

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

Report No.: PIDA93

Project Name	Ceara Rural Sustainable Development and Competitiveness (P121167)
Region	LATIN AMERICA AND CARIBBEAN
Country	Brazil
Sector(s)	General agriculture, fishing and forestry sector (40%), Water supply (25%), Irrigation and drainage (15%), Crops (10%), Information technology (10%)
Lending Instrument	Specific Investment Loan
Project ID	P121167
Borrower(s)	Secretaria de Desenvolvimento Agrario
Implementing Agency	
Environmental Category	B-Partial Assessment
Date PID Prepared	18-Nov-2011
Estimated Date of Appraisal Completion	21-Nov-2011
Estimated Date of Board Approval	23-Feb-2012
Decision	

I. Project Context

Country Context

1. Ceara has made solid progress in improving both economic and social indicators in recent years and is the third largest economy in the Northeast region. Between 2007 and 2010 the State's GDP (currently ranked 12th out of 27 States in Brazil) grew by an accumulated 58%, well above Brazil as a whole (25%). From 1981 to 2007, the average years of schooling per adult in Ceara rose by 144%, out-performing 22 Brazilian states. Other social indicators, including infant mortality and life expectancy, have also shown significant improvement over the last two decades.

2. Notwithstanding this recent progress, the State faces significant challenges: Poverty levels are still unacceptably high in Ceara, with 13% of its population living below the regional extreme poverty line and almost a third of the people (31%) are below the regional poverty line. It is evident that to sustain social inclusion gains made and substantially reduce current poverty levels will require more rapid and inclusive economic growth.

3. Agriculture is a major sector of the Brazilian economy: It is key for economic growth and foreign exchange. Agriculture accounts for about 6% of GDP (25% when including agribusiness) and 36% of Brazilian exports. Brazil enjoyed a positive agricultural trade balance of US\$55 billion in 2009. The share of family agriculture's production in Brazilian food is 70%, which means that it has a strong potential not only for food security and nutrition but also for economic growth and food price balance. While commercial farms dominate value-added production, family agriculture nationwide produces 70% of manioc, 46% of corn, 63% of horticulture, and is responsible for 56% of large animal production (including dairy).

4. Technological change in agriculture is essential to reducing poverty. Fostering development, stimulating economic growth and improving agricultural productivity will help not only the rural poor by directly increasing their income and competitiveness. The State is eager to increase efforts to reverse the decline in agricultural investments and realize employment and productivity gains; as such, it will need to invest in innovative practices and technologies and capitalize on the key linkages with agro-business and small and medium enterprises. Identifying the most promising investments and policy interventions has become a challenging task as the objectives have shifted from increasing outputs and basic services under the previous Rural Poverty Reduction Bank-financed Projects, to transforming agriculture into a more responsive, dynamic and competitive sector, including small producers.

5. Ceara's inclusive growth strategy: The State is placing greater emphasis on #inclusive growth# while maintaining a commitment to further develop its good public sector management practices. The concern for a growth pattern that includes all income strata is not new. What is different is the urgency for achieving greater inclusiveness -- and a nascent realization that without it, sustained growth will not be possible over the long term. Different dimensions of inclusive growth should be emphasized, namely:

- (i) The crucial connection between income inequality and poverty: where growth has been more inclusive, poverty has been more sharply reduced.
- (ii) The value of inclusive growth in the social stability and violence reduction.
- (iii) Greater inclusion as an aid to growth itself: highly unequal countries/states encounter additional constraints to growth compared to more equal ones.

6. Main Challenges Facing Productive Clusters and Public Services in Rural Areas: Low rural productivity and low access to basic services in Ceara are tied to several constraints, among the most important of which are:

- (a) Low technological innovation, in terms of product, process and organization, as well as downside risks of production losses and threats to household food security; and weak market intelligence that hinders a coordinated and targeted supply response;
- (b) Poor access to capital to boost smallholder asset accumulation on several fronts: physical, financial, human, managerial, and social; and
- (c) A disconnection between technical assistance and the needs of the farmers, both for meeting market demands and reducing vulnerability through climate change adaptation.

7. Weather severity and water scarcity/unequal distribution: The Brazilian Northeast experiences chronic water scarcity, with periodic, long and severe droughts that create a number of economic and social problems and hamper the development of the region. Ceara is one of Brazil's driest States, with average annual per capita water availability of 1,150 m³, equivalent to only 4% of the national average. The semi-arid Sertao sub-region represents 87% of the State's territory, with per capita annual water availability ranging from 400 m³ to 800 m³. Ironically, the Sertao has about 98% of the State total available water. Additionally, 23% (30,000 km²) of the Sertao is classified as consolidated areas of

desertification (Nucleos Consolidados de Desertificacao).

