

**Document of
The World Bank**

Report No: 22068-BR

**PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN
IN THE AMOUNT OF US\$22.5 MILLION
TO THE
STATE OF RIO GRANDE DO NORTE
FOR A
RURAL POVERTY REDUCTION PROJECT
(BRAZIL RURAL POVERTY REDUCTION PROGRAM)**

June 6, 2002

**Brazil Country Management Unit
Environmentally and Socially Sustainable Development Sector Management Unit
Latin America and Caribbean Region**

CURRENCY EQUIVALENTS

(Exchange Rate Effective May 4, 2001)

Currency Unit	=	Real (R\$)
R\$1.00	=	US\$0.45
US\$1.00	=	R\$2.22

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

BB	- Bank of Brazil
BN	- Bank of the Northeast
CA	- Community Association
CAS	- World Bank Country Assistance Strategy
CDD	- Community-Driven Development
COPES	- Coordination Unit for Special Projects/STU
FUMAC	- Municipal Community Scheme
FUMAC-P	- Pilot Municipal Community Fund
GOB	- Federal Government of Brazil
HDI	- UN Human Development Index
IBGE	- Brazilian Institute for Geography and Statistics
MC	- Municipal Council
MIS	- Management Information System
NCB	- National Competitive Bidding
NGO	- Non-Governmental Organization
NRDP/PAPP	- Northeast Rural Development Program
PAC	- State Community Scheme
PPA	- Multi-year Government Investment Plan
R- NRDP	- Reformulated Northeast Rural Development Program
RPAP	- Rural Poverty Alleviation Project
RPRP	- Rural Poverty Reduction Project/Program
SEAS	- State Secretariat of Social Action
SEPLAN	- Rio Grande do Norte Secretariat of Planning and Finance
SOE	- Statement of Expenditures
STU	- State Technical Unit
TA	- Technical Assistance

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Brazil

Rural Poverty Reduction Project – Rio Grande do Norte (Brazil Rural Poverty Reduction Program)

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Brazil

Rural Poverty Reduction Project – Rio Grande do Norte
(Brazil Rural Poverty Reduction Program)

Project Appraisal Document

Latin America and Caribbean Region
Brazil Country Management Unit

Date: June 6, 2002	Task Team Leader: Luis O. Coirolo
Country Director: Vinod Thomas	Sector Director: John Redwood
Project ID: P066170	Program Objective Category: Poverty Alleviation
Lending Instrument: Specific Investment Loan	Program of Targeted Intervention: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Project Financing Data	<input checked="" type="checkbox"/> Loan	<input type="checkbox"/> Credit	<input type="checkbox"/> Guarantee	<input type="checkbox"/> Other [Specify]	
Amount (US\$m): 22.5					
Proposed terms:					
Grace period (years): 5	<input type="checkbox"/>	Multicurrency	<input checked="" type="checkbox"/>	Single currency, US\$	
Years to maturity: 15	<input type="checkbox"/>	Standard Variable	<input type="checkbox"/>	Fixed	
Commitment fee: 0.75% on undisbursed balances, beginning 60 days after signing.				[X] LIBOR-based	
Service charge: 1%					
Financing plan (US\$m):					
Source		Local	Foreign	Total	
State Governments (16%)		4.8	0.0	4.8	
Community Associations (9%)		2.7	0.0	2.7	
IBRD (75%)		0.0	22.5	22.5	
	Total	7.5	22.5	30.0	
Borrower: State of Rio Grande do Norte					
Guarantor: Federative Republic of Brazil					
Responsible agency(ies):					
• State of Rio Grande do Norte/SEPLAN					
Estimated disbursements (Bank FY/\$M):	2003	2004	2005	2006	2007
Annual:	6.5*	6.9	5.5	2.5	1.1
Cumulative:	6.5*	13.4	18.9	21.4	22.5

* Includes retroactive financing of up to US\$2.2 million for eligible expenditures incurred after May 4, 2001 but not earlier than 12 months before loan signing.

Expected Effectiveness Date: September 30, 2002

Closing Date: December 31, 2006

A: Project Development Objective

1. Project development objective and key performance indicators:

Background: Northeast Brazil has long contained the largest concentration of rural poor in Latin America. In a search for sustainable solutions to this problem, the Government of Brazil and the Bank have partnered in research and analytical work, technical assistance and a wide variety of development projects for several decades. Some of the most promising results in the area of rural development began to be observed in the late 1980s/early 1990s, under a set of small community-driven development (CDD) pilot components of larger projects (Northeast Rural Development Project, NRDP). When evaluation showed that these pilots were successfully getting resources directly to organized community associations, with greater impact, cost-effectiveness and prospects for sustainability, it was decided in 1993 to completely reformulate the overall projects, using the pilot CDD components as the template. Under the reformulated projects (R-NRDP), the poorest communities received financing to implement, manage and maintain investment subprojects and to contract technical assistance directly as needed. The Federal Government withdrew from its earlier role as coordinator and provider of counterpart funding, decentralizing these responsibilities to the Northeast states. The states in turn piloted a new mechanism to further decentralize decision-making and engage local governments, by creating independent representative project Municipal Councils for purposes of project resource allocation. As the R-NRDPs closed, they were replaced by a set of Rural Poverty Alleviation Projects (RPAPs, 1995-present), for which the state governments borrowed the loans directly. Following the strategy of continuous piloting, testing and expansion, the RPAPs mainstreamed the Municipal Councils and introduced a new variant which assigned not only resource allocation decisions but also funds management to selected high-performing Councils.

To date, the combined impact of these two sets of projects (R-NRDPs and RPAPs) has been to successfully finance and implement over 50,000 infrastructure, productive and social investments, reaching some 7.5 million of the poorest rural people (out of a rural population of 16.5 million) with at least one subproject, in over 30,000 separate communities in the rural Northeast. At least as important, they have succeeded in decentralizing decision-making over project resources to State and local levels, and beginning to increase the role and influence of rural communities in local planning and development. As the RPAPs draw to a close, the Federal and Northeast State governments have decided to consolidate and further scale up the CDD concept through a new set of operations that together will comprise the Brazil Rural Poverty Reduction Program (RPRP). Besides improving the well-being of a much larger number of rural communities through better access to essential infrastructure and services, the main contribution of the RPRP will be to test strategies to extend the reach of the Municipal Councils, by progressively involving them in proactively seeking funding and participating in priority-setting and decision-making on resource allocation over a much wider range of Federal, State and local programs. Currently, a large share of the resources available under those programs either do not reach the rural poor, are directed to activities that are not among the highest priorities of the beneficiaries, or are not delivered in a cost-effective manner. If the RPRP is successful, it will help to realign and better integrate these programs, greatly leveraging the overall impact of public resources directed towards rural poverty reduction. The new program will further help to graduate communities from matching grants to financial institutions, and will expand ongoing, successful piloting of the use of information technology to increase transparency and to connect communities directly with markets.

As part of its efforts to reduce poverty, the Federal Government has agreed to support the RPRP in the Northeast region and is also considering extending the approach to other states with a high incidence of rural poverty. Specifically, the Federal Government is agreeing on aggregate borrowing amounts which it will guarantee for each state, with half to be borrowed in an initial project and the balance for a second stage operation after successful completion of the first. The proposed loan to Rio Grande do Norte would support that state's initial RPRP project. The Government has recently requested support for similar projects in the states of Bahia, Pernambuco, Ceará, and Piauí (Board approval date of June 26, 2001) and Sergipe (Board approval date of January 29, 2002). At this time, the Government is also requesting Bank support for similar projects in Alagoas, Minas Gerais and Tocantins (presented separately). It expects to do the same over the next year for initial RPRP projects in other states (in the Northeast and in other regions where it decides to extend the program), and then subsequently for the second phase of the program in states which have demonstrated successful performance.

Project development objectives: The project aims to assist the State of Rio Grande do Norte to reduce currently high levels of rural poverty by: (a) improving well-being and incomes of the rural poor through better access to basic social and economic infrastructure and services and support for productive activities, using proven community-driven development (CDD) techniques; (b) increasing the social capital of rural communities to organize collectively to meet own needs; (c) enhancing local governance by greater citizen participation and transparency in decision-making, through creation and strengthening of community associations and Municipal Councils; and (d) fostering closer integration of development policies, programs and projects at the local level, by assisting Municipal Councils to extend their role in seeking funding, priority-setting and decision-making over resource allocation.

Key performance indicators:

- number of families benefited from subproject investments;
- incremental employment generated from subproject investments;
- increase in well-being and incomes of project beneficiaries;
- increase in social welfare of rural communities;
- increase in social capital index (CPI) of project Municipal Councils;
- number of Municipal Councils participating in priority-setting and decision-making on resource allocation of project and non-project funded development activities;
- increase in total project and non-project financing allocated through Municipal Council mechanism; and
- number of communities graduated from the program.

B: Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goals supported by the project (see Annex 1):

CAS document number:

R2001-57 (IFC/R2001-69)

Date of latest CAS Progress Report discussion:

May 24, 2001

(Progress Report scheduled June 13, 2002)

The project is an essential component of the current Bank Country Assistance Strategy (CAS) for Brazil, which identifies the reduction of poverty and inequality as the central objective of the Bank's assistance efforts. The upcoming CAS Progress Report extends the current Country Assistance Strategy to the upcoming political transition period in Brazil, permitting the development of the next full CAS with the next incoming administration.

The Northeast region, which includes the State of Rio Grande do Norte, where the proposed project will be implemented, is home to the largest concentration of rural poor in the country. To achieve strong, sustainable poverty reduction impacts, the CAS recommends well targeted anti-poverty programs to enhance the human and physical capital of the poor, both to improve social conditions and allow beneficiaries to make better use of economic opportunities, coupled with social safety nets to protect from economic shocks and natural disasters. It emphasizes decentralized approaches, shifting expenditure and implementation responsibilities from the Federal Government to the States, municipalities and local communities where possible and appropriate. Finally, the CAS recommends better integration of policies and programs intended to support poverty reduction.

In line with these CAS goals, the proposed project directly promotes sustainable poverty reduction in rural Rio Grande do Norte. By providing basic community infrastructure, services and support for productive rural investments, the project will generate new employment opportunities and improve the incomes and social welfare of poor rural families. It will also reduce vulnerability to shocks, particularly in the form of droughts, which are endemic in the Northeast. Through careful targeting and disbursement of funds directly to community associations using proven community-based decision making and implementation arrangements, the project will build social capital at the local level in the poorest areas of the state, improve cost-effectiveness and enhance sustainability of assets over which communities feel a strong sense of ownership and commitment. Finally, by developing representative project Municipal Councils and forging links between these entities and other partners (Federal programs, state and local governments, civil society, financing institutions and the private sector), the project should help to leverage resources for local development, improving the consistency and overall impact of rural poverty reduction efforts in Rio Grande do Norte.

2. Main sector issues and Government strategy:

Rural poverty and inequality: Brazil is characterized by extreme levels of income disparity, with poverty rates much higher than in other countries with a similar level of per-capita GNP. The Northeast region, including nine states and part of a tenth, accounts for only 20% of Brazil's land area and about 30% of its 165.9 million population, but is home to about 22.0 million or 60% of the country's poor and around 11.5 million or 70% of its rural poor. Annual per capita incomes in the Northeast (R\$2,123) are about 42% of the national average (R\$4,945); rural incomes of potential project beneficiaries are only 10% of this average. Approximately 70% of rural household income in the Northeast is derived from farming and agricultural wage labor.

The State of Rio Grande do Norte, in particular, has an overall poverty rate of 31.8%, jumping to 43.0% in rural Rio Grande do Norte. This represents more than 835,000 persons, breaking down to roughly 418,000 in rural areas, and 417,000 in urban areas. Some 56% of rural Rio Grande do Norte households lack piped water supply, about 20% are without sanitation services, and about 14% of rural Rio Grande do Norte households remain without electricity, compared, respectively, with 11%, 3% and 1% for urban Rio Grande do Norte, and 7%, 3% and 0.9% for urban Brazil as a whole.

The Bank has invested in a variety of studies and analytical work in recent years, to identify the dimensions, characteristics and causes of rural poverty in Brazil, and to develop strategic options for policy and programmatic action. Most notable have been: (a) *Brazil Poverty Assessment* (Report No. 14323, 1995); (b) *State Economic Memoranda* (similar to CEMs, SEMs have been completed or are in progress for Ceará, Pernambuco, Bahia and other Northeast states); (c) *Rural Poverty Reduction in Brazil: Towards an Integrated Strategy* (Report No. 21790, 2001); and (d) various surveys, evaluations and impact assessments of the R-NRDP and RPAP projects, including *Decentralized Rural Development, Enhanced Community Participation and Local Government Performance: Evidence from Northeast Brazil* (July 2000).

In general terms, rural poverty in the Northeast is fostered by a relatively weak natural resource base, vulnerability to frequent droughts, low labor productivity, high levels of illiteracy and poor quality and coverage of education, relatively large family size, poor access to basic infrastructure and services, skewed land distribution, and poorly functioning rural financial markets. The data also reveal considerable heterogeneity in natural resource endowments, economic activity and welfare indicators across the region. This suggests the importance of a multi-pronged set of exit strategies to meet the specific needs of diverse groups, including:

- (a) *intensification of the economically viable small-farm sector* (raising labor productivity and incomes by improving the supply of public goods, technology transfer, rural land and financial market reform, and building of social capital);
- (b) *revitalizing commercial agriculture* to absorb wage labor and foster growth of downstream processing activity;
- (c) *stimulating growth of the rural non-farm sector*, especially processing and services (improvements in education, roads, electricity and communications to lower transaction costs and improve functioning of markets);
- (d) *accepting a certain level of migration* as inevitable and rational (especially among the young, for whom investment in education is essential); and
- (e) *provision of adequate safety nets* for those rural poor who will not benefit from intensification of small-holder farming, expansion of commercial agriculture and non-farm activities, or migration (typically the rural elderly and smallholders in areas vulnerable to drought and other natural resource problems).

The proposed RPRP project in Rio Grande do Norte (and the earlier R-NRDP and RPAP projects) constitutes a critical instrument for the State to pursue several of these strategies; it is particularly relevant for (a), but can also contribute to (b), (c) and (e). The Federal Government has recently launched the *Projeto Alvorada 2000-2002* as the framework for its poverty reduction efforts in those municipalities nationwide with the lowest HDI (Human Development Index) levels. Implementation is to be decentralized, stressing community self help and local empowerment. Government views the Bank-supported RPAP and new round of RPRP projects in Rio Grande do Norte and other states as having piloted important delivery mechanisms which it would like to see scaled up and generalized, and considers the projects integral components of its *Alvorada* strategy. Other Bank-supported efforts are also relevant; for Rio Grande do Norte, these include the Northeast Irrigation I, National Agricultural Research, and Land-based Poverty Alleviation projects.

Decentralization: Since the Brazilian Federal Constitution of 1988, the trend has been towards increasing decentralization of fiscal resources, public investment, priority-setting and program implementation, from the Federal Government to the state, municipal and local levels. The proposed project supports this trend by concentrating coordination responsibility at the state government level, and strengthening local capacity to participate effectively in priority setting, decision-making over resource allocations and program/project implementation and maintenance. The volume of resources currently available in Brazil for rural poverty reduction is considerable, and yet the neediest communities are often unaware that they exist or how to access them, and many investments do not respond well to the priorities of intended beneficiaries and/or are not delivered in as cost-effective a manner as possible. By expanding and strengthening the Municipal Councils, and forging links between them and other potential partners (Federal programs, state and local governments, civil society, financial institutions and the private sector), the project should help to leverage resources and improve the consistency and overall impact of public resources directed towards rural poverty reduction in Rio Grande do Norte.

3. Sector issues to be addressed by the project and strategic choices:

Sector issues: The major sector issues addressed by this project are *rural poverty* and *decentralization*. By improving access of poor farm communities in Rio Grande do Norte to basic economic and social infrastructure, and productive opportunities, the project will raise incomes and well-being. The use of participatory processes that have been proven to increase the voice of rural communities in priority-setting and decision-making over resource allocation will also help to build social capital, strengthen local governance, and improve the effectiveness and sustainability of development investments.

The project will build on the success of community-driven development (CDD) mechanisms that were piloted, tested and expanded under the R-NRDP and RPAP. The cumulative impact of these earlier projects attests to the robustness of this strategy: (a) at a total cost of about US\$900 million, some 50,000 infrastructure, productive and social investments have reached about 7.5 million poor people with at least one subproject, in over 30,000 separate communities in the rural Northeast; (b) program investments have generated incremental annual income and savings of over US\$200 million; (c) sustainability of investments is high, with about 90% of a sample of over 8,000 subprojects funded in 1995 and 1997-8 still fully operational; (d) cost efficiency has also been high, with recorded cost savings of 40-50% over similar publicly provided infrastructure and services; (e) of the almost 1,000 Municipal Councils formed to date, some 30% have progressed beyond simple subproject decision-making to engage in municipal planning and allocation of non-project resources, and about 25% of community associations have also used their social capital and assets acquired under the projects to access non-project financing. Although intangible and difficult to quantify, there is an observed, marked difference in self-respect and confidence in many participating communities.

Strategic choices: The main strategic choices made in project design include the following:

- *Stimulating improvements in both social welfare and local economic activity.* A key constraint to rural development in Rio Grande do Norte has been the lack of opportunity to intensify smallholder agriculture, and stimulate growth of commercial agriculture, downstream processing and other non-farm activities. This project will diversify income and employment opportunities in a range of farm and non-farm endeavors through support for productive activities, technical assistance and investment in both social and economic infrastructure/services, identified by communities as being most relevant for their well-being.
- *Community-based approach:* The community-based approach, when compared to similar investments executed by traditional public sector entities, has proven to be cost-effective, more responsive to local priorities and to offer better prospects for sustainability (Annex 2).
- *Integration of programs and policies at the local level.* Adopting a decentralized approach that focuses decision-making at the local level has helped to overcome the complexity problems of earlier failed attempts at integrated rural development. A growing number of Municipal Councils are proactively seeking funding and participating in decision-making over non-project sources of finance. Under the new project, Councils will be further encouraged, through training and technical assistance provided by STUs, public institutions and NGOs, to expand their input into broader local planning, with a view to achieving better integration of policies and programs and improving the impact of public resources available for poverty reduction.
- *Targeting of resources.* One of the most important benefits of the project will come from community experience gained through managing an investment subproject and participating in decision-making in a Municipal Council. For

that reason, a minimum level of funding has been allocated to each poor rural municipality in the State, with higher levels targeted to the poorest areas with the greatest needs (lowest level of Human Development Index).

- **Rigorous monitoring and evaluation.** The predecessor R-NRDP and RPAP projects made substantial provision for piloting, testing, and M&E, and this was extremely helpful for continuous refinement of processes. Under the new project, an enhanced MIS and an evaluation framework will be implemented to measure impact through independently executed, repeater surveys of beneficiaries and control group panels, with a view to maximizing poverty alleviation impact.
- **Graduation of communities – exit strategy.** Most of the investments requested by communities in the past (around 77%) comprised infrastructure subprojects. However, since the rural poor are generally off the radar screen of any formal credit institution in the rural Northeast, particularly as individuals, project matching grants for productive investments and technical assistance can be catalytic by encouraging the formation of groups, providing some experience in the management of financial assets and income-earning activities, and thus making them more attractive to financial institutions. Therefore, communities that presently lack access to formal credit can qualify for one grant-based productive subproject (defined as those generating product sold in the market), after which they will be graduated from such support, (under the R-NRDP and RPAP there were no limits, although as a practical matter the MCs have tended to limit communities to an average two subprojects of any kind, in order to ration scarce resources). At the same time, a major effort will be made to link communities graduating from productive projects, to possible sources of formal credit. In particular, the Bank of the Northeast (BN) has increasingly been seeking organized communities to which it can provide group credit. BN and the RPAPs have already partnered in some places, albeit in an *ad hoc* manner – but there is now enough positive experience that the state of Rio Grande do Norte and BN are interested in taking the cooperation to another level. Therefore, agreements have been reached on information sharing and coordination, which will be detailed in the project Operational Manual: (a) BN will have access to relevant information from the project MIS about group credit candidates, which it will pass on to its units in charge of credit lines and government programs in which it participates; (b) BN's local development agents will be invited to attend Municipal Council meetings; and (c) BN will provide Rio Grande do Norte with feedback on project-graduated groups to which it has extended credit, for use in project monitoring and evaluation. BN has also undertaken to expand its testing of the Bank-financed *CrediAmigo* micro-credit program into rural areas.
- With regard to community infrastructure and social subprojects, graduation considerations are different. Most of these subprojects are in the realm of core public services (water, sanitation, electrification, social investments), and the definition of the minimum acceptable level of such services necessarily varies over time. Grant-based support is provided because of the poverty targeting under the project. The R-NRDPs and RPAPs demonstrated that the CDD approach to rural infrastructure and service delivery targeted to the poorest can work, in a cost effective manner and on a large scale, while also having important impacts in terms of social capital formation and improved local governance. Under the proposed project in Rio Grande do Norte (both the initial and second phases), the state intends to expand the geographic coverage of the CDD approach, and to encourage project Municipal Councils to proactively seek new sources of funding, and to engage in priority-setting and decision-making over a much wider range of activities, with a view to improving the effectiveness of local governments and the integration and overall impact of public resources directed towards rural poverty reduction.
- **Information Technology.** The new program will expand ongoing, successful piloting of the use of information technology to increase transparency by making available, in real time, information about the program itself, as well as using the internet to connect communities directly to markets, both in Brazil and internationally.

C: Project Description Summary

1. Project components (see Annex 3 for a detailed description and Annex 4 for a detailed cost breakdown):

The total project cost is US\$30.0 million, of which the Bank will finance US\$22.5 million. **Component A (Community Subprojects)** provides matching grants to rural community associations to finance approximately 1,500 infrastructure, productive and social subprojects (up to US\$50,000 each) identified by these groups as priority investments that will improve community well-being. After approval of subprojects by the State Technical Unit or project Municipal Councils, project funds are disbursed directly to the community associations, which manage subproject implementation, operation and maintenance (Annex 3). This component includes three subprograms – PAC, FUMAC and FUMAC-P.

- ***State Community Schemes (PAC).*** Under the PAC subprogram, rural communities submit their investment proposals directly to the State Technical Unit (STU), which screens and approves them and releases funds to the beneficiary associations. Whereas this was the predominant arrangement under the earlier R-NRDP projects, it has receded in importance as decentralization from the State to local levels has progressed. At the start of the RPAP projects, it was expected that about one-third of community proposals would be processed under the PAC, but the actual share decreased steadily during implementation, in favor of the other two modalities described below. Under the proposed new RPRP project for Rio Grande do Norte, the PAC will be retained as an option to which communities may occasionally resort in cases where Municipal Councils are not functioning properly, but it is expected to account for no more than 5% of all subprojects costs (up to US\$1.35 million of total community subproject costs).
- ***Municipal Community Schemes (FUMAC).*** Under this subprogram, decision-making on investment proposals is delegated by the State to project Municipal Councils, composed of community members and representatives of civil society and municipal authorities. At least 80 percent of Council voting members are potential project beneficiaries and representatives of civil society. The Municipal Councils discuss, seek to build consensus on priorities and approve community proposals, in the context of an indicative annual budget amount determined by the state. After the Councils' recommendations are reviewed by the STU for consistency with guidelines in the project Operational Manual, funds are disbursed directly to the community associations. This became the dominant subprogram under the RPAP and will remain so under the RPRP, accounting for about 88.3% (US\$23.85 million) of total community subproject costs.
- ***Pilot Municipal Community Funds (FUMAC-P).*** The FUMAC-P is a more decentralized variant of FUMAC and was piloted under the RPAP with high-performing Municipal Councils. The STU establishes an annual budget envelope, according to a distribution formula based on clear and measurable criteria (rural population, poverty levels and previous year's performance). Based on this budget, Municipal Councils submit an Annual Operating Plan (*Plano Operativo Anual*) for STU review. Upon approval, funds are transferred to the Council, which is then responsible for managing their distribution to community associations and assisting them with implementation of subprojects. It is expected that under the new RPRP project, 6.7% of total subproject costs (US\$1.8 million) would be used under the FUMAC-P subprogram.

Component B (Institutional development) will finance technical assistance and training to increase capacity of implementing entities including MCs, community associations and the STU. It also includes funds for technical assistance to support Rio Grande do Norte in addressing state modernization and reform issues relevant to poverty reduction, following on a similar successful activity under the RPAP, as an integral part of the broader state-level policy dialogue between the Bank and the state. This component will also support the expansion of ongoing, successful piloting of information technology to increase transparency and to connect communities and MCs to markets. **Component C (Project administration)** will finance incremental costs (excluding salaries) of project administration and coordination including supervision, monitoring and impact evaluation. The State Government of Rio Grande do Norte will provide counterpart funding of US\$4.8 million (16%), community associations will provide US\$2.7 million (9%), in cash or in kind, and the Bank loan will finance the remaining 75% of costs.

Distribution of Project Costs

Component	Category	Cost Incl. Contingencies (US\$M)	% of Total
1. Community subprojects		27.0	90.0
(i) PAC	Physical (Civil Works,	1.35	4.5
(ii) FUMAC	Goods and Materials)	23.85	79.5
(iii) FUMAC-P		1.80	6.0
2. Institutional Development	Institution building	1.5	5.0
3. Administration, Supervision, Monitoring and Evaluation	Project management	1.5	5.0
TOTAL		30.0	100.0

2. Key policy and institutional reforms supported by the project:

The project supports a CDD approach to rural poverty reduction, and fosters decentralization through the promotion of strong local participation in decision-making and resource allocation. As discussed in section B.2, the existing policy and institutional framework in Brazil is quite supportive of these objectives and is not expected to inhibit project viability. Rather, the need at this stage is to scale up implementation on the ground of successful approaches tested under the R-NRDP and RPAP projects, both expanding geographic coverage and extending the reach and potential impact of Municipal Councils on rural poverty reduction.

3. Benefits and target population:

Benefits:

- Some 83,000 rural families in Rio Grande do Norte (or about 0.37 million people benefiting from at least one subproject) will realize improvements in their quality of life and/or incomes, through provision of better access to water, electricity, and other basic economic and social infrastructure and services, and support for productive activities. Specific impacts may include enhanced productivity, increased family income, job creation, income diversification, improved social indicators and reduced vulnerability to drought.
- Women will benefit especially from water supply, electricity and social investments, which amongst other impacts, improve family health, generate time savings and allows them to participate in productive activities. Support for productive subprojects also enables rural women to seek paying jobs and contribute to increased family cash incomes.
- Social capital will be created and governance improved at the rural community and municipality levels.
- The volume of non-project finance available for rural poverty reduction, and its effectiveness, should increase as Municipal Councils become more proactive in seeking funding for local development needs and extend their involvement in priority-setting and decision-making over resource allocation of other Federal, state and local programs.

Target population:

- The proposed project is targeted to the poorest communities in rural Rio Grande do Norte. The effectiveness of poverty targeting mechanisms under the RPAP to date is demonstrated by a series of independent physical performance and impact evaluation studies, and a recent rural poverty report for Brazil (April 2001) which show remarkably similar results. About 84% of the program's targeted rural poor reside in remote, low density areas with little or no permanent structures or infrastructure, and deriving their main income from farming and agricultural labor. A significant, additional cohort lives in rural areas directly adjacent to the urban periphery of municipal centers, where headcount poverty measures are lowest. The Rio Grande do Norte project area includes 155 of the 167 municipalities statewide. Twelve municipalities with higher incomes levels are excluded from the project. The poorest 40 municipalities, i.e., with the lowest relative HDI ranking (Annex 3), will be allocated the sum of R\$18.5 million (averaging R\$462,500 per municipality). Another 66 municipalities will be allocated the sum of R\$23.8 million (averaging R\$361,000 per municipality) and the final grouping of 49 municipalities will be allocated the sum of R\$14.7 million (averaging R\$300,000 per municipality).
- It is estimated that a total beneficiary population of 83,000 families (about 41% of Rio Grande do Norte's rural population) will be reached with at least one subproject. They are primarily small-holders, tenants, sharecroppers, and landless laborers, who will identify, prepare, implement and maintain some 1,500 community infrastructure and productive investments financed under the project. They will also build social capital, gain the experience to pursue other sources of financing and pursue self-help solutions to local problems, and will participate increasingly in decision-making over a broader range of local development programs.

