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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$ 150.0 MILLION

TO THE

STATE OF BAHIA

WITH THE GUARANTEE OF THE FEDERATIVE REPUBLIC OF BRAZIL

FOR THE

BAHIA SUSTAINABLE RURAL DEVELOPMENT PROJECT

“Projeto de Desenvolvimento Rural Sustentável do Estado da Bahia – PDRS (Bahia Produtiva)”

June 3, 2014

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

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CURRENCY EQUIVALENTS

(Exchange Rate Effective June 3, 2014)

Currency Unit = Brazilian Real (R\$)
R\$2.2654 = US\$1
R\$1.00 = US\$0.4414

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

APP	Permanent Conservation Areas	<i>Áreas de Preservação Permanentes</i>
CAs	Community Associations	<i>Associações Comunitárias</i>
CAR	Bahia State Company for Development and Regional Action	<i>Companhia de Desenvolvimento e Ação Regional</i>
CDD	Community Driven Development	<i>Desenvolvimento Induzido pela Comunidade</i>
CEDETER	State Territorial Development Council	<i>Conselho Estadual de Desenvolvimento Territorial</i>
CODETER	Territorial Development Councils	<i>Colegiados de Desenvolvimento Territorial</i>
CENTRAL	Union of Community Associations for the Maintenance of Water Supply and Sanitation Services	<i>Central de Associações Comunitárias para Manutenção de Sistemas de Abastecimento de Água</i>
CGE	State Auditor General	<i>Controladoria Geral do Estado</i>
CMDS	Sustainable Development Municipal Councils	<i>Conselhos Municipais de Desenvolvimento Sustentável</i>
CONTAG	National Confederation of Agriculture Workers	<i>Confederação Nacional de Trabalhadores na Agricultura</i>
CPS	Country Partnership Strategy	<i>Estratégia de parceria com o País</i>
CSA	Climate Smart Agriculture	<i>Agricultura de Baixo Carbono</i>
CSO	Civil Society Organization	<i>Organização da Sociedade Civil</i>
DA	Designated Account	<i>Conta Designada</i>
DAP	Declaration of Aptitude for PRONAF	<i>Declaração de Aptidão ao PRONAF</i>
DPL	Development Policy Loan	<i>Empréstimo para o Desenvolvimento de Políticas</i>
EBDA/ATER	State of Bahia Company for Agricultural Development	<i>Empresa Baiana de Desenvolvimento Agrícola</i>
EMBASA	State of Bahia Water Supply Company	<i>Empresa Baiana de Água e Saneamento</i>
E-NPV	Economic Net Present Value	<i>Valor Presente Líquido-</i>

		<i>Econômico</i>
ERR	Economic Rate of Return	<i>Taxa de Retorno-Economica</i>
ESMF	Environmental and Social Management Framework	<i>Avaliação de Impacto Ambiental e Social</i>
EX-CAT	Ex-Ante Carbon-Balance Tool	<i>Ferramenta para medir a emissão de Carbono</i>
FIPLAN	Public State Accounting System	<i>Sistema Integrado de Planejamento, Contabilidade e Finanças do Estado da Bahia</i>
FM	Financial Management	<i>Gerenciamento Financeiro</i>
FUNAI	National Foundation of Indigenous Affairs	<i>Fundação Nacional do Índio</i>
FUNASA	Federal Sanitation Agency	<i>Fundação Nacional de Saúde</i>
GAP	Good Agriculture Practices	
GDP	Gross Domestic Product	<i>Produto Interno Bruto</i>
GoBA	Government of Bahia	<i>Governo da Bahia</i>
HOI	Human Opportunity Index	<i>Índice de Desenvolvimento Humano</i>
IBGE	Brazilian Institute of Geography and Statistics	<i>Instituto Brasileiro de Geografia e Estatística</i>
ICT	Information and Communications Technologies	<i>Tecnologias de Informática e Comunicação</i>
IETS	Institute of Research on Labor and Society	<i>Instituto de Estudos do Trabalho e Sociedade</i>
IFAC	International Federation of Accountants	<i>Assembléia da Federação Internacional de Contadores</i>
IFR	Financial Monitoring Report	<i>Relatório de Monitoramento Financeiro</i>
INCRA	National Institute for Colonization and Agrarian Reform	<i>Instituto Nacional de Colonização e Reforma Agrária</i>
INEMA	Institute of Environment and Hydric Resources	<i>Instituto do Meio Ambiente e Recursos Hídricos</i>
IPEA	Institute of Applied Economic Research	<i>Instituto de Pesquisa Econômica Aplicada</i>
IP	Indigenous Peoples	<i>Populações Indígenas</i>
IPF	Investment Project Financing	<i>Investimentos do Projeto</i>
IPPF	Indigenous Peoples Planning Framework	<i>Plano de Participação das Populações Indígenas</i>
IRR	Internal Rate of Return	<i>Taxa Interna de Retorno</i>
IS	Implementation Support	<i>Apoio à Implementação</i>
ISR	Implementation Status Report	<i>Relatório da Situação de Implementação</i>
LDO	Budget Guideline Law	<i>Lei de Diretrizes Orçamentárias</i>
LOA	Annual Budget Law	<i>Lei Orçamentária Anual</i>
MCASP	Accounting Manual Applicable to the Public Sector	<i>Manual de Contabilidade Aplicada ao Setor Público</i>

MDA	Ministry of Agrarian Development	<i>Ministério de Desenvolvimento Agrário</i>
MI	Ministry of National Integration	<i>Ministério da Integração Nacional</i>
MIS	Management Information System	<i>Sistema de Gerenciamento das Informações</i>
M&E	Monitoring and Evaluation	<i>Monitoramento e Avaliação</i>
NBC	Brazilian Accounting Rules	<i>Normas Brasileiras de Contabilidade</i>
NBCASP	National Accounting Standards Applicable to the Public Sector	<i>Normas Brasileiras de Contabilidade Aplicadas ao Setor Público</i>
NGO	Non-governmental Organization	<i>Organização Não Governamental</i>
NPV	Net Present Value	<i>Valor Presente Líquido</i>
NRM	Natural Resource Management	<i>Gerenciamento dos Recursos Naturais</i>
PAA	Food Acquisition Program	<i>Programa de Aquisição de Alimentos</i>
PDO	Project Development Objectives	<i>Objetivos de Desenvolvimento do Projeto</i>
PLANSAB	National Plan for Basic Sanitation	<i>Plano Nacional de Saneamento Básico</i>
PME	Monthly Employment Survey	<i>Pesquisa Mensal de Emprego</i>
PMR	Project Monitoring Reports	<i>Relatórios de Monitoramento do Projeto</i>
PMU	Project Management Unit	<i>Unidade de Gerenciamento do Projeto</i>
PNAD	National Sample Household Survey	<i>Pesquisa Nacional por Amostra de Domicílios</i>
PNAE	National School Feeding Program	<i>Programa Nacional de Alimentação Escolar</i>
PNRA	National Plan for Agrarian Reform	<i>Plano Nacional de Reforma Agrária</i>
POs	Producer Organizations	<i>Organizações de Produtores</i>
POM	Project Operations Manual	<i>Manual Operacional do Projeto</i>
PPA	Multi-year Plan	<i>Plano Plurianual</i>
PPA-P	Multi-year Participatory Investment Plan	<i>Plano Plurianual Participativo</i>
PRONAF	National Program to Strengthen Family Agriculture	<i>Programa Nacional de Fortalecimento da Agricultura Familiar</i>
PSIA	Poverty and Social Impact Analysis	<i>Análise de Impacto Social e da Pobreza</i>
PTDS	Territorial Sustainable Development Plans	<i>Planos de Desenvolvimento Sustentável Territorial</i>
R&D	Research and Development	<i>Pesquisa e Desenvolvimento</i>
RPF	Resettlement Policy Framework	<i>Marco do Planejamento de</i>

SAAE	Autonomous Water and Sewer System	<i>Reassentamento Sistema Autônomo de Água e Esgoto</i>
SACC		
SAI	Supreme Audit Institution	<i>Instituição Suprema de Auditoria</i>
SEAGRI/SUAF	State Secretariat of Agriculture, Livestock, Irrigation, Agrarian Reform and Aquaculture	<i>Secretaria Estadual de Agricultura, Pecuária, Irrigação, Reforma Agrária, Pesca e Aqüicultura</i>
SEBRAE	National Service for Micro and Small Business	<i>Serviço Brasileiro de Apoio às Micro e Pequenas Empresas</i>
SEDIR	State Secretariat of Development and Regional Integration	<i>Secretaria Estadual de Desenvolvimento e Integração Regional</i>
SEDUR	State Secretariat of Urban Development	<i>Secretaria de Desenvolvimento Urbano</i>
SEFAZ	State Secretariat of Finance	<i>Secretaria da Fazenda do Estado da Bahia</i>
SEI	Superintendence of Economic and Social Studies	<i>Superintendência de Estudos Econômicos e Sociais da Bahia</i>
SEINFRA	State Secretariat of Infrastructure	<i>Secretaria de Infraestrutura do Estado da Bahia</i>
SEMA	State Secretariat for the Environment	<i>Secretaria do Meio Ambiente</i>
SENAR	National Service for Rural Apprenticeship	<i>Serviço Nacional de Aprendizagem Rural</i>
SEPLAN	State Secretariat of Planning	<i>Secretaria de Planejamento do Estado da Bahia</i>
SETRE	State Secretariat of Labor, Employment, Income and Sports	<i>Secretaria do Trabalho, Emprego, Renda e Esporte da Bahia</i>
SOE	Statement of Expenditures	<i>Prestação de Contas</i>
SS	Summary Sheets	<i>Folhas Resumo</i>
SWAp	Sector-Wide Approach	<i>Abordagem Multisetorial</i>
TA	Technical Assistance	<i>Assistência Técnica</i>
TCE-BA	State of Bahia Account Court	<i>Tribunal de Contas do Estado da Bahia</i>
TTL	Task Team Leader	<i>Gerente de Projeto</i>
WSS	Water Supply and Sanitation	<i>Abastecimento de Água e Saneamento</i>

Regional Vice President:	Jorge Familiar
Country Director:	Deborah L. Wetzel
Sector Director:	Ede-Jorge Ijjasz-Vasquez
Sector Manager:	Laurent Msellati
Task Team Leader:	Maria de Fatima Amazonas

BRAZIL

BAHIA SUSTAINABLE RURAL DEVELOPMENT PROJECT

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PAD DATA SHEET

Brazil

Bahia Sustainable Rural Development Project (P147167)

PROJECT APPRAISAL DOCUMENT

LATIN AMERICA AND CARIBBEAN

LCSAR

Report No.: PAD919

Basic Information			
Project ID P147157	EA Category B - Partial Assessment	Team Leader Maria de Fatima de Sousa Amazonas	
Lending Instrument	Fragile and/or Capacity Constraints []		
Investment Project Financing	Financial Intermediaries []		
	Series of Projects []		
Project Implementation Start Date 31-Jul-2014	Project Implementation End Date 30-Sep-2020		
Expected Effectiveness Date 31-Jul-2014	Expected Closing Date 31-Mar-2021		
Joint IFC No			
Sector Manager Laurent Msellati	Sector Director Ede Jorge Ijjasz-Vasquez	Country Director Deborah L. Wetzel	Regional Vice President Jorge Familiar
Borrower: The State of Bahia			
Responsible Agency: Companhia de Desenvolvimento e Ação Regional			
Contact:	José Vivaldo Souza de Mendonça Filho	Title:	Director
Telephone No.:	55-71-3115-6703	Email:	vivaldomendonca@car.ba.gov.br
Project Financing Data(in USD Million)			
<input checked="" type="checkbox"/> Loan	<input type="checkbox"/> IDA Grant	<input type="checkbox"/> Guarantee	
<input type="checkbox"/> Credit	<input type="checkbox"/> Grant	<input type="checkbox"/> Other	
Total Project Cost:	260.00	Total Bank	150.00

		Financing:					
Financing Gap:	0.00						
Financing Source		Amount					
Borrower		110.00					
International Bank for Reconstruction and Development		150.00					
Total		260.00					
Expected Disbursements (in USD Million)							
Fiscal Year	2015	2016	2017	2018	2019	2020	2021
Annual	5.00	15.00	20.00	35.00	35.00	30.00	10.00
Cumulative	5.00	20.00	40.00	75.00	110.00	140.00	150.00
Proposed Development Objective(s)							
To increase market integration, net revenues, and food security of organized beneficiaries; as well as to improve access to water supply and sanitation services of households in Project areas.							
Components							
Component Name				Cost (USD Millions)			
Productive Inclusion and Access to Markets				153.00			
Household Water and Sanitation				68.90			
Institutional Development, Technical Assistance and Project Management				34.70			
Institutional Data							
Sector Board							
Agriculture and Rural Development							
Sectors / Climate Change							
Sector (Maximum 5 and total % must equal 100)							
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %			
Agriculture, fishing, and forestry	General agriculture, fishing and forestry sector	40	20	5			
Industry and trade	Agro-industry, marketing, and trade	30	20	80			
Water, sanitation and flood protection	Water supply	20	20	80			

Information and communications	Information technology	10	20	80
Total		100		
<input type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.				
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Rural development	Rural markets	40		
Trade and integration	Technology diffusion	20		
Trade and integration	Trade facilitation and market access	20		
Rural development	Rural policies and institutions	10		
Social dev/gender/inclusion	Gender	10		
Total		100		
Compliance				
Policy				
Does the project depart from the CAS in content or in other significant respects?		Yes []	No [X]	
Does the project require any waivers of Bank policies?		Yes []	No [X]	
Have these been approved by Bank management?		Yes []	No [X]	
Is approval for any policy waiver sought from the Board?		Yes []	No [X]	
Does the project meet the Regional criteria for readiness for implementation?		Yes [X]	No []	
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
Legal Covenants			
Name	Recurrent	Due Date	Frequency
CAR Subsidiary Agreement (Schedule 2, Section I.1.A.1(a))		31-Jul-2014	
Description of Covenant			
The Borrower shall transfer a portion of the proceeds of the Loan to CAR under an agreement (the CAR Subsidiary Agreement) to be entered into between the Borrower and CAR, under terms and conditions approved by the Bank ("CAR Subsidiary Agreement")			
Name	Recurrent	Due Date	Frequency
Project Steering Committee (Comitê de Articulação Técnica)		30-Sep-2014	
Description of Covenant			
The Borrower shall establish, and thereafter maintain during the implementation of the Project, a Project Steering Committee chaired by CAR, and composed by representatives from SEAGRI, SEDUR, SETRE, SEMA and SEDIR, as defined in the Operational Manual, responsible for providing general oversight and guidance on the strategic and multi-sectoral aspects of the Project ("the Steering Committee")			
Name	Recurrent	Due Date	Frequency
Project Territorial Units	X		Continuous
Description of Covenant			
The Borrower shall operate, and thereafter maintain until the completion of the Project, at least eighteen (18) Project Territorial Units under CAR for day-to-day Project implementation at the local level to ensure coordination and integration between local institutions and stakeholders in all 27 State Territories.			
Name	Recurrent	Due Date	Frequency
Annual Operating Plans	X		Yearly
Description of Covenant			
The Borrower shall (a) prepare and furnish to the Bank annual operating plans, detailing the Project activities to be carried out during the year following the date of presentation of each plan, together with the respective sources of funding, by December 31 of each year; (b) furnish to the Bank the approved annual operating plans not later than 30 day after the publication of said plan.			
Name	Recurrent	Due Date	Frequency
Project Management Unit	X		Continuous
Description of Covenant			
The Borrower shall establish, and thereafter maintain until the completion of the Project, a Project Management Unit (PMU) within CAR for project implementation with manager, technicians, experts and necessary staff for project management, coordination, supervision, monitoring and evaluation.			
Name	Recurrent	Due Date	Frequency

Cooperation Agreement		30-Sep-2014	
Description of Covenant			
The Cooperation Agreement to be entered into between CAR and the Cooperating Entity under terms and conditions acceptable to the Bank within sixty (60) days of the Declaration of Effectiveness, setting forth their respective roles and responsibilities regarding the implementation of the Project, for purposes of assisting CAR in the technical aspects of Project implementation.			
Conditions			
Source Of Fund	Name	Type	
IBRD	CAR Subsidiary Agreement	Effectiveness	
Description of Condition			
The Borrower shall transfer a portion of the proceeds of the Loan to CAR under an agreement (the CAR Subsidiary Agreement) to be entered into between the Borrower and CAR, under terms and conditions approved by the Bank ("CAR Subsidiary Agreement").			
Team Composition			
Bank Staff			
Name	Title	Specialization	Unit
Maria de Fatima de Sousa Amazonas	Senior Rural Development Specialist	Senior Rural Development Specialist	LCSAR
Mariana Margarita Montiel	Senior Counsel	Senior Counsel	LEGLE
Alberto Coelho Gomes Costa	Senior Social Development Specialist	Senior Social Development Specialist	LCSSO
Maria Bernadete Ribas Lange	Senior Environmental Specialist	Senior Environmental Specialist	LCSSEN
Eduardo Franca De Souza	Financial Management Specialist	Financial Management Specialist	LCSFM
Luciano Wuerzius	Procurement Specialist	Procurement Specialist	LCSPT
Miguel-Santiago da Silva Oliveira	Senior Finance Officer	Senior Finance Officer	CTRLN
Tatiana Cristina O. de Abreu Souza	Finance Analyst	Finance Analyst	CTRLN
Paula Pedreira de Freitas de Oliveira	Water Resources Spec.	Water Resources Spec.	LCSSEN
Tiago Carneiro Peixoto	Governance Specialist	Governance Specialist	WBIOG
Erick C.M.	Adviser	Adviser	LCSAR

Fernandes					
Diego Arias Carballo	Senior Agriculture Economist	Senior Agriculture Economist			LCSAR
David Tuchsneider	Senior Rural Development Specialist	Senior Rural Development Specialist			LCSAR
Carla Zardo	Program Assistant	Program Assistant			LCC5C
Non Bank Staff					
Name		Title		City	
Stephanie Kuttner		Gender and Social Development		Brasilia	
Luis Dias Pereira		Economist / FAO		Rome	
Mario Castejon		Agr. Economist / FAO		Panama	
Barbara Coello		Nutrition Consultant		Washington	
Karina Bugarin		Monitoring and Evaluation		Brasilia	
Wilson Rocha		WSS Specialist		Paraty	
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Brazil	Estado de Bahia	Salvador		X	Project Management Unit

I. STRATEGIC CONTEXT

A. State Context

1. **The State of Bahia is the largest economy in the Northeast of Brazil and the sixth largest state economy nationwide.** In 2011, Bahia accounted for about 3.9 percent of the national gross domestic product (GDP) ranking as the eighth economy of the country. The State has been experiencing fast-paced growth averaging over 5 percent annually between 2003 and 2010. Nonetheless, preliminary estimates on GDP growth for 2011 indicate a significant contraction¹.

2. **Nonetheless, the State continues to have the largest population of extremely poor in Brazil, and the incidence of poverty is especially high in rural areas.** From 2001 to 2012, the percentage of the population living below the poverty line (less than R\$140/month) has decreased from 45 percent to 25 percent. With 7.5 percent of its population still living with R\$70/month or less, the State continues to have the largest population of extremely poor individuals in Brazil, accounting for 13 percent of all extreme poor in the country. Approximately 20 percent of Brazil's rural poor live in Bahia. About 60 percent of the population in the State receives conditional cash transfers from the Federal *Bolsa Familia* program. Illustrating the vulnerability of a large segment of the State's population, about 47 percent of the State's population was considered food insecure in 2009.

Table 1: Poverty and Human Development Indicators

Indicators	Unit	Brazil	Northeast	Bahia	Urban	Rural
Population (2010)	Million inhabitants	191	53	14	10	4
GDP (2011)	R\$ million	4,143,013	555,325	159,869	-	-
Per capita GDP (2010)	2012 R\$, in thousand	19.77	9.56	11.01	-	-
Gini Index (2010)	-	0.536	0.555	0.550	0.547	0.435
Poverty (2012)	% population	15.94	24.99	25.32	24.74	26.96
Extreme poverty (2012)	% population	4.11	7.24	7.46	6.07	11.38
Food insecurity (2009)	% population	30.2	46.1	47.1		

Source: IBGE (SIDRA, 2010), IPEA (IPEADATA, 2010), IETS (Dados de Pobreza, 2012), MDA (SIT, 2010).

B. Sectoral and Institutional Context

3. **Family agriculture based on small land holding is a basic trait of Bahia's rural economy.** Productivity of small-scale family farming is low. Despite the impact of weather-related events on productivity (including recent severe drought and periodic flooding), family farmers have been slow to adopt new technologies to increase productivity and reduce vulnerability to extreme weather events and, in the longer run, climate change. Access to land is

¹ These are estimated figures using data on share of GDP from IBGE. Bahia accounted for 3.9% of national GDP in 2011, below the 4.1% reported in 2010. Using national GDP at constant prices, Bank staff estimates an annual drop of 3.2% in 2011.

also a concern with many smallholders cultivating plots smaller than the minimum required to achieve commercial viability.² In addition, the availability of rural extension services and financing services is severely limited, and access to markets has been hampered by poor logistics and insufficient scale of production. Although the cooperative sector has been growing in rural Bahia, family farmers are only slowly organizing collectively to improve their productivity and market position within key value chains. Increasing the productivity and market integration of rural producers is a key strategy for reducing poverty in rural Bahia.

4. **Women and youth make important contributions to family farming households, but their work is often unpaid and they are under-represented in producer organizations.** Across Bahia, women fall behind men in their official labor force participation with only 58.5 percent of them in the labor force compared to 82.8 percent of men. Additionally, women are much less likely to be paid for their work than are men, and on average they earn less: 74 cents for every *Real* earned by men. Furthermore, amongst workers within agricultural cooperatives, women are in the minority (37.1 percent) relative to their male counterparts (62.9 percent).³ In Bahia the percentage of families headed by women reached 38.6 percent in 2012.⁴ Although declining in Bahia, poverty among female headed households (13.0 percent) has been higher than among those headed by males (11.0 percent). The share of youth in the overall labor force is slightly higher for Bahia (22.2 percent) as compared to the Brazilian average (20.7 percent). However, many are not finding economic opportunities in rural areas resulting in an out-migration.⁵

5. **While access to basic infrastructure essential to improving living conditions has improved at State level, rural areas remain underserved.** In 2010, only 38.9 percent of rural households were connected to the State water supply network. Not only are the poorest rural people disproportionately affected by lack of access to reliable water resources, but also among Bahia's rural population only about 6.9 percent of people have access to adequate sewage systems.

6. **Increasing the coverage of water supply and sanitation (WSS) services and improving the management of those services in rural areas are priorities of the State Government.** During the same period, the number of households with access to potable water increased from 2.9 to 3.8 million (88 percent of total households). From 2007 to 2011, the "Water for All" program provided access to water to more than three million people in 388 municipalities, both in urban and rural areas and sewage services to more than one million in 238 municipalities. In addition, the Bank-financed Bahia Health and Water SWAp Project⁶ is financing the construction of 200 rural water supply systems and sanitation modules in ten selected municipalities with higher incidence of water-born deceases. However, there is a large unmet demand for the implementation of new water supply systems in rural areas. Beyond investments in WSS infrastructure, the challenge remains finding management models that guarantee the economic and financial sustainability of the water supply systems in rural areas.

² World Bank, *Agricultural Productivity and Family Famers in Brazil: Creating Opportunities and Closing Gaps*, Sustainable Development Department Latin America and the Caribbean Region, 2012.

³ *Estudo Sobre o Perfil Das Cooperativas Baianas*, Observatório do Trabalho da Bahia, Salvador, 2013.

⁴ PNAD, 2012.

