

1. Project Data:		Date Posted : 12/13/2010	
PROJ ID : P043869		Appraisal	Actual
<b>Project Name :</b> Santa Catarina Natural Resources Management And Rural Poverty Reduction Project	<b>Project Costs (US\$M):</b>	107.5	111.5
<b>Country:</b> Brazil	<b>Loan/Credit (US\$M):</b>	62.8	62.8
<b>Sector Board :</b> ARD	<b>Cofinancing (US\$M):</b>		
<b>Sector(s):</b> General agriculture fishing and forestry sector (55%) Other social services (15%) Sub-national government administration (15%) General industry and trade sector (10%) General water sanitation and flood protection sector (5%)			
<b>Theme(s):</b> Participation and civic engagement (20% - P) Improving labor markets (20% - P) Rural policies and institutions (20% - P) Land administration and management (20% - P) Water resource management (20% - P)			
<b>L/C Number:</b> L4660			
	<b>Board Approval Date :</b>		04/25/2002
<b>Partners involved :</b>	<b>Closing Date :</b>	12/31/2008	09/30/2009
<b>Evaluator :</b>	<b>Panel Reviewer :</b>	<b>Group Manager :</b>	<b>Group :</b>
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## 2. Project Objectives and Components:

### a. Objectives:

The project objectives as stated in the loan agreement are: (a) to integrate environmental and social sustainability into development and poverty reduction strategies of the Borrower; (b) to enhance local governance and community participation in decision-making; (c) to reverse land degradation and better ensure protection of the Borrower's natural resources; and (d) to improve the income-generating opportunities and living conditions for the rural poor .

The objectives in the PAD are formulated somewhat differently from the loan agreement . While the overall meaning is consistent with that of the loan agreement, an overarching poverty reduction objective is added and emphasis is placed on improving poor rural families incomes and livelihoods . "The project objective is to reduce rural poverty in the State of Santa Catarina, while improving the management of natural resources . Poor rural families' incomes and livelihoods would be improved by: (i) support for Government efforts to integrate environmental and social sustainability into development and poverty reduction strategies; (ii) enhanced local governance and community participation in decision-making; (iii) reversed land degradation and better protection of the State's natural resources; and (iv) improvements to income generating opportunities and living conditions for the rural poor ." (PAD, pg.2)

This assessment uses the statement of objectives as worded in the PAD because the overarching goals are more specific and measurable .

**b. Were the project objectives/key associated outcome targets revised during implementation?**

No

**c. Components (or Key Conditions in the case of DPLs, as appropriate):**

***Institutional Development and Organization*** (Expected cost at appraisal US\$17.9 million; actual cost US\$ 14.27 million) financed four sub-components: (a) training; (b) rural extension; (c) adaptive and social research; and (d) technical assistance supporting State structural adjustment .

***Rural Investment*** (Expected cost at appraisal US\$77.2 million; actual cost US\$86.48 million) financed a grant-based Rural Investment Fund with beneficiary cost-sharing, to facilitate and provide incentive for the adoption of the project strategy within benefited micro-catchments. The Fund comprised three "lines": housing improvements including piped water and sanitation; environmental conservation activities; and, income generation through improved production systems, value-added schemes or job creation .

***Environmental Management*** (Expected cost at appraisal US\$3.8 million; actual cost US\$2.76 million) financed two sub-components: (a) watershed management; and (b) creation of ecological corridors and protected areas .

***Project Management, Monitoring and Evaluation*** (Expected cost at appraisal US\$8.0 million; actual cost US\$8.03 million) financed three sub-components: (a) project management; (b) monitoring and evaluation; and (c) community organization .

The components were not revised .

**d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:**

***Project Costs*** : Total project costs exceeded appraisal estimates by 4.3%. The cost of the institutional development and organization component was 9% below its appraisal estimate and the environmental management component was 16% lower than expected. While the rural investment component was 12% above its appraisal estimate and the project management component was 4.7% above its appraisal estimate .

