

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

Report No.: PIDA2937

Project Name	BRAZIL BAHIA SUSTAINABLE RURAL DEVELOPMENT PROJECT (P147157)
Region	LATIN AMERICA AND CARIBBEAN
Country	Brazil
Sector(s)	General agriculture, fishing and forestry sector (40%), Agro-industry, marketing, and trade (30%), Water supply (20%), Information technology (10%)
Theme(s)	Rural markets (40%), Technology diffusion (20%), Trade facilitation and market access (20%), Rural policies and institutions (10%), Gender (10%)
Lending Instrument	Investment Project Financing
Project ID	P147157
Borrower(s)	Secretaria de Planejamento (Secretariat of Planning) - SEPLAN
Implementing Agency	Companhia de Desenvolvimento e Ação Regional - CAR
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	07-May-2014
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Estimated Date of Board Approval	27-Jun-2014
Decision	

I. Project Context

Country Context

1. This document presents a proposal for an Investment Project Financing (IPF) loan of US \$150 million to the State of Bahia. The proposed loan would assist the Government of Bahia (GoB) 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.

2. Over the last decade, Brazil has made significant advances in terms of economic management, poverty reduction, and social indicators. Consecutive governments have maintained sound macroeconomic policies, achieving low inflation, robust economic growth, and significant job creation. Growth in employment and labor incomes, as well as the implementation of targeted social assistance programs, such as Bolsa Família, have contributed to a reduction in the share of Brazilians living below the extreme poverty line of R\$70 (US\$35) a month from 10.5 percent at the start of the 2000s to 4.7 percent in 2011, as well as a reduction in inequality as reflected in a fall in

the Gini coefficient from 0.59 to 0.53 over the same period.³ Bahia ranks as the sixth largest state economy in Brazil and accounted for about 4.1% of national gross domestic product (GDP) in 2010.

3. The State of Bahia is the largest economy in the Northeast of Brazil and the fourth state nationwide in terms of population. 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 contraction. 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 (< 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.

4. Bahia, like other Northeastern states, has lagged behind in terms of socio-economic development with a GDP per capita (R\$11,007 in 2010) about half the national average. However, in the past decade, targeted national and state social policies coupled with high economic growth averaging over 5% annually since 2003 have lifted a mass of the poor into the middle class. The percentage of the population living below the poverty line in Bahia (< US\$2.5/a day) has decreased from 46.9% in 2003 to 23.5% in 2011. 4. Despite these achievements, the State of Bahia still faces persistent poverty and inequality and lack of basic infrastructure, particularly in rural areas. Bahia has one of the lowest urbanization ratios in the country at 68 percent. More than half of its 417 municipalities have less than 20,000 inhabitants with high rates of dependence of state and federal government transfers. Furthermore, there are significant disparities between rural and urban household access to safe water. Not only are the poorest rural people disproportionately affected by lack of access to reliable water resources, but also among Bahia's rural population, very few households have access to adequate sewage systems.

5. The proposed Project's objectives and strategy are fully in line with the World Bank Group's twin global goals of shared-prosperity and poverty reduction, as well as with the Brazil Country Partnership Strategy (CPS) 2012-2015. By helping small rural producers increase their incomes by responding to market-opportunities and integration into productive value chains, the Project will support the first objective of the CPS; that is, "to increase the efficiency of public and private investments, thus 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."

6. 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.

Sectoral and institutional Context

7. 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 also a concern with many smallholders cultivating plots smaller than the minimum required to achieve commercial viability. 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.

8. 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. However, 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). In Bahia the percentage of families headed by women reached 38.6 percent in 2012. 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.

9. While access to basic infrastructure essential to improving living conditions has improved at State level, rural areas remain undeserved. 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.

10. 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 Project is financing the construction of 200 rural water supply

systems and sanitation modules in ten selected municipalities with higher incidence of water-borne diseases. 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. 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.

11. 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 projects funded over 2,600 subprojects, with the majority investing in water supply and sanitation services and other basic infrastructure. The Project's impact evaluation demonstrated improved living conditions as a result of these infrastructure investments. However, the thirty percent of subprojects which supported income generating activities did not have the intended effects of increasing incomes or reducing poverty. 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.

12. 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 (see Box 1 on page 23 in the PAD).

13. 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.

14. 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. CAR has presence through its Territorial Offices in the State's 27 territories (Territórios) where the Project will be implemented.

II. Proposed Development Objectives

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.

III. Project Description

Component Name

Productive Inclusion and Access to Markets

Comments (optional)

Component Name

Household Water Supply and Sanitation

Comments (optional)

Component Name

Institutional Development, Technical Assistance and Project Management

Comments (optional)

IV. Financing (in USD Million)

Total Project Cost:	260.00	Total Bank Financing:	150.00
Financing Gap:	110.00		
For Loans/Credits/Others			Amount
Borrower			0.00
International Bank for Reconstruction and Development			150.00
Total			150.00

V. Implementation

15. 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 (PMU) 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) and which will be responsible for Project management and implementation. CAR has successfully implemented previous Bank-financed rural poverty reduction projects in Bahia and complied with all safeguard and fiduciary requirements. 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.

16. In addition to the Project Management Unit, the Territorial Offices (28 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 4 contains a detailed description of composition of the PMU and Territorial Office staffing.

17. With regard to Component 1, the identification, preparation and execution of subprojects will be

the responsibility of POs and CAs.

18. With regard to Component 2, the preparation and execution of WSS systems will be the direct responsibility of CAR in partnership with SEDUR, EMBASA and CERB. 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 (based on voluntary adherence to service contracts).

19. For purposes of assisting in the carrying out of Components 1, 2 and 3 of the Project, CAR will transfer a portion of the proceeds of the Loan to IICA under a subsidiary agreement (the IICA Agreement) to be entered into between the GoBA and IICA prior to Negotiations, under terms and conditions acceptable to the Bank. The Agreement will set forth their respective roles and responsibilities regarding the implementation of the Project, as described in Annex 4 (Implementation Arrangements).

VI. Safeguard Policies (including public consultation)

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

Comments (optional)

VII. Contact point

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