⁵ Jatobá, Jorge, PSIA: Bahia Socio-Economic Inclusive Growth, 2012.

⁶ Integrated Health and Water Management Swap Project (P095171)

Although promising models such as the private, not-for-profit Union of Community Associations for the Maintenance of Water Supply and Sanitation Services (CENTRAL) have been developed, their coverage remains limited.

7. **The Project builds upon the results of a decade of Bank-supported community-driven development (CDD) projects in the State of Bahia.** The last of this series of projects⁷ funded over 2,600 subprojects, with the majority investing in water supply and sanitation services and other basic infrastructure. Although the thirty percent of subprojects which supported income generating activities did not have the expected outcomes of increasing incomes or reducing poverty, the Project's impact evaluation demonstrated improved living conditions and resilience to climatic events as a result of infrastructure investments. The evaluation emphasized the need for greater attention to linking producers with markets, identifying opportunities in existing value-chains as a basis for decisions on investments, and ensuring that specific investments are also aligned with territorial development priorities.⁸

8. **The Project will shift its focus from local needs-based productive subprojects to market-driven investments by organized producers.** The Project aims at increasing productivity and market integration based on opportunities identified in productive value chain analysis and territorial development strategies for those segments of small producers' organizations that have the capacity and the skills to move towards greater market integration.

9. **The Project is also designed to address the needs of the poorest through social and environmental subprojects.** The Project also aims at responding to the needs of the poorest, less organized households that are still struggling with food security and do not have the level of organization or the technical/managerial skills to take advantage of new market opportunities. For this segment of the population, the Project will finance investments in subprojects to improve the basic social and environmental conditions of vulnerable communities in order to improve their living conditions and help create capacity for future integration into productive value chains as part of State territorial development plans.

10. **The Project will build on the institutional capacity that has been developed under the previous projects.** The Company of Development and Regional Action (*Companhia de Desenvolvimento e Integração Regional, CAR*), under the State Secretariat of Development and Regional Integration (SEDIR), has gained substantial experience with the implementation of Bank-financed operations and will be the main project implementing agency. CAR will collaborate with and benefit from the expertise of other sector agencies for the implementation of the various Project activities. In addition to the Project Management Unit within CAR, there are currently eighteen (18) Territorial Units under CAR's direction (and it is expected that an additional 9 will be opened by the end of 2015) which will be responsible for day-to-day Project implementation at the local level to ensure coordination and integration between local institutions and stakeholders throughout all twenty-seven (27) State Territories.

⁷ Bahia State Integrated Project: Rural Poverty (Produzir III –P093787)

⁸ University of Campinas, January 30, 2014

C. Higher Level Objectives to which the Project Contributes

11. **The proposed Project’s objectives and strategy are fully in line with the World Bank Group’s twin global goals of poverty reduction and enhancing shared-prosperity as well as with the Brazil Country Partnership Strategy (CPS) 2012-2015.**⁹ By helping small rural producers increase their incomes, by developing their capacity to respond to market-opportunities and integration into productive value chains, the Project will support the first objective of the CPS which focuses on “...boosting growth capacity with job and income generation, especially in Brazil’s poorer regions, with a special emphasis in the Northeast.” By favoring the adoption of Climate Smart Agriculture (CSA) and Good Agriculture Practices (GAP) and technologies by small rural producers, the Project will support the fourth objective of the CPS; that is “to further improve the sustainable management of natural resources and enhance resilience to climatic shocks while maximizing contributions to local economic development, and helping to meet rising global food demand. Finally, by increasing access to water supply and sanitation services, the Project will also support the second objective of the CPS; that is, “to improve the quality of public services for low income households, and expand their provision through public and private channels.”

12. **The Project’s objectives and activities are also in line with several focus areas of the World Bank’s Agriculture Action Plan (FY13-15) including:** (i) raising agricultural productivity (and its resilience); (ii) linking farmers to markets and strengthening value chains to help raise incomes and reduce overall agricultural price volatility; (iii) reducing gender inequality in access to resources and opportunities; (iv) linking improved agriculture to nutrition and food security; (v) reducing risk and vulnerability, and (vi) enhancing environmental services and sustainability.

13. **The GoBA has been aligning its development strategy with the Federal Government’s *Brasil Sem Miséria* Plan for eradicating extreme poverty by promoting productive inclusion and universal access to basic infrastructure.** The GoBA’s multiyear plan (*Plano Plurianual Participativo*, PPA-P) is organized around strategic axes including: (i) social inclusion and affirmation of rights; and (ii) sustainable development and infrastructure for development. The Plan is aligned with productive inclusion programs under the Federal poverty reduction plan (*Brasil Sem Miséria*), the National Program for Agrarian Reform (*Plano Nacional de Reforma Agrária*, led by INCRA), the Federal Rural Sanitation Program (*Plano de Saneamento Rural*, led by FUNASA), and the Federal Water for All Program (*Água Para Todos*). Furthermore, the GoBA’s rural poverty reduction program (*Vida Melhor Rural*) includes the provision of technical assistance to support rural producers, financing and other inputs, and support for commercialization. By focusing on productive inclusion - that is, a more active participation in economic activities - the GoBA aims to reduce dependence on government transfers and offer a pathway out of poverty for the poor. The proposed Project is aligned with and supports those strategic objectives (see Figure 1).

⁹ Report No. 63731-BR discussed by the Executive Directors of the World Bank Group on November 1, 2011.

Figure 1: Alignment of Proposed Project Activities with Federal and State Policies and Programs

Key Policy Objectives	Federal Government Programs	GoBA Programs <i>Plano Plurianual Participativo, PPA-P</i>	Project Activities
Poverty Reduction	<i>Brasil Sem Miséria</i> <ul style="list-style-type: none"> Productive Inclusion Guaranteed minimum income (<i>Bolsa Família</i>) 	<i>Vida Melhor Gente de Valor</i>	Productive Subprojects <ul style="list-style-type: none"> Market-Oriented Social and Environmental
Territorial Development	<i>Territorios da Cidadania</i> National Program for Agrarian Reform National Program for Family Agriculture (e.g. PRONAF)	Reform of State Council for Territorial Development (CEDETER) and of Territorial Development Councils (CODETER)	Technical Assistance for strengthening of CEDETER and CODETER; and for the preparation of Territorial Development Plans (<i>in support of policy actions to be agreed under Bahia DPL II</i>)
Universal Access to Water and Sanitation	<i>Água para todos</i> (Federal Program) Rural Sanitation Program	<i>Água para todos</i> (State Program)	WSS Subprojects

14. **This Project fits within the Bank strategy to support for poverty reduction and shared prosperity in the State of Bahia amongst other program objectives.** The Bank’s program includes a combination of complementary initiatives at sector level with initiatives addressing cross-cutting issues, including gender, territorial development, and the promotion of socio-economic opportunities for Afro-Descendants, Indigenous Peoples (IP) and *quilombolas*¹⁰. At sector level, the Bank has supported the State in its initiatives, *inter alia*, to improve agriculture and rural development, education, health, transport, urban development, increase access to simplified water supply systems and reduce the incidence of waterborne diseases, as well as to support the implementation of other development policy objectives. In total, the Bank has supported six operations in the last decade (with a further totaling four in the pipeline) over US\$ 2 Billion. The World Bank is currently working with the State of Bahia to develop a transport sector project which aims to integrate lagging regions and support territorial development and access to markets. The Bank is also working with the municipality of Salvador to prepare a project supporting improved service delivery for health, education and social assistance, as well as improved integrated urban housing infrastructure and WSS. Finally, a second Development Policy Loan (DPL) is also being prepared to support the GoBA’s efforts to strengthen public sector management and promote inclusive service delivery (see Table 2).

¹⁰ *Quilombolas* are descendants of Afro-Brazilian slaves who escaped from slave plantations and who have historically suffered legal, social and economic discrimination; thus continue to exhibit lower poverty and human development indicators. Recognized communities of *quilombolas* enjoy a particular legal status under Brazilian law.

Table 2: World Bank Portfolio in Bahia

Projects/IBRD Financing	Poverty Reduction & Shared Prosperity Strategy				
	Public Sector Management	Improved Service Delivery	Social Inclusion	Productive Inclusion	Improved Infrastructure
Bahia Sustainable Rural Development (P147157) - US\$ 150 M		X	X	X	X
Integrated Health and Water Management Project – SWAp (P095171) - US\$ 600 M		X			X
Bahia Socio Economic Development for Inclusive Growth – DPL I (P126351) - US\$ 700 M	X		X	X	
Strengthening Public Sector Management and Promoting Inclusive Service Delivery– DPL II (P147272) US\$ 400 M	X	X	X	X	
Bahia State Logistics for Regional Development (P147272) - US\$ 200 M		X		X	X
Bahia State Entrepreneurship and Economic Autonomy among Women and Afro-descendants (P133759) US\$ 165 M			X	X	
Salvador Social Project (P149496) US\$ 400 M		X	X		X

II. PROJECT DEVELOPMENT OBJECTIVES (PDO)

A. PDO

15. The Project Development Objectives are: to increase market integration, net revenues, and food security of organized beneficiaries; as well as to improve access to water supply and sanitation services of households in Project areas.

16. This will be done by supporting the GoBA’s efforts to:

- (a) Promote alignment of supply by rural producers and demand from institutional and private markets.
- (b) Strengthen delivery and quality of technical assistance and training for Project beneficiaries and their organizations;
- (c) Strengthen the capacity of rural producer organizations (POs) to develop and implement business plans, and community associations (CAs) to develop and implement

investment plans, in order to improve financial management, and increase social cohesion of POs and CAs;

- (d) Improve basic infrastructure required to support production and commercialization (e.g. energy, logistics, water for production) and to improve the quality of life (e.g. WSS for improved public health, crop diversification for improved nutrition and food security);
- (e) Promote the social and economic inclusion of women, youth, indigenous and other traditional communities;
- (f) Promote the adoption of sustainable natural resources management practices in agricultural production areas; and
- (g) Improve the resilience of rural households engaged in agricultural activities based on the preparation of an agricultural risk management strategy.

B. Project Beneficiaries

17. Populations expected to benefit from Project activities include family farmers¹¹, informal economy entrepreneurs, families resettled as a result of land reform¹², indigenous¹³ and *quilombola* communities. A total of 56,000 families are expected to benefit directly from the Project.¹⁴ The methodology used to calculate this projection is presented in Annex 2 (Detailed Project Description. Results monitoring (see Annex 1 – Results Framework and Monitoring) will allow for monitoring of numbers of women’s participation and numbers of vulnerable beneficiaries, including Indigenous People, Quilombolas and other traditional communities.

C. PDO Level Results Indicators

18. PDO level results indicators include: (i) increase in the total number of formal contracts integrating beneficiary Producer Organizations (POs) into markets; (ii) increase in real net revenue of beneficiary POs; (iii) increase in average of vulnerable beneficiary household dietary diversity indicator; (iv) number of new piped household water connections that are resulting from the project intervention; and (v) number of people provided with access to improved sanitation facilities under the Project.

¹¹ As defined under the National Policy for Family Agriculture and Rural Family Units, Federal Law No. 11.326 (2006) registered in the DAP (*Declaração de Aptidão ao PRONAF* - National Program to Strengthen Family Agriculture).

¹² All rural workers that are not land owners, those that work individually or in a system of family economy (all members of the family work) fundamental for subsistence, as recognized by INCRA – National Institute of Colonization and Agrarian Reform

¹³ As recognized by FUNAI - National Indigenous Peoples’ Foundation

¹⁴ 45,000 of these families are already receiving technical assistance and extension services from various State & Federal agencies such as EBDA/ATER (Agricultural Extension Services), SEBRAE (National Service for Micro- and Small-Business), and SENAR (National Service for Rural Apprenticeship).

III. PROJECT DESCRIPTION

A. Project Components

19. **Component 1: Productive Inclusion and Access to Markets (US\$ 153.0 million of which US\$ 64.2 million IBRD financing).** This Component will increase productive inclusion and access to markets for family farmers and other disadvantaged populations in the Borrower's territory, through:

- (a) *Subcomponent 1.1* - the provision of support to POs and CAs, as the case may be, for (i) the carrying out of Market-Oriented Subprojects including the preparation and implementation of Business Plans; and (ii) the carrying out of Social and Environmental Subprojects including the preparation and implementation of Investment Plans;
- (b) *Subcomponent 1.2* - the provision of support to CAR for the implementation of activities to manage agricultural risks as assessed in the planned Agricultural Risk Analysis; and
- (c) *Subcomponent 1.3* - the provision of support to CAR for the construction of warehouses and other logistic infrastructure to support market access by POs and CAs.

20. Business Plans for Market-oriented Subprojects under Subcomponent 1.1 will include a range of investments such as: technical assistance and capacity building; working capital; productive inputs; innovation technologies for NRM, CSA, GAP and ICT s; and supporting infrastructure; equipment for value-added processing; packing and storage facilities; and distribution networks.

21. Investment Plans for Social and Environmental Subprojects under Subcomponent 1.1 will finance technical assistance and capacity building and investments for: food security; diversification of income sources through fair trade and economic solidarity initiatives; improved natural resources management in agricultural production areas, and recovery of degraded areas; amongst other initiatives with social and environmental focus.

22. **Component 2: Household Water and Sanitation (US\$ 68.9 million of which US\$ 56.2 million IBRD financing).** This component will support the Borrower's efforts to improve sanitation conditions and access to water supply services in areas where a pre-established adequate management system is present and sufficient hydrological resources have been identified, through the provision of support to: (a) CAR, for the carrying out of WSS Subprojects; and (b) CENTRAL and SAAE for strengthening their capacity to manage additional water supply systems.

23. **Component 3: Institutional Development, Technical Assistance and Project Management (US\$ 34.7 million of which US\$ 26.2 million IBRD financing).** This Component will include the following Subcomponents:

- (a) *Subcomponent 3.1* will support the provision of technical assistance for the carrying out of the necessary research and diagnostics in the areas of, *inter alia*: integration of value chain activities and market access, vulnerable population participation and potential social and environmental impacts interventions;
- (b) *Subcomponent 3.2* will support the carrying out of capacity building activities for CAR’s technical staff, POs, and agencies participating in the Project;
- (c) *Subcomponent 3.3* will provide support for the design and implementation of dissemination activities of the Project’s processes and results, the mobilization of local communities and the carrying out of a beneficiary assessment of the Project;
- (d) *Subcomponent 3.4* will provide support to CAR for the strengthening of its technical and administrative management capacity to ensure effective Project management; and
- (e) *Subcomponent 3.5* will provide support for the development of policy actions to be agreed under the proposed DPL “Strengthening Public Sector Management and Promoting Inclusive Service Delivery (P147272)”, related to territorial governance stakeholders (i.e. CEDETER, CODETER) and instruments (i.e. Territorial Development Plans).

B. Project Financing

24. The Borrower has chosen to seek an Investment Project Financing (IPF) loan in the amount of US\$ 150 million to be disbursed over a period of six years. Up to US\$ 30 million retroactive financing will be available for eligible expenditures under Categories (1) and (2) as per Bank guidelines for payments made prior to the Signing Date but on or after March 21, 2014, but in no case more than one year prior to the date of the Loan Agreement. Eligibility Criteria and Financing Parameters are presented by Component and type of Subproject in Annex 2.

Table 3: Project Cost and Financing (US\$ million)

Project Components	Project Cost (US\$)	GoBA	POs & CAs (beneficiaries)	IBRD Financing	
				(US\$)	%
1. Productive Inclusion and Access to Markets	153.0	78.1	10.7	64.2	42.0%
2. Household Water and Sanitation	68.9	12.7	-	56.2	82.0%
3. Institutional Development, Technical Assistance and Project Management	34.7	8.5	-	26.2	75.5%
Total Baseline Costs	256.6	99.3	10.7	146.6	57.1%
Physical and financial contingencies	3.0	-	-	3.0	100%
Total Project Costs	259.6	99.3	10.7	149.6	57.6%
Front-end Fees	0.4	-	-	0.4	100%
Total Financing Required	260.0	99.3	10.7	150.0	57.7%

C. Lessons Learned and Reflected in the Project

25. The proposed Project will benefit from lessons learned with previous and ongoing Bank-supported Projects implemented in Bahia and other states in the Northeast Region of Brazil.¹⁵ In earlier generations of CDD operations, subproject proposals were submitted by Community Associations and investment decisions were made based on their basic needs, such as water, electricity, and not necessarily linked to a rural development strategy. As a result, most investments were small scale investments in basic community infrastructure. The few productive subprojects undertaken were often insufficiently linked to markets (therefore affected by diseconomies of scale and lack of organizational and business development capacity), and did not undergo robust financial or other feasibility analysis.

26. The following lessons have been incorporated into Project design:

- (a) **Market orientation and producer integration into value chains.** Verifiable market opportunities must underpin support for poor rural producers. Effective mechanisms to achieve this include: (i) focusing on existing and new markets and value chains as part of the eligibility criteria for subprojects; and (ii) carefully analyzing areas where the public sector can play a catalytic role, based on current and future market conditions.
- (b) **Competitiveness clusters, shared risk and benefits.** To ensure success, the following factors must be considered: (i) creating extensive partnerships among players—under a common territorial development strategy—for value-chain projects; (ii) focusing on markets with high growth potential; (iii) reaching sufficient critical mass to acquire and develop state-level (or national) visibility; and (iv) providing a way for the different actors of a value chain to share both the production risks and associated revenues through productive alliances.
- (c) **Regional/territorial approach.** In order to aid integration of various Federal and State-level programs supporting economic and social inclusion, it is important to coordinate interventions at the territorial level.
- (d) **Linking agriculture with nutrition, food security and poverty reduction.** Incentives to enhance the impacts of agriculture-sector interventions on nutrition and food security of poor family farmers can be integrated into project design, through subproject selection criteria that allow for the reduction in beneficiary counterpart contributions in proportion to increased environmental recovery or food security impacts.
- (e) **Technology and innovation strategy, and climate-smart responses:** It is important to help rural producers adopt new technologies and access commercial intelligence in order to respond to market changes, as well as increase agricultural productivity through the efficient use of scarce water, adaptation to climate change and increased resilience, while reducing carbon emissions.

¹⁵ Rio Grande do Norte (P1263452), Ceará (P121167), Pernambuco (P120139), Paraíba (P104752).

- (f) **Management of Water Supply and Sanitation Services.** Recent WSS projects and studies have shown the importance of a demand-driven approach to guarantee ownership of investments in WSS systems, and of ensuring the provision of professional expertise to operate and maintain these systems as a means to enable sustainability.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

27. The State of Bahia will be the Borrower for the proposed loan, with the Federative Republic of Brazil serving as Guarantor. The PMU will be responsible for Project management and implementation and will be housed within the Bahia State Company for Development and Regional Action (*Companhia de Desenvolvimento e Ação Regional – CAR*) which is an autonomous public company linked to the State Secretariat of Development and Regional Integration (*Secretaria Estadual de Desenvolvimento e Integração Regional – SEDIR*). CAR has successfully implemented previous Bank-financed rural poverty reduction projects in Bahia and complied with all safeguard and fiduciary requirements.¹⁶ CAR will be responsible for day-to-day project implementation and management, including planning, coordination, monitoring and evaluation of all project activities (e.g. subprojects technical analysis/approval, procurement planning, financial monitoring and reporting, disbursement and internal controls, maintenance of project accounts and preparation of project management reports), implementation of the social and environmental safeguards instruments, and dissemination of project results through a proactive communication strategy. CAR will also be responsible for ensuring that counterpart resources are foreseen in the State's budget.

28. In addition to the Project Management Unit, the Territorial Units (at least 18 in total) of CAR will be responsible for day-to-day project implementation at the local level, and for ensuring local coordination and integration between institutions and stakeholders. Annex 3 (Implementation Arrangements) contains a detailed description of composition of the PMU and Territorial Unit staffing.

29. With regard to Component 1, the identification, preparation and execution of subprojects will be the responsibility of POs and CAs.

30. With regard to Component 2, the preparation and execution of WSS systems will be the direct responsibility of CAR in partnership with SEDUR. However, the operation and maintenance of the WSS systems will be provided by CENTRAL and/or SAAE (depending on which is selected by beneficiary communities) and their services will be paid directly by CAs (as per the details of the relevant service contracts - to which voluntary adherence by the CA is a prerequisite for WSS investment under the Project).

31. A Project Steering Committee chaired by CAR, and composed by representatives from SEAGRI, SEDUR, SEDIR, SETRE and SEMA as defined in the POM, will be responsible for

¹⁶ Produzir I (Loan 4623-BR), II (Loan 7327-BR), and III (Loan 7732-BR).

providing general oversight and guidance on the strategic and multisectoral aspects of the Project.

32. For purposes of assisting in the carrying out of Components 1, 2 and 3 of the Project, CAR shall enter into a Cooperation Agreement with a Cooperating Entity which will set forth their respective roles and responsibilities regarding the implementation of the Project, as described in Annex 3.

B. Results Monitoring and Evaluation

33. The proposed Project will be monitored and evaluated through the existing Management Information System (MIS) and databases developed by CAR in the context of previous Bank-supported operations, with updated interfaces and increased data availability. The system will feature technological tools, in light of previous ICT Bank initiatives, that will allow for systematic collection of data by beneficiaries and technicians for continuous FM and results monitoring. The MIS will serve as an instrument for improving the performance of Project implementation through the timely identification of problems and corrective measures to be taken.

34. All baseline data for impact evaluation will be collected during the first semester of year one of Project implementation, prior to the initiation of subproject activities. Evaluation will be based on periodic annual reports prepared by the PMU in order to keep track of unanticipated problems, in addition to previously identified risks, so that these can be appropriately addressed. Gender analysis will also be an integral part of the monitoring and evaluation of the project progress and impacts. Furthermore, an impact evaluation for both Components (1 and 2) will be carried out. These monitoring and evaluation indicators and arrangements are further detailed in Annexes 1 and 3.

C. Sustainability

35. The Borrower has demonstrated commitment to the PDO and has confirmed the necessary fiscal space for project implementation. Consultations have been conducted across an array of stakeholders to both inform and verify key elements of project design and safeguards (see Section VI. Appraisal Summary, Sub-sections E. and F.).

36. The design of Component 1 integrates the lessons learned about investments in productive subprojects under previous Bank-financed operations. To ensure the inclusiveness of Project activities, two types of subprojects will be considered, with the first one (Market-Oriented Subprojects) expected to benefit those producers who are already organized, while the second one (Social and Environmental Subprojects) expected to benefit producers and rural households who have not yet reached the same level of market-orientation. Market-Oriented Subprojects will be implemented by established POs and Social and Environmental Subprojects will be implemented by established POs and/or CAs. Technical assistance and training to strengthen the capacity of beneficiary organizations and associations will be provided in the early stages of Project implementation and throughout the subproject implementation cycle, focusing on financial management, business practices and innovative practices to enhance the

sustainability of subproject investments. With regards to Market-Oriented Subprojects, selection decisions will take into consideration the analysis carried out on market opportunities for the priority value-chains identified under the Project. Specific consideration will also be given to consistency with Territorial Development Plans. The roster of technical service providers (both public and private) established by CAR will ensure quality of design and execution of business plans and investment plans. Finally, for Market-Oriented subprojects, an *ex-ante* economic and financial analysis will be carried out systematically to assess the viability of the proposed investments. It is expected that, as a result of technical assistance and training provided under the Project, POs will gain greater access to credit available through various commercial and non-commercial sources. Additionally, the Project will provide incentives for subproject proposals involving a clearly identified buyer (manifestation of intent to purchase of PO produced goods) as a means to reduce the transaction costs between poor rural producers and private-sector intermediaries, and of reducing risks for both producers and buyers.