***Financing*** : Unfavorable changes in the exchange rate, mid 2005 to 2008, led to a financing gap of \$35.3 million. As a result many project beneficiaries were unable to access the project's rural investment fund despite having completed training and developed investment plans . The ICR notes that 12,000 families out of the priority cohort of 80,000 were unable to access the rural investment fund and another 68,000 priority families were unable to finance the full range of investments envisioned in their investment plans . In discussion with IEG the TTL explained that the investment plans of these beneficiaries will be financed under a follow on project that is currently under preparation .

***Borrower contribution*** : The borrower's contribution was US\$49.37 million vs. US\$44.70 million anticipated at appraisal. Project beneficiaries also contributed US\$21.60 million, not anticipated at appraisal. The ICR notes that the beneficiaries contribution is not included in the Borrower / State counterpart contribution and the State does not count this contribution in the calculation of total project cost .

***Dates*** : The closing date was extended by nine months, from December 31, 2008 to September 20, 2009, to allow for the preparation of an Additional Financing operation that was ultimately dropped and substituted by a follow on project, the Santa Catarina Rural Competitiveness Project, which is currently under preparation .

**3. Relevance of Objectives & Design:**

The project's objectives were and continue to be highly relevant to the Bank's country strategies and to the Government's Rural Development Policy. Environmental sustainability and poverty alleviation were key pillars in the

Bank's Country Assistance Strategies for 2000-2003 and 2004-2007, under these pillars agriculture and natural resources management were viewed as areas that could contribute to sustainability and equity. The current Country Partnership Strategy (2008-2011) emphasizes sustainable growth in agriculture production, inclusion of smallholders in agricultural market chains, and strengthening of land and environmental institutions. The State's Rural Development Policy aims to address rural poverty through decentralized, participatory mechanisms organized around the micro-catchment.

Relevance of design was on balance substantial. On the positive side, project design drew on the experience of the Bank funded Santa Catarina Land Management II project (LM II), which was rated highly satisfactory on outcome. The LM II project had impressive soil and water conservation achievements and demonstrated the effectiveness of using participatory approaches to promote sustainable land management practices and using the micro-catchment as the basic unit for planning and organization. The NRM and Rural Poverty Reduction project incorporated these features in its design but also added a poverty alleviation objective. Although the project included a well designed and objective targeting mechanism to reach poorest cohorts of the population, the ICR notes that the technical approach to productive activities proposed in the PAD to meet the poverty alleviation objective was beyond the capacity of poor farmers and the technical implementing agencies. Although the project ultimately achieved its poverty reduction objective it was not done through the market oriented approach envisioned for this objective in the project design document. (see also quality at entry section 8.a)

#### **4. Achievement of Objectives (Efficacy):**

Achievement of the overarching objective of ***reducing rural poverty in the State of Santa Catarina is substantial***. The project's final evaluation found that 19.3% of beneficiaries exceeded the income limits for classification in the lowest income cohorts and moved to higher-income categories. The evaluation also found that poverty declined in 64% of 880 micro-catchments assisted (91% of the appraisal target of reducing rural poverty in 616 MCs or 70% of the 880 MCs assisted). Further details on the increase in beneficiary incomes are noted below under sub-objective 2.

Achievement of the overarching objective of ***improving the management of natural resources is substantial***. The outputs and outcomes reported under sub-objectives (1) and (3) below indicate that both state entities and local producers have adopted improved natural resources management practices. However, as noted under sub-objective 3, the project should have done a better job of evaluating bio-physical outcomes resulting from the improved natural resources management practices.

Achievement of sub-objective ***(1) support for Government efforts to integrate environmental and social sustainability into development and poverty reduction strategies is substantial***.

963 Micro catchments were mapped, micro catchment development associations were established in each, micro catchment development plans were prepared (106% of the appraisal target of 880 MCs and 100% of the post MTR target), and 47,869 individual farm plans were prepared (69.3% of the appraisal target of 70,000 plans). The ICR notes that the micro catchment development plans allow for more effective and sustainable integration at the local level into development programs funded under state and federal rural poverty and NRM strategies.

