category: Partial Assessment

Project Financing Data			
[X] Loan [ ] Credit [ ] Grant [ ] Guarantee [ ] Other: For Loans/Credits/Others: Total Bank financing (US$m.): 78.00 Proposed terms: US$ denominated VSL, commitment-linked with all conversion options, repayable in 30 years including a 5-year grace period and a level repayments schedule			
Financing Plan (US$m)			
Source	**Local**	**Foreign**	**Total**
Borrower	52.00	0.00	52.00
International Bank for Reconstruction and Development	78.00	0.00	78.00
Total:	130.00	0.00	130.00

Borrower:	**Responsible Agency:**
State of São Paulo Secretaria da Fazenda Av. Rangel Pestana 300 São Paulo, SP, Brazil	State Secretariat of Agriculture Av Miguel Estefano 3900 São Paulo, SP, Brazil

Estimated disbursements (Bank FY/US$m)									
FY	2011	2012	2013	2014	2015	2016			
Annual	13.00	15.00	15.00	16.00	16.00	4.00			
Cumulative	13.00	28.00	43.00	58.00	73.00	78.00			

Project implementation period: Start: September 30, 2010 End: April 30, 2015
Expected effectiveness date: September 30, 2010
Expected closing date: September 30, 2015

Does the project depart from the CAS in content or other significant respects? ***Ref. PAD I.C.***	[ ]Yes [X] No
Does the project require any exceptions from Bank policies? ***Ref. PAD IV.G.*** Have these been approved by Bank management? Is approval for any policy exception sought from the Board?	[ ]Yes [X] No [ ]Yes [ ] No [ ]Yes [X] No
Does the project include any critical risks rated "substantial" or "high"? ***Ref. PAD III.E.***	[ ]Yes [X] No
Does the project meet the Regional criteria for readiness for implementation? ***Ref. PAD IV.G.***	[X]Yes [ ] No

Project development objective ***Ref. PAD II.C., Technical Annex 3***
The project development objective is to support the State of São Paulo to increase the competitiveness of family agriculture in its territory while improving its environmental sustainability.

Project description ***Ref. PAD II.D., Technical Annex 4***
The Project will support the following three components:

1. Supporting Small Farmers' Business Initiatives (total US$59.0 million) will provide support to small farmers' business initiatives through implementing small business investments and strengthening producers' organizations.
2. Strengthening Institutional and Physical Infrastructure (total US$62.5 million) will support a set of public functions and investments that are critical to increasing the competitiveness and sustainability of family farming: (i) Policy Framework, Market Monitoring, and Rural Extension; (ii) Rural Infrastructure; and (iii) Environmental Sustainability.
3. Project Management (total US$8.5 million) will deal with overall project management and fiduciary functions; monitoring and evaluation of impacts; implementation of environmental and social safeguards instruments; and dissemination and communication.

Which safeguard policies are triggered, if any? ***Ref. PAD IV.F., Technical Annex 10***
-Environmental Assessment (OP 4.01)
-Natural Habitats (OP/BP 4.04)
-Forests (OP/BP 4.36)
-Pest Management (OP 4.09)
-Indigenous People (OP 4.10)
-Physical Cultural Resources (OP 4.11)
-Involuntary Resettlement (OP 4.12)

Significant, non-standard conditions, **if any**, for:

Ref. PAD III.F.

Board presentation: No Conditions

Board presentation: Streamlined

Conditions for Loan/credit effectiveness:

1. Project Management Unit's Regulation and the Steering Council's Regulation have been adopted and published in form and substance satisfactory to the Bank;
2. Project Operational Manual has been adopted through a joint resolution issued by SAA and SMA and published by the Borrower in form and substance satisfactory to the Bank.

Disbursement Condition under Category (1) for Subcomponent 1(a):

1. Receipt by the Bank of an adequate legal framework for the operation of the Farmers' Business Initiatives, in form and substance satisfactory to the Bank.

Covenants applicable to project implementation:

1. The Borrower shall, through CATI and CBRN, carry out the Project in accordance with the Project Operational Manual, including the Procurement Plan, the Annual Operating Plans, the Environmental Management Framework, the Involuntary Resettlement Framework and the Indigenous Peoples Planning Framework.
2. The Borrower shall maintain, until the completion of the execution of the Project: (a) a joint CATI/CBRN Project management unit; (b) CATI Regional Units and SMA Regional Units; and (c) a steering council to convene at least once every semester, and shall submit the minutes of said meetings to the Bank.
3. The Borrower shall convene, until the completion of the execution of the Project, a consultative forum at least once every year, and shall submit the proceedings of said meetings to the Bank.
4. The Borrower shall, at least once a year during Project implementation prepare and furnish to the Bank a plan for the Project's operation during the following twelve months.
5. The Borrower shall have all the procurement records and documentation for the Subprojects for each fiscal year of the Project audited.
6. The Borrower shall sign no later than twelve months after the Effective Date and thereafter maintain and comply with a memorandum of understanding with FUNAI containing terms and conditions approved by the Bank as further specified in the Project Operational Manual.
7. The Borrower shall make Grants to Beneficiaries (Small Farmers, Municipalities and Organizations) for Subprojects (Farmers' Business Initiatives, Infrastructure Subprojects and Environmental Subprojects) in accordance with eligibility criteria and procedures acceptable to the Bank as further detailed in the Project Operational Manual, including entering into Grant Agreements appropriate for the carrying out of Subprojects.
8. The Borrower shall furnish to the Bank for its prior review and approval the first two Farmers' Business Initiatives, the first two Infrastructure Subprojects and the first two Environmental Subprojects.
9. The Borrower shall carry out jointly with the Bank a mid-term review of the implementation of the Project and thereafter take any corrective action as recommended by the Bank.

I. STRATEGIC CONTEXT AND RATIONALE

A. Country and sector issues

1. State and Agricultural Sector Overview. The State of São Paulo is the economic powerhouse of Brazil. It has the largest state population (41 million) and is responsible for approximately one-third of national gross domestic product (GDP). With a GDP totaling US$550 billion, it is the second biggest economy in South America. The service and industrial sectors are the largest components of state GDP.[1] However economic opportunities have not been accessed by all, and in spite of its overall economic success, São Paulo still has about 5 million people living in poverty (12% of State population).[2] There is a large income disparity, with the poorest 20% of the population earning only 5% of the State's total income, and a Human Development Index ranging at the municipal level from 0.645 (the average level in Brazil's North-Eastern states) to 0.919 (the average level in Germany).

2. Although small in comparison to other sectors,[3] agriculture is vital to the State's economy. Since the rapid urbanization of the state beginning in the 1950s, farmers have been supplying agricultural products for local consumers, food industries, other Brazilian states, as well as for export. Today São Paulo contributes nearly one-fourth of national agricultural output, as it is a main producer of oranges, sugarcane, poultry, potatoes, tomatoes, corn, beef, and coffee.[4] São Paulo also has the largest domestic consumer market in the country. Agriculture accounts for more than half of all economic activity in 60% of the 645 municipalities in the state. It is also significant in terms of total state employment (11%) and even more so in rural areas (over 80%).

3. The history of São Paulo's rural sector was marked by steady deforestation and a succession of agricultural booms based on industrial monocultures: first coffee, then cereals, cattle ranching, and more recently sugar cane and eucalyptus. Since the 1950s, the State also experienced rapid urbanization and rural exodus,[5] often leading to high urban unemployment, extreme poverty, and violence.

4. At present, São Paulo's rural sector presents a dichotomized profile, with large commercial farming operations on one hand, and small family-based farming on the other.[6] Out of a total of 325,000 agricultural units in the state, 262,000 (i.e. 80%) are small family-based operations, occupying only 20% of the total farming area in the State. Large commercial farming[7] represents less than 2% of total agricultural units and occupies 35% of total farming area. It specializes primarily in commodities for exports, while small farmers typically make their income from milk, poultry, pork farming, a variety of fruits and vegetables, and/or coffee. The cultivation of rice, beans, and corn is also common among

[1] Roughly 47% and 46%, respectively. Agriculture contributes to approximately 7% of state GDP.
[2] See Map 1 in Annex 15.
[3] Agriculture accounts for approximately 17% of the State's GDP.
[4] Respectively 73%, 53%, 38%, 27%, 22%, 12%, 7% and 7% of the national production of these commodities
[5] Between 1980 and 2000 the rural population declined from 13% to 7% of the total state population.
[6] Small family farming is defined as an operation/property with: (i) family income predominately originating from agricultural activity of the particular farm; (ii) such agricultural income being derived predominantly from family labor on the particular farm; and (iii) such income being less than four "fiscal modules", with the notion of "fiscal modules" taking specific local productive factors into account.
[7] Defined as farming areas greater than 500 hectares

small farmers, mostly for subsistence. Progress in agricultural competitiveness has been highly concentrated; a majority of small farmers have not been able to integrate into supply chains and compete within state and national markets. Many small farmers and other vulnerable rural inhabitants additionally derive income through wage labor, which is not always a consistent source of income.[8] Nearly 40% of the 262,000 small farming families in the state live on less than two minimum wages per month;[9] and 68% of state municipalities, primarily located in the Western part of the state where family agriculture is predominant, contribute only 5% of the state GDP. More recently, advances in sugarcane and eucalyptus plantations[10] repeat such disparities, as profits are achieved mostly by large-scale farmers.

5. Challenges. Despite its impressive overall performance, São Paulo's rural sector faces two main challenges related to family agriculture:

   - *Low competitiveness of smallholder family agriculture.* While small family farming is the primary means of agricultural production in the state, it participates less in marketed output. Factors inhibiting its competitiveness are complex and include: infrastructure shortages; high transportation costs; limited access to credit; low levels of education; weak producers organization and management capacity; lack of critical masses of standardized or well differentiated products to reach markets; lack of knowledge regarding market demands; inadequate public and private technical assistance services; lack of leverage and negotiating power with larger agri-businesses along supply/value chains; and ineffective knowledge management among stakeholders and institutions in the rural milieu.

   - *Advanced level of environmental degradation, affecting small farmers and other vulnerable rural populations.* São Paulo is largely covered with soils susceptible to erosion.[11] The successive agricultural booms and the intensification of agriculture in the State historically occurred with insufficient care for soils and water. Poor land management practices exacerbated erosion, leading to the sedimentation of reservoirs, headwater areas and springs, as well as fertility losses in many areas. This level of degradation has been addressed, in part, more recently through the São Paulo Land Management Project and Ecosystem Restoration of Riparian Forests Projects (2000-2008). Low income family farmers are disproportionately affected because of their lack of mobility and their inability to afford the additional costs of fertilizers. The poor quality of their soil aggravates the socio-economic barriers they face.

6. Government Strategy. The State of São Paulo has established a policy agenda that specifically aims to increase the competitiveness of small-scale farmers. It recognizes that family agriculture is critical to the state in terms of employment, fiscal revenue and social well-being, and is undertaking special efforts to make small farming potentially more profitable and facilitate higher and more consistent income-streams for small producers.[12]

[8] A current concern is that mechanization of sugarcane harvesting (mandated as obligatory by government policy by 2017) will create further underemployment by part-time farmers. This increases the need to expand the valued added from their own production.
[9] Minimum wage is R$415 per month. The government considers earning half or less the minimum wage as below poverty line.
[10] In 2005, the total area under sugarcane and eucalyptus was 3.8 and 1.1 million hectares, respectively, representing an increase of 32% and 35% from 1995.
[11] Approximately 40% of the state is classified as highly or very highly susceptible to erosion.
[12] Municipalities are mandated to spend 25% of their budget in education, which is an important incentive to keep rural families in rural areas.

Through this approach the State seeks to make agriculture competitiveness gains more equitable, especially for the poorest.

7. In line with this strategy, the State Secretariat of Agriculture and Supply (SAA) and the State Secretariat of Environment (SMA) have supported a number of initiatives to promote sustainable rural development, two of which have been carried out with Bank support. The São Paulo Land Management Project (SPLM – IBRD Report No. 17074 - BR dated September 30, 1997, loan US$55.0 million) helped local farmers adopt more sustainable land management practices, provide basic social services (water, roads, etc.), and strengthen rural extension services. An estimated 70,000 small-scale farming families benefited from activities under the project, which targeted areas that are both highly susceptible to erosion and characterized by high levels of poverty.[13] The state is also currently implementing the Ecosystem Restoration of Riparian Forests Project (GEF – Report No. 32151 - BR dated May 25, 2005, GEF grant US$7.75 million) which helps pilot activities that reverse land degradation and restore riparian forests. Combined, these operations have helped to: (i) improve living conditions in many rural areas; (ii) develop agricultural practices that prevent land degradation; and (iii) increase small farmers' productivity. However, these efforts have insufficiently linked small farmers to markets, and they have not always led to increased incomes for small farmers.

8. In this context, the Government of São Paulo recognizes the need to take the next step forward by focusing its interventions on the promotion of small farmers' competitiveness. Under this new approach, small farmers are considered important economic agents of the private sector which seek to strengthen their position in specific product chains and markets. The Government intends to achieve this new focus through: (i) helping small farmers invest in market-driven business initiatives and strengthening producers' organizations; and (ii) strengthening public policies, extension services, and physical infrastructure. The proposed project would support this two-pronged strategy.

B. Rationale for Bank involvement

9. The rationale for Bank involvement arises from four main considerations. First is the Government of São Paulo's strong interest and commitment to undertake this new rural development program in partnership with the Bank, as demonstrated in various instances by the State Secretariats of Finance, Economic Affairs and Planning, Agriculture, and Environment. The second reason is the clear fit with the World Bank Group's Country Partnership Strategy (CPS) 2008-2011 (Report # 42677-BR) discussed by the Executive Directors on May 1, 2008, and the Progress Report (Report # 53356-BR) discussed by the Executive Directors on April 20, 2010. The proposed project is consistent with all three pillars of the CPS, with an emphasis on promoting a more Competitive Brazil. Third, is the fact that the proposed project builds upon the experiences of previous rural development programs in the State while taking the necessary next step forward by focusing on small farmers' competitiveness and access to markets. In this regard, the State of São Paulo

[13] The micro-catchment was utilized as the physical planning and implementation unit to achieve the project's objectives. It represents a natural stepping stone in the effort to aggregate individual farm plans and serves as an appropriate forum for local participation in priority setting and decision making, especially for water and soil-related issues. Nine-hundred and sixty-six microcatchments were involved in the SPLM Project activities, with the average microcatchment size being about 3,000 hectares with about 90 families.

considers that Bank involvement would enhance the opportunity to pilot and mainstream the development, demonstration, and evaluation of new approaches associated with the strategic shift of focus to smallholders' competitiveness. Fourth is the Bank's international experience and knowledge. The State considers that Bank involvement would provide greater access to the experiences from a spectrum of similar rural development programs supported in Brazil (in Southern states and the Northeast) and other parts of Latin America, as well as on a worldwide level, facilitating the incorporation of international experiences into its sector policies and programs.

C. Higher level objectives to which the project contributes

10. The proposed project would aim to promote sustainable rural development and agricultural competitiveness in the State of São Paulo, raising the incomes and increasing job opportunities of small farmers and other vulnerable rural populations, while promoting sound natural resource management and social inclusion and well-being.

11. In this way, the project would contribute to promoting a more Competitive Brazil — the second objective of the Bank's 2008-2011 Country Partnership Strategy (CPS). Indeed, primary activities would aim at more effectively linking small farmers to markets by supporting the formation or enhancement of agricultural business groups and networks. They will also focus on strengthening the capacity of small farmers to improve production processes, enhance product quality, and effectively identify and access markets. Ancillary services would promote education for innovation and growth by transferring technology to producer organizations, as well as provide capacity building for innovative agricultural products.

12. The project would also contribute to promoting a more Equitable Brazil — the CPS's first objective, by focusing on the bottom of the pyramid (small farmers and other vulnerable rural populations) in the state. Third, it would contribute to promoting a more Sustainable Brazil — the CPS's third objective, by ensuring that competitiveness is combined with sustainable management of soils, water and other natural resources which constitute the base of the agricultural productive capacity.

II. PROJECT DESCRIPTION

A. Lending instrument

13. The proposed lending instrument is a Specific Investment Loan of US$78.0 million over a five-year period. The total project cost is estimated to be US$130.0 million, including US$52.0 million of counterpart funding from the State of São Paulo.

B. Project development objective and key indicators

14. The <u>project development objective</u> is to support the State of São Paulo to increase the competitiveness of family agriculture in its territory while improving its environmental sustainability.

15. This would be achieved by assisting small-scale farmers and other rural producers to:

- Increase the productivity of their land and labor, and improve the quality of their products through enhanced production techniques;
- Engage more actively in supply/value chains, where there is a comparative advantage, by undertaking basic processing and marketing techniques and/or strengthening partnerships with larger private operators in these areas;
- Strengthen the organizational and managerial capacity of producers associations, as well as promote the emergence of new associations/cooperatives; and
- Mainstream improved land and water management practices tested under the previous operations for more competitive production systems.

16. Key Indicators are:

- Increase in sales value (unit value x quantity sold) for participating producers' organizations; and,
- Increase in agricultural area where improved land and water management practices are being implemented.

17. A long-term objective of the project is to increase small farmers' net income, which depends on a combination of factors including quantity, quality and costs of production, and marketing efficiency. The project will aim to make progress towards that long-term objective by helping small farmers improve their production, associative, and marketing techniques. It would also improve the public physical and institutional infrastructure to the extent needed to support the project development objective (i.e., economic monitoring, extension services, environmental management, and rural roads).

18. Target population. An estimated 22,000 small farming families would be reached by the project through their own producer organizations (estimated 300 organizations with potential for direct involvement in the project).[14] This target population also includes indigenous and *quilombola* families. The project would also benefit public institutions such as CATI (the Rural Extension Directorate of the State Secretariat of Agriculture), the Secretariat of Environment, and municipalities to the extent that is needed to support the small farming competitiveness agenda. Beyond the number of families that would benefit directly, the project is also envisioned to provide a demonstration effect to the overall small farming sector in the State and country by better engaging family agriculture in strengthened agricultural organizations and allowing better access to markets.

C. Project Components

19. Component 1: Supporting Small Farmers' Business Initiatives (estimated total US$58.8 million, with IBRD US$37.6 million and State US$21.2 million). Provide support to

[14] Out of a total state-wide: 262,000 small farming families, and 550 municipalities

business initiatives undertaken by small farmers organizations (the Small Farmers) including those of women, youth, and indigenous peoples by:
(a) implementing small sustainable and competitive business investments (Farmers' Business Initiatives) through grants (the Grants) aimed at increasing Small Farmers' competitiveness (productivity, quality, value added and marketing) while improving environmentally-sound agricultural practices; and

(b) strengthening producers' organization regarding agricultural competitiveness through information and training programs to stimulate the emergence of business ideas in targeted municipalities and micro-catchments in the Borrower's territory, by providing technical assistance for the preparation of business proposals to be funded for Farmers' Business Initiatives under the Grants (market analysis, feasibility assessments, assistance to informal groups to constitute formal organizations, inter alia), as well as by providing technical assistance on organizational, financial, marketing, implementation and monitoring issues under Farmers' Business Initiatives.

20. Component 2: Strengthening Institutional and Physical Infrastructure (estimated total US$61.4 million, with IBRD US$36.3 million and State US$25.1 million). Provide support to the Borrower's functions that are critical to the competitiveness and sustainability of family farming in its territory through investments in:

(a) monitoring policy frameworks, markets and rural extension through studies and workshops to improve regulation and incentive systems for family farming competitiveness (labeling systems, and analysis of specific supply-chains, inter alia), the setting-up of an online agri-business information center, and the strengthening the capacity of CATI to advise Small Farmers on production technologies, marketing and management at central, regional and municipal levels through the provision of training and equipment;

(b) rehabilitating and maintaining municipal rural roads in the Borrower's territory to help facilitate Small Farmers' physical access to markets through assistance to the Borrower's municipalities to prepare simple rural road management programs, financing of grants (when minimum levels of technical, institutional and financial sustainability are met) for infrastructure subprojects (Infrastructure Subprojects) to support rehabilitation and maintenance of priority sections of rural roads as identified in the rural road management programs so as to ensure all-year usability, and supporting units of production of small paving materials; and

(c) promoting environmental sustainability through the mainstreaming of improved environmental practices in rural production systems to ensure the sustainability of the productive resource-base (land and water) by supporting pilot subprojects at farm-level (Environmental Subprojects), implementation of the Borrower's environmental compliance system in rural areas combined with environmental awareness-raising, and the carrying out of the Borrower's new program of payments for environmental services to rural areas.

21. Component 3: Project Management (estimated total US$9.6 million, with IBRD US$3.9 million and State US$5.7 million). Provide support to the Borrower to efficiently and

effectively implement, administer, supervise, and coordinate all the activities carried out under the Project by financing the institutional structures, equipment and personnel required to manage Project activities, including fiduciary functions (procurement, accounting and financial management) as well as technical planning, implementation of social and environmental safeguard instruments, monitoring and evaluation, dissemination of Project results and implementation of a pro-active communication strategy.

D. Lessons learned and reflected in the project design

22. The proposed project builds on the experiences and lessons learned from previous rural development programs in the State of São Paulo (including the SPLM project), in other Brazilian States (mostly in the South and the Northeast), and in other Latin America countries. The key lessons that shape the proposed project are summarized below.

23. *Market-orientation*. First and foremost is the recognition that support to family farmers should be driven by the identification of market opportunities, and not only by the satisfaction of 'needs' and 'demands' with unclear prospects for penetrating the market. Previous experiences show the importance of prior identification of markets and adjusting production systems accordingly, as opposed to just expanding production. The proposed project would require the demonstration of pre-defined markets as one the eligibility criteria for selecting business initiatives.

24. *Training and assistance to beneficiaries*. Building capacities for business management among project beneficiaries is a key element for successful long-term farmer organizations. The project will address this need at three levels by: (i) providing general training and awareness-raising to a large number of potential beneficiaries; (ii) helping interested producers' organizations to put together business initiatives, negotiate with business partners, and gradually learn by doing; and (iii) providing continued and customized assistance and training to participating organizations throughout the implementation their initiative.

25. *Clear rules and procedures*. Clearly defined rules of the game for local participation, for preparation and selection of business proposals, and for defining the responsibilities of all stakeholders, are essential to promote greater transparency in project implementation, prevent false expectations, and reduce the risk of discretionary decision-making and political interferences. The project will detail these rules and procedures in the project Operational Manual.

26. *Adjusting to the needs of more vulnerable groups*. The project also recognizes that increasing competitiveness of very poor producers and vulnerable groups must factor in the constraints and short-term risks that these families face (e.g. food insecurity; vulnerability to external shocks; lack of initial capital). The project would work jointly with these producers to increase and diversify their agricultural production, identify new market opportunities and build on their comparative advantages to increase their incomes in a way that is in line with cultural/social specificities. It builds in flexibility (e.g. eligibility criteria, co-funding requirements) to ensure these groups can benefit from the project.

27. *Public participation and communication*. Experience shows that it is essential to actively involve all interested stakeholders and inform the broader public about the project. To that end, the project will adopt a participatory approach involving municipal development councils and an annual multi-stakeholder meeting (consultative forum) with the participation of the private sector, academics, civil society, indigenous peoples, and local authorities. It will promote an open dialogue and stimulate exchange of experiences and ideas among stakeholders. It will also implement a pro-active dissemination and communication strategy aimed at potential beneficiaries and broader audiences.

E. Alternatives considered and reasons for rejection

28. *Continuation of the previous SPLM and GEF projects*. A possible alternative was to extend or replicate the previous SPLM and GEF projects using the same approach and mechanisms. These projects brought important technical, environmental and social improvements to São Paulo's rural sector. However, it was found that this approach alone would not be sufficient to meet small farmers' objectives of securing higher and sustainable incomes and employment opportunities. The emphasis on linking small farmers to markets and helping them engage in business initiatives and become more competitive, was found critical in this regard. While the proposed new operation builds on the achievements of previous projects, it is shaped by the objective of making small farmers succeed in markets and is intended to be a significant pilot for the country to more effectively increase family farmers' competitiveness and link them to markets.

29. *No project*. Another possible alternative was to end support to São Paulo's rural sector after the completion of the SPLM and GEF projects. However, the State has explicitly requested the Bank to stay engaged and to help consolidate the achievements of the previous projects while making the shift toward a more market-oriented approach. The previous programs laid the environmental and social foundation that was needed to underpin a more competitiveness-based approach, and without the proposed new operation, the future success of this approach would be threatened. The present operation is also envisioned to provide a demonstration effect for the rest of the country to better engage family agriculture in strengthened organizations to allow better access to markets.

30. *Separating the demand-based approach of Component 1, from the public functions approach of Component 2.* A third possible alternative was to separate the support to small farmers' initiatives (private functions) from the support to rural extension, environmental management and municipal infrastructures (public services), and to proceed with two different projects. However, it was found that both approaches (supporting private initiatives, improving public services) are required to achieve the PDO–to increase small farmers' competitiveness in a sustainable manner, and it was also found that both approaches are sufficiently complementary to form part of the same project.

III. IMPLEMENTATION

A. Partnership arrangements (if applicable)

31. Not Applicable

B. Institutional and implementation arrangements

32. The project will be implemented by the State Secretariat of Agriculture and Supply (SAA) and the State Secretariat of Environment (SMA), with SAA being responsible and accountable for overall project management, coordination and achievements, and SMA being responsible for a subset of well-defined activities (i.e. Sub-component 2.3). SAA's overall management responsibility will be delegated to the State Rural Extension Directorate (CATI) as the leading implementing agency, and SMA's responsibility for Sub-component 2.3 will be delegated to the State Directorate for Biodiversity and Natural Resources (CBRN) as a co-implementing agency.

33. Project management will be mainstreamed into existing State institutions, with a Project Management Unit (PMU) established between CATI and CBRN (each within their respective area of autonomy and competence). The PMU will be headed by CATI, and physically located within CATI premises. The PMU will be responsible for overall management, planning, coordination, monitoring and evaluation of all project activities, as well as financial management, procurement disbursement, and accounting. The PMU structure will be comprised of: a Project Coordinator (CATI); two Technical Coordinators (CATI and CBRN); a Financial Coordinator with Procurement, Disbursement and Accounting Specialists; an M&E Specialist; Environmental and Social Safeguards Specialists; and a Communication Specialist. Project implementation at local level will be coordinated by CATI's and CBRN's regional and municipal units, including the identification, selection, monitoring and evaluation of business proposals. Municipal rural development councils will conduct participatory diagnostics on small farmers' access to markets; participate in the selection of sub-projects proposals; and help stimulate synergies among public and private investments at local level. Day-to-day implementation would focus on the empowerment and self-management of participating producers' organizations. Information related to the project would be disseminated through workshops, publications, and websites.

34. The PMU would report on a regular basis to a Steering Council comprised of representatives of the State Secretariats of Planning, Finance, Agriculture, and Environment. The Steering Council would accompany and support the development of the Project by: (i) reviewing the project's annual work programs; and (ii) helping coordinate with other state secretariats and the federal level and ensuring necessary institutional support and resources. The PMU will also convene once a year a multi-stakeholder meeting (consultative forum) including civil society, agri-business organizations, academics, indigenous peoples, project beneficiaries, municipalities, government institutions, and other concerned parties, to openly discuss and receive feedback and advice regarding project strategy and progress. The proceedings of each of these annual meetings will be submitted

to the Bank. The PMU will also ensure broad and permanent public information on the project.

35. The above institutional arrangements are described in Annex 6. They will be formally established by a Governor Decree and a Joint SAA/SMA Resolution.

C. Monitoring and evaluation of outcomes/results

36. The project's M&E system will build on the existing information systems and data bases developed by CATI and SMA in the context of the previous SPLM and GEF Projects. The M&E system will monitor the performance of the Project with respect to the baseline situation by: tracking progress towards outcome indicators; justifying necessary adjustments during implementation; promoting accountability for resource use against objectives; providing and receiving stakeholder feedback; and generating inputs for dissemination of results and lessons learned. Sub-component 1.2 will provide the M&E system with real-time information on progress of each business initiative financed by the project. The M&E system will also help measure the project's demonstration effect by documenting non-project supported replication activities across the state.

37. The PMU will also implement a specific Impact Evaluation Strategy to determine whether the project has a significant impact on increasing the competitiveness of small agriculture in São Paulo. This Impact Evaluation would help assert the causality between project interventions and the fluctuations of project outcome indicators overtime (e.g. sales values). It will help single out the influence of external factors (e.g. international market prices) that are not attributable to the project itself. The performance of project beneficiaries ('treatment group') will be compared to organizations not participating in the project ('control group') using statistical methods (e.g. regression discontinuity, difference-in-difference, propensity score matching). This Impact Evaluation strategy is further detailed in Annex 3.

38. The PMU will have overall responsibility for the project's M&E system. It will include a full-time M&E officer who will work closely with the CATI and SMA technical specialists at the central level and in regional and municipal units, as well as with municipal councils and beneficiary organizations. Extension officers and municipal development councils will receive M&E training to support data collection efforts. M&E will be facilitated by the use of a web-based, customized computer application to be used by both internal and external audiences. This application, connected to the online agri-business center (Sub-component 2.1), will be available for beneficiary user groups to access project information and exchange knowledge.

39. The PMU will submit annual reports to the Bank covering the planned actions including selected business initiatives, status of implementation, outcomes, financial statements, procurement plans, environmental and social issues, and actions taken to ensure satisfactory implementation. These reports will be shared with policy makers to facilitate effective project management, reformulation of project strategy, if needed, and dissemination of experiences.

D. Sustainability

40. The project is being designed with an emphasis on promoting sustainability at economic, social, environmental, and institutional levels. From the economic standpoint, demonstrated market viability will be a key criterion in selecting business initiatives. This focus on market viability would help ensure that farmers' increased incomes are sustained over time and that their production systems build in enough flexibility to adjust to market fluctuations. On the social side, the project emphasizes the strengthening of producers' organizational, associative, and managerial capacity, which are long-term assets lasting beyond the success of business initiatives. The project also aims to ensure that women, youth, indigenous peoples and other rural vulnerable rural groups benefit from increased agricultural competitiveness. On the environmental side, the sub-project selection criteria will ensure that business initiatives incorporate environmentally-sound practices including those developed under the previous GEF and SPLM projects. It will help mainstream such practices into production systems and would help value environmental services. On the institutional side, the project will help strengthen the State's rural extension service while at the same time introducing the notion that small farmers can also obtain technical assistance from private providers. Finally, the use of the FEAP Fund would allow for continuity of the State's program after project completion.

E. Critical risks and possible controversial aspects

41. The project's risks, risk ratings, mitigation measures, and residual risks are described in the table below. The overall residual risk is considered **Moderate**.

Description of risk	***Mitigation measures***	***Residual Risk***[a]
Insufficient political support, at State and Federal levels.	• Although political commitment to the project is already strong, the project would work to reinforce the joint commitment of the State Secretariats of Treasury, Planning, Agriculture, and Environment through their involvement in the Steering Council, and continue to garner their political strength in order to secure adequate budget allocations and avoid delays and shortfalls in terms of counterpart funding. The loan amount and State counterpart funding were approved in State law No. 12.689 dated 3 October 2007.	**L**
Fiduciary aspects. See further analysis on fiduciary risks and mitigation measures in Annex 7 (Financial Management, Table 7.1) and Annex 8 (Procurement)	• Capacity assessments for procurement and financial management were carried out within CATI and SMA and corresponding mitigation measures have been incorporated in the project design. FM and procurement Action Plans have been agreed-upon with both implementing agencies (CATI, SMA) and will be included in the Operational Manual. See table 7.2, Annex 7, and table 8.1, Annex 8. • Amendment to the State law on Fundo de Expansão do Agronegócio Paulista (condition for disbursement of Sub-component 1.1) cleared by the State *Consultoria Juridica*; and Government's commitment for its final approval confirmed at appraisal by Secretary of Economy and Planning.	**L**

	• At least one financial management and procurement supervision mission would be carried out per year.	
Insufficient coordination between the two implementing agencies (CATI and SMA). Overlapping responsibilities between CATI and SMA could impede the smooth implementation of the project.	• Both Secretariats have worked together under the past SPLM and GEF projects, and preparation activities would continue to build on this positive experience. • One leading agency (CATI) will be responsible/accountable for the overall project, with the other agency (SMA) being responsible for well-defined activities. • The Governor Decree and Joint Resolution issued prior to negotiations would clearly confirm and delineate responsibilities between the agencies.	**M**
Complexity of implementation, including monitoring and evaluation. Given the large number of beneficiaries, the geographical coverage across 212 municipalities, and the variety of activities and stakeholders, coordination and monitoring of the project could prove challenging.	• CATI and SMA have experience with operations of similar size (the SPLM and GEF projects) and will be further strengthened by capacity-building and information systems provided under Components 2 and 3. • Most physical investments financed by the project will be undertaken by (private) producers organizations having direct interest in the success of each sub-project, with public institutions focusing on monitoring and coordination tasks.	**M**
Lack of expertise and experience within public institutions to advise small farmers on key competitiveness challenges.	• Project would provide CATI with relevant training programs, and it would also call on other (private) agents to assist producers' organizations (i.e. design of business initiatives). • Project would involve agri-business practitioners in consultative and operational processes (i.e. annual multi-stakeholder meeting, selection of business proposals to be funded by the project). • Project would strengthen the capacity of small producers' organizations to engage directly and make their own informed decisions (i.e. through training, on-line agri-business center).	**M**
Scarcity of business proposals demonstrating adequate links to market (i.e. organizations submitting proposals for business-as-usual)	• *Sub-component 1.2* would provide TA for potential beneficiaries to sharpen proposals and help identify business partners and/or links to market.	**M**
Safeguards. The project triggers seven safeguards, which requires significant preparation and mitigation work.	• CATI and SMA have previous experiences with Bank safeguards, and have carried out successfully the required environmental and social assessments. • Extensive public consultations have been carried out by CATI and SMA as part of project preparation. • Resources will be set aside for the implementation and monitoring of the mitigation instruments, and for a pro-active communication strategy. • The annual multi-stakeholders meeting (consultative forum) will help foster public information and consultation throughout the project.	**M**
II. Overall Risk		**M**
[a]Rating of risks on a four-point scale – High (H), Substantial (S), Moderate (M), Low (L) –		

according to the likelihood of occurrence and magnitude of potential adverse impact	

F. Loan conditions and covenants

42. *Prior to Effectiveness:*

- The Project Management Unit's Regulation and the Steering Council's Regulation have been adopted and published in form and substance satisfactory to the Bank;
- The Project Operational Manual has been adopted through a joint resolution issued by SAA and SMA and published by the Borrower in form and substance satisfactory to the Bank.