37. With regards to environmental sustainability, Component 1 will provide incentives for the adoption of good agricultural practices, including CSA practices, improved natural resources management, and the recovery of environmental services (the latter a potential additional source of income). Furthermore, during the first year of Project implementation, an assessment of the carbon-balance of Project activities will be carried out using the *ex-ante* Carbon Balance Tool (EX-ACT) in order to guide Project investments. Finally, the planned Agriculture Risk Analysis will provide recommendations to reduce the vulnerability of the State's agricultural sector, some of which will be implemented under the proposed Project.

38. Component 2 builds on previous successful experience in Bahia with local-level implementation of small-scale infrastructure investments, mainly in rural potable water supply and basic sanitation services. Past experience reinforces the importance of up-front investments by the Project to strengthen local management capacity and to ensure that user fees are in place for such services (e.g., water systems maintenance and cleaning of septic tanks) to cover operation and maintenance expenditures. Furthermore, formal contracts between beneficiaries and WSS services management, as well as community capacity building regarding these systems will be critical for the sustainability of the WSS systems developed under the Project.

39. With regards to social aspects, the sustainability of Project outcomes will be strengthened through the Project's adoption of participatory processes at every level of Project implementation. Project investment selection criteria include compliance with existing relevant federal, state, territorial and municipal development plans. In particular, the Territorial Sustainable Development Plans (*Planos Territoriais de Desenvolvimento Sustentável*, PTDS) are the tools that empower local stakeholders through their representative territorial councils and other representative bodies. Similarly, at the municipal level, the Municipal Councils for Sustainable Development (CMDS) will ensure stakeholder representation in Project investment decisions. Finally, the proposed Project emphasizes the strengthening of producers' organizations and community associations to effectively access Project and government or private sources of finance, and enhance their managerial capacity. The proposed Project also aims at ensuring that women, youth, indigenous peoples and other vulnerable rural groups can benefit from increased agricultural and nonagricultural income generating opportunities, as well as from WSS investments.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary Table

Risk Category	Rating
Stakeholder Risk	Moderate
Implementing Agency Risk	
- Capacity	Moderate
- Governance	Moderate
Project Risk	
- Design	Moderate
- Social and Environmental	Moderate
- Program and Donor	Low
- Delivery Monitoring and Sustainability	Moderate
Overall Implementation Risk	Moderate

B. Overall Risk Rating Explanation

40. The overall risk is considered Moderate given the experience of implementation of Bank-financed projects of the Project's main management and implementing agency (CAR). The most significant challenges will be to: (i) ensure adequate institutional arrangements and staff; (ii) make suitable allocation of financing, partnerships and collaboration of other agencies and stakeholders (iii) prepare the baseline study, value-chains and market analysis for productive investments, procurement packaging, and (iv) ensure that technical capacity to support the Project's market-orientation subprojects, with expertise in commercialization will be strengthened and operational; and (v) correctly identify the capacity building needs of beneficiary organizations and means to deliver appropriate technical assistance and training for organizational strengthening.

41. The proposed Project embodies a significant shift away from previous demand-driven CDD approaches to productive investments (based on needs) towards a market-opportunity oriented based on value chains for competitive selection process. There is a risk related to the cultural and institutional shift required for successful project implementation. In particular, the implementing agency has not had strong private sector links or capacity for market analysis. CAR will therefore benefit from technical assistance and capacity-building in these areas during Project implementation. As well, rural communities have worked within the CDD model of previous Bank-finance projects for several years and thus are used to presenting proposals based on needs rather than market opportunities. POs and CAs will therefore require significant capacity building and technical assistance for business development, commercial practices and financial management in addition to strengthening of basic organizational capacity. This will entail a large investment in the provision of continuous coaching by the public and private service providers contracted under the Project.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analyses

42. The Project will support investments which are oriented to concrete market opportunities and conditions to be identified during implementation on a strategic basis throughout the areas of intervention, with the active participation of producer's organizations and other local stakeholders. Hence, there is no sole representative case for each of the subproject types of investments. Furthermore, the description of the expected mix of subproject types within a productive chain, and of the frequency of subproject types that will be financed within each productive chain, is based on reasonable *ex ante* assumptions. Similarly in the case of water access and sanitation subproject types, the demand driven nature of the subproject identification process, and the location-specific investment needs, does not allow for precise definition of the scope and mix of likely subproject types.

43. The economic and financial analysis undertaken was based on models built for likely types of subprojects to be financed. They were constructed using available information from similar subprojects implemented or under implementation by CAR, complemented by expert advice and secondary data collected during the Bank pre-appraisal mission. Investments in subprojects under Component 1 will be financially and economically viable with estimated values, respectively for oilseeds, aquaculture, sheet and goat farming, and solid waste recycling, of: (i) IRRs: 79percent, 23 percent 25 percent and 20 percent; and (ii) NPVs (in thousand): R\$ 1,086, R\$ 397, R\$ 365, and R\$ 602. The Project is expected to benefit approximately 39,000 families with a total investment of US\$ 153 million under Component 1. Analysis of proposed investments in water supply and sanitation systems under Component 2 also confirms their economic viability, with estimated IRR of 39 percent and an NPV of R\$ 5.565 per family (based on an investment cost of R\$3,492 per family). The Project is expected to benefit 17,200 households with a total investment of R\$ 68.8 million under Component 2. These results are robust when subjected to a sensitivity analysis. More information on the methodology and results of the analysis are presented in Annex 6 (Economic and Financial Analysis).

B. Technical

44. The proposed Project design, which builds extensively on lessons learned from previous Bank-financed operations in the Northeast of Brazil, is deemed technically sound and supports the State's efforts to promote poverty reduction and inclusive growth. Productive inclusion of small producers will be achieved by means of project actions to promote their economic development through market inclusion, by adding value to, and increasing the scale of, rural production and other non-agricultural sources of incomes. Section IV. C. (Sustainability) presents the specific technical design choices that have been made to ensure the technical soundness of the Project design and sustainability of project outcomes.

45. The proposed Project will contribute to the State's efforts to ensure increased access to potable water and basic sanitation in rural areas by financing the expansion of potable water supply infrastructure and basic sanitation services to rural communities. The State's long-term experience with the management of rural potable water supply services (including through

innovative institutions such as CENTRAL) will be adopted by the proposed Project. In addition, the Project design includes technical support and capacity building for CENTRAL and SAAE.

C. Financial Management

46. Financial management (FM) assessments for the proposed Project were conducted in December 2013 and March 2014, to determine whether the main implementing agency, CAR, has acceptable FM and disbursement arrangements in place to adequately control, manage, account for and report on the use of project funds.

47. The proposed FM systems are based largely on those established under previous Bank-financed projects whose performance has been overall satisfactory during project implementation. These have been primarily Community Driven Development (CDD) projects in which FM arrangements place emphasis on participatory governance controls. This approach takes into account local culture, norms and lower institutional capacity, and emphasizes simple procedures, with a high degree of transparency and accountability, and decision making and management responsibilities delegated to communities. Bank rules and guidelines apply to CDD projects in the same way they do for any other project; however, their application is scaled to the project and the community's capacity. Although the FM arrangements set out at the Implementing Agency level (CAR) can be considered adequate, they are not fully extended to the PO and CA level. External audit reports of previous projects have highlighted the necessity of enhancing the controls and reporting of subprojects. Thus, there is an inherent risk of insufficient appropriately skilled resources and processes to adequately design and implement FM at the subproject level. Therefore, FM Technical Assistance activities are integrated within Component 3 of the Project to support the development of specific FM processes at the subproject level to mitigate these risks. These activities will be designed within the first 12 months of Project effectiveness and continued throughout the Project implementation.

48. Based on this assessment, the overall FM arrangements as set out for this Project are assessed as Satisfactory. FM-related capacity building measures are included in Component 3.

D. Procurement

49. Procurement assessments for the proposed project were conducted in October 2013 and March 2014. It verified that despite the CAR staff's long experience with Bank-financed operations, the introduction of more transparent community participation procedures for the productive subprojects, of larger infrastructure packages, and of an enhanced technical assistance component will challenge the CAR staff's procurement capacity. To strengthen this capacity, CAR will deploy an intensive internal and external (for subproject beneficiaries) capacity building program, hire *ad hoc* procurement consultants for centralized procurement, and technical experts to make sure the projects have sound business plans that guide the correct choice of procurement methods and include criteria to verify economy, efficiency and transparency. Annual audits of subproject implementation performance and annual procurement compliance audits will help address identified weaknesses. The initial implementation phases will require closer and much more intense supervision by the Bank.

E. Social (including Safeguards)

50. The proposed Project will be implemented across the State's 27 rural territories and will target family farmers who are overrepresented among the poor population in the State. The later include *quilombolas*, indigenous groups, and artisanal fishermen, among other traditional groups, who collectively number approximately 56,200 families. The Project also aims at ensuring that women, youth, indigenous peoples, and other vulnerable groups can benefit from increased agricultural and non-agricultural income opportunities, as well as from WSS investments.

51. Indigenous peoples, *quilombola* communities and other traditional communities are overrepresented among the poor rural population in the state of Bahia. According to FUNAI (the Brazilian Agency of Indigenous Affairs) there are 16 Indigenous Peoples in the state of Bahia. They account for 16,817 people, living in 31 indigenous lands, which comprise 113 local communities. Nearly 56 percent of them live with monthly per capita income up to one quarter of the Brazilian minimum wage and 80 percent earn up to half of the minimum wage. There are also 468 *quilombola* communities and 507 communities (11,431 families) in which the system of "fundo de pasto"¹⁷ prevails. Poor soils in drought prone areas and low technology productive practices compromise their livelihood. Perennial water shortage reduces quality of life in indigenous and traditional communities at the North-Northwest portions of the state and land conflicts prevail in some areas at the southern coastal region.

52. **The following safeguards have been triggered: OP/BP 4.10 (Indigenous Peoples), and OP/BP 4.12 (Involuntary Resettlement).** As the exact type, nature and location of subprojects to be financed will not be known prior to Project appraisal, an Indigenous Peoples Planning Framework (IPPF) and a Resettlement Policy Framework (RPF) have been prepared and submitted to public consultations. The IPPF will draw on lessons from previous operations implemented by CAR, which have set participatory processes of consultation and planning and have benefited indigenous communities (3,337 families from 23 indigenous lands). The IPPF and RPF were disclosed on CAR's website¹⁸ prior to public consultations held on March 19, 2014, in order to ensure prior, free and informed consent. A revised version was approved by the Bank and disclosed on its website on April 8, 2014.

F. Environment (including Safeguards)

53. Overall, the Components that comprise the proposed Project are expected to contribute to sustainable and inclusive rural development, generating positive impacts on the environment. The Project will also support a solid waste recycling chain based on a feasibility analysis and business plan development. Solid waste recycling initiatives offer opportunities to reduce the environmental footprint of the proposed Project.

¹⁷ The "fundo de pasto" system prevails among traditional pastoralist communities who collectively and use large areas of free land for breeding animals as well as extractive activities.

¹⁸ <http://www.car.ba.gov.br/>

54. Based on the assessment of potential environmental impacts under the proposed Project, it is designated as **Environmental Category B** and the following safeguards are triggered: Environmental Assessment (OP/BP 4.01), Forests (OP/BP 4.36), Natural Habitats (OP/BP 4.04), and Pest Management (OP 4.09) and Physical Cultural Resources (OP/BP 4.11). Additionally, as a precautionary measure, the Safety of Dams (OP/BP 4.37) policy is triggered as the Project may finance small dams, including farm ponds, local silt retention dams, and low embankment tanks under Component 1.

55. As the exact type and nature of infrastructure and productive subprojects (market-oriented as well as social and environmental) would not be known ex ante (i.e., prior to Project implementation has been initiated), the Borrower has prepared an Environmental and Social Management Framework (ESMF).

56. The ESMF assesses the most common types of intervention expected and proposes a priori mitigation measures. The ESMF also excludes activities that require commercial forest harvesting, wood extraction or firewood use in the production chain. Activities resulting in deforestation and loss of native vegetation cover will not be allowed.

57. The ESMF provides guidance on: (i) identifying the potential social, environmental and distributive impacts associated with the typology of subproject investments; (ii) minimizing potential impacts for productive and infrastructure subprojects; (iii) specifying procedures to be used in assessing environmental and social impacts during the subproject design stage; and (iv) addressing identified impacts during subproject implementation. Additionally, the subprojects selection procedures will be consistent with (i) the national, state and local legislation concerning Brazilian Forest Code, natural habitats and protected areas (Law 12.651/12; SNUC - Law 9985/00, Decree 4340/02 and Decree 5758/06); (ii) Law 12.334/2010; and (iii) World Bank safeguards policies. The ESMF also includes the World Bank provisions related to social and environmental safeguard policies supervision.

58. The EMSF was disclosed on CAR's website¹⁹ prior to public consultations held on March 19, 2014. A revised version was approved by the Bank and disclosed on its website on April 8, 2014.

¹⁹ <http://www.car.ba.gov.br/>

Annex 1: Results Framework and Monitoring

BRAZIL

BAHIA SUSTAINABLE RURAL DEVELOPMENT PROJECT (P147157)

Results Framework

Project Development Objectives

PDO Statement

To increase market integration, net revenues, and food security of organized beneficiaries; as well as to improve access to water supply and sanitation services of households in Project areas.

These results are at | Project Level

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	End Target			
Increase in the total number of formal contracts integrating beneficiary Producer Organizations (POs) into markets	<input type="checkbox"/>	Number	0.00	0.00	150.00	300.00	400.00	600.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Female participation	<input type="checkbox"/>	Number Sub-Type Breakdown	0.00	0.00	45.00	90.00	120.00	180.00			

Increase in the real net revenue of beneficiary Rural Producer Organizations (POs)	<input type="checkbox"/>	Percentage	0.00	0.00	2.00	4.00	6.00	10.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Female beneficiaries	<input type="checkbox"/>	Percentage Sub-Type Breakdown	0.00	0.00	0.30	0.30	0.30	0.30	Annual	SACC, Entry Profile/ Baseline, Annual Report;	Project Management Unit
Increase in average vulnerable beneficiary household dietary diversity indicator	<input type="checkbox"/>	Percentage	0.00	0.00	3.00	5.00	10.00	30.00	Annual	SACC, Entry Profile/ Baseline, Annual Report; IBGE (cesta basica)	Project Management Unit
Female beneficiaries	<input type="checkbox"/>	Percentage Sub-Type Breakdown	0.00	0.00	0.30	0.30	0.30	0.30	Annual	SACC, Entry Profile/ Baseline, Annual Report; IBGE (cesta basica)	Project Management Unit
New piped household water connections that are resulting from the project intervention	<input checked="" type="checkbox"/>	Number	0.00	0.00	50.00	100.00	150.00	350.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Female beneficiaries	<input type="checkbox"/>	Percentage Sub-Type Supplemental	0.00	0.00	15.00	30.00	45.00	30.00	Annual	SACC, Entry Profile/ Baseline, Annual	Project Management Unit

										Report	
People provided with access to "improved sanitation facilities" under the project.	<input checked="" type="checkbox"/>	Number	0.00	0.00	2000.00	5000.00	10000.00	17000.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
People provided with access to "improved sanitation facilities"- rural	<input checked="" type="checkbox"/>	Number Sub-Type Breakdown	0.00	0.00	2000.00	5000.00	10000.00	17000.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Female-led households	<input type="checkbox"/>	Number Sub-Type Breakdown	0.00	0.00	600.00	1500.00	3000.00	5100.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	End Target			
Direct project beneficiaries	<input checked="" type="checkbox"/>	Number	0.00	0.00	10000.00	25000.00	35000.00	56.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Female beneficiaries	<input checked="" type="checkbox"/>	Percentage Sub-Type Supplemental	0.00	0.00	3000.00	7500.00	10500.00	30.00			
Share of	<input type="checkbox"/>	Percentage	0.00	0.00	4.00	8.00	12.00	20.00	Annual	SACC, Entry	Project

vulnerable and marginalized people of the total project beneficiaries										Profile/ Baseline, Annual Report,	Management Unit
Number of business plans & investment plans implemented by POs and CAs	<input type="checkbox"/>	Number	0.00	0.00	125.00	250.00	410.00	750.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Female-led POs and CAs	<input type="checkbox"/>	Number Sub-Type Breakdown	0.00	0.00	37.00	75.00	123.00	225.00	Annual	SACC, Entry Profile/Baseli ne, Annual Report	Project Management Unit
Increase in the yearly volume of sales through contracts from beneficiary Producer Organizations (POs)	<input type="checkbox"/>	Percentage	0.00	0.00	2.00	5.00	10.00	20.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Number of social and environmental subprojects implemented by Community Associations (CAs)	<input type="checkbox"/>	Number	0.00	0.00	10.00	30.00	60.00	650.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Clients who have adopted an improved	<input checked="" type="checkbox"/>	Number	0.00	0.00	50.00	150.00	300.00	550.00	Annual	SACC, Entry Profile/ Baseline,	Project Management Unit

agricultural. technology promoted by the project										Annual Report	
Clients who adopted an improved agricultural. technology promoted by project – female	<input checked="" type="checkbox"/>	Number Sub-Type Breakdown	0.00	0.00	15.00	45.00	90.00	165.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Producer Organizations (POs) and Community Associations (CAs) implementing financial management instruments in subprojects	<input type="checkbox"/>	Number	0.00	0.00	125.00	250.00	410.00	750.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Female-led POs and CAs	<input type="checkbox"/>	Number Sub-Type Breakdown	0.00	0.00	37.00	75.00	123.00	225.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Basic WSS investments implemented and sustainably operated	<input type="checkbox"/>	Number	0.00	0.00	20.00	50.00	100.00	170.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
People trained to improve	<input checked="" type="checkbox"/>	Number	0.00	1000.00	2000.00	5000.00	10000.00	17.00	Annual	SACC, Entry Profile/	Project Management

hygiene behavior/sanitation practices under the project										Baseline, Annual Report	Unit
People trained to improve hygiene behavior/sanitation practices - female	<input checked="" type="checkbox"/>	Number Sub-Type Breakdown	0.00	300.00	600.00	1500.00	3000.00	2.50	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Number of people benefitting from capacity building on management of water supply and sanitation systems	<input type="checkbox"/>	Number	0.00	10.00	40.00	100.00	200.00	340.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Female-led households	<input type="checkbox"/>	Number Sub-Type Breakdown	0.00	3.00	12.00	30.00	60.00	102.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Targeted clients satisfied with agricultural services (percentage)	<input checked="" type="checkbox"/>	Percentage	0.00	50.00	60.00	70.00	80.00	80.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Targeted clients satisfied with agricultural services - male	<input checked="" type="checkbox"/>	Number Sub-Type Supplemental	0.00	1000.00	1200.00	1400.00	1600.00	2400.00	Annual	SACC, Entry Profile/ Baseline, Annual	Project Management Unit

(number)										Report	
Targeted clients satisfied with agricultural services - female (number)	<input checked="" type="checkbox"/>	Number Sub-Type Supplemental	0.00	3000.00	3600.00	4200.00	4800.00	1200.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Targeted clients-male (number)	<input checked="" type="checkbox"/>	Number Sub-Type Supplemental	0.00	1500.00	1800.00	2100.00	2400.00	3000.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Targeted clients – female (number)	<input checked="" type="checkbox"/>	Number Sub-Type Supplemental	0.00	750.00	900.00	1050.00	1200.00	1500.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Number of government staff and strategic partners trained in accordance with the Project Capacity Building Plan	<input type="checkbox"/>	Number	0.00	108.00	216.00	324.00	432.00	540.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Female inclusion	<input type="checkbox"/>	Number Sub-Type Breakdown	0.00	32.00	65.00	97.00	130.00	162.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit
Client days of training provided	<input checked="" type="checkbox"/>	Number	0.00	50.00	100.00	200.00	300.00	500.00	Annual	SACC, Entry Profile/ Baseline,	Project Management Unit

(number)										Annual Report	
Client days of training provided - Female (number)	<input checked="" type="checkbox"/>	Number Sub-Type Breakdown	0.00	50.00	100.00	200.00	300.00	500.00	Annual	SACC, Entry Profile/ Baseline, Annual Report	Project Management Unit

Annex 1: Results Framework and Monitoring

BRAZIL

BAHIA SUSTAINABLE RURAL DEVELOPMENT PROJECT (P147157)

Results Framework

Project Development Objective Indicators	
Indicator Name	Description
Increase in the total number of formal contracts integrating beneficiary Producer Organizations (POs) into markets	Number of formal contracts with institutional markets (PAA, PNAE, etc.) or/and with private institutions, of total beneficiary POs (gender disaggregated i.e. male & female-led POs, as well as by public and private institutions).
Female participation	Gender disaggregated i.e. male & female-led POs
Increase in the real net revenue of beneficiary Rural Producer Organizations (POs)	Inflation adjusted net revenue (with the <i>Índice Nacional de Preços ao Consumidor Amplo</i> - IPCA) of POs (gender disaggregated i.e. male & female-led POs)
Female beneficiaries	Gender disaggregated i.e. male & female-led CAs
Increase in average vulnerable beneficiary household dietary diversity indicator	Based on IBGE composite indicator of minimum calorie intake requirement per family (i.e. cesta basica) as follows: the sum of total food group intake per household, where the food groups are: 1. Grain; 2. Roots and tubers; 3. Vegetables; 4. Fruits; 5. Meat, poultry, offal; 6. Eggs; 7. Fish and seafood; 8. Pulses/legumes/nuts; 9. Milk and Milk products; 10. Oil/fat; 11. sugar or honey 12. Miscellaneous (ex. coffee, tea). The value of this variable will range from 0 to 12 for each household. The average of beneficiary household indicator is then estimated for yearly values.
Female beneficiaries	Gender disaggregated i.e. male & female-led CAs
New piped household water connections that are resulting from the project intervention	Number of new piped household water connections which result from the project intervention. A piped household water connection is defined as a connection that provides piped water to the consumer through either a house or yard connection. Hence, they do not include, inter alia, standpipes, protected well, borehole, protected spring, piped water provided through tanker trucks, or vendors, unprotected wells, unprotected spring, rivers, ponds and other surface water bodies, or bottled water.