4. Institutional and implementation arrangements:

Implementation period: Four years

Executing Entities:

Community Associations (CAs) are groups of rural citizens with a common interest who organize into legally-constituted civil associations. They identify, prepare, implement, supervise, operate and maintain their subprojects, assisted both by technical specialists whom they contract directly and by technical assistance and training made available by Municipal Councils and the State Technical Unit. Once subprojects are approved for financing, CAs can access a share of the costs for design and implementation assistance.

Municipal Councils (MCs) include representatives of beneficiaries and civil society (80% of the membership), as well as local government (20% of membership). The key organization for targeting of benefits and allocating project resources, MCs also provide a critical link to local government and have the potential to engage in other non-project activities. The MCs play a fundamental role in mobilizing communities and promoting their participation in local decision making. They receive, prioritize and approve subproject proposals from the CAs during regularly scheduled and widely publicized meetings that the public is encouraged to attend, and then submit investment plans to the State Technical Unit.

The State Technical Unit (STU). The Coordination Unit for Special Projects (COPES) will serve as the State Technical Unit (STU) under the new RPRP project and will maintain responsibility for overall project coordination. It will increasingly delegate supervision of community associations and subprojects to the MCs and concentrate instead on oversight of the MCs themselves, as well as general project coordination and promotion. The latter duties include continuous execution of information campaigns, project reporting, impact evaluation, MIS updating, and design and provision of tailored training modules for MCs and CAs on key project issues.

Subproject Cycle:

- CAs determine their local investment priorities and prepare subproject proposals for investment financing;
- Subproject proposals from community associations are submitted to respective project MCs, where proposals are prioritized and approved, based on indicative resource envelopes (FUMAC) or actual budget allocations (FUMAC-P). This step does not occur for PAC, where community associations submit subproject proposals directly to the STU for review.
- The STU technically evaluates approved subprojects and confirms compliance with subproject guidelines before releasing funds.
- Subproject agreements (*cônvenios*) are signed between the STU and CAs (in the case of PAC and FUMAC), or between the STU and MCs (in the case of FUMAC-P). These agreements spell out the terms and conditions for the funding, execution, ownership, operation and maintenance of the approved subprojects.
- Resources for subproject implementation are then transferred directly from the project to the CA's (PAC/FUMAC) or MC's (FUMAC-P) bank account, respectively;
- CAs are responsible for contracting goods, works and technical assistance for subproject execution. CAs also bear responsibility for operation and maintenance of all investments, and may request technical assistance to develop operation and maintenance programs and techniques.

Project Oversight: The Rio Grande do Norte Secretariat of Planning and Finance (SEPLAN) is responsible for project oversight. SEPLAN delegates day-to-day project execution to the Coordination Unit for Special Projects (COPES) within the State Secretariat of Social Action.

Project Coordination: COPES performs the STU function and coordinates overall project activities, with the following specific duties: (a) review community subproject proposals for compliance with project guidelines and eligibility criteria in the project Operational Manual; (b) assess the degree of community participation in identifying, preparing and executing subprojects and quality of technical assistance; (c) supervise the MCs to ensure they are adequately managing quality of subproject implementation and providing sufficient training support to communities; (d) implement introductory training and technical assistance programs for all MCs and CAs with approved subprojects (including training on subproject implementation, contracting, O&M and financial management); (e) monitor and apply performance

incentives to reward efficiency, transparency and inclusiveness of community associations and municipal councils, and also to penalize poor performance/misappropriation (e.g., legal action for fund misallocation); (f) monitor performance through the Management Information System (MIS) and periodically report progress; (g) prepare annual implementation and physical performance reviews; and (h) submit project POAs to the Bank for approval. For the most common types of subprojects, standardized designs and cost indicators would be made available by the STU to ensure reasonable quality and costing for subproject implementation. Departures from these standard designs would have to be fully justified in the subproject proposal, as would proposed investments which fall outside the range of standardized costs. Finally, the STU will conduct statewide information campaigns to continuously disseminate information about the project and its guidelines to all potential beneficiary communities, thereby increasing awareness, transparency and participation in the program. *The preparation of an action plan for the statewide information campaign, satisfactory to the Bank, would be a condition of loan effectiveness.*

Project operational procedures: The project would be implemented according to detailed procedures defined in its Operational Manual. This Manual is based on that used in the preceding RPAP, but has been revised and updated to reflect lessons learned during implementation. A user-friendly synthesis of this document will be made available to MCs and CAs. *The adoption by the State of this Operational Manual, in a form satisfactory to the Bank, would be a condition of loan effectiveness.*

Monitoring and evaluation arrangements: Analysis of implementation will depend on a database of subproject information from the project Management Information System (MIS) operated and maintained by the STU. The MIS used under RPAP will continue to be improved under the new project. The database is currently organized in three general levels: (a) a subproject information module, which contains pertinent physical and financial information for each subproject; (b) a financial management module, from which Statements of Expenditure (SOEs) are generated; and (c) a project management module, from which all project reports are generated. Under the new project, these three modules will be integrated to allow improved monitoring of the entire subproject cycle. The database will also be expanded to include community profiles, which will also be used to evaluate project impact. The MIS will also monitor the increase in share of the rural poor population that is covered with basic services (e.g., water, electricity, road access, social services), and the share of the rural poor that have received grant financing for productive subprojects and subsequently graduated to commercial credit. Finally, the MIS will be migrated on-line to allow real time data entry and monitoring directly from the field and regional offices. The STU will continue to be responsible for maintaining and regularly updating the MIS, including key Project information (as agreed with the Bank). Through periodic processing of the database information, combined with field visits and inputs from project supervision reports, project contracted studies and audits, the STU would monitor project characteristics and trends, identify implementation problems and accomplishments and undertake or promote appropriate actions to improve project implementation. The Bank's Recife Office would also monitor project performance indicators through the online MIS, and with inputs from the State, review monthly disbursement summaries and supervise subproject implementation progress on a sample basis in the field. *The establishment and operation of a revised MIS, acceptable to the Bank, would be a condition of loan effectiveness.*

Finally, the project would implement evaluation studies to assess the impact of the subproject and provide feedback to improve project operations. These studies would include: (i) annual physical performance reviews to assess the quality and sustainability of common types of financed subprojects, including reviews of community-based procurement; (ii) an evaluation/implementation review, carried out at mid-term, to include beneficiary consultations to evaluate project performance and impact as perceived by its beneficiaries; and (iii) a rigorous and comprehensive impact evaluation. The impact evaluation will use repeated surveys of project beneficiaries, non-beneficiary households, and beneficiaries of similar projects with centralized delivery mechanisms to assess (a) poverty targeting of beneficiaries relative to the income distribution of the population at large; (b) household welfare; (c) social capital formation at the community level; (d) improved governance at the municipal level; (e) cost-effectiveness of infrastructure investments compared with traditional delivery mechanisms, and (f) cost-benefit of productive investments. In addition, community leaders and municipal leaders will be surveyed for the analysis of social capital and governance impacts. *Presentation of Terms of Reference for the project baseline study and for the overall evaluation framework, both acceptable to the Bank, would be a condition of loan effectiveness.* The first baseline field survey will be conducted within six months of project effectiveness. A resurvey, to be contracted at the same time as the baseline study will be conducted two years later, followed by further resurveys after four and six years, depending on interim results.

Accounting, financial reporting and auditing arrangements: The financial management systems of COPES were reviewed by a Bank Financial Management Specialist during project preparation for compliance with OP/BP 10.02 and

the Loan Administration Change Initiative (LACI) Implementation Handbook. Based on this review, the project was certified as a “4B”, indicating that the project satisfies the Bank’s financial management requirements, however minor adjustments in the format of the existing financial management reports should be made. “*Sistema de Monitoramento e de Informações (SMI)*” – initially designed and utilized under the RPAP – will be used by COPES to monitor the transfer of funds to communities and ensure compliance with agreed *convênios*. Under the new project, COPES will implement an action plan within the first six months of project implementation (agreed with the Bank, and attached in the financial management assessment report) to amend the existing format of financial reports to allow PMR reporting, and adjust project accounting and reporting procedures to comply with Bank requirements, building on the SMI system. The annual financial audit will also include a separate opinion on the eligibility of expenditures disbursed on the basis of SOEs. According to arrangements for Bank-financed projects in Brazil, the annual financial audit of the project accounts for the period January 1 to December 31 of the year will be carried out by an Independent Auditor, which is acceptable to the Bank. The audit report will be submitted to the Bank no later than June 30 in the year following the year for which the project accounts are audited. The Auditor’s TOR will include the issuance of a management letter on internal controls six months after effectiveness.

D: Project Rationale

1. Project alternatives considered and reasons for rejection

- a. *Reversion to more traditional, centralized approach to implementation using line agencies.* Experience with integrated rural development projects in Northeast Brazil during the 1970s and 1980s conclusively demonstrated that more centralized approaches to planning and implementation of infrastructure and service delivery through public institutions are not effective in dispersed rural areas (high overhead costs, coordination difficulties, subprojects that did not accurately respond to community needs, poor sustainability of investments). Instead, the proposed project builds on a successful CDD model, broadly recognized for its effectiveness in delivering rural infrastructure and services (cost savings of 30-50% *vis-à-vis* comparable works executed by public agencies), its transparency in resource allocation and strong performance in building social capital of rural communities.
- b. *Channeling resources directly to municipal governments.* Decentralization of finance and program responsibilities to municipal governments, without also building capacity at the community level to interact effectively with these governments, carries the risk of merely repeating difficulties associated with centralized decision-making (albeit at a lower level). The project MCs are making a major contribution to improving transparency and participation in local development planning. The proposed project will consolidate the MC experience, expanding both their geographic coverage and involvement in decision-making over a broader range of poverty reduction programs, thereby helping indirectly to improve the quality and effectiveness of local government.
- c. *Elimination of the PAC sub-component.* Given the encouraging results of the FUMAC and FUMAC-P sub-components under the R-NRD and RPAP, consideration was given to eliminating the PAC option entirely from the proposed project. However, MCs are not yet functioning in all areas, and there are occasional performance problems. In the interests of retaining some arrangement to serve rural communities caught in such a situation, it was decided to retain the PAC under the RPRP projects, but to limit its use to no more than 5% of total subproject costs.
- d. *Onlending to the states through a program loan to the Federal Government.* Since initial and follow-up RPRP projects are likely throughout the Northeast region, as well as in some states with a high incidence of rural poverty elsewhere in Brazil (Section A.1), consideration was given to the alternative of a single large Bank loan to the Federal government, to be on-lent to the states. However, the very positive benefits in terms of demonstrated commitment and ownership when the states perceive that they are in the project driver’s seat (reflected, *inter alia*, in generally timely and adequate counterpart funding and maintenance of strong technical teams at the STU level) - compared with the less than satisfactory performance under earlier, more centralized rural development programs - were judged to outweigh any apparent savings in the time and costs of processing individual state loans. Indeed, implementation delays that could result from more complex arrangements to transfer funds from Federal to state level might offset such savings and would certainly undermine the credibility of the project on the ground (where communities now rely on timely decision-making and resource transfer).

2. Major related projects financed by the Bank or other development agencies (completed, ongoing and planned):

<u>Sector Issue</u>	<u>Project</u>	<u>Latest Supervision Ratings (PSR) (Bank-financed projects only)</u>	
		Implementation Progress	Development Objective
<u>Bank-financed:</u>			
Land Reform	Land-based Poverty Alleviation Project I(7037-BR) Land Reform and Poverty Allev. Pilot (4147-BR)	S S	S S
Community-based Rural Development	RPRP-Bahia (4623-BR) RPRP-Ceará (4626-BR) RPRP-Pernambuco (4625-BR) RPRP-Piauí (4624-BR) RPRP-Sergipe (4649-BR) RPAP-Maranhão (4252-BR) RPAP-Paraíba (4251-BR) RPAP-Rio Grande do Norte (4120-BR)	S S S S S S S S	S S S S S S S S
Natural Resource Management Land Management	Nat. Res. Mgt and Pov. Allev. – Paraná (4060-BR) Land Mgt II-Santa Catarina (3160-BR) Land Mgt and Pov. Allev. – RG do Sul (4148-BR)	S S S	S S S

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

3. Lessons learned and reflected in the proposed project design:

Decentralization of fiscal and investment decision-making and implementation from federal to state and local governments, to community organizations, ensures efficient program administration and superior outcomes. Experience shows that decentralized community-driven approaches reduce bureaucracy, eliminate administrative bottlenecks and reinforce accountability for project performance by placing decision-makers near beneficiaries. Under the new project the existing, decentralized institutional structure will be further devolved, with increased delegation of duties to MCs to promote more responsive and local level monitoring, data collection, coordination, and supervision.

Participation by beneficiaries in the selection, financing, execution, and O&M of subprojects has ensured that investments meet genuine community needs, led to cost savings, and has increased community ‘ownership’ leading to improved sustainability of investments. This methodology will be continued under the new project.

Poverty targeting mechanisms that are simple, verifiable and based on objective criteria, can foster transparency, minimize political interference in project resource allocation and ensure that project resources reach the poorest areas. Poverty targeting mechanisms under the RPAP to date have been notably effective in reaching the poorest rural populations in the Northeast. About 84% of the program’s beneficiary population are small farmers and rural laborers living in remote, low density areas with acute deficiencies in access to basic infrastructure and services. A significant additional population resides in rural areas directly adjacent to the urban periphery of municipal centers, where headcount poverty measures are lowest. Experience with project MCs demonstrates that communities themselves are the best-positioned and informed to target effectively. Under the new project, broad targeting will be undertaken (i) at the municipal level, with indicative budgets assigned to each MC, differentiated according to poverty indices; and (ii) at the community- level, by the MCs. Communities which improve their relative socioeconomic conditions significantly through project investments would be encouraged to seek non-project financing to meet development needs. In field observations of RPAP, MCs were found to already be following this practice, either (i) reducing priority ranking and/or (ii) excluding requests from those communities that had already received several subprojects.

Supervision has been found to be an indispensable determinant of success and sustainability. It needs to be reinforced at all levels and involve local entities closest to the communities, particularly MCs and NGOs. Under the new project supervision responsibilities will be increasingly devolved to MCs, who will be supported with training and technical assistance. Measures will also be taken to modernize all MCs, gradually providing computers and information technology to all of them.

A user-friendly *monitoring and evaluation system* facilitates the subproject evaluation process, provides feedback and necessary information to improve targeting and efficiency, and is an essential management and planning tool. Under the

new project important revisions will be undertaken to strengthen the MIS (Section C.4 under “*Monitoring and Evaluation Arrangements*”) to improve real time monitoring of the entire project cycle. A more comprehensive impact evaluation component will also be introduced to measure income, welfare and social capital gains.

Dissemination of “best practices”, such as experiences with NGOs in Rio Grande do Norte, EMATERCE in Ceará, FUMAC Councils in Bahia and Sergipe, and FUMAC-P in Pernambuco can hasten learning and reward innovation. Under the new project, exchanges between states, municipalities and communities will be expanded further using more frequent training seminars, and workshops.

Standardization of subproject documents, technical designs and unit costs simplifies the subproject preparation and evaluation process, improves the quality of subprojects, facilitates the procurement of goods and works, prevents over-design and enables participation by poorer communities. The existing database of standard designs and documentation have been reviewed, technically updated where necessary, and further expanded for the new project.

Environmental protection criteria: Experience demonstrates, that because of their small scale, most subprojects do not have a significant effect on the environment. Nevertheless, the detailed environmental checklist developed under RPAP will be maintained and has been updated for the proposed project. Where environmental issues are a concern, standard subproject designs have been developed and will continue to be used by CAs and MCs during subproject implementation. Further, an environmental specialist will be maintained at the STU to provide additional technical assistance on environmental matters as well as provide training to increase environmental awareness of MCs and CAs.

Technical assistance enhances the ability of CAs and MCs to identify, prepare and implement subprojects, thereby augmenting their capacity to compete for investment funds. Technical assistance needs to be targeted to weaker municipalities to improve their planning, management and financial capacity to participate in the project. Locating and/or developing sources of technical assistance in rural areas requires significant attention and needs to be monitored at the local level. Under the new project increased attention will be placed on training at the community level - funds will be made available for the appointment of ‘technical advisors’ to be recruited by each municipal council. These advisors will be responsible for managing and coordinating local technical and training needs. Increasing efforts will also be placed on more meaningful involvement of civil society (e.g. NGOs and other civil and church groups) - particularly with respect to increasing the flow of information, mobilizing the poorest groups and supporting training activities at the community level.

A system of *checks and balances*, clearly-defined and well-disseminated, is essential to ensure proper use of funds and sound targeting of resources. Rules and procedures for such a system, including guidelines for performance incentives and penalties, have been reviewed and updated and are detailed in the Project Operational Manual. Performance incentives will include promoting better-performing FUMAC Councils to FUMAC-P; increasing Councils’ indicative budget envelope; increasing the number of investments or investment volume permitted to a community association; or incentives for environmental or technologically innovative investments. Penalties would attach to cases of mismanagement and diversion of funds and include removal from eligibility to participate, reduced availability of funds, demotion from FUMAC-P to FUMAC, and/or judicial penalties where appropriate. In addition to penalties, MCs include participation of local NGOs (i.e., Rural Workers’ Union, the Church), representatives of public ministries and municipal officials, and Council meetings are publicly announced and open to broad participation. Finally, the project is installing computers in the Councils, whose role, among others, will be to publicize Council decisions on their own and the Technical Unit’s webpage. All of the above are designed to boost and institutionalize transparency.

Minimize use of the PAC approach, particularly since the FUMAC and FUMAC-P sub-components have clear advantages with respect to targeting, sustainability and social capital formation in poor rural communities. Under the new project, PAC expenditure will not exceed 5% of total community subproject investments.

Productive subprojects should be subjected to rigorous selection, preparation, technical assistance and supervision criteria. Under the new project, a ‘one-shot’ matching grant will be provided to eligible productive investments that (i) provide services for a large number of community members; (ii) whose collective use is regulated by strict operational guidelines (*regulamento de uso*); and (iii) for which operation and maintenance is assured by charging adequate user fees to both association members and non-members. Revised procedures for productive subprojects are outlined in the new Project Operational Manual, as are arrangements to facilitate access to formal credit by graduating communities (Annex 3).

Broaden role of MCs in local planning, by promoting greater integration between local governments and project MCs, and providing information to councils on other programs and alternative sources of grant and credit financing. Field observations indicate that over 30% of project MCs already participate in some prioritization of other (non-project) resources. If carefully nurtured, not only with the right mix of technical assistance, information and funding support, but also by insisting that clear and transparent rules continue to apply to the functioning of the MCs, this democratic forum may well become one of the most valuable and durable institutions for rural development in the Northeast.

4. Indications of borrower commitment and ownership:

For the State Government of Rio Grande do Norte, the community-based approach to the provision of basic, social and productive infrastructure has proven to be a cost-effective and timely means of improving the conditions of the rural poor. The proposed project and its predecessors were designed in close consultation with the State Secretariat for Planning and Finance, which has actively promoted them domestically and abroad. The new operation was submitted to the Federal Government (COFIEX) in August 2000 and approved rapidly, and the Federal Government has endorsed it (and the RPRP projects planned for other states) as an integral part of its new *Projeto Alvorada* framework for poverty reduction. The proposed project implementation unit (COPES) has an established track record of implementing decentralized community-based rural development projects. COPES's staff good performance in the management and implementation of the earlier R-NRDP and RPAP, and the State's consistent record of timely counterpart funding for most of the project implementation period, as well as meeting or exceeding most of the original RPAP targets, are evidence of strong commitment to rural poverty reduction, which bodes well for the new project.

5. Value added of Bank support in this project:

As the principal international partner engaged in a sustained, long-term partnership with the Brazilian Government to address rural poverty issues in the Northeast, the Bank is particularly well-placed to support expansion of community-based rural development efforts in the region. The Bank contributes its experience under the successful R-NRDP and RPAP projects in Rio Grande do Norte and other Northeast states – which have served as a template in the design of the new operation. Bank participation will ensure that international experience with past and ongoing community-driven programs is incorporated into project design and that sound international quality standards of monitoring, evaluation and impact assessment are applied. An especially important feature of Bank value-added under the RPRP projects in Rio Grande do Norte and other states will be its ability to facilitate closer local integration of a wide spectrum of programs aimed at rural poverty reduction. The Bank is well-positioned to help forge these links, not only because of its direct role in financing the RPRP and developing the MC mechanism, but also because of its involvement in other important sectoral programs relevant to rural poverty reduction (irrigation, agricultural research, land reform, education, municipal development) and the many opportunities for policy dialogue and consensus building in the context of its fairly active program of collaborative research and analytical work on poverty and rural development issues in Brazil.

As the program has evolved and as processes have become increasingly refined, the Bank's role has also progressed. Under the RPAPs, the Bank assumed the critical role of catalyst, serving as an independent monitor and evaluator of program performance, helping to ensure that processes were complied with, that undue interference was minimized, and that lessons learnt during implementation were captured and applied. Under the new program, where processes have already been well-developed, it is envisaged that the role of the Bank will shift once again to focus increasingly on strengthening the linkages between community organizations, their representative councils and government, other public programs, financial institutions and markets. By serving as facilitator, the Bank can play a critical role in formalizing municipal councils as key partners in the local development process, be catalytic in helping to consolidate the participatory and transparent resource allocation at the local level (including the use of information technologies), and ensure that these processes continue beyond the life and scope of the project when external support will be gradually phased out or redirected to other aspects of poverty reduction. Finally, the Bank will undertake, as part of its strategic updating of all work in Northeast Brazil, a yearly review of how the implementation of the RPRP program is contributing to integrate broader issues of poverty reduction in the Northeast.

E: Summary Project Analyses (Detailed assessments are in the project file, see Annex 9)

1. Economic (see Annex 5):

Specific investments carried out under the new project will be decided by communities over the life span of the project. It is thus not possible to know *a priori* how available resources will be precisely allocated, and therefore a precise *ex ante*

estimation of their cost-effectiveness, economic rate of return and fiscal impact is not possible. However, subprojects to be financed under the proposed project would, in general, be similar to those financed under previous and ongoing community-based rural development projects. Based on the accumulated experience from the R-NRDP and RPAP, the following aspects of project investments were assessed: (i) cost-effectiveness; (ii) financial viability of productive subprojects; and (iii) the fiscal impact of the new RPRP.

Cost-effectiveness: Several aspects of project design help to ensure that infrastructure and social subprojects undertaken represent the least-cost, best alternative. First, the demand-driven nature of each subproject permits scarce resources to flow where they are most needed. Community participation, under the direction of the project MCs, ensures that the chosen subproject is the best alternative for the local community. Second, the use of standard technical designs (*projetos padrão*) for the most common types of infrastructure and social subprojects (including corresponding cost parameters) ensures that CAs employ least-cost models for subproject implementation and also decrease search and information costs. Third, the delegation of subproject implementation directly to the community associations has proven to generate cost savings, when compared to comparable quality works implemented by public sector agencies. The contracting procedures prescribed in the Project Operational Manual require direct contracting through competitive processes on all subprojects: the community association solicits three bids for the subproject and chooses the least-cost bid. Based on the analysis of a random sample of subprojects (including ten categories which collectively represent some 80% of the types of subprojects being financed), it has been found that, for infrastructure and social subprojects, costs under the RPAP were 30-50% cheaper than projects of similar quality, implemented by the state.

2. Financial (see Annex 5):

Internal rates of return were also estimated for the most common types of productive subprojects. These exceeded, on average, 30 percent. Both analyses were made assuming constant benefits over a ten-year subproject life cycle. In addition to these positive impacts, benefits are largely concentrated in the subprojects' beneficiary communities. Sensitivity analysis performed on these illustrative subprojects showed that they tend to be reasonably robust vis-à-vis decreases in output and prices and increases in production costs.

Benefit-cost ratios are high (greater than 2.0) for the main productive subprojects analyzed. Analysis of these subprojects also suggests that investments are generally financially sustainable. Although beneficiary associations do receive a one-time matching grant, the investments tend to be sustainable because cost recovery through user fees by the average beneficiary association is normally adequate to cover both O&M and replacement of original investments before the end of their useful economic life.

The **direct fiscal impact** of the new project on the Rio Grande do Norte state budget depends on what the State would have done in the absence of the project. First, if the State had alternatively provided these basic services through traditional delivery mechanisms, the fiscal savings are direct and significant. Evaluations indicate that a significant fiscal contribution will be made by subproject investments through expected cost savings to state and municipal governments. Community built and managed water supply systems have represented important yearly savings to the state of Rio Grande do Norte by eliminating the need for water trucks to supply communities in some areas during drought. Provision of better quality, more reliable water also has less quantifiable but nonetheless significant impacts on health, reducing public health costs of Municipal Governments. There are also tangible cost savings associated with the community driven design of the project. Under RPAP, the costs of investments implemented by communities (either directly or contracted) under the project was 30-50% less than prices paid by public authorities for works of similar type and quality. Furthermore, the Project alleviates over time the dependency of municipalities on central and state government transfers by strengthening the capacity of local governments and communities to take responsibility for local economic and social development. Subproject operation and maintenance costs are also typically paid by the beneficiary community, reducing the fiscal burden on municipalities and states (with a few exceptions, e.g., electricity and some types of water supply, commonly maintained by state agencies and operated in return for a user fee). Through a variety of design features (e.g., local prioritization, development of financial plans, and operation and maintenance plans) the economic viability and financial sustainability of subprojects are enhanced. Second, if the State had not undertaken these investments in basic services without this project, the additional, highly cost-effective spending is very small – 0.7% of total state expenditures for year 2000 -- compared to total/discretionary/social spending, and has no significant impact on the aggregate fiscal position of the State.

Finally, in terms of revenue generation, direct impacts are likely to be small, but *indirect impact* could be significant. Incremental ICMS (sales tax) revenues are insignificant for the state. Much of the incremental production of the subprojects is either self-consumed, not liable to taxation, and/or circulates in informal markets where tax is rarely paid. But it can imply a significant increase in ICMS collected within the poor municipalities in which the project operates (ICMS is collected by the state and all municipalities receive 25% of collections independent of where it is collected). Experience under RPAP showed that there was a large increase in the purchase and use of domestic appliances when electricity became available, appreciably increasing the ICMS revenue to municipalities. This observation is also applicable to purchases of items such as agricultural machinery and irrigation equipment.

3. Technical:

The technical viability of the project has been demonstrated under the successful R-NRDP and RPAP projects. The new project will adopt similar institutional and implementation arrangements. Investment cost estimates, physical contingencies, prices and estimates of inputs and outputs are based on actual historical data under these earlier projects and thus are considered reliable. Technical standards of specific subprojects will be ensured through standardized designs (including engineering aspects, technical, financial and economic feasibility, O&M, simple environmental guidelines and cost parameters) that cover approximately 80% of subproject types normally demanded by the communities. Field evidence demonstrates that these simple, practical standards have enhanced subproject quality, sustainability and cost-effectiveness. All subprojects are screened by qualified staff in the STU and communities can contract technical assistance (up to 8% of subproject value) to assist in design and implementation of subprojects. Training programs are also being offered to develop community capacity to prepare, implement, operate and maintain projects. During project preparation Bank specialists reviewed the quality and sustainability of a variety of community subprojects, including water, sanitation and power subprojects funded by RPAP, and found them to be technically sound and sustainable. This methodology will be continued under the new RPRP.

4. Institutional:

a. Executing agencies

The project will be overseen by the State Secretariat of Planning and Finance (SEPLAN) and administered and executed by the Coordination Unit for Special Projects (COPES) within the State Secretariat of Social Action (SEAS), in partnership with CAs and MCs.

b. Project management

Day to day coordination and management of the project is fully delegated to the Rio Grande do Norte Technical Unit – COPES. Resource allocation and prioritization of subprojects is undertaken by MCs, and subproject implementation is managed and executed by CAs. Partnerships will also be established with civil society (including NGOs) and State and Municipal public agencies to respond to communities' project implementation needs.

COPES: is a semi-autonomous agency of SEAC. It enjoys significant administrative and financial autonomy, with a strong network of infrastructure and human resources, consistent with its diverse responsibilities. COPES has nearly ten years of experience implementing rural development programs, including community-based development, and its staff has a proven track record in the successful implementation of the demand-driven model used in the R-NRDP, RPAP and replicated in the proposed project. COPES has a staff of high caliber professionals, specializing in the preparation, analysis, evaluation and supervision of subprojects and is headquartered in the State Capital of Natal.