43. *Disbursement Condition under Category (1) for Subcomponent 1(a):*

- Receipt by the Bank of an adequate legal framework for the operation of the Farmers' Business Initiatives, in form and substance satisfactory to the Bank.

44. *Dated Covenants:*

- The Borrower shall, through CATI and CBRN, carry out the Project in accordance with the Project Operational Manual, including the Procurement Plan, the Annual Operating Plans, the Environmental Management Framework, the Involuntary Resettlement Framework and the Indigenous Peoples Planning Framework.
- The Borrower shall maintain, until the completion of the execution of the Project: (a) a joint CATI/CBRN Project management unit; (b) CATI Regional Units and SMA Regional Units; and (c) a steering council to convene at least once every semester, and shall submit the minutes of said meetings to the Bank.
- The Borrower shall convene, until the completion of the execution of the Project, a consultative forum at least once every year, and shall submit the proceedings of said meetings to the Bank.
- The Borrower shall, at least once a year during Project implementation prepare and furnish to the Bank a plan for the Project's operation during the following twelve months.
- The Borrower shall have all the procurement records and documentation for the Subprojects for each fiscal year of the Project audited.
- The Borrower shall sign no later than twelve months after the Effective Date and thereafter maintain and comply with a memorandum of understanding with FUNAI containing terms and conditions approved by the Bank as further specified in the Project Operational Manual.
- The Borrower shall make Grants to Beneficiaries (Small Farmers, Municipalities and Organizations) for Subprojects (Farmers' Business Initiatives, Infrastructure Subprojects and Environmental Subprojects) in accordance with eligibility criteria and procedures acceptable to the Bank as further detailed in the Project Operational Manual, including entering into Grant Agreements appropriate for the carrying out of Subprojects.
- The Borrower shall furnish to the Bank for its prior review and approval the first two Farmers' Business Initiatives, the first two Infrastructure Subprojects and the first two Environmental Subprojects.
- The Borrower shall carry out jointly with the Bank a mid-term review of the implementation of the Project and thereafter take any corrective action as recommended by the Bank.

IV. APPRAISAL SUMMARY

A. Economic and financial analyses

45. The economic and financial analysis of the project was carried out using the method of evaluation "cost-benefit analysis of the flow of granted funds" with a discount rate of 12% annually, reflecting the opportunity cost of capital in Brazil and 20 years as the time of return. The project benefits to farmers' organizations assumed in the simulation are the following: (i) increase of the productivity of labor and land following the adoption of improved technologies; (ii) increase of unit price as a result of improvements in quality and/or capture of greater value added through improvements in processing and market access; and (iii) reduction of production costs through improved technologies and associative arrangements. The net incomes of small family farming units (with and without project) have been estimated through the simulation of six productive farm models, representative of those existing in the project area. The net incremental income projections derived from these models are on average 22.8% and vary depending on the type of investments carried out as well as the starting point of the model. The overall economic analysis of the project aggregated the expected annual results for the estimated 22,000 direct project beneficiaries (for purposes of the economic analysis). This analysis incorporates conservative estimates of production improvements, as well as prices. Based on these methodology and assumptions, the aggregate Economic Internal Rate of Return (EIRR) has been estimated at 26.3%.

46. This is a conservative estimate, as it does not take into account other benefits that are difficult to quantify such as environmental and social benefits. An analysis of the EIRR sensitivity to changes in costs and benefits was also carried out to assess the likely impact of externally-driven fluctuations of market prices on the project's EIRR. See Annex 9 for further details regarding the Economic and Financial Analysis.

B. Technical

47. Overall, the project is considered technically sound given that it addresses the constraints to small farmers' competitiveness in a balanced way, with component 1 supporting small farmers' private business initiatives, and component 2 focusing on public functions to improve the incentive framework. Under Component 1 the project will provide a combination of technical and financial support to demand-driven sub-projects. Direct beneficiaries will be formally established farmers' organizations, consistent with the fact that aggregation (of production and production costs) is essential to improve small farmers' access more profitable markets.

48. With regard to agricultural production systems (quality, productivity, environmental sustainability), the project will draw on the achievements from the previous SPLM and ongoing GEF projects, and on the expertise that exists within CATI and CBRN in these areas. For example, it will help scale up the use of no-till agriculture, green manure, terracing, fencing of water springs and stream margins, stabilization and restoration of gullies, and rotational pasture practices, that were initiated under the previous GEF and

SPLM projects. When it comes to accessing markets and strengthening small farmers' organizational and managerial capacities, the project will call upon the engagement of private providers (design and implementation of business proposals, online agri-business information center) and on collaborations with business associations and professional unions (e.g. through the annual multi-stakeholders meeting, and the municipal rural development councils) for advice and support in design and monitoring. Technical standards would be ensured through the provision of technical assistance during the preparation of investment proposals, thereby fostering quality-at-entry.

49. Considerable public consultations, as well as technical diagnostic have been carried out by the client during the preparation process in order to ensure the most effective demand-driven approach for successful implementation. The project adopts a flexible approach to also support important target groups, such as the indigenous peoples, while taking into account their cultural and socio-economic specificities. Finally, it emphasizes environmental sustainability through the mainstreaming of improved agricultural practices in sub-projects and through the piloting of new incentive systems related to protecting water quality and carbon.

C. Fiduciary

50. Financial Management. A financial management capacity assessment was carried out in September 2008 and the Project was found to have satisfactory financial management arrangements in place to meet Bank's minimum requirements. The project's residual overall financial management risk is rated moderate considering that the project involves two implementing agencies (CATI, SMA) with many decentralized sub-projects. The potential risks, mitigation measures, and residual risks are presented in the Risk Assessment Matrix and in the Financial Management Action Plan, in Annex 7.

51. Payments for eligible goods and services will be made by the PMU from the Single Treasury Account using the official State accounting system SIAFEM. For Sub-component 1.1 (productive sub-projects) CATI will use the São Paulo State Fund for Agribusiness Growth (FEAP) to make transfers to sub-project beneficiaries' specific accounts at the *Banco do Brasil*, as reimbursements upon completion of works/services and verification of compliance with procedures. Similarly, for Sub-component 2.2 (rural infrastructures) CATI will make transfers to municipal bank accounts, as reimbursements upon completion of works/services and verification of compliance with procedures.

52. The disbursement methods that will be used are the following: (i) reimbursement (for retroactive financing); (ii) advances, and (iii) direct payments. For accounts rendering and documentation of expenses, the PMU will use Records, Summary Sheets and Statements of Expenditures (SOEs). Funds will be deposited into the Project Designated Account as advances, and will follow the Bank's disbursement operating policies and procedures.

53. The Project will be subject to annual internal audits carried out by the Secretariat of Fazenda. An internal control mechanism will be set-up and described in the Operations Manual. External auditors will be hired for the audit of the project accounts, with

harmonized FM/Procurement terms of reference. Guidelines for Project Financial Management will be included in the Operational Manual, sent to the Bank prior to negotiations. See Annex 7 for further details.

54. Procurement. Procurement will be carried out in accordance with the World Bank's Guidelines revised in October 2006 and with the provisions stipulated in the Loan Agreement. A procurement capacity assessment of both implementing agencies, CATI and SMA, was carried out in September 2008. Both agencies have previous experience with Bank procurement procedures. The assessment did not detect critical deficiencies that need to be addressed before project launch. The procurement risk is rated average.

55. Based on the findings of the procurement assessment, an action plan was prepared to strengthen a few areas that cover matters such as institutional organization staffing, procurement planning, and independent audits of the procurement that would be carried out under sub-projects. A joint CATI/SMA Project Management Unit (PMU) will be set up to consolidate all procurement and financial information and reports to reflect the procurement tasks carried out separately by each entity. One annual ex-post review of procurement will be carried out.

56. Goods and services under Sub-component 1.1, productive sub-projects, will be procured by beneficiary organizations in accordance with Bank procedures (community participation, shopping). Goods and services under Sub-component 2.2, rural infrastructure, will be procured by municipalities in accordance with Bank procedures (shopping, national competitive bidding) using standard bidding documents agreed with the Bank. In both cases, payments will be made by the PMU as reimbursements (by tranches) against completion of works/services and verification of compliance with procedures. These contracts will also be subject to annual procurement audits. See further information on procurement in Annex 8.

D. Social

57. The social assessment documents,[15] summarized in Annex 10, provide further evidence of poverty indicators for most of the small family farmers of São Paulo, and additional data on some of the most vulnerable rural social groups specifically indigenous people and *quilombola* communities (descendents of ex-slaves), as well as consideration of other relevant social differentiation variables such as gender and age. Apart from the six specific consultations with indigenous people described below, CATI also carried out numerous consultations and meetings with a broad cross-section of project stakeholders and beneficiaries between 2005 and 2008. Seven additional consultations were held in 2008. Stakeholders consulted included rural producers, leaders of associations and cooperatives, technicians from partner institutions, representatives of nongovernmental organizations, among others. Key concerns expressed focused on improving agricultural productivity with a strong emphasis on commercialization, better delivery of technical assistance, and

[15] The documents referred to were produced by CATI in São Paulo and include (i) Estrategia de Participacao das Populacoes Indigenas no Programa Estadual de Desenvolvimento Rural Sustentavel, (ii) Consultas Publicas Com Populacoes Indigenas; (iii) Avaliacao Social-November 2008.

improved coordination among public agencies and programs, all of which have been reflected in project design. The project design also includes specific targeting of rural indigenous communities, prioritizes *quilombola* communities, and includes participatory processes to improve participation of women and youth.

58. Indigenous Peoples. There are estimated to be approximately 5000 indigenous peoples[16] in the rural areas of the State of São Paulo comprised of the following six ethnicities: Guarani Kaiowa, Guarani M'Bya, Guarani Nhandeva, Kaingang, Krenak, and Terena. Most indigenous peoples in São Paulo are characterized by acute poverty and food insecurity due to insufficient access to land and the natural resources necessary for their way of life. The National Indigenous Peoples Agency (FUNAI) thus far recognizes 17 indigenous lands in São Paulo of which 12 are fully regularized, two in the process of being demarcated, and three scheduled to be identified. Some nongovernmental organizations, however, estimate as many as 15 other indigenous communities in São Paulo seeking regularization, bringing the total to 32 indigenous lands (for details, see Annex 10, Appendix 2). Since indigenous land regularization is solely a federal responsibility under FUNAI, it is outside the power of the State to directly resolve land issues, although the project's IPPF, summarized in Annex 10, takes differing land access into account in terms of the strategy for working with different indigenous communities.

59. The process of free, prior informed consultation was carried out in São Paulo by means of six well attended meetings involving more than 240 people including indigenous leaders, and representatives of the National Indigenous Peoples Agency (FUNAI), National Health Foundation (FUNASA), Agrarian Development Ministry (MDA), the State Environmental and Institutional Relations agencies, the State Counsel of Indigenous Populations (CEPISP), CATI regional units, municipal governments and NGOs, among others. A great deal of information on the meetings was also further disseminated on the CATI website. This consultation process demonstrated the broad support of indigenous peoples to participate in the project. It identified key concerns with their social and economic vulnerability and the importance of combining activities oriented toward environmental conservation and recuperation with income generation and food security, as well as basic principles about participatory processes and working in partnerships with indigenous organizations. The consultations confirmed the elements for the project's Indigenous Peoples Planning Framework (IPPF), summarized in Annex 10.

60. *Quilombola* Communities. *Quilombola* communities, descendents of escaped slaves, are among the poorest and most remotely located rural communities in Brazil and tend to be outside official statistics. These Afro-Brazilian communities have maintained socio-cultural distinctiveness in the practice of their unique life-styles and sharing of a common territory. Living primarily from subsistence agriculture and fishing, they have largely remained marginalized from the larger society, are extremely impoverished, and often have had little to no access to health, education, or other services. Many *quilombola* communities have a local association, although sometimes incipient. The Brazilian government now estimates

[16] Estimates of the rural indigenous population in São Paulo are widely divergent. FUNASA estimates 6,578 persons, the State Council on Indigenous People estimates 5,649 persons, IPEA estimates 4,946 persons and FUNAI estimates 2,716 persons. We are using the estimate of a population size of 5,000 which is an average of these estimates.

that there may be as many as 3,000 *quilombola* communities in Brazil. In São Paulo there are an estimated 51 *quilombola communities*, 22 of which are officially recognized,[17] nine are in process of being recognized and 20 pending. Six *quilombola* communities have thus far received communal land titles to which they are entitled by the 1988 Brazilian Constitution, and another 22 titles are being processed by the federal agency with the legal responsibility for *quilombo* land titling which is the National Agrarian Reform Institute.

61. During project preparation, representatives of *quilombola* communities participated in two consultations, which included as well representatives from the State Council for Black Community Participation, the São Paulo Land Institute, and the Ministry for Agrarian Development, among others. This consultation process demonstrated *quilombola* communities' interest to participate in the project. The State agency, ITESP, currently providing a modest amount of technical assistance to these communities, also welcomed the opportunity to collaborate more closely with CATI. Hence, the project will promote specialized outreach to *quilombola* communities to try to facilitate their involvement as beneficiaries of the project.

E. Environment

62. For the most part, the project is expected to produce positive environmental impacts. According to the Environmental Assessment (EA) and Environmental Management Framework (EMF), the most significant positive impacts foreseen include watershed and biodiversity protection, improved soil management and conservation, improved water quality, and restoration of degraded lands. However, some activities carried out in sub-projects under Component 1 (small farmers' business initiatives) and Component 2 (rehabilitation and maintenance of unpaved roads) may generate small negative impacts, mostly temporary and at the local level. No large scale, significant and/or irreversible impacts are foreseen. The impacts of any misdirected support for productive investments could result in soil erosion, water pollution and noise/air pollution, the latter mostly from road rehabilitation works.

63. As sub-project investments cannot be identified *a priori* because of the demand-driven nature of interventions, specific impacts cannot be anticipated. Therefore, all investments under Components 1 and 2 will be subjected to a rigorous screening process to ensure maximum environmental benefits and to prevent or minimize unintended negative environmental impacts. Procedures for environmental screening, evaluation, and monitoring of productive investments are detailed in the EMF, were incorporated in the sub-project cycle, and will be included in the Operational Manual. The Project would build on the existing environmental management capacity and institutional arrangements established under the previous SPLM and ongoing GEF projects. CATI will receive training, and technical assistance to ensure adequate review of business proposals under Component 1. The EMF also includes provisions for strengthening environmental assessment capacity within SMA and CATI at the regional and central levels, as well as municipal extension officers. See further details on the environmental analysis in Annex 10.

[17] By the Fundação Cultural Palmares of the Ministry of Culture, in a relatively new governmental recognition procedure

F. Safeguard policies

64. The project is classified Category B, and the following Safeguards Policies are triggered. An environmental assessment and a social assessment were carried out. They found that the project, including appropriate monitoring and mitigation measures, is in accordance with applicable safeguards. An Environmental Management Framework (disclosed in-country on December 23, 2008 and in the InfoShop on January 21, 2009), an Indigenous Peoples Planning Framework (disclosed in-country on December 22. 2008 and in the InfoShop on January 21, 2009), a Resettlement Policy Framework (for unpaved rural roads rehabilitation; disclosed in-country on December 22, 2008 and in the InfoShop on January 22, 2009), and a Pest Management Plan (disclosed in-country on December 22, 2008 and in the InfoShop on January 22, 2009), were adopted and disclosed before appraisal. Refer to Annex 10 for further details regarding Safeguard policies.

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 4.11)	[X]	[ ]
Involuntary Resettlement (OP/BP 4.12)	[X]	[ ]
Indigenous Peoples (OP 4.10)	[X]	[ ]
Safety of Dams (OP/BP 4.37)	[ ]	[X]
Projects on International Waterways (OP/BP/GP 7.50)	[ ]	[X]
Projects in Disputed Areas (OP/BP/GP 7.60)	[ ]	[X]
Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects (OP/BP 4.00)	[ ]	[X]

G. Policy Exceptions and Readiness

65. *Exceptions*. The proposed project does not require any exceptions from Bank policies.

66. *Readiness*. The draft Operational Manual, draft Procurement Plan, and draft Governor Decree and Joint Resolution defining the institutional arrangements and responsibilities for implementation, were shared with the Bank for review, and were considered satisfactory. The draft amendment to the law on the FEAP to be used for Sub-Component 1.1 was submitted to the State Assembly.

Annex 1: Country and Sector or Program Background

BRAZIL: São Paulo Sustainable Rural Development and Access to Markets

A. Country and sector issues

1. State and Agricultural Sector Overview.[18] The State of São Paulo is the economic powerhouse of Brazil. It has the largest state population (41 million) and is responsible for approximately one-third of national gross domestic product (GDP). With a GDP totaling US$550 billion, it is the second biggest economy in South America. The service and industrial sectors are the largest components of state GDP.[19] However economic opportunities have not been accessed by all, and in spite of its overall economic success, São Paulo still has about 5 million people living in poverty (12% of State population).[20] There is a large income disparity, with the poorest 20% of the population earning only 5% of the State's total income, and a Human Development Index ranging at the municipal level from 0.645 (the average level in Brazil's North-Eastern states) to 0.919 (the average level in Germany).

2. Although small in comparison to other sectors,[21] agriculture is vital to the State's economy. Since the rapid urbanization of the state beginning in the 1950s, farmers have been supplying agricultural products for local consumers, food industries, other Brazilian states, as well as for export. Today São Paulo contributes nearly one-fourth of national agricultural output, as it is a main producer of oranges (73%), sugarcane (53%), poultry (38%), potatoes (27%), tomatoes (22%), corn (12%), beef (7%), and coffee (7%). São Paulo also has the largest domestic consumer market in the country. Agriculture accounts for more than half of all economic activity in 60% of the 645 municipalities in the state. It is also significant in terms of total state employment (11%) and even more so in rural areas (over 80%).

3. The history of São Paulo's rural sector was marked by steady deforestation and a succession of agricultural booms based on industrial monocultures: first coffee, then cereals, cattle ranching, and more recently sugar cane and eucalyptus. Since the 1950s, the State also experienced rapid urbanization and rural exodus,[22] often leading to high urban unemployment, extreme poverty, and violence.

4. Coffee growing was the major lever of agriculture in the State of São Paulo and was responsible for bringing to various regions railroad transport, commerce and cooperatives, the creation of municipalities, schools, hospitals and theaters. However, coffee's development in São Paulo, as in national development, always experienced progress, stagnation and setbacks, mainly due to market and price problems (overproduction, price fluctuation, poor product quality), climate problems (frost in some regions), and the choice of inadequate varieties for some regions (climate and pest problems).[23].

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[18] All general economic information is derived from the IMF and all information regarding the agricultural sector is derived from the State *Instituto de Economía Agrícola* (www.iea.sp.gov.br).
[19] Roughly 47% and 46%, respectively. Agriculture contributes to approximately 7% of state GDP.
[20] See Map 1 in Annex 15.
[21] Agriculture accounts for approximately 17% of the State's GDP.
[22] Between 1980 and 2000 the rural population declined from 13% to 7% of the total state population.
[23] See Galetti, Paulo Anestar (2004), "Pelos Caminhos do Café"

5. The western region of the State, where most of the program's priority regions are located, may be considered the last agricultural frontier and the most affected in terms of environmental impacts and poor distribution of income. Coffee growing was the principal generator of wealth in this region, maintaining spectacular economic growth between the 1940s and 1970s. But the occurrence of a strong frost (rapid drop in temperature) in 1975, which was repeated in the 1980s, and later the incidence of soil pests (nematodes) led to a rapid economic decline in nearly the entire region. These local factors, added by the drop in international coffee prices throughout the 1980s and the early 1990s, caused the region's producers to become discouraged.[24] In parallel, agricultural cooperatives became deeply affected by cyclical changes in the national economy. The region's producers, who formerly received credit as well as technical and marketing assistance from cooperatives, no longer had access to this support.[25]

6. Another factor contributing to regional impoverishment was soil degradation, due to intensified processes of erosion after coffee was replaced by annual crops such as cotton, corn, beans and peanuts. The consequence of the drop in economic activity was a drastic reduction in population in nearly all municipalities located in western São Paulo.

7. At the end of the 1990s, this region discovered new vocations in fruit growing and dairy cattle, conducted on small farms, which gave a new boost to the regional economy. It was also the time the State Micro-catchments Program began implementation. Actions carried out by this program strengthened small rural producers' various forms of organization.[26] Organized communities in micro-catchments experienced a significant improvement in the system of managing their farms and were able to solve structural problems such as lack of water and the purchase of equipment for use in productive activities, thus opening up new alternatives for agricultural development. The formation and consolidation of producers' associations facilitated new investments in communities and municipalities, as well as improvements to rural roads, value added to agricultural and livestock products, and the creation of new jobs.

8. At present, São Paulo's rural sector presents a dichotomized profile, with large commercial farming operations on one hand, and small family-based farming on the other.[27] Out of a total of 325,000 agricultural units in the state, 262,000 (i.e. 80%) are small family-based operations, occupying only 20% of the total farming area in the State. Large commercial farming[28] represents less than 2% of total agricultural units and occupies 35% of total farming area. It specializes primarily in commodities for exports, while small farmers typically make their income from milk, poultry, pork farming, a variety of fruits and

[24] See Navarro, Zander (2007), "Manejo de recursos naturais ou desenvolvimento rural? O aprendizado dos "projetos microcatchments" em Santa Catarina e São Paulo", versão preliminar)

[25] See Oliveira, Adriano Rodrigues de (2003), "A Fruticultura como Alternativa aos Pequenos Produtores Rurais: o caso da Região de Dracena/SP", master's thesis, Presidente Prudente

[26] In the agricultural region of Dracena, prior to the State Microcatchments Program there were 3 associations; now 23 associations have been formed and strengthened through the PEMH's efforts. Likewise, in the region of General Salgado there formerly were 17 associations and now there are 38 associations. In the region of Jales, prior to the PEMH there were 18 associations and now there are 39 associations.

[27] Small family farming is defined as an operation/property with: (i) family income predominately originating from agricultural activity of the particular farm; (ii) such agricultural income being derived predominantly from family labor on the particular farm; and (iii) such income being less than four "fiscal modules", with the notion of "fiscal modules" taking specific local productive factors into account.

[28] Defined as farming areas greater than 500 hectares.

vegetables, and/or coffee. The cultivation of rice, beans, and corn is also common among small farmers, mostly for subsistence. Progress in agricultural competitiveness has been highly concentrated; a majority of small farmers have not been able to integrate into supply chains and compete within state and national markets. Many small farmers and other vulnerable rural inhabitants additionally derive income through wage labor, which is not always a consistent source of income.[29] Nearly 40% of the 262,000 small farming families in the state live on less than two minimum wages per month;[30] and 68% of state municipalities, contribute only 5% of the state GDP. More recently, advances in sugarcane and eucalyptus plantations[31] repeat such disparities, as profits are achieved mostly by large-scale farmers.

9. Family agriculture is predominant in the Western part of the State, in a region covering about 7.8 million hectares, or a third of the total State area, across 212 municipalities (see Map 2, Annex 15).

10. Challenges. Despite its impressive overall performance, São Paulo's rural sector faces two main challenges related to family agriculture:

- *Low competitiveness of smallholder family agriculture.* While small family farming is the primary means of agricultural production in the state, it participates less in marketed output. Factors inhibiting its competitiveness are complex and include: infrastructure shortages; high transportation costs; limited access to credit; low levels of education; weak producers organization and management capacity; lack of critical masses of standardized or well differentiated products to reach markets; lack of knowledge regarding market demands; inadequate public and private technical assistance services; lack of leverage and negotiating power with larger agri-businesses along supply/value chains; and ineffective knowledge management among stakeholders and institutions in the rural milieu.

- *Advanced level of environmental degradation, affecting small farmers and other vulnerable rural populations.* São Paulo is largely covered with soils susceptible to erosion.[32] The successive agricultural booms and the intensification of agriculture in the State historically occurred with insufficient care for soils and water. Poor land management practices exacerbated erosion, leading to the sedimentation of reservoirs, headwater areas and springs, as well as fertility losses in many areas. This level of degradation has been addressed, in part, more recently through the São Paulo Land Management Project and Ecosystem Restoration of Riparian Forests Projects (2000-2008). Low income family farmers are disproportionately affected because of their lack of mobility and their inability to afford the additional costs of fertilizers. The poor quality of their soil aggravates the socio-economic barriers they face.

11. Government Strategy. The State of São Paulo has established a policy agenda that specifically aims to increase the competitiveness of small-scale farmers. It recognizes that

[29] A current concern is that mechanization of sugarcane harvesting (mandated as obligatory by government policy by 2017) will create further underemployment by part-time farmers. This increases the need to expand the valued added from their own production.
[30] Minimum wage is R$415 per month. The government considers earning half or less the minimum wage as below poverty line.
[31] In 2005, areas under sugarcane and eucalyptus were 3.8 and 1.1 million hectares, representing increases of 32% and 35% from 1995.
[32] Approximately 40% of the state is classified as highly or very highly susceptible to erosion.

family agriculture is critical to the state in terms of employment, fiscal revenue and social well-being, and is undertaking special efforts to make small farming potentially more profitable and facilitate higher and more consistent income-streams for small producers.[33] Through this approach the State seeks to make agriculture competitiveness gains more equitable, especially for the poorest.

12. In line with this strategy, the State Secretariat of Agriculture and Supply (SAA) and the State Secretariat of Environment (SMA) have supported a number of initiatives to promote sustainable rural development, two of which have been carried out with Bank support. The São Paulo Land Management Project (SPLM – IBRD P006474, 2000-2007, loan US$55.0 million) helped local farmers adopt more sustainable land management practices, provide basic social services (water, roads, etc.), and strengthen rural extension services. An estimated 70,000 small-scale farming families benefited from activities under the project, which targeted areas that are both highly susceptible to erosion and characterized by high levels of poverty.[34] The state is also currently implementing the Ecosystem Restoration of Riparian Forests Project (GEF – 2005-2010, GEF grant US$7.75 million) which helps pilot activities that reverse land degradation and restore riparian forests. Combined, these operations have helped to: (i) improve living conditions in many rural areas; (ii) develop agricultural practices that prevent land degradation; and (iii) increase small farmers' productivity. However, these efforts have insufficiently linked small farmers to markets, and they have not always led to increased incomes for small farmers.

13. In this context, the Government of São Paulo recognizes the need to take the next step forward by focusing its interventions on the promotion of small farmers' competitiveness. Under this new approach, small farmers are considered important economic agents of the private sector which seek to strengthen their position in specific product chains and markets. The Government intends to achieve this new focus through: (i) helping small farmers invest in market-driven business initiatives and strengthening producers' organizations; and, (ii) strengthening public policies, extension services, and physical infrastructure. The proposed project would support this two-pronged strategy.

B. Analysis of some value chains most likely to be supported by the project

14. Based on existing knowledge of small farming production systems and market trends in São Paulo, and on consultations with potential project beneficiaries, it is expected that the following supply chains would constitute a significant share of business proposals submitted for funding under component 1. It is estimated that these supply chains have potential for enhancing quality, productivity, and access to markets. Other possible areas of project support also include the beef cattle and the corn and soybean chains.

[33] Municipalities are mandated to spend 25% of their budget in education, which is an important incentive to keep rural families in rural areas.

[34] The micro-catchment was utilized as the physical planning and implementation unit to achieve the project's objectives. It represents a natural stepping stone in the effort to aggregate individual farm plans and serves as an appropriate forum for local participation in priority setting and decision making, especially for water and soil-related issues. 966 microcatchments were involved in the SPLM Project activities, with the average microcatchment size being about 3,000 hectares with about 90 families.

Dairy Products

15. *Production and commercialization.* The total milk production in São Paulo is 1.3 billion liters per year, from approximately 3 million cows distributed in 145,000 rural properties (121,000 of which characterized as family farming, i.e. 83% of the total).[35] The dairy production system is heterogeneous with production yields ranging from 3 liters of milk/cow/day to over 30 liters of milk/cow (farms which have adopted advanced management systems). There has been significant progress from the economic standpoint in the semi-confined model where animals remain in the pasture with a feed supplement. Under this model, family farming can be competitive by reaching productivity of 15 liters of milk/cow/day and with reduced production costs. Main inputs (feed, medication, and mineral salt) are purchased through producer organizations or at stores specializing in cattle farming products. Milk is sold directly to dairies and, to a lesser degree, at milk producer cooperative warehouses. Although the product is transported in 50-liter cans, most of the production is stored in refrigerated tanks at the farm level and transported in special trucks. In milk farming, a small percentage of family farmers undertake on-site processing for production of dairy products (cheese and other dairy derivatives) for local sale.

16. *Challenges and opportunities.* The major challenges faced by small-sized milk producers are: (i) variation in production volume throughout the year leading to major variation of price; (ii) low quality of milk produced in small farms due to poor conditions of milking stations, inadequate transportation and storage facilities; (iii) low genetic quality of animals; (iv) low levels of technology; and, (v) lack of management in many farms. On the positive side, according to FAO, global consumption of dairy products grows 3% to 4% per year, while milk production grows on average 1.5% per year. This supply-demand gap is resulting in higher milk prices in the international market. Demand for milk throughout Brazil is also increasing due to higher incomes of the poor population, expanding consumption. In the domestic market, dairy products reached record levels in early 2008 making dairy farming more profitable, despite a parallel significant increase in production costs. Under this scenario, issues for domestic milk production are: the duration of higher prices and the capacity to increase production and enhance quality. At present, a large portion of the domestic market is supplied by small family farmers, with low productivity and relatively low quality. According to IBGE data (2006), there is a trend across Brazil toward decreasing the number of milk producing facilities, eliminating "*safristas*" or "crop sellers" from the market as they become economically unfeasible/inefficient. New market opportunities may become available to small farmers using enhanced technology and improved management processes. The State of São Paulo has a climate favorable for the production of milk in a semi-confined system, capable of attaining better cost effectiveness, in addition to being the largest consumer of milk and dairy products in the country.

17. *Possible project support.* The project would seek to complement CATI's existing *Projeto CATI Leite* which has been working to enhance the production viability of over 600 small rural properties. Based on business proposals submitted by producers' organizations, the project could: (i) build skills in production technology, property management, and organizational management; (ii) provide farm-level and organizational-level grants for the

[35] Antonio José Torres et al, *Levantamento Censitário das Unidades de Produção Agropecuária (LUPA)*, CATI/SAA, 2008.

purchase of equipment and materials aimed at improving feed, health, and genetic quality of animals, as well as to improve the hygiene of milking systems; (iii) provide incentives for informal groups to organize formally and purchase machines and equipment aimed at better managing pastures or facilitating feeding complementation; and, (iv) strengthen associations/cooperatives, with incentives to invest in feed producing units and mineral salt mixers, storage tanks, transportation, and/or milk processing units.

Fruit Farming

18. *Production and commercialization.* Brazil ranks third globally in fruit production behind only China and India. The primary destinations of Brazilian produce are the E.U., North America, South America and the Middle East. São Paulo is the largest fruit producer in Brazil, accounting for 45% of the domestic production,[36] as well as the largest consumer on the domestic market. About 80% of fruit products come from small farms of less than 35 hectares.[37] These family farms also have the highest income distribution potential. Several species of fruit are produced in São Paulo: citrus (orange, lemon, and tangerine); passion fruit; grapes; guava; mangoes; *acerola*; pineapple; and avocado, among others. Oranges are grown both at the small family farming level and in large commercial operations. Inputs and machinery are supplied by companies specialized in meeting a wide range of needs of this industry. Commercialization of fruit products is usually carried out through the three following ways: (i) fresh produce for wholesalers who sort and package for on-selling in the domestic and foreign markets; (ii) fruit used for production of juice or preserve/jam – usually through contract farming arrangement; and, (iii) producer organizations which aggregate and sell higher quality fruit to fresh-products markets and lower quality fruit to the processing industry.

19. *Challenges and opportunities.* The main challenges faced in this sector are: (i) the highly perishable nature of the product (very short delivery time/shelf-life); (ii) need for adequate technology for quality production; (iii) acquiring/maintaining a sufficiently trained labor force; (iv) high price instability (seasonal variation); (v) high production costs; (vi) small scale production; and, (vii) very high costs of the certification process. Fruit farming in São Paulo has: (i) very favorable climate conditions for the production of several fruit species; (ii) areas of production near large consumer centers; (iii) relatively good quality transportation infra-structure; (iv) research and technology diffusion centers; and (v) several juice, pulp extracting, and preserve manufacturers in several regions of the state. These factors, along with the growing domestic and foreign market for fruit products (especially fresh produce) favor the expansion of fruit farming – and inclusion of certification and standardization processes through producer organizations (associations and cooperatives) would greatly increase the sector's competitiveness.

20. *Possible project support.* Depending on business proposals submitted by producers' organizations, the project would: (i) to build skills in production technology, property management, and organizational management (associations/cooperatives); (ii) assist informal groups to form producer organizations and improve production systems (ex. high

[36] *Instituto Brasileiro de Geografia e Estatistica*
[37] *Instituto de Economia Agrícola*

quality scions, irrigation, equipment, etc.); and, (iii) strengthen associations/cooperatives of fruit farmers in the classification, certification, marketing, and adding value to fruit (processing, pulp extraction, manufacturing of preserves).