The project supported the enactment and publication of State environmental regulation and its application to the design and initiation of pilot Ecological Corridors and protected areas. The Ecological ICMS (Tax on the Circulation of Markets and Services) Law was enacted, and regulations for the State Protected Areas Law were issued. Planning models for ecological corridors and integrated water catchment management were developed and validated in two catchments, and one state park was consolidated. Strategic river basin management plans were prepared for the three project supported catchments, and were subsequently developed for all major catchments in the State. The ICR also notes that specialized training was provided to the State Environmental Management Foundation to improve their capacity to conduct integrated management of water catchment area, though it does not provide information on the outcome of the training.

Project supported studies led to a number of outputs in the water sector which the ICR notes enhance the State's capacity to integrate environmental and social sustainability into development and poverty reduction strategies, and to institutionalize river basin management policies and laws. The project financed a Water Resources Management Study, Water and Drainage Sector Study, and an Electricity Sector Restructuring Study to support State structural adjustment efforts. The study "Instruments for Management of Water Resources", led to the implementation of the State Census of Water Users, and the development of the Information System for State Water Resources, a System for Water Rights Grants, and a Water Users Mapping System. The water resources information system has been cited as a National reference model by the National Water Agency and has been replicated by the State of Rio Grande do Sul. In addition, three studies were financed for the water and sanitation sector that contributed to the preparation of new legislation that was passed for Water and Drainage, and Solid Waste. The study recommendations and new legislation formed the basis for a complete restructuring the sector, which the ICR notes at the time was threatening the competitiveness in tourism and agro-industry. The ICR also notes that at project

closing discussion were underway to create a dominant water resources management institution and to expand human resources in the water sector, which had been suffering from inadequate technical and operational manpower.

Achievement of sub-objective **(2) improvements to income -generating opportunities and living conditions for the rural poor is substantial** .

The project's targeting mechanisms were based on socio-economic and environmental indicators with a greater weight on poverty. About 78% of grants provided by the project's Rural Investment Fund and 86% of total grant value went to the priority population. The project's final evaluation showed that the 19.3% of the projects priority beneficiaries exceeded the income limits for classification in the lowest income cohorts and moved to higher -income categories. Incomes of the sampled beneficiaries increased on average 30.6% vs. 16.5% for the control group, ranging from 9.7% to 18.5% higher than that of the control group. The ICR also reports that a separate survey of 417 of beneficiary families from the priority population found that 86% were able to improve their incomes between 2005/06 and 2007 and a case study which monitored the evolution of incomes and productivity on 70 properties over two agricultural years (2005/06 and 2007/08) found that net farm income rose an incremental 105%. Agro-livestock productivity, which increased an average of 24.7% on sampled farm properties, is reported to have played a key role in increasing incomes and reducing poverty. It is important to note, however, that one of the key performance indicators for this objective was "improved family incomes **and employment** among the target group" but the ICR notes that employment generation was not studied.

With respect to improved living conditions, over 47,000 families (49% of participating families vs. the target of 40%) benefitted investments in physical renovation, household sanitation and water supply. 21,700 of these families invested in basic sanitation systems, representing 24% of total rural sanitation needs state-wide. 3,500 families regularized and modernized systems for the collection and disposal of pig waste, which the ICR notes is a critical environmental issue in Santa Catarina. 92% of beneficiaries surveyed for the final evaluation stated that the project had resolved their most urgent/pressing housing problems. Specific benefits reported included improved health, physical security, comfort, social relations and environment.

Achievement of sub-objective **(3)reversed land degradation and better protection of the State 's natural resources is modest**.