Municipal Councils: are membership organizations comprising 80% representatives of beneficiary associations and civil society, and 20% representatives of the municipal government. They may be established as legally constituted civil organizations or through Municipal decree, and have administrative and financial autonomy from the Municipal Government. MCs have been formed and functioning since approximately 1994 after the reformulation of the NRDP. Detailed evaluations have indicated that MCs provide a transparent and democratic forum for community decision making about local needs and priorities. By providing a link to municipal government, the MCs play a critical role in embedding the community based process in formal channels and are essential for building institutional sustainability of the project. Increasingly the councils are undertaking a broader municipal planning role and many are now routinely included in the process of establishing local government investment priorities. In the new project, councils will assume additional responsibilities, including oversight of community operation and maintenance of investments; an increasing role in subproject approval, and as facilitators linking communities with external financial partners and other programs.

A focus of the new program will be training communities to assume these new responsibilities. In particular, additional money will be made available for MCs to appoint technical advisors, to mobilize communities, and provide assistance and information during implementation.

Community Associations: are legally constituted civil associations that serve as the foundation of project implementation. They have shown, under the preceding programs, that they can be efficient and cost-effective agents for their own development. Charging the communities with primary responsibility for the implementation, operation and maintenance of their own subprojects has been found to enhance quality and reinforces community ownership. The new project will continue to build on the latent capacity of community associations and their committees and develop and reinforce it by making available funds for direct contracting of technical assistance, as well as training programs to develop basic financial and administrative skills. For subproject-related assistance in design and implementation, associations can contract technical assistance using up to 8% of subproject costs.

c. Procurement and financial management issues

Procurement and financial management systems have been reviewed by Bank specialists and are considered satisfactory (see Annex 7).

5. Environmental assessment: Environmental Category: [] A [X] B [] C

5.1 Summarize the steps undertaken for environmental assessment and EMP (including consultation and disclosure) and the significant issues and their treatment emerging from this analysis

The proposed project has been assigned a "B" environmental classification. Because of their relatively small size, most subprojects would not have a significant effect on the environment. Experience under the previous RPAP-Rio Grande do Norte (from 1997 to 2001), was reviewed during preparation and demonstrated that few subproject investments presented adverse environmental effects. An Integrated Safeguard Data Sheet was prepared for the project and reviewed by the LCSES Quality Assurance Team. An Environmental Checklist – already incorporated into the Project Operational Manual under the previous project – has been revised and updated for the proposed project, for use in subproject preparation by potential beneficiary community associations.

5.2 What are the main features of the EMP and are they adequate:

The EMP includes the following main features: (i) environmental screening, using an Environmental Checklist, for each subproject proposal; (ii) a negative list, specifying those subprojects which are ineligible for financing under the project; (iii) environmental education and awareness, conducted through the statewide information campaign; and (iv) technical capacity at the state level, by contracting of an environmental specialist by the STU.

5.3 For Category A and B projects, timeline and status of EA:

Date of receipt of final draft: 06/18/2001

5.4 How have stakeholders been consulted at the stage of (a) environmental screening and (b) draft EA report on the environmental impacts and proposed environment management plan? Describe mechanisms of consultation that were used and which groups were consulted?

Key stakeholders include (i) potential project beneficiaries, who inhabit rural areas of the state, (ii) representatives of civil society-at-large and (iii) public sector agencies charged with project oversight and coordination. Community associations and project Municipal Councils - both of which encompass broad representation of interested stakeholders - are the primary instruments for subproject prioritization and subsequent execution. These entities have been quite successful in achieving a broad consensus on local investment decisions under the Rural Poverty Alleviation Project (RPAP) in Northeast Brazil. An information campaign (satisfactory to the Bank) will orient potential beneficiaries on the implementation arrangements under the project.

5.5 What mechanisms have been established to monitor and evaluate the impact of the project on the environment? Do the indicators reflect the objectives and results of the EMP?

Each subproject proposal submitted by a community association must be accompanied by an environmental screening (i.e., environmental checklist). These screening procedures were shown to work well under the previous project in Rio Grande do Norte. The project mid-term review will further assess the usefulness of the environmental checklist, as well as the overall environmental screening and subproject supervision, and provide recommendations as necessary for improving monitoring of such activities.

6. Social:

6.1 Summarize key social issues relevant to the project objectives, and specify the project's social development outcomes.

The State of Rio Grande do Norte has an overall poverty rate of 31.8%, rising to 43.0% in rural Rio Grande do Norte. This represents more than 835,000 persons, of which some 418,000 reside in rural areas of the state. Some 56% of rural Rio Grande do Norte households lack piped water supply, about 20% are without sanitation services, and about 14% of rural Rio Grande do Norte households remain without electricity.

The project seeks to improve the quality of life of the target population through small-scale social and economic infrastructure subproject investments, using a CDD approach, increasing the social capital of the rural communities participating in the project by strengthening community associations and municipal councils. Under the project's participatory approach, the wide inclusion of all potential beneficiaries, including women and minorities, would be assured through a state-wide information campaign designed to create awareness regarding the project's objective, operating guidelines and how to access project benefits. Identification and implementation of specific subprojects would occur through demand-driven mechanisms at the community level.

6.2 Participatory Approach: How are key stakeholders participating in the project?

Communities are creating the demand for the new project, and are dictating the types of subprojects to be financed, demonstrating the high level of satisfaction with CDD delivery mechanisms. Detailed evaluations (Annex 2) reinforce these findings. In the Mid-term Review of RPAP, and other evaluations, strong demand for subproject investments has been observed. High levels of beneficiary satisfaction as well as strong economic impact of local infrastructure investments were recorded.

Apart from meeting basic community investment needs, a major achievement of the program to date has been to foster the creation of social capital within rural municipalities and their communities. This accumulation of social capital has increased with the introduction of the more decentralized FUMAC and FUMAC-P mechanisms. This is because the MCs have provided a new, representative and transparent forum for local government and community representatives to discuss and prioritize investment proposals. By providing communities the opportunity to address their needs through a genuinely participatory process of decision making and oversight, the MCs have succeeded in: (i) reducing clientelism and political interference; (ii) strengthening the capacity of both communities and municipal governments to select, prioritize and implement investment decisions; (iii) creating partnerships between communities, MCs and municipal governments and more generally, increased the community voice in the use of public resources; and (iv) fostering citizenship through increased awareness of social responsibilities of citizens, their representatives and public authorities in community and public matters.

6.3 How does the project involve consultations or collaboration with NGOs or other civil society organizations?

Beneficiaries: all subprojects identified, prepared, implemented (including procurement/contracting of works), supervised, operated and maintained by community associations. Funds directly disbursed to community groups, which also contribute to subproject costs.

Intermediary NGOs, private firms and other civil groups: may provide technical assistance, facilitate information dissemination to CAs, and assist in mobilization and organization of communities.

State/Local government: local government participates in municipal council meetings, and directly facilitates the work of these councils; STU offers capacity-building and training to community associations and municipal councils to foster and enhance social capital.

6.4 What institutional arrangements have been provided to ensure the project achieves its social development outcomes?

Experience under the previous project shows that the mechanisms to be used in the proposed project (particularly FUMAC and FUMAC-P) have promoted inclusion of all social groups. Under the RPAP, MCs and CAs had a strong representation of women and minority groups. In the proposed project, the policies of open access to program benefits, and widely dispersed information regarding program rules (using the information campaigns) will continue to ensure equitable treatment of, and access for, all potential beneficiaries.

To further increase project impact, the following changes are being implemented to continue to promote and strengthen transparency and social inclusion:

- higher levels of funding for the poorest communities as determined by the United Nations HDI indices;
- greater emphasis on FUMAC and FUMAC-P, and minimization of PAC;
- training of MCs in targeting, and introduction of performance incentives for reaching the poorest;
- promote sustainability by developing a strategy for linking communities to local governments, alternative funding from financial institutions and to other programs

6.5 How will the project monitor performance in terms of social development outcomes?

The project Management Information System (MIS) will monitor subproject implementation, as well as number and location of beneficiaries. The MIS will track community mobilization activities, training courses offered for FUMAC and FUMAC-P councils, as well as periodic supervision of subprojects *in situ*. Annual physical performance reviews over the course of the project will assess, *inter alia*, the participatory approach pursued under the project, making recommendations where needed. Also, the overall project impact evaluation will serve to assess the poverty targeting of beneficiaries under the project, household welfare and social capital formation, at both the community and municipal level.

7. Safeguard Policies:

7.1 Do any of the following safeguard policies apply to the project?

Policy	Applicability
Environmental Assessment (OP 4.01, BP 4.01, GP 4.01)	Yes
Natural Habitats (OP 4.04, BP 4.04, GP 4.04)	No
Forestry (OP 4.36, GP 4.36)	No
Pest Management (OP 4.09)	No
Cultural Property (OPN 11.03)	No
Indigenous Peoples (OD 4.20)	No
Involuntary Resettlement (OP/BP 4.12)	No
Safety of Dams (OP 4.37, BP 4.37)	No
Projects in International Waters (OP 7.50, BP 7.50, GP 7.50)	No
Projects in Disputed Areas (OP 7.60, BP 7.60, GP 7.60)*	No

7.2 Describe provisions made by the project to ensure compliance with applicable safeguard policies.

Because of their relatively small size, most community subprojects would not have a significant effect on the environment. The Project would nonetheless ensure proper environmental screening and enforcement measures to prevent certain types of productive or infrastructure subprojects from generating negative environmental effects. Furthermore, the

project seeks to boost agricultural productivity through investments in productive activities, many of which are likely to be agricultural in nature (both traditional and non-traditional). As such, the Project would be consistent with an overall approach to reduce pressure on protected areas and primary forests and intensify use within the existing agricultural frontier.

In a similar manner to the approach adopted under RPAP, the project would ensure proper environmental screening and enforcement measures, to prevent certain types of productive or infrastructure subprojects from producing negative effects on the environment. The Operational Manual for the previous project specified key environmental criteria and screening and enforcement procedures to be followed for each type of subproject. These criteria were reviewed and improved for the new project. Each subproject proposal presented by the CAs would include a simple environmental assessment in the form of a "checklist", following a standard format. For standard subproject types, standard drawings have been upgraded for the new project to include special design considerations for potential environmental issues (e.g., waste disposal for manioc mills). Environmental screening at the subproject approval stage would be the responsibility of the STU and MCs. For exceptional subproject types, for which technical standards have not been developed, the STU would screen the subproject proposals in detail for environmental impact. An environmental specialist will be specially retained by the STU for this purpose. This assessment and any subsequent recommendations would be incorporated into the subproject proposal. For the FUMAC-P subprojects, the MCs would conduct the environmental screening together with either the STU or with contracted technical assistance, such as NGOs. The STU has identified expertise within the state for technical assistance purposes and would include environmental education and awareness as part of its training to MCs. Enforcement of environmental criteria would be ensured via subproject supervision by the STU and MCs.

F: Sustainability and Risks

1. Sustainability:

Institutional sustainability: The institutional analysis of RPAP shows that by assigning greater responsibility and influence to local level organizations and municipal governments, the project can successfully support decentralized resource allocation and the creation of social capital in rural Rio Grande do Norte. In the new project, even greater emphasis will be placed on linking the FUMAC and FUMAC-P councils to local municipal planning and budgeting processes and programs, as well as alternative credit and financial services. The aim of this effort will be the graduation of communities who have accumulated sufficient assets and organizational capacity to gain access to mainstream financing and other services.

Sustainability of COPES is not of concern because of its experience in rural development programs, technical and administrative capacity, autonomy, and broad involvement in other State and Federal supported programs.

Financial sustainability: Financial analysis and field investigation confirms the sustainability of the investment subprojects funded by the project. A sample of over 8,000 community subprojects funded in 1995 (under the R-NRDP) and in 1997/98 (under RPAP) was reviewed and it was found that 89% of these subprojects are fully operational to date. Analysis of productive subprojects revealed that cost recovery through user fees by beneficiary associations is adequate to cover both operation and maintenance and replacement of the original investment long before the end of its useful economic life.

Physical sustainability: Beneficiary participation at all stages of the subproject cycle, as well as significant levels of community contribution (up to 25%) help to ensure subprojects are maintained. Further, the democratic process intrinsic to FUMAC and FUMAC-P ensure better selection and prioritization of subprojects by beneficiaries, enhancing long term sustainability. The Project requires the establishment of community funded operation and maintenance plans – only subprojects that have realistic maintenance plans would be approved and financed. Subproject maintenance would be monitored by MCs and COPES during the Project. Performance incentives for proper operation and maintenance are included in project design.

2. Critical risks (reflecting assumptions in the fourth column of Annex 1):

	Risk	Risk Rating	Risk Minimization Measure
Project Outputs to Development Objectives	<ul style="list-style-type: none"> Subprojects do not target the rural poor Communities do not effectively prioritize needs Erosion of political support at local, state and national level for community based approach Politicization of MCs CAs and MCs are unable to implement and manage good quality subprojects. 	M N M M M	<ul style="list-style-type: none"> Training of MCs and introduction of performance incentives for proper targeting, accompanied by greater oversight of poverty targeting by STU. Expansion of FUMAC, FUMAC-P; reduction of PAC to fixed minimum. Information dissemination of project guidelines and processes. Provision of technical assistance to promote social inclusion. Short negative list of subprojects ineligible for funding. Continued demonstrated success of the program reinforcing ownership of program at all levels. Strengthen links between MCs and the local government for mutual benefit. Membership of MCs with voting rights comprises 80% of beneficiary representatives and civil society. Use of Information Technology for e-transparency. Systematic training and technical assistance to both community associations and MCs targeted at specific needs associated with subproject implementation, operation and maintenance. Standard designs and cost criteria will be provided for most types of subprojects. Greater emphasis on performance incentives and penalties.
Project Components to Outputs	<ul style="list-style-type: none"> Inadequate and/or untimely flow of counterpart funds Communities reluctant to adopt FUMAC and FUMAC-P options MCs not representative of constituents MCs not given clear indicative budgets for decision making 	M N N M	<ul style="list-style-type: none"> Share counterpart funding contributions between State, local government and beneficiaries. Continued efforts to reduce transaction costs affecting timely flow of funds. Active information dissemination campaign is a condition of effectiveness of the project. Widespread dissemination of project achievements to demonstrate the benefits of participation. STU efforts to establish additional MCs. Strict enforcement of project requirement that beneficiary associations comprise 80% of the membership of MCs. Communities informed of the project rules relating to transparency, democracy and accountability. Strict Bank supervision of STU adherence to project rules concerning indicative budgets.
	<ul style="list-style-type: none"> Technical assistance services not available or not used by MCs and communities 	M	<ul style="list-style-type: none"> Funds for technical assistance are provided to MCs and communities, and they are informed of funding availability. Appointment of salaried Technical Advisor to each MC, paid by project funds. STU will prepare and disseminate a list of reliable, experienced TA providers for community and MC use. Seminar to encourage local service provider participation in the project.
	<ul style="list-style-type: none"> Subprojects not properly maintained 	M	<ul style="list-style-type: none"> Subproject proposals will be required to include an operation and maintenance plan, and execution of this plan will be monitored by the MCs. Performance penalties are included in project design to (i) ensure MC proper annual checking of O&M compliance by associations; and (ii) ensure communities maintain investments satisfactorily.
Overall Project Risk Rating	Moderate		

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N (Negligible or Low Risk)

3. Possible controversial aspects:

There are no existing or envisaged controversial features of this project.

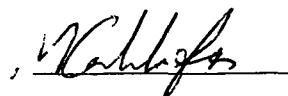
G: Main Loan Conditions

1. Effectiveness conditions:

- Preparation of an action plan for statewide information campaign, satisfactory to the Bank;
- Adoption of Operational Manual, satisfactory to the Bank;
- Revised MIS established and operational, satisfactory to the Bank; and
- Terms of Reference for the project evaluation baseline study and overall evaluation framework, satisfactory to the Bank.

H. Compliance with Bank Policies

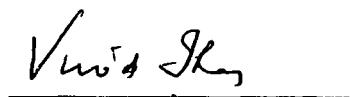
This project complies with all applicable Bank policies



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Annex 1
Brazil
Rural Poverty Reduction Project – Rio Grande do Norte
Project Design Summary

Narrative Summary	Key Performance Indicators	Monitoring and Evaluation	Critical Assumptions
<p>Sector related CAS Goal: 1. Rural Poverty Reduction</p>	<p>1. Reduction in poverty incidence in rural areas</p>	<p>1. Annual economic statistics (IMF/World Bank) 2. Poverty assessment reports (World Bank) 3. Census indicators 4. Government Economic Reports.</p>	<p>(Goal to Bank Mission) Relevance of poverty indicators for actual prevalence of rural poverty.</p>
<p>Project Development Objective:</p> <p>1. Improving well-being and incomes of the rural poor through better access to basic social and economic infrastructure and services and support for productive activities, using proven community-driven development (CDD) techniques.</p> <p>2. Increasing the social capital of rural communities to organize collectively to meet own needs</p> <p>3. Enhancing local governance by greater citizen participation and transparency in decision-making, through creation and strengthening of CAs and MCs.</p> <p>4. Raising the volume and improving the impact of public resources applied to rural poverty reduction in Rio Grande do Norte, fostering closer integration of development policies, programs and projects at the local level by assisting MCs to extend their role in seeking funding, priority-setting and decision-making over resource allocation.</p>	<p>1. Number of families benefited from subproject investments; 2. Incremental employment generated from subproject investments; 3. Increase in well-being and incomes of project beneficiaries; 4. Increase in social welfare of rural communities; 5. Increase in social capital index (CPI) of project MCs; 6. Number of MCs participating in priority-setting and decision-making on resource allocation of project and non-project funded development activities; and 7. Increase in total project and non-project financing allocated through MC mechanism.</p>	<p>1. Project Impact Evaluation 2. COPES Bi-annual Progress Reports 3. MIS updates 4. Beneficiary surveys 5. Rio Grande do Norte's Economic Development (IDE) & Social Development (IDS) indices 6. MC Reports</p>	<p>(Objective to Goal)</p> <p>1. Macroeconomic shocks or natural disaster do not eliminate poverty alleviation gains achieved by the program.</p> <p>2. Sufficient complement of other resources (e.g. health, education, credit, <i>Projeto Alvorada, 2000-2002</i>)</p>

<p>Outputs:</p> <ol style="list-style-type: none"> 1. Social, economic and productive infrastructure implemented and maintained. 2. CAs organizing to meet own needs. 3. Responsive MCs setting and achieving local priorities. 	<ol style="list-style-type: none"> 1. Number, type of subprojects 2. Number of subprojects operating and well maintained one & two years after completion 3. Cost-effectiveness and quality of basic infrastructure and social subprojects 4. Economic efficiency, financial viability of prod. subprojects 5. [Number of CAs]/[total number of communities in project area] 6. Growth of number of CAs 7. Number of subproject proposals submitted/year 8. Percentage of women in MCs and CAs 9. MC resource utilization: [MC disbursement]/[MC allocation] 10. Growth in number of FUMAC-P 11. Number of CAs formally graduated 12. Number of CAs participating in MCs which don't have subprojects 	<ol style="list-style-type: none"> 1. COPES Bi-annual Progress Reports 2. MIS 3. WB Supervision Reports 4. MC reports 	<p>(Outputs to Objective)</p> <ol style="list-style-type: none"> 1. Subprojects will target the rural poor 2. Communities effectively prioritize needs 3. Continued political support at local, state and national level for community based approach 4. CAs and MCs are able to implement good quality subprojects.
<p>Project Components/Sub components:</p> <ol style="list-style-type: none"> 1. Community subprojects 2. Institutional Development 3. Administration, Monitoring and Evaluation 	<p>Inputs: (budget for each component)</p> <ol style="list-style-type: none"> 1. US\$27.0M 2. US\$ 1.5M 3. US\$ 1.5M 	<ol style="list-style-type: none"> 1. COPES bi-annual Progress Reports and WB bi-annual Supervision missions 	<p>(Components to Outputs)</p> <ol style="list-style-type: none"> 1. Timely flow of counterpart funds to COPES 2. Subprojects will be high quality and sustainable 3. Widespread adoption of FUMAC and FUMAC-P by communities 4. MCs are representative of constituents 5. MCs are given clear indicative budgets for effective decision making 6. Technical assistance services are available and are used by MCs and communities 7. Subprojects will be maintained.

Annex 2

Brazil

Rural Poverty Reduction Project – Rio Grande do Norte Evaluation of The Brazilian Experience with Rural Poverty Reduction¹

I. INTRODUCTION

Northeast Brazil, consisting of nine states, and part of a tenth, contains the single largest concentration of poverty in Latin America. With a combined land area of 1.6 million km² – 16% of Brazil's total – the Northeast is home to 45 million (28%) of Brazil's 160 million people. More than 60% of all Brazilian poor, and about 70% of the country's rural poor live in the Northeast. Of the 16.5 million in rural communities of the Northeast, 6.8 million (41%) live on about US\$1 per day - and 9.4 million people (57%) at around US\$2 per day. A recent poverty review of Brazil finds annual per-capita incomes in the Northeast (estimated at R\$2,123) are only 42% of the national annual figure of R\$4,945 while the income levels of project beneficiaries in the rural Northeast are only 10% of the national average. This high incidence of poverty in the Northeast, especially in rural areas, has made this region a priority for public development programs.

Rural development indicators for the region also reflect the lack of access to basic services. The rural Northeast has: (a) a rate of chronic malnutrition for children under five of 31%, compared to 15% nationwide; (b) 77% of households without piped water, compared to 48% for the rural population nationwide; (c) 37% of households without electricity, compared to 25% for the rural population nationwide; and (d) 55% of households without access to proper sanitation facilities, compared to 33% for the rural nationwide.² The adult literacy rate in the Northeast is 60%, compared to 86% nationwide. Nearly half of the Northeast's rural population lives in the interior semi-arid zone. The rural poor are small farm owners, tenants, sharecroppers, and landless laborers who face volatile climatic conditions, fluctuating markets, skewed access to land, and almost no rural financial intermediation. The poor thus rely on subsistence cropping of basic foods, small-scale animal husbandry, some cash crops (mainly cotton and cashew), casual agricultural and nonagricultural work, pensions, and remittances from family members living in cities. These circumstances result in poor social conditions and a low productivity agricultural system, with modest input use and slow rates of technology adoption.

The State of Rio Grande do Norte, in particular, has an overall poverty rate of 31.8%, jumping to 43.0% in rural Rio Grande do Norte. This represents more than 835,000 persons, breaking down to roughly 418,000 in rural areas, and 417,000 in urban areas. Some 56% of rural Rio Grande do Norte households lack piped water supply, about 20% are without sanitation services, and about 14% of rural Rio Grande do Norte households remain without electricity, compared, respectively, with 11%, 3% and 1% for urban Rio Grande do Norte, and 7%, 3% and 0.9% for urban Brazil as a whole.

Recent successful rural development projects – the Reformulated Northeast Rural Development Project (R-NRDP) [1993-1996] followed by the Rural Poverty Alleviation Projects (RPAPs) [1995 – present] - have helped to alleviate conditions, and present a promising approach to addressing persistent poverty levels.³ The combined program – the R-NRDP (including a community-based pilot part of the Northeast Rural Development Program before its reformulation) and the RPAPs – has successfully financed some 50,000 community-managed subprojects in over 1,500 of the 1,665 municipalities of the Northeast, providing basic services to about 1.7 million of the poorest families, or some 7.5 million rural poor, in over 30,000 separate communities.

Although these achievements have contributed to a reduction in the growth of rural poverty in the Northeast, the sheer scale of poverty there remains high. The poor continue to suffer from chronic malnutrition, low levels of education and lack of access to basic water, sanitation, and electricity services. To address this rural poverty, the Government of

¹ Including the Bank co-financed Northeast Rural Development Program , particularly its reformulation in 1993, and the Rural Poverty Alleviation Program 1995 – present.

² *Pesquisa Nacional por Amostra de Domicilio*, IBGE 1999.

³ These projects, which currently span eight of the states of Northeast Brazil, are referred to cumulatively as the 'North East Brazil Rural Poverty Alleviation Program'.

Brazil, in partnership with the World Bank and the Northeast States, plans to expand and consolidate the achievements of the R-NRDP and RPAP programs through a new series of Rural Poverty Reduction projects. Building on the successful mechanisms employed under those previous generations, these new projects will continue to improve both effectiveness and sustainability of impacts through adjustments to operational features reflecting lessons learned from implementation.

Strong monitoring and evaluation, combined with intensive, locally-based supervision, have been an important facet of the program, contributing to the depth of knowledge that exists on its performance. From March 1998 through March 2000, the program underwent extensive evaluation comprising a series of independent reviews to assess overall impact in achieving poverty reduction objectives. This Annex presents findings from the evaluation, as well as a decade of implementation experience, focusing on the achievements of the most recent (and therefore most evolved) RPAP-style projects (but also including information about the NRDp and the R-NRDP), synthesizing lessons learned and already incorporated in the proposed successor projects.

II. THE EVOLUTION OF COMMUNITY-BASED RURAL DEVELOPMENT IN NORTHEAST BRAZIL

Community-based activities were first introduced to Northeast Brazil in 1985 as a small-scale pilot component of the World Bank-financed Northeast Rural Development Program (NRDP). For several years following effectiveness, this community-based component - *Apoio às Pequenas Comunidades Rurais* (APCR) - was the only activity under the NRDp to disburse effectively and achieve positive results on the ground. The APCR, at a total component cost of US\$106 million, represented one of the most significant attempts of the Bank to make rural development projects more participatory. The APCR fund made grants of up to US\$10,000 to community associations in towns of less than 5,000 inhabitants. About 60% of the grants financed community-owned ventures like grain-milling facilities, seed banks, input-supply stores, and storage facilities. Another 25% went to small works projects (e.g., road repair, community laundries, public toilets) while the remaining 15% supported institution-building activities in rural community associations. Relying on rural communities to organize, prioritize needs, and plan, execute and manage subprojects, this innovative component produced results that were both encouraging and replicable, demonstrating that by involving communities, poverty reduction could be achieved at a low per family cost. Equally important, the APCR demonstrated the ability of municipal governments – which were not originally included as project participants – to mobilize additional resources at a time of severe fiscal austerity.

In late 1993, drawing on lessons from the APCR and similar schemes elsewhere in Latin America, the NRDp was reformulated into a full-scale community-based development program (R-NRDP). Significant features of the reformulation were: (i) decentralized decision-making, (ii) state and community counterpart funding responsibilities and (iii) delegated implementation from the Federal Government to the State and local levels. Subsequent evaluation of the Northeast program has confirmed that not only was it an effective model for rural poverty alleviation, but also became a key tool of the Northeast States for promoting organized decentralization, local development and community participation.⁴

After field-testing the R-NRDP model for over three years, eight Northeast State Governments (Bahia, Ceará, Maranhão, Paraíba, Pernambuco, Piauí, Rio Grande do Norte and Sergipe) scaled-up the use of the methodology and ushered in the follow-on Rural Poverty Alleviation Projects (RPAPs). Since their inception in 1995/96, the RPAPs have financed almost 20,000 community-managed investments comprising basic social, productive and infrastructure services, benefiting some 1.1 million rural families, with high levels of efficiency, sustainability and demonstrable impact on the poorest, providing improved access to services and enhanced employment opportunities.

Building on the success of this new approach to rural development, a follow-on round of Rural Poverty Reduction Projects is proposed. These projects will consolidate gains made under the previous generations of the Northeast program and expand the coverage of the program to all ten States, while simultaneously integrating activities of the Municipal councils with the local government and, through more focused investment, promote asset accumulation of the poorest.