Female beneficiaries	Woman-led households
People provided with access to "improved sanitation facilities" under the project	This indicator measures the cumulative number of people who benefited from improved sanitation facilities that have been constructed under the project. This includes people newly provided with access to "improved sanitation facilities" and does not include people benefiting from rehabilitation works. The baseline value is expected to be zero.
People provided with access to "improved sanitation facilities"- rural	This indicator measures the cumulative number of people who benefited from improved sanitation facilities that have been constructed under the project. This includes people newly provided with access to "improved sanitation facilities" and does not include people benefiting from rehabilitation works. The baseline value is expected to be zero.
Female-led households	Gender disaggregated i.e. male & female-led households

Intermediate Results Indicators

Indicator Name	Description
Direct project beneficiaries	Direct beneficiaries are people or groups who directly derive benefits from an intervention (i.e., children who benefit from an immunization program; families that have a new piped water connection). Please note that this indicator requires supplemental information. Supplemental Value: Female beneficiaries (percentage). Based on the assessment and definition of direct project beneficiaries, specify what proportion of the direct project beneficiaries are female. This indicator is calculated as a percentage.
Female beneficiaries	Based on the assessment and definition of direct project beneficiaries, specify what percentage of the beneficiaries are female.
Share of vulnerable and marginalized people of the total project beneficiaries	Percentage of vulnerable project beneficiaries (families), per component, by gender, age and race of household head. Vulnerable project beneficiaries include traditional communities (inter alia, indigenous and quilombolas) and extremely poor (recipients of CCT Bolsa Familia).
Number of business plans & investment plans implemented by POs and CAs	Number of business plans/investment plans implemented by POs and CAs (gender disaggregated i.e. male & female-led POs)
Female-led POs and CAs	Gender disaggregated i.e. male & female-led POs and CAs

Increase in the yearly volume of sales through contracts from beneficiary Producer Organizations (POs)	In regards to previous year, total production unit/weight change (increment in kilograms, for instance), per value chain and gender disaggregated (i.e., male & female-led POs), of all POs
Number of social and environmental subprojects implemented by Community Associations (CAs)	Number of social and environmental subprojects implemented by CAs (gender disaggregated i.e. male & female-led POs).
Clients who have adopted an improved agriculture. technology promoted by the project	This indicator measures the number of clients of the project who have adopted an improved agricultural technology promoted by the project.
Clients who adopted an improved agricultural technology promoted by project – female	This indicator measures the number of clients of the project who have adopted an improved agricultural technology promoted by the project.
Producer Organizations (POs) and Community Associations (CAs) implementing financial management instruments in subprojects	No description provided.
Female-led POs and CAs	Gender disaggregated i.e. male & female-led POs
Basic WSS investments implemented and sustainably operated	Number of WSS investments implemented with: (i) volunteer adhesion to a management plan; and (ii) timely payment to management units, out of total WSS investments
People trained to improve hygiene behavior/sanitation practices under the project	This indicator measures the cumulative number of people who have participated in a training activity to conduct improved hygiene behavior or sanitation practices. This does not include people who have been educated and/or informed through public information or mass publication campaigns.
People trained to improve hygiene behavior/sanitation practices – female	This indicator measures the cumulative number of woman who have participated in a training activity to conduct improved hygiene behavior or sanitation practices. This does not include people who have been educated and/or informed through public information or mass publication campaigns.
Number of people benefitting from capacity building on management of water supply and sanitation systems	Number of people who underwent capacity building activities, regarding management of water systems
Female-led households	Number of people who underwent capacity building activities, regarding management of water systems disaggregated by gender, age, race of participants.
Targeted clients satisfied with agricultural services (percentage)	This indicator measures the percentage of clients who expressed satisfaction with the services provided in the project areas based on formal or informal survey.
Targeted clients satisfied with agricultural services -	This indicator measures the percentage of clients-male who expressed satisfaction with

male (number)	the services provided in the project areas based on formal or informal survey.
Targeted clients satisfied with agricultural services - female (number)	This indicator measures the percentage of clients who expressed satisfaction with the services provided in the project areas based on formal or informal survey.
Targeted clients- male (number)	This indicator measures the percentage of clients-male who expressed satisfaction with the services provided in the project areas based on formal or informal survey.
Targeted clients – female (number)	This indicator measures the percentage of clients-female who expressed satisfaction with the services provided in the project areas based on formal or informal survey.
Number of government staff and strategic partners trained in accordance with the Project Capacity Building Plan	Number of government staff and strategic partners trained in accordance with the Project Capacity Building Plan; out of total involved staff (gender disaggregated i.e. male & female participants)
Female inclusion	Gender disaggregated i.e. male & female participants
Client days of training provided (number)	This indicator measures the number of client days of training provided i.e. the number of clients who completed training multiplied by the duration of training expressed in days.
Client days of training provided - Female (number)	Gender disaggregated i.e. male & female participants

Annex 2: Detailed Project Description

BRAZIL: BAHIA SUSTAINABLE RURAL DEVELOPMENT PROJECT

1. **Component 1: Productive Inclusion and Access to Markets (US\$ 153.0 million of which US\$ 64.2 million IBRD financing).** This Component will increase productive inclusion and access to markets for family farmers and other disadvantaged populations in the Borrower's territory, through:

- (a) *Subcomponent 1.1* - the provision of support to POs and CAs, as the case may be, for (i) the carrying out of Market-Oriented Subprojects including the preparation and implementation of Business Plans; and (ii) the carrying out of Social and Environmental Subprojects including the preparation and implementation of Investment Plans;
- (b) *Subcomponent 1.2* - the provision of support to CAR for the implementation of activities to manage agricultural risks as assessed in the planned Agricultural Risk Analysis; and
- (c) *Subcomponent 1.3* - the provision of support to CAR for the construction of warehouses and other logistic infrastructure to support market access by POs and CAs.

2. This Component will provide matching grants and technical assistance to two categories of Subprojects: (i) Market Oriented Subprojects (which are expected to account for an estimated 70 percent out of total resources allocated for subprojects under this Component), and (ii) Social and Environmental Subprojects (which are expected to account for an estimated 30 percent out of total resources allocated for subprojects under this Component). For this second category of subprojects, priority will be given to proposals from the extreme rural poor; women's producer organizations; youth; indigenous people, *quilombolas* and other traditional communities. In both cases, incentives will be integrated into the Project selection process (through bonus and points systems) to favor subprojects which contribute to the improvement of nutrition and food security, inclusion of women and youth, climate resilience and other environmental objectives. In both cases, productive subproject proposals will need to show sustainability of the investment: in the case of Market-Oriented Subprojects, this will be the commercial viability of the enterprise, while in the case of Social and Environmental Subprojects this will be the sustainability of the social and/or environmental outcomes (e.g. improved nutrition, recovery of degraded areas, etc.).

3. Diagnostics and market analysis have been completed for three of the eight proposed value chains; namely, apiculture, fruit farming, goat and sheep farming. Productive subprojects will be piloted in these value chains while diagnostics are being completed on the remaining six. (Piloting will allow for the testing of calls for proposals, subproject assessment and selection processes.) Analysis of opportunities and constraints for integration of family farmers in the remaining value chains will be completed by the end of 2015.

Market-Oriented Subprojects

4. Support for Market-Oriented Subprojects under this Component is designed to reduce three major constraints to the productive inclusion of family farmers as follows:

- (a) Access to finance: Although some farmers are benefiting from federal programs such as the National Program to Strengthen Family Agriculture (PRONAF), these programs do not include the financing instruments necessary for producer organizations to make the investment needed for commercial viability; namely, financing for working capital, infrastructure and inputs to increase productivity, engage in value-added processing, and commercialization. The proposed Project will provide technical assistance and support for strengthening small producer organizations (POs), as well as providing matching grants to finance the investments for the implementation of business plans deemed essential to increase their assets value and their credit-worthiness. In parallel, the Project would provide training and technical assistance to these POs to be better positioned to improve their access to, and use of, established financial services. These measures would contribute to solve some of the main reasons for this perceived market failure that, in practice, limits the use of available financial services, and thus improve possibilities for future productive investments.
- (b) Volatility of prices and climate: For individual family farmers, price volatility has significant impacts on income that could be reduced through integration into producer organizations and through pre-production contracts facilitated by the proposed Project. To mitigate the risks associated with both drought and flooding in the State's semi-arid regions, and to contribute to climate change adaptation and mitigation, the proposed Project will support the piloting, demonstration and introduction of climate smart agriculture technologies.
- (c) Access to markets: The rural poor are also often constrained by their minimal integration in productive value chains, their lack of understanding of market requirements and their inability to supply the quality, quantity or frequency of commodities to meet the demand of markets (both private and institutional). Furthermore they lack the business and negotiating skills, as well as organizational capacity that could give them the bargaining power they require to interact on equal terms with other, larger and stronger market intermediaries. In response to these constraints, the proposed Project will help strengthen producer organizations in order to meet the demands of markets - through the implementation of business plans including pre-agreements and contracts buyers. In addition to private markets which will be identified through productive value chain analysis, the proposed Project will assist family farmers to access two key institutional markets: namely, the National Food Acquisition Program (PAA - valued at US \$ 3.75 million in Bahia for 2014) and the National School Feeding Program (PNAE – valued at US\$ 37.5 million in Bahia for 2014), with the later requiring that at least 30 percent of acquisition are made from family farmers.

5. The following private market opportunities have been identified, and this would be complemented by the other value chain studies to be carried out under the Project:

- (a) Three value chains were analyzed to evaluate market opportunities: Apiculture, fruit farming, goat and sheep farming. The commercial balance for the three sections decreased 87 percent over the past ten years (from about US\$ 429 million in 2003, to US\$ 56 million in 2013). This occurred due to an increase in imports twice as high than the increase in exports: around US \$711 million for imports and US \$338 million for exports (Table 1).

Table 1: Imports and Exports (Brazil)

Value Chain	Exports				Imports			
	Value (US \$ 2013)		Volume (kgs)		Value (US \$ 2013)		Volume (kgs)	
	2003	2013	2003	2013	2003	2013	2003	2013
Fruit cultivation	644,615,077	837,090,494	878,755,150	755,270,329	789,522,995	789,522,995	181,210,263	554,505,591
Goat and Sheep Meat Production	69,728	7,791	12,040	740	7,853,058	46,023,785	3,139,706	8,885,670
Honey Production	57,873,439	54,123,900	19,273,750	16,180,566	63,047	0	0	0
Total	702,558,244	891,222,185	898,040,940	771,451,635	797,439,099	835,546,780	184,349,969	563,391,261

Source: WB staff estimate using data from Ministry of Development, Industry and International Commerce (Alice System).

- (b) The increase in imports over exports seems to indicate that there are market opportunities that the State is unable to seize. Furthermore, when analyzing Bahia's participation in exports and imports for those subsectors, as compared to the total at national level, there are indications of possible new market opportunities (Table 2).

Table 2: Bahia State Participation in Exports and Imports

Fruit Cultivation

		Bahia	Brasil	Bahia/Brasil
Exports	2003	97,467,598	644,615,077	15.1%
	2013	138,833,105	837,090,494	16.6%
Imports	2003	331,875	149,783,361	0.2%
	2013	4,838,527	789,522,995	0.6%

Honey Production

		Bahia	Brasil	Bahia/Brasil
Exports	2003	735,935	57,873,439	1.3%
	2013	212,763	54,123,900	0.4%
Imports	2003	0	63,047	0.0%
	2013	0	0	-

Goat and Sheep Meat

		Bahia	Brasil	Bahia/Brasil
Exports	2003	0	69,728	0.0%
	2013	0	7,791	0.0%
Imports	2003	0	7,853,058	0.0%
	2013	58,451	46,023,785	0.1%

Three Sectors

		Bahia	Brasil	Bahia/Brasil
Exports	2003	98,203,532	702,558,244	14.0%
	2013	139,045,868	891,222,185	15.6%
Imports	2003	331,875	157,699,465	0.2%
	2013	4,896,978	835,546,780	0.6%

Source: WB staff estimate using data from Ministry of Development, Industry and International Commerce (Alice System).

- (c) Out of the three sectors, fruit appears to be the one with highest international market potential. Nonetheless, goat and sheep meat demand has risen on domestic

markets and this new demand seems to have been met by increased imports, which may indicate insufficient domestic supply.

6. Potential Project Beneficiaries of Market-oriented Subprojects have been identified as follows²⁰:

Table 3: Potential Project Beneficiaries for Market-Oriented Subprojects

Value chain	Total No. of People	No. of Beneficiaries	No. of Households
Cassava	276,865	29,025	8,537
Milk Cattle	6,654	6,976	2,052
Sheep/Goat	179,469	18,815	5,534
Apiculture	27,954	2,931	862
Aquaculture	213,906	22,425	6,596
Fruit Farming	154,062	16,151	4,750
Oilseeds	230,084	24,121	7,094
Solid Waste	115,964	12,157	3,576
Total	1,204,958	132,600	39,000

7. *Eligibility Criteria.* Eligibility criteria for Market-Oriented Subprojects include:
- (a) Legally registered producer organizations;
 - (b) Consistent with Territorial Development Plans (where available);
 - (c) Subproject proposals must be integrated into, at least, one of the priority value chains;
 - (d) Beneficiary groups must be directly executing activities financed by the Project;
 - (e) Beneficiary counterpart contribution will be of, at least 20 percent (being at least 10 percent financial [capital or credit] and up to 10 percent monetized in kind contribution, such as labor and goods).
 - (f) Other criteria to be further detailed in the POM include:
 - i. Compliance with Social and Environmental Safeguards;
 - ii. Elaboration and approval of an Action Plan prior to financing;
 - Economic and financial viability;
 - Expression of buyer intention to purchase the products;
 - iii. Obtaining necessary environmental licenses and commercialization stamps.

8. *Financing parameters.* Average Project investment in Market-Oriented Subprojects is estimated at US\$ 250,000 and the maximum amount available per subproject will be US\$ 500,000.²¹ POs will be required to make counterpart contributions of at least 20 percent of the total investment (at least half of which will have to be financial, either from their own funds or through financing), and the Government counterpart will be up to 40 percent. Business plans will

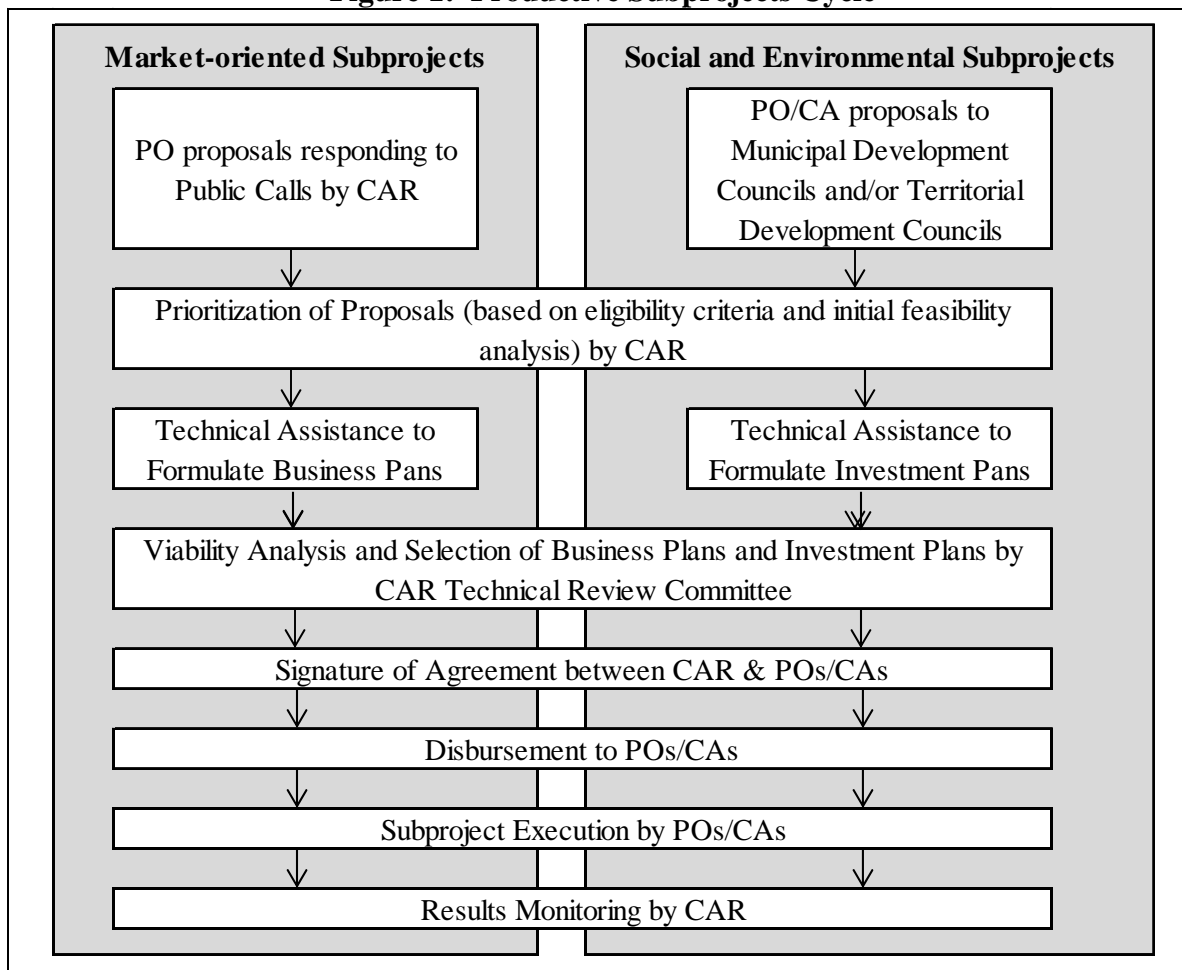
²⁰ Estimates of project beneficiaries are based on current projections that will be validated upon completion of all value chain analyses.

²¹ Any subproject whose total value is greater than US\$500,000 will require the Bank's no objection for financing from the loan.

include a range of investments including, *inter alia*, technical assistance and capacity building; working capital; productive inputs; innovation technologies for NRM, CSA, GAP and ICT s; and supporting infrastructure; equipment for value-added processing; packing and storage facilities; and distribution networks.

9. *Preparation and Selection Process.* After establishing that basic eligibility criteria are met, these proposals will be reviewed by technical review committees established by CAR. Those proposals which meet eligibility criteria will be prioritized to receive technical assistance for business plan development, including detailed market analysis and identification of potential sources of finance for beneficiary financial contribution. These business plans will need to demonstrate commercial viability of the subproject proposal including identifying markets – both institutional and private – into which producer organizations will be integrated or in which they will expand their access. Those Business Plans which are assessed as technically feasible and commercially viable (and meet additional social and environmental sustainability requirements) will be ranked, and based on available funds, selected to receive matching grants and technical assistance for Subproject implementation. See Figure 1 below. Additional details of the preparation and selection processes can be found in the POM. Investment plans may include a range of investments such as: working capital; productive inputs, technologies, and supporting infrastructure; equipment for value-added processing; packing and storage facilities; distribution networks; as well as technical assistance and capacity building.

Figure 1: Productive Subprojects Cycle



Social and Environmental Subprojects

10. Social and Environmental Subprojects will aim at improving the quality of life of rural households, with a specific focus on (a) food security, (b) diversification of income sources, and (c) improved natural resources management in agricultural production areas. Subproject proposals will be submitted to Municipal Councils for Sustainable Development (CMDs) and/or Territorial Development Councils (CODETER) by POs and/or CAs. These then will be transferred for technical review by CAR.

11. *Eligibility Criteria.* Eligibility criteria for Social and Environmental Subprojects include:
- (a) Legally registered Community Associations (CAs);
 - (b) Associated to Territorial Development Plans (where available);
 - (c) Beneficiary groups must be directly executing activities financed by the Project;
 - (d) Beneficiary counterpart contribution will be equal to at least 10 percent of total Subproject value (all of which may be monetized in kind contribution, such as labor and goods).
 - (e) Other criteria to be further detailed in the POM include:
 - i. Compliance with Social and Environmental Safeguards;

- ii. Elaboration and approval of an Action Plan prior to financing;
 - Economic and financial viability;
 - Social and Environmental Sustainability.
- iii. Obtaining necessary environmental licenses.

12. *Financing Parameters.* Average Project investment in Social and Environmental Subprojects is estimated at US\$ 50,000 and the maximum amount available per subproject will be US\$ 100,000. CAs who present proposals for Social and Environmental Subprojects will be required to make a 10 percent counterpart contribution (all of which may be monetized in kind contributions), and the Government counterpart will be up to 42 percent. Investment Plans for Social and Environmental Subprojects will finance technical assistance and capacity building and investments for: food security; diversification of income sources through fair trade and economic solidarity initiatives; improved natural resources management in agricultural production areas, and recovery of degraded areas; amongst other initiatives with social and environmental focus.

13. *Preparation and Selection Process.* After establishing that basic eligibility criteria are met, these proposals will be reviewed by technical review committees established by CAR. Those proposals which meet eligibility criteria will be prioritized to receive technical assistance for investment plan development, including detailed analysis and identification of potential sources of finance and/or in kind contributions by beneficiaries. These investment plans will need to demonstrate technical and economic viability of the subproject proposal. Those investment plans which are assessed as technically and economically viable (and meet additional social and environmental sustainability requirements) will be ranked, and based on available funds, be selected to receive matching grants and technical assistance for Subproject implementation. Investment plans may include a range of investments such as: working capital; productive inputs, technologies, and supporting infrastructure; equipment for value-added processing; packing and storage facilities; distribution networks; as well as technical assistance and capacity building. Details of the preparation and selection processes can be found in the POM.

14. For both categories of subprojects, technical assistance will be provided by SEAGRI as well as by its Service for support to small business (SEBRAE-BA). In addition, through a Cooperation Agreement with a Cooperating Entity to be completing within sixty (60) days of Declaration of Effectiveness, technical assistance will be provided to this and other Components of the Project. In addition, CAR will contract, through a competitive selection process, additional TA services (from NGOs and the private sector) as needed, and particularly to support the development of business plans for productive subprojects as well as for market analysis and commercialization.

15. *Bank prior review.* The Bank will review the first three proposals for Market-Oriented, as well as Social and Environmental Subprojects.

16. This Component will also include investments in agricultural risk management based on the results of the planned Agricultural Risk Analysis.

17. This Component will also include direct investments by CAR for the construction of warehouses and other logistics infrastructure to support market access by POs and CAs. The operation and maintenance of those investments will be done by either a legally established social organization or cooperative after a competitive selection based on the public-private partnership model to be detailed in the POM.

18. This Component will finance, *inter alia* goods, works, technical assistance, training, studies and incremental operating costs.

19. **Component 2: Household Water Supply and Sanitation (US\$ 68.9 million of which US\$ 56.2 million IBRD financing).** This component will support the State of Bahia’s efforts to improve sanitation conditions and access to water supply services where a pre-established adequate management system is present and sufficient hydrological resources have been identified, through the provision of support to: (a) CAR for the carrying out of WSS infrastructure investments identified by CAs; and (b) CENTRAL and SAAE for the strengthening of their capacities for the operation and maintenance of WSS systems.

20. Investments under this component will follow specific technical, environmental, financial and management criteria as described in Annex 3. CAR will directly implement the installation of WSS systems in coordination with the Rural Sanitation Department of the State Secretariat of Regional Development (SEDUR), and the Bahia State Water Supply Company (EMBASA). The feasibility reports and technical designs for each WSS Subproject will be submitted for the Bank’s approval prior to their implementation by CAR.

21. Potential Project beneficiaries of WSS system Subprojects under Component 2 have been identified as follows:

Table 4: Potential Project Beneficiaries of WSS Subprojects

No. of WSS system Subprojects	Ave. No. of Households per WSS Subprojects	No. of Households
172	100	17,200

22. *Eligibility Criteria.* The eligibility criteria for accessing resources under this component include:

- (a) availability of adequate management structure for the WSS systems, and cleaning and maintenance of septic tanks, through CENTRAL or SAAE;
- (b) voluntary and formally expressed concurrence and adherence to the Project by both the community and the water and sanitation organization (CENTRAL or SAAE) responsible for the management, operation and maintenance of the systems. The component will include social mobilization activities with the rural communities for provision of adequate information prior to the acceptance of the proposed management model;
- (c) community formal agreement to pay for the provision of WSS services by the proposed management structure;

- (d) confirmed adequate water availability in the water source, both in quantity and in quality. The confirmation will be made through hydrological studies and tests on existing water sources, or geophysical studies that confirm groundwater availability;
- (e) previous environmental analysis of the systems considering the cumulative impact in the water sources. This analysis will be carried out previously and jointly with the mapping of areas and communities eligible for participating in the Project following the established criteria.

23. *Financing parameters.* CAR will be responsible for investments associated with the implementation of new WSS systems. Average cost per household for installation of WSS systems is estimated at US\$ 4,000. Review of WSS subprojects which may include integrated systems which should demonstrate operational costs comparable to usual market tariffs and payment capacity by the population. Government funding will cover 18 percent of the total value of the subprojects and the balance of 82 percent will be covered by the Loan. As well, all residents of beneficiary communities will be responsible, by contract, for payment of fees for WSS system operation and maintenance to either CENTRAL or SAAE, depending on their presence in the region.