Vegetable Farming

21. *Production and commercialization.* The State of São Paulo has wide diversity in terms of vegetable crops and various production systems. Approximately 37,000 farms are involved in vegetable production; 70% of these farms are rural properties with a total area of fewer than 20 hectares. The principal products may be classified as follows: (i) leafy vegetables (lettuce, kale, cabbage, arugula, etc.); (ii) vegetables (tomatoes, string beans, eggplants, etc.); (iii) roots, bulbs and tubers (manioc, potatoes, carrots, beets, onions, etc.); and, (iv) fruits (squash, watermelons, strawberries, etc.). Most crops are grown in open fields, using irrigation that ranges from simple manual watering to more complex systems. According to surveys by the São Paulo Secretariat of Agriculture and Supply, among farms that grow vegetables, over 6,000 of them use protected environments (*plasticultura*), corresponding to 16% of the total. Vegetable crops demand the provision of a large quantity of inputs, some of them specific to this activity and purchased in stores specializing in agricultural products, with regional or local coverage. With regard to equipment, it is not uncommon for farmers themselves to develop equipment or adapt it to local conditions. There are basically two marketing channels: (i) sale to independent wholesalers and to wholesalers located in official marketing warehouses (CEAGESP, *Companhia de Entrepostos e Armazéns Gerais do Estado de São Paulo*) and other municipal centers; and, (ii) direct sale from producers to buyers, supermarkets and greengrocers, and to agro-industries. It is not uncommon for producers or associations to place their packaged or processed products directly on supermarket shelves. In cases of production for agro-industry (production of tomato pulp, manioc meal, sweet potato and squash pastes, among other products), most marketing is done through the use of contracts.

22. *Challenges and opportunities.* The principal problems of vegetable producers are: (i) most products are highly perishable, with a very short interval between harvest and marketing, a fact that contributes greatly to price instability; (ii) lack of adequate technology for quality produce; (iii) need for specialized labor; (v) high production costs; (vi) dependence on wholesalers to place products in centers of larger consumption; (vii) difficulty in identifying the most attractive markets; and, (viii) difficulty in harmonizing the features and quantities of products supplied with regional demands. With regard to the chain of horticultural production, the State of São Paulo possesses: (i) favorable climate conditions for the production of nearly all vegetable species; (ii) attractive centers of consumption spread among all regions; (iii) good-quality transport infrastructure; (iv) diverse processing industries (jams and sweets, flour and meal, pulp, etc.); and, (v) growing demand for minimally processed products with higher value added (e.g., chopped and packaged vegetables). Linked to the abovementioned favorable conditions, the CEAGESP warehouse, located in the city of São Paulo, is the principal marketing center for Brazil's fresh vegetables and fruits. Therefore, it is a major reference for prices used throughout the state.

23. *Possible project support.* Depending on business proposals submitted by producers' organizations, the project could: (i) provide training in productive technology and in the management of farms and organizations (associations); (ii) provide incentives to individuals and informal groups for improvements to the production system (irrigation, production in protected environments, use of more effective equipment, etc.); and, (iii) strengthen associations/cooperatives in terms of the construction of units for the reception, sorting and packaging of products and especially in marketing in order to facilitate access to more attractive markets as well as to add value to products through processing (minimally processed products, extraction of pulp, manufacture of jams and preserves).

Coffee

24. *Production and commercialization.* Brazil is the largest global producer of coffee and is among the largest global consumers. São Paulo has 19,549 coffee farmers (35% of which are family farming operations) cultivating approximately 87,000 hectares with an annual production of 117,326 tons of processed coffee. The supply of input and machines used for coffee farming is dominated by a few oligopolies specializing in the production of fertilizers, pesticides and machines/equipment. Sale of pesticides and fertilizers is carried out by representatives of these supply companies; machines and equipment are sold through authorized dealerships. Coffee is usually commercialized through the following three methods: (i) direct sale to wholesalers of unprocessed coffee beans; (ii) coffee beans processed on-site and sold in individual batches to roasting or exporting companies through specialized brokers; (iii) commercialization of larger volumes of processed/standardized coffee beans through farmer cooperatives and associations, sold directly to major buyers (for sale or further trading). The most frequent method of commercialization among family farmers is the direct sale of coffee beans to wholesalers. Small producers' organizations are relatively few at present, and there is an opportunity for increasing their number and their role in an effort to enhance the competitiveness of small to medium-sized farmers in this sector.

25. *Challenges and opportunities.* The main challenges facing coffee family farmers in São Paulo are: (i) coffee complexes spacing (population/ha) inappropriate for mechanization processes; (ii) few productive varieties, with many susceptible to pests and disease; (iii) high cost of machines for processing in relation to the average size of production volumes; (iv) difficulties in routinely hiring a temporary labor force for harvest (only up to 4 months long); (v) higher costs of individual purchase of inputs; (vi) quick sale of harvest; (vii) commercialization without any processing or quality assessment of the product. As it is an international commodity, coffee prices have relatively similar fluctuations in both domestic and foreign markets, related primarily to quality and origin. The production of coffee in small properties (in climate-appropriate regions) is feasible given the domestic and international demands. However, the permanence of small coffee farmer properties in the production chain depends on constant improvement in production processes and the adoption of competitive strategies, such as: production and processing of special coffees, certifications (organic, fair-trade, etc), partnering arrangements (associations/cooperatives), enhanced collective marketing, among others. The adoption of these strategies will increase the ability of small producers to viably remain in the market.

26. *Possible project support.* Depending on business proposals submitted by producers' organizations, the project could promote and support the: (i) production of certified and/or new varieties of coffee beans that are more productive and resistant/tolerant to pests and diseases; (ii) individual purchase, or collectively, of machines and equipment aimed at reducing production costs and making harvesting operations easier; and, (iii) building skills in productive technology, property management and organizational management (association, cooperatives). These actions will allow for productivity gains, cost reductions, improvement in product quality, and, subsequently, in family farming competitiveness.

C. Overview of the agricultural associative sector in São Paulo

27. *Associations.* Rural producers' associations are formed on the basis of geographic area (microcatchments, neighborhood, municipality) or productive chains (fruit, milk, coffee, etc.) and their objective is to defend mutual interests, aimed at overcoming difficulties and generating benefits for their members, such as political, economic, educational, cultural and social representation in their local or regional environment. These entities, when they evolve, become efficient instruments for adding value to their members' products, reducing production costs and improving productive processes, thus resulting in an expansion of associated farmers' competitiveness. During the last decade, and to some extent as a result of the State Micro-catchments Program, there has been a significant increase in the formation and consolidation of small farmers associations. Among the associations formed in recent years, many achieved a sufficient level of maturity to become an important instrument for expanding the competitiveness of family farming. It appears that associations that engage in marketing tend to find that cooperatives are in fact the most appropriate legal form of organization for new and more frequent commercial operations, and tend to evolve into cooperatives.

28. *Cooperatives*. Cooperatives are formed by at least 20 producers, with the objective of expanding their power of negotiation and adding value to their products. In cooperatives, members are the owners of assets and are the beneficiaries of profits from the process organized by them. The principal agricultural cooperatives in the State of São Paulo are formed by milk producers, coffee growers, citrus fruit growers, flower growers, grain producers, and fishermen (located along the coast). The characteristic activities of these cooperatives focus on providing services to their members: sale of inputs, technical assistance, marketing of production, and in some cases storage.

29. *Condominios*. Rural producers or agribusinesses that have a project with a specific and mutual objective may engage in a form of joint ownership called *condominio*. This modality of community organization has been used among farmers who operate in the same type of production and who join together in order to reduce costs and investments, achieve production in scale and minimize taxes. One of the features of joint ownership is that assets belong to all. Because the law does not specify what type of asset must be constituted, it may range from small property to a cash reserve fund. This type of organization is not yet widely used in the State of São Paulo.

30. The Land Management Project supported a gradual process of community organization. Microcatchment development plans were prepared on the basis of a participatory diagnostic by the family farmers, to identify potentials and the prioritization of these families' principal needs. The joint search for solutions to problems and for mutual opportunities represents a strong instrument for binding these communities together. The preparation of plans and implementation of joint activities lead to better mutual understanding of neighborly relations, creating a synergy that may be utilized to generate income with a sense of socio-environmental responsibility. This approach helped build the necessary social capital for the formation of more solid, sustainable formal organizations where members understand and trust one another.

31. Looking forward, there is a need to continue building and strengthening such social capital, by promoting the formation of producers' groups, by accompanying their evolution into formal associations or cooperatives, and by strengthening their managerial and marketing capacities to gradually engage in more complex undertakings. The efforts should be differentiated depending on the intensity of past interventions under the micro-catchment program and the level of maturity and capacity reached by small farmers' associations.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

BRAZIL: São Paulo Sustainable Rural Development and Access to Markets

Sector Issue	Project	Latest Supervision (ISR) Ratings	
		Implementation Progress (IP)	Development Objective (DO)
WORLD BANK or WORLD BANK-MANAGED			
Under Preparation			
Rural Development	Rio de Janeiro Sustainable Rural Development Project (P101508)	Recently Approved	Recently Approved
	Paraná Social Inclusion & Sustainable Rural Development Project (P097305)	Under Preparation	Under Preparation
Environmental Management	GEF - Espirito Santo Biodiversity and Watershed Conservation and Restoration Project (P094233)	Recently Approved	Recently Approved
Sustainable Development - Others	São Paulo Water Recovery Project – REAGUA (P106703)	Recently Approved	Recently Approved
Ongoing or Recently Closed			
Sustainable Natural Resources Management	Brazil – São Paulo Land Management Project (P006474)	MS	S
	Brazil – Santa Catarina Natural Resources Management and Rural Poverty Reduction Project (P043869)	S	S
Rural Poverty Reduction	Brazil - Rural Poverty Reduction Project – Pernambuco (P050880)	S	S
	Brazil - Rural Poverty Reduction Project - Minas Gerais (P052256)	S	S
	Brazil - Maranhao Integrated Program: Rural Poverty Reduction Project (P080830)	MU	MU
	Brazil - Bahia State Integrated Project: Rural Poverty (P093787)	S	S
Environmental Management	Brazil GEF – Ecosystem Restoration of Riparian Forests Project -GEF(P088009)	S	S
Rural Infrastructure	Brazil – Tocantins Sustainable Regional Development Project (P060573)	MS	S
Sustainable Development - Others	São Paulo Feeder Roads Project (P106663)	S	S
OTHER AGENCIES			
State of São Paulo			
Agriculture Promotion (Rural Family Farming)	Fundo de Expansão do Agronegócio Paulista (FEAP)	N/A	N/A
	Programa Nacional de Agricultura Familiar (PRONAF)	N/A	N/A
	Projeto CATI Leite	N/A	N/A

1. In the area of rural development, the Bank is São Paulo's only international partner at the moment as there are no other similar programs being implemented by other international agencies. Major rural development programs in the State of São Paulo, such as FEAP and PRONAF, are being funded and implemented by the State itself or by the Federal Government. The proposed project will complement the existing FEAP and PRONAF programs:

   - The *Fundo de Expansão do Agronegócio Paulista* (FEAP), also known as the Family Agribusiness Bank, is overseen by the State Secretary of Agriculture and Supply and has the following objective: to provide direct financial support through rural credit and rural insurance grants to farmers, ranchers, and fisherman, as well as to their representative cooperatives and/or associations, in specific programs and/or projects which promote more diverse agricultural sectors. FEAP's financial agent is Banco do Brasil and the profile of eligible beneficiaries includes: (i) rural producers with annual gross income of up to R$400,000, provided that at least 80% of this income is derived from agricultural production; (ii) rural producers legally established, including micro and small enterprises, with annual gross income below R$2,400,000; and (iii) associations and cooperatives of farmers, consisting primarily of small rural producers, with an annual gross income below R$3,000,000.

   - The *Programa Nacional de Fortalecimento da Agricultura Familiar* (PRONAF) is a federal program which supports sustainable rural development and ensures food security through strengthening agriculture production by means of financing family farming, as well as their associations and cooperatives. PRONAF was created in 1995 to serve small rural producers in different ways, by providing financial support for the development of agricultural and non-agricultural activities on family farms. Beneficiaries of PRONAF consist of rural family farming producers who comply with the guidelines presented in the "Declaration of Fitness for PRONAF". The program also provides financing for vulnerable groups such as youth, women, agrarian reform settlers, indigenous groups, *quilombola*s, and others.

2. The proposed operation will complement these two existing programs and further help meet unmet demand by assisting small to medium-sized agricultural producers' organizations through the provision of matching grants to undertake necessary investments to increase their competitiveness and access to markets. These matching grants will: (i) promote the diversification of agricultural activities in rural family farming areas; (ii) facilitate cost reduction activities (primarily through economies of scale and promoting further collaboration through producer organizations); and, (iii) increase value-adding activities. These activities will be important components to help ensure the medium to long-term viability of small producers in the state's agricultural economy, as lack of business experience and economic fragility of many small producers, in the face of year-to-year fluctuating profit margins in agribusiness and market competition, continue to pose major risk factors for success.

3. With regard to environmental management, the proposed project will complement the São Paulo Feeder Roads project. The Feeder Roads project will support the deployment of an integrated information management system, the optimization of the environmental

compliance system for the use of new technologies, and the definition of an organizational model for the future State Environmental Agency, in the area of infrastructure. The proposed rural project will focus on environmental sustainability in agricultural lands, through the piloting of environmentally-sound agricultural practices, environmental compliance and awareness-raising in small farming operations, and the application of the State's payment for environmental services to agricultural lands. There is synergy between both projects, and the same entity (CBRN) was involved in both designs.

Annex 3: Results Framework and Monitoring

BRAZIL: São Paulo Sustainable Rural Development and Access to Markets

PDO	Project Outcome Indicators	Use of Project Outcome Information
Support the Borrower to increase the competitiveness of family agriculture in its territory while improving its environmental sustainability.	▪ Increase in total sales value for participating organizations, by end-of-project ▪ Increase in agricultural area where improved land and water management practices are being implemented, by end-of project	Y1-Y5 - Information on these indicators will be collected to assess whether project inputs are achieving the intended objective, and to assess whether adjustments to project design and methodologies may be needed
Intermediate Outcomes	**Intermediate Outcome Indicators**	**Use of Intermediate Outcome Monitoring**
Component 1 Supporting small farmers' business initiatives	▪ Number of business initiatives with market viability supported by the project ▪ Increase in productivity for selected commodities in participating organizations ▪ Number of innovations (new or improved commodities, techniques, types of business) with demonstrated market viability and replicability ▪ Percentage of participating organizations with effective management and accounting	Ongoing assessment of progress in implementing new business initiatives and increasing small farmers' competitiveness. Semi-annual reports provide inputs for communication and dissemination, as well as for supervision missions to assess planned versus actual accomplishments and pace of execution, and discuss adjustments when needed.
Component 2 Strengthening institutional and physical infrastructure needed to support small producers' competitiveness	▪ Online agri-business information center operational ▪ Percentage of rural extension staff trained in competitiveness areas ▪ System for payment for water or carbon service piloted ▪ Length of rural roads (critical sections) with year-round usability following rehabilitation and maintenance (km)	Ongoing assessment of progress in improving the overall environment (institutions and infrastructures) needed to support small farmers' competitiveness. Semi-annual reports provide inputs for communication and dissemination, as well as for supervision missions to assess planned versus actual accomplishments and pace of execution, and discuss adjustments when needed.
Component 3 Project management	▪ System for developing, selecting, supporting and monitoring business initiatives, operational ▪ Continued implementation of socio-environmental management plans	Ongoing assessment of compliance with applicable laws and Bank procedures, and of PMU efficiency and transparency in running the project.

Arrangements for results monitoring

		Target Values					Data Collection and Reporting		
Project Outcome Indicators	**Baseline**	**YR1**	**YR2**	**YR3**	**YR4**	**YR5**	**Frequency and Reports**	**Data Collection Instruments**	**Responsibility for Data Collection**
Increase in sales values (%, from baseline) for participating organizations, by end-of-project	0%	0%	2%	4%	6%	8%	Reports from baseline survey, project M&E, MTR, ICR, and ex-post reviews	Socio-economic surveys during baseline, project M&E, MTR, and ex-post reviews	CATI with support from project M&E and information management unit
Increase in agricultural area (hectares, from baseline) where improved land and water management practices are implemented, by end-of-project	0 M ha	0 M ha	0.2 M ha	0.4 M ha	0.6 M ha	0.8 M ha	Reports from baseline survey, project M&E, MTR, ICR, and ex-post reviews	Socio-economic surveys during baseline, project M&E, MTR, and ex-post reviews	SMA/CATI with support from project M&E and information management unit
Intermediate Outcome Indicators	**Baseline**	**YR1**	**YR2**	**YR3**	**YR4**	**YR5**	**Frequency and Reports**	**Data Collection Instruments**	**Responsibility for Data Collection**
Component 1 – Supporting small farmers' business initiatives									
Number of business initiatives (Nr) with market viability identified and financed by the project	0	25	75	150	225	300	Annual project M&E reports, market studies and beneficiaries' technical and financial reports	Project M&E system, involving CATI, SMA and relevant partners	CATI
Increase in productivity (%, from baseline) for selected commodities for participating organizations: - milk / productivity	0%	0%	5%	10%	15%	20%	Annual project M&E reports, market studies and beneficiaries' technical and financial reports	Project M&E system, involving CATI, SMA and relevant partners	CATI
Number of innovations (new or improved products, techniques, type of deals) with demonstrated market viability and replicability	0	0	1	2	3	4	Annual project M&E reports, market studies and beneficiaries' technical and financial reports	Project M&E system, involving CATI, SMA and relevant partners	CATI

Percentage of participating organizations with effective management and accounting (%)	0%	15%	25%	50%	75%	90%	Annual project M&E reports, external audits and beneficiaries' financial reports	Project M&E system, involving CATI, SMA and relevant partners	CATI
Component 2 – Strengthening Institutional and Physical Infrastructure									
Online agri-business information center operational	No	No	No	Yes	Yes	Yes	Annual project M&E reports	Project M&E system, involving CATI, SMA and relevant partners	CATI
Percentage of rural extension staff trained in competitiveness areas (Nr)	1%	1%	20%	50%	80%	90%	Annual project M&E reports	Project M&E system, involving CATI, SMA and relevant partners	CATI
System for payment for water or carbon service, piloted (Y/N)	No	No	No	Yes	Yes	Yes	Annual project M&E reports	Project M&E system, involving CATI, SMA and relevant partners	SMA
Length of rural roads (critical sections) with year-round usability following rehabilitation and maintenance (km)	0	0	100	200	400	500	Annual project M&E reports; municipalities' annual budget, planning and evaluation reports	Project M&E system, involving CATI, SMA and relevant partners	CATI/Municipalities
Component 3 – Project management									
System for developing, selecting, supporting and monitoring business proposals, operational (Y/N)	No	Yes	Yes	Yes	Yes	Yes	Annual project M&E reports	Project M&E system, involving CATI, SMA and relevant partners	CATI
Continued implementation of socio-environmental management plan (Y/N)	No	Yes	Yes	Yes	Yes	Yes	Annual project M&E reports, reports from public consultations	Project M&E system, involving CATI, SMA and relevant partners	CATI and SMA

Monitoring & Evaluation Strategy

1. The project's M&E system will monitor progress according to the indicators and targets identified above. To do so, the M&E system will build on the existing information systems and data bases developed by CATI and SMA in the context of the previous SPLM and GEF projects.

2. With regard to Component 1, CATI's regional units will provide real-time information on progress of each business initiative being reviewed and/or supported by the project. The regional units will be in charge of overseeing the sub-project selection cycle as detailed in Annex 4, Figure 1, and will keep track of all proposals being submitted at each Call for Proposals. Following selection, beneficiary organizations will be required to submit annual technical and financial progress reports to CATI. These reports will include data on productivity, sales volume, and environmental practices. Progress in beneficiary organizations' managerial and accounting capacity will be assessed annually by the technical assistance providers facilitated through the project. This information will be submitted to, and consolidated by, the PMU's M&E central team.

3. With regard to Component 2, the PMU will monitor progress in implementing activities related to the policy framework, market monitoring, and rural extension services (Sub-component 2.1). In particular the PMU will monitor the establishment and operation of the online agri-business information center, as well as the delivery of training to rural extension staff in competitiveness areas.

4. Progress in implementing activities related to Sub-component 2.2 (municipal infrastructures, including the rehabilitation of critical sections of unpaved rural roads) will be overseen and monitored by CATI's regional units. Following signature of the participation agreement with the PMU, each municipality will be required to submit annual technical and financial progress reports to the PMU. This information will be submitted to, and consolidated by, the PMU's M&E central team.

5. Progress in implementing activities related to Sub-component 2.3 (environmental sustainability) will be overseen and monitored by SMA's technical specialists within the PMU. SMA technical specialists will also be involved in monitoring the implementation of improved land and water management practices as part of business initiatives carried out under Component 1.

6. The M&E system will monitor the performance of the Project with respect to the baseline situation by: tracking progress towards outcome indicators; justifying necessary adjustments during implementation; promoting accountability for resource use against objectives; providing and receiving stakeholder feedback; and generating inputs for dissemination of results and lessons learned. The M&E system will also help measure the project's demonstration effect by documenting non-project supported replication activities across the state. The M&E system will be used as an instrument to: (i) provide permanent feedback during project implementation and thus allow for enhancing project activities and strategy in the course of the project (as opposed to just at closing); and (ii) to continuously draw lessons and share knowledge with related projects especially with those within Brazil, and to disseminate project results to the broader public, in connection with the project's communication strategy.

7. The PMU will have overall responsibility for the project's M&E system. It will include a full-time M&E officer who will work closely with the CATI and SMA technical specialists at the central level and in regional and municipal units, as well as with municipal councils and beneficiary organizations. Extension officers and municipal development councils will receive M&E training to support data collection efforts. M&E will be facilitated by the use of a web-based, customized computer application to be used by both internal and external audiences. This application, connected to the online agri-business center (Sub-component 2.1), will be available for beneficiary user groups to access project information and exchange knowledge.

8. The PMU will submit annual reports to the Bank covering the planned actions including selected business initiatives, status of implementation, outcomes, financial statements, procurement plans, environmental and social issues, and actions taken to ensure satisfactory implementation. These reports will be shared with policy makers to facilitate effective project management, reformulation of project strategy, if needed, and dissemination of experiences.

9. Upon initiation of the project, a number of studies and assessments will be carried out to establish the baseline and obtain more in-depth data and understanding on small farmers' current production systems, market opportunities, and organizational capacity, in order to guide the development of business proposals and other project activities.

10. Below is a description of the main project indicators as well as a discussion of other related concepts:

    - Competitiveness, in the context of this project, is understood as the producer's ability to operate efficiently in a market-based environment, and to make profits in a manner that can be sustained over time. Increasing competitiveness requires a combination of technical, associative, and financial capacities and tools at the producers' level (Component 1) and the existence of an overall conducive institutional framework and physical infrastructures (Component 2). It will be measured by the increase (from the baseline) in annual sales value achieved by organizations participating in the project.

    - Sales value (defined as Unit Price x Quantity Sold) will be used as an indicator of competitiveness, considering that an increase in sales value reflects progress in productivity, quality, and/or marketing techniques. However, sales value can only be considered as a proxy for net income, as it does not capture a variation of production costs.

    - Net income would, in principle, be a relevant indicator of success for this project. However experience with similar project shows that measuring net income at farm level is an extremely challenging (and expensive) task to carry out. Similarly, 'reduced production costs' would also be a relevant indicator, although it is difficult to measure.

    - Some project outcome indicators (e.g. sales value) may be influenced by the fluctuations of external parameters on which the project has no impact (e.g. international market prices), and hence introduce a bias in measuring the true impact of the project. This issue will be dealt with through the Impact Evaluation (see below) which will compare beneficiaries'

performance with a control group to assert the causality of project interventions and single out external factors.

- Small family farmers, in the context of this project, are defined as: (i) owning an agricultural property smaller 50 hectares, i.e. four tax modules in São Paulo; (ii) deriving family income predominantly (80%) from agriculture; and (iii) using predominantly labor of their own families for their agricultural production and processing. This includes *quilombola* communities and Indian peoples. This definition is in line with Law 11.326 of July 24, 2006.

- The number of participating organizations with effective management and accounting will be used to measure the project's contribution to building long-term capacity with direct beneficiaries. The sharing of fixed costs and the aggregation of small individual productions is critical for family farmers to increase profits; hence the focus of the project on strengthening the organizational capacities of producers' groups.

- Improved land and water management practices include practices such as: no-till agriculture, the use of green manure, terracing, fencing to isolate and protect water springs and stream margins, stabilization and restoration of gullies, and rotational pasture. The increase of areas where such practices are being implemented will be used as a proxy indicator for measuring progress towards ensuring the environmental sustainability of competitive family agriculture, as environmental sustainability is not a measurable indicator per se.

Impact Evaluation

11. The project will also carry out an Impact Evaluation to determine: a) the impact of the dissemination strategy executed by technical assistants trained by the state of Sao Paulo on the number and quality of proposals submitted. (The second phase of this evaluation could measure the impact of the project on household income.); and, b) the impact of the payment for environmental services (PES) program on environmental practices of beneficiary households, environmental outcomes, and household income.

12. The impact of the dissemination strategy. A dissemination strategy will be carried out to raise awareness of producer associations and individuals about the eligibility criteria and focus of the project's components. This impact evaluation will test the relative effectiveness of two dissemination strategies: a) a letter sent to a group of producer associations with information regarding the program with pre-selection forms attached to the letter; and, b) a group of associations will receive a visit by a technical assistant who will explain the guidelines of the program and distribute pre-selection forms.

13. Beneficiary organizations will be stratified by level of income: high priority, medium priority, and low priority, where high priority beneficiary organizations are poorer and low priority beneficiary organizations are relatively richer. Thresholds of income levels will be used to define these three priority groups. High priority beneficiary organizations will receive a visit by a technical assistant, while low priority beneficiary organizations will receive a letter. Medium priority beneficiary organizations will receive either a letter or a visit by a technical assistant. Among medium priority beneficiary organizations, comparability of the two groups above

(letter, or visit by a technical assistant) will be ensured by random selection. This approach will deliver two groups that are similar in all respects (e.g. number of members, level of organization, products and production scale etc.) allowing to measure the impact of the different dissemination strategies among medium priority beneficiary organizations. This strategy will allow measurement of the relative benefit of receiving a letter or a visit by a technical assistant on the number and quality of proposals submitted by medium priority beneficiary organizations.

14. The analysis above can also be used to measure the impact of the program on household income. Producer organizations that receive different dissemination strategies will develop proposals of differential quality leading to differences in the probability of being approved. These differences in approval rates are then used to measure the effect of the program on household income. More specifically the impact of the program will be measured by comparing beneficiary organizations with an approved project to beneficiary organizations whose projects were rejected due to differences of dissemination strategies. A survey will be administered to the members of producer associations before the start of the dissemination activity and after the first call for proposals. A household survey will be administered to a random sample of families before and after implementation of their approved proposals. This survey will collect information on agricultural and non-agricultural activities and income of the family.

15. The impact of the payment for environmental services (PES). A PES program will be piloted in five micro-watersheds in the state of Sao Paulo. An impact evaluation strategy will be developed to assess the impact of the program on environmental practices, environmental outcomes and household income between beneficiary and non-beneficiary households. Comparability of beneficiary and non-beneficiary households will be ensured by random selection. The effects of the program will then be measured by comparing beneficiary households to non-beneficiary households. Data on environmental indicators, household income and environmental practices will be measure before and after the implementation of the program.

16. The above methodological principles will be further refined in the detailed Impact Evaluation Strategy to be prepared by the Borrower and included in the Operation Manual.

Annex 4: Detailed Project Description

BRAZIL: São Paulo Sustainable Rural Development and Access to Markets

A. Lending instrument

1. The proposed lending instrument is a Specific Investment Loan of US$78.0 million over a five-year period. The total project cost is estimated to be US$130.0 million, including US$52.0 million of counterpart funding from the State of São Paulo.

B. Project development objective and key indicators

2. The project development objective is to support the Borrower to increase the competitiveness of family agriculture in its territory while improving its environmental sustainability.

3. This would be achieved by assisting small-scale farmers and other vulnerable rural producers to:

   - Increase the productivity of their land and labor, and improve the quality of their products through enhanced production techniques;
   - Engage more actively in supply/value chains, where there is a comparative advantage, by undertaking basic processing and marketing techniques and/or strengthening partnerships with larger private operators in these areas;
   - Strengthen the organizational and managerial capacity of producers associations, as well as promote the emergence of new associations/cooperatives; and,
   - Mainstream improved land and water management practices tested under the previous operations for more competitive production systems.

4. Key Indicators are:

   - Increase in sales value (unit value x quantity sold) for participating producers' organizations; and,
   - Increase in agricultural area where improved land and water management practices are being implemented.

5. A long-term objective of the project is to increase small farmers' net income, which depends on a combination of factors including quantity, quality and costs of production, and marketing efficiency. The project will aim to make progress towards that long-term objective by helping small farmers improve their production, associative, and marketing techniques. It would also improve the public physical and institutional infrastructure to the extent needed to support the project development objective (i.e. economic monitoring, extension services, environmental management, and rural roads).

6. Target population. An estimated 22,000 small farming families would be reached by the project through their own producer organizations (estimated 300 organizations with

potential for direct involvement in the project).[38] This target population also includes indigenous and *quilombola* families. The project would also benefit public institutions such as CATI, SMA, and municipalities to the extent that is needed to support the small farming competitiveness agenda. Beyond the number of families that would benefit directly, the project is also envisioned to provide a demonstration effect to the overall small farming sector in the State by better engaging family agriculture in strengthened agricultural organizations and allowing better access to markets.

C. Project Components

67. ***Component 1: Supporting Small Farmers' Business Initiatives*** (estimated total US$58.8 million, with IBRD US$37.6 million and State US$21.2 million). This component will provide support to business initiatives undertaken by small farmers organizations (the Small Farmers) including those of women, youth, and indigenous peoples by:

    (a) implementing small sustainable and competitive business investments (Farmers' Business Initiatives) through grants (the Grants) aimed at increasing Small Farmers' competitiveness (productivity, quality, value added and marketing) while improving environmentally-sound agricultural practices (Sub-component 1.1.); and

    (b) strengthening producers' organization regarding agricultural competitiveness through information and training programs to stimulate the emergence of business ideas in targeted municipalities and micro-catchments in the Borrower's territory, by providing technical assistance for the preparation of business proposals to be funded for Farmers' Business Initiatives under the Grants (market analysis, feasibility assessments, assistance to informal groups to constitute formal organizations, inter alia), as well as by providing technical assistance on organizational, financial, marketing, implementation and monitoring issues under Farmers' Business Initiatives (Sub-component 1.2.)

7. ***Sub-component 1.1 – Implementing Small Business Investments*** (estimated total US$45.0 *million, with IBRD US$32.0 million and State US$13.0 million).* This Sub-component will finance selected business initiatives, submitted and implemented by small producers' organizations, aimed at increasing their competitiveness for products with demonstrated market viability. Producers' organizations (associations, cooperatives, other forms based on geography or products) would be the direct beneficiaries and contractual partners of the project. It is envisaged that participating organizations will enter at different levels of managerial capacity, with some receiving initial project support to achieve minimum levels of take-off, while others will already have the capacity and experience to engage in more complex business undertakings.

8. This Sub-component would aim to strengthen family farmers' position in the value chain, and to enhance their negotiating power as collective units. It would aim to: (i) enhancing quality, quantity and homogeneity of agricultural production; (ii) engaging in new value added activities such as classification, processing, packing and marketing further along the

[38] Out of a total state-wide: 262,000 small farming families, and 550 municipalities

value chain; (iii) reducing production costs through the joint purchasing of inputs and sharing of equipment; (iv) adding value to products through certifications or labeling; (v) promoting diversification and innovation in farming and marketing processes; and, (vi) promoting environmental sustainability including improved management of land and water resources.

9. Key small farming supply chains supported by the project (See Annex 1) would include dairy production, fruits and vegetables, coffee, as well as grains, and cattle ranching. Examples of activities that would receive support include (but are not limited to):
   - Improved production techniques (e.g. use of plastic greenhouses in horticulture)
   - Standardization, storage, and marketing of products (e.g. milk and butter)
   - Strengthening supply agreements with agri-businesses (poultry, pork production)
   - Branding/marketing and processing of local products (e.g. acerola)
   - Certification of quality (e.g. green label for fruits and vegetables)
   - Diversification of rural activities (e.g. fish-farming, rural tourism, handicraft)

10. Criteria of eligibility will be used to signal the focus on competitiveness and environmental sustainability. Eligible proposals will have to demonstrate market viability, and preference will be given to initiatives using improved land management techniques (restoring soil fertility, reducing pollution).[39] This Sub-component would also promote eligible initiatives developed by indigenous and *quilombola* organizations, as well as those developed by women and youth organizations.

11. Under Sub-component 1.2 (as noted below), the project would also assist potential beneficiaries to constitute legal entities and to develop the business initiatives financed under Component 1.1 (i.e. identify potential buyers and adapt production to market needs). Sub-component 1.2 would continue to provide technical assistance to beneficiaries (e.g. governance and organizational issues, financial management, marketing, business management, technical) during the implementation phase, and it would monitor progress and performance.

12. It is estimated that this Sub-component would be able to support about 300 business proposals, with an average amount estimated around $150,000 each[40] (ranging from $10,000 to $400,000). Some activities/investments included in an organization's proposal may be executed collectively (e.g. installation of a cooling, storing, or processing facility); others by individual members (e.g. application of agricultural inputs on farm lands). The total support limit per organization will include the amount it receives for collective investments, as well as individual investments at member-level. Each business initiative is expected to include both collective and individual investments with an average ratio estimated around 50/50. Collective investments would typically include storing, processing,

[39] In this regard the project would build on and scale up sustainable land management techniques that were developed under the previous SPLM and ongoing GEF projects, and include among others: no-till agriculture, the use of green manure, terracing, fencing to isolate and protect water springs and stream margins, stabilization and restoration of gullies, and rotational pasture. As a condition for eligibility, sub-project proposals would also include the implementation of an Adjustment of Conduct plan in order to progressively increase the level of compliance with *Areas de Preservacao* and *Reserva Legal* through the implementation of economically-feasible measures (See Annex 10).