⁴ For Rio Grande do Norte-specific R-NRDP evidence of these successes, see Annex 2, SAR, Rural Poverty Alleviation Project – Rio Grande do Norte, Document no 15933-BR (1996)

III. INFORMATION SOURCES

Strong monitoring and evaluation, combined with intensive, locally-based supervision, have been an important feature of the Northeast program. Extensive studies of the program have also evaluated project impact in achieving poverty alleviation objectives. Data for this review were collected from a variety of sources, including:

- a. *Decentralized Rural Development, Enhanced Community Participation and Local Government Performance: Evidence from Northeast Brazil*, an evaluation of the R-NRDP and RPAP programs conducted by FAO/CP (July 2000);⁵
- b. Evaluation studies carried out by independent consultants contracted by STUs in six Northeast states. These studies covered 331 municipalities, 671 communities, 3,888 families and more than 420 community subprojects of different types financed in Bahia, Ceará, Sergipe, Pernambuco, Piauí and Rio Grande do Norte. In Bahia, Ceará and Sergipe, both a physical performance study and project impact assessment were completed. In Pernambuco, Piauí and Rio Grande do Norte, baseline studies and physical performance reviews were conducted. In all six states, these studies complemented monitoring reports (semi-annual and annual) prepared by the STUs, covering all project activities since effectiveness. Samples for the evaluation studies were based on the most representative subprojects financed up to early 1998 for Bahia, Ceará and Sergipe and early 1999 for Pernambuco, Piauí and Rio Grande do Norte;
- c. *A community participation study*, conducted by an independent consultant under the World Bank/FAO-CP agreement in these six Northeast states;
- d. *Supervision missions* carried out by the states, FAO and the Bank during a two-year period from March 1998 to April 2000. These missions interviewed STU technical staff and visited a large number of communities in some 110 municipalities to interview and meet with community leaders, beneficiaries, members of FUMAC Councils and municipal authorities (including mayors, council members, municipal secretaries). Case studies were also prepared.
- e. *Implementation Completion Reports* (ICRs) for the ten R-NRDP projects, which detail all aspects of project execution, Borrower and Bank performance, and indicators related to cost-effectiveness and sustainability of subprojects financed under the R-NRDP. Results from these ICRs were summarized and included in the Staff Appraisal Reports for the eight RPAPs (most notably, see Annex 2 for each respective state SAR).
- f. *The Management Information System (MIS)*, which provides current data on all subprojects, including a characterization of associations, types of subprojects, number of beneficiaries, subprograms, budgets, costs, financial transactions, subproject status, as well as relevant data and information on technical assistance, training and supervision reports. MIS data are updated monthly and transmitted electronically to the Bank which, in turn, operates its own database with project data and information on all eight RPAP states. The Program's monitoring and evaluation were cited Best Practice in the World Bank document, *Measuring the Poverty Impact of Projects in LAC* (July 6, 1998);
- g. More broadly, the Bank has also invested in a variety of *studies and analytical work* in recent years to identify the dimensions, characteristics and causes of rural poverty in Brazil and to develop strategic options for policies and programs. Most notable among these studies have been: (a) *Brazil Poverty Assessment* (Report No. 14323, 1995); (b) *State Economic Memoranda* (similar to CEMs albeit at state level, SEMs have been completed or are in progress for Ceará, Pernambuco, Bahia and other Northeast states); (c) *Rural Poverty Reduction in Brazil: Towards an Integrated Strategy* (April 2001); and (d) various surveys, evaluations and impact assessments of the R-NRDP and RPAP projects.

⁵ Van Zyl, J., Sonn, L., Costa A

IV. IMPLEMENTATION RESULTS OF THE NORTHEAST PROGRAM⁶

a. Subprojects: Major types, costs and implementing mechanisms

Rural Northeast communities have demonstrated their strong interest and high level of demand for the program by submitting, through end-April 2001, well over 90,000 subproject proposals for funding and implementation under the combined programs. Based on these proposals, the Northeast States cumulatively implemented some 50,000 subprojects, implying that a little over one-half of identified needs could be met, with available resources under the program and after the analysis of proposals presented. Subprojects were implemented across three types of implementation instruments:⁷

State Community Schemes (PAC): The original delivery mechanism devised under the R-NRDP, and applied also under Rural Poverty Alleviation Project (RPAP).⁸

Municipal Community Schemes (FUMAC): Initially piloted under the R-NRDP, FUMAC channels subproject funds through project municipal councils, where proposals are prioritized and approved through participatory processes.

Pilot Municipal Funds Schemes (FUMAC-P): First piloted under the RPAP, selected FUMAC councils prioritize and approve subprojects submitted by rural communities and then finance them within the context of an annual budget allocated to each council by the STU.

Over nearly fifteen years of implementation (including the APCR pilot which preceded the R-NRDP), the delivery cost of the combined program has been consistently low. Overall, the average subproject cost (including community contribution) was about US\$19,000, yet within the program, the cost structure (as a function of the differing scale of subproject investments) varied significantly. For example, APCR investments were limited to a maximum of US\$10,000, whereas under both the R-NRDP and the RPAP, the maximum was US\$50,000. Notably, average subproject cost under both the R-NRDP and the RPAP were US\$24,000 and US\$23,500, respectively.

Specific to the RPAP, subproject costs were remarkably similar for the different investment *types* (i.e., infrastructure, productive and social), while average subproject cost by *subprogram* (i.e., PAC, FUMAC and FUMAC-P) varied, with cost efficiency increasing from PAC to FUMAC to FUMAC-P. Some 77% of subproject investments selected by communities comprised basic rural infrastructure (e.g., water and electrification), another 20% were productive in nature (e.g., small scale agro-processing and communal tractors), while the remaining 3% represented investments of a social nature (e.g., day care centers or health-related house rehabilitation). While more than 100 categories are represented in the data, rural water supply systems and rural electrification were by far the most popular types of investments. Other popular subprojects included rural access road improvement, communal tractors, small bridges, manioc mills, sanitation systems and small irrigation schemes. These findings were reasonably consistent across the different subprograms – PAC, FUMAC and FUMAC-P.

b. Beneficiaries: Families, community associations and municipalities

Since its inception, the Northeast program has benefited nearly 1.7 million families.⁹ This represents 53% of the total target population for the eight RPAP projects in aggregate, and about 25% of all rural families in these states. The gradual accumulation by some of the target population of benefits and assets under the APCR, R-NRDP and RPAP (as well as other programs) has a significant impact on community development (see also Technical Evaluation, Section VI). This constitutes an important element of a strategy to graduate some of these beneficiary communities into other, non-grant based programs (see Section V for more detailed discussion on graduation).

⁶ The Reformulated Northeast Rural Development Program (R-NRDP), including the pilot component (APCR) and the Northeast Rural Poverty Alleviation Program.

⁷ For more detailed definitions of PAC, FUMAC and FUMAC-P, see Section 3.1 and Annex 3.

⁸ Subprojects under the APCR component most closely resembled the PAC mechanism.

⁹ Net of repeat families (i.e., those benefiting from more than one subproject) *within and across programs* (i.e., APCR, R-NRDP and RPAP)

Through April 2001, the combined program had subprojects implemented in over 1,500 municipalities (86% of rural Northeast municipalities), engaging more than 30,000 community associations. Under the R-NRDP, PAC accounted for 79% of subprojects implemented, with the remaining 21% of subprojects financed under FUMAC. The RPAP mainstreamed the FUMAC concept, resulting in slightly more than one-half of subprojects being financed under this subprogram; PAC accounted for about 45% of all RPAP subprojects, with an additional 4% made up of FUMAC-P subproject activity. In sum, the program has evidenced a gradual yet sustained move toward increased decentralization of project implementation as emphasis has shifted from PAC to FUMAC to FUMAC-P. Some 1,000 Municipal Councils – with 80% of membership drawn from potential beneficiary communities and 20% representing the public sector and broader civil society - have been established and are active in program implementation.

The Rural Poverty Alleviation Program comprises eight State projects in Northeast Brazil with total Bank loans of US\$444.0 million, effective in the period from late 1995 to 1998, and with Closing Dates ranging from June 30, 2001 to June 30, 2003. The combined disbursement of the eight projects through April 30, 2001 amounted to US\$382.1 million or 86% of the total. The State of Rio Grande do Norte has disbursed some US\$20.2 million or 84.0% of a US\$24.0 million loan. State counterpart funding availability has been problem-free throughout most of the implementation period, indicative of strong commitment. The State has met or exceeded most of its original targets, greatly exceeding expected numbers of beneficiary families, municipalities reached and municipal councils – both FUMAC and FUMAC-P -- established. Since 1998, about 90% of subproject implementation has been under the FUMAC or FUMAC-P mechanisms. Average costs per subproject and cost per beneficiary family are about 72% and 91% of overall program averages, respectively.

V. IMPACT ANALYSIS OF THE NORTHEAST PROGRAM

Evaluation of the Northeast program indicates that its primary objective – reduction of rural poverty – is being efficiently achieved on a significant scale.

a. Local level

The Northeast program has made a substantial contribution to both the quality of life of the beneficiaries and the local economy. The availability of electricity and water supply, localized improvements to feeder roads and bridges, rehabilitation of rural schools and health posts, and the provision of community-owned productive infrastructure, have changed the socio-economic outlook of entire communities throughout the region. Equally important, the Northeast program is contributing, through mobilization associated with subproject execution (and coupled with training and technical assistance) to gradual yet substantial accumulation of social capital in poor rural communities.

Socioeconomic impact

Benefits under the combined programs have included: (i) improved living conditions; (ii) improved health conditions and productivity; (iii) increased family income; and (iv) job creation – all serving to gradually lift beneficiary families from poverty. Prior to the program, most of the recipient rural communities suffered from lack of access to water, electricity and other basic infrastructure. As of end-April 2001, some US\$900 million have been disbursed to finance some 50,000 community subprojects under the APCR, NRDP and RPAP. These social and infrastructure community subprojects, the Northeast program has provided access to these previously unavailable services. Basic infrastructure and social subprojects have also provided communities with cleaner water, better sanitary conditions, and also resulting in significant health improvements for the recipient communities as well as savings related to reduced medical assistance. Specific to the RPAP, an evaluation of the aggregate socioeconomic impact of the US\$362 million total of community subproject investments under the RPAPs to March 2000 indicates that: (i) more than 40,000 additional permanent jobs were created, (ii) an additional 35,000 hectares were brought under cultivation, (iii) additional sustainable income or savings of more than \$80 million per annum. When the impact of the predecessor R-NRDP was included, aggregate investments of about US\$800 million through March 2000 have generated almost 100,000 additional permanent jobs, an increase in cultivated area of about 85,000 ha., and have generated additional, sustainable annual income or savings of US\$203 million.¹⁰

¹⁰ Van Zyl, J., Sonn, L , Costa, A. (FAO/CP evaluation): *Decentralized Rural Development, Enhanced Community Participation and Local Government Performance Evidence from Northeast Brazil* (July 2000)

At the subproject level, the socioeconomic impact of investments varies, but is evaluated briefly below according to type – basic infrastructure, social or productive subprojects.

- ***Basic Infrastructure:*** About 77% of subproject investments under the Rural Poverty Alleviation Program were in basic infrastructure –rural electrification and water supply being the most important. Investments in *rural electrification* provide obvious benefits in terms of access to information, knowledge and even distance learning by radio and television, facilitating household work but also contributing to improved health for the entire family through better food storage. There is also evidence that, when coupled with other subprojects, rural electrification can lead to initiatives or productive activities that create jobs and increase household income (e.g., small irrigation schemes, small businesses and agro-industries).

Similarly, *water supply* subprojects directly and rapidly improve families' level of well-being through provision of good-quality water. The construction of almost 10,000 community-built and managed water supply systems under the combined programs (to April 2001) has meant that thousands of families no longer depend on the intermittent water trucks during drought, thousands of women no longer spend 4-5 hours daily collecting water and large numbers of infants do not die of water-borne diseases. Analyses from the RPAP alone suggest that net annual income/savings per rural water supply subproject were approximately US\$12,000/subproject. These income/savings are comprised largely of time savings, foregone health expenditures and increased agricultural production. This is significantly higher than other types of infrastructure subprojects, which typically return lower than US\$2,000 per annum. Other common types of infrastructure subprojects, such as community road improvements, telephone booths, and construction of small bridges not only improve the living conditions of residents of small rural communities, but also facilitate the movement of people, inputs and products as well as communications with family members who have migrated and live and work in other towns. Analysis of a sample of over 8,000 basic infrastructure investments indicate sustained impact – 89% of infrastructure subprojects funded/executed in 1995/98 continued to be fully operational in March 2000.

- ***Productive investments.*** Investment in productive activities – i.e., subprojects involving the production and/or transformation, or processing of agricultural and non-agricultural goods – were typically demanded by communities only after basic infrastructure needs were met. About 20% of investments under the Rural Poverty Alleviation program were for productive activities, such as small scale agro-processing and communal tractors. Productive investments have a relatively strong potential for generating income opportunities in the short and medium terms, especially for projects with simple production processes and low exposure to market risks (e.g., manioc mills, small irrigation schemes, tractors, primary processing of corn and rice, and cashew nut). Internal rates of return for productive subprojects exceeded, on average, 30% (see Annex 5). Furthermore, these productive ventures are, in general, financially sustainable, with about three and one-half years needed, on average, to recover the capital invested and user fees adequate to cover O&M. More complex undertakings (e.g., clothes-making, community brick and ceramics factories) have also been successful when packaged with technical assistance and training. For a sample of 1,820 productive subprojects funded/executed in 1995/98, some 1,580 or 86.8% were found to be in full operation in March 2000.

It is expected that the financing of productive investments will stabilize, with STUs expanding financing to communities that have until now not benefited from infrastructure subprojects and /or from growth. Various cases have been identified of communities that initially benefited from infrastructure or productive investments, graduated from the program, and are now beginning productive undertakings with the assistance of conventional sources of financing (e.g., Banco do Nordeste, Banco do Brasil), or other programs. This trend will be promoted in the new project, with enhanced linkages to other projects/programs, credit and markets.

- ***Social investments:*** Under the Rural Poverty Alleviation program, social subprojects (e.g., sanitation, health-related housing improvement and social centers) have comprised 3% of total subprojects. Sanitation subprojects (e.g., latrines, septic tanks) have improved community health. Community centers financed under the program have served both social and productive functions (e.g., hosting various civic events, serving as sites for training). Similarly, communal wash-houses that provide washing water for family laundry fulfill a social function while providing a valuable service to the community. Impacts were also sustained - for a sample of 239 social subprojects funded/executed in 1995/98, 88% of them remained operational in March 2000.

Targeting

Effective targeting of the rural poor is crucial, given the matching grant-based nature of subproject investments. Under the RPAP, but also under the R-NRDP, targeting has occurred at two distinct levels: (a) selection of municipalities based on poverty level and/or other socioeconomic characteristics and (b) selection of beneficiary communities through Municipal Council deliberations. Furthermore, consistent with the demand-driven characteristics of the program, prospective beneficiaries “self-select” in that community associations identify local needs and prepare subproject proposals to address them. Populations targeted under both the R-NRDP and the RPAP have been poor and, in general, strategies for targeting these groups seem to have produced the desired results. There is reasonable certainty that the relatively better-off and better-organized communities did not capture a larger than proportional share of project benefits. Targeting was somewhat less precise in municipalities where only PAC subprojects had been implemented; the expansion of FUMAC and FUMAC-P largely resolved this difficulty, since Municipal Councils – where community representation is strong – can make better allocation decisions due to local knowledge of both community needs and their extent of vulnerability. The recent Rural Poverty Review for Brazil assessed the coverage and targeting of several social programs in Brazil; it found the RPAP to be among the best performers in terms of both coverage and targeting. Not only have the vast majority of program resources under the RPAPs (approximately 93%) reached the final beneficiaries as direct subproject investment, but evaluations indicate that targeting of the poorest has been effective with 75% of beneficiaries having an initial income of less than US\$1 per day.

Graduation

By improving living standards and economic conditions of beneficiaries, the RPAP and the R-NRDP have stimulated asset accumulation at both the local and household levels, an important consequence of which is that, over time, certain communities have satisfied their basic needs and increased their socio-economic standing. Because future project resources will be targeted to the poorest, these communities will eventually be precluded from further project financing. Field observations suggest that the expansion of FUMAC and FUMAC-P mechanisms has led to a natural process of community *graduation* by Municipal councils. For those communities which have implemented a number of subprojects, this informal graduation entails either (i) reducing the community’s priority ranking within the municipality or (ii) excluding the community’s subproject proposals. Municipal council performance in regard to graduation needs to be more closely monitored to ensure consistency. Under the proposed project, the following will be applied:

Graduation of communities – exit strategy. Most of the investments requested by communities in the past (around 77%) comprised infrastructure subprojects. However, since the rural poor are generally off the radar screen of any formal credit institution in the rural Northeast, particularly as individuals, project matching grants for productive investments and technical assistance can be catalytic by encouraging the formation of groups, providing some experience in the management of financial assets and income-earning activities, and thus making them more attractive to financial institutions. Therefore, communities that presently lack access to formal credit can qualify for one grant-based productive subproject (defined as those generating product sold in the market), after which they will be graduated from such support, (under the R-NRDP and RPAP there were no limits, although as a practical matter the MCs have tended to limit communities to an average two subprojects of any kind, in order to ration scarce resources). At the same time, a major effort will be made to link communities graduating from productive projects, to possible sources of formal credit. In particular, the Bank of the Northeast (BN) has increasingly been seeking organized communities to which it can provide group credit. BN and the RPAPs have already partnered in some places, albeit in an *ad hoc* manner – but there is now enough positive experience that the state of Rio Grande do Norte and BN are interested in taking the cooperation to another level. Therefore, agreements have been reached on information sharing and coordination, which will be detailed in the project Operational Manual: (a) BN will have access to relevant information from the project MIS about group credit candidates, which it will pass on to its units in charge of credit lines and government programs in which it participates; (b) BN’s local development agents will be invited to attend Municipal Council meetings; and (c) BN will provide Rio Grande do Norte with feedback on project-graduated groups to which it has extended credit, for use in project monitoring and evaluation. BN has also undertaken to expand its testing of the Bank-financed *CrediAmigo* micro-credit program into rural areas.

With regard to community infrastructure and social subprojects, graduation considerations are different. Most of these subprojects are in the realm of core public services (water, sanitation, electrification, social investments), and the definition of the minimum acceptable level of such services necessarily varies over time. Grant-based support is provided because of the poverty targeting under the project. The R-NRDPs and RPAPs demonstrated that the CDD approach to rural infrastructure and service delivery targeted to the poorest can work, in a cost effective manner and on a large scale, while also having important impacts in terms of social capital formation and improved local governance. Under the proposed project in Rio Grande do Norte (both the initial and second phases), the state intends to expand the geographic coverage of the CDD approach, and to encourage project Municipal Councils to proactively seek new sources of funding, and to engage in priority-setting and decision-making over a much wider range of activities, with a view to improving the effectiveness of local governments and the integration and overall impact of public resources directed towards rural poverty reduction.

b. State and Municipal Levels (see also Annex 5)

Subprojects implemented under both the R-NRDP and the RPAP programs have injected significant levels of resources into the economies of beneficiary municipalities through direct investment, revenue generation and cost savings. At the Municipal level, the program has delivered to the rural poor cost-effective basic infrastructure and services in a timely fashion. Evaluations indicate that, had these investments been undertaken in the traditional manner, they would have constituted a larger burden on State and Municipal government budgets and taken longer to complete. For example, the rural water supply subprojects in beneficiary communities have replaced recurrent expenditures that municipalities and States have typically incurred to mitigate the often severe and protracted drought. In Sergipe alone, it is estimated that such savings totaled more than R\$500,000 annually during a year of "normal" rainfall; in Ceará and Bahia, the amount exceeded R\$1 million annually. In years of severe drought, such as 1998, savings were at least doubled. Information from the Superintendency for the Development of the Northeast (SUDENE) shows that between October 1998 and June 2000, total Federal, State and Municipal expenditures on trucked water (*carro pipa*) in the ten Northeast states were more than R\$65 million or about US\$39 million. In addition to tanker-related savings, water supply subprojects reduce municipality spending on medical supplies and medical care by reducing the incidence of water-borne diseases.

From a fiscal standpoint, ICMS (sales tax) revenues from subprojects are expected to be small because much of the incremental production is either self-consumed, not liable to taxation, and/or circulates in informal markets where tax is rarely paid. However, the indirect effects of infrastructure subprojects can be large. Experience under RPAP showed that there was a large increase in the purchase and use of domestic appliances when electricity became available. This observation is also applicable to purchases of items such as agricultural machinery and irrigation equipment, although these types of subprojects are not as numerous as electrification.

VI. TECHNICAL EVALUATION

Quality of investments

Technical evaluations conducted by independent consultants have found that works executed under the program were technically satisfactory and of good quality. Beneficiaries uniformly expressed their satisfaction with the quality (good or excellent) of materials used in construction, and regarded more than 90% of all investments as being satisfactory. This finding was consistent for PAC, FUMAC and FUMAC-P mechanisms. From 50% to 75% of all subprojects were considered to be adequately sized to meet beneficiaries' needs, another 13-33% were considered under-sized, and 2-14% too large (varying according to State).

Cost-effectiveness (see also Annex 5)

In many cases, subproject investments under the Northeast program were substitutes for investments that would normally have been made by Federal, State and Municipal governments. Evaluations show that costs of investments implemented by communities under the Northeast program (either directly or contracted) were consistently 30-50% lower than costs incurred by public authorities for works of equal or lesser quality. Moreover, costs were lowest where communities executed subprojects themselves – from 10 to 40% lower than when implemented solely by contractors they hired. Cost per beneficiary family decreased as communities moved from PAC to FUMAC.

Cost reductions under the program were stimulated by several actions, including: (i) use of standard subproject models; (ii) more accurate analysis of subproject proposals; (iii) inspection of works during execution; (iv) visits to communities prior to the approval of proposals; and (v) provision of training to those involved in carrying out procurement in the associations. Supervision observations during subproject execution and visits to communities prior to subproject approval were incorporated into the TUs' work routines. Additionally, standardized subproject designs and unit costs and procurement-related training on pricing for goods, works and services, facilitated the process of subproject analysis and execution for the associations, and the work of supervision and monitoring for the TUs and the Municipal Councils. In general, the program has proved that procurement by community associations can be very successful and cost effective.

***Sustainability* (see also Annex 5)**

Subproject sustainability was found to be enhanced by a sense of community ownership, by their cofinancing of subproject costs and by communal responsibility for operation and maintenance of the investment. Recent reviews, which sampled some 8,000 community subprojects funded from 1995 to 1997/98 found that about 90% of these subprojects continued to be fully operational. This sustainability did not vary substantially, either in terms of subproject completed under the R-NRDP or the RPAP, or across subproject types (i.e., infrastructure, productive, social). Observations indicate that community associations have generally been able to establish internal rules for charging user fees, thus ensuring the sustainability of these investments. There are some limited cases, particularly in subprojects financed under the PAC subprogram, in which beneficiaries, despite having participated in the decision to select the investment, are not paying regularly user fees. Incentives to minimize such occurrences and more emphasis on FUMAC and FUMAC-P have been included in the new projects. Due to their relatively small scale, subprojects, in general, were observed not to have a significant effect on the environment.

VII. INSTITUTIONAL EVALUATION

The Northeast program – a participatory, demand-driven mechanism addressing a large target population – involves many actors and stakeholders. The institutional analysis, therefore, focuses on the communities themselves as the cornerstone of the program. In particular, it assesses how the program has served to enhance social capital in beneficiary communities and municipalities. It will also examine the performance and capacity of community associations, municipal councils and technical units.

Social Capital

In addition to meeting basic community investment needs, a major achievement of the program to date has been to foster social capital creation within rural municipalities and communities. Again, program evaluations indicate that social capital has expanded on two levels under the program: (i) as the program evolved from APCR to R-NRDP and finally under the RPAP and (ii) as the delivery mechanisms became more decentralized, from PAC to FUMAC to FUMAC-P. This is because the Municipal councils have served as representative and transparent fora for local government and community representatives to discuss and prioritize investment proposals. By serving as a participatory means for communities to equitably address their collective needs, the municipal councils have succeeded in: (i) reducing clientelism and political interference; (ii) strengthening the capacity of both communities and municipal governments to select, prioritize and implement investment decisions; (iii) creating partnerships between communities, municipal councils and municipal governments; (iv) increased community voice in the use of public resources; and (v) fostering citizenship through increased awareness of social responsibilities of citizens, their representatives and public authorities in community and public matters.

Nearly 1,000 municipalities have established project Municipal councils under the program. Approximately 30% of these councils (in which community representatives and civil society have an 80% majority) have progressed beyond simple subproject decision-making into popular participation fora for municipal planning and allocation of non-project resources – a telling indication of the gains in social capital at the municipal level. In addition, approximately 25% of community associations are leveraging social capital acquired under the Program to access other non-RPAP investment financing previously unavailable. Although intangible and difficult to quantify, there is a palpable difference in self-respect and confidence in many RPAP communities.

A community participation study (Section III) – an analysis based on a representative sample of 225 community associations – revealed that from the advent of the R-NRDP (1993) up to the implementation of the RPAP (1998–2000), social capital accumulation had increased by some 41%.¹¹ A particularly noteworthy result of this analysis was that social capital remained constant for the PAC approach, increased some 43% for FUMAC and rose by 76% for FUMAC-P, clearly demonstrating that empowerment of communities through devolution of decision-making and, particularly financial management responsibilities, leads to more effective and genuinely demand-driven rural development. Indeed, one of the most subtle feats of the RPAP has been that gradually all states have become convinced of the superiority of FUMAC over PAC. Given the continued emphasis on the FUMAC and FUMAC-P subprograms, it is expected that the program's rate of social capital formation will continue to increase. Institutional sustainability will also be ensured as links are strengthened between Municipal councils, local governments, rural communities and other external partners, introducing these actors and stakeholders to a new way of doing business.

Community Associations

Field observations, and the community participation study mentioned above, indicate that the community associations created under the program have generally performed well. Collective responsibilities are typically met by the members (e.g., appointment of office holders, payment of dues or user fees), particularly in better organized groups. While there exists the potential for political influence in the organization of these community associations, the outcome has been generally favorable as mayors, STUs and NGO agents facilitated the spread of information about the program and provided the conditions necessary for communities to capitalize on program benefits which met their basic needs. Community association membership was found to be inclusive, with an increasing proportion of women undertaking leadership functions. Another important observation has been that subprojects implemented by associations have tended to benefit entire local communities, and not just association members.

Uniformly across the program, community associations share a common need for technical assistance. Not only is this essential for the organizational development of newly-formed associations, but it is also needed to assist the associations during the entire subproject cycle, from preparation to implementation and operation and maintenance of subprojects. Funds are available under the program for community contracting of technical assistance, supplemented by similar provision from Municipal councils and the STU.¹² Technical assistance will become increasingly important as the program expands, and weaker communities not yet participating in the program gradually become involved. Better access to organizational and management training will also contribute to the sustainability of both community associations and subprojects.

Municipal Councils

Since the advent of the R-NRDP, the formation of Municipal councils – both FUMAC and FUMAC-P – has been an important contribution of the Northeast program. Evaluations indicate that these councils, as fora of democratic discussion, have (i) increased transparency, (ii) reduced political interference, (iii) improved targeting, and (iv) contributed significantly to social capital formation in rural communities. Furthermore, FUMAC-P councils performed even better than FUMAC councils, confirming the benefit of increased decentralization in program delivery. The setting of budget envelopes for the Municipal councils (under FUMAC-P) makes for more realistic priority-setting than in respective FUMACs, contributing to an increased capacity by communities in these councils to identify, plan and implement subprojects. These stronger FUMAC-P councils also were even more effective catalysts for increasing community organization and thus social capital.

Experience on the ground shows that Municipal councils are becoming an integral part of local government planning processes, indicating that the initial risk of FUMAC and FUMAC-P councils being parallel structures to local governments (with a life span tied to the program) is actually being overcome. Councils are increasingly being recognized by both the local population and their elected mayors as valid representatives of communities and civil society, and as able partners of local administrations in fostering and sustaining municipal development.¹³

¹¹ Van Zyl, Sonn, Costa (FAO/CP evaluation) Decentralized Rural Development, Enhanced Community Participation and Local Government Performance Evidence from Northeast Brazil (July 2000). Measurements were based on a compound index developed for the program, and referred to as the social capital index (CPI).

¹² Typically, up to 8% of total subproject cost can be earmarked for community contracting of technical assistance

¹³ As frequently observed in the field, the most insightful mayors (*prefeitos*) have now begun to understand that working in alliance with communities and Councils, in addition to the gains mentioned here, also makes good political sense.

Obviously, progress has been faster in some states (e.g., Rio Grande do Norte, Bahia and Piaui), but even in the other Northeastern states, both FUMAC and, in particular, FUMAC-P are slowly but firmly taking hold.¹⁴ In approximately 30% of the councils, decisions are made not just on program-related allocations, but also on priorities for local municipal resources. If carefully nurtured, not only with the right mix of technical assistance and funding support but also by insisting that clear and transparent rules continue to apply to the functioning of the Councils, this model may well become one of the most valuable and durable institutions for rural development in the Northeast.