24. *Preparation and Selection Process.* Once the eligibility criteria are met, CAR will prepare a feasibility report. Subsequently, the WSS investment technical design will be carried out by technical specialists under the supervision of CAR, following the guidelines for preparation of household water supply and sanitation projects approved by the Bank. Both the eligibility report and the technical design for each investment proposal will be reviewed and approved by the Bank. Finally, the construction of the systems will be subject to the existence of adequate capacity for management of the works.

25. In addition, basic principles that will guide investments in water infrastructure by the Project are: (i) knowledge of objectives, access guidelines and eligibility of demands; (ii) knowledge of rules/standards of technical projects for water supply; and (iii) adherence to the Project's mechanisms for submission of proposals, through the representative bodies: Community Associations (CAs), Municipal Councils for Sustainable Development (CMDSS) and Territorial Councils (CODETERs).

26. The proposed Project will also provide institutional strengthening and capacity building for the SAAEs and CENTRALs that take on the responsibility of operation and maintenance of WSS subprojects.

27. This Component will be implemented in the two territories where CENTRAL is operating (namely, Chapada Diamantina and Piemonte da Chapada), as well as in territories where WSS are provided by SAAEs. Based on this experience, the Bank will provide Technical Assistance to help the Borrower design similar community-based WSS management and maintenance systems in other Territories where public investments are planned.

28. This Component will finance *inter alia*, studies, technical assistance, training, goods, civil works and incremental operating costs.

29. **Component 3: Institutional Development, Technical Assistance and Project Management (US\$ 34.7 million of which US\$ 26.2 million IBRD financing).** This Component will have the following subcomponents.

30. **Subcomponent 3.1 – Research and Diagnostics.** will provide technical assistance for the carrying out of the necessary research and diagnostics in the areas of, *inter alia*: integration of value chain activities and market access, vulnerable population participation and potential social and environmental impact interventions. During the first year of project implementation a series of studies will be carried out in order to address the following issues:

- (a) Integration of value chain activities and market access;
- (b) Vulnerable population participation (women, youth, traditional communities, etc.);
- (c) Potential social and environmental impacts of interventions.

31. The studies are expected to use a participatory methodology considering family organization, representative entities (councils, associations, cooperatives), and the complexity of potential subproject proposals.

32. **Subcomponent 3.2 - Training and Capacity Building.** This subcomponent will support the capacity building activities for CAR's technical staff, POs, and agencies participating in the Project. The Capacity Building Plan was elaborated to guarantee implementation of strategic actions under this subcomponent, and seeks to guide stakeholders (beneficiaries, CMDS, CEDETER, partners, technical unit, etc.) on:

- (a) Demand prioritization;
- (b) Business/Investment Plan formulation;
- (c) Subproject implementation;
- (d) Management of available resources.

33. Continued communication between stakeholders is expected to occur, between pre-identified focal points in each group/institution.

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34. **Subcomponent 3.3 – Communication.** This subcomponent will provide support for the design and implementation of dissemination activities of the Project's processes and results, the mobilization of local communities and the carrying out of a beneficiary assessment of the Project. It contemplates initiatives within the Communications Plan including, *inter alia* dissemination of information of the Project. The actions focus on all stakeholders previously mentioned.

35. Furthermore, information and communication technology tools (ICT) will be used to support the project in a variety of ways. For market-oriented and socio-environmental projects two interventions are anticipated. First, in order to increase the number of respondents to the public call for proposals, a voice-based system of outreach messages will be deployed. Second, in order to support the elaboration of proposals and subsequent implementation of subprojects, a voice-

based system of support to beneficiaries will be put in place. Finally, a phone-based system will be used to collect feedback from the different project beneficiaries (market-oriented, socio-environmental, WSS). This system will enable the implementation of continuous targeted surveys with beneficiaries (e.g. by geographic area, activity), allowing for real-time data collection and analysis. The data analysis tools will enable the ongoing identification of emerging trends and problems, ultimately allowing the adoption of in course adjustments whenever appropriate.

36. ***Subcomponent 3.4 – Project Management.*** This subcomponent will provide support to CAR for the strengthening of its technical and administrative management capacity to ensure effective Project management. It includes, *inter alia*: territorial-central unit relations; and human and physical capital necessities. It will also strengthen PMU capacity for Monitoring and Evaluation.

37. ***Subcomponent 3.5 – Support to Territorial Governance.*** This subcomponent will provide support for the development of policy actions related to territorial governance policy stakeholders (i.e. CEDETER, CODETER) and instruments (i.e. Territorial Development Plans). It includes, *inter alia*: (i) the structuring of the territorial governance system for planning and monitoring of strategic State policies, programs and activities as outlined in the PPA-P; (ii) the restructuring of the 27 Territorial Development Councils (CODETER) and the State Territorial Development Council (CEDETER); (iii) the preparation of Territorial Development Plans. The Bank is supporting the State of Bahia in the preparation of a DPL on Strengthening Public Sector Management and Promoting Inclusive Service Delivery. Subject to the approval of the proposed DPL by the Federal Government and the Bank, this subcomponent will support the policy actions related to territorial governance as identified in the DPL.

38. This Component will also finance, *inter alia* studies, technical assistance, training, and incremental operating costs.

Annex 3: Implementation Arrangements

BRAZIL: BAHIA SUSTAINABLE RURAL DEVELOPMENT PROJECT (P147157)

Project Institutional and Implementation Arrangements

1. The State of Bahia will be the Borrower for the proposed loan, with the Federative Republic of Brazil serving as Guarantor. The Project Management Unit will be housed within the Company of Development and Regional Action (*Companhia de Desenvolvimento e Ação Regional – CAR*). CAR will be responsible for overall management, planning, coordination, monitoring and evaluation of all Project activities (e.g. subprojects technical analysis/approval, procurement planning, financial monitoring and reporting, disbursement and internal controls, maintenance of project accounts and preparation of project management reports) both at central and regional levels, as well as for project financial management, procurement, disbursements and accounting. CAR will also be responsible for implementing the social and environmental safeguards instruments, as well as for disseminating project results through a proactive communication strategy. In addition, CAR will ensure that counterpart resources are foreseen in the State's budget.

Project administration mechanisms

2. Within CAR, the Project Management Unit will be composed of a General Coordinator, four sub-coordinators (administrative support to territorial units; monitoring and evaluation; capacity building and territorial monitoring), two advisors for institutional articulation, technical staff and administrative assistants, totaling a team of approximately 40 people.

3. In addition to the Project Management Unit, the Territorial Units (18 are currently operating and by end of 2015, it is expected that an additional 9 will be opened totaling 27) under CAR will be responsible for day-to-day Project implementation at the local level to ensure coordination and integration between local institutions and stakeholders throughout the State's 27 Territories. The Territorial Units will be composed of a Coordinator (with at least a university degree and with experience in regional development), an agronomist, an engineer, a social specialist, an accountant and administrative staff, totaling a team of, on average, six people per Territorial Unit, and an estimated Territorial Staff of 162 (see Figure 1).

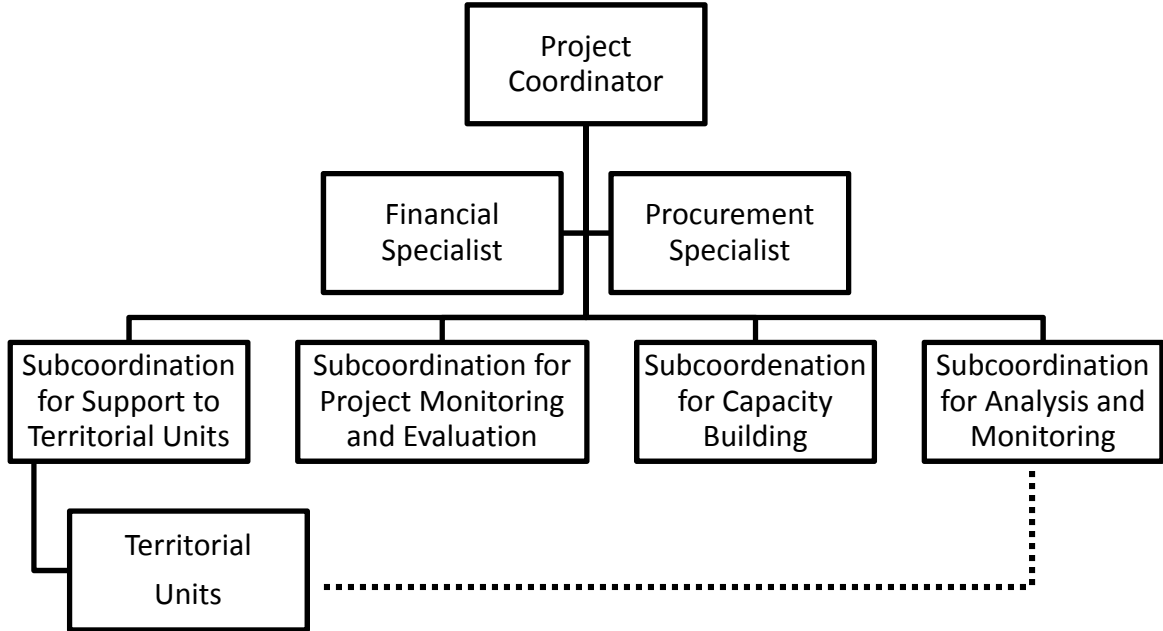
4. Under Component 1, CAR will be responsible for the selection and execution monitoring of both: (i) Market-oriented subprojects and (ii) Social and Environmental subprojects, as well as the construction of warehouses and other logistics infrastructure to support market access by POs and CAs. After analyzing previously established criteria (as described in Annex 2), CAR carries out technical assistance for construction of business plans and investment plans in partnership with other State agencies (SEAGRI, SEBRAE, SETRE, inter alia) and the Cooperating Entity. The selection of subprojects is then carried out by a Technical Committee within CAR. POs and CAs will be responsible for subproject execution.

5. Under Component 2, CAR will be responsible for the conception, analysis, evaluation and implementation of the water supply and sanitation systems. The activities will be carried out

in close coordination with the Rural Sanitation Department of the Secretariat of Regional Development (SEDUR), which is also responsible for the strengthening of the existing CENTRAL and the creation of new ones.

6. After analyzing previously established criteria (water availability, environmental impact assessment, beneficiary adhesion and agreement to pay a system manager for WSS services, amongst other), CAR will assess the feasibility of investments in different locations. However, the management of the WSS system will be carried by either CENTRAL or SAAE (depending on their respective territorial coverage). This Component will be implemented in the two territories where CENTRAL is operating (namely, Chapada Diamantina and Piemonte da Chapada), as well as in territories where WSS are provided by SAAEs.

Figure 1: Project Management and Territorial Units



Executing Entities

7. CAR will be the State’s executing agency for the Project and will house the Project Management Unit (PMU). The Cooperating Entity will provide support to overall Project management as well as technical assistance under a Cooperation Agreement with CAR to be entered into within sixty (60) days of loan effectiveness, under terms and conditions acceptable to the Bank. Under this agreement: (i) the Cooperating Entity will follow the Bank’s procurement guidelines for those contracts procured using Loan funds, and the Cooperating Entity’s procurement procedures may be used for those contracts procured exclusively using counterpart funds; (ii) any remuneration paid to the Cooperating Entity (i.e., fees) for its work as collaborator under the Project shall not be paid out of the proceeds of the Loan, since the Cooperating Entity will not go through a competitive process for its selection; (iii) the recommendations made by the Bank to the State of Bahia regarding financial management and procurement shall be complied with by the Cooperating Entity, and the State of Bahia will be

responsible for ensuring its compliance, as stated in Section 5(d) of Schedule 2 to the Loan Agreement; and (iv) the final draft of the Cooperation Agreement shall be submitted to the Bank for no-objection prior to signing.

8. CAR will partner with other State agencies and establish Cooperation Agreements for implementation of different Project components and activities. The main partners are outlined in the table below. Additional partners are detailed in Implementation Support Plan (Annex 5).

Table 1: Main Partner Institutions

Component	Partner Agencies
Component 1: Productive Inclusion and Access to Markets	SEPLAN; SEAGRI; SUAF; SEINFRA; SETRE; SEBRAE; SENAR; the Cooperating Entity.
Component 2: Household Water Supply and Sanitation	SEDUR; EMBASA; CENTRAL; SAAE; the Cooperating Entity.
Component 3: Institutional Development, Technical Assistance and Project Management	SEPLAN/SEI; SEBRAE; the Cooperating Entity.

9. These main partners institutions and their role in the Project are outlined as follows:
- (a) **State Secretariat of Planning (*Secretaria de Planejamento do Estado da Bahia – SEPLAN*)**: Coordinates and elaborates the State Development Plan; the Policy for Territorial and Regional Development; the Pluriannual Plan (*Plano Plurianual – PPA*); the Budget Guidelines Law (*Lei de Diretrizes Orçamentária – LDO*); the Annual Budget Law (*Lei Orçamentária Anual – LOA*); and Strategic Planning and Budget for the State of Bahia’s government initiatives. SEPLAN monitors the implementation of public policies, programs and activities, evaluates economic and social results of interventions in the State.
- (b) **State Secretariat of Urban Development (*Secretaria de Desenvolvimento Urbano – SEDUR*)**: Secretary responsible for rural sanitation in the State, as well as the articulation of the Centers of Water System Management, strengthening the existing Centers, possibly incorporating new Centers. This Secretary will support the consolidation of institutional arrangements to operate the WSS systems under Component 2, based on local community demand and compliance with previously established criteria.
- (c) **State Secretariat of Agriculture, Livestock, Irrigation, Agrarian Reform, Fisheries and Aquaculture (*Secretaria de Agricultura, Pecuária, Irrigação, Reforma Agrária, Pesca e Aquicultura - SEAGRI/SUAF*)**: Coordinates, orients and regulates Agriculture (including both livestock and crops). Formulates and executes Policies for Agriculture Development, including family farming. The Secretariat will support technical assistance and capacity building activities (Component 1).
- (d) **State Secretariat of Labor, Employment, Income and Sports of the State of Bahia (*Secretaria do Trabalho, Emprego, Renda e Esporte da Bahia – SETRE*)**: The

Secretary plans and executes public policies promoting employment and income, as well as supports labor qualification; solidary economy; and sport promotion. The Secretariat will support capacity building activities (Component 3).

(e) **Brazilian Service of Micro and Small Enterprise Support (*Serviço Brasileiro de Apoio às Micro e Pequenas Empresas – SEBRAE*)**: Public enterprise responsible for rural capacity building in management and entrepreneurship. Formal agreements of technical and operational support will be the base for the support that SEBRAE will give to the Project. SEBRAE will provide training courses and other forms of capacity building of rural producers, as well as technical assistance to the beneficiaries (Component 1).

(f) **National Service of Rural Development (*Serviço Nacional de Aprendizagem Rural – SENAR*)**: Private-law body, entity maintained by rural producers, under the Agriculture Confederation of Brazil (*Confederação da Agricultura e Pecuária do Brasil – CNA*) and administrated by a Tripartite Board. Provides social promotion activities in rural areas. SENAR contributes to the increase in income, social-economic development, integration and social ascension of rural producers, taking into account principles of sustainability, productivity and citizenship. SENAR will provide technical assistance and training under of Component 1.

(g) **Water Supply and Sanitation Company of Bahia (*Empresa Baiana de Águas e Saneamento S.A – EMBASA*)**: Semi-public Corporation with the State of Bahia as its main shareholder. Responsible for the provision of water supply and sanitation services in the municipality of Salvador and rural areas. WSS investments under Component 2 will be done in coordination with EMBASA.

(h) **Autonomous Water and Sewage System (*Sistema Autônomo de Água e Esgoto – SAAE*)**: Independent body, responsible for collection, treatment and supply of WSS. Seeks to provide quality services to its customers, with special emphasis on environmental preservation within its practices. SAAE will be contracted by beneficiary communities to provide maintenance and management of the WSS investments under Component 2.

(i) **Union of Community Associations the Maintenance of Water Supply and Sanitation Services (*Central de Associações Comunitárias para Manutenção de Sistemas de Abastecimento de Água – CENTRAL*)**: Is responsible for preventive maintenance and corrective actions of the integrated and/or isolated municipal WSS systems, strengthening the participative and sustainable management model. CENTRAL will be contracted by beneficiary communities to provide maintenance and management of the WSS investments under Component 2.

(j) **Municipal Councils of Sustainable Development (*Conselhos Municipais de Desenvolvimento Sustentável – CMDS*) and Territorial Councils (*Colegiados Territoriais – CEDETER*)**: The councils are participatory entities for planning, deliberating and monitoring of public policies at municipal level. The Project seeks to

integrate territorial, municipal, State and federal initiatives. As a result, the Councils serve as key players to coordinate diverse initiatives at the municipal and territorial level.

Financial Management, Disbursements and Procurement

Financial Management

10. Financial management (FM) assessments for the proposed project were conducted in December 2013 and March 2014, at the Agency for Regional Development (CAR) (*Companhia de Desenvolvimento e Ação Regional*) in accordance with OP/BP 10.00 and the Financial Management Practice Manual. The assessment's objectives were to determine whether the main implementing agency (CAR) has acceptable FM and disbursement arrangements in place to adequately control, manage, account for and report on the use of project funds²². Based on this assessment, the overall FM arrangements as set out for this project are designated as **satisfactory**. FM-related capacity building measures are included in Component 3. FM control risk was assessed as **moderate** because of the challenge of ensuring that funds transferred to POs and CAs are adequately accounted for.

11. The proposed FM systems are based largely on those established under previous Bank-financed projects whose performance has been satisfactory during project implementation. For this type of operations, FM arrangements should place emphasis on participatory governance controls common with Community Driven Development (CDD) projects. This approach takes into account local culture, norms and lower institutional capacity, and emphasizes simple procedures, with a high degree of transparency and accountability, and decision making and management responsibilities delegated to communities. Bank rules and guidelines apply to CDD projects in the same way they do for any other project; however, their application is scaled to the project and the community's capacity.

12. The assessment identified as a risk the lack of appropriate financial management institutional arrangements within the POs and Community Associations. Although the FM arrangements set out at the Implementing Agency level can be considered adequate, they are not fully extended to the POs and Community Associations level. External audit reports of previous projects have highlighted the necessity of enhancing the controls and reporting within the subprojects. Thus, there is an inherent risk of insufficient appropriately skilled resources and processes to adequately design and implement the Project at the subproject level.

13. To build capacity within the implementing agencies and mitigate risks at the regional level, project component 3 on Technical Assistance will include actions related to developing specific FM procedures and training PO and Community Association staff in these, and enhancing the capacity of the CAR to undertake financial inspections at the regional level. CAR will identify and contract dedicated FM staff and establish partnerships with market access initiatives (e.g. SEBRAE, SENAR, NGOs), to strengthen the FM stream within the POs and Community Associations, focusing mainly on internal controls, funds flow and reporting aspects.

²² In accordance with OP/BP 10.00 and the Financial Management Practice Manual (issued by the Financial Management Sector Board in March 1, 2010).

This will ensure that the all FM processes are adequate. CAR's compliance with these requirements will be reviewed throughout the entire project lifecycle.

14. The overall conclusion on the assessment of CAR is that the financial management arrangements as set out for this Project are considered adequate. Fiduciary Risks have been identified and mitigated as reflected in the ORAF matrix.

Overall Financial Management Arrangements

15. Implementing Agency (Staffing and institutional arrangements): CAR will undertake the primary fiduciary responsibilities for the project. These responsibilities will be carried out by CAR's financial department. The Project uses its institutional units so it is not a separate PMU. The primary project coordinating unit fiduciary responsibilities include: (i) preparing and obtaining approval of project FM arrangements; (ii) coordinating and supervising project implementation; (iii) submitting disbursement requests and documentation of expenditures to the Bank; (iv) preparing and submitting project financial reports (IFRs) to the Bank; (v) preparing and providing all financial documentation and project reports requested by external auditors and Bank staff and (vi) preparing, updating and ensuring that all project executors follow the Project Operating Manual.

16. Staffing: the Financial Management team is composed of qualified professionals that understand Bank policies and procedures, and have the education levels, experience, and knowledge of processes to adequately perform these functions. This will require hiring of a qualified financial management specialist dedicated to overseeing all FM-related activities for this Project.

17. Budgeting, Accounting and FM Systems: The state of Bahia follows the Brazilian Accounting Rules (NBC), Law 4320/64 that establishes certain high level accounting principles, and the Accounting Manual Applicable to the Public Sector (MCASP) issued under Law 10180 of February 6, 2001 and Decree 3589 of September 6, 2001. It will be required to follow the first set of national accounting standards applicable to the public sector (NBCASP) and the revised Accounting Manual Applicable to the Public Sector (MCASP) issued under Portaria STN 467 of August 6, 2009 and updated for Year 2013.

18. The budget cycle includes planning and implementation of all government activities, which are to be reflected in the PPA, LDO, and LOA²³. All accounting records are kept by the State's Auditor General - CGE. The FIPLAN system is used by all state institutions (including CAR) that receive/transfer government funds. CAR's system has in place adequate internal control procedures, is properly staffed, has the capacity to disburse through conventional Summary Sheet (SS) / Statement of Expenditure (SOE) procedures and to produce good quality Financial Reports (IFRs).

²³ PPA–Plano Pluri-Anual, LDO-Lei de Diretrizes Orçamentárias, LOA–Lei Orçamentária Anual which includes the government's goals and programs that are approved by Congress every five years, 18 months, and 12 months, respectively.

19. Accounting and maintenance of accounting records: CAR uses two different, and not fully integrated, systems. (1) FIPLAN, the State of Bahia's budgetary and accounting tool, is used to record the project's expenditures and to make relevant payments in accordance with the annual budget law. This is because the project is a cost center (*Unidade Gestora*) within the system; (2) CAR's own financial management system is, the basis for the preparation of SS/SOEs and project financial statements; and subproject monitoring, physical progress and contract management. CAR's financial management system does not communicate electronically with FIPLAN, therefore financial data, namely payments; need to be periodically and manually reconciled with FIPLAN. Despite the risk of human error, these systems have been evaluated and monitored under other Bank projects and are considered reliable and secure. The Finance Secretariat-SEFAZ has the responsibility to maintain the State's accounting records, including those of the project. CAR has a financing unit subordinated to SEFAZ and responsible for making the respective payments within the limits of the authority provided by the annual budget law.

20. Internal Controls and Internal Audit: The internal control environment of the Project is adequate. All transaction processing uses CAR's institutions, processes and systems that provide for segregation of duties, supervision, quality control reviews, reconciliations, and independent external audits and appear to meet the needs of the Project. Process flows appear to be clear and well understood by CAR's personnel. All project budgeting and accounting transactions will run through the public state accounting system (FIPLAN). All payments will follow the official commitment (*empenho*) and verification (*liquidação*) and payment (*pagamento*) routine. These functions are carried out by the Administration and Finance Department of each spending entity. All project costs are recorded according to the Federal and State Chart of Accounts, which enables a comparison and reconciliation with the Project's own records, recorded in SACC, the financial management information system. This system is used by CAR for recording project transactions, financial reporting and budget execution. The system is an integrated online system, used by CAR and the regional technical units. However, the final part of this stream is the weakest, and it needs to be enhanced through capacity building for POs and CAs and enhancing internal audit capacity within CAR to ensure compliance with FM procedures. FM activities within project Component 3 will aim to ensure that the control process, including over all funds, is extended to subprojects. The Project Operations Manual will document these processes to guide their implementation. It shall contain detailed procedures and guidelines for disbursements, payments, approvals, commitments, payments and reporting, and should be submitted to the Bank for review.