[40] As the project is demand driven, the projections for the expected size of sub-projects have been estimated based on the previous SPLM project, on CATI's knowledge of the size of existing small farmers' organizations and the type of operations they run (see Annex 4 – Possible Project Support for key supply chains), as well as on consultations with potential producer organizations in the project area.

or transport equipment, as well as technical assistance, training benefiting all members of the organization. Individual investments will be on the members' individual properties when needed to increase the competitiveness of the producer organization as a whole (quality, productivity, standardization, etc). Individual investments would be limited to: (i) to adapt more environmentally and socially responsible practices; and (ii) to adopt more efficient production techniques, reduce production costs; improve quality, and diversify production activities. Individual investments would also be limited to members who meet the small farming criteria (see Annex 3, p.39). All sub-project investments will only be made to/through formally-established organizations. Financial support from Sub-component 1.1 will be distributed as matching grants. The project may support business proposals submitted by organizations that include a mix of small and medium farmers. The level of financial support (grant amount, and matching requirement) will depend on the membership ratio, and individual investments may be limited to small members.

13. Once farmers' organizations have been pre-selected, financial resources will be made available to cover the cost of marketing and business specialists and help them prepare the full proposal, identify potential buyers, and design marketing strategies. Similarly, once full proposals have been selected, financial resources will be made available to cover the cost of marketing and business experts to advise and build up the organization's capacity in these areas throughout the implementation phase. These resources will come on top of the grant for implementing the business proposal itself.

14. In additional to supporting *upstream producers groups*, this subcomponent would also be open to supporting innovative proposals developed by *downstream players* (e.g. supermarkets, export agencies, other groups involved in processing and marketing) provided they contribute to the PDO, fit with the basic principles of the project, and bring in innovative practices with potential for replication/scaling up. In the same spirit, the project would also be open to supporting proposals submitted by second tier organizations (i.e. associations of associations, or federations) when beneficial to the project objectives, and based on initial experience gathered with direct beneficiaries/first tier organizations. The possibility of leveraging private resources to support small farmers' business initiatives would then be considered, possibly through higher co-financing arrangements. This approach would aim to strengthen the 'whole chain' perspective of the project, to reinforce the link between small producers and markets, and to promote innovation.

15. *Sub-project cycle*. The sub-project cycle, including the process for preparing and selecting business proposals, is presented in Figure 1 and Box 1, and is summarized below. The complete version, including templates of required document formats, eligibility criteria, and the scoring chart, will be defined in the Operational Manual. All relevant information on selection procedures and criteria will be widely disseminated before the first call for proposals, using internet, local media, and workshops (under sub-component 1.2).

16. After the call for proposal is carried out, producer organizations will express their interest through a simple form (Pre-Evaluation Form/Expressions of Interest) with the basic data on the applying organization, as well as the proposed initiative, so CATI and the municipal rural development council (MRDC) may perform a preliminary analysis (prescreening) of

the eligibility and compliance with the Program's objectives. Applicants with proposals which seem eligible, but may need adjustments, will receive technical assistance from the project (Sub-component 1.2, Activity 2) to adapt the Pre-Evaluation Form which will then be resubmitted.

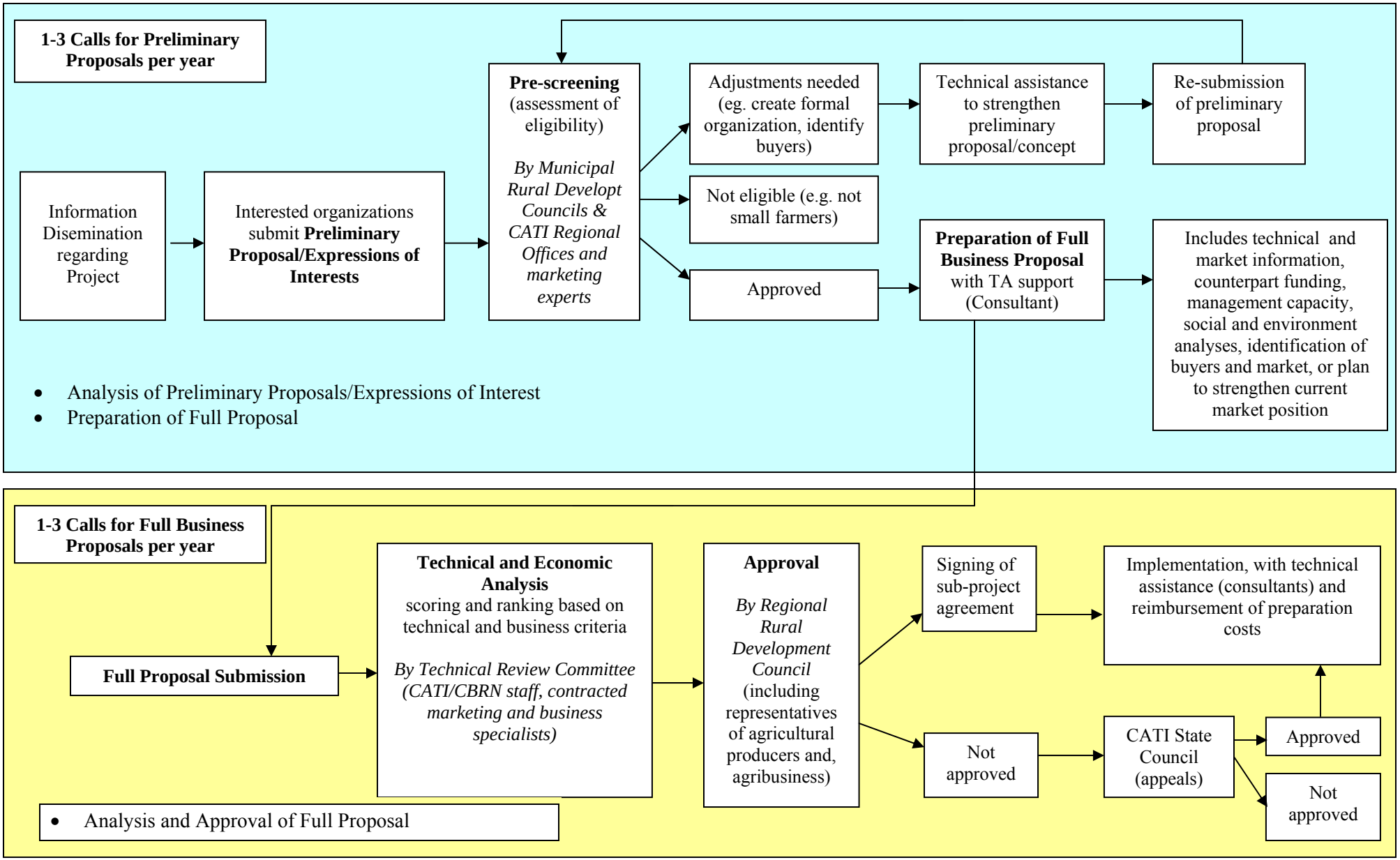
17. Once the Pre-Evaluation Form is approved by CATI and the respective Municipal Rural Development Council, applicants will begin preparation of the investment proposal with technical assistance (i.e. consultants) provided through the project (Sub-component 1.2). If the proposal is ultimately approved, the Program will reimburse the costs related to proposal preparation.

18. The Proposal must include detailed technical information about the production systems, marketing strategy, counterpart funding, socio-environmental practices and expected impacts, buyers and potential business partnerships, and other relevant information. After official Submission, proposals will undergo a detailed technical and economic analysis by CATI, which could include the hiring of specialized consultants for more complex proposals. Proposals will also be reviewed by CATI/SMA regarding environmental aspects of the proposal, including requirements for environmental compliance and mitigating and/or compensatory measures, as defined in the environmental management plan and detailed in the Project Operational Manual.

19. The Regional Rural Development Councils will invite institutions and entities which represent the region's interests to form a multidisciplinary council, coordinated by the RRDC's executive secretary. At pre-screening stage, this multidisciplinary council will issue an opinion report indicating its approval or disapproval, taking into account CATI's technical analysis and SMA's environmental analysis, as well as existing available funds. If there is any discrepancy between the technical analysis and the RRDC's decision, the proposal will be submitted for further review to a State Board, whose decision will in turn be supported by the PMU.

20. After the Proposal's approval, CATI's regional unit would issue an authorization for the implementation of the proposal, along with a monitoring and reimbursement schedule. For procurement, beneficiary organizations would use the 'community participation' and 'shopping' methods with the thresholds indicated in Annex 8. Upon completion of sub-project investments (or completion of phases) CATI and the Municipal Rural Development Council would issue a joint completion statement, and CATI would reimburse eligible expenses. Payments will flow from the State Fund for Agribusiness Growth (FEAP) to the beneficiary's specific account at the *Banco do Brasil* (See Annex 7). Activities at farm-level, if included in the organization's proposal, would be reimbursed directly to farmers.

Figure 1. Sub-Project Cycle – Selection of Business Proposals



Box 1. Sub-project Cycle – Selection of Business Proposals

- **Project Information Dissemination Activities** (under Sub-component 1.2)

- **Call for Preliminary Proposals/Expressions of Interest: 1-3 carried out per year**
  - Guidelines will be made available online for transparency and to enhance quality of proposals
  - Preliminary proposals are envisioned to be 8-10 pages in length with simple forms/guidelines
  - Include basic information regarding proposing organization, proposed activities, target markets

- **Screening of Preliminary Proposal** to assess eligibility and whether in-line with project objectives.
  - Carried out by Municipal Rural Development Councils and CATI Regional Unit, with marketing and business management experts
  - If found eligible, then preparation of Full Business Proposal begins with technical assistance (provided under Sub-component 1.2)
  - If adjustments needed, assistance may be provided to adjust accordingly – after which the preliminary proposal would be resubmitted for pre-screening

- **Preparation of Full Business Proposal**
  - Proposals would include detailed information on the organization (including baseline production and sales value); detailed market information and how investment will increase market share or strengthen market position; detailed investment proposal with costs; counterpart/matching contributions, and expected added value; identified buyers and end-markets; social and environmental assessments

- **Technical and Economic Evaluation:** Carried out by Technical Review Committee comprised of Regional CATI/CBRN staff and contracted marketing and business specialists
  - Full proposal is given scores and is ranked based upon criteria scoring chart
  - Environmental Analysis carried out, reviewed and approved by CATI/SMA
  - Available resources assessed

- **Approval granted by Regional Rural Development Council (**including representatives of agricultural producers and, agribusiness)
  - If approved, proposal preparation costs reimbursed through project funds and proposal moves to implementation phase, with project assistance (provided under Sub-component 1.2)
  - If not approved, decision may be appealed to CATI State Council for further reconsideration

21. ***Sub-component 1.2 – Strengthening Producers' Organizations*** (estimated total US$13.8 million, with IBRD US$5.6 million and State US$8.2 million). This Sub-component will help create or strengthen the capacity of producers' organizations with regards to organizational management and marketing. This training and assistance will be delivered by CATI (activity 1 below) or by other qualified private service providers contracted by the project and/or by beneficiaries (activities 2 and 3 below).

22. First, this Sub-component will finance broad information, training, and exchange programs as well as initial participatory diagnostics in targeted municipalities across the State. These activities would help small producers identify their comparative advantages in specific chains and end-markets, identify more profitable opportunities, and stimulate the emergence of business ideas. The participatory diagnostics would be conducted by the Municipal Rural

Development Councils (MRDC). They would: (i) identify value chains within the municipality that have a potential for improving small farming competitiveness; (ii) identify existing (formal and informal) producers groups and identify strategies to build up social capital; and (iii) assess constraints and potential for developing business initiatives to be supported by the project. On that basis, the project would then provide information, training and other assistance to small farmers groups to help them form and/or strengthen legally-constituted producer organizations, and it would help these organizations prepare business proposals for submission to the project. Indeed, in some regions, there is a variety of farmers' groups already engaged in, or ready to develop, business initiatives; while in other regions, there is a need to facilitate the formation of producers' organizations (or further strengthen existing ones), and this will require additional support. The municipal diagnostics would also help design the municipality's road management plans and select the priority road sections (for support under sub-component 2.2.) consistent with the main value chains and markets. This sub-component will also disseminate all relevant information on eligibility criteria and the selection process, using internet, local media, and workshops.

23. Second, this Sub-component will assist interested organizations in the preparation of business proposals for funding under Sub-component 1.1 (e.g. identify business opportunities, carry out feasibility assessments and financial and technical analysis, and assist in negotiations with partners). This assistance would be provided by qualified private service providers contracted by the project and/or by beneficiaries. This assistance would also help interested informal producers groups (e.g. micro-catchments farmers groups) to form legally-constituted associations, strengthen their management capacity, and access financial support for investments under Sub-Component 1.1.

24. Third, this Sub-component will continue to provide beneficiaries with technical assistance on organizational, financial, marketing, business management, or technical issues during the implementation phase, and it would monitor progress and performance. This assistance would be provided by qualified private service providers contracted by the project and/or by beneficiaries. This subcomponent would also provide training and assistance to Municipal Rural Development Councils to enable them to fulfill their functions under the program (initial, municipal-level participatory diagnostics, initial screening of business proposals (see Figure 1 and Box 1 above).

68. ***Component 2: Strengthening Institutional and Physical and Infrastructure*** (estimated total US$1.4 million, with IBRD US$36.3 million and State US$25.1 million). This component will provide support to the Borrower's functions that are critical to the competitiveness and sustainability of family farming in its territory through investments in:

(a) monitoring policy frameworks, markets and rural extension through studies and workshops to improve regulation and incentive systems for family farming competitiveness (labelling systems, and analysis of specific supply-chains, inter alia), the setting-up of an online agri-business information centre, and the strengthening the capacity of CATI to advise Small Farmers on production technologies, marketing and management at central, regional and municipal levels through the provision of training and equipment (Sub-component 2.1.);

(b) rehabilitating and maintaining municipal rural roads in the Borrower's territory to help facilitate Small Farmers' physical access to markets through assistance to the Borrower's municipalities to prepare simple rural road management programs, financing of grants (when minimum levels of technical, institutional and financial sustainability are met) for infrastructure subprojects (Infrastructure Subprojects) to support rehabilitation and maintenance of priority sections of rural roads as identified in the rural road management programs so as to ensure all-year usability, and supporting units of production of small paving materials (Sub-component 2.2); and

(c) promoting environmental sustainability through the mainstreaming of improved environmental practices in rural production systems to ensure the sustainability of the productive resource-base (land and water) by supporting pilot subprojects at farm-level (Environmental Subprojects), implementation of the Borrower's environmental compliance system in rural areas combined with environmental awareness-raising, and the carrying out of the Borrower's new program of payments for environmental services to rural areas (Sub-component 2.3).

25. ***Sub-component 2.1–Policy Frameworks, Market Monitoring, and Rural Extension*** (estimated total US$15.9 million, with IBRD US$9.5 million and State US$6.4 million). This Sub-component will help mainstream competitive small-scale agriculture within the policy and planning frameworks at state and municipal levels, and it will strengthen CATI's and Municipal Rural Development Councils' capacity to advise small farmers on production technologies, marketing, and organizational management. It will finance: (i) an online agri-business information center; (ii) studies and workshops to improve agricultural regulation and incentives systems (i.e. labeling systems) and to assess the potential and constraints of specific supply-chains and end-markets, (iii) training of CATI's rural extension staff, along with the rehabilitation and equipment of CATI's regional and municipal units (casas de agricultura); and (iv) capacity-building of municipal rural development councils involved in the project. Studies and workshops will be conducted in partnership with local research centers and business organizations, and will help adjust the project strategy on a regular basis. Training would focus on management and marketing so as to gradually include these areas in the rural extension work. Among others, this Sub-component would help connect Sao Paulo's small farming sector to the Global Food Safety Initiative (GFSI).

26. With regard to rural extension and institutional strengthening (item [iii] above), the project will finance: (a) training programs to CATI staff focusing on value chains, marketing, and social and environmental issues; (b) rehabilitation of the CATI central office, 30 regional offices, and 100 municipal offices; (c) acquisition of computers and furniture to equip CATI central office, as well as the 30 regional and 100 municipal units; and (d) acquisition of vehicles for the CATI central unit, as well as for the 30 regional and 100 municipal units.

27. With regard to municipal rural development councils (MRDC), the project will finance: workshops, training, and consultant services, to strengthen the capacity of MRDC members (MEMBERS) in areas such as organizational management, market analysis, and business. It

will help MRDCs to conduct the participatory diagnostics (sub-component 1.2) and to participate in the selection of business proposals (sub-component 1.1).

28. This Sub-component will build upon the SPLM Project which strengthened CATI's capacity to provide management, administrative, and technical support to rural development programs. The project's focus on improving the competitiveness of family agriculture will require CATI to further expand its capacities to new segments of the value chain beyond production technologies, such as marketing; social and environmental issues; and participatory processes and communication.

29. ***Sub-component 2.2–Rural Infrastructure*** (estimated total US$21.0 million, with IBRD US$14.8 million and State US$6.2 million). This Sub-component will aim to facilitate small farmers' physical access to markets focusing on the maintenance and rehabilitation of unpaved rural roads, under the responsibility of municipalities. It will finance: (i) technical assistance to assist priority municipalities to prepare simple rural roads management programs, devise financing arrangements, and help assess various implementation modalities (joint acquisition of equipment, direct execution of works, various types of outsourcing) based on local conditions, capacity, and sustainability; and (ii) where minimum levels of technical, institutional and financial sustainability are met, this sub-component would also finance the rehabilitation and maintenance of priority road sections ('critical points') identified in the roads management programs so as to ensure all-year usability

30. In physical terms, this Sub-component would: (i) assist in the formulation/implementation of simple rural road management plans in an estimated 120 municipalities of the project's priority area; (ii) rehabilitate 500 km of critical road sections with approximately 5 km per municipality at an average estimated cost of US$20,000/km; (iii) support the routine maintenance of 3,600 km of municipal roads (approximately 30 km/municipality) at an average cost of US$1,700/km; and (iv) install small cement production units in approximately 80 municipalities where road paving materials are scarce or non-existent, at an average cost of US$28,500/unit. Municipalities will be selected based on meeting specified criteria standards, while also taking into consideration municipal geographic area, poverty levels, extent of road networks, institutional capacity, and financial sustainability. The project would support small-scale works, such as: (i) improvement of drainage systems (i.e., concrete pipes, gutters, small/simple bridges); (ii) paving of road sections with a slope greater than 8%; and (iii) improvement of side slopes or other areas susceptible to erosion.

31. The design and planning of rehabilitation and maintenance services will be carried out by municipalities' technical specialists with training and assistance by the project (CATI). Municipal Rural Development Councils will be involved in the design of the rural roads management plans. CATI will be responsible for the monitoring, quality control/supervision of each stage of the process; including the review/approval of technical proposals and the issuance of certificate of completion of works for reimbursement by the project. The implementation of this Sub-component will be formalized between CATI and each participating municipality through a signed agreement of technical and financial cooperation (*convenio)*. This *convenio* would define standard bidding methods for carrying

out physical works (force account, contracting services, procurement of inputs and/or rental of machinery and equipment). These *convenios* will also include standard provisions for the transfer of funds, as well as counterpart funding sources. See Annex 6 for flow of funds arrangements to municipalities.

32. ***Sub-component 2.3–Environmental Sustainability*** *(estimated total US$24.5 million, with IBRD US$12.0 million and State US$12.5 million).* This Sub-component would help strengthen small farmer's competitiveness over the long-term by ensuring the sustainable management of their productive resource-base (land and water). It would also help expanding new opportunities of income generation in areas little suited to conventional farming.41 In physical terms, this Sub-component would finance: (i) training and equipment to strengthen the state's capacity for environmental management as it relates to environmental compliance and support to productive farming systems (e.g. vehicles, orbital images, computers) as well as awareness-raising and environmental education through information campaigns, local consultations, and publications; (ii) approximately 40 small-scale, farm-level environmental sub-projects to promote the use of sustainable agricultural practices, such as beekeeping, production of heart of palm, nursery seedlings of native species, tourism, and agro-forestry; and (iii) studies, technical assistance, and workshops to pilot a system of payments to small farmers for water services resulting from improved practices in agricultural lands.

33. Environmental management and education in rural areas. This activity will aim to improve the State's environmental management and environmental compliance system in rural areas. It will provide equipments, training and technical assistance to environmental staff operating in the field, as well as technical assistance, training and awareness-raising to small farmers. These actions would help reduce delays and administrative hurdles currently faced by small farmers hence improving their ability to do business, while improving the quality of the environmental sustainability in rural areas. It would help create an institutional and public environment favorable to piloting and mainstreaming of environmentally-sound practices into competitive production systems. It would also help family farmers improve their level of compliance with environmental regulations[42] starting with basic steps and gradually progressing towards more sophisticated measures.[43] This activity would also support the production of seeds of native species for private and public reforestation programs. (Estimated cost US$ 5.6 million from the Bank and US$4.1 million from the state).

34. Pilot Projects. This Sub-component would support environmental pilot projects with a potential for economic diversification based on the sustainable use of natural resources, such as the commercialization of pine fruit, heart-of-the-palm fruit, apiculture, medicinal plants, rural tourism, agro-forestry systems, and the production of seeds of native species

[41] Environmental quality is one of the factors that influence the economic feasibility of family agriculture, although it is not formally accounted for. The good quality of soils and waters, the presence of pollinating agents and natural enemies of pests reduce production costs, minimize the loss of nutrients and soil, and reduce water pollution and the use of agrochemical agents. The existence of fragments of native vegetation may also support economic activities such as rural tourism and the use of non- timber products (medicinal and ornamental plants, honey, etc)

[42] Most of the rural production, like agriculture, cattle raising, aquaculture and forest uses are subject to environmental licensing, as set forth in CONAMA's Resolution 237/1997. Licensing evaluates the environmental suitability of the property, which is also a condition for the granting of public funds.

[43] Such as the provisions on "Reserva legal" and "APP – Area de Preservação Permanente".

for private and public reforestation programs, and others. These sub-projects would respond to specific demands from beneficiaries. They would focus on regions with limited accessibility and soil and terrain restrictions where small farmers can hardly be competitive based on conventional agriculture. It would build upon other comparative advantages such as the reminiscence of native forests, and/or higher environmental and biodiversity value. The total investment over five years is estimated US$5.9 million, for an estimated 40 pilot projects (average US$150,000 per project).

35. Payment for Environmental Services. This activity would support: (i) development of work-plans in 5 pilot river basins based on local priorities and conditions; (ii) monitoring of the water quality impacts of improved agricultural land uses and of how they compare to current practices; (iii) field testing of alternative payment mechanism designs so as to ensure that payment mechanisms are easily understood and accepted by local land-users; (iv) design of rules and procedures to integrate payments from multiple sources (for example funding from the *Comitê de Bacia* for water services with funding from sales of carbon emissions reductions); (v) design and implementation of appropriate monitoring programs to ensure that the land use changes are effectively generating the desired environmental services; and, (vi) making payments to participating farmers in the priority river basins, using funding provided by the state government, the *Comitês de Bacia*, and other water users. This activity would help providing a new source of income for small farmers who adopt agricultural practices that generate off-site environmental benefits.[44] Bank contribution would amount to US$1.5 million for studies, technical assistance, and workshops. The State of São Paulo has committed about US$8.6 million to be redistributed to small farmers in pilot micro-watersheds as incentive/payment for adopting improved agricultural practices and practices for conserving and/or recuperating ecosystems.[45]

69. ***Component 3: Project Management*** *(estimated total US$9.6 million, with IBRD US$3.9 million and State US$5.7 million).* This component will provide support to the Borrower to efficiently and effectively implement, administer, supervise, and coordinate all the activities carried out under the Project by financing the institutional structures, equipment and personnel required to manage Project activities, including fiduciary functions (procurement, accounting and financial management) as well as technical planning, implementation of social and environmental safeguard instruments, monitoring and evaluation, dissemination of Project results and implementation of a pro-active communication strategy. The structure of the PMU is indicated in Figure 2, Annex 6. The Impact Evaluation strategy as well as the Communication strategy is part of the Operational Manual.

[44] Improving markets for environmental services is an important aspect of improving agricultural competitiveness in São Paulo because in many marginal areas there are limited prospects for increasing agricultural returns from sales to commercial markets. These areas are often important for the provision of environmental services such as water services, biodiversity conservation, and carbon sequestration, but without markets for environmental services, land users would receive no compensation for providing these services. These areas are often areas of relatively high poverty. In addition, efforts to increase agricultural competitiveness that do not address the problem of externalities could easily lead to substantial environmental damage and costs to society. Efforts to intensify livestock production in milk-producing areas, for example, could lead to increased water contamination because of the presence of larger herds. Negative lists in the list of activities that the project can support would not be sufficient to avoid this problem, as many such processes will likely occur even without project financing. Negative lists would also be too blunt an instrument in many cases, ruling out certain activities entirely rather than allowing them while mitigating the risk that they cause damages

[45] This State-level initiative would complement the on-going national-level *Produtor de Agua* Program.

Annex 5: Project Costs

BRAZIL: São Paulo Sustainable Rural Development and Access to Markets

Project Cost By Component and/or Activity	Local US $million	Foreign US $million	Total US $million
1. Supporting Small Farmers' Business Initiatives	**58.8**	**0.0**	**58.8**
1.1 Implementing Small Business Investments	*45.0*	*0.0*	
1.2 Strengthening Producers' Organizations	*13.8*	*0.0*	
2. Strengthening Institutional and Physical and Infrastructure	**61.4**	**0.0**	**61.4**
2.1 Policy Frameworks & Rural Extension (CATI)	*15.9*	*0.0*	
2.2 Municipal Rural Infrastructure (Municipalities)	*21.0*	*0.0*	
2.3 Environmental Sustainability (SMA)	*24.5*	*0.0*	
3. Project Management	**9.6**	**0.0**	**9.6**
Total Baseline Cost	**130.0**	**0.0**	**129.8**
Physical Contingencies			**0.0**
Price Contingencies			**0.0**
Total Project Costs[1]			**129.8**
Interest during construction			
Front-end Fee			0.2
Total Financing Required			**130.0**

[1]Identifiable taxes and duties are US$37 million, and the total project cost, net of taxes, is US$93 million. Therefore, the share of project cost net of taxes is 72%.

Total Project Cost – Breakdown by Source of Funding (World Bank, State of São Paulo)

	World Bank Amount	%	State of São Paulo Amount	%	Total Amount	%
A. Supporting Small Farmers' Business Initiatives						
1. Implemeting Small Business Investments	*32,000,000*	*71.1*	*13,000,000*	*28.9*	*45,000,000*	***34.6***
2. Strengthening Producers' Organizations	*5,600,000*	*40.6*	*8,200,000*	*59.4*	*13,800,000*	***10.6***
Subtotal	***37,600,000***	***63.9***	***21,200,000***	***36.1***	***58,800,000***	***45.2***
B. Strengthening Institutional and Physical Infrastructure						
1. Policy Framework & Rural Extension (CATI)	*9,500,000*	*59.7*	*6,400,000*	*40.3*	*15,900,000*	***12.2***
2. Rural Infrastructure (Municipalities)	*14,805,000*	*70.5*	*6,200,000*	*29.5*	*21,005,000*	***16.2***
3. Environmental Sustainability (SMA)	*12,000,000*	*49.0*	*12,500,000*	*51.0*	*24,500,000*	***18.8***
Subtotal	***36,305,000***	***59.1***	***25,100,000***	***40.9***	***61,405,000***	***47.2***
C. Project Management	***3,900,000***	***40.6***	***5,700,000***	***59.4***	***9,600,000***	***7.4***
D. Front-End Fee	195,000	100.0	0.0	0.0	195,000	**0.2**
Total	**78,000,000**	**60.0**	**52,000,000**	**40.0**	**130,000,000**	**100.00**

Annex 6: Implementation Arrangements

BRAZIL: São Paulo Sustainable Rural Development and Access to Markets

1. The project will be implemented by the State Secretariat of Agriculture and Supply (SAA) and the State Secretariat of Environment (SMA), with SAA being responsible and accountable for overall project management, coordination and achievements, and SMA being responsible for a subset of well-defined activities (i.e. Sub-component 2.3). SAA's overall management responsibility will be delegated to the State Rural Extension Directorate (CATI) as the leading implementing agency, and SMA's responsibility for Sub-component 2.3 will be delegated to the State Directorate for Biodiversity and Natural Resources (CBRN) as a co-implementing agency.

2. Project management will be mainstreamed into existing State institutions, with a Project Management Unit (PMU) established between CATI and CBRN (each within their respective area of autonomy and competence). The PMU will be headed by CATI, and physically located within CATI premises. The PMU will be responsible for overall management, planning, coordination, monitoring and evaluation of all project activities, as well as financial management, procurement disbursement, and accounting. The PMU structure will be comprised of: a Project Coordinator (CATI); two Technical Coordinators (CATI and CBRN); a Financial Coordinator with Procurement, Disbursement and Accounting Specialists; an M&E Specialist; Environmental and Social Safeguards Specialists; and a Communication Specialist. All staff mentioned above will be formally designated and operational before effectiveness.

3. The PMU would assure that financing for the program be included in the State Work Plans (PPAs), as well as the respective annual budgets during the implementation period of the project. The necessary resources for project implementation would be allocated in the respective office budgets with the Secretariats (SAA and SMA) and responsible units overseeing the execution of project Components, in agreement with State of São Paulo Work Plan 2008-2011 (PPA). The project will prepare annual operating plans and annual procurement plans that sufficiently forecast the needs of the project during the coming year in order to carry out successful implementation of project activities.

4. Responsibilities of the PMU for successful implementation:

   - Plan and manage the administrative, financial, and technical activities of the project
   - Establish a financial and technical strategy that rationalizes the execution of the project, with the purpose to consolidate actions and ensure that project objectives are met
   - Manage the budgetary resources of the Program, providing disbursement of resources according to approved schedules
   - Ensure that all procurement carried out through the project is in agreement with Bank safeguards standards
   - Carry out an annual independent audit of project management and activities
   - Active public promotion/communication of project objectives and activities

- Carry our intra and inter-Secretariat coordination to increase visibility of project activities and to ensure synergies between other related State and federal programs where feasible
- Technical training of project beneficiaries
- Prepare the Terms of Reference and other specifications for hiring of technical consultants in the evaluation of the proposals, etc.

5. With regards to monitoring, the PMU will be responsible for the preparation and submission of financial SOEs and summary sheets (SSs), as well as the preparation of reports on the physical and financial progress of the project. This includes updated economic evaluations and implementation status reports of the project for successful monitoring and evaluation. More specifically, the responsibilities of the PMU include:

- Monitor and evaluate the financial progress of all the project activities through the system of Financial and Physical Monitoring
- Interact with all project beneficiaries involved in the project and consolidate reports of implementation progress
- Coordinate with regional CATI units and SMA execution units in the planning and implementation of project activities, including municipal-related activities, environmental licensing and compliance, etc.
- Coordination with the World Bank

6. CATI regional units would be in charge of project management at the local level. CATI currently has 40 regional rural development units with each unit covering approximately 15 municipalities (see Map 2, Annex 15). Additionally, CATI has a local presence in each municipality through 594 *Casas de Agricultura*. Day-to-day project implementation would be decentralized and participatory, with a focus on the empowerment and self-management of participating producers' organizations. Information related to the project would be disseminated through workshops, publications, and websites. The specific inclusion of women, youth, and indigenous peoples would be encouraged.

7. The 15 regions located in the Western part of the State, where family agriculture is predominant, are summarized and prioritized in the following table (see also Map 2, Annex 15):

Region	Number of Municipalities	High Priority	Medium Priority	Low Priority	% High
1. Dracena	16	16	0	0	100%
2. Jales	22	22	0	0	100%
3. Araçatuba	18	17	1	0	94%
4. Fernandópolis	12	11	1	0	92%
5. Presidente Venceslau	11	10	1	0	91%
6. General Salgado	21	19	2	0	91%
7. Presidente Prudente	21	19	2	0	91%
8. Tupã	14	12	2	0	86%
9. Avaré	12	10	2	0	83%
10. Ourinhos	17	14	3	0	82%

11. Itapetininga	14	11	3	0	79%
12. Andradina	13	10	3	0	77%
13. Assis	16	12	3	1	75%
14. São José do Rio Preto	24	18	6	0	75%
15. Itapeva	15	11	4	0	73%

8. Municipal rural development councils (MRDCs)[46] would help stimulate synergies among public and private investments at local level, conduct initial participatory diagnosis on agricultural competitiveness at municipal level, and participate in the initial screening and approval of business proposals (Sub-components 1.1. and 1.2). They will also be involved in the design and implementation of rural roads management plans (Sub-Component 2.2) as well as in overall project monitoring and evaluation (Component 3). The MDRC will receive training and technical assistance from the project (Sub-Component 2.1) to be able to fulfill these functions. Similarly, the Regional Rural Development Councils (RRDC) will be involved in the prioritization and approval of investment proposals at regional level, and will receive project training and assistance in that regard.

9. Rural infrastructure works under Sub-component 2.2 would be executed by the municipalities, with support and supervision by CATI. Activities would be identified, prepared, and monitored by the Municipal Rural Development Councils (MRDC) with the support of CATI. Municipalities would sign an agreement with CATI for the purpose of the program. This agreement would include the anticipated infrastructure projects. Resources will be transferred upon submission of proof of execution of construction/services, in compliance with the timetable established in the approved activity work plan.

10. In municipalities where CATI does not have enough presence to guarantee the execution of the Program, municipalities will supply technical specialists and/or administrative support to execute the agreed work plan, including all planning, monitoring, and technical activities executed at the municipal level.

11. *Overall project coordination*. The PMU would report on a regular basis to a Steering Council comprised of representatives from the Secretariats of Agriculture, Environment, Planning, and Finance. The objectives of this Steering Council are: (i) to accompany the development of the Project by proposing program improvements; and (ii) to provide management support, in coordination with other state secretariats and the federal level in order to guarantee necessary institutional support and resources.