Over the course of program implementation, both the State Governments and the Bank have monitored the progress of the Municipal councils and, as a result, have introduced a series of adjustments to improve their performance and to increase their ability to generate social capital. Among these adjustments are: (i) increases in the relative number of community representatives on the Councils and continued diversification of council membership; (ii) expansion of the FUMAC-P experience; (iii) provision of more effective training and orientation for Municipal council members; (iv) increased responsibilities of Municipal councils to expand their role in providing technical assistance and support to communities; and (v) advice to councils on other sources of funds, including credit, to meet other community interests. Municipal councils are being encouraged to take a wider view of municipal development, to define criteria for community graduation and to assume the political and social burden for prioritizing community proposals. The councils have also been endowed with more secure sources of revenue for their operation, so that they can accomplish their tasks without total dependence on municipal resources. Community associations have been made aware of their responsibility to help in sustaining and guaranteeing the independence of their Municipal council. Finally, analysis suggests that the conditions whereby the councils can improve their performance include: (i) political inclusiveness, (ii) stronger community representation and (iii) awareness of the relative scarcity of resources.

Technical Units

Throughout its history, the Northeast program has been administered in each state by a Project Technical Unit (STU) which in eight Northeast states is under the State Secretariat of Planning (SEPLAN).¹⁵ The STUs are the vehicle for project administration and for communication with the Bank and the State Government. It is also the project's main liaison with the FUMAC and FUMAC-P Municipal Councils and, in PAC municipalities, with the community associations. The institutional set-up and performance of the STUs across the Northeast states is diverse and varied. In general, all the STUs show satisfactory levels of technical capacity, and have received adequate levels of technical assistance and training from contracted/external providers such as *Instituto Interamericano de Cooperación para la Agricultura* (IICA). Increasing decentralization, partnerships with public and private entities, and the build-up of both capacity and social capital in rural communities and their Municipal councils have allowed both communities and councils to assume greater responsibilities – including for supervision, monitoring and training –and thus imply a potentially much smaller role for the STUs in the future. With few exceptions, the STUs have benefited from the commitment and budgetary support of State governments: sound disbursement performance has been a notable feature of the RPAPs. STUs have, for the most part, implemented their functions efficiently, with few bureaucratic bottlenecks. The STUs' performance in the execution of training activities for associations and FUMAC and FUMAC-P councils, is considered satisfactory. Under the new projects, this function will be improved, and training made more relevant and timely, by increasingly devolving these responsibilities to Municipal councils.

The extent to which individual STUs are collaborating with public and private entities to leverage better project implementation is again variable. Most of the STUs have formed strong relationships with the State leadership, with the FUMAC and FUMAC-P councils and with municipal mayors. While there is widespread and active participation from rural workers' unions in community mobilization, organization and other activities, formal NGO participation in the implementation has been relatively modest. The notable exception is Rio Grande do Norte, where the economic and social benefits of active, dynamic NGO involvement are clear and measurable. This situation is changing however, and STUs are proactively seeking greater involvement and participation of NGOs.

¹⁴ While Alagoas did not participate in the RPAP phase of the Northeast program, the state nonetheless has fostered a similar model on the basis of the R-NRDP - Municipal Councils for Sustainable Development – that has much in common with the FUMAC and FUMAC-P models.

¹⁵ In the case of Ceará, the STU is under the State Secretariat for Rural Development (SDR) In Alagoas, the STU is located within the State Secretariat of Agriculture, Supply and Fisheries

World Bank Recife Office

The World Bank Office in Recife is fundamental to the coordination and supervision of the RPAPs and comprises three task managers dedicated exclusively to working with the Northeast states. By delegating supervision activities to this local office (including procurement reviews and field visits), Bank support is better tailored to the decentralized structure of the Northeast program. In terms of supervision, the Recife office will continue to play a similar role as in the past. In addition, the Bank will undertake, as part of its strategic updating of all work in Northeast Brazil, a yearly review of how the implementation of the RPRP program is contributing to integrate broader issues of poverty reduction in the Northeast.

VIII. LESSONS LEARNED AND REFLECTED IN THE PROPOSED PROJECT DESIGN

- *Decentralization* of fiscal and investment decision-making and implementation from federal to state and local governments, to community organizations, ensures efficient program administration and superior outcomes. Experience shows that decentralized community-driven approaches reduce bureaucracy, eliminate administrative bottlenecks and reinforce accountability for project performance by placing decision-makers near beneficiaries. Under the new project the existing, decentralized institutional structure will be further devolved, with increased delegation of duties to Municipal Councils and greater utilization of STU regional offices to promote more responsive and local level monitoring, data collection, coordination, and supervision.
- *Participation* by beneficiaries in the selection, financing, execution, and O&M of subprojects has ensured that investments meet genuine community needs, led to cost savings, and has increased community ‘ownership’ leading to improved sustainability of investments. This methodology will be continued under the new project.
- *Poverty targeting mechanisms* that are simple, verifiable and based on objective criteria, can foster transparency, minimize political interference in project resource allocation and ensure that project resources reach the poorest areas. Poverty targeting mechanisms under the RPAP to date have been notably effective in reaching the poorest rural populations in the Northeast. About 84% of the program’s beneficiary population are small farmers and rural laborers living in remote, low density areas with acute deficiencies in access to basic infrastructure and services. A significant additional population resides in rural areas directly adjacent to the urban periphery of municipal centers, where headcount poverty measures are lowest. Experience with project Municipal Councils demonstrates that communities themselves are the best-positioned and informed to target effectively. Under the new project, broad targeting will be undertaken (i) at the municipal level, with indicative budgets assigned to each Municipal Council, differentiated according to poverty indices; and (ii) at the community- level, by the Municipal Councils. Communities which improve their relative socioeconomic conditions significantly through project investments would be encouraged to seek non-project financing to meet development needs. In field observations of RPAP, Municipal Councils were found to already be following this practice, either (i) reducing priority ranking and/or (ii) excluding requests from those communities that had already received several subprojects.
- *Supervision* has been found to be an indispensable determinant of success and sustainability. It needs to be reinforced at all levels and involve local entities closest to the communities, particularly Municipal Councils and NGOs. Under the new project supervision responsibilities will be increasingly devolved to MCs, who will be supported with training and technical assistance. Measures will also be taken to modernize all Councils, gradually providing computers and information technology to all of them.
- A user-friendly *monitoring and evaluation system* facilitates the subproject evaluation process, provides feedback and necessary information to improve targeting and efficiency, and is an essential management and planning tool. Under the new project important revisions will be undertaken to strengthen the MIS (Section C.4 under “*Monitoring and Evaluation Arrangements*”) to improve real time monitoring of the entire project cycle. A more comprehensive impact evaluation component will also be introduced to measure income, welfare and social capital gains.

- *Dissemination of “best practices”*, such as experiences with NGOs in Rio Grande do Norte, EMATERCE in Ceará, FUMAC Councils in Bahia and Sergipe, and FUMAC-P in Pernambuco can hasten learning and reward innovation. Under the new project, exchanges between states, municipalities and communities will be expanded further, using more frequent training seminars, and workshops.
- *Standardization of subproject documents, technical designs and unit costs* simplifies the subproject preparation and evaluation process, improves the quality of subprojects, facilitates the procurement of goods and works, prevents over-design and enables participation by poorer communities. The existing database of standard designs and documentation have been reviewed, technically updated where necessary, and further expanded for the new project.
- *Environmental protection criteria:* Experience demonstrates, that because of their small scale, most subprojects do not have a significant effect on the environment. Nevertheless, the detailed environmental checklist developed under RPAP will be maintained and has been updated for the proposed project. Where environmental issues are a concern, standard subproject designs have been developed and will continue to be used by communities and MCs during subproject implementation. Further, an environmental specialist will be maintained at the STU to provide additional technical assistance on environmental matters as well as provide training to increase environmental awareness of MCs and community groups.
- *Technical assistance* enhances the ability of community associations and MCs to identify, prepare and implement subprojects, thereby augmenting their capacity to compete for investment funds. Technical assistance needs to be targeted to weaker municipalities to improve their planning, management and financial capacity to participate in the project. Locating and/or developing sources of technical assistance in rural areas requires significant attention and needs to be monitored at the local level. Under the new project, increased attention will be placed on training at the community level - funds will be made available for the appointment of ‘technical advisors’ to be recruited by each municipal council. These advisors will be responsible for managing and coordinating local technical and training needs. Increasing efforts will also be placed on more meaningful involvement of civil society (e.g., NGOs and other civil and church groups) - particularly with respect to increasing the flow of information, mobilizing the poorest groups and supporting training activities at the community level.
- A system of *checks and balances*, clearly-defined and well-disseminated, is essential to ensure proper use of funds and sound targeting of resources. Rules and procedures for such a system, including guidelines for performance incentives and penalties, have been reviewed and updated and are detailed in the Project Operational Manual. Performance incentives will include promoting better-performing FUMAC Councils to FUMAC-P; increasing Councils’ indicative budget envelope; increasing the number of investments or investment volume permitted to a community association; or incentives for environmental or technologically innovative investments. Penalties would attach to cases of mis-management and diversion of funds and include removal from eligibility to participate, reduced availability of funds, demotion from FUMAC-P to FUMAC, and/or judicial penalties where appropriate. In addition to penalties, Municipal Councils include participation of local NGOs (i.e., Rural Workers’ Union, the Church), representatives of public ministries and municipal officials, and Council meetings are publicly announced and open to broad participation. Finally, the project is installing computers in the Councils, whose role will be to publicize Council decisions on their own and the Technical Unit’s webpage. All of the above are designed to boost and institutionalize transparency.
- *Minimize use of the PAC approach*, particularly since the FUMAC and FUMAC-P sub-components have clear advantages with respect to targeting, sustainability and social capital formation in poor rural communities. Under the new project, PAC expenditure will not exceed 5% of total community subproject investments.
- *Productive subprojects* should be subjected to rigorous selection, preparation, technical assistance and supervision criteria. Under the new project, a ‘one-shot’ matching grant will be provided to eligible productive investments that (i) provide services for a large number of community members; (ii) whose collective use is regulated by strict operational guidelines (*regulamento de uso*); and (iii) for which operation

and maintenance is assured by charging adequate user fees to both association members and non-members. Revised procedures for productive subprojects are outlined in the new Project Operational Manual, as are arrangements to facilitate access to formal credit by graduating communities.

- *Broaden role of municipal councils in local planning*, by promoting greater integration between local governments and project municipal councils, and providing information to councils on other programs and alternative sources of grant and credit financing. Field observations indicate that over 30% of project Municipal Councils already participate in some prioritization of other (non-project) resources. If carefully nurtured, not only with the right mix of technical assistance, information and funding support, but also by insisting that clear and transparent rules continue to apply to the functioning of the Councils, this democratic forum may well become one of the most valuable and durable institutions for rural development in the Northeast.

Table A: Rural Poverty Alleviation Projects (RPAP) - Loan and disbursement data¹

State	Project total cost (US\$ million)	Loan amount (US\$ million)	Loan (% project cost)	Loan data			
				Total disbursed (US\$ million)	Disbursed (% total loan)	Disbursed for subprojects (US\$ million) ²	Disbursed for subproject (% total disbursed) ²
1. Bahia	163.4	105.0	64.3	103.3	98.4	92.8	91.7
2. Ceará	99.6	70.0	70.3	70.0	100.0	64.5	94.7
3. Maranhão	106.9	80.0	74.8	64.2	80.3	54.6	92.6
4. Paraíba	79.5	60.0	75.5	27.5	45.8	22.2	94.7
5. Pernambuco	51.2	39.0	76.2	33.2	85.2	23.4	77.5
6. Piauí	39.7	30.0	75.5	27.7	92.4	22.2	88.1
7. Rio Grande do Norte	31.6	24.0	75.9	20.2	84.1	15.8	85.1
8. Sergipe	53.3	36.0	67.6	36.0	100.0	33.4	93.9
Total	625.2	444.0	71.0	382.1	86.1	328.9	91.0

¹ As of April 2001

² Aggregate disbursements for community subprojects under the RPAP, R-NRDP and the pilot community-based pilot of the NRDP (APCR) totaled US\$738.0 million as of April 2001 and correspond to total investment in community subprojects of US\$903.2 million

³ Excluding disbursements made to special accounts. Including technical assistance this figure increases to over 95%.

Table B: Rural Poverty Alleviation Projects (RPAP) - Number of community subprojects financed¹

State	Total ²	Number of subprojects financed					
		PAC		FUMAC		FUMAC-P	
		#	%	#	%	#	%
1. Bahia	6,541	2,624	40.1	3,278	50.1	639	9.8
2. Ceará	2,932	958	32.7	1,964	67.0	10	0.3
3. Maranhão	3,130	1,276	40.8	1,854	59.2	0	0.0
4. Paraíba	1,800	1,525	84.7	261	14.5	14	0.8
5. Pernambuco	1,356	436	32.2	876	64.6	44	3.2
6. Piauí	1,015	387	38.1	628	61.9	0	0.0
7. Rio Grande do Norte	1,250	55	4.4	1,056	84.5	139	11.1
8. Sergipe	1,747	343	19.6	1,255	71.8	149	8.5
Total	19,771	7,604	38.5	11,172	56.5	995	5.0

¹ As of April 2001.

² An additional 30,350 community subprojects were financed under the R-NRDP and the community-based component of the NRDP (APCR)

Table C: Rural Poverty Alleviation Projects (RPAP) – Number of Community Subprojects, by Type¹

State	TOTAL	Infrastructure ²		Productive ²		Social ²	
		#	%	#	%	#	%
1. Bahia	6,541	4,772	73.0	1,708	26.1	61	0.9
2. Ceará	2,932	2,247	76.6	651	22.2	34	1.2
3. Maranhão	3,130	2,400	76.7	439	14.0	291	9.3
4. Paraíba	1,800	1,783	99.1	11	0.6	6	0.3
5. Pernambuco	1,356	936	69.0	323	23.8	97	7.2
6. Piauí	1,015	763	75.2	125	12.3	127	12.5
7. Rio Grande do Norte	1,250	731	58.5	503	40.2	16	1.3
8. Sergipe	1,747	1,460	83.6	188	10.8	99	5.7
Total	19,771	15,092	76.3	3,948	20.0	731	3.7

¹ As of April 2001.² The composition of investments (infrastructure, productive and social) is very similar under the R-NRDP.**Table D: Rural Poverty Alleviation Projects - Average cost per community subproject¹**

State	Average cost per subproject (US\$)			
	PAC	FUMAC	FUMAC-P	TOTAL ²
1. Bahia	25,101	23,825	16,014	21,434
2. Ceará	32,141	27,408	31,300	31,497
3. Maranhão	25,965	22,641	-	23,131
4. Paraíba	21,776	19,203	22,500	16,444
5. Pernambuco	27,467	22,374	7,727	23,009
6. Piauí	31,127	27,218	-	28,946
7. Rio Grande do Norte	22,693	16,147	14,415	16,853
8. Sergipe	35,697	27,712	25,718	27,312
Total	26,369	23,938	17,122	23,464

¹ As of April 2001.² Average cost per community subproject, including R-NRDP and the community-based pilot of the NRD (APCR) is US\$17,875; the weighted average for the APCR, R-NRDP and the RPAP is US\$19,000.

Table E: Northeast Poverty Alleviation Projects: Number of Municipalities reached, Councils formed and Community Associations benefited

State	Municipalities reached	FUMAC	FUMAC-P	Total	Assoc ²
1. Bahia	374	331	38	369	3,558
2. Ceará	176	137	5	142	2,192
3. Maranhão	200	137	0	137	2,246
4. Paraíba	214	42	2	44	1,693
5. Pernambuco	171	80	2	82	1,111
6. Piauí	197	119	1	120	795
7. Rio Grande do Norte	125	62	10	72	1,075
8. Sergipe	71	57	11	68	872
Total	1,528	965	69	1,034	13,542

¹ As of April 2001² # of community associations with subprojects financed**Table F: Northeast Rural Poverty Alleviation Projects - Number of beneficiaries and cost per family¹**

State	Beneficiary Families (#) ²	Cost per beneficiary family			
		PAC	FUMAC	FUMAC-P	All
1. Bahia	444,125	174	196	191	186
2. Ceará	147,833	539	458	441	482
3. Maranhão	150,742	385	320	-	346
4. Paraíba	78,895	480	368	235	454
5. Pernambuco	96,276	216	126	171	324
6. Piauí	62,671	351	370	-	362
7. Rio Grande do Norte	67,076	265	260	293	263
8. Sergipe	59,348	344	440	628	421
Total	1,106,966	279	265	242	289

¹ As of April 2001² Net of repeater families within RPAP projects Considering the number of RPAP families (without repetition) which also benefited from the R-NRDP and the pilot community-based component of the NRDP (APCR), the RPAP benefited some 720,000 additional families The aggregate number of families reached (without repetition) for the combined RPAP, R-NRDP and the APCR is just over 1.7 million, or about 7.5 million people.

Table G: Northeast Rural Poverty Alleviation Projects (RPAP) – Distribution of funded subprojects, by category¹

Category	FUMAC		PAC		FUMAC-P		TOTAL RPAP		TOTAL RPAP, R-NRDP, APRC	
	#	%	#	%	#	%	#	%	#	%
1. Water supply	3,209	28.7	2,217	29.2	381	38.3	5,807	29.4	9,751	19.5%
2. Rural Electrification	3,041	27.2	2,355	31.0	223	22.4	5,619	28.4	10,620	21.2%
3. Rural Access Roads Rehab.	827	7.4	541	7.1	19	1.9	1,387	7.0	3,366	6.7%
4. Farm Tractor	629	5.6	335	4.4	58	5.8	1,022	5.2	2,094	4.2%
5. Small Bridge	325	2.9	260	3.4	14	1.4	599	3.0	2,560	5.1%
6. Manioc Mill	251	2.2	194	2.6	40	4.0	485	2.5	4,122	8.2%
7. Comm. Telephone	99	0.9	319	4.2	36	3.6	454	2.3	454	0.9%
8. Septic Systems	255	2.3	84	1.1	21	2.1	360	1.8	2,445	4.9%
9. Small Animal	247	2.2	49	0.6	19	1.9	315	1.6	315	0.6%
10. Irrigation	196	1.8	52	0.7	19	1.9	267	1.4	588	1.2%
SUBTOTAL	9,079	81.3	6,406	84.2	830	83.4	16,315	82.5	36,315	72.5%
ALL OTHERS	2,093	18.7	1,198	15.8	165	16.6	3,456	17.5	13,786	27.5%
TOTAL	11,172	100.0	7,604	100.0	995	100.0	19,771	100.0	50,101	100.0%

¹ As of April 2001

Annex 3
Brazil
Rural Poverty Reduction Project – Rio Grande do Norte
Detailed Project Description

Project Component A – Community Subprojects (US\$27.0 million or 90% of total project costs):

The project would provide matching grants directly to rural community associations to finance priority, small-scale investments identified by community groups (up to US\$50,000 each). It is expected that approximately 1,500 subprojects will be financed under this component. This will comprise a broad range of subproject investments including infrastructure (e.g. rural electrification, local road improvements and water supply), social investments (e.g., health-related house improvement, day care centers, school or health post rehabilitation) and productive subprojects (such as small-scale community agro-processing, communal tractors and minor irrigation schemes). Subproject selection shall be demand-driven, however an indicative breakdown of investment types, based on historical program data in the state, suggests approximately 50% of financing shall be used for infrastructure; 20% for social activities and 30% for productive investments.

Subproject proposals for all forms of investment would observe standard procedures, documentation and technical, economic, environmental and sustainability criteria as set forth in a detailed Project Operational Manual. This Operational Manual incorporates modifications, reflecting the lessons learned during the implementation of the Rural Poverty Alleviation Project-Rio Grande do Norte (Loan 4120-BR). A short negative list¹ of subproject types ineligible for financing will be enforced, with particular emphasis on the application of rigorous eligibility criteria for productive subprojects to ensure proper targeting, and financial sustainability of this form of investment², also to be included in the Project Operational Manual. During negotiations, the Bank reviewed a complete revised draft of the Operational Manual, and assurances were provided by the Borrower that all project components and subprojects would be executed in accordance with this Manual. *Adoption of this modified Operational Manual is a condition of loan effectiveness.*

The identification, preparation and implementation of all subprojects financed under the project will be the responsibility of the beneficiary rural communities. Three different delivery mechanisms – incorporating increasing degrees of decentralization - distinguish how the subprojects are approved and financed:

- *State Community Schemes (PAC).* Under the PAC subprogram, rural communities submit their investment proposals directly to the State Technical Unit (STU), which screens and approves them and releases funds to the beneficiary associations. Whereas this was the predominant arrangement under the earlier R-NRDP projects, it has receded in importance as decentralization from the State to local levels has progressed. At the start of the RPAP projects, it was expected that about one-third of community proposals would be processed under the PAC, but the actual share decreased steadily during implementation, in favor of the other two modalities described below. Under the proposed new RPRP project for Rio Grande do Norte, the PAC will be retained as an option to which communities may occasionally resort in cases where Municipal Councils are not functioning properly, but it is expected to account for no more than 5% of all subprojects (up to US\$1.35 million of total community subproject costs).
- *Municipal Community Schemes (FUMAC).* Under this subprogram, decision-making on investment proposals is delegated by the State to project Municipal Councils, composed of community members and representatives of civil society and municipal authorities. At least 80 percent of Council voting members are potential project beneficiaries and civil society representatives. The Municipal Councils discuss, seek to build consensus on priorities and approve community proposals, in the context of an indicative annual budget amount determined by the state. After the Councils' recommendations are reviewed by the STU for consistency with guidelines in

¹ Those subprojects ineligible for funding include production of alcohol, tobacco and drugs, churches, and facilities for political activities

² Eligible productive subprojects would be those which provide services which benefit a large number of community members and for which a fee is charged for operation and maintenance. Productive subprojects, as with infrastructure and social subprojects, must be property of the association as a whole and not of select members. For each type of productive subproject, a set of operational guidelines (*regulamento de uso*), developed by the STU, would be provided to the association for adoption. In addition, each subproject proposal must identify the source of technical assistance for subproject implementation and subsequent operation

the project Operational Manual, funds are disbursed directly to the community associations. This became the dominant subprogram under the RPAP and will remain so under the RPRP, accounting for about 88.3% (US\$23.85 million) of total community subproject costs.

- *Pilot Municipal Community Funds (FUMAC-P).* The FUMAC-P is a more decentralized variant of FUMAC and was piloted under the RPAP with high-performing Municipal Councils. The STU establishes an annual budget envelope, according to a distribution formula based on clear and measurable criteria (rural population, poverty levels and previous year's performance). Based on this budget, Municipal Councils submit an Annual Operating Plan (*Plano Operativo Anual*) for STU review. Upon approval, funds are transferred to the Council, which is then responsible for managing their distribution to community associations and assisting them with implementation of subprojects. Although FUMAC-P was initially expected to account for only a small percentage of community investments under the RPAP, it quickly grew in popularity and more Municipal Councils proved capable of taking it on than originally anticipated. It is expected that under the new RPRP project, 6.7% of total subproject costs (US\$1.8 million) would be carried out under the FUMAC-P subprogram.

Promotion. Each subcomponent described above (i.e. PAC, FUMAC and FUMAC-P) represents a greater degree of decentralization of decision-making and resource allocation responsibilities. As groups of communities become more organized they are 'promoted' from PAC to FUMAC to FUMAC-P, gradually gaining greater control over investment planning that goes beyond their specific community subproject. Communities with limited capacity, and/or those communities that reside within municipalities that lack either the capacity, or political will, to adopt FUMAC or FUMAC-P approaches, may choose to enter the program through PAC. Other communities/municipalities that are better organized, and/or have had experience with PAC, and are receptive to participatory decision-making processes, enter FUMAC. A Municipal Council is formed and resource allocation decisions start being made at the local level.³ Once the Municipal Council demonstrates effectiveness in prioritization of demands and subproject supervision and a capacity to manage resources, the municipality is promoted from FUMAC to FUMAC-P, and henceforth the actual resources are administered at the local level by the Municipal Council based on locally-determined investment planning. This institutionalization of the participatory process has been shown to protect MCs from political fluctuation, and eventually leads to stronger partnerships between communities, their Municipal Councils and their respective municipal governments in determining the use of public resources.

Given the overwhelmingly positive response to FUMAC under the RPAP, it is expected that the need for the PAC subcomponent would diminish over the course of project implementation, with the FUMAC and FUMAC-P subcomponents gradually expanding. The existence of PAC is continued only to facilitate participation in the project of those communities within weaker municipalities which have failed to adopt the FUMAC or FUMAC-P approach. Flexibility would be built into the project to reallocate funds among subcomponents to accommodate the expansion of FUMAC and FUMAC-P as implementation proceeds.

Graduation. Most of the investments requested by communities in the past (around 77%) comprised infrastructure subprojects for the overall program. However, since the rural poor are generally out of the radar screen of any formal credit institution in the rural Northeast, particularly as individuals, project matching grants for productive investments and technical assistance can be catalytic by encouraging the formation of groups, providing some experience in the management of financial assets and income-earning activities, and thus making them more attractive to financial institutions. Therefore, communities that presently lack access to formal credit can qualify for one grant-based productive subproject, after which they will be graduated from such support, (under the R-NRDP and RPAP there were no limits, although as a practical matter the MCs have tended to limit communities to an average two subprojects of any kind, in order to ration scarce resources). At the same time, a major effort will be made to link communities graduating from productive projects, to possible sources of formal credit. In particular, the Bank of the Northeast (BN) has increasingly been seeking organized communities to which it can provide group credit. BN and the RPAPs have already partnered in some places, albeit in an *ad hoc* manner – but there is now enough positive experience that the state of Rio Grande do Norte and BN are interested in taking the cooperation to another level. Therefore, agreements have been reached on information sharing and coordination, which will be detailed in the project Operational Manual: (a) BN will have access to relevant information from the project MIS about group credit candidates, which it will pass on to its units in charge of credit lines and government programs in

³ Under the RPAP in Rio Grande do Norte, 88 FUMAC Municipal Councils were formed, of which 8 are FUMAC-P. These Councils will continue under the proposed project, with additional Councils being upgraded to FUMAC-P.

which it participates; (b) BN's local development agents will be invited to attend Municipal Council meetings; and (c) BN will provide Rio Grande do Norte with feedback on project-graduated groups to which it has extended credit, for use in project monitoring and evaluation. BN has also undertaken to expand its testing of the Bank-financed *CrediAmigo* micro-credit program into rural areas.

With regard to community infrastructure and social subprojects, graduation considerations are different. Most of these subprojects are in the realm of core public services (water, sanitation, electrification, social investments), and the definition of the minimum acceptable level of such services necessarily varies over time. Grant-based support is provided because of the poverty targeting under the project. The R-NRDPs and RPAPs demonstrated that the CDD approach to rural infrastructure and service delivery targeted to the poorest can work, in a cost effective manner and on a large scale, while also having important impacts in terms of social capital formation and improved local governance. Many project Municipal Councils have thus far limited communities to one or two subprojects, to ensure equity in access to scarce resources. Under the proposed project in Rio Grande do Norte (both the initial and second phases), the state intends to expand the geographic coverage of the CDD approach, and to encourage project Municipal Councils to proactively seek new sources of funding, and to engage in priority-setting and decision-making over a much wider range of activities, with a view to improving the effectiveness of local governments and the integration and overall impact of public resources directed towards rural poverty reduction.

Targeting. The beneficiaries of RPRP are the poorest rural communities in the 155 municipalities of the project area. These 155 municipalities are distributed among three groupings, based on the United Nations Human Development Index (HDI).⁴ The poorest 40 municipalities (i.e., with the lowest relative HDI ranking), will be allocated the sum of R\$18.5 million (averaging R\$462,500 per municipality). For the second grouping of 66 municipalities, the sum of R\$23.8 million will be allocated, averaging R\$ 361,000 per municipality; the third grouping will have an allocation of R\$14.7 million, averaging R\$300,000 per municipality (see Table A for key features of priority municipalities). At the community level however, the principal mechanism for targeting is community-based – it relies on the Municipal Councils' prioritization process to allow community themselves (through their majority representation on these councils) to determine where project resources will be best applied based on their first-hand knowledge of community socioeconomic conditions and local investment needs. The effectiveness of this methodology will be assured by the establishment of clear and transparent rules and procedures for the Councils' functioning. Increased decentralization of subproject selection through the expanded FUMAC and FUMAC-P programs is expected to further strengthen the project's capacity to reach the most needy communities in the project area. Continual implementation and revision of the information campaign for the project will also be used to expand opportunities for participation of the poorest communities in the target area. This information on project eligibility and procedures will be targeted to potential beneficiary communities to create a level playing field for access to project funds and to stimulate demand from potential beneficiaries across the state. Some communities already have significant levels of organization, either traditionally or from previous development projects in the area, and are poised to benefit immediately from the project. However, for those less organized communities, the project, through its institutional development component, would actively extend mobilization assistance through the services of NGOs or accredited agents who know the communities well and can serve as catalysts for organization (refer component B described below).