This rating is largely due to the fact that the ICR primarily reports outputs rather than outcomes and does not provide evidence to demonstrate that land degradation was reversed, although the project supported a substantial number of activities which can reasonably be expected to reverse degradation over time. Improved NRM practices were adopted in 936 micro catchments (106% of the appraisal target of 880 micro catchments) and impacted 263,693 ha. of productive land (105% of the appraisal target of 250,000 ha). 59,006 families invested in improved production systems (162% of the post MTR target of 36,329 families and 148% of the appraisal target of 40,000 families). The ICR also reports that the project financed soil management and conservation practices on about 263,693 ha, and that about 29,000 farmers are now managing their natural resources in a more conservation -oriented manner, but it does not report baselines or define the criteria for more conservation -oriented management of natural resources. 2,306 ha of riparian forest were replanted (115% of the appraisal target of 2,000 ha and 82% of the post-MTR target of 2,820 ha.) However, the ICR does not report on survival rates which could provide some indication of likelihood that the expected outcomes from planting trees (the output) will be achieved. As noted in section 10, project M&E did not include indicators to measure bio-physical outcomes from improved NRM practices, such as change in forest cover, soil erosion and downstream siltation. The ICR reports that investments in improved sanitation and natural resources management activities led to the the following improvements in water quality : heat tolerant bacteria were reduced in 6 of 7 micro-catchments; 34% of monitored properties made environmental improvements that are likely to improve water quality, of those 67% showed reduced concentration of heat-tolerant bacteria, and concentrations were reduced to zero at 18% of the collection points; potability improved from 15% to 20%; pH levels were reduced to legal levels for household consumption in all 19 of the micro-catchments monitored (baseline levels were not reported); and, water turbidity was reported to show modest improvement but the extent of improvement is not quantified.

Achievement of sub-objective **(4) enhanced local governance and community participation in decision making is substantial**.

The project's management structure was decentralized by putting in place executive bodies at the state, regional, municipal and micro catchment and establishing in parallel a pyramid of interlinked deliberative bodies at the state, regional (14 bodies), municipal (293 bodies), and micro-catchment (880 bodies) level. At least 50% of the participants in each deliberative body were from the project's priority population. The ICR reports that the deliberative bodies at all levels functioned effectively at project close but that further work is required to consolidate them. A survey carried out as part of the projects final evaluation found that 84% of respondents felt the local level

participatory mechanisms performed at satisfactory levels, 95% felt that decisions on where to invest were participatory and democratic, 86% reported that the investments attended to the group's need and 77% noted that the investments were governed by joint usage rules. Social capital reportedly increased as a result of participatory processes, training, organizing, and the experience of selecting, implementing, operating and maintaining an investment. 95% of surveyed participants felt family empowerment was satisfactory, 74% reported that social network development was good to very good and 65% of beneficiaries surveyed said there had been an increase in partnerships for group activities, improving inter-personal relationships, cooperation and integration.

**5. Efficiency (not applicable to DPLs):**

An independent economic analysis of the project carried out by the FAO showed high efficiency. However, the ICR notes that this analysis is preliminary as many project activities were recently implemented. The Financial Internal Rate of Return (FIRR) for the 12 farm models studied averaged 34%, ranging from 25.2% (Beans, Corn and Eucalyptus) to 43.6% (Dairy). The Net Present Value of all agricultural and non-agricultural activities covered by the analysis was R\$884 million and the Project Internal Rate of Return (IRR) at project close was 45% vs. 19% estimated at appraisal. Sensitivity Analysis, using 10% reduction in farmer revenues and increase in the cost of production, showed a minimum IRR of 34% and NPV of R\$557.

**a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :**

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	Yes	19%	100%
ICR estimate	Yes	45%	100%

\* Refers to percent of total project cost for which ERR/FRR was calculated.

**6. Outcome:**

Although the original design suffered from some shortcomings, the high relevance of objectives, substantial efficiency and substantial efficacy on three out of four objectives on balance justify an overall outcome rating of satisfactory.