21. Fund Flow and Disbursement Arrangements: The proposed funds flow and disbursement arrangements will be streamlined within the project to facilitate execution, avoid unnecessary incremental operational arrangements, and rely as much as possible on existing country systems. All payments will be made by SEFAZ using the FIPLAN system, upon instructions from CAR, once payment obligations have been incurred, verified and properly documented. Payments to the POs and CAs for Market Oriented and Social and Environmental subprojects will be made, through the issuance of an *ordem bancária* to the POs and CAs, who will then pay service providers and contractors. To make payments, the state system requires that funds be committed by source, making possible the tracking of loan disbursements to Project expenditures. A Subproject Agreement (*Convênio de Subprojeto*) with each participating PO/CA must be signed,

enabling it to receive funds in a special account opened for the Project. In addition, counterpart funds are expected to be deposited to the same specific account.

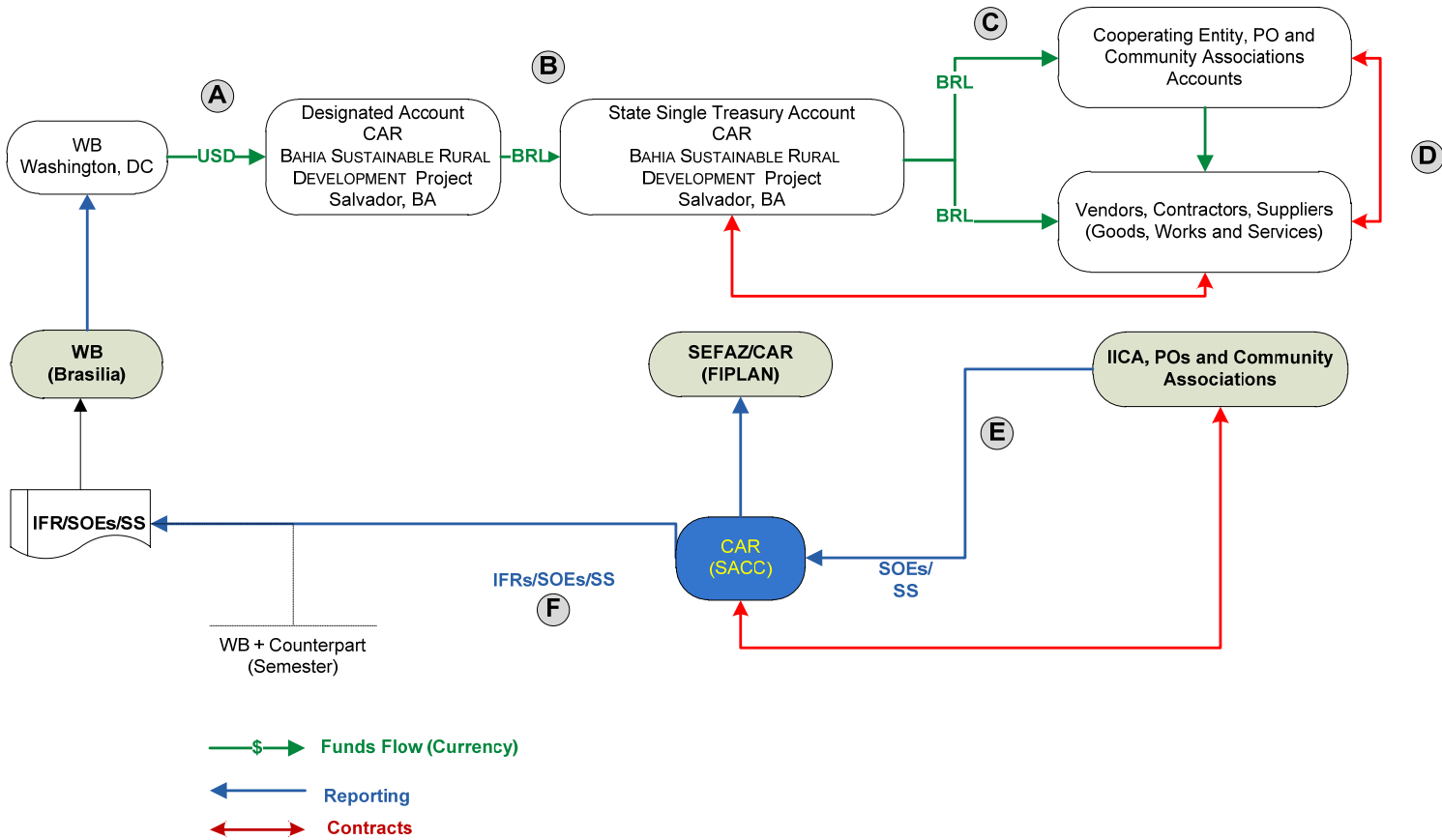
22. The Project will report on the use of Bank funds through Withdrawal Applications supported by Statement of Expenditures (SOEs), Summary Sheets (SSs) and Records as defined in the Disbursement Letter. CAR will sign off on the Withdrawal Applications, and request disbursements and/or document expenditures based only on actual expenditures (using the same lump-sum method for subproject expenditure i.e. treating the progress/sequenced disbursements to the PO's and CA's as actual expenditure).

Project Flow of Funds

23. The primary Bank disbursement method will be Advances. CAR will open a single, segregated Designated Account (DA) in its name, in *Banco do Brasil*, to receive loan funds in USD, and will send Withdrawal Applications to Bank together with SOEs/SS's wit Records accounting for advances from the Bank as follows (see also Figure 2):

- (a) WB advances funds into Designated Account (DA) in USD.
- (b) From the DA, CAR will convert the funds to Brazilian Reais (BRL), and transfer funds to the state's single treasury account, in Salvador. The single treasury account will have a sub-account exclusively for the project, CAR being responsible for managing this account, through FIPLAN.
- (c) The Cooperating Entity, POs and CAs will open new bank accounts exclusively for the project, where proceeds will be deposited upon payment instructions from CAR via FIPLAN/SACC, for eligible and duly approved subprojects (except for the Cooperating Entity to which advances will be made to cover its expenditures forecast for the semester and for which the Cooperating Entity will subsequently report back to CAR on the use of such advances). Disbursements for eligible subproject expenditures are sequenced and made in line with physical progress. Such payments will have to be authorized by CAR. The POs and CAs contributions to subproject investments would be defined in the agreement between CAR and the POs and CAs. This contribution would be computed as part of the counterpart finance of the project. Simple, standard records, whose formats are included in the project Operational Manual, would be completed by a designated PO and CA representative. They would be used to record cash contributions from all sources and also funds directly paid to suppliers, materials and labor inputs, and these records would be subject to project audit procedures.
- (d) The Cooperating Entity, PO and CA make direct payment to providers or contractors (observing the Bank's FM and Procurement Guidelines).
- (e) All supporting documentation is submitted from the Cooperating Entity, POs and CAs to CAR.
- (f) SOEs/SSs and Records are formatted and sent to WB.

Figure 2: Project Flow of Funds



24. Subprojects are expected to have a total value of less than US\$ 500,000. Any subproject whose total value is greater than US\$ 500,000 will require the Bank's no objection for financing from the loan. The disbursement mechanism for Market Oriented and Social and Environmental subprojects will operate as follows: After the conclusion of a sub-project agreement, CAR will advance the funds in installments to the PO's and CAs to be deposited in the POs and CAs bank account. The POs and CAs would then submit documentation on the use of the first installment, and based on the documentation of the first installment together with physical progress, they would receive the second installment and so on. Payments will thus be made on a lump-sum basis. CAR should be capable to monitor individually, by PO and CA, the funds advanced, its purpose and status of project implementation. All sub-project activities would also need to be completed prior to the Closing Date. With the funding made on a lump-sum basis as described in the paragraphs above, the World Bank accounts for the eligible expenditures (i.e. records that the eligible expenditures are documented) when the lump-sum is paid, so long as there are mechanisms in place by the CAR, with oversight by the Bank, that the sub-projects are being implemented as intended. A similar approach/process will be followed for the household WSS subprojects.

25. Direct Payments and Reimbursements from the Loan Account may also be used, provided the Withdrawal Application value is above the Minimum Application Size. Although fully capable of producing IFRs for report-based disbursements, the borrower has decided that disbursements will be documented via the transaction-based disbursement method. Accordingly, disbursements will be documented on the basis of SOEs, except for goods, non-consulting services and works exceeding US\$ 1,000,000 equivalent; contracts with consulting firms above US\$ 100,000 equivalent; and with individuals above US\$50,000, which will be supported by Summary Sheets (SS) and Records. The information required for the compilation of SOEs/SSs, as well as all relevant supporting documentation, will be maintained by CAR in the SACC data base. All Withdrawal Applications will be forwarded, by CAR to the World Bank in Brasilia. At this stage, it is not envisaged that CAR will consider converting to report-based disbursements. A segregated DA at the Banco do Brasil, with a Fixed Ceiling of US\$30 million, will be opened to ensure a timely flow of funds and smooth project implementation. The frequency for documenting eligible expenditures paid from the DA will be at least once every quarter. The Minimum Application Size (for Direct Payments and Reimbursements) will be US\$ 6,000,000 equivalent. The proposed World Bank loan will be disbursed over a period of six years. The project is expected to be completed by the project's Closing Date. The project will have a Disbursement Deadline Date (final date on which the World Bank will accept Withdrawal Applications from the Borrower or documentation on the use of loan proceeds already advanced by the World Bank) of four months after the Closing Date of the project. This "Grace Period" is granted in order to permit the orderly project completion and closure of the loan account via the submission of Withdrawal Applications and supporting documentation for expenditures incurred on or before the Closing Date. Expenditures incurred between the Closing Date and the Disbursement Deadline Date are not eligible for disbursement, except as otherwise agreed with the World Bank. The allocation of loan proceeds by disbursement category is shown in Table 2.

Table 2: Allocation of Loan Proceeds

<u>Category</u>	<u>Amount of the Loan Allocated (expressed in Million USD)</u>	<u>Percentage of Expenditures to be financed</u>
(1) Goods, works, Non-consulting Services, and consultants' services required for Subprojects	119.625	Up to 100% of the amount disbursed under a Matching Grant.
(2) Goods, works, consultants' services, non-consulting services, Operating Costs and Training under Parts 1(b), (c), 2(b) and 3 of the Project	30.000	100%
(3) Front-end Fee	0.375	Amount payable pursuant to Section 2.03 of the Loan Agreement in accordance with Section 2.07 (b) of the General Conditions
TOTAL AMOUNT	150.000	

Table 3: Subprojects Financing Arrangements

Types of Subprojects ²⁴	Percentage of Subproject cost		
	Beneficiary Contribution	GoBA Counterpart	IBRD Matching-Grant ²⁵
1. Market-Oriented	at least 20%	up to 40%	40%
2. Social and Environmental	at least 10%	up to 42%	48%
3. Household WSS Subprojects	None	18%	82% ²⁶

26. Financial Reporting: CAR, with the support of the financial coordinator, will ensure the timely production of semester financial monitoring reports (IFRs). These IFRs will be produced from the SACC system and will consolidate the project’s financial data for all components and be submitted within 45 days after the end of each reporting period. Accordingly, the format and content of the IFRs, to be agreed with the borrower will cover the following items:

- (a) IFR 1A - Sources and Uses of Funds (by disbursement category, showing the Bank’s share in the financing of expenditures, cumulative (project to-date; year-to-date and for the period) vs. budgeted expenditures, including a variance analysis.
- (b) IFR 1B - Uses of Funds by Project Activity or Component, cumulative (project-to-date; year-to-date and for the period) vs. budgeted expenditures, including a variance analysis.
- (c) IFR 1C – Statement of Expenditures from the POs and CAs responsible for subproject implementation.

27. External Auditing: Annual project financial statements will be audited by the State’s SAI (Supreme Audit Institution), TCE-BA (Tribunal de Contas do Estado da Bahia), in accordance with acceptable auditing standards and in line with IFAC’s norms and guidance, which is acceptable to the Bank. The external audit will be conducted under Terms of Reference acceptable to the Bank. TCE will undertake audits/reviews of/at the subproject level to identify any weaknesses. Specific provisions will be specified in the auditors TOR regarding the review of subproject execution/activities. Auditors will be required to issue a single opinion on project’s financial statements. Auditors will also have to produce a management letter, where relevant internal control weaknesses will be identified, which will contribute to the strengthening of the control environment. The auditor’s report will be submitted to the Bank no later than six months after the closing of the borrower’s fiscal year.

²⁴ For each Subproject, either Market-Based or Social and Environmental, the exact amount of beneficiary contribution will be defined in the Subproject Agreements between CAR and the beneficiary PO or CA, therefore determining the amount of the GoBA counterpart funding.

²⁵ ‘Matching-Grant’ means a grant made out of the proceeds of the Loan to a selected PO or CA for the partial financing of an eligible Subproject, subject to the specific terms and conditions set forth in the Project’s Operational Manual and in the corresponding Subproject Agreement.

²⁶ Overall macro level financing percentage. Individual subprojects may be financed at 100%.

28. Supervision Plan: The scope of project supervision will review the implementation of FM arrangements and FM performance, identify corrective actions, if necessary, and monitor fiduciary risk. It will take place annually and include (a) reviewing of semester IFRs; (b) reviewing of the auditors' reports and follow-up of any issues raised by auditors in the management letter, as appropriate; (c) participation in project supervision (including visits to the subprojects – POs and Community Associations) and (d) updating the financial management rating in the Implementation Status Report (ISR).

Procurement

A) General

29. Procurement for the project will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated January 2011, and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated January 2011, and the provisions stipulated in the Legal Agreement. The general description of various items under different expenditure category is described below. For each contract to be financed by the 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.

30. Procurement of Works: Under Components 1, works will be procured by Producer Organizations (POs) and Community Associations (CAs) following Community Participation in Procurement, whose procedures will be outlined in the Project Operational Manual, and will include small-scale infrastructure investments, mainly small works to expand or adapt facilities of POs and CAs, as required to implement the respective business and investment plans. Under Component 2, works will be procured by CAR following International Competitive Bidding (using the Bank's SDBs), National Competitive Bidding (using SDBs agreed with the Bank), or Shopping procedures. If the requirements of paragraph 3.7 of the Bank's Guidelines are met, Direct Contracting may also be used for the procurement of works.

31. Procurement of Goods: Under Component 1, goods will be procured by POs and CAs following Community Participation in Procurement, whose procedures will be outlined in the Project Operational Manual, Shopping procedures, or National Competitive Bidding (using SDBs agreed with the Bank), and will include, inter alia, production inputs, farming, storage, and processing equipment, as required to implement the respective business and investment plans, or construction material and equipment required for small-scale infrastructure investments. If the requirements of paragraph 3.7 of the Bank's Guidelines are met, Direct Contracting may also be used for the procurement of goods.

32. Procurement of non-consulting services: Under Component 1, non-consulting services will be procured by POs and CAs following Community Participation in Procurement, whose procedures will be outlined in the Project Operational Manual, and will include, inter alia, unskilled labor and equipment installation, repair or maintenance services. Under Component 2

and 3, non-consulting services will include printing, logistics for events, advertisement and marketing campaigns, and video and photography production. These services will be procured by CAR, following National Competitive Bidding (using SDBs agreed with the Bank) or Shopping procedures. Under NCB and/or as an alternative to Shopping, these services could be procured following reverse auction (*Pregão*) procedures or Framework Agreements, as these have been reviewed and found acceptable to the Bank. If the requirements of paragraph 3.7 of the Bank's Guidelines are met, Direct Contracting may also be used for the procurement of non-consulting services.

33. Selection of Consultants: Under Component 1, consulting services from firms and individuals will be selected by POs and CAs, under subprojects, following a Selection Based on the Consultant's Qualifications (paragraph 3.7 of the Guidelines) or a Single-Source Selection (paragraph 3.8(c) of the Guidelines) and will include pre-investment activities to, inter alia: (i) support technical, extension and training services to create and consolidate value-added arrangements among POs and other commercial stakeholders; (ii) identify potential business opportunities and prepare business proposals; (iii) prepare related business plans; and (iv) build capacity among technical service providers to enhance the quality of their services in support of POs' competitiveness; and demand-driven value-added technical assistance to support the implementation by POs of viable business plans including, inter alia: (i) diversification and improvement of production/farming systems; (ii) agro-processing; (iii) support to meet legal environmental and sanitary requirements for market access; and (iv) marketing and logistics. Individual Consultants will be selected on a single-source basis (paragraphs 5.6(b) and 5.6(d) of the Guidelines). Under Component 2, consulting services will include technical assistance and capacity building for WSS investment preparation, works supervision, and promotion of innovative management models for decentralized WSS administration and service delivery.

34. Under Component 3, consulting services from firms will be procured by CAR, following either a Selection Based on Quality and Cost, Selection under a Fixed Budget, Least-Cost Selection, Selection Based on the Consultant's Qualifications, or a Single-Source Selection; individual consultants will be selected following the procedures outlined in paragraphs 5.2 and 5.3 of the Guidelines and on a single-source basis, in accordance with paragraph 5.6 of the Guidelines. These services will include: (i) studies and diagnostics to further target and justify productive inclusion investments (namely, the identification of priority value chains, feasibility analysis, business plan development etc.), as well as evaluate the impact and feasibility of WSS investments (namely, hydrological and environmental impact analysis, etc.); (ii) further development of participatory methodologies (by increasing effective communication with target populations) and provide capacity building to Project beneficiaries and their organizations (including capacity building and technical assistance for Business and Investment Plan development and implementation); and (iii) capacity building of Project implementing agencies and Partner Agencies, strengthening strategic analysis and planning capacities as well as the integration of investments for the target population from different public policies and programs.

35. 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.

36. Training related expenditures will include contracts for event logistics, transportation, catering, material preparation, course enrollment fees, and per diem. These contracts will be procured following the implementing agency's administrative procedures, which were reviewed and found acceptable by the Bank.

37. Operational Costs which will be financed by the Project include incremental costs of the technical and administrative management staff of the Project, office equipment, supplies, and maintenance, air tickets, updates to the Project management information system for use in project monitoring, printing services, telecommunication costs, and travel costs (transportation, per diem, accommodations), leasing of facilities, utilities, maintenance of office facilities; rentals of vehicles and other equipment required for project support, and logistics services. These expenditures will be incurred following the implementing agency's administrative procedures, which were reviewed and found acceptable to the Bank.

B) Assessment of the implementing agency's capacity to implement procurement

38. Procurement activities will be carried out by CAR and by POs and CAs. CAR has a central procurement committee staffed by experienced procurement professionals. The Project Operational Manual will include, in addition to the procurement procedures, the SBDs to be used for each procurement method, as well as model contracts for works, consultancies, services, and goods procured.

39. An assessment of the capacity of the CAR procurement arrangements for the Project was carried out by the Bank in October 2013. The assessment reviewed the organizational structure for implementing the Project and the experience of CAR to provide guidance, supervise and oversee the procurement to be carried out by subproject beneficiaries under previous projects.

40. The risks that have been identified relate mostly to the procurement to be carried out by POs and CAs, and they have been flagged and registered in post reviews reports prepared for the previous projects. Though experienced, CAR's staff cadre require some additional training on the Bank's procurement requirements and procedures to improve their knowledge and ability to guide POs and CAs, to supervise their procurement activity, and to take corrective measures, especially because post reviews of previous projects have registered recurrent issues related to low competition, acceptance of defective bids, incomplete documents to support bid receipt and evaluation, lack of social control, inefficient internal audit, and lack of application of corrective measures.

41. To reduce the risks identified above, the strategy is to strengthen the capacity of CAR staff and PO and CA members to understand the application of procurement principles and procedures and to enhance social control of community procurement by the PO and CA themselves. Mitigation measures include capacity building on procurement in general, expanded advertisement, enhanced involvement of PO and CA members in procurement decision making and oversight, and improved record keeping.

42. The overall Project risk for procurement is **Substantial**.

C) Procurement Plan

43. The Borrower, at appraisal, developed a Procurement Plan for Project implementation which provides the basis for the procurement methods. This plan will be agreed between the Borrower and the Project Team before negotiations and will be available at CAR. It will also be available in the Project's database and on the Bank's external website. The Procurement Plan will be updated in agreement with the Bank annually or as required to reflect the actual Project implementation needs and improvements in institutional capacity.

D) Frequency of Procurement Supervision

44. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the CAR has recommended semi-annual supervision missions, including field visits, to carry out post review of procurement actions.

E) Details of the Procurement Arrangement involving international competition

Goods and Works and non-consulting services

45. The initial Procurement Plan indicates no contracts will be procured following ICB and Direct Contracting:

46. Goods and Services contracts estimated to cost above US\$1 million, Works contracts estimated to cost above US\$10 million and all Direct Contracts will be subject to prior review by the Bank.

Consulting Services

47. The initial Procurement Plan indicates no contracts with short-list of international firms.

48. Consultancy services estimated to cost above US\$0.2 million per contract and all Individual Consultant and Single Source Selection contracts will be subject to prior review by the Bank.

49. **Short lists composed entirely of national consultants:** Short lists of consultants for services estimated to cost less than US\$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.

Environmental and Social (including safeguards)

50. The State of Bahia is located in the eastern part of the Brazil on the Atlantic coast. It has the longest coastline of the Brazil country: 1,103 km long (685 miles; north coast: 143; Baia de Todos os Santos: 124; and southern: 418). With 68 percent of its territory located in the semi-arid zone, the state has diversified climates and an average rainfall that varies from 363 to 2,000 mm (14.3 to 78.7 in) per year, depending on the region.

51. The project interventions will be small-scale, demand-driven investments (i.e., subprojects). These subprojects will not cause significant adverse environmental impacts, related mainly to infrastructure development (i.e., water, sanitation and rural roads), new agricultural practices (i.e., product diversification, conservation agriculture, promotion of value added products, and product certification).

52. Based on the assessment of potential impacts under the proposed Project, it is designated as Environmental Category B and the following safeguards are triggered: Environmental Assessment (OP/BP 4.01), Forests (OP/BP 4.36), Natural Habitats (OP/BP 4.04), Pest Management (OP 4.09), Indigenous Peoples (OP 4.10), Physical Cultural Resources (OP/BP 4.11) and Involuntary Resettlement (OP 4.12) – as some activities supported by the proposed Project may require land acquisition by the State and potentially have adverse impacts related to involuntary physical and/or economic displacement of populations. As a precautionary measure, the Safety of Dams (OP/BP 4.37) policy is also triggered as the proposed Project would finance small dams, including farm ponds, local silt retention dams, and low embankment tanks. As the exact type and nature of subprojects to be financed business plans and small-scale community infrastructure would not be known ex ante (i.e., prior to project appraisal), the State of Bahia has prepared an Environmental and Social Management Framework (ESMF), an Indigenous Peoples Planning Framework (IPPF) and a Resettlement Policy Framework (RPF).

53. The ESMF draws on lessons from previous operations implemented by CAR, including the Rural Poverty Reduction Project (RPRP). The ESMF focuses on Project-specific aspects, such as institutional arrangements and capacity, regulatory framework, environmental screening procedures and criteria and licensing. The ESMF includes an analysis of any economic or social impact project activities might have on vulnerable groups, traditional communities or poor rural communities.

54. The ESMF provides guidance on: (i) identifying the potential social, environmental and distributive impacts associated with the typology of project investments; (ii) minimizing potential impacts for productive and infrastructure subprojects; (iii) specifying procedures to be used in assessing environmental and social impacts during the subproject design stage; and (iv) addressing identified impacts during subproject implementation. Additionally, the subprojects selection procedures will be consistent with (i) the national, state and local legislation concerning Brazilian Forest Code, natural habitats and protected areas (Law 12.651/12; SNUC - Law 9985/00, Decree 4340/02 and Decree 5758/06); (ii) Law 12.334/2010; and (iii) World Bank safeguards policies.