In order to be eligible to receive funding under the project – in compliance with Brazilian Law - beneficiaries must form legally-constituted civil associations (or 'community associations'). Disbursements to the beneficiary associations would occur through agreements (*convênios*) with the STU and/or project Municipal Councils, as per model agreements developed under RPAP. These agreements have been updated and included in the revised Operational Manual for the new project. Beneficiary associations will be required to contribute to subproject costs, either in cash, kind or labor, and will be responsible for the operation and maintenance (O&M) of the investments. The minimum level of contributions expected from the beneficiaries, municipalities and the State Government is specified in a cost-sharing matrix detailed in the Project Operational Manual.

⁴ United Nations Human Development Index, a composite index which measures economic and social development. For more information on HDI ranking of municipalities, see Table A

Project Component B – Institutional Development (US\$1.5 million or 5% of total project costs):

The Institutional Development component will finance technical assistance and training, sufficient for each group participating in project implementation to acquire the capabilities needed to effectively carry out its responsibilities. This component will also finance the contracting of consultants and other entities to assist the STU in monitoring, supervision and evaluation tasks, and will provide technical assistance services to support State level modernization and reform. This project component will also support ongoing, successful piloting of the use of information technology by community associations and MCs to increase transparency by making available, in real time, information about the program itself, as well as using the internet to connect communities directly to markets, both in Brazil and internationally.

Using the demand-driven implementation mechanisms described in Component A, the project consolidates participatory institutions and processes at the municipal and community levels. In this process, well-organized communities with sound, carefully prepared proposals are provided with financial support for investments, and likewise, FUMAC Municipal Councils which demonstrate effective decision-making capacity are promoted to FUMAC-P and rewarded with their own investment budget.

To encourage this process and reinforce the decentralized implementation framework, technical assistance and training will be provided for community associations, Municipal Councils, and the STU, as well as other entities participating in the project. Types of training and assistance will include support to communities in organization, subproject preparation and execution, as well as operation and maintenance techniques. Assistance will be provided to MCs to improve decision-making capacities, and to create capacity for investment planning and financial administration. At the STU level training will also be provided to enhance project coordination and supervision skills. Also, because the fiscal situation of the State affects both project implementation and state counterpart funding, technical assistance will be provided at the state level to analyze issues surrounding the reform of the State and to identify measures to improve the State's capacity to address the inherent causes of its fiscal situation. The instruments for achieving these various forms of capacity building will include a combination of workshops, technical exchanges, on-site training, and more traditional technical assistance, drawing upon local expertise within the state - technical consultants, universities, NGOs, and other local service providers-- as well as national and international technical assistance agencies. To this effect, the component would finance consultant services, training materials and courses, seminars, workshops, related studies and related operational costs.

The implementation of the institutional development component would be decentralized, and the provision of and accountability for technical assistance and training would occur increasingly at the local level. In particular, project Municipal Councils will play a critical role in overseeing the capacity-building activities for community associations in their jurisdictions. Technical assistance will increasingly be provided by MCs, and a local technical advisor will be competitively recruited for this purpose under the new project. Municipal Councils, provided with model terms of reference prepared by the STU, will contract technical assistance based on programs agreed with the STU, and then release funds for that purpose. Institutional development activities can be broadly categorized into five areas:

- a) *mobilization assistance and training for participating communities.* Assistance would be organized and contracted by the STU and Municipal councils, to support the organization and strengthening of community associations, identification of viable investments, subproject preparation, and operation and maintenance of investments;
- b) *capacity-building programs for Community Associations and Municipal Councils.* Organized by the STU, these programs will include intensive training on the role of Municipal Councils, explanation of Operational Manual guidelines, techniques for subproject evaluation and supervision, as well as related topics such as environmental assessment of subprojects, participatory planning and financial management. Under the new project all MCs and community associations, with approved subprojects, will be required to participate in mandatory 'introductory training' covering the above-mentioned topics. In addition, all MCs will be gradually equipped with computers to assist them in performing their expanding functions;
- c) *specialized skills training for all participating entities.* Based on needs, local providers would be contracted by the STU, Municipal Councils and groups of community associations to provide expert advice and "on-the-job training", in areas such as investment-related technical support, the use of standard designs, monitoring techniques, and financial management;

- d) *technical assistance for State reform.* The Secretariat of Planning and Finance (SEPLAN), will have access, through the STU, to technical assistance funds for consultant services, studies and training required for administrative and other reforms aimed at modernization of the State. During project preparation, agreements were reached with the State on the content and implementation arrangements for this Technical Assistance subcomponent, to which it was agreed to dedicate US\$0.5 million; and
- e) *workshops and seminars for the Municipal Councils and beneficiary associations, to exchange experience under the project.* These “best practice” exchanges may also extend to seminars to forge links between all STUs of the ten Northeastern states, and to disseminate successful experiences across states.

Project Component C – Administration, Monitoring and Evaluation (US\$1.5 million or 5% of total project cost):

This component would support overall project coordination and supervision and would help to strengthen the effectiveness and quality of project operations. It would finance the incremental operating costs of the STU (excluding salaries), which is responsible for overall coordination of project activities in partnership with community associations and with FUMAC and FUMAC-P municipal councils. As part of its duties, the STU will conduct an ongoing statewide information campaign to continuously disseminate information about the project and its guidelines to all potential beneficiary communities, thereby increasing awareness, transparency and participation in the program. For this campaign, the project would finance: (a) local technical assistance in the design and development of the campaign; and (b) the implementation costs, including appropriate, simplified posters, leaflets, radio spots and videos. *The preparation of a statewide information campaign, acceptable to the Bank, would be a condition of loan effectiveness.*

Given the importance of supervision to the overall impact of the program, project supervision will be intensified under the project and, accordingly, and half of its cost will be financed under this component. Project supervision will provide the STU with the necessary information on project performance to make managerial decisions, such as the provision of technical assistance or training, the correction of departures from project guidelines, and the promotion of project municipalities from FUMAC to FUMAC-P. In line with the increasing emphasis on decentralization under the new project, the responsibilities for project supervision at the local level will be increasingly devolved to MCs with the STU focusing on supervision of the MCs, ‘spot-checks’ of community associations to verify performance, and overall project coordination. Supervision activities to be financed under the project include operational expenses for field visits and subcontracted services from NGOs and other participating agencies.

This component would also finance the establishment of a monitoring system, including the maintenance and use of a Management Information System (MIS). To function as an efficient management tool, the project MIS, originally designed under the NRDp, would be improved and made more user-friendly and performance-oriented. It would be migrated on-line to allow regional offices to enter data and monitor real time flow of subprojects. The MIS would be expanded to contain key technical, financial and socio-economic information on subprojects (planned and actual), as well as cost and other physical indicators, and quantitative variables for impact monitoring. MIS-generated project reports, including monthly disbursement reports and semi-annual progress reports, would facilitate subproject tracking and generate appropriate feedback on project performance. Project performance and impact indicators would be regularly updated to take stock of project implementation and will be included in the semi-annual progress reports. A Project Implementation Plan and a matrix of Project Performance Indicators were finalized and agreed during project preparation. This component would finance operating costs for monitoring activities, as well as finance experts in information technology and project management: (a) to improve the MIS; and (b) to collect and analyze data on cost indicators and physical parameters from the most frequently approved types of subprojects, so as to calculate a range of values for these indicators and to adjust subproject eligibility criteria accordingly. These adjustments are incorporated into the updated Project Operational Manual.

Finally, the project would finance consultant services to develop and implement studies to evaluate the impact of the subprojects and provide feedback to improve project operations, including the following: (a) annual physical performance reviews, to assess the quality and sustainability of common types of subprojects financed by the project, including reviews of community-based procurement; (b) an implementation review, carried out at the mid-term, to include beneficiary consultations so as to generate an evaluation of project performance and impact as perceived by the ultimate beneficiaries; and (c) a comprehensive impact evaluation, which would include a baseline

evaluation to establish indicators of socio-economic impact and a follow-on final evaluation of the project using these indicators to measure (i) aggregate project impact on social indicators; (ii) cost/benefit of demand driven vs conventional approaches to rural development and (iii) restudy household included in RPAP Mid Term Review. During project preparation, an execution chronogram was agreed. *Terms of Reference for the aforementioned baseline study and an overall evaluation framework, both acceptable to the Bank, would be a condition of loan effectiveness.*

Project Coordination: The State Technical Unit (COPES) will be responsible for overall project coordination, with the following specific duties: (a) to appraise community subproject proposals for compliance with project guidelines and eligibility criteria found in the Project Operational Manual; (b) to assess community participation in identifying, preparing and executing subprojects and quality of technical assistance; (c) to supervise the Municipal Councils to ensure they are adequately managing quality of subproject implementation and providing sufficient training support to communities; (d) to implement public information campaigns to disseminate information about the project; (e) to implement introductory training and technical assistance programs for all municipal councils and community associations with approved subprojects (to include training on subproject implementation, contracting, operation and maintenance and financial management); (f) to monitor and apply performance incentives to reward efficiency, transparency and inclusiveness of community associations and municipal councils, and also to penalize poor performance/misappropriation (e.g., legal action for fund misallocation)⁵; (g) to monitor project performance through the Management Information System (MIS) and to periodically report progress related to the project performance indicators; (h) to prepare annual implementation and physical performance reviews; and (i) to submit project Annual Operating Plans to the Bank for approval. Using standardized cost indicators, reasonable costing for subproject implementation would be ensured. Departures from standard designs would have to be fully justified in the subproject proposal, as would proposed investments which fall outside the range of standardized costs.

Project Oversight: The Secretariat of Planning and Finance (SEPLAN) will undertake project oversight, delegating project coordination to COPES, which will receive and approve the Annual Operating Plans for the project Municipal Councils (and will receive and approve community subproject proposals in the case of PAC). COPES will be responsible for day-to-day project oversight with respect to monitoring, supervision of municipal councils, evaluation and required reporting under the project.

Monitoring and evaluation arrangements: Analysis of implementation will depend on a database of subproject information from the project Management Information System (MIS) operated and maintained by the STU. The MIS used under RPAP has been improved under the new project. The database is currently organized in three general levels: (a) a subproject information module, which contains pertinent physical and financial information for each subproject; (b) a financial management module, from which Statements of Expenditure (SOEs) are generated; and (c) a project management module, from which all project reports are generated. Under the new project these three modules will be integrated to allow improved monitoring of the entire subproject cycle. The database will also be expanded to include community profiles, and quantitative variables relating to control groups, with the aim of improving the capacity to evaluate project impact. Finally, the MIS will be migrated on-line to allow real time data entry and monitoring directly from the field and regional offices. The STU will continue to be responsible for maintaining and regularly updating the MIS, including key Project information (as agreed with the Bank). Through periodic processing of the database information, combined with field visits and inputs from project supervision reports, project contracted studies and audits, the STU would monitor project characteristics and trends, identify implementation problems and accomplishments and undertake or promote appropriate actions to improve project implementation. The Bank's Recife Office would also monitor project performance indicators through the online MIS, and with inputs from the State, review monthly disbursement summaries and supervise subproject implementation progress on a sample basis in the field. *The establishment and operation of a revised MIS, acceptable to the Bank, would be a condition of loan effectiveness.*

Accounting, financial reporting and auditing arrangements: The Special Account will be established in a commercial bank, and the project accounts will be maintained and audited annually in accordance with the audit TORs. According to arrangements for Bank-financed projects in Brazil, the annual financial audit of the project accounts for the period January 1 to December 31 of the year will be carried out by independent auditors acceptable to the Bank. The audit report will be submitted to the Bank no later than June 30th in the year following the year for

⁵ Detailed criteria and procedures concerning performance incentives and penalties are included in the Project Operational Manual

which the projects accounts are audited. The Auditor's TOR will include the issuance of a management letter on internal controls six months after effectiveness. The audit reports would convey the auditor's opinion and comment as necessary on the methodology employed in the compilation of the statements of expenditure (SOEs), their accuracy, the relevance of supporting documents, eligibility for financing in terms of the project's legal agreements and standards of record keeping and internal controls related to the foregoing. With respect to withdrawals on the basis of SOEs, such audits would contain a separate opinion as to whether the SOEs, together with the procedures involved in their preparation, support the related withdrawals.

Project Reporting: Periodic processing of the database information will permit the monitoring of the characteristics and evolution of project implementation. The STU will be responsible for reporting on the project performance indicators.

- *Annual Physical Performance Reviews:* The Annual physical performance review would be conducted on a sample of community subproject beneficiary communities. Variables assessed during the Review would include: *quality of investments*, as assessed by beneficiaries and qualified professionals, *cost-effectiveness*, as compared with similar public sector investments, and *procurement*, such as local contracting of goods and services.
- *Implementation Review:* The Implementation Review would be held annually, together with the Physical performance review. The Review would take place in advance of the approval of next year's Annual Operating Plan. The range of studies to be prepared for each of these reviews would be agreed upon on a rolling basis, at appraisal for the first review, and at each annual implementation review for the subsequent implementation review.

**Table A: Summary Features of Rio Grande do Norte Municipalities According to their Priority for RPRP
1996 Figures**

Indicators	Rio Grande do Norte	Municipalities Excluded	Project Municipalities		
			1st Priority	2nd Priority	3rd Priority
Number of Municipalities	167	12	40 ^{1/}	66 ^{1/}	49 ^{1/}
Area (Km ²)	51,859	6,629	8,052	14,681	22,497
Population	2,535,768	1,050,817	252,825	388,687	843,439
Percentage Rural Population (%)	27.7	5.8	51.5	45.8	39.6
Heads of Family	583,755	248,371	56,072	87,134	192,178
Average Family Size	4.3	4.2	4.5	4.5	4.4
Average number of years of study: males > 4 years	3.5	5.0	2.0	2.2	2.7
Average number of years of study: females > 4 years	4.2	5.4	2.8	3.1	3.6
Population > 4 years without formal education (%)	28.2	19.6	40.3	36.5	31.6
Persons Occupied in Agriculture	322,717	19,930	81,782	95,406	125,599
Value of Farm Output/Persons Occupied in Agriculture (R\$)	1,084	2,923	561	1,026	1,177
Number of Farms	88,355	4,967	21,451	26,757	35,180
Percentage of farms < 10 ha (%)	63.2	51.7	71.3	66.3	57.6
Hospital Beds	7,351	4,101	484	755	2,011.
Hospital Beds per 000 Population	2.9	3.9	1.9	1.9	2.4
Average Municipal Government Expenses per Municipality (000 R\$)	3,674	24,477	1,270	1,406	2,828
Municipal Government Expenses/Population (R\$)	202.9	235.6	194.1	196.4	160.1
Current Municipal Government Income /Population (R\$)	207.1	261.5	181.7	177.9	147.4
Municipal Government Tax-based Income/Population (R\$)	22.8	45.4	1.3	1.7	5.3

SOURCE: Elaborated from IBGE "Base de Informações Municipais", 2nd Edition, 2000, CD-Rom.

^{1/} Information was not available for 4 of the targeted municipalities: one in the first grouping, one in the second grouping, and one on the third grouping.

Table B: Project Performance Indicators

Project Components and Activities	Responsible Institution	Unit	PY0	PY1	PY2	PY3	PY4	Total
A. Community Subprojects								
Subprojects Implemented	Benef. Assoc.	No.	347	390	393	370	1,500	
- Infrastructure		No.	173	195	197	185	750	
- Productive		No.	105	117	117	111	450	
- Social		No.	69	78	78	75	300	
Beneficiaries	PCU, Councils	Families ('000)	19	22	22	20	83	
- Total		People ('000)	84	97	97	88	366	
Community Associations benefited ²	PCU, Councils	No. (cum.)	260	293	295	278	1,126	
Municipal Councils created ³	PCU	No.	20	30	13	0	63	
- FUMAC	PCU	No.	2	2	0	0	4	
- FUMAC-P								
B. Institutional Development								
Preparation of annual program of technical assistance and training	PCU, Councils							
(i) PCU		No.	1	1	1	1	4	
(ii) Municipal Councils		No.	1	1	1	1	4	
Community Mobilization	PCU, Councils	Seminars ⁴	10	10	10	10	40	
- Beneficiaries		No. of Participants ⁵	100	100	100	100	400	
- Local Leaders (for formation of Municipal Councils)								
No. of training courses offered to:								
- Beneficiary associations	FUMAC, FUMAC-P	No. ⁶	10	10	10	10	40	
- All Municipal Councils		No. ⁷	44	64	26	0	134	
- FUMAC Municipal Councils		No. ⁸	40	60	26	0	126	
- PCU staff		No.	4	4	4	4	16	
Technical Assistance provided		Subprojects Attended						
- for Subproject Implementation (technology transfer)	PCU, Councils		347	390	393	370	1,500	
- to Municipal Councils	PCU	Contracts	22	32	13	0	67	

¹ 4 persons/family in rural areas.² 13 subprojects/association³ In addition to the already existing FUMAC and FUMAC-P councils in the state⁴ 2 seminars/Region/year⁵ 20 community leaders/Municipal Council.⁶ 2 courses/year⁷ 2 courses for each new Council (FUMAC+FUMAC-P).⁸ 2 courses for each new FUMAC Council

Project Components and Activities	Responsible Institution	Unit	PY0	PY1	PY2	PY3	PY4	Total
C. Project Administration, Supervision, Monitoring and Evaluation								
Supervision								
- Subprojects	STU, Councils	No. of Visits ⁹	694	780	786	740	3,000	
- Municipal Councils	PCU	No. of Visits ¹⁰	44	64	26	0	134	
Annual Operating Plans (POAs)								
- Preparation of POA for FUMAC	FUMAC Councils	No.	12	12	12	12	48	
- Consolidation and Preparation of Project POA	STU	No.	1	1	1	1	4	
Standard designs								
- Preparation	STU	No.	3	2	0	0	5	
- Review and Updating	STU	No.	7	5	0	0	12	
Special Account (establishment)	STU			X				
Information Campaign	STU			X		X		
- Presentation to Bank								
- Campaign Launched								
Operational Manual	STU		X		X			
- Preparation								
- Review and Adjustments (with Bank approval)								
Monitoring Reports (sent to Bank)								
- Monthly Disbursement Summaries and MIS update	STU	No.	12	12	12	12	48	
- Annual, Semi-annual Reports	STU	No.	3	3	3	3	12	
- External Audits	STU	No.	1	1	1	1	4	
Evaluation Studies								
- Physical Performance Reviews	STU	No.				X		
(i) Mid-Term								
- Impact Evaluation	STU	No.			X			
(i) Baseline								
(ii) Final							X	

⁹ 2 visits/subproject¹⁰ 2 visits/Municipal Council/year

Annex 4
Brazil
Rural Poverty Reduction Project – Rio Grande do Norte
Estimated Project Costs

<u>Project Component</u>	Local	Foreign	Total
	-----US\$ million-----		
A. Community Subprojects			
• FUMAC	6.0	17.1	23.1
• FUMAC-P	0.5	1.2	1.7
• PAC	0.3	0.9	1.2
Subtotal	6.8	19.2	26.0
B. Institutional Development	0.0	1.5	1.5
C. Administration, Monitoring and Evaluation	0.3	1.2	1.5
Total Baseline Cost	7.1	21.9	29.0
Physical Contingencies	0.2	0.3	0.5
Price Contingencies	0.2	0.3	0.5
Total Project Cost	<u>7.5</u>	<u>22.5</u>	<u>30.0</u>

Annex 5
Brazil
Rural Poverty Reduction Project - Rio Grande do Norte
Economic Analysis

Specific investments carried out under the new project will be decided by communities over the life span of the project. It is thus not possible to know *a priori* how available resources will be precisely allocated, and therefore a precise *ex ante* estimation of their cost-effectiveness, economic rate of return and fiscal impact is not possible. However, subprojects to be financed under the proposed project would, in general, be similar to those financed under previous and ongoing community-based rural development projects. Based on accumulated experience from the R-NRDP and RPAP, the following aspects of project investments were assessed: (i) cost-effectiveness and sustainability of infrastructure and social subprojects; (ii) financial viability of productive subprojects; and (iii) the fiscal impact of the RPRP.

Cost Effectiveness and Sustainability of Infrastructure and Social Subprojects

The bulk of subproject investments under the RPAP program in the Northeast were of the infrastructure type (77%), while social subprojects comprised less than 3%. Most of these subprojects are in the realm of core public services (water, sanitation, electrification, social investments). Numerous studies show that these basic services provide benefits that justify their universal provision.¹ The R-NRDPs and RPAPs demonstrated that the CDD approach to rural infrastructure and service delivery targeted to the poorest can work, in a cost effective manner. Several aspects of project design help to ensure that infrastructure and social subprojects undertaken represent the least-cost, best alternative. First, the demand-driven nature of each subproject permits scarce resources to flow where they are most needed. Community participation, under the direction of the project Municipal Councils, ensures that the chosen subproject is the best alternative for the local community. Furthermore, the project has, in the Municipal Councils, a democratic mechanism to prioritize the use of the available resources. Second, the use of standard technical designs (*projetos padrão*) for the most common types of infrastructure and social subprojects (including corresponding cost parameters) ensures that community associations employ least-cost models for subproject implementation. These standard designs also decrease search and information costs for community associations by providing established patterns of initiating and completing a subproject. Experience under the RPAP demonstrates that the technical quality of these investments has been good. Third, the delegation of subproject implementation directly to the community associations has proven to generate cost savings, when compared to comparable quality works implemented by public sector agencies. The contracting procedures prescribed in the Project Operational Manual require direct contracting through competitive processes on all subprojects: the community association solicits three bids for the subproject and chooses the least-cost bid. These characteristics have contributed to the cost-effectiveness of the subprojects financed under the project. Based on the analysis of a random sample of subprojects (including ten categories which collectively represent some 80% of the types of subprojects being financed), it has been found that, for infrastructure and social subprojects, costs under the RPAP were found to be 30-50% cheaper than projects of similar quality, when financed by the state. State-level evaluation of the RPAP in Bahia, Ceará, Pernambuco, Piauí, Rio Grande do Norte and Sergipe examined the quality of the materials used, the quality of overall finish, and the quality of operation of the investments. In all states surveyed, the majority of subprojects were found to be technically satisfactory and of good quality. Beneficiaries expressed their satisfaction with the quality of their subprojects and regarded more than 90% of all investments as being satisfactory overall.

Also, according to experience, the operation and maintenance of infrastructure and social subprojects has been good, with community associations charging user fees sufficient to operate and maintain the investments. The overall evaluation study of the Northeast RPAP program, carried out in 2000, reviewed a sample of 8,123 subprojects funded by the R-NRDP in 1995 and RPAPs in 1997/98, finding that 7,240 of them, or 89%, were fully operational in March 2000. Furthermore, the same study found that there was no substantial difference in terms of sustainability across infrastructure, productive and social subprojects. Of 6,064 infrastructure, 1,820 productive and 239 social

¹ World Bank. *Public Expenditures for Poverty Alleviation in Northeast Brazil: Promoting Growth and Improving Services* Report no 18700-BR December 1998

community subprojects, 89.2%, 86.8% and 88.3%, respectively, were fully operational at the time of the study. The Bank preparation mission that visited the State of Alagoas in April 2001 confirmed this finding. Field visits in Alagoas were instructive because the reformulated NRDp, which ended in 1996, was not followed by an RPAP as happened in other Northeastern states. The mission was therefore able to examine the current situation of old investments, five or more years later – an *ad hoc* survey of the “after project” situation. What the mission observed in the eight municipalities surveyed was encouraging: all the old infrastructure and social subprojects visited were working well, properly looked after by the community, and obviously satisfying each community’s felt needs.

Financial Viability of Productive Subprojects

Benefit-cost ratios are high (greater than 2.0) for the main types of productive subprojects analyzed (Table D). Analysis of selected productive subprojects also suggests that the investments are generally financially sustainable (Table A). Although beneficiary associations have received a one-time investment grant from the RPAP, this investment is financially sustainable because cost recovery through user fees by the average beneficiary association is, in general, adequate to cover both O&M and replacement of the original investment long before the end of its useful economic life.

For illustrative purposes, twelve productive subprojects representing some of the most typical productive investments carried out under the RPAPs, were selected for financial analysis. Activity models were constructed for these subprojects, based on field interviews with the managers of the subprojects (carried out during evaluation), supervision and project preparation missions, and consultation of standard project designs (*projetos padrão*) prepared by the STUs.² The subprojects analyzed are as follows:

- **Manioc Mill.** Middle-size construction equipped with mill, press, oven and other equipment required to process cassava into flour. Investments include a pack animal to transport produce to and from the plant. The mill serves a local community of some 30 to 40 farming families. The plant operates around 100 days per year processing some 120 tons of cassava into approximately 30 tons of *farinha* and 4.8 tons of starch employing one person to operate the plant during those days. Farmers are charged a users’ fee of 15% of output. Association members normally pay a smaller fee than non-members.
- **Communal Tractor.** Tractor of 75 HP, plus trailer, grain sheller, grader and other equipment, including a garage. The tractor benefits an association of some 65 farming families. The tractor works for members and non-members providing land preparation, grain shelling and transport services. It works approximately 1,700 hour per year serving some 300 ha. User fees for members are smaller than prices charged by private tractor owners and fees charged to non-members. The subproject employs a full-time motorist hired by the association.
- **Small Irrigation 1.** Purchase of 18 localized irrigation kits for 38 families to pump and irrigate a total of some 29 ha (0.8 ha per family). The irrigation is accompanied by the introduction of a new technical package and two new cash crops, *chuchu* and *quiabo* (two high-price Brazilian vegetables with good local markets), which replace the existing traditional cultivation of corn, beans and bananas, providing a very good return.
- **Small Irrigation 2.** Sprinkling irrigation system to irrigate 10 ha of previously uncultivated land with water pumped from a permanent water source, benefiting 10 farming families. Most of the irrigated land is used for traditional subsistence crops, corn and beans, although a cash crop—watermelon—is planted on one-third of the new area. Two crops are obtained per year.
- **Goat Production.** Production of goats for a group of some 30 farmers, consisting of 120 breeding females and 4 breeding males. A pen, a fence and other facilities are constructed and 85 ha of improved pastures are

² Technical units of RPAP projects prepare *projetos padrão* to be given to potentially interested communities and technical consultants to serve as a guide for project design. The objective is to reduce subproject preparation costs and improve their design.

installed. Income is derived from the sale (or self-consumption) of incremental animals and the sale (or self-consumption) of milk.

- **Animal Feed Production Equipment.** Grinding machine and complementary equipment to produce animal feed from crop residuals, together with a small construction to shelter the machine. Farmers pay a small amount (R\$ 1.5) per hour to use the machine. From these payments, electricity and maintenance costs are covered and a small fund is formed. The machine works approximately six months per year. Raw materials and labor to operate the machine are supplied by users. The organization and supervision of machine use is freely supplied by association leaders.
- **Honey Production.** Purchase of 340 beehives plus 2 decanters, 2 centrifuges and other apiculture and honey processing equipment to benefit an association of some 23 members with no previous apiculture experience. Training is provided along with the equipment. The beehives, located in 8 sites, are maintained by association members. They yield an annual output of some 8,200 kg of honey which is sold wholesale.
- **Local Bakery.** Middle-size construction (120 sq. m) equipped with a gas oven and other baking facilities to produce various types of bread, with an average output of 130 kg of bread per day. Employs a master baker and two full-time workers. Bread is sold locally in the surrounding communities.
- **Fish Farm.** Five fish ponds of 2,200 m² each, with a capacity for 8,500 tilapia fish each. Ponds are rotated, with 4 ponds being permanently used at a time. Two harvests are collected per pond in a year, with a total output of 24,000 kg. of fish. Output is sold locally to middle-men. One person is employed half-time to feed the fish and another is employed half-time as watchman. Part-time labor is used to harvest the fish.
- **Cashew Processing Plant.** Middle size plant plus equipment to process cashew nuts. Some 200 tons of cashew nuts are processed annually into 46 tons of roasted and packed cashew nuts, which are then sold wholesale. It operates during ten months of the year, employing around 6 operators. Cashew nuts are bought from surrounding farmers serving some 150 farmers with 1 to 5 ha of cashew trees each.
- **Jam Production Plant.** Plant to process various local fruits into different types of jams and other confectionery products, producing an average of 175 kg per day of these products. Fruit and other inputs are bought by the plant. Products are sold retail locally and also wholesale to retailers. Employs a plant manager and three permanent workers.
- **Small Dairy Plant.** Middle size plant (155 sq. m) equipped with a pasteurization kit, cooling chamber and other facilities to pasteurize milk, with a capacity of 1,200 l. per day. The plant is supplied by around 400 cows with an average daily output of 3 l. per cow belonging to some 60 dairy farmers in a radius of 6 km. Employs a plant manager and 4 permanent workers. The results of the financial analysis are summarized in Table A.