8. Particular needs in the area of natural disasters, environment and risk management: Given the State's climatic conditions and variability derived from heavy droughts, desertification risk and floods have caused major human disasters with a massive impact on agriculture and food production. Agriculture will also have to adapt to increasingly variable and unpredictable growing conditions. In recent years several Brazilian States in different regions experienced the heaviest rainfall in their history (Alagoas and Pernambuco, in 2010, and Rio de Janeiro, Parana and Santa Catarina in 2011) causing severe floods.

9. Water supply and sanitation in rural Ceara: The State is comprised of 184 municipalities with 8.4 million inhabitants, 75% of which live in urban areas and 25% (2.1 million inhabitants) in rural areas. In 2009, the potable water supply access in the State reached 91% of the urban population and only 17% of the rural population. In contrast, the basic sanitation services reach 37% of the population in the urban area and only 0.20% in rural areas. In this context, the State's goal to ensure universal access to water services by 2015 is considered to be too ambitious as the amount of investment needed are tremendously higher than what is currently allocated. By the end of the proposed project's interventions, it's expected a percentage coverage increase in rural areas reaching 22.68% for potable water supply and 3.95% for basic sanitation services.

10. The 2010 Census identified the existence of around 27,000 rural communities formed by more than five families, out of which around 2,700 communities are comprised of 50-400 households, totaling 1.4 million inhabitants. The 2008 SNIS had identified 302 rural communities served with potable water supply services, 109 of these operated by CAGECE and 193 served by municipal WSS operators. The Integrated Rural Water Supply and Sanitation System (SISAR) currently operates potable water supply services in 570 rural communities. Combined, these services reach only 872 communities. Other communities are still unidentified and/or have access to potable water supply services that are being operated by stand-alone community associations.

11. Despite the State strong and continuous investments in water infrastructure, access to potable water supply and water for irrigation is still weak. Small-scale farmers, especially in the Sert, face often very harsh and difficult conditions for their livelihoods, which places the food security of farmers' families in constant jeopardy. The impact of this extremely low level of access to water resources is a relatively stunted irrigated area (only 0.3% of the State's total agricultural area) and periodic lack of potable water supply for rural enterprises and households, significantly limiting the growth of commercial food processing and domestic primary processing. The lack of adequate basic sanitation systems is also a constraint to producers' commercial activities, even at the level of the smaller cooperative associations.

II. Sectoral and Institutional Context

12. The State Multi-Year Development Plan [Plano Plurianual 2012-2015 (PPA)] seeks to increase regional and rural development and productivity and builds on the following tenets:

- (a) Regional/territorial approach and integration: Ceara thirteen territories (seven out of them coincide with the Federal Government Territios da Cidadania boundary delimitation) will aid in concentrating and coordinating various Federal- and State-level programs to boost economic and social inclusion;
- (b) Climate-smart responses: The proposed project would stimulate innovations that jointly increase agricultural productivity, increase the efficient use of scarce water, and promote climate change resilience while reducing carbon emissions;
- (c) Innovation: Rural producers must adopt new technologies and access greater commercial intelligence in order to thrive in dynamic markets. This will require fresh learning approaches to stimulate a #rural innovation culture# conducive to competitiveness and capable of connecting education to jobs;
- (d) Technology Strategy: Tapping into global knowledge and technology for dissemination in local economy the State will give priority to establishing a network and mechanisms for facilitating the diffusion and adoption of new technologies and practices among producers and other communities, including: the direct support of innovative projects through provision of technical, financial, and other needs; and (ii) the stimulation of change through demonstration projects.
- (e) Producers# Organizations : Collective action among small-scale producers can reduce asymmetric bargaining power in markets dominated by intermediaries. Previous Bank-financed operations in Ceara have fostered more than 3,500 community associations and cooperatives, mostly composed of small-scale producers that would be targeted under the proposed operation;
- (f) Value chains: Rural producer organizations that participate in value chains can: (i) improve uptake of technological innovation; (ii) expand access to timely commercial intelligence; and (iii) reduce individual risks through risk spreading across value chain actors; and;
- (g) Equity: Equity among value chain partners would be promoted through alliances with private companies that promote #win-win# market solutions.

13. In addressing the State agenda, its PPA (2012-2015) reflects the goals of equitable, inclusive and efficient growth. The proposed project would support priority programs selected from the PPA and from the State Strategic Plan. Investments will be linked to a very well designed strategy, focused on:

- (a) promoting inclusive growth;
- (b) universalizing potable water supply; and
- (c) modernizing and strengthening public institutions.

14. In this regard, the project will mark a shift in approach to rural sustainable development and competitiveness # from a traditional rural demand-driven (CDD) to a more strategic and market-oriented approach.