**a. Outcome Rating :** Satisfactory

**7. Rationale for Risk to Development Outcome Rating:**

Risk to development outcome is moderate. The project was the fourth in a series of Bank funded projects in the country and the second in the state to use the micro catchment planning approach. The project's micro-catchment approach has been institutionalized within relevant government agencies and local stakeholder buy-in is high. The productive activities funded were small in scale and technically simple and the high rates of return generated indicate that they are financially sustainable. In addition, a follow on operation is under preparation that will continue to work in the project area and will support the activities that were not completed under the current operation, such as funding those participants who were trained and had developed micro catchment development plans but could not finance them through the project's rural development fund due to the exchange rate related financing gap. Activities that require further consolidation, such as the participatory development mechanisms and inter-agency collaboration, will also continue under the follow on operation. The ICR notes that there are some doubts that many of the micro catchment development associations established will continue to function after the project closes. In addition, it is reported that some communities had become overly dependent on project supported facilitators yet were unwilling to pay for their services once grant monies ran out. However, the risk of inadequate technical support appears to have been addressed as the follow on project will rely exclusively on the government extension agency to provide technical assistance, hiring of sufficient technical staff had been established as a covenant in the new project and the task team leader informed IEG that the state extension agency has already begun hiring additional technicians. Finally, the ICR notes that quality of life investments are sustainable but it does not provide information to support this claim.

**a. Risk to Development Outcome Rating :** Moderate

**8. Assessment of Bank Performance:**

Overall Bank performance was moderately satisfactory.

**Quality at entry is rated moderately unsatisfactory**, in line with the ICR's rating. On the positive side the project built on the use of micro catchment approach that was successfully demonstrated in earlier projects in the state . It also incorporated a well designed and objective targeting mechanism to reach poorest cohorts in keeping with the project's poverty reduction objective . However, there were a number of shortcomings in appraisal that adversely affected implementation . The project's design was ambitious given the project time frame and the capacity of the implementing agencies and target beneficiaries . The project comprised 14 components and sub-components that addressed a large number of challenging issues including : social capital formation, poverty alleviation, natural resources management, indigenous peoples, legal changes and state structural reform . The poverty alleviation objective increased the degree of difficulty over the previous LM II project and resulted in a steep learning curve. The ICR attributes the over optimistic expectation for speed of implementation and learning to the pressure for quick appraisal . Although formal preparation for the project began in 1998 while the LM II project was still under implementation, fiscal difficulties in the late 1990s prevented the state from contracting new external loans. The project was not put back into the pipeline until 2001 at the end of the mandate of the state administration, resulting in pressure to have the Loan signed while the present administration was still in office. The preparatory phase of the project also took longer than anticipated due to the overall level of difficulty and the large number of activities moving forward simultaneously . This in turn delayed the MTR which resulted in limited remaining time to act on MTR recommendations . In addition, the technical activities proposed in the PAD to meet the poverty alleviation objective were beyond the capacity of poor farmers and technical agencies and the decentralized structure further taxed the overstretched human resource capacity of the EPAGRI - the extension agency involved in implementation . The ICR notes that many of the above mentioned issues were inadequately identified as risks at the appraisal stage . For example, the risk of insufficient institutional capacity was viewed from a narrow environmental management perspective, operational and technical complexities were not recognized, and while the availability of the agreed number of extension workers was a recognized as a risk, adequate mitigation measures were not proposed . In addition, municipal government support which is critical to the project's decentralized approach was not assured .

**Bank supervision is rated satisfactory** , in line with the ICR's rating. Supervision missions were frequent, proactive, and staffed with an appropriate skill mix . The Bank team maintained a close working relationship with project implementing agencies, particularly with state extension and environmental management agencies, and provided them with practical solutions and the flexibility and needed to maintain the momentum to resolve problems as they emerged. The ICR attributes the achievement of outcomes, despite design shortcomings and implementation challenges, to the strong quality of supervision . Reported shortcomings in supervision were that the DO ratings for the first two years of the project were higher than warranted, the delay of the MTR (explained in section 10 below) left little time to implement its recommendations, and supervision missions could have played a more catalytic role in establishing partnerships between the project's Implementing Agency's and other technical experts.

**a. Ensuring Quality -at-Entry:** Moderately Unsatisfactory

**b. Quality of Supervision :** Satisfactory

**c. Overall Bank Performance :** Moderately Satisfactory

#### **9. Assessment of Borrower Performance:**

**Government performance is rated satisfactory** . The government maintained steady commitment to the project despite the long period between the close of the previous Bank funded project and the projects approval and through two changes in state government administration . Commitment to the project strategy was shown by piloting the project's technical strategy well in advance of project approval, its steady provision of counterpart funding (exceeding appraisal estimate by 10%) and by internalizing the project's strategy as an element of public policy. The government also maintained a cooperative and responsive relationship with the Bank team throughout implementation.