Table A
Results of the Financial Analysis of Selected Subprojects

Type of Activity	Investment (R\$)	IRR (%)	NPV (at 10%)	Net Annual Income (R\$)	Years to Recover the Capital Invested
Manioc Mill	18,450	15.8	5,377	3,970	5.6
Communal Tractor	39,752	37.6	35,141	18,075	2.4
Small Irrigation 1	44,054	>50	327,366	90,781	0.9
Small Irrigation 2	28,311	28.1	23,573	15,238	3.3
Goat Production	43,346	16.5	16,925	12,180	5.8
Feed Production Equipment	6,730	15.4	1,831	1,149	5.9
Honey Production	26,102	16.8	9,112	7,252	5.5
Local Bakery	43,352	35.0	56,868	29,575	2.8
Fish Farm	46,104	15.6	13,739	13,162	5.6
Cashew Processing Plant	64,964	>50	288,790	72,195	1.1
Jam Production Plant	41,123	41.7	69,062	35,008	2.4
Small Dairy Plant	62,583	19.7	30,223	34,591	4.7

The investment cost of the subprojects ranges from around R\$7,000 to R\$65,000, which is typical for RPAP productive investments. All subprojects show satisfactory internal rates of return, some of them being very high. Less than six years are needed to recover the investment in all cases and less than 3.5 in half of the cases. The net incremental annual income or value-added generated by the subprojects (at full development) ranges from R\$1,149 for the feed preparation equipment to R\$90,781 in the case of one of the irrigation subprojects, with an average value of around R\$28,000 for an average investment of around R\$ 39,000.³ The IRRs of the subprojects compare favorably with the real cost of borrowing to the Brazilian Government, which is on the order of 11 to 12 per cent.⁴ The IRRs also compare favorably with the interest rates that would have to be paid in concessionary rural credit programs, like those of the *Banco do Nordeste* and *Banco do Brasil*. Only two subprojects --the cashew processing plant and one of the irrigation subprojects -- would be able to pay the high interest rates charged by commercial banks for term lending.

Three categories of projects can be identified in the above illustrative sample. First among these are communal processing equipment or livestock activities which are simple to operate and well-known to farmers, that meet community-wide needs, directly benefiting a majority of families in the community. The manioc mill, communal tractor, feed production equipment and goat production subprojects fall into this category. The results summarized in Table A illustrate that these types of investments can be profitable. Their financial returns, however, are not high because (a) benefits are passed on to farmers in the form of moderate user fees or (b) because the activity in question is intrinsically not very profitable as in the case of small-scale goat rearing. Economic returns are higher than those

³ Simple averages

⁴ Measured by the difference between the SELIC rate and the inflation rate.

shown in Table A above for the same reasons mentioned in (a). These subprojects have the advantage of building on activities familiar to farmers, and have therefore little training requirements and simple management needs. They also have low marketing requirements since the community itself is the market for the service and the outputs produced with the help of the service normally have regular marketing channels or are self-consumed.

The second category of subprojects are those promoting off- or on-farm productive activities which generate full time employment and considerable income for a particular group of farmers in the community. The small irrigation subprojects and the honey production, jam production, fish farm and bakery subprojects belong in this category. New activities producing a final consumption good to be sold in markets outside the community, exemplified by the honey production, fish farming and jam production subprojects, can be profitable and offer a source of income and employment to some members of the community; however, these subprojects tend to be demanding in terms of marketing and managerial skills.⁵ These subprojects are normally part of industries where the entry cost is low and competition high, leaving small operating margins. The availability of working capital and the ability to establish a brand name to differentiate the product and place it in the best-paying markets are two common constraints.

Local bakeries, which are popular subprojects in some states, have little training and marketing requirements, and are similar to cassava mills or communal tractors to the extent that they cater for a local need and have therefore a local market, although in this case it is that of a final good rather than of a productive service, but they only offer employment and income to a reduced number of community members. The irrigation subprojects illustrate well that, whenever possible, irrigation together with the introduction of cash crops and an improved technical package is a profitable and cost-effective way of increasing income and employment in the semi-arid areas of the Brazilian Northeast, which can be successfully operated by local farmers at a very small scale. The contrast between the very high returns to investment of the first subproject, where new cash crops and technology were introduced alongside with irrigation, and the moderately high one of the second subproject highlights the impact of profiting from the availability of irrigation water to introduce wider changes in the cropping system.

The last category of subprojects consists of processing plants requiring comparatively higher capital investment, which operate on a scale bigger than the communal equipment included in the first category, benefiting farmers outside the local community and hence with impact at a more regional level. The dairy and cashew processing plants exemplify this type of subprojects.

To examine the financial robustness of the subprojects, a sensitivity analysis was carried out of the illustrative activity models. Three scenarios are considered. In the first one, production is assumed to be 20% below the base case, because of, say, marketing problems. A 20% decrease in output causes a 20% decrease in revenue, but this is, to some extent, matched by a reduction in the use of inputs and hence in variable costs. In the second scenario, the price decreases 20% and, because of marketing problems, revenue also decreases by the same proportion without any compensating element. Finally, in the third scenario, an increase of 20% in the price of variable costs is assumed. The results of the sensitivity analysis are shown in Table B.

⁵ Other popular subprojects in this category are clothes-making and the production of different artisanal goods such as embroideries.

Table B
Results of the Sensitivity Analysis

Type of Subproject	Base Case	Scenario 1 - 20% output	Scenario 2 - 20% price	Scenario 3 + 20% costs
Manioc Mill				
IRR (%)	15.8	11.5	10.1	14.4
NPV (R\$)	5,377	1,385	132	4,124
Communal Tractor				
IRR (%)	37.6	17.2	< 0	16.8
NPV (R\$)	35,141	10,836	-23,602	10,221
Small Irrigation 1				
IRR (%)	>50	>50	39.4	>50
NPV (R\$)	327,366	163,375	77,015	154,646
Small Irrigation 2				
IRR (%)	28.1	7.4	4.6	13.0
NPV (R\$)	23,573	-2,965	-6,057	3,546
Goat Production				
IRR (%)	16.5	12.8	11.5	15.2
NPV (R\$)	16,925	7,097	3,847	13,395
Feed Production Equipment				
IRR (%)	15.4	11.2	10.2	14.4
NPV (R\$)	1,831	397	62	1,496
Honey Production				
IRR (%)	16.8	10.0	7.2	11.6
NPV (R\$)	9,112	42	-3,635	2,162
Local Bakery				
IRR (%)	35.0	20.1	< 0	15.8
NPV (R\$)	56,868	22,451	-21,559	12,859
Fish Farm				
IRR (%)	15.6	9.3	< 0	< 0
NPV (R\$)	13,739	-1,732	-39,886	-26,024
Cashew Processing Plant				
IRR (%)	>50	>50	48.3	>50
NPV (R\$)	288,790	210,642	132,561	201,015
Jam Production Plant				
IRR (%)	41.7	24.0	< 0	12.7
NPV (R\$)	69,062	29,690	-33,720	5,652
Small Dairy Plant				
IRR (%)	19.7	2.0	n.d. (*)	n.d. (*)
NPV (R\$)	30,223	-23,493	-138,697	-84,981

(*) IRR not defined; net benefits are negative all years.

Some subprojects are more sensitive than others to changing market conditions. In general, subprojects which are highly dependent on purchased inputs, like the communal tractor, the bakery, the fish farm, the jam production plant and the dairy plant, are more sensitive to deteriorating market conditions than those little dependent on purchased inputs, such as the manioc mill, goat production, feed preparation equipment and honey production subprojects. In all cases, the worst scenario is that of a decrease in prices (scenario 2). The second worst scenario depends on the type of subproject; for subprojects highly dependent on purchased inputs, it is the increase in variable production costs (scenario 3), while for those little dependent on purchased inputs, it is the fall in output (scenario 1).

To complete the financial analysis of productive subprojects, a weighted average of the IRRs is calculated of the activity models included in the sample. The shares of each of the twelve types of illustrative models (which were

taken to represent other similar ones) in the total amount invested in community subprojects in the RPAP program until the end of April 2001 were used as weights.⁶ The resulting average IRR is 30.2%. This figure gives an indication of the overall profitability of the productive subprojects normally financed under the RPAP, but should not be taken as an *ex ante* estimate of the aggregate profitability of the productive investments of the RPRP, since it is not known *a priori* which type of subprojects will be most requested by beneficiary communities during the new project.

Fiscal Impact

There are two possible assumptions for estimating the fiscal impact of the RPRP program on the budget of the State Governments of the Northeast Region. One assumption is that, in the absence of the program, State Governments would not carry out the type of investments financed by RPRP, devoting those resources to other uses. An alternative assumption is that without RPRP, State Governments would carry out the investments using a different targeting and disbursement mechanism. The latter is the most plausible assumption, particularly for the infrastructure and social investments, in view of their absolute priority, the social and political pressure from the rural population and municipal authorities in favor of these investments, and the sustained interest shown by Northeast Governments in the RPAP program. The focus here is therefore on this second hypothesis. It is worth noting, however, that if the investments were not carried out, the resources saved by the State Governments would not significantly alter their overall fiscal position. As shown in Table C, where the annual program cost of the RPRP is compared with total and current state budgetary expenses, the annual cost of the RPRP to the Northeast Governments ranges between 0.4 and 1.0 per cent of their total annual budgetary expenditures and between 0.5 and 1.2 per cent of their total states' annual current expenditures for year 2000.

Table C
Comparison between State Budgetary Expenditures and State-level RPRP Annual Costs⁷

State	RPRP		State Budget		Comparison	
	Total Program Cost (R\$ m)	Annual Program Cost (R\$ m)	Total Expenditure (R\$ m)	Current Expenditure (R\$ m)	Annual RPRP Cost (as % of Total Expenditure)	Annual RPRP Cost (as % of Current Expenditure)
1. Alagoas	33.6	6.7	1,280.9	1,141.9	0.5%	0.6%
2. Bahia	157.5	31.5	7,788.0	5,032.0	0.4%	0.6%
3. Ceará	105.0	21.0	4,885.0	2,541.0	0.4%	0.8%
4. Maranhão	112.0	22.4	3,083.0	2,308.0	0.7%	1.0%
5. Paraíba	86.1	17.2	2,068.0	1,463.0	0.8%	1.2%
6. Pernambuco	84.0	16.8	4,117.2	3,421.2	0.4%	0.5%
7. Piauí	63.0	12.6	1,715.0	1,303.0	0.7%	1.0%
8. Rio G. Norte Norte	63.0	12.6	1,891.9	1,570.2	0.7%	0.8%
9. Sergipe	63.0	12.6	1,312.0	1,100.0	1.0%	1.1%
Aggregate	767.2	153.4	28,141.0	19,880.3	0.5%	0.8%

⁶ The IRR of the "Small Irrigation 1" and "Cashew Processing Plant" subprojects, which is higher than 50%, was taken to be equal to 50% in the computation of the weighted average.

⁷ RPRP cost figures for Paraíba and Maranhão are provisional. The State Government part is 25% of the total cost minus the resources contributed by the beneficiary communities, which are a 10% of the "Community Subprojects" Component (90% of the total cost). US\$ figures have been converted into R\$ using a 2.1 exchange rate. State budget figures are for year 2000.

Under the second assumption, the direct impact of RPRP on government earnings derives both from the generation of incremental government revenue and from savings in government costs.

There are tangible government savings associated with the community driven design of the program. Thus, as mentioned above, evaluations have shown that the cost of investments implemented by communities (either directly or contracted) were 30-50 per cent lower than prices paid by public authorities for similar works. There are also budgetary savings associated to the decreased need for state and local governments to provide some inescapable services which need is reduced by RPAP investments. This is for instance the case with government costs for water distribution using *carros pipa* to communities without drinking water in critical periods. Thus, a mid-term evaluation review of Bahia, Ceará and Sergipe concluded that in Sergipe it is estimated that savings expenses for *carros pipa* associated with RPAP investments were above R\$ 500,000 (about R\$ 100,000 per month) during a year of 'normal' rainfall; in Ceará savings were estimated at R\$ 950,000; and in Bahia, R\$1 million. In years of severe drought, as in 1998, savings were at least twice those estimated for a normal year. Provision of better quality, more reliable water also has less quantifiable but nonetheless significant impacts on health, reducing public health costs of Municipal Governments. Subproject operation and maintenance costs are also typically paid by the beneficiary community, reducing the fiscal burden of municipalities and states (with a few exceptions, e.g. electricity and some types of water supply, commonly maintained by state agencies and operated in return for a user fee).

With respect to revenue generation direct impacts are likely to be small but indirect impacts could be significant. The incremental revenue on the sales tax (ICMS) will be small because much of the incremental production of the subprojects is either self-consumed or not liable to taxation or circulates in informal markets where tax is rarely paid. Infrastructure subprojects, however, can have big one-time indirect benefits. Experience for instance shows that there was a large increase in the purchase and use of domestic appliances when electricity became available. Thus, the same mid-term evaluation report quoted above estimated the incremental ICMS revenue from the most common appliances (TV sets, refrigerators, stereos, irons, antennas, etc.) at approximately R\$2.0 million in Sergipe, R\$2.2 million in Ceará and R\$1.0 million in Bahia. Incremental ICMS revenue from electrical equipment is also associated to the purchase of items such as agricultural machinery and irrigation pumps.

Aggregate Impact of the RPRP Program on Employment, Income and Cultivated Area

The July 2000 impact evaluation study carried out of the RPAPs in eight Northeastern States, the results of which are examined in Annex 2, provides an estimate of the aggregate impact on employment, income and cultivated area of the infrastructure, productive and social subprojects included in the program. The study, based on a sample from the most representative types of subprojects in each of the States, with an error of less than 20%, allows the calculation of summary figures of incremental jobs created, incremental income generated and incremental number of ha cultivated per unit invested in productive subprojects. From these summary figures, a gross approximation to the aggregate benefits of the entire RPRP program has been estimated, with the following results (rounded figures):

Total investment in community subprojects:	US\$362.0 million
Incremental employment created:	40,000 jobs
Incremental net annual income/savings generated:	US\$80.0 million
Incremental cropped area:	40,000 hectares

When the impact of the predecessor R-NRDp is included, aggregate investments in community subprojects of about US\$800 million, through March 2000, have generated almost 100,000 additional jobs, incremental net annual income/savings of US\$203 million and 85,000 hectares of incremental cultivated area. These estimates are subject to a number of caveats, among which is the fact that the level of significance of the sample is not big and that the representative subproject mix under the RPAP only by chance would be replicated under the RPRP. Furthermore, the estimates reflect not only the direct impact of the investments on employment, income and cultivated land but also some indirect impacts, for example, the expansion of cultivated area, employment and income derived from the introduction of a tractor or a *casa de farinha* in a certain community. The above figures should be taken therefore as an indication of the order of magnitude of the benefits involved.

Table D: Socio-Economic Benefits of Subprojects by Main Subproject Type

Project Type	Total No. of Subprojects Completed ⁴	No. of Beneficiary Families per Subproject	Cost per Subproject (US\$)	Net No. of Jobs Created per Subproject	Net Annual Incremental Income/savings per Subproject (US\$)	Incremental Crop Area Cultivated per Subproject (hectares) ²	Economic Internal Rate of Return (%)	Cost Effectiveness		
								Total Investment per Beneficiary Family (US\$)	Total Investment per Job Created (US\$)	Economic Benefit-Cost Ratio ³
Infrastructure:										
Rural water supply	4,025	71	30,149	-	12,369	1.4	-	425	-	-
Rural electrification	4,080	49	22,400	-	1,942	1.6	-	457	-	-
Small bridges	538	139	26,350	-	1,040	2.3	-	190	-	-
Community telephones	435	140	22,944	-	422	0	-	164	-	-
Productive:										
Manioc mills	412	68	18,451	10.8	17,148	16.3	>30	271	1,708	>2.0
Community Tractors	573	95	30,870	29.3	28,137	22.6	>30	325	1,054	>2.0
Small-scale livestock	110	40	16,354	2.5	6,214	2.8	>30	409	6,542	>2.0
Small-scale irrigation	146	36	25,158	25.4	23,800	37.9	>30	699	990	>2.0
Social:										
Road paving/rehab.	675	82	31,930	-	242	1.7	-	389	-	-
Sanitation systems	171	72	29,727	-	0	0	-	413	-	-

Note. ¹ Many jobs created by the infrastructure and social subprojects come from additional economic activities made possible by the investments, but not directly involved with the project after its construction/establishment.

² The incremental crop areas associated with infrastructure and social subprojects come from the cultivation of additional areas which was made possible by the projects.

³ Obtained by using a real rate of 10% for the opportunity cost of capital

⁴ As of March 2000 By January 2001, some 19,000 subprojects have been completed under the RPAP Subproject distribution does not vary greatly.

Table E: Financial Sustainability Analysis, Selected Productive Subprojects

Item/Project	Manioc Mill	Farm Tractor	Small-scale Irrigation	Small-scale Livestock
Number of associations	412	573	110	146
Average net income per association (US\$) ¹⁾	5,963	4,370	n.a.	n.a.
Average cost of subproject (US\$)	18,451	30,870	25,158	16,354
<u>Average number of years:</u>				
Of useful economic life (years)	12	10	20	n.a.
To build replacement fund (years) ²⁾	<5	<8	-	-

¹⁾ Total income from association fees and cost recovery net of all O&M and other recurrent costs

²⁾ Number of years after which the association has accumulated enough funds to replace the original investment, which is considerably less than the useful economic life of the investment. The real interest rate is assumed to be 10 percent

Annex 6
Brazil
Rural Poverty Reduction Project – Rio Grande do Norte

Financial Summary

Years Ending December 31
 (in million US\$)

	2002	2003	2004	2005	2006	Total	2007	2008	2009
Project Costs									
Investment Costs	3.6	7.5	7.0	4.6	1.4	24.1	-	-	-
Recurrent Costs	0.9	1.9	1.7	1.1	0.3	5.9	1.0	1.0	1.0
Total	4.5	9.4	8.7	5.7	1.7	30.0	1.0	1.0	1.0
Financing Sources (% of total project costs)									
IBRD	11.3	23.4	21.7	14.3	4.3	75.0	-	-	-
State Governments	2.4	5.0	4.7	3.0	0.9	16.0	-	-	-
Community Associations	1.3	2.9	2.6	1.7	0.5	9.0	1.0	1.0	1.0
Total	15.0	31.3	29.0	19.0	5.7	100.0	1.0	1.0	1.0

Annex 7
Brazil
Rural Poverty Reduction Project – Rio Grande do Norte
Procurement and Disbursement Arrangements

A) GENERAL

All procurement of goods under the Project would be carried out in accordance with the "*Guidelines, Procurement under IBRD Loans and IDA Credits*" dated January 1995 and revised in January and August 1996, September 1997, and January 1999. Consultants would be employed in accordance with the *Guidelines, Selection and Employment of Consultants by World Bank Borrowers*, dated January 1997 and revised in September 1997 and January 1999, and the provisions stipulated in the Loan Agreement. The methods to be used for procurement are described below and the estimated amounts for each method, are summarized in Table A. The threshold contract values for the use of each method are established in Table B.

B) PROCUREMENT RESPONSIBILITIES AND CAPACITY

Project administration and monitoring will be the responsibility of the State Technical Unit (STU) established within the State Secretariat of Social Action (SEAS). A procurement capacity assessment of the STU was conducted by the Project Team's Procurement Specialist and was cleared by the Regional Procurement Advisor's Office (RPA) on June 25, 2001. The "Overall Procurement Risk" was assessed as "LOW". The STU has successfully carried out three previous Bank operations and its procurement performance has been consistently satisfactory. In addition, periodic audits of subprojects covering procurement and financial aspects and including selected physical inspections of goods and works procured revealed appropriate oversight and quality control by the STU. The STU has appropriate procedures, internal controls, technical and administrative support, and is well organized and staffed. Procurement responsibilities will be carried out by the STU's procurement staff who have performed successfully similar functions during the previous loans and are well versed in Bank procurement policies and procedures. With the exception of some technical assistance for the beneficiaries which will be procured by the STU, procurement financed by the Project would be carried out by the grants beneficiaries. However, the STU would procure goods and works on an exceptional basis on behalf of the beneficiaries which are deemed not to have sufficient capacity. It is anticipated that these procurement activities carried out by the STU, if any, will be limited. The beneficiaries' administrative capacity would be demonstrated in the subproject proposals and evaluated by the Implementing Agency. In addition, the Implementing Agency would exercise overall quality control of procurement financed by the subprojects.

C) PROCUREMENT ARRANGEMENTS

Subprojects

The Project will provide matching grants to legally constituted rural community associations to finance small scale subprojects, finance technical assistance and training for institutional strengthening. Grants would be made in accordance with the selection procedures described in the Project Operational Manual. A standard grant agreements acceptable to the Bank would be used to transfer grant funds to the beneficiaries under conditions that would ensure adequate implementation.

Procurement of goods and works under subprojects costing less than US\$50,000 implemented in remote areas would be carried out mainly through direct contracting and community participation. This procurement method is appropriate because most subprojects: (a) would be small and/or implemented in scattered or remote areas and therefore it will be difficult to obtain competitive proposals; (b) can be managed directly by rural communities, who will also contribute directly to the work through the donation of unskilled labor and local materials; (c) will be selected on the basis of willingness of the beneficiary communities to contribute to and physically supervise works execution; and (d) would provide a vehicle for communities to play an active role in

the local development process. Additional procurement of goods estimated to cost less than US\$100,000 equivalent, up to an aggregate amount of US\$1.1 million, would follow commercial practices which would include price comparison from three qualified suppliers. All such goods would be procured at a reasonable price, taking into account also other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts, and would be used exclusively in implementing the grants. Contracts estimated to cost more than US\$100,000 equivalent would be awarded on the basis of National Competitive Bidding (NCB) procedures acceptable to the Bank.

Works contracts (other than contracts costing less than US\$50,000 in scattered or remote areas) estimated to cost less than US\$100,000 equivalent, up to an aggregate amount of US\$0.8 million, would be procured under lump-sum, fixed price contracts awarded on the basis of quotations obtained from a minimum of three qualified local contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award would be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

The standard bidding documents for NCB agreed between the Bank and the Federal Government of Brazil would be used. No International Competitive Bidding (ICB) is anticipated for any goods or works under the Project.

Consultant Services

Firms

The loan would finance contracts with consulting firms for information campaigns, technical assistance, studies and capacity building for the beneficiary communities and the STU. These contracts would be awarded following a Quality and Cost Based Selection (QCBS) process, in accordance with Section II of the Consultant Guidelines. However, services estimated to cost less than US\$200,000 equivalent per contract may be procured following Least Cost Selection procedures in accordance with provisions for paragraphs 3.1 and 3.6 of the Consultant Guidelines. In addition, services estimated to cost less than US\$100,000 equivalent per contract, may, with the Bank's prior agreement, be procured on the basis of Single Source Selection procedures in accordance with paragraphs 3.8 and 3.11 of the Consultant Guidelines.

Individuals

The consulting services required for the Project include specialized advisory services and services to support project monitoring, such as MIS experts, which are appropriate for individual consultants.

Individual consultants would be selected by comparison of qualifications of three candidates and retained in accordance with the provisions of Paragraph 5.1 through 5.3 of the Consultant Guidelines. The competitive process followed to select individual consultants would be described in further detail in the Operational Manual.

Operating Costs and Salaries

Sundry items, utilities and other incremental recurring costs would be financed on a 20 percent basis and would be procured using the STU's administrative procedures which were reviewed and found acceptable to the Bank. In addition, the Bank would finance 50 percent of STU incremental staff costs for project supervision and monitoring.

Prior review thresholds and Procurement Supervision

The proposed thresholds for prior review are summarized in Table B. Prior review would be required for all NCB contracts. In addition, the Bank would review the first contracts procured through shopping procedures for goods and works, respectively. Contracts with consulting firms estimated to cost US\$100,000 or more and

with individual consultants estimated to cost US\$50,000 or more would be subject to the Bank's prior review. Assignments of a critical nature and amendments raising contract values above the said thresholds would also be subject to prior review.

Although the level of Bank prior review of procurement would be overall low, it would be compensated in several ways. First, reviews of procurement by community contracting would be carried out yearly during project implementation, under terms of reference agreed during project preparation. Second, cost comparisons of similar subprojects would be conducted using the project MIS in order to detect possible procurement problems and determine whether prices paid under community procurement were reasonable. Third, the project's annual physical performance evaluation would verify the physical implementation of subprojects and analyze procurement issues. Finally, during Bank supervision, additional random reviews would be conducted of subprojects, including field visits and review of subproject documentation.

Table A: Project Costs by Procurement Arrangements¹
(in US\$ million)

Expenditure Category	Procurement Method ²				Total Cost (including contingencies)	
	NCB	Local Shopping	Direct Contracting	Other		
1. Civil Works⁴	0.8 (0.5)		15.1 (11.4)	-	-	15.9 (11.9)
2. Goods and Materials⁵		1.1 (0.7)	9.5 (7.3)	-	-	10.6 (8.0)
3. Consulting Services, Studies and Project Administration		-	1.6 (0.7)	1.9 (1.9)	-	3.5 (2.6)
Total		1.9 (1.2)	26.2 (19.4)	1.9 (1.9)	-	30.0 (22.5)

Table B: Thresholds for Procurement Methods and Prior Review

Expenditure Category	Contract Value Threshold (US\$ thousands)	Procurement Method	Contracts Subject to Prior Review (US\$ millions)
1. Works	> 100,000 <100,000 <50,000 in remote areas	NCB Three Quotations Direct Contracting	All 1 st None
2. Goods	>100,000 <100,000 <50,000 in remote areas	NCB Shopping Direct Contracting	All 1 st None
3. Consulting Services Firms	> 100,000 <100,000 >50,000 <50,000	QCBS ⁶ Guidelines, Section V	All None All None
Individuals			

¹ Totals include taxes and contingencies

² Figures in parenthesis are the amounts to be financed by the Bank loan.

³ N B F = Not Bank-financed

⁴ Community subprojects

⁵ Community subprojects

⁶ Services estimated to cost less than US\$200,000 may be procured following Least Cost Selection procedures, where appropriate Single Source Selection may be used for contracts estimated to cost less than US\$100,000 where appropriate and with the Bank's prior agreement

Disbursement

Financial Management, Auditing and Disbursement Arrangements

The financial management systems of COPES were reviewed by a Bank Financial Management Specialist during project preparation for compliance with OP/BP 10.02 and the Loan Administration Change Initiative (LACI) Implementation Handbook. Based on this review, the project was certified as category "4B", indicating that the Project satisfies the Bank's financial management requirements but some of the existing financial management reports have to modified. Disbursements for all expenditures would be made on the basis of statements of expenditure (SOEs), except for goods and works exceeding US\$100,000 equivalent; contracts with consulting firms above US\$100,000 equivalent; and with individuals above US\$50,000. The information required for the compilation of SOEs would be maintained by the project Technical Unit in the MIS data base. All SOEs would be transmitted from the project Technical Unit to the World Bank in Washington. This procedure would allow the Bank and the project Technical Unit to maintain a cumulative account of the progress of project implementation.

The communities' contributions to subproject investments would be defined in the agreement (*convênio*) between the project Technical Unit and the beneficiary community association. This contribution would be computed as part of counterpart finance of the project. Simple, standard records, whose format would be included in the project Operational Manual, would be completed by a designated community representative. They would be used to record cash contributions, materials and labor inputs, and would be subject to project audit procedures.