15. The State of Ceara has adopted a results-based management model to implement integrated actions in the field (Territorial Development). This territorial approach has proved effective in channeling the coordinated planning and implementation of disparate Federal and State programs, with perceived efficiency and effectiveness gains obtained through their joint interaction. Additionally, through a monitoring and evaluation system to accompanying the strategic projects implementation, a high level committee coordinated by the Governor meets monthly to evaluate the status, taking actions once any problem has been identified.

16. As part of this strategy the proposed project would integrate actions in the field across three dimensions:

- (i) Public Policies and Projects
 - a. at the State Government level, between the State Secretariat of Agrarian Development (SDA, EMATECE, ITECE) and the State Secretariats of Planning and Management (SEPLAG), Water Resources and Services (SRH, COGERH, CAGECE, SOHIDRA), Environment (SEMACE), Science and Technology (SECITECE), COPAM, FUNCEME and the State Council for Rural Sustainable Development (CDRS); and three Bank-financed operations # Ceara Inclusive Growth (SWAP II), Water Resources Management (PROGERIRH), Regional Development (Cidades do Ceara) and two trust funds: GEF- Caatinga Conservation and Sustainable Management and the JSDF # Leveling the Playing Field for Quilombola Communities in Northeastern Brazil.
 - b. at the State and Federal Government levels by using the proposed project to break down the barriers between the rural and urban focused projects listed above and to promote the convergence of various State and Federal public policies and respective agencies e.g., Ministry of Agrarian Development (MDA), Ministry of Social Development (MDS), National Foundation for Water and Sanitation (FUNASA); BNB, and Banco do Brasil (financial services).
- (ii) Knowledge, research, innovations and technology institutions: Federal and State Universities; Federal Technical Institute; and Embrapa.
- (iii) Civil Society and Private Sector
 - a. OSCIPs # social organizations that deliver public services # SISAR, Agropolos, CENTEC;
 - b. Participatory Councils at State, Territory and Municipal level; and
 - c. Private companies organizations, such as FIECE, ABRAS and SEBRAE.

17. Under the proposed project, the organizations mentioned above will be linked for the generation, transformation, storage, retrieval, integration, diffusion, and utilization of knowledge and information, with the purpose of working synergistically to support decision-making, technical assistance, problem solving, and innovation.

III. Project Development Objectives

Project Development objective: The proposed project would support the inclusive and sustainable growth objectives of the State#s strategic and investment plans for rural areas, by (i) improving the sustainability of rural production, including irrigation, and rural income generation; and (ii) contributing to the State#s efforts to ensure universal access to water services.

IV. Project Description

Component Name

- 1. Economic inclusion: would finance productive investments through business plans proposed, developed and implemented by participating rural producers organizations
- 2. Water Services: would support the State#s efforts to ensure universal access to potable water and basic sanitation services in rural areas
- 3. Institutional Strengthening: would support training and technical assistance activities to strengthen stakeholders and public functions that are critical to ensure the project sustainability

V. Financing (in USD Million)

For Loans/Credits/Others	Amount
Borrower	50.00
International Bank for Reconstruction and Development	100.00
Total	150.00

VI. Implementation

18. The State of Ceara, through the State Secretariat of Agrarian Development (SDA), would be the Borrower for the proposed loan, with the Federative Republic of Brazil serving as Guarantor. SDA will be responsible for overall management, planning, coordination, monitoring and evaluation of all project activities both at central and regional level, as well as project financial management, procurement, disbursements and accounting. SDA will also be responsible for implementing the social and environmental safeguards instruments, as well as for disseminating project results through a proactive communication strategy. Additionally, SDA will ensure that counterpart resources are foreseen in the State's budget.

19. The Project Management Unit (UGP # Unidade de Gerenciamento do Projeto) will be housed at SDA and will be comprised of: Project Coordinator; Technical Advisor for Planning; Legal Advisor; Socio-environmental Management Advisor; six managers (Procurement Specialist, Financial Administration Specialist, Monitoring and Control Officer, Water Resources Use Manager, Economic Inclusion Manager, and Institutional Strengthening Manager); and technical staff and administrative assistants.

20. To ensure local coordination and integration between institutions and stakeholders, 13 Territorial Project Management Units (UGT) will be established covering all the State's territories, each with three field technicians and two administrative assistants. One of the three technicians will carry out overall coordination of the UGT, reporting directly to the General Coordinator.

21. SDA will partner with several institutions for project implementation through legal agreements to formalize responsibilities regarding project actions, such as EMATERCE, CAGECE, SOHIDRA, CENTEC, SISAR, and IICA. Their roles, as well as the detailed implementation arrangements, are described in Annex 3. SDA may also partner with other institutions to ensure access of supported investments to technology, research results, technical assistance, and information, with e.g., SEBRAE, IFCE, COGERH, Agropolis Institute, Watershed Committees, EMBRAPA, FUNCEME, and CONPAM.

VII. Safeguard Policies (including public consultation)

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

VIII. Contact point

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