12. The PMU will once a year convene a multi-stakeholder workshop (consultative forum) including representatives of beneficiaries, agri-business organizations, civil society groups, academic institutions, municipalities, and the private sector, to allow for public communication of project goals and initiatives, and to receive feedback and advice regarding project strategy and progress. The proceedings of each of these annual

[46] Municipal Rural Development Councils (MRDC) are comprised of representatives of civil society oriented toward farming for the purpose of proposing guidelines for farming policy at the municipal level; (ii) provide grants for the development of a State and Region Farming Policy; (iii) Coordinate annual work programs, according to Pluri-annual Municipal Farming Development Plans, so as to ensure their compatibility with the interests of the municipality; (iv) monitor the execution of the Municipal Work Programs and preparing annual reports. Under the previous SPLM project, MRDC were involved in various phases, although not always in the necessary and uniform fashion in all municipalities of the State. .

consultative forums will be submitted to the Bank. The PMU will also ensure permanent public information on the project

13. Figures 1 and 2 below summarize the institutional and operational arrangements for project implementation. A Governor's Decree or Joint SAA/SMA Resolution would formally establish and confirm the implementation arrangements described above.

14. At least two Bank supervision missions will be conducted annually during the implementation period of the project to assess the status of project implementation.

Figure 1. Overview of Project Institutional and Operational Arrangements

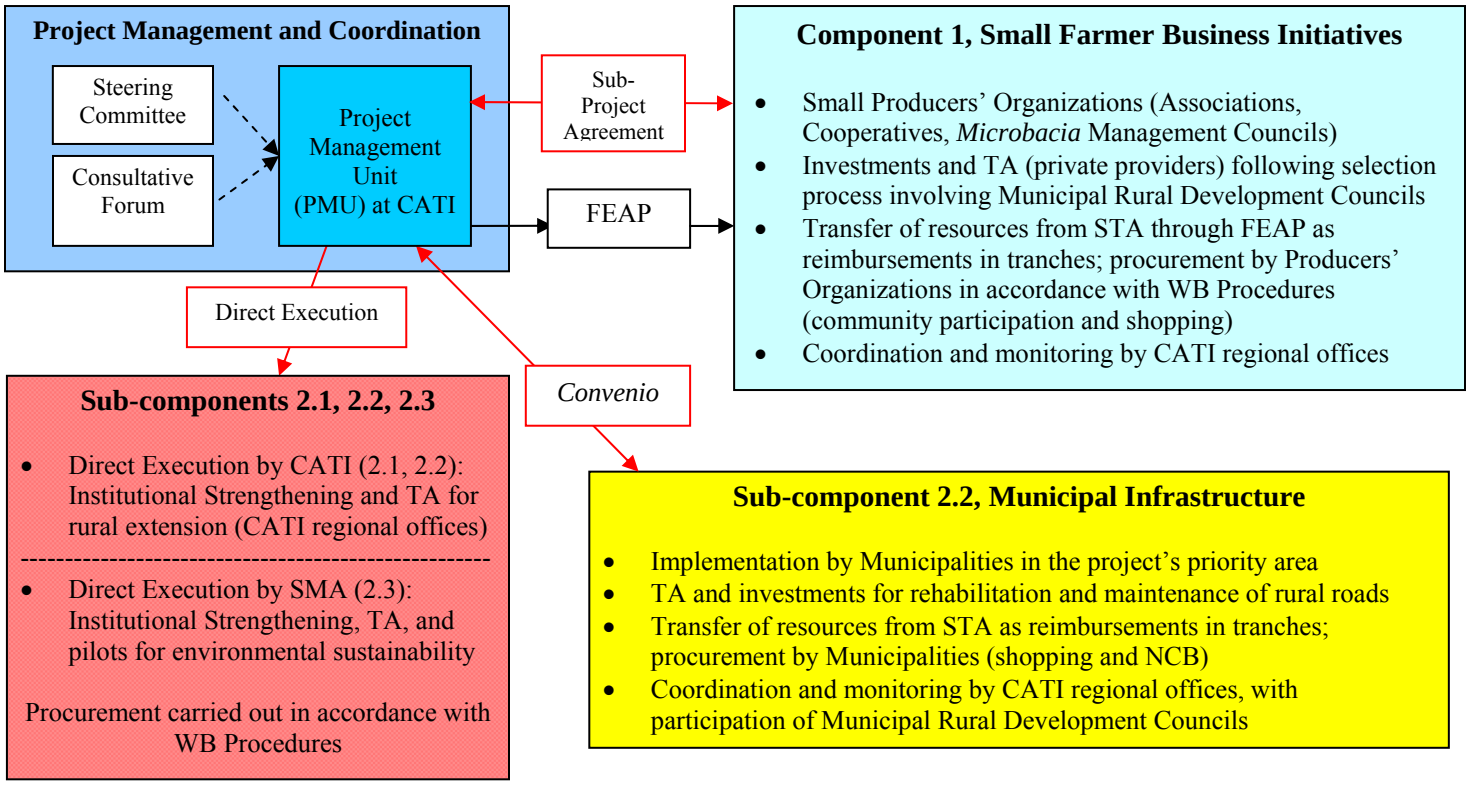
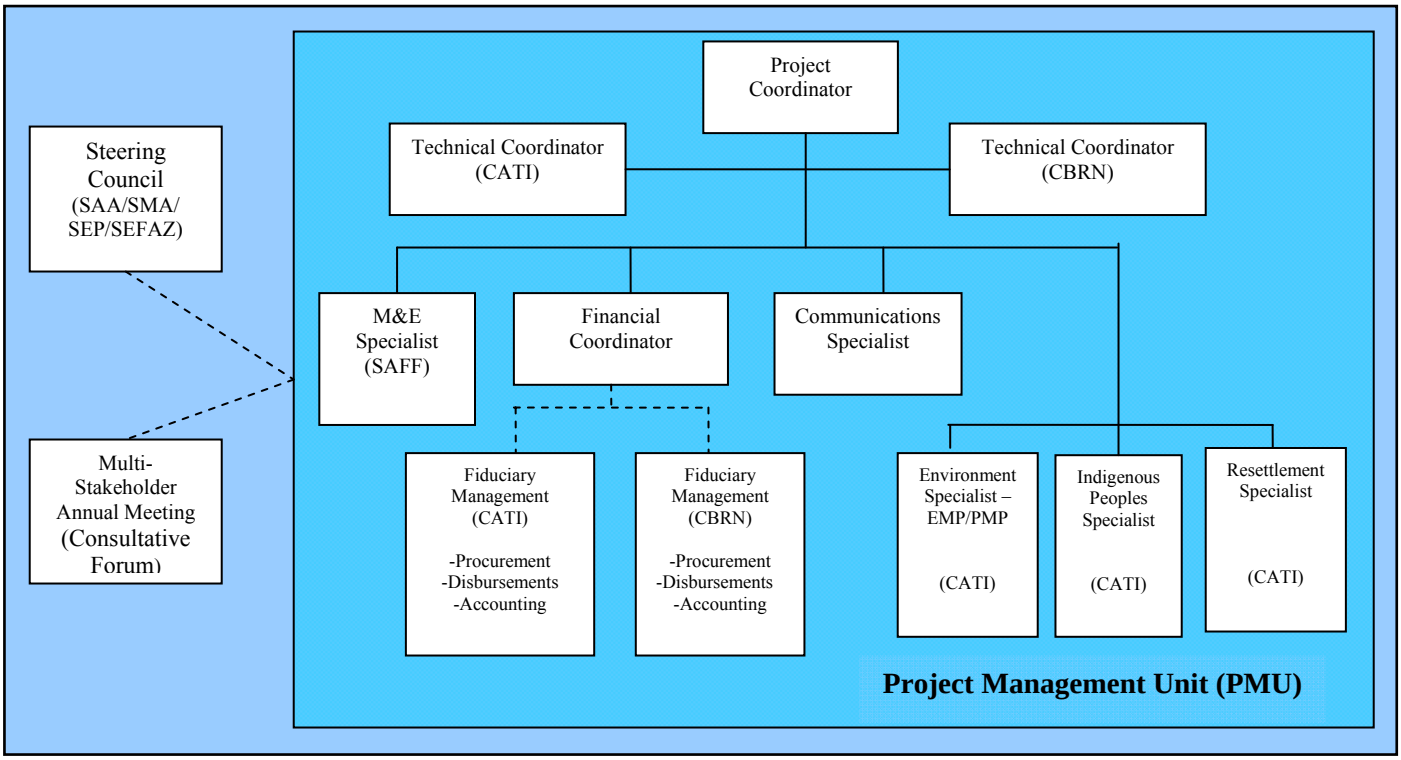


Figure 2. Detailed Arrangements for Project Management (including primary staff)



Annex 7: Financial Management and Disbursement Arrangements

BRAZIL: São Paulo Sustainable Rural Development and Access to Markets

1. The Project has satisfactory financial management arrangements in place to meet Bank's minimum requirements. The residual overall FM risk associated with the Project is rated as moderate considering that the project involves two implementing agencies (CATI, CBRN) with many decentralized sub-projects. The project will use CATI's system to consolidate financial reports. The information on the pluri-annual plan and the 2009 annual budget proposal; and the estimation of needed funds by disbursement categories were reviewed and finalized during the negotiations. The information technology system presents weaknesses that would be resolved before project signature. The Risk Assessment Matrix below presents the potential project FM risks as well as the FM action plan that was discussed and agreed with the CATI and CBRN.

Financial Management Arrangements

2. The Bank financing would support the implementation of the São Paulo Sustainable Rural Development and Access to Markets Project. Fiduciary arrangements include: one initial reimbursement for retroactive financing, followed by an advance and subsequent disbursements supported by centralized Records, Summary Sheets and Statements of Expenditures (SOEs) prepared by the Project Management Unit. The use of Bank advances for eligible expenditures under the project will be reported to the Bank as described below.

3. The project development objective is to support the State of São Paulo to increase the competitiveness of family agriculture in its territory while improving its environmental sustainability. To achieve its goals, the proposed project would finance three components: (1) Supporting Small Farmers' Business Initiatives grants, selected by CATI under component 1.1, through the *existing State Agri-business Expansion Fund – FEAP,* and the strengthening of Producers' Organizations through trainings and technical assistance, under component 1.2; (2) Strengthening Institutional and Physical Infrastructure, implemented under component 2, by CATI and CBRN; and (3) Project Management including incremental costs. A detailed description of each component is presented in Annex 4. The total project amount would be of US$130 million, partially financed by the Bank Specific Investment Loan of US$78 million over a five-year period.

4. The Borrower will be the State of São Paulo. The Project will be implemented by the SAA and the SMA, with project management responsibility delegated to CATI and CBRN. A Project Management Unit (PMU) would be established within CATI with the participation of CBRN. It would be responsible for project coordination, planning, monitoring and evaluation of all project activities, as well as financial management, including budgeting, disbursements, accounting, reporting and procurement of goods and services. CATI and CBRN regional units would be in charge of project management at the local level. The PMU would report on a regular basis to a Steering Council comprised of representatives from SAA, SMA, SEFAZ, and SEP.

5. The PMU structure would comprise of: Project Coordinator (CATI), two Technical Managers (CATI and CBRN), Financial Manager with Procurement, Disbursements and Accounting Specialists, M&E Specialist, Environmental and Social Safeguards Specialists, and Communication Specialist.

6. The Program Management Unit, within CATI, will carry-out finance and administrative tasks of the project, using SoSP policies, practices and procedures. Commitment of expenditures (*empenho*), accounting and payments, will be registered in the SoSP FM system, SIAFEM, by each participating entity, while disbursement and reporting will be carried out by the PMU. The current structures of the implementing entities are well staffed with qualified professionals. However, some potential project FM risks were identified, presented in the Risk Assessment Matrix below. An FM action plan was discussed and agreed with the CATI and CBRN to implement actions related to the identified areas of improvement: (i) finalization of the project's organizational design and flow of funds; (ii) status of the project's Pluri-annual plan and annual budgets; (iii) identification and estimation of needed funds by disbursement categories; (iv) improvements of information technology system, and (v) bottlenecks in the procurement process. In order to further strengthen cross-team efficiency, the PMU would set monthly meetings for the financial function professionals (including the financial management specialists, procurement specialists), under the coordination of the administrative and financial director. An institutional strengthening specialist/coordinator, with experience in the evaluation of results, would be assigned to support the coordination of the co-executing entities participating in the project. The FM Action Plan should be thoroughly implemented.

Financial Risk Assessment

7. The Risk Assessment Matrix below presents the potential risks, mitigation measures and residual risk for the project from a financial management perspective. The residual overall financial management risk associated with the project is rated <u>moderate</u>, due to: (i) two-agency project and many decentralized sub-projects and non-fully integrated information technology systems. The draft Pluri-annual Plan and 2009 budget will be reviewed at appraisal. Improvement measures are included in the FM Action Plan. The following would mitigate the identified risks: (a) increased inter-institutional coordination and close review of the inter-institutional agreement between CATI and CBRN; (b) planning and budgeting improvements; (c) retention of the regular staff specialists to the project financial management activities, in the co-executing entities; (d) improvement of the information technology systems including capacity and availability; (e) training to the SoSP procurement advisors/*procuradores*; (f) preparation of an Operational Manual; (g) training and guidance from the FM, Disbursement and Procurement teams; and (h) close supervision by the Bank FM team, at least during the first year of project implementation.

Table 7.1. Financial Risk Assessment

Risk	Risk Rating	Risk & Mitigation Measures	Residual Risk
Inherent Risks			
Country Level	L	Brazil's Federal government system provides reliable information. Adequate systems exist to manage and track the receipt and use of funds and there is a high level of fiscal transparency, both of which would support any lending program. The risk to both Bank and country funds is low. The government is committed to addressing its PFM weaknesses. Federal FM laws and regulations applicable to sub-nationals provide a strong PFM framework for sub-nationals.	L
Sub-national (state) level	M	The accounting system and reporting in SP are satisfactory. The financial information technology used (SIAFEM) is acceptable. However, this system is meant to be mainly for the accounting function. Each entity uses tailored systems, not communicating with the official SIAFEM, for planning & budgeting, procurement, reporting, and assets control), and the State's internal auditors reviews are weak (limited to sending the information requested by the TCE). The following mitigation measures would improve the sub-national risk profile: • Strengthening of the project's internal controls; • Improvement of the reporting capacity of the SIAFEM, or automatic data extraction to a web-based FM IT System;	M
Entity Level	M	Tow main implementing entities, various decentralized sub-projects with (i) low reporting capacity by sub-project beneficiaries, and (iv) use of multiple non-integrated IT systems. • Training to the sub-project beneficiaries, and • Use of the same FM IT system by both implementing entities; • Improvement of the IT system	M
Project Level	M	Two implementing agencies and various, low FM capacity, sub-projects beneficiaries. • Increased inter-institutional coordination and financial reporting	M
Overall Inherent Risk	M		**M**
Control Risks			
Budget	S	Weak and late pluri-annual planning and budgeting observed during project preparation and GEF implementation.	M

Risk	Risk Rating	Risk & Mitigation Measures	Residual Risk
		• Review of the planning and budgeting process and inclusion in the Project Operations Manual (POM); • Implementation of the FM Action Plan	
Accounting	L	Good treasury management and accounting procedures using the SIAFEM system, during the previous CATI implemented project and the SMA currently implemented GEF.	L
Internal Controls	S	Satisfactory but weak and not institutionalized internal controls. • Review of the project's internal controls and implementation of the recommendations of the assessment; • Enforcement and institutionalization of the internal controls and continued compliance with the GEF grant terms of agreement and the new project. • Internal controls section in the POM.	M
Funds Flow	M	Two-agency project may cause weak and slow reporting, with high outstanding balances, resulting in slow disbursements. • Finalization of the flow of funds design, by appraisal; • High qualified FM professional in all the implementing agencies, and training to be provided by the Bank FM and disbursement teams • Use of the same (to be improved), IT system by both entities.	M
Financial Reporting	S	The CATI and CBRN use generally satisfactory multiple IT systems for reporting. Delays and reliability issues may occur when considering the different IT systems used by the co-executing agencies. • Improving the SAFF IT system of CATI; • Empowering all the entities in accessing the FM management system, including the beneficiaries of sub-projects. • Allowing the automatic data transfer from SIAFEM to the SAFF (SEFAZ).	M
Auditing	H	Delayed 2006 and 2007 audit report for the GEF grant from CBRN (more than 7.5 and 3.5 months, respectively). • Improving the timeliness of the Project's actions in hiring the external auditor timely.	M
Overall Control Risk	M		**M**

H-High, S-Substantial; M-Moderate; L-Low

Flow of Funds and Disbursement Arrangements

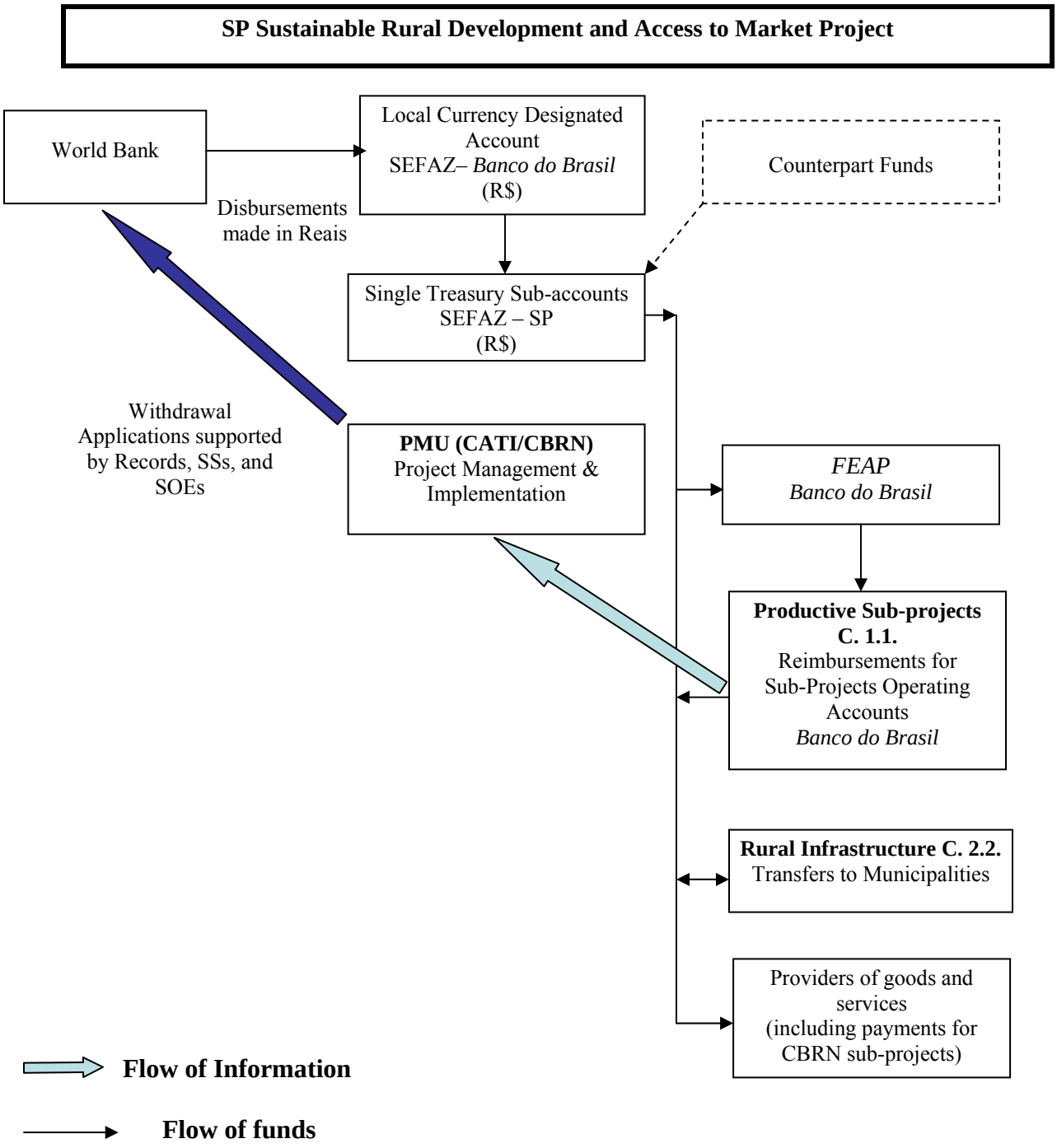
8. The Bank will finance 100% of specifically identified expenditures, according to the disbursement table in the Legal Agreement (Schedule 2, Section 4), represented as follows:

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Farmers' Business Initiatives Subproject under Component 1(a) of the Project	32,000,000	100% of Grants disbursed for such Subprojects
(2) Infrastructure Subprojects under Component 2(b) of the Project	14,480,000	100% of Grants disbursed for such Subprojects
(3) Environmental Subprojects under Component 2(c) of the Project	5,888,000	100% of Grants disbursed for such Subprojects
(4) Goods, Works, Consultants' Services, Services (Other than Consultants' Services) and Training for Project Components except for Subprojects under 1(a), 2(b) and 2(c) of the Project	23,887,000	100%
(5) Operating Costs for Project Components except for Subprojects under 1(a), 2(b) and 2(c) of the Project	1,550,000	100%
(6) Front-end Fee	195,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(7) Premium for Interest Rate Caps and Collars	0	Amount payable pursuant to Section 2.07 (c) of this Agreement in accordance with Section 4.04 of the General Conditions
TOTAL AMOUNT	78,000,000	

9. **Flow of Funds**. World Bank loan proceeds would flow from the loan account to a Designated Account denominated in *Reais* at the *Banco do Brasil* in the name of SEFAZ. Then, the Bank funds will be transferred to the Single Treasury Account - "Conta Unica", before reaching a Project operating account (a Single Treasury Sub-account), in the name of SEFAZ at the *Banco do Brasil*. In another Project operating account (another Single Treasury Sub-account), at the *Banco do Brasil,* will be transferred counterpart funds from the Single Treasury Account. CATI and CBRN will make payments for the procurement of goods and services eligible to the Bank to all consultants, other service providers, suppliers and contractors, involved in project implementation, as well as request transfers to the

FEAP account (for the subprojects' financing), from the Single Treasury Account using the official State accounting system SIAFEM.

10. The flow of funds chart, below, will be included in the Project's Operational Manual.



11. CATI will use the São Paulo institutionalized State Fund for Agribusiness Growth *(Fundo de Expansão do Agronegocio Paulista* – FEAP managed by the Secretariat of Agriculture) to make transfers from the Single Treasury Account for the financing needs of Sub-component 1.1. CATI will request the Secretariat of Agriculture to make further transfers to specific bank accounts at the *Banco do Brasil* in the name of the beneficiaries of the sub-projects. FEAP funds will be reimbursed (by tranches) to the beneficiaries (associations, cooperatives) for completed eligible expenses, as reimbursements (by tranches) upon completion of works/services and verification of compliance with procedures.

12. For Sub-component 2.2, rural infrastructures, CATI will make transfers to Municipal bank accounts, as reimbursements (by tranches) upon completion of works/services and verification of compliance with procedures.

13. Pre-financed project eligible expenditures would be reimbursed by the Bank against withdrawal applications supported by SOEs (retroactive financing), for payments made during a period not exceeding 12 months prior to signature of the Loan Agreement.

14. **Disbursement Arrangements.** During project implementation, the disbursement methods that would be used are the following: (i) reimbursement (for retroactive financing); (ii) advances, and (iii) direct payments. For accounts rendering and documentation of expenses, the PMU will use Records, Summary Sheets and Statements of Expenditures (SOEs).

15. Funds will be deposited into the Designated Account as advances and will follow the Bank's disbursement operating policies and procedures.

16. The Project will design detailed procedures for the management of the Bank Accounts, which include acceptable internal controls, as well as procedures for the transfer of resources from the Designated Account to the beneficiaries' accounts, including the reporting process, and describe them in the Project Operational Manual (POM).

17. **Retroactive Financing.** The Bank may reimburse the Borrower for payments that the borrower has made from their own resources before the legal agreement date (Signing Date) for reasonable eligible expenses incurred for the purposes of the project, for an amount up to US$ 14 million (less than 20 percent of the loan amount), provided such expenditures were paid not earlier than 12 months before the Signing Date. The Bank will reimburse the funds from the loan account to the SEFAZ designated account in *Reais*, for further transfer to the State Single Treasury Account.

18. Budgeting Procedures and Impact on Flow of Funds. The State budget – *Lei do Orcamento Anual*, is approved by the assembly in December of each year and promulgated and published in January of each year.

19. The consolidated Annual Operating Plans (AOPs) and budgets would be prepared in the (to be) improved IT project management system, and would be transmitted to the Bank (before December 1 of each year) for clearance. More detailed information about the process would be developed in the Project Operational Manual. Based on the AOP, the PMU would

consolidate the annual procurement plans, before the end of each fiscal year. AOPs and annual procurement plans would then be used for the preparation of Project's semi-annual, quarterly and monthly budgets and disbursements plans.

20. The budgetary control will consist of: (i) timely preparation and approval of annual programs and budgets; and (ii) verification that budget information is entered and it is available in the accounting system to allow timely recording of commitments, payments and accruals.

Financial Reporting

21. The reports will be prepared in the SAFF (*Sistema de acompanhamento físico e financeiro*) of CATI) in which is extracted the financial data from the SIAFEM. The ability of the PMU IFRs has been verified, during the FMA mission and the implementation of the project using GEF funds by SMA. If needed, those reports could be adjusted during project implementation. The description of the IFRs is indicated below, and the final format of the reports will be attached to the minutes of Negotiations and will be included in the Operational Manual.

    - IFR 1. Sources and Uses of Funds, by category; cumulative (project-to-date; year-to-date) and for the last calendar trimester;
    - IFR 2. Uses of Funds by project components, cumulative (project-to-date; year-to-date) and for the period, showing budgeted amounts versus actual expenditures, (i.e., documented expenditures), including a variance analysis, and
    - IFR 3. Monitoring table with the transfers and documentation of the sub-project beneficiaries.

Accounting Policies and Procedures

22. The SoSP's accounting system will be used to record loan proceeds. Loan proceeds transferred to the Designated Account would immediately be recorded and accounted under the budgetary code for receipt of external or foreign funding/financing sources. All project budgeting and accounting transactions will utilize the SoSP and CATI tailored FM systems. All transactions will run through the public state accounting system – SIAFEM. All payments will follow the official commitment (*empenho*) and payment (*liquidação*) routine. These functions are carried out by the Administration and Finance Department of each spending entity or level of government. Individual project transactions are usually processed through a Work Plan (PT - *Programa de Trabalho*), which is a cost center specifically designated for the given project, and which will be utilized by the SoSP participating entities. All project costs are recorded according to the State Chart of Accounts. As is customary in federal and state projects, an exclusive project cost center will be established in SIAFEM. Loan proceeds and government funds will be recorded in the project cost center and therefore linked to Program expenditures. Each payment will be registered in the SIAFEM identifying the program and the activities agreed during project preparation and reflected in the legal agreement.

23. Project financial statements will be prepared quarterly, utilizing cash-basis accounting and the State and the Project specific chart of accounts. These statements will be prepared in accordance with Brazilian legislation - Law 4.320 and SP accounting rules and procedures. The Project Operational Manual (POM) will include a detailed description of procedures and guidelines for disbursements, payments, approvals, commitments and payments and be shared with all the implementing entities.

Safeguard over Assets

24. Based on project design, investment in fixed assets is expected to be relatively high. During Project implementation, all the assets will be property of the Project. Any implementing entity will be responsible for the management of these assets. All the fixed assets to be acquired under this project should be registered in the each implementing entity's fixed assets inventory system and consolidated in the CATI-CBRN system, while the PMU will monitor all the Project and sub-project and initiative assets. The fixed asset management procedures will be based on national norms. Subsidiary records of fixed assets and stocks should be kept up to date and reconciled with control accounts and periodic physical inventories.

Oversight, Control and Audit

25. **Internal Audit.** The Project will be subject of annual internal audits carried out by the Secretariat of Finance. An adequate internal control mechanism would be set-up and depicted in the upcoming Project Operational Manual.

26. The Project will be subject to internal audit. The internal auditor is subordinated to the Secretariat of Finance, entity responsible for all Government internal control. All internal auditor duties and responsibilities are the following:

    - To exercise internal control of the expenditure in harmony with legal and constitutional principles;
    - To implement preventive actions that assure the correct utilization of public resources and to advise internal departments about accomplishing the law;
    - To control and follow the execution of conventions, contracts and other formal agreements with public or private organizations;
    - To analyze and check account processes;
    - To attend to diligences from public inspecting entities and from financing organizations and to watch over the accomplishing of their recommendations.
    - To obey normative orientations emanated from the State General Audit Office.

27. The major internal control procedures are organized by state disposals, such as the *Lei nº 10.320* (published in 1968), the *Constituição Paulista* (published in 1989) and other decisions and laws that can be retrieved in the SEFAZ official website: http://info.fazenda.sp.gov.br/NXT/gateway.dll?f=templates&fn=default.htm&vid=sefaz_financeira:vfinanc).

28. **External Audit.** All the finance and accounting reports are annually sent to the State Court of Accounts (TCE-SP). However, the TCE-SP is in the process of being accredited by the Bank. Therefore, external independent auditors will be hired for the audit of the project accounts. According to the audit terms of reference, to be approved by the Bank, the auditors will be required to issue a single opinion on project's financial statements, including the fulfillment of the covenant in the Loan Agreement, within six months after the end of the fiscal year. The Bank's "Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities" (2003), provides relevant information and guidance on audits.

29. **Governance and Anti-Corruption**. The Project's governance and anti-corruption policies will be in line with the Bank's GAC objective to help develop capable and accountable states and institutions that can devise and implement sound policies, provide public services, set the rules that govern markets, and control corruption, thereby helping to reduce poverty.

Financial Management Supervision

30. During the first year of implementation, Bank FM supervision will be carried out at least twice. Supervisions will review CATI and CBRN actions agreed to in signed aide memoires, the FM Action Plan and other controls and transactions, as appropriate. This will be complemented by desk reviews of the quarterly IFRs and annual audit report. The frequency of Bank FM supervision will be reviewed annually. The period prior to project closing will be monitored closely to ensure that expenditures are not incurred after the closing date. Interim visits may also be needed to follow up on desk reviews. Important guidelines for Financial Management are included in the Operational Manual agreed with the Bank. The financial management team may visit the project prior to effectiveness and confirm that financial management capacity continues to be in place and the Operational Manual can be effectively implemented. Items in the FM Action Plan are not expected to require effectiveness conditions.

Table 7.2. Financial Management Action Plan

Activity	Responsible	Target Date	Current Status
Organization and Staffing			
Draft decree creating the Project with PMU attributions, including the minimum acceptable PMU staff; Updated CATI and CBRN Organization Chart	PMU	Prior to Negotiations Inclusion in Project Operational Manual	Done Done. Included in draft OM.
Participation of Project Financial Administration and Internal audit staff in Bank Disbursement, Procurement and Financial Management Training	WB/PMU	Prior to Signature	Pending
Flow of Funds			
Final Flow of Funds design	PMU/WB	Receipt by the Bank of	Draft FEAP

		an adequate legal framework for the operation of the Farmers' Business Initiatives, in form and substance satisfactory to the Bank before disbursement of Sub-component 1.1.	Law is satisfactory to the Bank and has been submitted to the State Assembly, with its provisions included in draft OM.
Operational Manual			
Submission of an acceptable Manual to the Bank for review including institutional arrangements, flow of funds design, staff functions, accounting policies and procedures, basis of accounting, chart of accounts tailored to include project components, disbursement categories and financing source, internal controls, segregation of duties, fixed assets and records management procedures.	PMU	Prior to Negotiations	Draft Operational Manual received and under review.
Accounting			
Project chart of accounts	PMU	By Negotiations	Done. Included in draft OM.
External Audit			
Preparation of draft TORs for audit and submission to Bank for non-objection.	PMU	Prior to Negotiations	Done
Appointment of external auditors.	PMU	Within three (3) months after effectiveness	Pending
Internal Controls			
FM Matrix and internal control mechanism	PMU	Inclusion in Project Operational Manual	Done. Included in draft OM.
Instauration of own internal control mechanism	PMU	To be reviewed by the external auditors during first year's mid-term review	Pending
Safeguard over Assets (physical and information)			
Implementation of Fixed Asset Policies and Procedures including physical inventories, storage/transfer/distribution/retirements of assets etc.	PMU	Inclusion in Project Operational Manual	Done. Included in draft OM.
Financial Reporting and Monitoring			
Submission of format of IFRs and procedures for data collection and report generation of same, for the Bank to provide its no-objection.	PMU	Before Negotiations (attached to the minutes)	Done
Integrated Financial Management System			
Integrated Information systems updated and operational. Evaluate the possibility of including the Planning and Budgeting, Procurement and Assets Management functions. IT training to the co-executing entities' staff provided	PMU	Prior to Negotiations Prior to effectiveness	Done Pending

Annex 8: Procurement Arrangements

BRAZIL: São Paulo Sustainable Rural Development and Access to Markets

A. General

1. Procurement for the São Paulo Sustainable Rural Development and Access to Markets Project will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits", published in May 2004 and revised in October 2006; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published in May 2004 and revised in October 2006; and the provisions stipulated in the Loan Agreement. The general description of various items under different expenditure categories is described below. For each contract to be financed by the respective state Loan, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank project team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

ICB Procurement of Goods, Works, and Non-consulting Services

2. **Procurement of Works**: Works to be procured under the SP SRD include: small infrastructure works identified by producers' organizations to support the competitiveness of small farmers; and the improvements and maintenance of rural roads. ICB for the procurement of works would be mandatory for all contracts estimated to cost the equivalent to US$10,000,000 or above. The Bank's SBD should be used for all ICBs. National SBD agreed with (or satisfactory to) the Bank would be used for NCB. For small value civil works costing less than the equivalent of US$500,000, shopping would be used. For contracts that meet the requirements of par. 3.6 of the Guidelines, direct contracting may be used.