**Implementing agency performance is rated moderately satisfactory** . Seven Institutions were responsible for implementation of the various project components . Agro-livestock Research and Rural Extension Company (EPAGRI); State Secretariat for Sustainable Economic Development (SDS); Electricity Company of Santa Catarina (CELESC); State Secretariat for Agriculture and Rural Development (SAR); State Project Executive Secretariat (SEE); Military Police Environmental Battalion (BPMA); Center for Agricultural Socio-Economics and Planning (CEPA). On the positive side, the implementing agencies made a strong effort to achieve project objectives despite the complexity of project design and implementation challenges, and in the case of state integrated water resources management, exceeded the achievements anticipated at appraisal . The implementing agencies efforts to implement training, organization and mobilization activities, at the start of the project also

exceeded appraisal targets, and their oversight of the implementation of the project's targeting mechanisms ensured that project benefits reached the poorest priority cohorts . EPAGRI took a lead role in developing and institutionalizing the project's M&E system and improved the system by voicing concerns that the original PDO indicators were inadequate leading to changes . In addition, the use of the micro-catchment as the planning measure in rural activities outside of the project demonstrated ownership of the projects technical strategy . On the negative side, although the implementing agencies utilized senior personnel from the previous Bank supported project, the ICR reports that project implementation was adversely effected by human resource deficiencies that were exacerbated by the broad geographic area covered by the project and breaking down the state into smaller decentralized units without hiring additional staff . Project management reportedly experienced difficulties because the State Executive Secretariat (SEE) was not structured as called for in the Operational Manual, but no details are provided in the ICR to explain what difficulties were encountered . The quality of the project's managerial oversight was affected by the deterioration of decentralized coordination units prior to the 2006 elections. In the final years of the project there was some erosion of project management teams in the SEE and in Regional and Municipal Secretariats, and staff in key agencies left the project in anticipation of key changes following the close of the project . EPAGRI the state extension company, vetted the list of facilitators available for contract to the project's Micro-Catchment Development Associations, but lacked sufficient manpower to adequately supervise facilitators performance . The ICR reports that the quality of facilitators varied and there was a high rotation in the poorest municipalities . In addition, due to the lag in disbursements and implementation delays, some MDAs were organized quickly without sufficient diagnosis and social capital formation in order to contract the facilitators and access RIF funds before the project closed . A final shortcoming was that agencies were not sufficiently proactive in leveraging additional support required to build networks to support the projects more complex market-driven production goals .

**a. Government Performance** :Satisfactory

**b. Implementing Agency Performance** :Moderately Satisfactory

**c. Overall Borrower Performance** :Moderately Satisfactory

#### **10. M&E Design, Implementation, & Utilization:**

**Design** - The MIS built on a system established under a previous project and the project also financed continuous monitoring of the socioeconomic and environmental aspects of pilot micro -catchments and three project evaluations . An ex ante evaluation planned for year 1, a MTR in year 3 and a final evaluation with control groups in year 6. Key performance indicators were established in the PAD to measure the projects objectives but there were some shortcomings: the wording of some indicators was ambiguous, only one had numerical targets, no intermediate indicators were specified and there were no indicators to measure bio -physical outcomes resulting from improved NRM practices such as change in the loss of forest cover, soil erosion and downstream siltation .

**Implementation & Use** - The key performance indicators were enhanced at the mid term review with the addition of sub-indicators that would look at each KPI from several angles and improve their measurability. The ICR reports that the new indicators improved the quality of information collected . However, the the lack of indicators to measure biophysical outcomes was not addressed . Two of the KPIs were not fully measured: (1) improved family incomes and employment among the targeted group - the ICR notes that employment generation was not studied but does not explain why; and, (2) improved water quality and reduced soil loss in benefited micro -catchments - soil loss was not measured. The MIS was embraced by the main implementing agency and a strong effort was made to institutionalize M&E in other agencies. The ICR notes that the MIS system initially generated large amounts of data but was not able to efficiently aggregate data compatible with the projects core development indicators, however the system improved overtime and this was ultimately addressed . The MIS was effective in tracking the project's physical progress and financial management and is expected to continue under the follow on SWAP currently under implementation . All three evaluations planned in the PAD were completed but with delays . The MTR, originally scheduled for August of 2005, was delayed until the end of 2006 because the project team felt there were insufficient hard results to merit the exercise at the time originally scheduled . The ICR notes that delaying the MTR contributed to richer findings of the MTR performance study because there were more substantive activities to assess, but the down side of this decision was that it limited the time available to implement recommendations . None the less the MTR generated a number of useful suggestions that were implemented including a greater emphasis on RIF environmental and income generating investments and adding investments to benefit rural youth .