The proposed Bank loan would be disbursed over a period of four years. The project is expected to be completed by the project's Closing Date of December 31, 2006. The allocation of loan proceeds by disbursement category is shown in Table C.

An action plan was prepared and agreed for the project to strengthen the current system, and will be implemented within six months of loan effectiveness (Financial, Accounting and Monitoring Indicators). The annual financial audit will include a separate opinion on the eligibility of expenditures disbursed on the basis of SOEs or Project Management Reports (PMRs) (if funds are disbursed on the basis of PMRs).

Special Account. Funds will be deposited by the Bank into a special account with *Banco do Brasil* – New York and automatically transferred to a similar account in Natal in US\$. From this account, funds will be converted to R\$, according to project needs, and upon request approved by the General Coordinator and Secretary of Social Welfare, transferred to an operational account in *Banco do Brasil* for application in the individual projects or contracts under the PAC, FUMAC and FUMAC-P subprograms. Any balance left in the US\$ special account will be invested in the international financial market and interest will be credited to the project in due course. Funds will be invested by the STU for up to 30 days after withdrawal from the special account, and the relevant SOEs will be submitted according to the Disbursements Letter. Counterpart funds from the State will be requested by the STU through the Social Affairs Secretariat and deposited into the project operational account. Counterpart contributions from community associations and municipalities will be paid directly to suppliers and contractors, and contributions in labor and materials will be accounted and documented in the Financial Statements.

PMRs-Based Disbursement. Once the Bank approves the Borrower's financial report system for PMR-based disbursements, and once the borrower is prepared to adopt the PMR-based disbursement option, such disbursements should follow the following procedures:

- All withdrawals from the Loan Account shall be deposited by the Bank into a special Account based upon Table C. Each such deposit into the Special Account will be withdrawn by the Bank from the loan account under one or more of the eligible categories.
- Each application for withdrawal from the Loan Account for deposit into the Special Account must be supported by a Project Management Report.
- Upon receipt of each application for withdrawal the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so

requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying that application, is required to be deposited in order to finance eligible expenditures during a six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by the Project Management Report to be remaining in the Special Account, cannot exceed the amount of US\$4.4 million.

- In the case of a faster than expected draw-down of the special account, an interim PMR may be submitted to request a supplemental disbursement prior to the next scheduled quarterly disbursement request. All supporting documentation authenticating the expenditures reported in the PMRs will be maintained by the Project Technical Unit and made available for review by auditors and Bank missions as requested.

Auditing Arrangements. According to arrangements for Bank-financed projects in Brazil, the special account will be audited in conjunction with the annual financial audit of the project accounts for the period January 1 to December 31. This audit will be performed by an Independent Auditor. Both the terms of reference for the Audit, and the Auditor shall be acceptable to the Bank. The audit report will be submitted to the Bank no later than June 30 in the year following the year for which the project accounts are audited. The Auditor's TOR will include the issuance of a management letter on internal controls six months after effectiveness.

Table C: Allocation of Loan Proceeds by Project Category

Expenditure Category	Project Cost in US\$ million	Financing Percentage	Allocation of Loan Proceeds in US\$ million
1. <u>Grants for Community Subprojects</u> (investments, technical assistance and start-up grants)			
(a) FUMAC Grants	22.600	75%	16.950
(b) FUMAC-P Grants	1.700	75%	1.275
(c) PAC Grants	1.300	75%	0.975
2. <u>Consultants' services, technical assistance, training and studies</u> for Parts B and C of the Project	1.500	100%	1.500
3. <u>Administrative Costs</u>			
(a) incremental operation costs	0.700	20%	0.140
(b) project supervision and monitoring costs	0.800	50%	0.400
4. <u>Fee</u>	-	-	0.225
5. <u>Unallocated</u>	1.400	-	1.035
Total	30.000		22.500

Annex 8
Brazil
Rural Poverty Reduction Project – Rio Grande do Norte
Project Processing Budget and Schedule

A. Project Budget (US\$000)	<u>Planned</u> (At final PCD stage)	<u>Actual</u>
	38,900	56,641
B. Project Schedule	<u>Planned</u> (At final PCD stage)	<u>Actual</u>
Time taken to prepare the project (months)	11	14
First Bank mission (identification/preparation)	04/2001	04/2001
Appraisal mission departure	06/2001	06/2001
Negotiations	07/2001	11/2001
Planned Date of Effectiveness	09/2002	-

Prepared by: SEPLAN/COPES

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Annex 9
Brazil
Rural Poverty Reduction Project – Rio Grande do Norte
Documents in the Project File*

A. Project Implementation Plan

- Draft Operational Manual for Rio Grande do Norte

B. Bank Staff Assessments

- Sector Issues and Concept
 - Current Rural Poverty Alleviation Program
 - Government of Rio Grande do Norte Project Document (May 2000)
- Project Economic and Financial Analysis
 - Cost-Benefit Analysis for selected Subprojects
 - Fiscal Impact
- Project Implementation Arrangements
 - Community Organizations
 - State Technical Units (STUs)
 - Secretariat of Planning, Science and Technology (SEPLANTEC)
 - NGOS
 - Private Sector
 - Social Capital Assessment
- Project Monitoring
 - Project Database
 - Monitoring Activities
 - Project Reporting
- Project Supervision of Rural Poverty Alleviation Project (Loan 4120-BR)
 - World Bank Supervision Reports

C. Background Studies

- Brazil. Broadening the Base for Growth: A Report on the State of Bahia
- Mid Term Review of Rural Poverty Alleviation Program in Bahia, Ceara and Pernambuco.
- Rural Development Programs for Brazil's Northeast: An Interim Assessment

*Including electronic files.

Annex 10**Brazil****Statement of Loans and Credits****BRAZIL: Rural Poverty Reduction Project – Rio Grande do Norte**

Project ID	Project Name	FY	IBRD	IDA	GRANT	Cancel.	Undisb.			Difference Between Expected and Actual	
								<u>Original Amount in US\$ Mill.</u>			
								Disbursements	Frm Rev'd		
P006559	(BF-R)SP TSP	98	45.0				25.0	25.0			
P043873	AG TECH DEV	97	60.0				34.1	32.9	19.9		
P006562	BAHIA MUN DV	97	100.0				54.1	54.1	3.4		
P035728	BAHIA WTR RESOURCES	98	51.0				29.9	27.2	8.4		
P006564	BELO H M TSP	95	99.0				18.1	18.1			
P037828	BR (PR)R POVERTY	96	175.0				84.5	82.7	58.7		
P058129	BR EMER FIRE PREVENTION (ERL)	99	15.0				9.2	9.2	9.2		
P047309	BR ENERGY EFFICIENCY (GEF)	00				15.0	11.7	2.6			
P073294	BR Fiscal & Fin Mgmt TAL	01	8.9				8.8	2.3			
P006474	BR LAND MGT 3 (SAO PAULO)	98	55.0				52.7	35.3	21.7		
P057910	BR PENSION REFORM LIL	98	5.0				3.1	3.1	(0.5)		
P006541	BR WTR Q/PLN(SP/PR/FED)	93	245.0			5.2	4.2	9.3	2.7		
P054120	BR- AIDS & STD Control II	99	165.0			3.5	49.1	45.1			
P043874	BR- DISEASE SURVEILLANCE - VIGISUS	99	100.0				61.9	61.9			
P050763	BR- Fundescola 2	99	202.0				53.3	(21.7)			
P006554	BR- HEALTH SECTOR REFORM - REFORsus	96	300.0				110.9	110.9			
P006543	BR- MINAS GERAIS BASIC EDU	94	150.0				3.7	3.7			
P038947	BR- SC & TECH 3	98	155.0				123.6	123.6			
P059565	BR- BA BASIC EDU PROJECT (PHASE I)	01	69.6				40.7	(10.2)			
P059566	BR- CEARA BASIC EDUCATION	01	90.0				88.2	(1.8)			
P057665	BR-FAMILY HEALTH EXTENSION PROJECT	02	68.0				68.0				
P048357	BRAZIL CEN BANK TAL	98	20.0				-	-	(7.3)		
P046052	CEARA WATER PILOT (SIM)	97	9.6				2.2	2.2	1.4		
P006449	CEARA WTR MGT (PROGERIRH) (SIM)	01	136.0				125.0	44.4			
P006436	Ceara Urban Development & Water Resource	95	140.0				21.3	21.3	12.3		
P039200	ENERGY EFFICIENCY (ELETROBRAS)	00	43.4				42.7	11.3			
P006522	ESP SANTO WATER	94	154.0			54.0	13.2	67.2	6.7		
P006532	FED HWY DECENTR	97	300.0				156.7	156.7	42.9		
P038895	FED WTR MGT	98	198.0				125.7	113.6	58.7		
P060221	FORTALEZA METROPOLITAN TRANSPORT	02	85.0				87.9				
P006210	GEF BR-NAT'L BIODIVERSITY	96			10.0		3.2	4.4	5.1		
P055954	GOIÁS STATE HIGHWAY MANAGEMENT	02	65.0				64.3	3.4			
P062619	INSS REF LIL	00	5.0				1.3	0.7	(0.7)		
P006475	LAND RFM PILOT (SIM)	97	90.0				23.8	23.8			
P050772	LAND-BASED POVERTY ALLEVIATION I (SIM)	01	202.1				180.9	23.0			
P051701	MARANHAO R POVERTY	98	80.0				10.4	(1.2)			
P006505	MATO GROSSO NAT RES	92	205.0			15.0	12.1	27.1			
P035741	NATL ENV 2	00	15.0				13.4	8.5	6.4		
P050776	NE Microfinance Development	00	50.0				40.4	(9.6)			
P042565	PARAIABA R.POVERTY	98	60.0				28.9	17.1			
P039199	PROSANEAR 2	00	30.3				29.6	(0.7)			
P038896	R POVERTY(RGN)	97	24.0				0.6	0.6			
P040028	RAILWAYS RESTRUCTURG	96	350.0			75.0	17.9	92.9	17.9		
P038882	RECIFE M TSP	95	102.0				19.0	19.0			
P034578	RGS HWY MGT	97	70.0				53.6	50.6	37.6		
P043868	RGS LAND MGT/POVERTY	97	100.0				60.4	42.6	16.5		
P043421	RJ M TRANSIT PRJ	98	186.0			17.2	142.9	160.1			
P006454	RONDONIA NTRL RES M	92	167.0			10.0	10.8	20.8			
P050881	RURAL POVERTY REDUCTION PROJECT - PI	01	22.5				22.5	6.0			
P057649	Rural Poverty Reduction Project - BA	01	54.3				51.3	6.3			
P050875	Rural Poverty Reduction Project - CE	01	37.5				34.6	4.7			
P050880	Rural Poverty Reduction Project - PE	01	30.1				28.9	0.8			
P048869	SALVADOR URBAN TRANS	99	150.0				107.7	70.2			
P043869	Santa Catarina Nat. Res. Mgt Pov Reduction	02	62.8				62.8				
P074085	Sergipe Rural Poverty Reduction	02	20.8				20.8				
P051696	SÃO PAULO METRO LINE 4 PROJECT	02	209.0				209.0				
P073192	TA Financial Sector	02	14.5				14.5				
P043420	WATER S MOD 2	98	150.0				147.0	139.4	120.1		
	Total		5,797.4			25.0	179.8	2,922.1	1,740.3	441.1	

BRAZIL
STATEMENT OF IFC's
Held and Disbursed Portfolio
31-January-2002
In Millions US Dollars

FY Approval	Company	Held				Disbursed			
		Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
2001	AG Concession	0.00	15.00	15.00	0.00	0.00	0.00	0.00	0.00
1996/97	Algar Telecom	0.00	8.17	0.00	0.00	0.00	8.17	0.00	0.00
2001	Apolo	8.00	0.00	0.00	0.00	3.00	0.00	0.00	0.00
1998	Arteb	20.00	7.00	0.00	18.33	20.00	7.00	0.00	18.33
1999	AutoBAn	35.00	0.00	0.00	31.00	29.22	0.00	0.00	25.88
1993	BACELL	4.90	15.70	0.00	5.40	4.90	15.70	0.00	5.40
1990/91/92	Bahia Sul	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1996	Banco Bradesco	10.48	0.00	0.00	11.18	10.48	0.00	0.00	11.18
2000	BBA	40.00	0.00	0.00	0.00	20.00	0.00	0.00	0.00
1997	Bompreco	16.67	0.00	5.00	0.00	16.67	0.00	5.00	0.00
1991	Bradesco-Eucatex	2.50	0.00	0.00	0.00	2.50	0.00	0.00	0.00
1995	Bradesco-Hering	7.50	0.00	0.00	0.00	7.50	0.00	0.00	0.00
1991	Bradesco-Petrofl	7.50	0.00	0.00	0.00	7.50	0.00	0.00	0.00
1991	Bradesco-Romi	0.00	0.40	0.00	0.00	0.00	0.40	0.00	0.00
1995	Brahma - BRA	7.50	0.00	5.00	0.00	7.50	0.00	5.00	0.00
1998	BSC	9.88	0.00	0.00	5.29	9.88	0.00	0.00	5.29
1993/96	BUNGE/CEVAL	0.00	8.06	0.00	0.00	0.00	8.06	0.00	0.00
1995	Cambuhy/MC	7.50	0.00	0.00	0.00	7.50	0.00	0.00	0.00
1994/96	CHAPECO	15.00	6.41	0.00	5.00	15.00	6.41	0.00	5.00
1973/78/83	CODEMIN	0.00	0.40	0.00	0.00	0.00	0.40	0.00	0.00
1997	Copesul	25.00	0.00	0.00	102.86	25.00	0.00	0.00	102.86
1993/97/00	Coteminas	0.00	0.53	0.00	0.00	0.00	0.53	0.00	0.00
1992	CRP-Caderi	0.00	0.68	0.00	0.00	0.00	0.68	0.00	0.00
1980/92	DENPASA	0.00	0.12	0.00	0.00	0.00	0.12	0.00	0.00
1995/96/98/02	Distel Holding	0.00	4.19	0.00	0.00	0.00	4.19	0.00	0.00
1998	Dixie Toga	0.00	15.00	0.00	0.00	0.00	15.00	0.00	0.00
1987/96/97	Duratex	16.57	0.00	0.00	40.71	16.57	0.00	0.00	40.71
1999	Eliane	32.00	0.00	13.00	0.00	32.00	0.00	13.00	0.00
1998	Empesca	5.00	0.00	10.00	0.00	5.00	0.00	10.00	0.00
2001/02	Escola	0.00	0.28	0.00	0.00	0.00	0.25	0.00	0.00
2000	Fleury	9.00	0.00	6.00	0.00	6.00	0.00	6.00	0.00
1998	Fosfertil	20.00	0.00	0.00	37.50	20.00	0.00	0.00	37.50
1998	Fras-le	10.00	0.00	10.00	0.00	10.00	0.00	6.70	0.00
1994	GAVEA	6.25	0.00	5.50	0.00	6.25	0.00	5.50	0.00
1994	GP Capital	0.00	9.67	0.00	0.00	0.00	9.35	0.00	0.00
2001	GPC	9.00	0.00	0.00	0.00	9.00	0.00	0.00	0.00
1997	Guilman-Amorim	25.78	0.00	0.00	57.47	25.78	0.00	0.00	57.47
1998	Icatu Equity	0.00	20.00	0.00	0.00	0.00	12.14	0.00	0.00
1999	Innova SA	20.00	5.00	0.00	60.00	20.00	5.00	0.00	60.00
1980/87/97	Ipiranga	29.33	0.00	0.00	57.27	29.33	0.00	0.00	57.27
1999	Itaberaba	0.00	5.34	0.00	0.00	0.00	5.34	0.00	0.00
1999	JOSAPAR	8.00	0.00	7.00	0.00	3.00	0.00	7.00	0.00
1995	LATASA - Brazil	1.33	0.00	5.00	0.00	1.33	0.00	5.00	0.00

1995	Lojas Americana	14.00	0.00	5.00	2.00	14.00	0.00	5.00	2.00
2000	Macedo Nordeste	6.33	0.00	5.00	0.00	6.33	0.00	5.00	0.00
1996	Mallory	4.36	0.00	0.00	0.00	4.36	0.00	0.00	0.00
1987/92/96/99	MBR	20.00	0.00	0.00	0.00	20.00	0.00	0.00	0.00
1975/96	Oxiteno NE	10.00	5.00	0.00	0.00	10.00	0.00	0.00	0.00
1994	Para Pigmentos	21.50	0.00	9.00	12.32	21.50	0.00	9.00	12.32
1987/96	Perdigao	15.31	0.00	0.00	2.00	15.31	0.00	0.00	2.00
1989/95	Politeno Ind.	5.85	0.00	0.00	0.00	5.85	0.00	0.00	0.00
1994/00/02	Portobello	0.00	1.15	0.00	0.00	0.00	1.15	0.00	0.00
2000	Puras	4.67	0.00	0.00	0.00	4.67	0.00	0.00	0.00
1998	Randon	6.53	0.00	3.00	0.00	6.53	0.00	3.00	0.00
1995	Rhodiaco/PTA	7.50	0.00	0.00	3.00	7.50	0.00	0.00	3.00
1991	Rhodia-Ster	0.00	5.95	0.00	0.00	0.00	5.95	0.00	0.00
1990	Ripasa	0.00	5.00	0.00	0.00	0.00	5.00	0.00	0.00
1997	Rodovia	27.22	0.00	0.00	47.70	27.22	0.00	0.00	47.70
1994/96	S.A.I.C.C.	0.00	2.85	0.00	0.00	0.00	2.85	0.00	0.00
1994/95/97	Sadia	20.50	0.00	6.83	109.33	20.50	0.00	6.83	109.33
1997	Samarco	11.70	0.00	0.00	6.67	11.70	0.00	0.00	6.67
2000	Samaritano	20.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1998	Saraiva	10.38	3.00	0.00	0.00	10.38	3.00	0.00	0.00
2000	Seara Alimentos	0.00	3.88	0.00	0.00	0.00	3.88	0.00	0.00
2001	Sepetiba	32.00	0.00	0.00	8.00	17.00	0.00	0.00	8.00
1987/97	SP Alpargatas	16.67	0.00	5.00	0.00	16.67	0.00	5.00	0.00
1997	Sucorrico	7.50	0.00	0.00	0.00	7.50	0.00	0.00	0.00
2001	Synteko	18.00	0.00	0.00	0.00	18.00	0.00	0.00	0.00
1998	Tecno Rio Grande	6.65	0.00	5.50	14.84	6.65	0.00	5.50	14.84
2001	Tecon Salvador	3.50	1.00	0.00	5.00	3.50	0.77	0.00	5.00
1996	TIGRE	13.46	0.00	5.00	6.41	13.46	0.00	5.00	6.41
1992/93	TRIKEM	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1993	Votorantim	1.43	0.00	0.00	0.00	1.43	0.00	0.00	0.00
1999	Vulcabras	16.68	0.00	0.00	0.00	16.68	0.00	0.00	0.00
1997	Wembley	0.00	10.00	0.00	0.00	0.00	10.00	0.00	0.00
1999	Wiest	0.00	0.00	8.00	0.00	0.00	0.00	8.00	0.00
Total Portfolio:		731.43	159.78	133.83	649.28	657.65	131.34	115.53	644.16

Approvals Pending Commitment

		Loan	Equity	Quasi	Partic
2002	Banco Itau	-	-	-	100,000
2000	BBA	10,000	-	-	50,000
2001	Brad Templeton	-	20,000	-	-
2001	Cataguazes	45,000	-	-	40,000
1999	Cibrasec	-	7,500	-	-
2001	Satipel	15,000	-	15,000	-
2002	Unibanco-CL	-	-	-	150,000
2001	Unisul	15,000	-	-	-
2002	Univali	10,000	-	-	-
Total Pending Commitment:		95,000	27,500	15,000	340,000

Annex 11: Country at a Glance

BRAZIL: Rural Poverty Reduction Project – Rio Grande do Norte

Brazil at a glance

9/17/01

		Latin America & Carib.	Upper- middle- income	
POVERTY and SOCIAL		Brazil	Latin America & Carib.	Upper- middle- income
2000				
Population, mid-year (<i>millions</i>)	170.1	518	647	
GNI per capita (<i>Atlas method, US\$</i>)	3,590	3,680	4,620	
GNI (<i>Atlas method, US\$ billions</i>)	610.1	1,895	2,986	
Average annual growth, 1994-00				
Population (%)	1.3	1.8	1.3	
Labor force (%)	1.9	2.3	2.0	
Most recent estimate (latest year available, 1994-00)				
Poverty (% of population below national poverty line)	22	-	-	
Urban population (% of total population)	81	75	76	
Life expectancy at birth (years)	67	70	69	
Infant mortality (per 1,000 live births)	32	30	28	
Child malnutrition (% of children under 5)	6	9	8	
Access to an improved water source (% of population)	87	85	87	
Illiteracy (% of population age 15+)	15	12	10	
Gross primary enrollment (% of school-age population)	125	113	107	
Male	-	-	106	
Female	-	-	105	
KEY ECONOMIC RATIOS and LONG-TERM TRENDS				
	1980	1990	1999	2000
GDP (US\$ billions)	235.0	485.0	529.4	595.5
Gross domestic investment/GDP	23.3	20.2	20.4	20.5
Exports of goods and services/GDP	9.1	8.2	10.6	10.9
Gross domestic savings/GDP	21.1	21.4	19.3	19.3
Gross national savings/GDP	17.8	18.9	16.1	-
Current account balance/GDP	-5.5	-0.8	-4.8	-4.1
Interest payments/GDP	2.7	0.4	2.5	2.5
Total debt/GDP	30.4	25.8	45.6	39.7
Total debt service/exports	63.4	22.5	112.3	77.9
Present value of debt/GDP	-	-	45.9	..
Present value of debt/exports	-	-	403.7	-
	1980-90	1990-00	1999	2000
(average annual growth)				
GDP	2.7	2.9	0.8	4.5
GDP per capita	0.8	1.5	-0.5	3.2
Exports of goods and services	7.5	5.5	12.0	11.0
	2000-04			
STRUCTURE of the ECONOMY				
	1980	1990	1999	2000
(% of GDP)				
Agriculture	11.0	8.1	7.2	7.4
Industry	43.8	38.7	27.5	26.6
Manufacturing	33.5	23.1	24.0	-
Services	45.2	53.2	65.3	64.0
Private consumption	69.7	59.3	61.8	62.5
General government consumption	9.2	19.3	18.9	18.2
Imports of goods and services	11.3	7.0	11.7	12.1
	1980-90	1990-00	1999	2000
(average annual growth)				
Agriculture	2.8	3.2	7.4	3.0
Industry	2.0	2.6	-1.6	5.0
Manufacturing	1.6	2.1	-0.7	-
Services	3.3	3.0	1.3	3.9
Private consumption	1.2	5.7	6.1	9.8
General government consumption	7.3	-1.7	-9.3	-5.4
Gross domestic investment	3.3	3.4	-3.0	5.0
Imports of goods and services	0.5	11.9	-14.8	13.8

Development diamond*

The diamond chart compares Brazil (solid line) with the Upper-middle-income group (dashed line) across four key indicators:

- Life expectancy:** Brazil is slightly above the group average.
- GNI per capita:** Brazil is significantly below the group average.
- Gross primary enrollment:** Brazil is slightly above the group average.
- Access to improved water source:** Brazil is slightly above the group average.

Economic ratios*

The diamond chart compares Brazil (solid line) with the Upper-middle-income group (dashed line) across three key economic ratios:

- Trade:** Brazil is slightly above the group average.
- Domestic savings:** Brazil is significantly below the group average.
- Investment:** Brazil is slightly above the group average.

Growth of investment and GDP (%)

This line graph tracks the annual growth rates of Gross Domestic Investment (GDI) and Gross Domestic Product (GDP) from 1995 to 2000. The Y-axis ranges from -10% to 15%.

Year	GDI (%)	GDP (%)
95	~8	~10
96	~2	~-2
97	~5	~12
98	~-2	~8
99	~1	~5
00	~5	~8

Growth of exports and imports (%)

This line graph tracks the annual growth rates of Exports and Imports from 1995 to 2000. The Y-axis ranges from -20% to 40%.

Year	Exports (%)	Imports (%)
95	~15	~18
96	~5	~10
97	~10	~15
98	~-5	~5
99	~-10	~-5
00	~5	~10

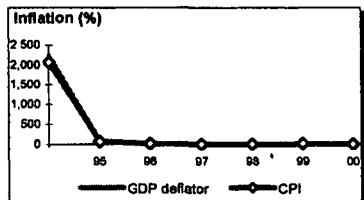
Note: 2000 data are preliminary estimates

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

Brazil

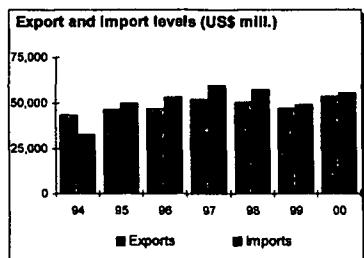
PRICES and GOVERNMENT FINANCE

	1980	1990	1999	2000
Domestic prices				
(% change)				
Consumer prices		2,947.7	8.9	6.0
Implicit GDP deflator	87.3	2,509.5	4.3	8.5
Government finance				
(% of GDP, includes current grants)				
Current revenue			19.5	20.0
Current budget balance			0.4	1.0
Overall surplus/deficit			-6.8	-3.2



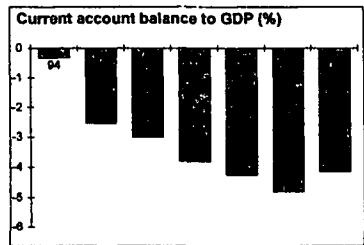
TRADE

	1980	1990	1999	2000
(US\$ millions)				
Total exports (fob)	..	31,414	47,140	53,589
Coffee		2,656	2,746	3,048
Soybeans		2,854	1,593	2,188
Manufactures		19,624	35,312	41,027
Total imports (cif)		20,681	49,275	55,800
Food		1,379	1,855	1,507
Fuel and energy		4,354	4,258	6,362
Capital goods		5,932	13,570	13,593
Export price index (1995=100)	80	81	91	97
Import price index (1995=100)	65	74	113	118
Terms of trade (1995=100)	123	109	80	82



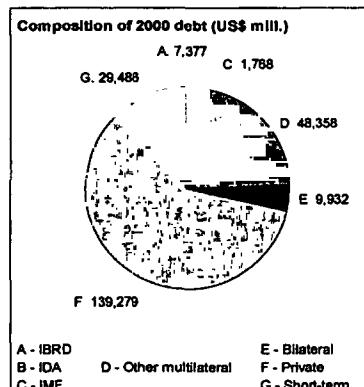
BALANCE of PAYMENTS

	1980	1990	1999	2000
(US\$ millions)				
Exports of goods and services	21,857	34,615	55,205	64,470
Imports of goods and services	27,788	26,708	63,443	72,741
Resource balance	-5,931	7,907	-8,238	-8,271
Net income	-7,044	-12,523	-18,848	-17,886
Net current transfers	42	834	1,689	1,521
Current account balance	-12,633	-3,782	-25,397	-24,838
Financing items (net)	8,990	-5,043	13,834	33,815
Changes in net reserves	3,943	8,825	11,763	-9,179
Memo:				
Reserves including gold (US\$ millions)	5,853	9,175	35,725	33,011
Conversion rate (DEC, local/US\$)	1.92E-11	2.48E-5	1.8	1.8



EXTERNAL DEBT and RESOURCE FLOWS

	1980	1990	1999	2000
(US\$ millions)				
Total debt outstanding and disbursed	71,520	119,877	241,468	236,200
IBRD	2,035	8,427	6,822	7,377
IDA	0	0	0	0
Total debt service	14,757	8,168	67,522	53,200
IBRD	275	1,975	1,381	1,351
IDA	0	0	0	0
Composition of net resource flows				
Official grants	14	41	62	
Official creditors	825	-633	660	-2,037
Private creditors	3,745	-427	-11,828	-32,875
Foreign direct investment	1,811	989	32,859	
Portfolio equity	0	0	1,961	
World Bank program				
Commitments	820	905	1,883	1,593
Disbursements	343	788	1,533	1,692
Principal repayments	98	1,251	952	887
Net flows	245	-463	580	805
Interest payments	177	725	428	464
Net transfers	68	-1,187	152	341



IMAGING

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