3. **Procurement of Goods**: Goods procured under the SP SRD would include IT equipment and software, vehicles, office equipment and furniture, agriculture equipment, multimedia equipment, and equipment for small productive projects. ICB for the procurement of goods and non-consulting services is mandatory for all contracts estimated to cost the equivalent to US$5,000,000 or above. The Bank's SBD should be used for all ICBs. National SBD agreed with (or satisfactory to) the Bank would be used for NCB. For small value goods costing less than the equivalent of US$100,000, shopping would be used. For contracts that meet the requirements of par. 3.6 of the Guidelines, direct contracting may be used.

4. **National Competitive Biddings:** Only the competitive procurement methods defined in Brazilian Law 8.666 of June 21, 1993 and its amendments and the *Pregao Eletronico* (Electronic Reverse Auction) defined in Brazilian Law 10.520 of July 17, 2002 can be used. Other methods would not be acceptable. Provisions of the Bank's Guidelines would apply to all other aspects of the procurement carried out following NCB procedures – for small-value goods, works, and non-consulting services, shopping would be used and contracts that meet the requirements of par. 3.6 of the Guidelines may be procured on a direct-contract basis.

5. The legal agreement would need to include a provision to the effect that only bidding documents acceptable to the Bank can be used.

6. **Procurement of non-consulting services:** Non-consulting services procured under this project would include, *inter alia*: logistics and transportation for seminars and workshops, printing services, training material, video production, communication campaigns, and telecommunication costs. The Bank's SBD should be used for all ICBs. National SBD agreed with (or satisfactory to) the Bank would be used for NCB. For small value goods costing less than the equivalent of US$100,000, shopping would be used. For contracts that meet the requirements of par. 3.6 of the Guidelines, direct contracting may be used.

7. **Selection of Consultants:** The project would finance consultant services by firms and individuals to conduct the following tasks: support to project implementation; studies on local economic development strategies, cluster business plans, engineering designs and construction supervision; design and implementation of training and facilitation of access to design business initiatives and productive infrastructure for small farmers; infrastructure management programs; environmental management plans and social and environmental monitoring. The selection and employment of consultants will be carried out under arrangements acceptable to the Bank using the Bank's Standard Forms and Contracts. Short lists of consultants for services estimated to cost less than $500,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. Single source selection of firms and sole sourcing of individuals may be used, with the Bank's prior approval, and in exceptional circumstances, as provided for in the Guidelines and as approved by the Bank. In general, most contracts will follow procedures for the Quality and Cost Based Selection. When the assignments, as elaborated in the TOR, are simple and can be precisely defined, Selection under a Fixed Budget can be used. Audits and other routine assignments may be procured under a Least-Cost Selection. For small assignments under US$200,000, Selection Based on the Consultant's Qualifications may be used.

8. **Community Participation:** Goods and works costing $50,000 equivalent or less per contract under Small Farmers' Organizations Sub-projects may be procured in accordance with procedures acceptable to the Bank as provided for in paragraph 3.17 of the Guidelines (including direct contracting) and as set forth in the Operational Manual or Procurement Plan.

9. **Project Incremental Operating Costs:** During negotiations, it was agreed that operating costs would include means the operational costs (which would not have occurred absent the Project, including, *inter alia*, equipment and computer maintenance, office supplies, utilities, and rent for office facilities) and the supervision and monitoring costs of the Project incurred by the Project Management Unit, CATI, CBRN, and the Steering Council and the Consultative Forum under the Project (including, *inter alia*, travel, per diem, accommodation, operation and maintenance of vehicles, repairs, fuel, spare parts and insurance, maintenance of the monitoring and information system, supervisory and quality control activities, but excluding expenditures for salaries and related benefits). Operating costs will be procured using the agencies' administrative procedures, which were reviewed and found acceptable.

B. Assessment of the agency's capacity to implement procurement

10. Procurement will be handled by two implementing agencies: the State Secretariats of Agriculture and Supply (SAA), through CATI, and the State Secretariat of Environment (SMA), through CBRN. Both implementing agencies will plan, implement, supervise, and monitor their own procurement tasks carried out by the two bidding committees located at CATI and in the current GEF Project Management Unit, located at SMA. CATI and SMA will second or employ experienced and qualified staff to work on procurement, who will take on the function of procurement coordinator, who will be the point person in ensuring that procurement planning, implementation and monitoring is done in accordance to approved Bank procedures stipulated in the Loan agreement and in the Operational Manual. The risks identified during the assessment include: (i) maintaining adequate institutional organization and staffing for the procurement function; (ii) consolidated procurement planning; (iii) consistency by both agencies to follow same procurement procedures; and (iv) decentralized procurement. The proposed mitigating actions are: (i) setting up bidding committees and procurement teams at both agencies; (ii) preparing a consolidated procurement plan; (iii) establishing the procurement processing flow and model documents in the operational manual; and (iv) enabling annual audits of the procurement under sub-projects.

11. The risk for the proposed project is rated as **average**. Remedial actions have been identified in the attached Action Plan, and these are to be made effective to mitigate procurement risks.

Table 8.1. Procurement Action Plan

Action No.	Description	Objectives	Timeframe	Bank to Review
1	CATI and CBRN should establish a Special Bidding Committee each, with at least three members, preferably with previous experience in World Bank's Procurement Guidelines	Enable high quality procurement implementation and minimize risks	By Project Launch	If committees are in place.
2	Staffing - CATI should retain, in addition to its bidding committee, at least two full-time procurement staff, being one procurement coordinator and one procurement assistant, and CBRN should retain at least three staff.	To maintain high capacity on procurement implementation	Throughout project implementation	TORs and CVs
3	Procurement Plan	To help procurement monitoring and processing	Completed	Plan
4	Procurement Section of the Operational Manual	Adequate and consistent project implementation	Ongoing	Manual
5	Independent procurement audits	Control over decentralized procurement	Prior to Effectiveness	Complete selection process

C. Procurement Plan

12. Each implementing agency prepared its procurement plan to include the activities to be carried out during the first 18 months of project implementation, which were consolidated by CATI prior to submission for Bank's approval. The approved Plan is filed in the project files, and will also be available in the project database and in the Bank's external website. The Procurement Plan indicates the procurement methods or consultant selection methods, the needs for prequalification, estimated costs, prior review requirements, and time frame for each contract to be financed by the Loan. The Procurement Plan will be updated annually to reflect the actual project implementation needs and improvements in institutional capacity. Such updating shall include: (i) the list of contracts completed, under execution, under procurement, to be procured in the upcoming calendar semester and, tentatively in the subsequent semester; (ii) costs of completed and under execution contracts, estimated costs for upcoming contracts; (iii) schedule of bidding; and (iv) particular methods of procurement of goods, works and non-consulting services or selection of consultants in accordance to a format agreed with the Bank. The working instructions should be detailed in the Operational Manual indicating the standard bidding documents and request for proposals to be used, the samples for reporting on procurement, forms of contract, timetables, description of the TOR and any other relevant information related to procurement for the project and sub-projects.

D. Procurement Implementation

13. **Procurement Reviews**: Considering the risk assessment rating, the proposed prior review thresholds for the project are $5,000,000 for goods, $10 million for works, $100,000 for consulting services with firms. In all cases of single-source selection (contracts with firms or with individual consultants), as well as direct contracting for goods and/or works shall be prior reviewed by the Bank, regardless of the amount involved.

14. The supervision plan proposes annual post-reviews and annual independent procurement audits for the sub-projects. The size of the sample for post-review will be 1 in 10 in average.

Table 8.2: Thresholds Summary

Expenditure category	*Contract value threshold (US$ thousands)*	*Procurement method*	*Contracts subject to prior review*
Works	≥10,000	ICB	≥10,000
	>500 <10,000	NCB	
	<500	Shopping	
	<50	Community Participation	
Goods	≥5,000	ICB	≥5,000
	>100 <5,000	NCB	
	<100	Shopping	
	<50	Community Participation	
Non-consulting services	≥5,000	ICB	≥5,000
	>100 <500	NCB	

	<100 <50	Shopping Community Participation	
Consulting services (firms)	≥200 <200	QCBS/LCS/FCS QCBS/LCS/FCS/CQS	≥100
Consulting services (individuals)	-	Section V in the Guidelines	n/a
Direct contracting, Single and Sole-Sourcing	-		All contracts

15. **Advertising.** A General Procurement Notice for hiring of consultant services, and the ICB for goods and works should be published in the United Nations Development Business-UNDB and dgMarket. Specific Procurement Notices and Request for Expressions of Interest would be advertised in accordance with the provisions of the Guidelines.

Attachment 1

Details of the Procurement Arrangement involving international competition.

1. Goods, Works, and Non Consulting Services

(a) There are no ICB contracts for the project.

(b) Contracts for goods and non-consulting services estimated to cost above US$5,000,000 equivalent per contract and all direct contracting will be subject to prior review by the Bank.

(c) Contracts for works estimated to cost above US$10,000,000 equivalent per contract and all direct contracting will be subject to prior review by the Bank.

2. Consulting Services

Ref. No.	Description of Assignment	Estimated Cost (US$)	Selection Method	Review By Bank (prior / post)	Expected Proposals Submission Date
01	Design of an information/training program for small farmers on agricultural competitiveness to stimulate business proposals	500,000	QCBS	Prior	Jul 01, 10
02	Information/training to small farmers on agricultural competitiveness to stimulate business proposals	1,000,000	QCBS	Prior	Jul 01, 10
03	Hiring of a TA provider to accompany/assist implementation of business proposals in marketing and management areas (firm)	4,000,000	QCBS	Prior	Sep 01, 10
04	Training of CATI staff in marketing and management areas (hiring of a firm)	500,000	QCBS	Prior	Jan 01, 11
05	Training of CMRD in agricultural competitiveness (hiring of a firm)	500,000	QCBS	Prior	Jan 01, 11
06	Project communication strategy design	500,000	QCBS	Prior	Sep 01, 10

(a) All consultancy services estimated to cost above $100,000 per contract and all Single and Sole Source selection of consultants (firms and individuals) would be subject to prior review by the Bank.

(b) Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than $500,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Annex 9: Economic and Financial Analysis

BRAZIL: São Paulo Sustainable Rural Development and Access to Markets

Introduction

1. The project's overall objective is to increase the competitiveness of small farmers in the State of São Paulo. This aims to increasing the sales value and net incomes through assisting small family farming operations to adopt better agricultural technology and strengthen production and market value chains. To achieve this objective, the project will finance productive investments through producers' organizations which will facilitate greater cooperation and access to markets. All investments of the project will aim to increase the gross sales value, by increasing the production, reducing costs, improving the quality, engaging in simple value-adding activities (sorting, storing, basic processing, packing), and/or accessing more profitable markets.

2. In addition, the project will support the implementation of municipal infrastructure sub-projects (rehabilitation and maintenance of unpaved roads) to facilitate access to markets, reduce transport time, and increase overall competitiveness. It will also undertake capacity building activities for state institutions (CATI and CBRN) to fulfill public functions (extension, environmental management) in support of competitiveness.

Methodology and Main Assumptions for Analysis

3. Methodology. The economic and financial viability of the project has been determined using the method "cost-benefit analysis of discounted cash flow" through the computer program FARMOD. The discount rate adopted for the analysis was 12% per annum, considering that it reflects the opportunity cost of capital in Brazil; the time taken into account for the projected discounted cash flow was 20 years.

4. Only cash flows to small family farming operations which will benefit directly from productive investments under the project were included in the FARMOD analysis. Thus, it should be considered a conservative assessment as it does not include the incremental benefits from rehabilitating rural roads and from better environmental management.[47]

5. Production Area and Beneficiaries. It is estimated that the project will benefit 300 producers' organizations including approximately 22,000 small family farming operations, which are on average 21 hectares in productive area and rely almost exclusively on family labor.[48]

6. Benefits. The estimated 22,000 small family farming operations will directly benefit from project activities primarily through collective and individual investments under Sub-component 1.1 (Implementing Small Business Investments), as well as the support provided

[47] The FARMOD analysis also did not take into account the potential increase in total productive area (currently 470,400 hectares), the area under cultivation and/or operated (currently 542,450 hectares), nor the total cropping intensity (currently 115.3%)

[48] The State of São Paulo has an estimated total of 170,000 small family farming operations, located in 352 municipalities where family farming is dominant.

under Sub-component 1.2 (Strengthening Producers' Organizations). For purposes of this analysis, these small family farming operations have been clustered into two representative groups, Group A and Group B:

- Group A consists of an estimated 16,000 small family farming operations characterized by the use of medium to high levels of technology and active participation in small producer organizations. The main benefit for this group of families would be value-added activities (sorting, packing, and marketing products through an estimated 200 collection, storing, packing, processing units established under the project).

- Group B consists of an estimated 6,000 small family farming operations characterized by the use of low level of technology and minimal participation in producers' organizations. The main benefit for this group of families would be increase in crop yields by at least 15% (orange) and up to 30% (dairy production).

7. Benefits from project investments would include: a) increase in unit price received by producers as a result of higher value-added products; and b) changes in production technology (either collectively or individually) for increased levels of production, while maintaining or reducing production costs.

8. Prices. Constant prices (2008) are used in the analysis. The prices for products sold by producers/organizations represent the "farmgate price," and reflect the average price obtained in recent years. The market prices of inputs, labor, and services within the project area are used in the analysis. Taxes and other social charges are also included in the prices of products, supplies, services, and labor.

9. Project investment costs included in the analysis. The farm models considered included all productive investments that will be implemented under Sub-component 1.1 (US$ 41 million). Grant to producers organizations are expected to average US$ 150,000 per grant and to be split about 50% farm-level investments and 50% collective-level investments. In total the project would bring about US$ 2,000 per farm.

10. Economic Costs. The total project economic costs (including all three project Components, minus taxes) were calculated through COSTAB as an estimated US$ 117,583,850.

Financial Analysis

11. A cost-benefit analysis is applied to the financial analysis. The program FARMOD is used to calculate the financial internal rate of return (FIRR) and net present value (NPV). A total of six farm models with different crop/animal production patterns/combinations were estimated, and results are presented below.

Farm Production Models

12. Six models of family farming operations that have been chosen as representative of the estimated 22,000 farms that will directly benefit from the project (assuming an average harvested area of 21 hectares per operation, with dairy production as the primary activity with 48% to 76% of total area). These 6 models are not intended to represent the entirety of different combinations of individual and collective production units present. However, they are intended to be representative of the most common types of small family farming operations in the project area.[49]

13. The changes in yields per hectare and/or animal were estimated using the actual production levels reported through: a) the LUPA system (Census Survey of Agricultural Production Units in the State of São Paulo); b) the IEA (Institute of Agricultural Economics, SAA) database; and c) special surveys conducted under the SPLM Project.

14. The six farm models are:
    - Models 1A and 1B: family farming operations that complement dairy production with diversified agricultural crops (47% of the total 22,000).
    - Models 2A and 2B: family farming operations that complement dairy production with cereal and oilseed crops (33% of the total 22,000).
    - Models 3A and 3B: family farming operations that complement dairy production with higher-value crops, particularly fruit (20% of the total 22,000).

15. The expected changes in gross revenue, costs of production, and net income per hectare for both Group A and Group B are summarized in below:

Group A: 16,000 small family farming operations, characterized by the use of medium to high levels of technology and active participation in producers' organizations:

Product	Gross Income w/o P	Prod. Costs w/o P	Net Income w/o P	Gross Income w/ P (*)	Prod. Costs w/ P	Net Income w/ P	% Increase Net Income	Time Increase Years
Coffee	6,800	5,554	1,246	7,141	5,554	1,567	25.8	1
Orange	11,254	7,918	3,336	11,528	7,018	3,611	8.2	1
Milk (**)	30,000	22,081	7,919	31,500	22,081	9,419	18.9	1

(*) Gross revenue increase due to an estimated 5% increase in price received.
(**) Module based on 10 lactating cows.
Note: Estimates are in Brazilian Real; "w/o P": without project; "w/ P": with project.

16. As illustrated above, the estimated increases in net income for Group A producers will be achieved primarily through the increase in the product prices (5%), while maintaining or reducing production costs.

[49] 2 of the 6 models for selected crops (Sugar Cane and Pastureland) have not been allocated production costs. In the case of sugar cane, an annual income of US$ 250 per hectare leased was attributed.

Group B: 6,000 farm families, characterized by the use of low levels of technology and minimal participation in producers' organizations:

Product	Gross Income w/o P	Prod. Costs w/o P	Net Income w/o P	Gross Income w/ P (*)	Prod. Costs w/ P	Net Income w/ P	% Increase Net Income	Time Increase Years
Coffee	5,100	3,078	1,022	6,800	5,554	1,246	21.9	5
Orange	9,524	6,322	3,202	11,254	7,918	3,336	4.8	5
Milk (**)	14,000	9,844	4,116	19,000	13,000	6,000	45.7	5

(*) Gross revenue and production costs increased by changes in technological factors.
(**) Module based on 10 lactating cows.
Note: Estimates are in Brazilian Real; "w/o P": without project; "w/ P": with project.

17. As illustrated above, the estimated increases in net income for Group B producers will be achieved primarily through the increase in the yield.

Results of Farm Models

18. Financial profitability. It is important to note that in the financial budgets of each farm model, family labor was considered as part of the costs of production. The tables below compare the results of the 6 farm models during the same 10 years in the scenarios "with project" and "without project." The impact of project activities is primarily captured through the farm's net income.

19. Farm Models 1A, 2A and 3A represent Group A producers, while Farm Models 1B, 2B and 3B represent Group B producers. As outlined above, Farm Models 1A and 1B represent the production pattern of diversified livestock. Farm Models 2A and 2B represent the production pattern of dairy and grain, and Farm Models 3A and 3B represent the production pattern of dairy and fruits.

Farm Models	Net Income without Project US$/year	Net Income with Project US$/year	Net Income Difference US$/year	IRR %	NPV US$
1A	8,400	9,350	**950**	39%	4,890
1B	4,500	8,200	**3,700**	26%	10,865
2A	7,200	8,000	**800**	48%	3,730
2B	4,000	7,000	**3,000**	32%	10,455
3A	9,950	11,300	**1,350**	30%	7,650
3B	6,450	9,750	**3,300**	22%	7,990

20. As illustrated, the project has the potential to increase the net income of project beneficiaries at the farm level. Annual revenues are projected to increase on a yearly basis, and net income difference could potentially range between US$ 800 and US$ 3,300 per year.

21. The Net Present Value (NPV) of incremental revenue for the 6 simulated Farm Models are projected to be between US$ 3,730 and US$ 10,865, with the internal rates of return (IRR) being all positive, fluctuating between 22% and 48%.

22. *Increase in Productivity.* The table presented below captures the projected increase in productivity for four products (grains, industrial, fruits, and milk) through project activities:

Product Groups	Annual Production Without Project - Tons	Annual Production With Project – Tons	Increase %
Grains	565,275	612,425	8.3
Industrial	15,680	16,880	7.7
Fruits	409,130	425,130	3.9
Milk	1,095,000	1,309,000	19.5

23. As illustrated, increases in productivity for the different product groups range between 3.9% and 19.5%. The product groups estimated to experience the largest increase in productivity are milk and grain, as these groups exhibit at present the greatest potential for the introduction of improved inputs, improved practices, and technology services.

24. The table below presents the financial results for the entire project, over a 10 year period in the scenarios "with project" and "without project."

Total Project (22,000 Farming Operations)	Without Project US$ per year	With Project US$ per year	Increase %
Gross Value of Production (Annual)	709,450,000	838,650,000	18.2
Costs of Annual Production (Annual)	546,150,000	638,100,000	16.8
Net Income (Annual)	163,300,000	200,550,000	22.8

Economic Analysis of the Project

25. Net Present Value (NPV) and Economic Internal Rate of Return (EIRR). The table below presents the NPV and EIRR of the project as a whole.

Total Project- (22,400 Farming Operations)	Total NPV - US$	EIRR %
NPV and EIRR	84,220,000	26.3

26. Sensitivity Analysis. A sensitivity analysis was carried out to determine the effects of: 1) increase in incremental costs; 2) reduction in incremental revenue; and 3) time delay in obtaining incremental benefits from project activities; the results are presented below:

Simulated Scenario	EIRR
Increase of 16.7% in incremental budgeted costs	12%
Reduction of 14.3% in incremental revenue	12%
One-year delay of anticipated incremental benefits	13.1 %

27. As shown in the results, the three scenarios still result in a positive EIRR. With an increase of 16.7% in incremental budgeted costs, the EIRR would be reduced to 12%. Similarly, with a reduction of 14.3% in incremental revenue, the EIRR would be reduced to 12%. A one-year delay of anticipated incremental benefits would reduce the EIRR to 13.1%.

Qualitative Analysis

28. This economic and financial analysis considered primarily the quantifiable factors that will benefit the 22,000 family farming direct beneficiaries. This approach ends up with a conservative assessment. The project is expected to provide other benefits that are either not quantifiable at present or for which data are not available. Investments made by the project other than through productive sub-projects will also have an impact in terms of increasing the competitiveness of small family farming operations. For example, municipal infrastructures would reduce transportation time to markets, as well as reduce inputs costs, while improving the opportunity of labor to engage in other activities.

29. The construction of an estimated 200 collection, storing, packing and/or processing units as part of productive sub-projects would also generate: (i) value-added activities–tentatively estimated to increase product value by 15%; and (ii) employment opportunities–tentatively estimated to 2,000 jobs.

30. It is tentatively estimated that these public investments would benefit approximately 5,000 to 10,000 small family farming operations throughout the State, according to estimates from previous rural infrastructure projects. This benefit is tentatively projected to result in a possible increase of up to 5% in gross sales value of production through improvements in product quality, lower transportation costs, increased regularity/speed of delivery, as well as increased negotiating power with buyers through creation of greater economies of scale.

31. Another aspect which was not quantified, but which is expected to have a positive impact on product marketability (particularly exports), is the benefit of producing and marketing more socially and environmentally responsible products (including organic, fair trade and/or labeled products) through project activities.

Conclusion

32. The conclusion of this analysis is that the project seems to be economically and financially viable. The project's EIRR is estimated 26.3%. Investment activities planned under

Component 1 are projected to help participating small family farming operations increase their annual total net income by an average 22.8%. The sensitivity analysis seems to indicate that the overall economic and financial impact of the project seems to be reasonably resilient to variations of external factors.

33. The exogenous benefits, which have not been included in the quantitative analysis, include municipal infrastructure investments, institutional strengthening in rural extension to support producers, strengthened social capital, organizational skills, and cooperation among actors along value chains, and environmental benefits for enhancing sustainability and more effective marketing of products.

Annex 10: Safeguard Policy Issues

BRAZIL: São Paulo Sustainable Rural Development and Access to Markets

A. Environmental Issues

1. The State of São Paulo comprises two of the four Brazilian bio-geographical biomes: the *Atlantic Forest*, which originally covered about 81% of the state area, and the *Cerrado Savannahs*, which originally encompassed about 14% of the state area.

2. In the past 50 years, the State has experienced significant agricultural intensification such that manual crop cultivation is now rare. Progressive intensification, often characterized by unsustainable agricultural practices, has led to increased pressure on the natural resources base. The most recent forest inventories carried out in 2000 and 2005 verify the ongoing deforestation trends. This has mostly impacted already threatened areas represented by fragments of the above-mentioned biomes, which are regarded among the most threatened ecosystems in the world. These forests cover about 14% of the state surface area, and nearly 100% of these areas have suffered from some type of degradation. The degradation of native forests have seriously affected the structure and function of the ecosystems, including biodiversity losses, increases in carbon dioxide emissions, and other negative ecological and socio-economic consequences.

3. Erosion is one of the most serious consequences of land degradation. Approximately 40% of the area in the state is classified as highly or very highly susceptible to erosion, as a significant percentage of the surface area already exhibits moderate to deep gullies and rills, clear evidence of transportation and deposition of top soil particles downslope through surface wash, and severe loss of vegetation cover along stream banks. Erosion has also led to sedimentation of reservoirs, headwater areas, and springs, as well as to less productive soils. A 2002 publication by the State Secretariat of Environment (SMA) estimated annual soil loss in the state to be around 200 million tons. Importantly, low income farmers are disproportionately affected by erosion because they are rarely able to afford the additional costs of fertilizers.

B. Social Issues

4. The social assessment documents,[50] provide further evidence of poverty indicators for most of the small family farmers of São Paulo, and additional data on some of the most vulnerable rural social groups specifically indigenous people and *quilombola* communities (descendents of ex-slaves), as well as consideration of other relevant social differentiation variables such as gender and age. Apart from the six specific consultations with indigenous people described in Appendix 2 to this Annex, *Summary of the Indigenous Peoples Planning Framework (IPPF)*, CATI also carried out numerous consultations and meetings with a broad cross-section of project stakeholders and beneficiaries between 2005 and 2008. Seven additional consultations were held in 2008. Stakeholders consulted included rural producers,

[50] The documents referred to were produced by CATI in São Paulo and nclude (i) Estrategia de Participacao das Populacoes Indigenas no Programa Estadual de Desenvolvimento Rural Sustentavel (PDRS), (ii) Consultas Publicas Com Populacoes Indigenas; (iii) Avaliacao Social-November 2008.

leaders of associations and cooperatives, technicians from partner institutions, representatives of nongovernmental organizations, among others. Key concerns expressed focused on improving agricultural productivity with a strong emphasis on commercialization, better delivery of technical assistance, and improved coordination among public agencies and programs, all of which have been reflected in project design. The project design also includes specific targeting of rural indigenous communities, prioritizes *quilombola* communities, and includes participatory processes to improve participation of women and youth.

5. Indigenous Peoples. There are an estimated 5,000 indigenous peoples in the rural areas of the State of São Paulo.[51] Consultations demonstrated broad support of indigenous peoples to participate in the project, and indigenous peoples are one of the project's target beneficiary populations. The summary of the social assessment and free, prior informed consultations carried out, and the project's IPPF are included in Appendix 2 to this Annex.

6. *Quilombola* Communities. *Quilombola* communities, descendents of escaped slaves, are among the poorest and most remotely located rural communities in Brazil and tend to be outside official statistics. These Afro-Brazilian communities have maintained socio-cultural distinctiveness in the practice of their unique life-styles and sharing of a common territory. Living primarily from subsistence agriculture and fishing, they have largely remained marginalized from the larger society, are extremely impoverished, and often have had little to no access to health, education, or other services. Many *quilombola* communities have a local association, although sometimes incipient. The Brazilian government now estimates that there may be as many as 3,000 *quilombola* communities in Brazil.

7. In São Paulo there are an estimated 51 *quilombola communities*, 22 of which are officially recognized[52], nine are in process of being recognized and 20 pending. Six *quilombola* communities have thus far received communal land titles to which they are entitled by the 1988 Brazilian Constitution, and another 22 titles are being processed by the federal agency with the legal responsibility for *quilombo* land titling which is the National Agrarian Reform Institute (INCRA).

8. During project preparation, representatives of *quilombola* communities participated in two consultations that included as well representatives from the State Council for Black Community Participation (CPDCN), the São Paulo Land Institute (ITESP), and the Ministry for Agrarian Development (MDA), among others. This consultation process demonstrated a very strong interest on the part of *quilombola* communities to participate in the project. The State agency, ITESP, currently providing a modest amount of technical assistance to these communities, also welcomed the opportunity to collaborate more closely with CATI. Hence, the project will promote specialized outreach to *quilombola* communities to try to maximize their involvement as beneficiaries of the project.

[51] Estimates of the rural indigenous population in São Paulo are widely divergent. FUNASA estimates 6,578 persons, the State Council on Indigenous People estimates 5,649 persons, IPEA (Institute for Applied Economic Research) estimates 4,946 persons and the National igneousous Peoples Agency (FUNAI) estimates 2,716 persons. We are using the estimate of a population size of 5,000 which is an average of these estimates.

[52] By Fundacao Cultural Palmares (FCP) of the Ministry of Culture, in a relatively new governmental recognition procedure

9. Resettlement. Because road maintenance activities supported under Sub-component 2.4 could result in the acquisition of new land, particularly in ROWs (right-of-ways), a Resettlement Policy Framework (RPF) was prepared. The summary of the project's RPF is included here as Appendix 3, *Summary of Resettlement Policy Framework (RPF).*

C. Borrower's Institutional Capacity for Safeguard Policies

10. *Strengthening environmental and social assessment capacity.* The Project would build on the existing capacity established within the organizational framework of the implementation agencies, CATI and CBRN. These institutions have substantial experience in working with environmental and social safeguard policies through their implementation of the previous SPLM and ongoing GEF projects. The capacities of these agencies would be strengthened to implement the EA/EMF, the IPPF, and other safeguards instruments. In addition, environmental and social requirements and procedures for investment proposals would be disseminated among the beneficiaries, stakeholders, municipal authorities and other relevant organizations at the municipal and regional levels.

11. The Borrower's institutional capacity for safeguard policies is relatively good at the state level, but tends to be uneven and mostly weak at the municipal level. The State Secretariat of Agriculture and Supply (SAA) would manage the project at the central level. Implementation responsibilities would be carried out through CATI, where the PMU would be located, and the CBRN would act as co-manager and provide support where appropriate. To strengthen safeguard capacity at the municipal level, specific capacity-building activities would be carried out, especially with respect to working with indigenous populations since there is little experience in working with these populations. In addition, a cooperation agreement would be signed with the National Indigenous Peoples Agency (FUNAI), and collaborative linkages would be sought with other state, federal, and non-governmental organizations already working with indigenous peoples in São Paulo.

12. *Specific responsibility for safeguards and institutional arrangements*. A group of environmental and social professionals will be created under the PMU attached to CATI. Proposed physical investments would be categorized by the CATI staff that would be accountable for recruiting and carrying out the overall supervision of environmental and social-related reports before submitting investments proposals for final approval. CATI would also inform concerned environmental authority that could also monitor the environmental and social review process.

D. Compliance with Safeguard Policies

13. The proposed project is designed to comply fully with the World Bank safeguard policies, as indicated below.

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 4.11)	[X]	[ ]
Involuntary Resettlement (OP/BP 4.12)	[X]	[ ]
Indigenous Peoples (OP 4.10)	[X]	[ ]
Safety of Dams (OP/BP 4.37)	[ ]	[X]
Projects on International Waterways (OP/BP/GP 7.50)	[ ]	[X]
Projects in Disputed Areas (OP/BP/GP 7.60)	[ ]	[X]
Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects (OP/BP 4.00)	[ ]	[X]

14. **OP/BP 4.01 – Environmental Assessment.** The Project is classified as Category B, the classification for projects whose potential adverse environmental impacts on human populations or environmentally important areas are site-specific, reversible and can be readily mitigated (OP 4.01, paragraph 8). In accordance with this classification, and given that the exact location and nature of potential small investments to be financed under Components 1 and 2 have not yet been determined (these would be decided on a demand-driven basis through a process of planning and formulation of investment proposals), an Environmental Assessment (EA) and an Environmental Management Framework (EMF) have been prepared to conformity with Bank safeguard policies (disclosed in-country on December 23, 2008 and in the InfoShop on January 21, 2009), as investments would be subject to individual EA screening to avoid adverse impacts on the local environment, and appropriate mitigation measures would also be included in their designs. The EA/EMF specifies the criteria and procedures that would be used during project implementation to avoid or minimize adverse environmental impacts. Key aspects regarding Bank's safeguards included in the EA/EMF are described below. Further details can be found in Appendix 1 to this Annex.

15. **OP/BP 4.04 - Natural Habitats.** The project would not support or lead to the conversion of natural habitats. In fact, it would help rehabilitate, restore, and protect degraded riparian forests which are important to preserve local biodiversity and the quality of water resources. On-farm investments are expected to take place in areas that have been traditionally dedicated to crop and livestock farming and would not therefore involve conversion of natural habitats. Instead, the proposed project would support natural habitat conservation since: (i) increased agricultural productivity will be a result of sound environmentally practices; (ii) it would help restore and protect degraded riparian forests which are important to preserve biodiversity and the quality of water resources; and (iii) the project would support more sustainable use of agricultural lands and the rehabilitation of degraded natural habitats. The EMF explicitly forbids any project activities in areas supporting critical natural habitats or inducing significant conversion or degradation of critical natural habitats. It also ensures that any activity in the buffer zone of a protected area would be designed to help reduce pressure on the protected area itself. The EMF also provides guidance regarding unintended impacts on natural habitats.

16. **OP/BP 4.36 - Forests.** The requirements of OP 4.36 for this project overlap with those of OP 4.04. The project would support activities that generate positive environmental impacts by promoting the rehabilitation and conservation of degraded native forests (including riparian zones), as well as by contributing to the restoration and maintenance of ecological functions in those areas. The project (Sub-component 2.3) would also test models of sustainable, non-

timber use of such areas in small rural properties. This would be carried out in accordance with addendum 2166-67 to Federal Law 4771/65, which allows for sustainable agro-forestry activities in small rural properties as long as they do not change the overall character of the forest cover and do not alter ecosystem functions in the area. Despite the positive impacts foreseen through the implementation of these activities, the EMF includes guidance regarding direct and indirect impacts on native forests. The EMF contains procedures to ensure that project activities comply with OP 4.36 and with national legislation which establish measures to protect existing forests.

17. **OP 4.09 - Pest Management.** The project would not finance the procurement of any pesticides or other chemical amendments that would trigger OP 4.09. Nevertheless, small amounts of pesticides would probably continue to be used by a small portion of farmers in targeted microcatchments.[53] A Pest Management Plan (PMP), disclosed in-country on December 22, 2008 and in the InfoShop on January 22, 2009, is included in the EMF, and will be incorporated into the Operational Manual, in order to provide guidance on how to minimize potential negative environmental impacts and on training in safe pesticide use, handling, storage and disposal, as well as guidelines for Integrated Pest Management (IPM) and screening procedures against the World Health Organization list of approved products. The need to use pesticides would be assessed on an individual sub-project basis, and any approved use should comply with Brazilian Laws 7.802/89 and 9.974/00. Whenever possible, the project will adopt proven IPM and economically and environmentally sustainable measures. The project would support technical assistance for the adoption of IPM practices, in order to reduce input costs and human health risks and minimize adverse environmental impacts through the gradual elimination of pesticide use, without significantly affecting yields. In addition, the project would promote training in good practices and the dissemination of IPM information.