55. The ESMF, the IPPF the RPF and POM include clear methodology, procedures, and criteria to monitor subprojects impacts on water resources from water storage infrastructures in semi-arid region. A Grievance Redress Mechanism has been designed and encompasses five channels to receive grievances (the Municipal Councils of Sustainable Development, the Territorial Councils, Car Territorial Offices, a website and CAR Ombudsman. Consultations with key stakeholders have been carried out in March 19-20, 2014. This event counted with the participation of 545 people, including representatives Municipal Councils of Sustainable Development, rural community associations, family farmers, Quilombola and “fundo de pasto” communities, and Indigenous peoples. All safeguard documents are publically available at CAR

website (<http://www.car.ba.gov.br/publicacao/estudos-de-caso-e-impactos-socioeconomicos/>). The safeguards documents have been disclosed in country on March 17, 2014 and in Infoshop on April 8, 2014.

Environmental

56. Environment (OP/BP 4.01): It is not expected that Project implementation will have negative impacts on natural environmental resource, natural habitats, and physical cultural resources. Subprojects with the potential for conversion or degradation of natural forests or other natural habitats that are likely to have significant adverse environmental impacts which are sensitive, diverse, or unprecedented are ineligible. The Project also excludes activities that require commercial forest harvesting, wood extraction or firewood use in the production chain. Activities resulting in deforestation and loss of native vegetation cover will not be allowed.

57. Natural Habitats (OP/BP 4.04): Activities under the project components would lead to positive impacts on natural habitats, as the Project has provisions to regenerate and reforest water-producing systems (mainly riparian vegetation), benefiting also local biodiversity preservation and restoration. Subprojects resulting in any significant conversion or degradation of critical natural habitats will not be eligible.

58. Pest Management (OP 4.09): The Project will encourage the control of pest populations through the integrated pest management framework within the ESMF. Nevertheless, minor amounts of pesticides would probably continue to be used in the short term by a small portion of targeted small-scale landholdings. The project would encourage and support technical assistance for the adoption of organic agriculture and of proven, economically- and environmentally-sustainable Integrated Pest Management (IPM). This approach would increase farmer productivity (i.e., yields), reduce input costs and human health risk, and minimize adverse environmental impacts through the virtual elimination of pesticide use. The Borrower prepared Pest Management procedures that are incorporated in the ESMF and the draft Project Operational Manual. The pest management will make use of the World Health Organization's Recommended Classification of Pesticides by Hazard and Guidelines to Classification (Geneva: WHO 1994-95).

59. Forests (OP/BP 4.36): Typical activities financed under the project should support mainly small-scale rural producers and restoration activities, and should be planned and executed in such a way as to minimize or prevent negative impacts on forest areas. The Project will not allow activities resulting in deforestation and loss of native vegetation cover. The Project also excludes activities that require commercial forest harvesting, wood extraction or firewood use in the production chain.

60. The ESMF includes guidance on: (i) screening out subprojects that would negatively affect natural habitats; and (ii) maximizing sustainable management of the affected Permanent Conservation Areas (APPs) to improve the health and quality of natural habitats while minimizing direct and induced adverse impacts arising from subproject activities.

61. Physical Cultural Resources (OP/BP 4.11): Eligible subprojects will not support significant excavations, demolition, movement of earth, flooding or other environmental changes, nor will subprojects be located in, or in the vicinity of, a physical cultural resources site recognized by the relevant Brazilian authorities. Nonetheless, this policy is proactively triggered. Although unlikely to happen, the Borrower has screening procedures in the ESMF and draft Project Operational Manual to deal with “chance findings” of archeological material during subproject implementation.

62. Safety of Dams (OP/BP 4.37): The Project will finance small dams (less than 15 meters in height), including farm ponds, local silt retention dams, and low embankment tanks. The Project will exclude activities that require large dams, which are 15 meters or more in height. Nevertheless, the ESMF ensures that environmental assessments of subprojects will have determined that there would be no risk or negligible risk of significant adverse impacts due to potential failure of the structure to local communities and assets.

Social

63. The proposed Project will be implemented across the State’s 27 territories and will target family farmers who are overrepresented among the poor population in the State. This population includes quilombolas, indigenous groups, and artisanal fishermen, among other traditional groups, who collectively sum approximately 56,200 families. The proposed Project also aims at ensuring that women, youth, indigenous peoples and other vulnerable rural and urban groups can benefit from increased agricultural and nonagricultural subprojects, as well capacity building and from WSS services investments. This strategy envisages three phases: (i) Phase 1 – communication and mobilization of indigenous communities, aiming to disseminate broadly information on the project and leveling the opportunities of participation in Project activities; (ii) Phase 2 – capacity building and community strengthening, aiming to address the main vulnerabilities faced by different indigenous communities, to develop their Indigenous communities ethno-development plans, and to increase participation of Indigenous Peoples in the municipal and territorial councils; and (iii) Phase 3 – financing social and environmental subprojects presented by indigenous communities in response to targeted public calls for proposals issued by CAR. Quilombola communities will also participate on the public calls for proposals for social and environmental subprojects issued by CAR, as well in training courses.

64. The State of Bahia continues to be ridden by rural poverty and is vulnerable to weather-related events and climate change. Data from the 2010 Census show that the State of Bahia has a large share (27.9 percent) of its population living in rural areas (in comparison, 15.6 percent in Brazil²⁷ and that 21.1 percent of its households live with per capita income of less than one quarter of the minimum wage (extreme poverty line), a percentage twice the national average (10.4 percent). Poor with per capita income below half the minimum wage amounted to 44.9 percent of the total, well above the Brazilian average (27.6 percent).²⁸ Across State regions, there

²⁷ Additionally, rural labor comprises 31.6% of the Bahia’s labor force, a figure almost twice as high as the Brazilian average (16.5%).

²⁸Source of data: PNUD, Atlas do Desenvolvimento Humano no Brasil 2013, available at www.atlasbrasil.org.br/2013. It is worth noticing Brazil does not have official poverty lines. The R\$70 and

were wide differences in poverty (IBGE: 2010 Census).²⁹ In fact, spanning over 68.7 percent of the territory and housing 49.1 percent of the population, the Semi-Arid region is the poorest and less developed region of the State. Most of the State's rural population lives in this poverty stricken, drought prone and highly vulnerable to climate change region, which continues to lag in terms of economic development with consequences in terms of its contribution to overall state growth, decreasing population, and low job creation.³⁰

65. Indigenous peoples, quilombola communities and other traditional communities are overrepresented among the rural poor. According to FUNAI (the Brazilian Agency of Indigenous Affairs), there are 16 Indigenous Peoples in the State of Bahia. They account for 16,817 people, living in 31 indigenous lands, which comprise 113 local communities. Nearly 56 percent of them live with monthly per capita income up to one fourth of the Brazilian minimum wage and 80 percent earn up to half of the minimum wage. There are also 468 quilombola communities and 507 communities (11,431 families) in which the system of “fundo de pasto” prevails.³¹ Poor soils in drought prone areas and low technology productive practices compromise their livelihood. Perennial water shortage reduces the quality of life in indigenous and traditional communities at the North-Northwest portions of the state and land conflicts prevail in some areas at the southern coastal region.

66. Bahia also presents wide gender inequality especially in rural areas. Gender inequalities express themselves in relation to poverty rates and labor market outcomes (lower labor force and gender participation, higher unemployment and lower earnings). In Bahia, the percentage of families headed by women reached 35.9 percent in 2009, slightly above the Brazilian average (35.2 percent). Although declining in Bahia, poverty among female headed households (13.0 percent) has been higher than among males (11.0 percent). In rural areas, the situation is even worse: the share of poor female headed households is almost double the figure for urban areas. The fact that women have, on average, more years of education than their male counterparts is not reflected in comparable outcomes in economic opportunities.³² On the contrary, as to the male-female composition of the labor force, men have a slightly higher share (56.7 percent) than the national average (56.1 percent). Recent unemployment data (IBGE: December, 2011, PME) also show that the women's unemployment rate (11.2 percent) is almost double that of men's (5.7 percent). Besides facing higher unemployment, women have lower earnings as compared to men – the ratio between male and female earnings equals 1.58 (IBGE: 2009, PNAD). Higher unemployment and lower income turns women more dependent on their male partners and increases the probability of being subjected to domestic violence. If a woman is illiterate, afro-descendent, head of household with small children, works in family agriculture or lives in the

R\$140/month thresholds used by the Bolsa Família and Brasil Sem Miséria Federal Programs largely differs from PNUD's thresholds mentioned here.

²⁹ The state is divided in three large regions in terms of vegetation: *Litoral* (eastern most part along the ocean), *Semi-Árido* (Center) and *Cerrado* (western most part).

³⁰ In fact, the semi-arid area holds almost half of the State population but it contributes only to 29.1% of Bahia's GDP.

³¹ The “fundo de pasto” system prevails among traditional pastoralist communities who collectively and according with consuetudinary rules use large areas of free land for breeding animals as well as extractive activities.

³² It shall be noticed that females in rural areas have half the average number of schooling years than their urban counterparts.

semi-arid interior of the State, she will have a very high probability of being extremely poor in addition to being overexposed to risky situations. These outcomes reflect fewer opportunities for women and disrespect for their rights.

67. Indigenous Peoples (OP/BP 4.10): Indigenous peoples are a priority target of this project as they are overrepresented among the poor rural population of the state of Bahia. An Indigenous Peoples Planning Framework (IPPF) has been prepared by the client in compliance with the Bank policy, its principles and guidelines. The IPPF draws on lessons from previous operations implemented by CAR, which have set participatory processes of consultation and planning and have benefited indigenous communities (3,337 families from 23 indigenous lands). The main implementing agency (CAR) has sufficient capacity for the implementation of Safeguards subject to the (re)alignment of its human and financial resources to meet anticipated demands of the new project.

68. Involuntary Resettlement OP/BP 4.12: The proposed project is not expected to fund any subprojects that could potentially cause significant physical displacement and economic losses. Some activities aiming to promote employment and income growth in rural areas may require land acquisition and have adverse impacts related with involuntary resettlement and/or economic displacement. In principle, the project will seek to avoid involuntary resettlement, wherever possible. Nevertheless, as the exact type, nature and location of subprojects to be financed would not be known prior to project appraisal, a Resettlement Policy Framework (RPF) has been prepared by the client in compliance with the Bank policy, its principles and guidelines. Environmental conservation or protection activities will not lead to involuntary restrictions in access to natural resources in protected areas. Therefore, there is no need to prepare a Process Framework.

Monitoring & Evaluation

69. The Project will be monitored and evaluated through the existing Management Information System (MIS) developed by CAR based on previous Bank-supported operations (Produrir I, II, and III). The MIS will be updated and allow for integration of financial, technical, social, and economical information. The PMU will be responsible for managing and compiling the information provided by each co-executor and beneficiary of the Project, and it is envisaged that the system will be adapted to cellphone data inputting.

70. A framework for the monitoring and evaluation of project outcomes and results was fully-developed and is expected to be under implementation by the end of project year one. It specifies the data collection methodology, reporting responsibilities and frequency of M&E activities. The regular management of the M&E framework is critical to ensure timely and successful implementation of the Project, and to enhance its impact for the beneficiaries by the systematic and periodic analysis of lessons learned, and their effective dissemination. Performance indicators, baseline, and targets are presented in the Results Framework and Monitoring in Annex 1. The Project M&E system includes baseline data and performance (milestones) indicators to monitor progress with implementation. Project evaluation will be based on annual periodic reports, Project Monitoring Reports (PMRs), prepared by the PMU.

71. To ensure that M&E activities are an integral part of Project management activities, specific attention will be given to: (i) early involvement of co-executors and beneficiaries of the Project in M&E activities, (ii) data collection arrangements, including data sources and the reliability of the information provided and associated costs and responsibilities; and (iii) human (both beneficiary and staff) and institutional capacity building, including extent of central CAR and its Territorial Units capacity for M&E, the need for capacity building and the associated costs.

72. Evaluation of project outcomes would attempt to measure both quantitative and qualitative changes in: (i) income; (ii) employment; (iii) land and water use; (iv) technical assistance provision and its effectiveness; (v) food security for social and environmental subprojects; (vi) reduced morbidity of water-borne diseases, for WSS subprojects. The PMU will collect data and provide support to ensure gender-disaggregated impacts of the Project, as well as beneficiary training (POs and CAs) for inputting of timely data through the adoption of ICT practices. Other specific investments may be assessed through quasi-experimental and qualitative methodologies.

73. Based on inputs received toward evaluation design, the Borrower will conduct an Impact Evaluation (IE) to determine whether the proposed interventions generate a significant and positive impact for the participating POs and CAs with respect to: (i) increase in real net revenue and (ii) access to water. To carry out a full impact evaluation, baseline data will be collected during the first year of Project implementation, prior to the initiation of activities. The baseline is expected to capture characteristics of control group and treatment groups for subsequent quasi-experimental impact evaluation.

74. IE design will attempt to capture both before-after and with-without project outcomes through the application of randomized control trials, where possible. Terms of Reference for the baseline study and evaluation design, prepared by CAR, were reviewed during Appraisal and will be included in the Project Operational Manual.

75. Beside the IE and the milestone indicators, other data will be collected, monitored and evaluated for further possible extension of project intervention and transmission mechanisms. The additional information may be derived from crossing two or more previously defined indicators (detailed in Annex 1: Results Framework and Monitoring), such as: (i) productivity (obtained by crossing volume, price, hours worked, number of workers and adoption of new/improved technological practices), (ii) quality of life (proxy of which can be obtained by the increase in average vulnerable beneficiary household dietary diversity indicator, access to durable goods, number of new piped household water connections that are resulting from the project intervention); and (iii) technology innovation adoption and human capital strengthening of POs and CAs (measured by acquisition of productive capital, assimilation of innovative NRM, CSA, GAP and ICT).

Annex 4

Operational Risk Assessment Framework (ORAF)

BRAZIL: BAHIA SUSTAINABLE RURAL DEVELOPMENT PROJECT (P147157)

Stage: Board

Risks

Project Stakeholder Risks						
Stakeholder Risk	Rating	Moderate				
<p>Risk Description:</p> <p>There are multiple stakeholders (State Secretariats and agencies, territorial councils and consortiums, local community and producer organizations) with different expectations for the timing of project execution and results achievement. Changes in the administration might reduce commitment to the PDO and operational procedures.</p>	<p>Risk Management:</p> <p>Project design is aligned with the consensus state development strategy as reflected in the Participatory Multi-Year Investment Plan (PPA-P 2012-2015). It also builds on the State's targeted policies for family agriculture as well as for water and sanitation in the rural areas.</p>					
	Resp: Both	Status: In Progress	Stage: Implementation	Recurrent ✓	Due Date:	Frequency Quarterly
	<p>Risk Management:</p> <p>Continuous consultation with project stakeholders during preparation and implementation to build consensus on PDO and methodology. Also, have well-designed institutional arrangements and information and monitoring systems for implementation.</p>					
	Resp: Client	Status: In Progress	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly
Implementing Agency (IA) Risks (including Fiduciary Risks)						
Capacity	Rating	Moderate				
<p>Risk Description:</p> <p>Procurement and Financial Management (FM) capacities of the main Project implementing agency (CAR) and of decentralized subproject delivery mechanisms. Lack of appropriate FM institutional arrangements within the Producer Organizations (POs) and Community Associations (CAs).</p> <p>Complexity of consultancy assignments under Component 2 and "participatory procurement procedures" under Component 1 may pose a burden to CAR's procurement committee and to CAR's capacity to oversee the procurement carried out by beneficiaries.</p>	<p>Risk Management:</p> <p>During preparation, Procurement and FM assessments were carried out and generate a detailed action plan to mitigate additional risks, as needed to build capacity within the implementing agencies and mitigate risks at the regional level. Project Component 3 on Technical Assistance will include actions related to developing specific FM procedures and training PO and CA staff in these, and enhancing the capacity of the CAR to undertake financial inspections at the regional level.</p>					
	Resp: Bank	Status: Completed	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly
	<p>Risk Management:</p> <p>Adoption of a strong and comprehensive internal control system, close monitoring of State Budget / Financial system and Project MIS system and provision of fiduciary training to regular State entities and staff specialists.</p>					
	Resp: Both	Status: In Progress	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly

Governance	Rating	Moderate				
<p>Risk Description:</p> <p>Changing GoBA priorities throughout Project implementation may divert attention from Project activities. Political differences between municipalities may interfere with the regionalization process.</p> <p>The objective evaluation of proposed business plans and investment plans could be co-opted by competing agendas to distribute political patronage in the targeted area.</p> <p>Political and budgetary commitment to the program may not be preserved over time.</p>	<p>Risk Management:</p> <p>The Project focuses on key government objectives around which it is reasonable to expect consensus within any Government. Nonetheless, a regular review could be conducted to enable adjustments, if necessary.</p>					
	Resp: Bank	Status: In Progress	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly
	<p>Risk Management:</p> <p>Work closely and continuously with state/territorial/municipal coordination committees/councils to minimize the risk caused by affiliation to different parties, and encourage state coordination. Transparency of business plans selection through public calls; Project Operational Manual (will be agreed prior negotiations) and widely disseminated through official channels.</p>					
	Resp: Client	Status: In Progress	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly
	<p>Risk Management:</p> <p>Ensure the associated budgets in the multi-annual planning and development of a strong system for monitoring and evaluation Hold workshops and seminars with State Secretariats, stakeholders and beneficiaries to provide training and design mechanisms to implement the program satisfactorily.</p>					
	Resp: Client	Status: In Progress	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly
	<p>Risk Management:</p> <ol style="list-style-type: none"> The POM will contain an adequate procurement section. The lowest level responsible for procurement will receive Project support to ensure adequate capacity to do so (e.g., through training or outsourcing/centralization of the procurement function) and guidance will be given to CAR on how to verify compliance with procurement rules and identify red flags; CAR will periodically provide evidence that due diligence and supervision is being undertaken, serious issues are being flagged, and action taken; Bidders and other local stakeholders must receive information on procurement procedures, sanctionable practices, and on the sanctions imposed by the World Bank, as well as the State and Federal Government for irregularities. 					
	Resp: Client	Status: In Progress	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly
	<p>Risk Management:</p> <p>Brazil has a vibrant investigative press which has been at the forefront of exposing corruption in the past decade. Forms of direct social control over government, through participatory budgeting and transparent expenditure notices, are evolving in Brazil.</p>					
	Resp: Both	Status: In Progress	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly
Project Risks						
Design	Rating	Moderate				

<p>Risk Description: The multi-sectoral nature of the operation causes fragmentation in project implementation.</p> <p>Matching grants to finance business plans and investment plans implementation could “crowd-out” possible financial intermediation, notwithstanding the formal finance supply.</p>	<p>Risk Management: CAR will be the lead implementing agency of the project and will coordinate all the Secretariats involved. Their coordination role will help address fragmentation in implementation.</p> <p>Explore alternatives to guarantee financial risk of beneficiaries' organizations to improve their creditworthiness.</p>						
Social and Environmental		Rating	Moderate				
<p>Risk Description: Safeguard capacity - the Project interventions comprise mainly small-scale investments that may cause positive or neutral impacts. However, a few may produce direct negative impacts to the surrounding environment.</p> <p>The implementation of productive subprojects heavily relies on the management capacity of individuals or POs and CAs, which varies widely.</p> <p>Traditional patterns of the social division of labor may hamper the participation of women and Afro-descendants, as well as indigenous and quilombola communities in productive economic activities.</p>	<p>Risk Management: During Project preparation, the Bank team assessed the institutional capacity of CAR and the other State agencies to implement and monitor Bank social and environmental safeguards as satisfactory. The Project will support activities at the management level to identify what kind of additional support for institutional capacity building and strengthening might be needed to assure good implementation of Bank safeguard policies.</p>						
		Resp: Both	Status: Completed	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly
		<p>Risk Management: An Environmental and Social Management Framework and a Resettlement Policy Framework address safeguard compliance and propose actions, where needed, to ensure adequate technical capacity.</p>					
		Resp: Both	Status: Completed	Stage: Implementation	Recurrent ✓	Due Date:	Frequency Quarterly
		<p>Risk Management: The social assessment addresses the main risks and restrictions that may hinder the participation of these most vulnerable social groups and proposes mitigation measures. Additionally, the Project will provide capacity building to women, Afro-descendants, quilombola and indigenous communities targeted for participation in Project production investments</p>					
		Resp: Both	Status: In Progress	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly
Program and Donor		Rating	Low				
<p>Risk Description: Not applicable</p>	<p>Risk Management: Not applicable</p>						
		Resp: Client	Status: Completed	Stage: Preparation	Recurrent ✓	Due Date:	Frequency Yearly
Delivery Monitoring and Sustainability		Rating	Moderate				
<p>Risk Description: Weak Technical capacity at territorial level to adequately implement M & E systems could inhibit assessment of results and associated impact</p>	<p>Risk Management: Bank team support to impact evaluation design: M&E specialists on Bank team (LEN and SPN); CAR to prepare M&E proposal under Terms of Reference reviewed by the Bank.</p>						
		Resp: Client	Status: In Progress	Stage: Both	Recurrent	Due Date: 31-Dec-2015	Frequency

Overall Risk
Implementation Risk Rating: Moderate
Risk Description: The Moderate risk rating is selected due to: (i) the decentralized approach under the project; (ii) the enhanced institutional and coordination capacity required for project implementation; and (iii) fiduciary risks associated with the decentralized implementation of project investments

Annex 5: Implementation Support Plan

BRAZIL: BAHIA SUSTAINABLE RURAL DEVELOPMENT PROJECT (P147157)

Strategy and Approach for Implementation Support

1. The strategy for implementation support (IS) draws on the risk profile of the proposed Project (i.e., ORAF, Annex 4) and aims to enhance the Client's quality delivery of the proposed project interventions. As such, the IS focuses on: (i) risk mitigation measures defined in the ORAF; and (ii) standard Bank supervision, including technical, institutional, safeguards (environment, social) and fiduciary aspects (financial management and procurement).

2. Semi-annual Bank supervision (including field visits to investments financed under Components 1 and 2) would concentrate in the following areas:

(a) **Strategic:** To the extent possible, supervision missions would meet with the Project Steering Committee (*Comitê de Articulação Técnica*) to:

- i. review project activities;
- ii. reconfirm strategic alignment of the project's multisectoral aspects; and
- iii. ensure the necessary coordination across the respective stakeholders.

(b) **Technical:** Supervision would concentrate on the implementation of the investment cycle with regard to Components 1 and 2, as well as on ensuring CAR's ability to provide quality assurance for the Project's interventions, both centrally in Salvador and throughout its Territorial Units. Randomized field visits would serve to verify compliance with the Project Operational Manual and encourage adjustments to Project design, as needed, given results on the ground. Market-chain/private-sector specialists (Component 1) and water and sanitation specialists (Component 2) would complement the permanent Bank supervision team through short-term cross-support of Bank staff and, as warranted, targeted engagement of external technical experts. Ongoing support by Bank specialists for M&E and contracted evaluation expertise, as needed, would continue to strengthen CAR's ability to both monitor project progress and assess the impact of interventions.

(c) **Safeguards.** The Bank worked with and advised CAR staff on the preparation and consultation of the ESMF for the proposed project. This support would continue throughout project implementation with regard to the investments financed under Components 1 and 2. The Bank also worked closely with the Client's team in the preparation and consultation of the IPPF, as well as the RPF, and would continue to do so during project implementation. The ESMF focuses on Project-specific aspects, such as institutional arrangements and capacity, regulatory framework, environmental screening procedures and criteria and licensing. The ESMF includes an analysis of any economic or social impact project activities might have on vulnerable groups, traditional communities or poor rural communities.