**a. M&E Quality Rating** : Substantial

#### **11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):**

The project triggered the Environmental Assessment (OD 4.01) and Indigenous Peoples (OD 4.20) safeguards.

**Environment.** The project was classified as environmental category B. Positive environmental impacts were part of the project's objectives and several components explicitly promoted natural resources conservation and reduced pollution. The investments funded by the project's rural investment fund were routinely screened for environmental implications and monitored for compliance.

**Indigenous Peoples.** An Indigenous Peoples Plan was developed during project preparation and the Bank's social safeguards specialist supervised its implementation. Project activities with indigenous groups resulted in the development of five Indigenous Lands Development Plans, covering eight lands and 1,850 families, and 7,000 Guarani, Xokleng and Kaingan people made productive, environmental and living standard investments of R\$ 2.6 million through the Rural Investment Fund and R\$ 1.6 million leveraged through partnerships. The ICR reports that the project's engagement with indigenous people was considered an innovative learning opportunity for project agencies. However, implementation of the IPP was reportedly challenged by the limited number of technical assistance professionals in EPAGRI's municipal office with the appropriate skills for working with indigenous people and policies that prohibited physical investments on un-regularized lands, or in working in areas subject to serious conflict.

<b>12. Ratings:</b>	<b>ICR</b>	<b>IEG Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome:</b>	Moderately Satisfactory	Satisfactory	3 out of 4 sub-objectives and the overarching development objective were substantially achieved, leading to overall substantial efficacy. Combined with substantial efficiency and relevance of design and high relevance of objectives, this results in an overall satisfactory outcome rating.
<b>Risk to Development Outcome:</b>	Moderate	Moderate	
<b>Bank Performance:</b>	Moderately Satisfactory	Moderately Satisfactory	
<b>Borrower Performance:</b>	Moderately Satisfactory	Moderately Satisfactory	
<b>Quality of ICR:</b>		Satisfactory	

**NOTES:**

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

**13. Lessons:**

The project's implementation experience points to the following lessons (the first three are adapted from the lessons presented in the ICR, and IEG has added the fourth):

- 1- The quality of extension services is critical for micro-catchment based projects. The approach requires a strong field presence and implementing agencies at all levels need access to quality technicians. It is important to establish a clear professional criteria for selecting technicians up-front.
- 2- Complex and innovative projects of broad scope may require longer time frames to allow adequate time for organization, training and institutional strengthening during the first half of implementation, without shortening the implementation time for more difficult activities that can only be carried out once a sufficient level of training and organizational capacity is reached. A follow on operation may also be required to consolidate and deepen initial gains.
- 3- Clear and objective targeting parameters and a strong institutional commitment to their compliance are essential

to ensure that a project's poverty focus is realized . Participatory targeting mechanisms, combined with a conscious efforts on the part of both implementing agencies and the Bank to ensure that priority populations are included in all activities, and close oversight of applicants qualifications for participation throughout implementation are important.

4- Micro-catchment projects that include a poverty focus must be realistic about the expected beneficiary contribution. In this case financing of technical assistance activities was originally planned on a declining scale but due to the low base that many participants were starting from 100% grant support was maintained throughout the life of the project.

**14. Assessment Recommended?**  Yes  No

**15. Comments on Quality of ICR:**

The ICR is concise and provides a candid assessment of implementation challenges and adequately supports its ratings with evidence.

**a. Quality of ICR Rating :** Satisfactory