18. **OP/BP 4.10 - Indigenous Peoples.** The screening and social assessment estimated that there are approximately 5,000 indigenous peoples in the rural areas of the State of São Paulo comprised of the following six ethnicities: Guarani Kaiowa, Guarani M'Bya, Guarani Nhandeva, Kaingang, Krenak, and Terena. Consultations demonstrated broad support of indigenous peoples to participate in the project, and indigenous peoples are one of the project's target beneficiary populations. Socio-environmental diagnostics, site-specific sustainable development plans, and the preparation of demand-driven sub-projects for financing will be carried out under the project. Hence, the client prepared an Indigenous Peoples Planning Framework (disclosed in-country on December 22. 2008 and in the InfoShop on January 21, 2009) which is summarized in Appendix 2 to this Annex.

19. **OP/BP 4.11 - Physical Cultural Resources.** The Project would finance small-scale works in already established agricultural zones where the likelihood of disturbing archaeological, paleontological, or other culturally significant sites is small. The project is not expected to have negative impacts on cultural property, including movable or immovable objects, sites, structures, groups of structures or natural features or landscapes with archeological,

[53] In some very special situations, the temporary use of small amounts of pesticides may be necessary, where allowed by Brazilian legislation. This need is mostly related to control of leaf-cutter ants during the first two years of seedling establishment into severely degraded zones and control of the invasive grass Brachiaria in areas under restoration, particularly areas previously converted to pastures.

paleontological, historical, architectural, religious, aesthetic or other cultural significance. However, "chance findings" during implementation activities could be possible, and to handle such findings, Brazil has a well-developed legislative and normative framework, which is under the oversight of the National Institute for Protection of Historical and Archeological Sites. Additionally, the SAA and the SMA have proven experience and appropriate procedures to recover "chance findings" in line with these procedures and rules, which would be in all bidding documents and contracts for civil works. The EMF includes a framework for screening project activities in relation to potential negative impacts to cultural property, according to national and state legislation. In any case, such impacts would be avoided through the application of sub-project eligibility criteria and the safeguard screening system. The EMF sets forth that "chance find" procedures be included in any sub-project involving works, as well as in the Operational Manual, in order to comply with this safeguard and with national and state legislation on cultural property.

20. **OP/BP 4.12 - Involuntary Resettlement**. The client has prepared a Resettlement Policy Framework (RPF) that addresses any potential loss of assets issues that might occur during project implementation as the result of rehabilitation of unpaved rural roads. A satisfactory first draft of the RPF was publicly disseminated (disclosed in-country on December 22, 2008 and in the InfoShop on January 22, 2009). A final RPF was provided to the Bank on April 22, 2009, received the Bank's no objection, and was publicly disseminated again by the Borrower, and also in the Bank's InfoShop.

Annex 10, Appendix 1

Summary of Environmental Assessment and Environmental Management Framework

1. **Overview** Environmental considerations are incorporated in key aspects of the project: development objective, targeted area, eligibility criteria for beneficiaries, the type of investments to be financed, and implementation tools. On balance, the project is expected to produce positive environmental impacts. However, initiatives/investments supported under Component 1 (proposals for the implementation of small-scale investments) and Component 2 (proposals for rehabilitation and maintenance of unpaved rural roads) could generate small negative impacts. The Project design includes mechanisms to prevent negative impacts during implementation and specific attention will be given to identifying and avoiding potential negative impacts that the sub-projects may have collectively. Hence, project activities are unlikely to have significant adverse impacts, and a management system will be in place to monitor and mitigate such impacts.

2. **Positive Environmental Impacts** The project is expected to have positive environmental impacts through small agro-based initiatives/investments that promote the sustainable management and use of natural resources, watershed and biodiversity protection, soil conservation, and the restoration of degraded areas. The project would also improve the overall quality of life in targeted areas. These positive impacts would be achieved through the: (i) support to environmental management in targeted areas; (ii) financing of sustainable production systems and mainstreaming of good agricultural and environmental practices; (iii) direct investments in the sustainable use and conservation of natural resources, the restoration of riparian zones and degraded areas, the connection of forest fragments, and the certification of sustainable agribusiness and forestry activities; (iv) enhancing environmental governance at the state and local levels; (v) promoting innovative policy tools such as Payment for Environmental Services; (vi) scaling-up successful restoration technologies piloted under the GEF Project; and (vii) supporting the development of long-term strategies to facilitate the transition to environmentally sustainable livelihoods.

3. **Potential Adverse Environmental Impacts** Given that the specific location and nature of potential investments to be financed under Components 1 and 2 have not yet been determined (these will be decided by stakeholders during project implementation), specific environmental impacts, location and magnitude cannot be ascertained. However, given the nature of the activities to be supported by the project, it is not expected to have significant, long term, indirect, or cumulative adverse impacts. Possible adverse impacts may be related to the implementation of investments such as: small-scale agro-processing; improved crop and livestock production practices, small infrastructure works for road rehabilitation; and non-agricultural activities (i.e., eco-tourism and traditional crafts). The impacts of any misdirected support for these investments could include: soil erosion, surface and ground water pollution (from sediments and increased use of fertilizers or pesticides residues), and noise, dust and air pollution from construction activities. In any case, environmental impacts are expected to be localized and preventable through responsive mitigation measures. Investment proposals under component 1 would go through a screening process to optimize socioeconomic and environmental benefits and prevent or minimize unintended negative

environmental impacts, including those eventually associated to indirect, cumulative and long-term effects.

4. **Environmental Management Framework (EMF)**. The Project EMF addresses the potential positive and negative impacts identified in the EA and proposes a plan for avoiding, minimizing and mitigating such impacts. This EMF was completed in January 2009. It includes the necessary procedures to avoid, minimize and mitigate the potential negative environmental impacts listed above. It will be incorporated in the Operational Manual. The specific investment proposals and their locations will be defined during the implementation phase. As mentioned, the EMF includes screening criteria and procedures - including operating rules - that would be used during project implementation to identify and avoid or minimize any adverse environmental impacts. Depending on the nature and magnitude of their potential impacts, and according to the environmental sensitivity of the site, investment proposals would be classified into a specific impact category. Screening, evaluation, approval, and monitoring procedures are being incorporated into the project design (i.e. mainstreamed into the investments approval cycle), so that mitigation measures proposed are cost-effective and not overly burdensome. These procedures were inserted in the draft Operational Manual reviewed at appraisal. EMF cost estimates have been integrated in the overall project budget. A detailed budget was reviewed at appraisal. Finally, the EMF provides guidance to ensure that, in addition to comply with project-specific procedures, investment proposals will follow the provisions of Brazilian environmental legislation, especially those regulations related to environmental assessment and licensing, biodiversity, protected areas, water resources, forests, physical cultural resources, and pesticides.

5. More specifically, the EA/EMF includes: (i) strict screening of investment proposals according to the type of activity and the sensitivity of the proposed location, with evaluation, approval, and monitoring procedures mainstreamed into the investments approval cycle; (ii) implementing environmentally sound agricultural practices developed during previous project (SPLM); (iii) review of the legal and institutional framework relevant to the project; (iii) description of environmental licensing procedures that could be required for some of the investments to be financed under Components 1 and 2 in order to comply with environmental legislation; (iv) description of the process for setting up fully accountable management practices for preventing and mitigating impacts, including eventual cumulative impacts; (v) incorporation in the M&E system of specific processes to detect and measure any negative environmental impacts; (vi) a plan for the adoption of integrated pest management practices in project supported activities; (vii) environmental management guidelines for the rehabilitation of roads, including monitoring mechanisms, attached as a mandatory requirement to agreements with road maintenance consortia and contractors; (viii) guidelines for site selection, construction design and monitoring arrangement for infrastructure works; (ix) plan for strengthening the capacity of stakeholders in environment matters; (x) an organizational framework to mainstream the measures proposed in project management, budgeting and disbursement, as well as environmental management procedures to ensure that projects are implemented and maintained in accordance to EMF guidelines; (xi) clear guidelines regarding direct and indirect impacts on natural habitats and physical cultural resources; and (xii) a negative list of sub-projects. The project would deal with the issue of

Areas de Preservacao Permanente and *Reserva Legal* in a pragmatic manner, promoting a gradual process towards a higher level of compliance.[54]

6. **Public Disclosure/Dissemination** The EA/EMF was disclosed in-country and via the Bank's InfoShop and Public Information Center prior to appraisal. A consultation process was carried out, including discussions regarding the potential environmental impacts and benefits associated with the Project. The EA report has been subjected to a virtual/internet public consultation process with a broad range of key stakeholders. Views, recommendations, and concerns expressed by different groups were documented by the Client and a document summary of the main results, as well as their incorporation into the project design, is available in the Project Files. The EA document was also disseminated in-country through CATI's and SMA's websites.

[54] The federal legislation on *Areas de Preservação Permanente* and *Reserva Legal* (APP and RL, Law 4771/65 and CoNaMA Resolution 369/06) mandates that agricultural properties in Brazil maintain forest cover in sensitive areas (riversides, high slopes) as well as in 20% of the property's total area. For historical reasons, most agricultural properties in the State of Sao Paulo, as in most regions across the country, are currently not meeting these requirements (project baseline). The project would help address this situation in a pragmatic manner, promoting a gradual process towards a higher level of compliance through the implementation of economically feasible measures: (i) Component 1, by requiring sub-project beneficiaries to fully protect existing forests and implement environmentally-sound practices that facilitate forest regeneration in degraded areas (e.g. fencing of riparian areas); and (ii) Component 2, by supporting activities such as environmental awareness-raising and the production of seeds of native tree species, as well as promoting incentive-based mechanisms for compliance with APP/RL (e.g. group compliance).

Annex 10, Appendix 2

Summary of the Indigenous Peoples Planning Framework (IPPF)

1. **Introduction.** There are estimated to be approximately 5,000 indigenous people in the rural areas of the State of São Paulo comprised of the following six ethnicities[55]: Guarani Kaiowa, Guarani M'Bya, Guarani Nhandeva, Kaingang, Krenak, and Terena. Most indigenous peoples in rural São Paulo are characterized by acute poverty and food insecurity due to insufficient access to land and the natural resources necessary for their way of life.

2. **Ethnicities.** There are significant cultural differences among the indigenous ethnic groups in rural São Paulo, although all are facing challenges of trying to carry out traditional livelihood activities (horticulture, hunting, fishing, and collecting) in far smaller territories than they once traditionally occupied.

3. Guarani Indigenous Peoples. The Guarani belong to the linguistic family Tupi-Guarani. In South America, there are four Guarani groups, of which three are present in Brazil: the Kaiowa Guarani, the Ñandeva Guarani (or Chiripá) and the Mbya Guarani, with a total population in Brazil of about 34,000 individuals. It is estimated that there are about 3,500 Guarani indigenous people of all three subcultural groups in São Paulo. They all have high retention of their own languages, which they consider as vital for their cultural identities. There are subcultural differences in beliefs and customs among the three Guarani groups.

4. In the past the Guarani lived traditionally along the southern coastline of Brazil in some of the best lands of the Southern Cone. They were hunters and gatherers and also practiced swidden horticulture in the forest where they planted corn, manioc, and smaller amounts of beans, peanuts, pumpkin, sweet potato, "cará" and tobacco for religious purposes. Their livelihoods are forest based and they define themselves as "Forest Indians." The Guarani consider their territories as *tekoa* which must have appropriate natural resources for village life, horticulture and sufficient forests. The land is fundamental for the Guarani. According to one scholar,[56] "The Guarani ecology is not limited to nature, nor is defined exclusively by productive values. The *tekoa* means to create simultaneously the economic, social relations and political-religious organization essential for the Guarani lifestyle." The *tekoa* is the place where conditions are met to create the *teko*, i.e., the Guarani culture, way of life, system, law, behavior and habit."

5. Many researchers emphasize that the migration and mobility of Guarani are intrinsic to their cultural adaptation to ecological conditions, and hence they have long resisted being assigned to smaller fixed territories. Today due to lack of adequate land and forest natural resources, the Guarani can no longer follow traditional migration patterns and livelihoods which have led to situations of dire poverty. There are approximately 15 Guarani communities still seeking land regularization in São Paulo according to nongovernmental sources, as is

[55] The screening for this project focused on the rural areas where the project will be implemented. In the State of São Paulo, there are also indigenous people residing in the urban areas that the project will not be working with, including the Cariri, Cariri-Xocó, Fulni-ô, Pankararé, Pataxó Hã-Hã_Hãe, Xucuru and Pankararu.

[56] Meliá, B.1989. A Experiência Religiosa Guarani, in. Manuel Maia Marzal (ed.). O Rosto Índio de Deus. Petrópolis, RJ: Ed. Vozes, 293-357.

detailed in the section below on land tenure and in Table 1 (Indigenous Lands in São Paulo). As such, today they are actively seeking to be more involved in public policies that affect them, forming associations which are often led by younger Portuguese-speaking leaders.

6. Kaingang Indigenous Peoples. The Kaingang belong to the linguistic family Macro-Jê and are traditional inhabitants of the Brazilian pine forests (araucária) in the states of São Paulo, Paraná, Santa Catarina and Rio Grande do Sul, where their presence is documented as of the 1600s. People of the forests and warriors, the Kaingang resisted and tried to escape the colonization that took place during the 19th century. Nevertheless, the colonists managed to push the Kaingang from much of their traditional habitat, thus altering the Kaingang culture and economy.

7. In the early part of the 20th century, a pacification effort in São Paulo was partly a reaction to their attacks on the construction of the São Paul-Corumba Railroad. By 1910, the only Kaingang that remained in São Paulo were limited to two small regularized areas where they lived with other ethnicities in Indigenous Land Icatu and Indigenous Lands Vanuire.

8. These contacts with the national society and other tribal groups initially disrupted Kaingang livelihood and reduced their territorial unity. In their view, their territorial space is defined by their material and social subsistence activities, such as hunting, fishing, harvesting pine nuts, collecting honey and wax, and the horticultural cultivation of corn, pumpkin, beans and sweet potatoes. Their subsistence economy is largely defined by what they can extract from nature. Once forced to settle down in small indigenous lands, the Kaingang livelihood was further disrupted and became precarious, with significant malnutrition, high infant mortality and other indicators of extreme poverty. Many have migrated to urban areas.

9. Today as well as the two areas in São Paulo mentioned above, the Kaingang are also one of the ethnicities residing in Indigenous Land Arariba. Estimates of their current population vary so wildly that they cannot be considered reliable[57]. Variation is also great in terms of languages used, but generally they tend to be largely bilingual in Portuguese.

10. Krenak Indigenous Peoples. The Krenak also speak a language in the Macro-Jê linguistic family and originally were hunters and gatherers along the entire Brazilian coast until they began migrating southward in the 19th century. Today, there are only about 66 Krenak remaining in rural São Paulo, the majority youths, who live in Indigenous Lands Icatu and Vanuire. Currently their livelihood is primarily from subsistence agriculture (corn, rice and peanuts), animal husbandry, and handicrafts.

11. Terena Indigenous Peoples. The Terena speak a language in the Arawak linguistic family, and were originally people of the Chaco whose history was radically altered by the War with Paraguay during which they lost their traditional territory. Today they remain bilingual for the most part, and their population is estimated at about 60 families who live in Indigenous Land Arariba. Many work as rural ranch workers. They also practice precarious subsistence agriculture.

[57] For example, an NGO, Portal Kaingang, estimates their rural population in São Paulo as 105 persons, yet FUNASA estimates their population as 31,048 which likely includes urban populations as well.

12. **Land Tenure.** The National Indigenous Peoples Agency (FUNAI) thus far recognizes 17 indigenous lands in São Paulo of which 12 are fully regularized, 2 in the process of being demarcated, and 3 scheduled to be identified. Some NGOs[58] however estimate that there exist as many as 15 other indigenous communities in São Paulo seeking regularization, bringing the total to 32 indigenous lands. Table 1 summarizes the tenure status of Indigenous Lands in São Paulo based on information from governmental and nongovernmental sources. Since indigenous land regularization in Brazil is solely a federal responsibility under FUNAI, it is outside the power of the State to directly resolve land issues. The land tenure status, however, impacts what types of activities might be supported, hence a differentiated approach taking land tenure status into account has been developed for this project.

13. **Legal Issues.** The Brazilian Constitution of 1988 marked a departure point from previous integrationist policies and provides a firm basis for the recognition by the nation-state of the perpetual usufruct rights of indigenous people in Brazil to their territories, excluding sub-soil rights. The regularization of indigenous lands in Brazil is comprised of a multi-staged process led by FUNAI to identify and delimit, demarcate, register and homologate indigenous lands. The process of land regularization is further regulated by Decree 1775 adopted in 1996 which replaced Decree 22. It is important to observe that in recent years significantly more progress on regularizing indigenous lands in the Amazon region has been accomplished than in southern Brazil in part related to the greater challenges faced in southern Brazil, including among others, greater non-indigenous population densities, more competing land claims and conflicts, and complex compensation issues.

14. Decree 1141, adopted in 1994, authorizes FUNAI, in conjunction with the Ministry of Environment, to carry out environmental activities including, among others, environmental diagnostics, recuperation of degraded areas, environmental enforcement, environmental education, and identification and dissemination of environmentally appropriate technologies. However, FUNAI as yet has no capabilities to fulfill these functions, although this area is definitely on the agenda during the restructuring of FUNAI which is currently being undertaken.

15. The 1973 Indian Statute defines indigenous people as being in tutelage, essentially minors under the law. It also provides a series of guidelines about natural resource use in indigenous lands, including, for example, regulations pertaining to third-party natural resource use concessions. Such guidelines are not always adhered to. For the past 15 years, there has been considerable debate in Brazil to pass a revised Indian Statute and an attempt was made to adopt the new Statute in 2000 to mark the 500 year anniversary. Due to a lack of consensus on the draft legislation by indigenous organizations, the statute was not adopted in 2000 but has continued to be debated. Characteristics of the proposed legislation include an end to the status of tutelage, and improved natural resource guidelines.

16. Based on the social assessment, indigenous peoples of São Paulo are mainly concerned with four legal issues. The first and most important focuses on land regularization, and related concerns about the legally mandated contestation process, an administrative grievance

[58] Specifically ComisSão Pro-Indio de São Paulo and Conselho Indigenista Missionario.

procedure that occurs after the delimitation phase. The second concern relates to overlaps between what indigenous people claim are their lands and Atlantic Forest conservation units, a great many of which have been created in the last few decades. The third issue of concerns compensation claims for public works that have had environmental impacts on indigenous lands, especially since these are often long delayed.

17. The fourth concern is conflicts between indigenous legislation and environmental legislation, a topic that has long been debated in Brazil but not yet satisfactorily resolved. The ongoing public debate to revise the Indian Statute (*Estatuto do Indio*) could help resolve some of these issues, but this revision has been debated for more than a decade.

18. To mitigate the risks the land tenure issues pose for the successful implementation of project activities the following measures have been agreed: (i) the project will ensure that it will use a highly informational mode of participation to avoid creating false expectations, for example, with respect to the types of activities and sub-projects that could be done in indigenous lands with different levels of land regularization; and (ii) preparatory activities will be done with each indigenous community which will examine the implication of their land tenure situation and other potential conflicts so the menu of possible project activities is clarified from an early stage.

19. **Institutional Issues.** Federal, state, municipal and nongovernmental organizations carry out activities with indigenous people in São Paulo. At the federal level, there is FUNAI with land responsibilities, and FUNASA with responsibility for indigenous health. Interestingly the Agrarian Development Ministry (MDA) has become much active recently in promoting agricultural activities with indigenous communities, especially in the areas of food security and commercialization. The federal level IBAMA and the state agency for environment along with its Forest Institute are more frequently in conflict with indigenous peoples. At the state level the other most pertinent agencies include the Agency for Institutional Relations which coordinates the State Council for Indigenous Peoples (CEPISP) and the Intersectoral Committee on Indigenous Issues (CIAI), and Nucleus for Indigenous Education coordinated by the State Education Agency. Some municipalities have also created indigenous centers, linked to education programs. Lastly, there are NGOs such as the *Commissão Pro-Indio do São Paulo* (CPI-SP), Center for Indigenous Work (CTI), CIMI which is linked to the Bishops National Council, among others, and indigenous organizations.

20. **Implementation Arrangements.** During project preparation, CATI created an informal technical group on indigenous subjects, and it has committed to creating a CATI Working Group for Work with Indigenous Communities (GT-CATI) which will have the responsibility for activities being carried out with indigenous peoples under the project. Both CATI and the SMA have committed to additional trainings to prepare their staff to work more effectively with indigenous communities. CATI also intends to work closely with both governmental and nongovernmental partner institutions described above. In addition, CATI will adopt a memorandum of understanding (*compromiso*) with FUNAI to facilitate project support.

21. **Preparation and Consultations.** The process of free, prior informed consultation was carried out in São Paulo with six well attended meetings involving more than 240 people including indigenous leaders, and representatives of the National Indigenous Peoples Agency (FUNAI), National Health Foundation (FUNASA), the Agrarian Development Ministry (MDA), the State Environmental and Institutional Relations agencies, the State Counsel of Indigenous Populations (CEPISP), CATI regional offices, municipal governments and NGOs, among others. A great deal of information on the meetings was also further disseminated on the CATI website.

22. This consultation process demonstrated a strong interest on the part of indigenous people to participate in the project. It identified key concerns with their social and economic vulnerability, the importance of prioritizing all indigenous lands in the state, the need to combine activities oriented toward environmental conservation and recuperation with income generation and food security, and identified basic principles about participatory processes and working in partnerships with indigenous organizations. They also emphasized they hoped the project could help strengthen indigenous associations. The consultations confirmed the elements for the project's Indigenous Peoples Planning Framework (IPPF), being summarized here (entire document available in Portuguese in the InfoShop and CATI's website). Furthermore, the consultation process contributed to the formation of a broad network of partnerships between diverse institutions and indigenous people in the State of São Paulo.

23. **Indigenous Participation in Implementation.** Indigenous participation is an important element of the project. The methodology agreed was that indigenous communities would first receive a preparatory visit from the GT-CATI technicians during which there would be a site-specific in-depth discussion of the design and characteristics of the project, what types of activities could be carried out under the project in accordance with the land tenure status, confirmation of local interest in participating in the project, discussion of community counterpart and obligations, after which a site-specific mutual commitment to go forward with project work in that community would be signed by CATI and the indigenous leaders (*Compromisso Mutuo*). This is in line with one of the basic principles agreed during the consultations that it was of vital importance for the project not to generate false expectations. That is, this emphasizes the importance that indigenous people fully understand and have realistic expectations about what the project is, what benefits they might expect, as well as obligations related to participation.

24. The next phase would be the provision of technical assistance to carry out participatory socio-environmental diagnostics that would lead to the development of community-level sustainable development plans (or site-specific plans). The methodology will be somewhat flexible to be able to do community-level plans and/or indigenous land level plans, as appropriate. Subsequently the lower-level plans would be consolidated into six regional indigenous development plans for: (i) *Oeste Paulista*, (ii) *Sudoeste Paulista*, (iii) *Litoral Sul*, (iv) *Litoral Norte* and *Baixada Santista*; (v) *Grande São Paulo*; e and, (vi) *Vale do Ribeira* in part to facilitate interchange and communication among indigenous groups and technical staff as well as to discuss priorities (see Monitoring and Evaluation below).

25. Once the regional development plans are prepared, indigenous organizations (e.g. associations) may then prepare and submit sub-project proposals for project financing. CATI technical personnel will provide support for the formulation of sub-projects. Each sub-project proposal will then be evaluated by CATI and state environmental agencies.

26. Once approved, the recipient organization will receive additional training in financial management and procurement, prior to implementation, and be eligible for other organizational strengthening assistance. Implementation of sub-projects will be supported by technical assistance provided by GT-CATI.

27. **Monitoring and Evaluation.** The monitoring and evaluation of the project's activities with indigenous people will be largely site-specific and participatory. The selection of indicators for each indigenous community will be done during the carrying out of the socio-environmental diagnostic and the formulation of the sustainable development plan. The initial participatory diagnostics, covering demographic, economic, social and environmental aspects, will serve as baseline data. It is anticipated that additional diagnostics will be carried out periodically to monitor progress. An indigenous advisory committee will be formed to help with project monitoring. In addition, biannual local meetings with indigenous communities to discuss progress are planned, as well as annual regional meetings for the six regions. Once the six regional indigenous development plans are compiled, a specific workshop will be held to discuss the distinct methodologies needed for rural extension with indigenous peoples. It is also planned that at the end of the second and forth year of project implementation, two state-wide seminars to evaluate the project's work with indigenous people will be held. Lastly, an independent social assessment of the project's work with indigenous peoples will be carried out for the mid-term and final reviews.

Table 1 – Indigenous Lands in São Paulo

Indigenous Land	Ethnicity	Municipality	Land Tenure Situation[59]
1. Aguapeú *	Guarani M'Bya	Mongaguá	Regularized and homologated 4,371 ha
2. Aldeinha (Nhande Paúva)	Gurani Nhandeva	Itanhaém	To be identified
3. Ambá Porá	Guarani M'Bya	Miracatu	To be identified
4. Araribá *	Guarani Nhandeva, Terena e Kaingang	Avaí	Regularized and homologated 1.930 ha
5. Bananal * (Pacowaty)	Gurani Nhandeva	Peruíbe	Regularized and homologated a 480 ha
6. Boa Vista do Sertão do	Guarani M'Bya	Ubatuba	Regularized and homologated

[59] The process of regularizing indigenous lands refers to the steps necessary to legally recognize them. Full regularization of indigenous lands is comprised of the following three basic steps: (i) Identification and Delimitation; (ii) Physical Demarcation; and (iii) Full Regularization which refers to land registration and homologation or a final Presidential Decree.

Indigenous Land	Ethnicity	Municipality	Land Tenure Situation[59]
Promirim *			906 ha
7. Djaiko'ty	Guarani Nhandeva	Miracatu	To be identified
8. Icatu *	Terena, Kaingang, Krenak	Braúna	Regularized and homologated 301 ha
9. Itaguá	Guarani M'Bya	Iguape	To be identified
10. Itaóca * (Mboi-Retã)	Guarani M'Bya e Guarani Nhandeva	Mongaguá	Being demarcated 533 ha
11. Itapitangui (Pira'i)	Guarani M'Bya	Cananéia	To be identified
12. Jacareí	Guarani M'Bya	Cananéia	To be identified
13. Jaraguá *	Guarani M'Bya e Guarani Nhandeva	São Paulo	Regularized and homologated 1,75 ha
14. Juréia (Yvyty-Mirim)*	Guarani M'Bya	Iguape	To be identified
15. Krukutu *	Guarani M'Bya	São Paulo	Regularized and homologated 25,88 ha
16. Paraíso	Guarani Nhandeva	Iguape	To be identified
17. Paranapuã	Guarani M'Bya e Guarani Nhandeva	São Vicente	To be identified
18. Peguaoty	Guarani M'Bya	Sete Barras	To be identified
19. São João Batista (Piaçaguera) *	Guarani Nhandeva	Peruíbe	Being demarcated
20. Pindoty	Guarani M'Bya	Pariquera-Açu	To be identified
21. Ribeirão Silveira *	Guarani M'Bya e Guarani Nhandeva	São Sebastião, Bertioga e Salesópolis	Regularized and homologated 948 ha
22. Rio Branco *	Guarani M'Bya	Itanhaém, São Vicente e São Paulo	Regularized and homologated 2.856 ha
23. Serra do Itatins *	Guarani M'Bya e Guarani Nhandeva	Itariri	Regularized and homologated 1.212 ha
24. Subaúma (Guavirá)	Guarani M'Bya	Iguape	To be identified
25. Tapyi (Rio Branquinho)*	Guarani M'Bya	Cananéia	To be identified
26. Tekoa Porã	Guarani Nhandeva	Itaporanga	To be identified

Indigenous Land	Ethnicity	Municipality	Land Tenure Situation[59]
27. Tekoa Pyau	Guarani Nhandeva	Barão de Antonina	To be identified
28. Tenondé Porá (Barragem) *	Guarani M'Bya	São Paulo	Regularized and homologated 26,3 ha
29. Uruity	Guarani M'Bya	Miracatu	To be identified
30. Vanuíre *	Kaingang, Krenak e Terena	Arco Íris	Regularized and homologated 301 ha
31. Wiutu-Guaçu	Guarani M'Bya e Guarani Nhandeva	Ubatuba	To be identified
32. Pakurity (Santa Cruz)*	Guarani M'Bya	Cananéia (Ilha do Cardoso)	To be identified

* Recognized by FUNAI.
Sources: Comissão Pró-Índio de São Paulo, *Situação Fundiária e Informações Gerais – Agosto 2007*, http://www.cpisp.org.br/indios/. CEPISP, *Povos Indígenas no Estado de São Paulo 2008, São Paulo: CEPISP/SRH/Governo de São Paulo, 2008.*

Annex 10, Appendix 3

Summary of Resettlement Policy Framework[60]

1. **Overview.** OP 4.12 is triggered because Sub-component 2.4 includes the financing of maintenance and erosion control works to improve the functionality of unpaved rural roads (also commonly referred to as farm or parish roads, many of which are dirt roads). Hence, activities supported may involve small amounts of land acquisition, especially with respect to right-of-ways. However, it is not anticipated that the Project will cause physical displacement of people. Since the exact locations of these small works will only be determined during PY1 with activities to begin in PY2, the Client has prepared a Resettlement Policy Framework (RPF), which was publicly disseminated and will form part of the Operational Manual. The RPF will serve as the guide to the site-specific formulation of Resettlement Action Plans (RAP), which in many cases will be Abbreviated Plans[61] due to the relatively small numbers of people affected and relatively minor impacts.

2. The basic orientation of the Project is that site-specific activities are to be identified by local demands and negotiated with all stakeholders to ensure the adequate resolution of any possible adverse impacts. The criteria that will be used to select target roads include both technical and social criteria, the social referring to the highly participatory involvement of communities throughout the process.

3. The RPF is guided by a set of policy principles to:
   - Minimize and mitigate potential negative social and economic impacts caused by the project;
   - Ensure that all affected peoples, regardless of their tenure condition, receive proper compensation and/or assistance to replace assets lost and the restoration of livelihoods at an equal or superior level;
   - Make certain that affected people are informed about their options and rights, as well as consulted on the available choices;
   - Prepare a RAP consistent with the provisions of the Bank's policy on resettlement for each sub-project that would involve resettlement (such plans should be sent to the Bank for approval before the sub-project is approved for financing).

4. **Eligibility.** Eligibility will be determined on a case by case basis once the necessary cadastres have been done. This would include all types of rural inhabitants and/or formal or informal group, regardless of whether their lands and/or dwellings are legalized or not.

5. **Legal Framework.** The project's RPF is consistent with the existing legal framework in Brazil. There are, however, three main differences between the Bank's Operational Policy on resettlement and the Brazilian legal framework. First, the Bank's policy recognizes the right to assistance of those who have no recognizable legal right or claim to the land they are occupying at the time the census begins but have a claim to such assets. Second, the

[60] This summary is based on the framework prepared by the CATI in conjunction with SMA in November 2008: *Programa Estadual de Desenvolvimento Rural Microbacias II - Marco de Reassentamento Involuntário.*
[61] When less than 200 persons are affected

Bank's policy considers support to affected peoples after displacement to restore their livelihood and standards of living (loss of income sources or means of livelihood). Third, the Bank's policy considers effective compensation at full replacement cost for losses of assets attributable directly to the Project. It should be noted that both the Bank's and Borrower's set of norms indicate that: (i) involuntary resettlement (including land acquisition and displacement) shall be avoided or minimized when feasible; (ii) all viable alternative project designs should be explored; and (iii) where displacement is unavoidable, people losing assets, livelihoods, or other resources shall be assisted in improving, or at a minimum regaining, their former status of living at no cost to themselves. Based on the analysis of these differences and common points, the Borrower has agreed to implement the policy principles of the RPF as stated above for the activities to be financed by the Project.

6. **Institutional Assessment.** The State of São Paulo has an extensive network of unpaved rural roads. The State Roads Department (DER-SP) operates across the state, but does not maintain unpaved rural roads. These are generally the responsibility of municipalities that oftentimes do not have sufficient funding or equipment to maintain and/or repair them. In the 1990s the State Government began significant investments in the recuperation of rural roads, with four programs one of which is the previous SPLM project. CATI gained considerable technical experience recuperating rural roads under the SPLM, including delivering trainings for municipalities and sharing its technical experience, manuals, and model projects with the other State programs. An important advance was the formation of 24 CATI UTEs (Technical Engineering Units) throughout the State that carry out specialized work directly on the maintenance of rural roads.

7. The formulation of site-specific RAPs, if/when necessary, will be the responsibility of the municipality, under the supervision of the PMU and in accordance with the project's RPF.

8. **Methodology**. Site-specific RAPs will be formulated by a detailed set of activities as defined in the RPF. This includes: (i) *data collection*, including a cadastre of affected families and a land cadastre; (ii) *elaboration of a RAP*, including a socioeconomic profile of affected families, evaluations of affected goods, qualitative and quantitative aspects of degrees of impacts, and refined definitions of options and eligibility criteria; and (iii) an action plan that includes institutional responsibilities, timetable, and budget. Once the draft RAP has been reviewed by the municipality to ensure consistency with municipal legislation, it will be sent to the Bank for review and "no objection."

9. **Grievance Procedures.** It is expected that the formulation and implementation of road sub-projects and any RAPs will be highly participatory with respect to the communities involved. During the process of formulating and implementing site-specific RAPs, municipal governments will maintain an open channel of communication with potentially affected families. This will be carried out through the nomination of a staff member whose responsibility will include gathering data on any concerns or complaints, especially of the most vulnerable populations (such as the elderly and female-headed households), and seeking solutions. In the case that the complaints cannot be adequately addressed in this fashion, the municipal government will appoint a specialized interagency listening committee to attempt to resolve potential disputes.