(d) **Fiduciary:** The Bank would provide timely, targeted training to CAR and key stakeholders prior to project effectiveness and through periodic supervision during project implementation. These training courses and supervisions would:

- i. prepare CAR staff to work with POs and CAs in conducting procurement under their respective investments, in compliance with the Procurement and Anti-Corruption Guidelines and the ICA Agree;
- ii. ensure the capacity of POs and CAs to manage the flow of funds and simple accounting procedures, in line with FM guidance; and
- iii. work with CAR and co-executor agencies in building their overall financial management and procurement capacity to improve and facilitate project management. Supervision of the Project's financial management arrangements would be conducted semiannually and as needed in response to client needs. Procurement supervision would also be carried out semiannually during regularly scheduled Bank supervision.

(e) **Client Relations:** The Bank's Task Team Leader (TTL) would: (i) coordinate Bank support to implementation and supervision to ensure consistent project execution, as specified in the legal documents (i.e., Loan Agreement, Project Operational Manual); and (ii) meet regularly with the Client's senior representatives (i.e., CAR, SEDIR and SEPLAN) to gauge project progress in achieving the PDO and address implementation roadblocks, as they may arise.

Implementation Support Plan

I. Skills Mix Required

Skills Needed	# Staff Weeks per FY	#Trips per FY	Comments
Task Team Leader (Supervision)	6	3	Country-based
Procurement Specialist	3	2	Country-based
Financial Management Specialist	3	2	HQ-based
Environment Specialist	3	2	Country-based
Social Specialist	3	2	Country-based
Legal Counsel	3	1	Based in Lima, Peru
Climate Smart Specialist	3	2	HQ-Based
Civil Engineer	4	2	Country-based
Market-Chain/Private-Sector Specialist	5	3	Country-based
Monitoring/Evaluation Specialist	5	3	Country-based
Nutrition Specialist	3	2	HQ-Based
Risk in Agriculture Specialist	2	2	Country-based
Water and Sanitation Specialist(s)	5	2	Country-based

II. Partners

Name	Institution/Country	Role
Private-Sector Partners	Various/TBD by participating POs and	Commercial partners with POs in the preparation and implementation of viable business plans.

	CAs	
Financial Institutions	Banco do Brasil; Banco do Nordeste do Brasil, Agência de Fomento do Estado da Bahia, CREDISOL.	Linkage with market; complementary financing of proposed business plans (Component 1).
Market-oriented Productive Investments	SEPLAN, SEAGRI, SUAF, SEINFRA, SETRE, INEMA, EMBRAPA, SEBRAE, SENAR, the Cooperating Entity.	Collaborate on design, implementation and management of productive-related investments [Component 1 (a) i].
Social and Environmental Investments	SEAGRI, SUAF, SEINFRA, SETRE, INEMA, EMBRAPA, SEBRAE, SENAR, the Cooperating Entity.	Collaborate on design, implementation and management of productive-related investments [Component 1 (a) ii].
Water and Sanitation Partners	SEDUR, EMBASA, CENTRAL, SAAE	Collaborate on design, implementation, management and maintenance of water services-related investments (Component 2).
Knowledge and Learning; Technical Assistance	SEPLAN, SEAGRI, SUAF, SEINFRA, SETRE, INEMA, EMBRAPA, SEBRAE, SENAR, the Cooperating Entity.	Collaboration with knowledge sharing, training courses, specialized technical assistance, research, studies. (Components 1, 2 and 3)

Annex 6: Economic and Financial Analysis

BRAZIL: BAHIA SUSTAINABLE RURAL DEVELOPMENT PROJECT (P147157)

1. This Annex provides a summary of the financial and economic analysis of the investments being supported under Component 1 “Productive Inclusion and Access to Markets” and Component 2 “Household Water Supply and Sanitation” of the Project (*Bahia Produtiva*).
2. Section one places the analysis within the Project’s Development Objective and Framework and presents the economic rationale for the public sector and World Bank’s involvement. Section two, summarizes the Project’s activities under analysis. Section three describes the methodology, while sections four and five present the results of the financial and economic analyses, respectively.

The Project’s Development Objective and Framework

3. The Project Development Objectives are: to increase market integration, net revenues, and food security of organized beneficiaries; as well as to improve access to water supply and sanitation services of households in Project areas.
4. PDO level results indicators include: (i) increase in the total number of formal contracts integrating beneficiary Producer Organizations (POs) into markets; (ii) increase in real net revenue³³ of beneficiary POs; (iii) increase in average vulnerable beneficiary household dietary diversity indicator; (iv) number of new piped household water connections that are resulting from the project intervention; and (v) number of people provided with access to improved sanitation facilities under the project.
5. The proposed Project is expected to finance around 445 subprojects from both components (see Table 1.) Approximately 39,000 households are expected to benefit directly from productive subprojects financed under Component 1 (see Table 2) and another 17,200 households to benefit directly from improved water supply and sanitation services financed under Component 2 (see Table 3). Populations expected to benefit from the Project include family farmers³⁴, informal economy entrepreneurs, land reform settlers³⁵, indigenous³⁶ and quilombola³⁷ communities).

³³ Discounting inflation.

³⁴ As defined under the National Policy for Family Agriculture and Rural Family Units, Federal Law No. 11.326 (2006) registered in the DAP (*Declaração de Aptidão ao PRONAF* - National Program to Strengthen Family Agriculture).

³⁵ As recognized by INCRA – National Institute of Colonization and Agrarian Reform

³⁶ As recognized by FUNAI - National Indigenous Peoples’ Foundation

³⁷ *Quilombolas* are descendants of Afro-Brazilian slaves who escaped from slave plantations and who have historically suffered legal, social and economic discrimination; thus continue to exhibit lower poverty and human development indicators. Recognized communities of *quilombolas* enjoy a particular legal status under Brazilian law.

Table 1: Investment details per Component

	Investment (R\$)	Number of Subprojects (Est.)	Average per Subproject (R\$)	Number of Beneficiary Households	Average per Beneficiary Household (R\$)
Component 1	153,000,000	273	560,000 ³⁸	39,000	3,923
Component 2	68,800,000	172	400,581	172,000	4,006

Table 2: Indicative Number Beneficiaries of productive subprojects per priority productive chain (Component 1)

Value chain	Total No. of People	No. of Beneficiaries	No. of Households
Cassava	276,865	29,025	8,537
Milk Cattle	6,654	6,976	2,052
Sheep/Goat	179,469	18,815	5,534
Apiculture	27,954	2,931	862
Aquaculture	213,906	22,425	6,596
Fruit Farming	154,062	16,151	4,750
Oilseeds	230,084	24,121	7,094
Solid Waste	115,964	12,157	3,576
Total	1,204,958	132,600	39,000

Table 3: Potential Beneficiaries of WSS subprojects (Component 2)

No. of WSS Subprojects	Av. No. of Households per subproject	No. of Households
172	100	17,200

Rationale for Public Sector involvement

6. The State of Bahia has a larger share (27.9 percent) of its population living in rural areas in comparison with Brazil's (15.6 percent)³⁹. Indeed, more than half of its 417 municipalities have less than 20,000 inhabitants and largely depend on State and Federal government transfers. Poverty is much more widespread in rural Bahia, with 30.1 percent of the rural population considered poor in comparison to 13.8 percent in urban areas. Bahia accounts for up to 20 percent of Brazil's rural poor⁴⁰. Across state regions there are wide differences in poverty

³⁸ Estimated on the basis of likely subprojects for which the cost-benefit analysis was undertaken.

³⁹ Additionally, rural labor comprises 31.6% of the Bahia's labor force, a figure almost twice as high as the Brazilian average (16.5%).

⁴⁰ Jatobá, Jorge, PSIA: Bahia Socio-Economic Inclusive Growth, 2012.

(IBGE: 2010 Census).⁴¹ Spanning over 68 percent of the territory and housing 49 percent of the state's population, the Semi-Arid region is the poorest and least developed region of the State. Most of the state's rural population lives in this poverty stricken, drought prone and highly vulnerable to climate change semi-arid zone, which continues to lag in terms of economic development with consequences in terms of its contribution to overall state growth, decreasing population, and low job creation.⁴²

7. Bahia's rural areas, particularly its semi-arid regions, experience chronic water scarcity, with periodic, long and severe droughts that hampers its development. The rural poor depend largely on agriculture for their livelihoods and food security; however they remain poorly integrated within productive value chains. Family agriculture shows low levels of land and labor productivity and added value, especially in the Semi-Arid Region, in a context where rural extension services and financing are severely limited and access to markets has been hampered by poor market information and diseconomies of scale.

8. Although some farmers are benefiting from federal programs, such as the National Program to Strengthen Family Agriculture (PRONAF), these programs have not provided the scale of financing necessary for producer organizations to make the investment needed for commercial viability; namely, financing for working capital, infrastructure and inputs to increase productivity, engage in value-added processing, and commercialization.

9. Although the cooperative sector has been growing in rural Bahia, family farmers are only slowly being organized collectively to improve their productivity or market position.

10. Rural water supply and sanitation indicators show that significant challenges remain and the State needs to strengthen policies, coordinate institutional efforts, and increase investment in infrastructure development particularly in small rural communities. In 2010, only 38.9 percent of rural households were connected to the State water supply network. Not only are the poorest rural people disproportionately affected by lack of access to reliable water resources, but also among Bahia's rural population only about 6.9 percent of people have access to adequate sewage systems. According to the targets established by the National Plan for Basic Sanitation (PLANSAB) launched by Ministry of Cities in December 2013, within 20 years, 60% of the rural households in the country should have access to the water network.

11. Water supply and sanitation (WSS) services are services typically provided by public sector agencies, given the key economic benefits they provide to society as a whole, and the generally insufficient financial returns to investment that these types of investments normally generate. WSS investments tend to be of a costly and to provide returns in the long term. Considered basic services, they normally privilege maximum coverage, over the generation of financial revenue beyond that required for operation and maintenance.

⁴¹ The state is divided in three large regions in terms of vegetation: *Litoral* (eastern most part along the ocean), *Semi-Árido* (Center) and *Cerrado* (western most part).

⁴² In fact, the semi-arid area holds almost half of the State population but it contributes only to 29.1% of Bahia's GDP.

12. For productive investments where public funds are being used to co-finance private initiatives a stronger justification is required. The proposed Project will provide technical assistance and support for strengthening small producers' organizations (POs), as well as providing matching grants to finance the investments for the implementation of business plans deemed essential to increase their assets value and their credit-worthiness. On parallel, the Project would provide training and technical assistance to these POs to be better positioned to improve their access and use of established financial services. These measures would contribute to solve some of the main reasons for this perceived market failure that is practically limiting the use of the financial services existing in the state and would improve possibilities for future productive investments.

13. So far, no other economic agent has been able to address the aforementioned constraints. This might be due to perceived risks of investing in an environment with the described characteristics, when compared to other investment opportunities, as well as to the lack of investment capacity of local economic agents (local associations for example). On the other side, it is inherently the role of the public sector to support the economic betterment of populations that live below national and state standards, as the ones being targeted by this Project.

14. The public sector will, through the Project, support producer organizations to strengthen their capacities for collective action, and to improve productivity, value added, and commercialization of their goods and services, through technical assistance, training and financing for acquiring productive assets, in line with a business plan that will be evaluated from financial, environmental, technological and social perspectives. The Project will also endeavor to link producers to existing rural credit programs, and by its nature will reduce the risks to producers and potential financial institutions. Producer organizations will provide co-financing for the implementation of the business plans.

15. Finally the Project will support the generation of economic benefits for society as a whole, such as ecosystem conservation, which justifies the proposed public financing of the related investments. .

Rationale for the World Bank's involvement

16. The rationale for the World Bank's involvement is described in detail in the main text of the Project Appraisal Document. In addition to those arguments, the Bank's long-standing engagement through a series of loans under the Northeast Rural Poverty Reduction Program (1993-2010), including to the State of Bahia, places it in a unique position to share key lessons learned in areas of rural development, poverty reduction, climate adaptation and mitigation, decentralization and participatory methodologies.

Description of main initiatives under analysis

17. The proposed Project will provide matching grants and technical assistance in the form of subprojects to producer organizations based on business plan proposals linked to pre-identified priority value chains⁴³ and in line with municipal and territorial sustainable development plans. Subprojects will include infrastructure investments when identified as necessary for its feasibility. Also, proposals will identify beneficiary contribution (financial and in-kind); include social, environmental and financial/economic sustainability analysis for the investments.

18. The proposed Project will also finance water supply and sanitation subprojects, where pre-established adequate managements systems are present. Water supply and sanitation investments will adhere to specific technical, environmental, financial and management criteria, as described in Annex 2. The proposed Project will also provide institutional strengthening and capacity building for the entities that assume responsibility of managing the subprojects.

19. The cost-benefit analysis was carried out using financial models of likely types of Market-Oriented subprojects to be financed by the Project within four of the priority productive chains (i.e. sheep/goat, aquaculture and fishing, oilseeds, and solid waste recycling), and one economic model for a WSS subproject. The main aspects of the analyzed subproject types are described below. As a demand driven Project, the nature, scope and mix of the subprojects to be financed will be determined through a selection process during implementation where proposals will be evaluated against pre-established criteria.

20. Oilseeds – The Licuri Palm, (*Syagrus coronata*), is a species of palm tree native to Northeastern Brazil. The nut produced by the palm tree has a high content of oil that is used for industrial and other purposes. The sub-project under analysis aims at increasing the productivity of processing by mechanization, and of revenue, by increasing output and adding value to production. The Licuri nut is usually collected by women who break/thresh it manually for sale at local markets. The sub-project will support the mechanization of the Licuri nut breaking process, a highly labor intensive activity if done manually, thus increasing output capacity, and the increased sale of sub-products. Other investments include warehouses to store the nuts and the equipment. The investment will boost production by raising the current output of 25 kg of nuts / week / family, to 50 kg of nut / day / family, and milling capacity/output of 600 kg/h. This subproject will benefit 39 households and generate 2 incremental jobs per production unit.

21. Aquaculture/fishing – Artisanal fishing is a regular activity along the San Francisco River and with strong presence alongside the coastline of the state of Bahia. The sub-project under analysis aims at increasing output and revenue of a group of 48 fisher folks, by investing in 6 small motorized fishing vessels (saveiros), each for two crews of four individuals, that will procure a (5 percent) larger catch in a 9 month fishing period (less than current 11 month period) to observe a restricted fishing season. Fisher folks will improve their work conditions by spending less time at sea and receive compensation, equivalent to the Brazilian minimum wage, foreseen in Federal Brazilian legislation for the 3 months in which professional fisher folks are not allowed to fish. Other investments, such as increased freezing capacity, infrastructural

⁴³ GoBA preliminary diagnostics identified the following priority value chains for family farming: apiculture, aquaculture and fishing, cattle and dairy farming, goat and sheep farming, fruit cultivation, manioc and cassava cultivation, oilseed cultivation, solid waste recycling.

improvement to processing facilities, refrigerated transport and technical assistance, will allow for additional processing, better product quality and improved cold chain management. This together with improved market linkages facilitated by the Project will result in an increase in sales price (from R\$7 to R\$12 per kg).

22. Sheep/goat - The production and sale of sheep is a major activity in the rural areas of Bahia. However, small scale production tends to be very low-tech and extensive in nature. The subproject under analysis aims at increasing output and revenues of an organized group of 50 sheep producers by intensifying production through improved herd nutrition and better herd health, genetic improvement, improved herd management, and better marketability. Considered investments include the establishment of protein banks and other supplemental forage/feed crops for dry season feeding, equipment for harvesting, processing and packaging feedstuffs, water storage works, veterinary kit, breeding stock, technical assistance, etc. After herd stabilization, animal sales will increase from 1,098 to 3,780 head per year, and prices⁴⁴ from R\$ 137.00 to R\$ 215.00 per head.

23. Solid waste recycling – Informal waste collectors work in dire conditions, delivering individually what they collect to intermediaries and earning R\$ 0.15 per kg of recyclable materials, each obtaining an estimated average monthly gross revenue of R\$105. The subproject under analysis would invest in garbage selection facilities, social assistants and technical support to establish an association that will consolidate, select and sell recyclables. Waste collectors will also become “environmental agents”, working door to door advocating garbage separation and collecting garbage directly from households. The subproject will result in both increased labor productivity and higher prices fetched per kg of recyclable materials sold. The “environmental agents” will also receive payment from their municipality for services. The value of the collected and selected garbage and the payment for services from the municipality are expected to yield approximately the equivalent to the minimum wage (R\$ 724) for each worker, after all operating costs have been paid.

24. Water supply – This subproject type aims at providing potable water supply to a community of 100 households (539 habitants). Water demand was assumed at 100 liters per person per day, or 53,900 in total. Pumping time was assumed at 16 hours per day. The characteristics of the investment were those from an actual subproject financed by Rural Sanitation Department of the State Secretariat of Regional Development (SEDUR), while the nature of the operational activities and costs were estimated with support of expert advice.

Methodology

25. In the case of Market Oriented Subprojects (Component 1), the proposed Project will support endeavors which are (i) oriented to specific market opportunities and conditions; (ii) to be identified on a demand driven basis throughout the areas of intervention with the active participation of producers groups and other local stakeholder. Hence, there is no sole representative case for each of the subproject types of investment, or a non-arbitrary manner to

⁴⁴ Weighted average of prices for different livestock categories (i.e. young males, young females, culled breeding stock).

define the eventual mix of subproject types within a productive chain, or how many subprojects will be financed in each productive chain. Consequently, the proposed Project does not lend itself to a detailed ex-ante financial cost-benefit analysis.

26. This analysis focuses on likely Market-Oriented subprojects from a subset of the priority productive chains that have been identified during project preparation. A financial model was built for every likely type of subproject using real information from similar subprojects implemented or under implementation by CAR, complemented by qualified expert advice with respect to the relevant productive chains and secondary data collected during the pre-appraisal mission. The results basically provide some indication that the type of subprojects likely to be supported by the Project will be financially feasible investments as business ventures on their own right. During project implementation a detailed ex-ante financial feasibility analysis will be required for every productive subproject being considered for financing by the Project.

27. In the case of subprojects to be financed by Component 2, “Household Water Supply and Sanitation”, just as in the case of the Market-Oriented subprojects, the demand driven nature of the sub-project identification process, and the location-specific investment requirements and operational costs, does not allow for a detailed economic ex-ante cost-benefit analysis that will provide sufficiently non-arbitrary results. Just as in the case of Component 1, an economic model for a likely type of subproject to be financed by the Project was constructed. In this case in particular, the financial model was based on a water access subproject financed by Bahia State Integrated Project (P093787). The economic benefits of the subprojects were assumed to be the willingness to pay for water, expressed by the current lowest water tariff charged by EMBASA, the water company supplying water to Salvador. During project implementation, at least an ex-ante analysis of financial sustainability of each water and sanitation (WSS) subproject will need to be undertaken.

28. Considering potential data limitations, and the identified risks to subproject performance, both the financial and economic analyses took a conservative approach in the estimation of benefits. Furthermore, in the case of the economic cost-benefit analysis of the water supply subproject type, as reference shadow prices used in previous analyses for Northeastern Brazil were all below 1.0, market prices were used instead. Estimated financial impact indicators include incremental family annual net benefits, NPV at 12 percent discount rate and IRR. Economic indicators for the water access subproject include economic IRR (E-IRR) and economic NPV (E-NPV), using a 10 percent discount rate.

29. Both financial and economic analyses considered the Project risks identified in the Operational Risk Assessment Framework (ORAF) of the PAD. Most of the identified risks were not considered relevant to the results of this analysis. The most relevant risk identified that “the objective evaluation of proposed business plans could be co-opted by competing agendas to distribute political patronage in the targeted area.” This risk was taken into consideration and measures were taken to mitigate its potential impact on the cost-benefit analyses. Mitigating measures included, as previously mentioned, the use of conservative assumptions about adoption and/or output rates, and equally conservative assumptions with respect to other variables that could negatively impact the cost-benefit indicators. Furthermore, the sensitivity analysis

indicates that the feasibility of the subprojects under analysis is not highly sensitive to reductions in subproject performance.

4. Financial analysis results

30. Despite the conservative approach taken for this financial analysis, its results are considerably robust. The initiatives in the different categories all produced positive indicators, with an average NPV of R\$ 612,000 and a weighted average for the IRR of 28 percent. Most subproject types allow for a 24 percent-36 percent decrease in incremental revenue to remain financially viable. The only exception was the sheep production subproject type, which could withstand up to a 12 percent reduction in incremental revenue to remain financially feasible. A summary of the financial analysis results for the productive subproject types are summarized in Table 4 and the sensitivity analysis in Table 5.

Table 4: Summary of the estimated financial results

Categories	Initial Investment ,000 (R\$)	Incremental values per category		Incremental annual net benefit per family (R\$/family)	Return on labour with project (R\$/month)
		NPV ,000 (R\$)	IRR		
Oilseeds (Licuri)	237	1,086	79%	13,310	987
Aquaculture/fishing	698	397	23%	2,557	1,140
Sheep/goat	351	365	25%	3,009	5,661
Solid waste recycling	955	602	20%	13,111	523
Weighted average			28%		
Average	560	612			

Table 5: Sensitivity Analysis of the financial models

Oilseeds	Switching value (quantity)	Switching Value (price/unit)	Mximum variation (%)
Sales	84 kg of nuts per family / week	1.22 R\$ / kg of nuts	- 33%
Recurrent costs			145%
Aquaculture / Fishing	Switching value (quantity)	Switching Value (price/unit)	Mximum variation (%)
Catch	484 kg/vessel/week		-24%
Selling price		9 R\$ / kg	-24%
Sheep/goat	Switching value (quantity)	Switching Value (price/unit)	Mximum variation (%)
Herd size / price	69 animals in the herd	11 R\$ / kg of meat	-12%
Costs			170%
Solid waste recycling	Switching value (quantity)	Switching Value (price/unit)	Mximum variation (%)
Waste collection / selling price	1020 kg waste/person/month	0.22 R\$ / kg of waste	-36%
Operational costs (without labor)			220%

5. Economic analysis results

32. As in the case of the productive subproject types, the water access economic model generated positive cost-benefit indicators. The E-IRR for this investment was estimated at 39 percent, while the economic E-NPV yielded R\$ 556,470, or R\$ 5,565 per family.

33. For the sensitivity analysis, three scenarios were considered for *operational* and for *investment costs*: (i) minimum; (ii) expected; and (iii) maximum.

34. Minimum values of operational costs considered that half of the necessary water volume is lifted into the reservoir during the night (lower energy tariff) and the other half of the necessary volume is lifted during the period with the regular energy tariff; expected values were estimated assuming that all the water will be pumped during the period with the regular tariff; maximum assumed that approximately one third of the water will be pumped during peak periods.

35. With regards to investment costs, the minimum value is the lowest investment per family in the sample of 12 subprojects financed by BAHIA RURAL; the expected value is the median investment for one family; and, the maximum investment the most a subproject in the sample needed invested to supply one household.

Table 6: Probability scenarios

Item	Minimum	Expected	Maximum
Operational costs (per household/year)	67	211	528
Investment costs (per household)	463	3,492	9,133

36. These costs were used to calculate a matrix with maximum and minimum possible E-IRR and E-NPV considering the operational and investment costs variation ranges above. For example, the upper left corners of the matrices depict the E-IRR and E-NPV when both operational and investment costs are considered at their lowest value. Conversely, the lower right corners shows the E-IRR and E-NPV when both operational and Investment costs are inputted in the model with their highest value. The cell in the center is the E-IRR/ E-NPV for the scenario with the expected values for both operational and investment costs.

Table 7: Sensitivity Analysis (100 families per subproject)

		Investment Cost		
		Min	Expect	Max.
Operational Costs	E-TIR			
	Min	>100%	44%	13%
	Expect	>100%	39%	11%
	Max.	>100%	28%	6%
		Investment Cost		
		Min	Expect	Max.
Operational Costs	E-NPV			
	Min	9,436	6,682	155,405
	Expect	8,319	556,470	43,701
	Max.	586,593	3,112	-201,583