10. **Monitoring and Evaluation.** The PMU in CATI will have the primary responsibility for monitoring the implementation of the principles agreed under the RPF. This will also ensure that the RAP is prepared and implemented satisfactorily in the cases of resettlement including land acquisition. Bank supervision will closely follow progress during the design phase of sub-projects through the inclusion of social and safeguard concerns. Monitoring will be done through regular reporting and field visits to ensure the enforcement of relevant safeguard frameworks, clauses, and satisfactory implementation of civil works contracts. The following indicators will be tracked to monitor progress: number of landholdings affected by land acquisition and number of RAPs effectively implemented. In addition an ex-post evaluation would be conducted in cases where more than 200 persons are affected; however, such cases are not anticipated in this project.

Annex 11: Project Preparation and Supervision

BRAZIL: São Paulo Sustainable Rural Development and Access to Markets

	Planned	Actual
PCN review	September 17, 2008	Oct 1, 2008
Initial PID to PIC	October 7, 2008	Oct 7, 2008
Initial ISDS to PIC	October 7, 2008	Oct 7, 2008
Appraisal	February 9-13, 2009	February 12-13, 2009
Negotiations	July 2009	April 14, 2010
Board/RVP approval	May 25, 2010	
Planned date of effectiveness	September 30, 2010	
Planned date of mid-term review	February 28, 2013	
Planned closing date	September 30, 2015	

Key institutions responsible for preparation of the project: (i) the State Rural Extension Directorate (CATI) under the Secretariat of Agriculture and Supply; and (ii) the Directorate for Biodiversity and Natural Resources (CBRN) under the Secretariat of Environment.

Bank staff and consultants who worked on the project include:

Name	Title	Unit
Laurent Debroux	Sr. Natural Resources Specialist	LCSAR
Dalcio Baesso	Road Engineer	FAO
Marie-Helene Collion	Lead Agriculturalist	LCSAR
Nicolas Drossos	Financial Management Specialist	LCSFM
Carolina J. Cuba Hammond	Program Assistant	LCSAR
John Lamb	Lead Agribusiness Specialist	ARD
Eric Lancelot	Transport Engineer	LCSTR
Judith M. Lisansky	Sr. Anthropologist	LCSSO
Kátia Medeiros	Sr. Environmental Specialist	FAO
Isabella Micali Drossos	Sr. Counsel	LEGLA
Jorge Munoz	Lead Land Administration Sp.	LCSAR
Estela Neves	Sr. Environmental Specialist	FAO
Stefano Pagiola	Sr. Environment Economist	LCSEN
Karen Ravenelle-Smith	Language Program Assistant	LCSAR
Alvaro J. Soler	Sr. Rural Development Specialist	LCSAR
Zhong Tong	Agricultural Economist	LCSAR
Guillermo Wood	Agricultural Economist	FAO
Luciano Wuerzius	Procurement Specialist	LCSPT

Bank funds spent to date on project preparation:

1. Bank resources: US$284,284.62
2. BBFAO resources: US$64,170.00
3. Trust funds: 0
4. Total: US$348,454.62

Estimated Approval and Supervision costs:

1. Remaining costs to approval: US$25,000
2. Estimated annual supervision cost: US$88,000

Annex 12: Documents in the Project File

BRAZIL: São Paulo Sustainable Rural Development and Access to Markets

A. Bank Documents:

- Project Concept Note of September 17, 2008
- Project Information Data Sheet (PCN Stage) of September 17, 2008
- Integrated Safeguards Data Sheet (PCN Stage) of September 17, 2008
- Minutes of the PCN Review Meeting, September 25, 2008
- Minutes of the QER Review Meeting November 6, 2008
- Draft ICR of the Land Management III Project, QER stage, April 1, 2009
- Minutes of the Decision Meeting, February 2, 2009
- Project Appraisal Document
- Project Information Data Sheet (Appraisal Stage)
- Integrated Safeguards Data Sheet (Appraisal Stage)
- Brazil Country Partnership Strategy (CPS), 2008-2011, Report 42677, discussed by the Executive Directors on May 1, 2008
- Aide Memoire of the Identification mission of September 18-26, 2008
- Aide Memoire of the Preparation missions of 16-20 November and 8-12 December, 2008
- Aide Memoire of the Appraisal mission of February 9-13, 2009

B. Preparation Documents (produced by CATI/SMA):

- *Carta Consulta,* July 31, 2007
- Environmental Assessment and Environmental Management Plan (in Portuguese), March 2009
- Social Assessment (in Portuguese), November 2008
- Pest Management Plan (in Portuguese), April 9, 2009
- Indigenous Peoples Planning Framework (in Portuguese), May 18, 2009
- Involuntary Resettlement Framework (in Portuguese), April 22, 2009
- Summary of public/indigenous Consultations (in Portuguese), October 2008
- Draft Procurement Plan, February 2009
- Draft Decree and Resolução creating the Program (in Portuguese), March 2009
- Draft Operational Manual, May 18, 2009

C. General Technical Documents/Sources:

- Instituto Brasileiro de Geografia e Estatística (IBGE), www.ibge.gov.br
- Instituto Estadual de Economia Agrícola (IEEA), www.iea.sp.gov.br
- Fundação Sistema Estadual de Análise de Dados (SEADE), www.seade.gov.br.
- *Programa Estadual de Microbacias Hidrográficas (PEMH): Relatório Final*, CATI, 2008.
- Torres A.J. et al (2008). *Levantamento Censitário das Unidades de Produção Agropecuária (LUPA)*

Annex 13: Statement of Loans and Credits

BRAZIL: São Paulo Sustainable Rural Development and Access to Markets

			Original Amount in US$ Millions						Difference between expected and actual disbursements	
Project ID	FY	Purpose	IBRD	IDA	SF	GEF	Cancel.	Undisb.	Orig.	Frm. Rev'd
P099469	2010	(APL 2) 2nd National Environment	24.30	0.00	0.00	0.00	0.00	24.30	0.0	0.00
P101508	2010	BR-RJ Sustainable Rural Development	39.50	0.00	0.00	0.00	0.00	39.40	1.83	0.00
P119215	2010	BR AF Minas Gerais Swap	461.0	0.00	0.00	0.00	0.00	461.00	0.00	0.00
P116170	2010	BR São Paulo Metro Line 5	650.0	0.00	0.00	0.00	0.00	650.00	0.0	0.00
P108654	2010	BR Pernambuco Sustainable Water	190.00	0.00	0.00	0.00	0.00	190.00	0.00	0.00
P106663	2010	BR Sao Paulo Feeder Roads Project	166.65	0.00	0.00	0.00	0.00	55.73	-110.50	0.00
P103770	2010	BR ALAGOAS Fiscal & Public Mgmt Reform	195.45	0.00	0.00	0.00	0.00	74.96	-120.00	0.00
P104995	2010	BR Municipal APL5: Santos	44.00	0.00	0.00	0.00	0.00	44.00	0.00	0.00
P111996	2010	BR RJ Mass Transit II	211.70	0.00	0.00	0.00	0.00	210.67	-0.50	0.00
P006553	2010	BR SP APL Integrated Wtr Mgmt	104.00	0.00	0.00	0.00	0.00	104.00	3.78	0.00
P117244	2010	BR Rio State DPL	485.00	0.00	0.00	0.00	0.00	485.00	0.00	0.00
P104752	2009	BR Paraiba 2nd Rural Pov Reduction	20.90	0.00	0.00	0.00	0.00	20.90	0.00	0.00
P099369	2009	BR Ceara Regional Development	46.00	0.00	0.00	0.00	0.00	45.89	0.07	0.00
P095205	2009	BR 1st Prog. DPL for Sust. Env Mgmt	1,300.00	0.00	0.00	0.00	0.00	1,300.00	1.30	0.00
P094315	2009	BR Municipal APL4: Sao Luis	35.64	0.00	0.00	0.00	0.00	33.49	-1.90	0.00
P106208	2009	BR Pernambuco Educ Results& Account.	154.00	0.00	0.00	0.00	0.00	97.84	-55.77	0.00
P106765	2009	BR Ceara Inclusive Growth (SWAp II)	240.00	0.00	0.00	0.00	0.00	137.05	27.29	0.00
P106767	2009	BR RGS Fiscal Sustainability DPL	1,100.00	0.00	0.00	0.00	0.00	450.00	0.00	0.00
P107146	2009	BR Acre Social Economic Inclusion Sust D	120.00	0.00	0.00	0.00	0.00	104.00	-0.70	0.00
P107843	2009	BR Fed District Multisector Manag. Proj.	130.00	0.00	0.00	0.00	0.00	129.68	29.23	0.00
P110614	2009	BR: Sergipe State Int. Proj.: Rural Pov	20.80	0.00	0.00	0.00	0.00	17.55	2.81	0.00
P088716	2009	BR Health Network Formation & Quality Im	235.00	0.00	0.00	0.00	0.00	234.41	4.07	0.00
P106038	2008	BR Sao Paulo Trains and Signalling	550.00	0.00	0.00	0.00	0.00	307.04	34.30	0.00
P083997	2008	BR Alto Solimoes Basic Services and Sust	24.25	0.00	0.00	0.00	0.00	21.59	5.04	0.00
P101324	2008	BR-Second Minas Gerais Dev't PArtnership	976.00	0.00	0.00	0.00	0.00	235.40	6.34	0.00
P088966	2008	BR Municipal APL3: Teresina	31.13	0.00	0.00	0.00	0.00	28.64	4.42	0.00
P095626	2008	BR (APL2)Family Health Extension 2nd APL	83.45	0.00	0.00	0.00	0.00	83.24	26.15	0.00
P089013	2008	BR Municipal APL: Recife	32.76	0.00	0.00	0.00	0.00	32.68	13.96	0.00
P094199	2008	BR-(APL) RS (Pelotas) Integr. Mun. Dev.	54.38	0.00	0.00	0.00	0.00	39.36	5.42	0.00
P089929	2008	BR RGN State Integrated Water Res Mgmt	35.90	0.00	0.00	0.00	0.00	31.20	20.73	0.00
P082651	2007	BR APL 1 Para Integrated Rural Dev	60.00	0.00	0.00	0.00	0.00	51.20	45.20	0.00

P089793	2007	BR State Pension Reform TAL II	5.00	0.00	0.00	0.00	0.00	4.99	3.17	0.00
P095460	2007	BR-Bahia Integr.Hway Mngmt.	100.00	0.00	0.00	0.00	0.00	87.90	24.43	0.00
P089011	2007	BR Municipal APL1: Uberaba	17.27	0.00	0.00	0.00	0.00	13.05	9.49	0.00
P050761	2006	BR-Housing Sector TAL	4.00	0.00	0.00	0.00	2.70	0.96	3.66	-0.29
P090041	2006	BR ENVIRONMENTAL SUST. AGENDA TAL	8.00	0.00	0.00	0.00	0.00	4.88	4.85	0.69
P089440	2006	BR-Brasilia Environmentally Sustainable	57.64	0.00	0.00	0.00	0.00	21.22	19.30	0.00
P093787	2006	BR Bahia State Integ Proj Rur Pov	84.35	0.00	0.00	0.00	0.00	30.72	0.22	0.00
P092990	2006	BR - Road Transport Project	501.25	0.00	0.00	0.00	0.00	228.70	209.95	0.00
P081436	2006	BR-Bahia Poor Urban Areas Integrated Dev	49.30	0.00	0.00	0.00	0.00	38.96	38.96	0.00
P083533	2005	BR TA-Sustain. & Equit Growth	12.12	0.00	0.00	0.00	0.00	7.70	7.70	0.00
P069934	2005	BR-PERNAMBUCO INTEG DEVT: EDUC QUAL IMPR	31.50	0.00	0.00	0.00	0.00	9.15	9.15	0.00
P087711	2005	BR Espirito Santo Wtr & Coastal Pollu	107.50	0.00	0.00	0.00	0.00	31.06	-40.26	-17.93
P076924	2005	BR- Amapa Sustainable Communities	4.80	0.00	0.00	0.00	0.23	2.35	2.58	1.99
P060573	2004	BR Tocantins Sustainable Regional Dev	60.00	0.00	0.00	0.00	0.00	18.19	18.19	0.00
P076977	2003	BR-Energy Sector TA Project	12.12	0.00	0.00	0.00	0.00	5.63	5.63	0.00
P049265	2003	BR-RECIFE URBAN UPGRADING PROJECT	46.00	0.00	0.00	0.00	0.00	8.13	8.13	0.00
P066170	2002	BR-RGN Rural Poverty Reduction	45.00	0.00	0.00	0.00	0.00	15.49	-6.95	15.55
P060221	2002	BR FORTALEZA METROPOLITAN TRANSPORT PROJ	85.00	0.00	0.00	0.00	62.60	9.79	65.37	13.65
P051696	2002	BR SÃO PAULO METRO LINE 4 PROJECT	304.00	0.00	0.00	0.00	0.00	27.67	-67.10	27.90
P006449	2000	BR CEARA WTR MGT PROGERIRH SIM	239.00	0.00	0.00	0.00	0.00	96.74	-6.00	1.00
		Total:	9,595.66	0.00	0.00	0.00	65.53	6,403.44	253.04	42.56

BRAZIL
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

		Committed				**Disbursed**			
		IFC				**IFC**			
FY Approval	Company	Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
2005	ABN AMRO REAL	98.00	0.00	0.00	0.00	15.77	0.00	0.00	0.00
2005	ABN AMRO REAL	98.00	0.00	0.00	0.00	15.77	0.00	0.00	0.00
2001	AG Concession	0.00	30.00	0.00	0.00	0.00	30.00	0.00	0.00
2002	Amaggi	17.14	0.00	0.00	0.00	17.14	0.00	0.00	0.00
2005	Amaggi	30.00	0.00	0.00	0.00	30.00	0.00	0.00	0.00
2002	Andrade G. SA	22.00	0.00	10.00	12.12	22.00	0.00	10.00	12.12
2001	Apolo	6.04	0.00	0.00	0.00	3.54	0.00	0.00	0.00

1998	Arteb	20.00	0.00	0.00	18.33	20.00	0.00	0.00	18.33
2006	BBM	49.40	0.00	0.00	0.00	49.40	0.00	0.00	0.00
2001	Brazil CGFund	0.00	19.75	0.00	0.00	0.00	18.15	0.00	0.00
2004	CGTF	54.01	0.00	7.00	65.12	54.01	0.00	7.00	65.12
1994	CHAPECO	10.00	0.00	0.00	0.00	10.00	0.00	0.00	0.00
1996	CHAPECO	1.50	0.00	0.00	5.26	1.50	0.00	0.00	5.26
2003	CPFL Energia	0.00	40.00	0.00	0.00	0.00	40.00	0.00	0.00
1996	CTBC Telecom	3.00	8.00	0.00	0.00	3.00	8.00	0.00	0.00
1997	CTBC Telecom	0.00	6.54	0.00	0.00	0.00	6.54	0.00	0.00
1999	Cibrasec	0.00	3.27	0.00	0.00	0.00	3.27	0.00	0.00
2004	Comgas	11.90	0.00	0.00	11.54	11.90	0.00	0.00	11.54
2005	Cosan S.A.	50.00	5.00	15.00	0.00	50.00	5.00	15.00	0.00
	Coteminas	0.00	1.84	0.00	0.00	0.00	1.84	0.00	0.00
1997	Coteminas	1.85	1.25	0.00	0.00	1.85	1.25	0.00	0.00
2000	Coteminas	0.00	0.18	0.00	0.00	0.00	0.18	0.00	0.00
1980	DENPASA	0.00	0.52	0.00	0.00	0.00	0.48	0.00	0.00
1992	DENPASA	0.00	0.06	0.00	0.00	0.00	0.06	0.00	0.00
	Dixie Toga	0.00	0.34	0.00	0.00	0.00	0.34	0.00	0.00
1998	Dixie Toga	0.00	10.03	0.00	0.00	0.00	10.03	0.00	0.00
1997	Duratex	1.36	0.00	3.00	0.57	1.36	0.00	3.00	0.57
2005	EMBRAER	35.00	0.00	0.00	145.00	35.00	0.00	0.00	145.00
1999	Eliane	14.93	0.00	13.00	0.00	14.93	0.00	13.00	0.00
1998	Empesca	1.33	0.00	2.67	0.00	1.33	0.00	2.67	0.00
2006	Endesa Brasil	0.00	50.00	0.00	0.00	0.00	50.00	0.00	0.00
2006	Enerbrasil Ltda	0.00	5.50	0.00	0.00	0.00	0.00	0.00	0.00
2006	FEBR	12.00	0.00	0.00	0.00	12.00	0.00	0.00	0.00
2000	Fleury	0.00	0.00	6.00	0.00	0.00	0.00	6.00	0.00
1998	Fras-le	4.00	0.00	9.34	0.00	4.00	0.00	6.04	0.00
2006	GOL	50.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2005	GP Capital III	0.00	14.00	0.00	0.00	0.00	0.14	0.00	0.00
	GP Cptl Rstrctd	0.00	2.22	0.00	0.00	0.00	2.16	0.00	0.00
2001	GPC	0.00	0.00	9.00	0.00	0.00	0.00	9.00	0.00
	GTFP BIC Banco	44.91	0.00	0.00	0.00	44.91	0.00	0.00	0.00
	GTFP BM Brazil	4.22	0.00	0.00	0.00	4.22	0.00	0.00	0.00
	GTFP Indusval	5.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00
1997	Guilman-Amorim	18.08	0.00	0.00	14.37	18.08	0.00	0.00	14.37
1998	Icatu Equity	0.00	5.46	0.00	0.00	0.00	4.16	0.00	0.00
1999	Innova SA	0.00	5.00	0.00	0.00	0.00	5.00	0.00	0.00
1980	Ipiranga	0.00	2.87	0.00	0.00	0.00	2.87	0.00	0.00
1987	Ipiranga	0.00	0.54	0.00	0.00	0.00	0.54	0.00	0.00
2006	Ipiranga	50.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2006	Itambe	15.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2000	Itau-BBA	12.86	0.00	0.00	0.00	12.86	0.00	0.00	0.00
2002	Itau-BBA	70.61	0.00	0.00	0.00	38.47	0.00	0.00	0.00
1999	JOSAPAR	7.57	0.00	7.00	0.00	2.57	0.00	7.00	0.00
2005	Lojas Americana	35.00	0.00	0.00	0.00	35.00	0.00	0.00	0.00
1992	MBR	0.00	0.00	10.00	0.00	0.00	0.00	10.00	0.00
2006	MRS	50.00	0.00	0.00	50.00	0.00	0.00	0.00	0.00
2002	Microinvest	0.00	1.25	0.00	0.00	0.00	0.82	0.00	0.00

	Net Servicos	0.00	10.93	0.00	0.00	0.00	10.93	0.00	0.00
2002	Net Servicos	0.00	1.60	0.00	0.00	0.00	1.60	0.00	0.00
2005	Net Servicos	0.00	5.08	0.00	0.00	0.00	5.08	0.00	0.00
1994	Para Pigmentos	2.15	0.00	9.00	0.00	2.15	0.00	9.00	0.00
1994	Portobello	0.00	0.59	0.00	0.00	0.00	0.59	0.00	0.00
2000	Portobello	4.28	0.00	7.00	0.00	4.28	0.00	7.00	0.00
2002	Portobello	0.00	0.90	0.00	0.00	0.00	0.90	0.00	0.00
2000	Puras	0.00	0.00	1.00	0.00	0.00	0.00	1.00	0.00
2003	Queiroz Galvao	26.67	0.00	10.00	0.00	26.67	0.00	10.00	0.00
2004	Queiroz Galvao	0.60	0.00	0.00	0.00	0.08	0.00	0.00	0.00
2006	RBSec	22.83	1.51	0.00	0.00	0.00	1.51	0.00	0.00
	Randon Impl Part	2.33	0.00	3.00	0.00	2.33	0.00	3.00	0.00
1997	Sadia	2.55	0.00	2.33	3.28	2.55	0.00	2.33	3.28
1997	Samarco	3.60	0.00	0.00	0.00	3.60	0.00	0.00	0.00
1998	Saraiva	0.00	1.24	0.00	0.00	0.00	1.24	0.00	0.00
2000	Sepetiba	26.24	0.00	5.00	0.00	11.24	0.00	5.00	0.00
2002	Suape ICT	6.00	0.00	0.00	0.00	6.00	0.00	0.00	0.00
1999	Sudamerica	0.00	7.35	0.00	0.00	0.00	7.35	0.00	0.00
2006	Suzano petroq	50.00	0.00	10.00	140.00	39.50	0.00	10.00	110.50
2001	Synteko	11.57	0.00	0.00	0.00	11.57	0.00	0.00	0.00
2006	TAM	50.00	0.00	0.00	0.00	17.00	0.00	0.00	0.00
1998	Tecon Rio Grande	3.55	0.00	5.50	3.71	3.55	0.00	5.50	3.71
2004	Tecon Rio Grande	7.87	0.00	0.00	7.76	7.59	0.00	0.00	7.48
2001	Tecon Salvador	2.95	1.00	0.00	3.10	2.95	0.77	0.00	3.10
2003	Tecon Salvador	0.00	0.55	0.00	0.00	0.00	0.55	0.00	0.00
2004	TriBanco	10.00	0.00	0.00	0.00	10.00	0.00	0.00	0.00
2006	TriBanco	0.35	0.00	0.00	0.00	0.35	0.00	0.00	0.00
2002	UP Offshore	9.01	9.51	0.00	23.29	0.00	2.51	0.00	0.00
2002	Unibanco	16.89	0.00	0.00	0.00	16.89	0.00	0.00	0.00
	Total portfolio:	1,164.15	253.88	144.84	503.45	703.91	223.86	141.54	400.38

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
2000	BBA	0.01	0.00	0.00	0.00
1999	Cibrasec	0.00	0.00	0.00	0.00
2006	Ipiranga II	0.00	0.00	0.00	0.10
2002	Banco Itau-BBA	0.00	0.00	0.00	0.10
	Total pending commitment:	0.01	0.00	0.00	0.20

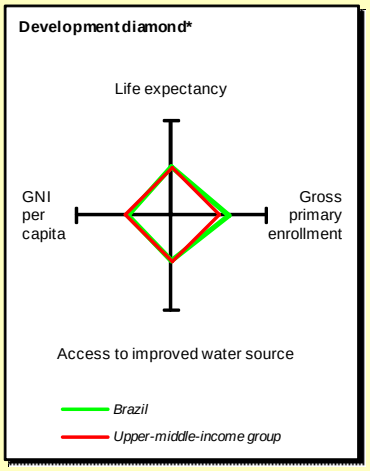
Annex 14: Country at a Glance

BRAZIL: São Paulo Sustainable Rural Development Project and Access to Markets

Brazil at a glance

12/9/09

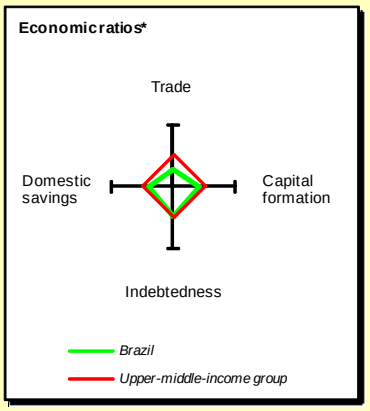
POVERTY and SOCIAL	Brazil	Latin America & Carib.	Upper-middle-income
2008			
Population, mid-year *(millions)*	192.0	565	949
GNI per capita *(Atlas method, US$)*	7,300	6,781	7,878
GNI *(Atlas method, US$ billions)*	1,401.3	3,833	7,472
Average annual growth, 2002-08			
Population *(%)*	1.2	1.2	0.8
Labor force *(%)*	2.1	2.2	1.7
Most recent estimate (latest year available, 2002-08)			
Poverty *(% of population below national poverty line)*	22	..	..
Urban population *(% of total population)*	84	79	75
Life expectancy at birth *(years)*	72	73	71
Infant mortality *(per 1,000 live births)*	18	22	21
Child malnutrition *(% of children under 5)*	2	5	..
Access to an improved water source *(% of population)*	91	91	94
Literacy *(% of population age 15+)*	90	91	94
Gross primary enrollment *(% of school-age population)*	130	117	110
Male	134	119	112
Female	125	115	108



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

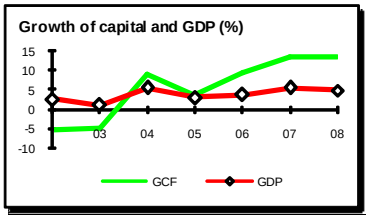
	1988	1998	2007	2008
GDP *(US$ billions)*	330.4	843.8	1,333.3	1,575.2
Gross capital formation/GDP	22.7	17.0	17.7	18.9
Exports of goods and services/GDP	10.9	6.9	13.7	14.3
Gross domestic savings/GDP	27.9	15.0	19.3	19.1
Gross national savings/GDP	23.9	13.0	17.6	17.1
Current account balance/GDP	1.3	-4.0	0.1	-1.8
Interest payments/GDP	1.9	1.7	1.1	1.0
Total debt/GDP	30.7	26.6	17.3	16.2
Total debt service/exports	25.9	80.7	24.2	25.1
Present value of debt/GDP	..	..	19.6	15.6
Present value of debt/exports	..	..	117.2	111.2

	1988-98	1998-08	2007	2008	2008-12
(average annual growth)					
GDP	2.3	3.3	5.7	5.1	2.8
GDP per capita	0.7	2.0	4.6	4.1	0.8
Exports of goods and services	5.4	9.1	6.7	-0.6	14.8

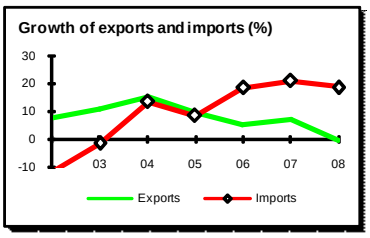


STRUCTURE of the ECONOMY

	1988	1998	2007	2008
(% of GDP)				
Agriculture	10.1	5.5	6.0	6.7
Industry	43.6	25.7	28.1	28.0
Manufacturing	31.0	15.7	17.4	16.0
Services	46.2	68.8	66.0	65.3
Household final consumption expenditure	59.5	64.3	60.8	60.7
General gov't final consumption expenditure	12.6	20.6	19.9	20.2
Imports of goods and services	5.7	8.9	12.1	14.2



	1988-98	1998-08	2007	2008
(average annual growth)				
Agriculture	2.5	4.4	5.9	5.8
Industry	1.5	2.8	4.8	4.3
Manufacturing	2.6	3.0	4.7	3.2
Services	3.3	4.0	6.0	5.3
Household final consumption expenditure	3.9	3.0	8.8	6.9
General gov't final consumption expenditure	0.7	2.9	4.7	5.6
Gross capital formation	2.6	2.8	13.5	13.8
Imports of goods and services	14.6	5.5	20.8	18.5



Note: 2008 data are preliminary estimates.

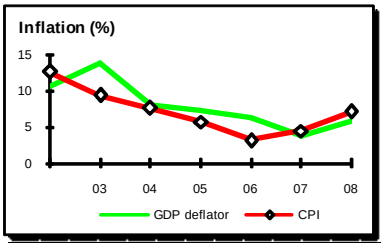
This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Brazil

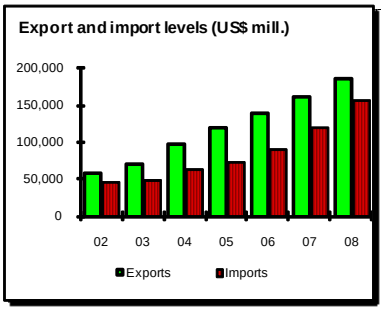
PRICES and GOVERNMENT FINANCE

	1988	1998	2007	2008
Domestic prices				
(% change)				
Consumer prices	980.2	1.7	4.5	7.1
Implicit GDP deflator	651.1	4.2	3.7	5.9
Government finance				
(% of GDP, includes current grants)				
Current revenue	10.8	18.8	23.9	24.8
Current budget balance	-2.0	0.4	2.3	3.0
Overall surplus/deficit	######	-0.8	-2.3	-1.6



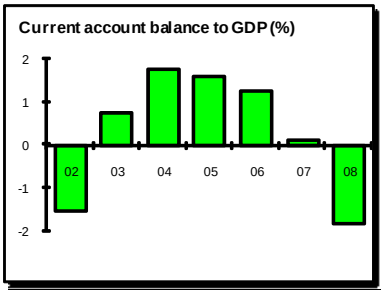
TRADE

	1988	1998	2007	2008
(US$ millions)				
Total exports (fob)	32,809	50,736	160,649	184,216
Coffee	2,091	3,253	11,629	20,183
Soybeans	3,175	2,178	8,030	13,462
Manufactures	18,389	29,387	87,254	88,483
Total imports (cif)	14,605	57,714	120,622	155,475
Food	376	2,514	0	2,582
Fuel and energy	4,104	4,109	16,345	24,978
Capital goods	4,195	16,093	25,124	32,190
Export price index *(2000=100)*	88	99	114	128
Import price index *(2000=100)*	44	104	94	100
Terms of trade *(2000=100)*	199	95	121	127



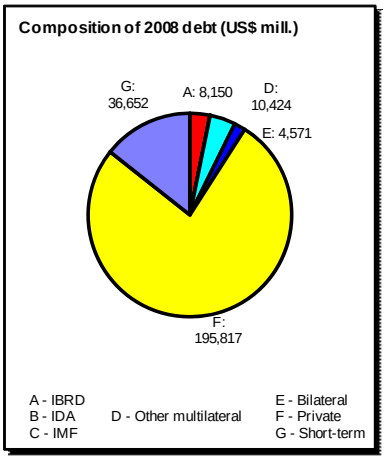
BALANCE of PAYMENTS

	1988	1998	2007	2008
(US$ millions)				
Exports of goods and services	35,650	59,037	184,603	228,393
Imports of goods and services	17,500	75,722	157,795	220,247
Resource balance	18,150	-16,685	26,808	8,146
Net income	-13,776	-18,188	-29,291	-40,562
Net current transfers	-20	1,458	4,029	4,224
Current account balance	4,180	-33,416	1,551	-28,192
Financing items (net)	-2,931	25,446	85,933	31,161
Changes in net reserves	-1,249	7,970	-87,484	-2,969
Memo:				
Reserves including gold *(US$ millions)*	9,140	44,556	180,334	216,881
Conversion rate *(DEC, local/US$)*	9.53E-8	1.2	1.9	1.8



EXTERNAL DEBT and RESOURCE FLOWS

	1988	1998	2007	2008
(US$ millions)				
Total debt outstanding and disbursed	101,295	224,632	231,032	255,614
IBRD	1,824	171	6,704	8,150
IDA	0	0	0	0
Total debt service	9,448	48,465	53,941	55,420
IBRD	429	77	480	481
IDA	0	0	0	0
Composition of net resource flows				
Official grants	46	103	178	211
Official creditors	-340	3,632	-754	2,076
Private creditors	3,194	15,728	19,105	27,188
Foreign direct investment (net inflows)	2,804	31,913	34,585	45,058
Portfolio equity (net inflows)	189	-1,768	26,217	-7,565
World Bank program				
Commitments	0	0	1,335	2,962
Disbursements	0	0	374	1,606
Principal repayments	268	61	115	146
Net flows	-268	-61	258	1,459
Interest payments	161	15	364	335
Net transfers	-429	-77	-106	1,125

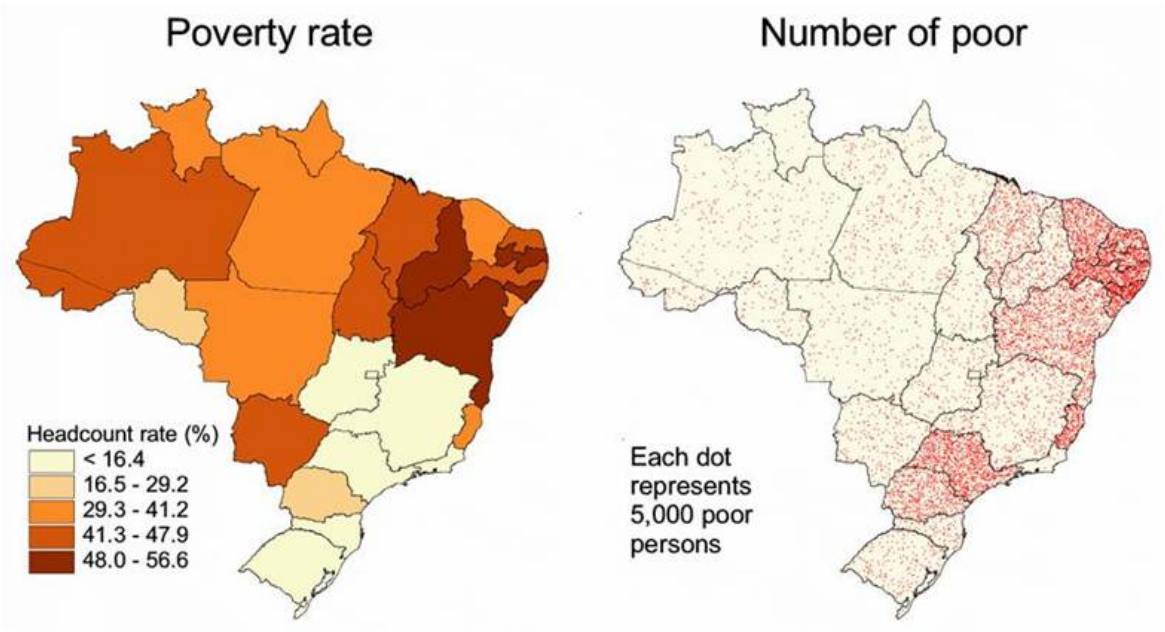


Note: This table was produced from the Development Economics LDB database. 12/9/09

Annex 15: Maps

BRAZIL: São Paulo Sustainable Rural Development and Access to Markets

Map 1 – Poverty Rate in Brazil, São Paulo



Map 2 – Occurrence of family agriculture in municipalities across the State of São Paulo