

## 1. Location and Project History

The Irrigation Project of Pontal aims at fostering irrigated agriculture practice in a Brazilian semi-arid region. This project encompasses 33.526 hectares (ha) of land, out of which approximately 8.000 ha are to be used for irrigation purposes, 7.000 ha to comply with set-aside requirements and 18.000 ha to be used for cultivating dry-crop land. The project is located in the semi-arid region of the State of Pernambuco, in the Rio São Francisco Valley in the Municipality of Petrolina.

As can be seen from the table below, the weather of the region is adequate for the production of various types of crops. Its natural features have turned this region into one of the current main irrigation poles of the country.

<b>Yearly average precipitation</b>	<b>564 mm (60% of the rains occur between February and April)</b>
<b>Average temperature</b>	<b>26° C – 78.8° F</b>
<b>Average winds speed</b>	<b>2.3m/sec</b>
<b>Yearly average lightning</b>	<b>2,810hours/year</b>
<b>Height</b>	<b>409m</b>
<b>Average Humidity</b>	<b>61% (March to April)</b>



The Irrigation Project of Pontal was originally developed as a traditional public irrigation project. So far, the construction, operation and maintenance activities of public irrigation facilities in projects located in this region have been always conducted under the government's responsibility and were mainly led by *Companhia de Desenvolvimento dos Vales do São Francisco e Parnaíba (Codevasf - [www.codevasf.gov.br](http://www.codevasf.gov.br))*, a public enterprise of the Federal Government of Brazil that was also responsible for land distribution through governmental agriculture programs by transferring them to big and medium farmers under subsidized prices or even donating them to small farmers for land reform purposes.

The project was structured as a PPP upon the finding that irrigated agriculture can be severely improved in the region. A set of studies developed by the World Bank Group shows that irrigated agriculture, if conducted under sustainable and entrepreneurial standards, promotes regional development, what ends up boosting per capita GDP, improving the HDI (Human Development Index) and attracting a flow of foreign currency reserves. Among all economic activities, agriculture has proved to be one that generates most social impact due to the fact that it requires low investments per job created hence contributing to income distribution (*Série Água Brasil – Volume 2, World Bank Group*).

These studies also found that land distribution made in the traditional public irrigation projects does not necessarily imply successful agricultural production cases. Positive results only occur when adequate technical assistance is provided to farmers and when they become part of a processing and logistical chain so as to gain access to markets.

The Government of Brazil believes that these objectives can be achieved. Codevasf is being currently advised by the IFC, the World Bank Group arm to foster private sector and intends to implement the Pontal Project and the next irrigation projects under Public-Private Partnership (PPP) arrangements.

This project entails a clear change of Codevasf's role. In the past, this public enterprise activity was focused mainly on hiring and managing public works contracts to construct the irrigation channels. Nowadays, by developing this project, Codevasf changed its approach, since it will hire a private partner that will make the required investments in the construction of the channels, operate them and also manage the land distribution among small farmers.

## 2. Project Profile

The project's main goal is to implement the irrigated agriculture in the area of Pontal, which is able to generate the positive externalities mentioned above. Codevasf will require that the private partner makes use of at least 25% of the project land for small farmers (with the maximum of 20 hectares each) that will run their agriculture activities under the guidelines of the private partner which will be in charge of providing the common infrastructure, technical assistance and adequate processing and logistical chains, the means to providing the small farmers with access to markets.

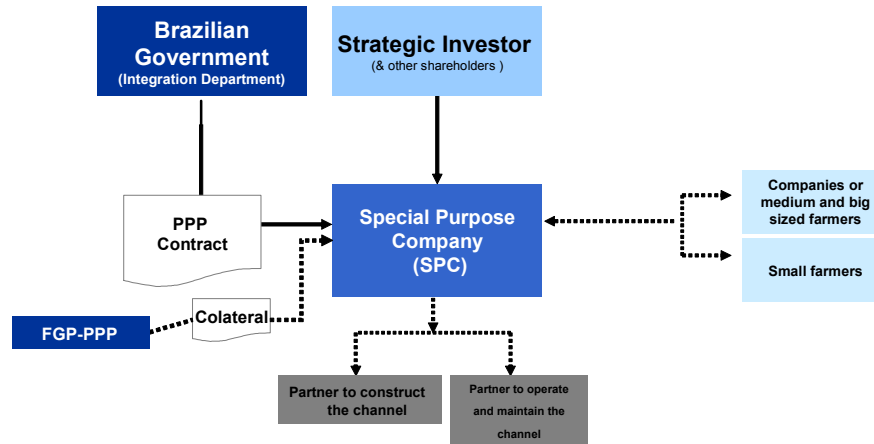
For settlement purposes, the company or cooperative will have to conclude the construction of the common irrigation facilities (primary and secondary channels), with an estimated investment amount of R\$ 87 million. Noteworthy to say that the Government has already invested an amount of about R\$ 235 million in the construction of the irrigation channels, what represents 70% of the total investment required by the project. For this reason, the south part of the common infrastructure of the Pontal Project, especially the main channels to irrigate the first 2 thousand hectares, is almost concluded. The R\$ 87 million to be invested by the private partner is to be allocated mainly to the construction of the Pontal's north region channels.

The operation and maintenance of the irrigation channels will also be under the private partner responsibility.

As a result of the construction of the common infrastructure and development of agricultural activity, the Government will pay the private partner the maximum amount of R\$ 189 million over 25 years. The final value of this payment will be defined by the public bidding and will be only disbursed if the private partner achieves the pre-defined performance indicators regarding land settlement and the irrigating channels operation. These government payments will be backed by first-class guarantees provided by the FGP – Fundo Garantidor de PPP of the Federal Government of Brazil. FGP is a backstop facility currently managed by Banco do Brasil to enhance the Government payments credit profile and it will make the payments in case the government defaults.

The PPP contract will take 25 years and establishes that the whole area must be occupied within the maximum time of 6 years.

The chart below represents the contractual obligations arising from the PPP design of the Pontal Project.



- **Private Sector Responsibilities** include (i) construction, operation and maintenance of the common irrigation infrastructure, ii) settlement and (iii) development of the agriculture activity
- **Government Payment** will occur when the concessionaire achieves certain important goals, such as water availability and occupation of the land
- **Water tariff:** can be charged upon water availability

### 3. Project Public Bidding

The project public bidding will be structured in two different phases. In the pre-qualification phase, the financial capacity of the companies/cooperatives will be assessed, as well as their former experience as agribusiness players.

After that, proposals submitted by the qualified companies will be evaluated according to the following criteria for the definition of a final score: (1) the lowest value of the government payment required (weight of 35%) and (2) highest percentage of land that is devoted to small farmers above the minimum 25% required (weight of 65%). The winning bidder is the candidate achieving the highest score.

Important to notice that in order to proceed with their pre-qualification on the public bidding, the candidates must inform their agriculture settlement plans including information about the agriculture companies that will occupy the area, the intended percentage of land devoted to small farmers, settlement chronogram, land distribution and indications on water consumption.

### 4. Conclusions

The Pontal Project was designed to be an attractive opportunity for cooperatives and agriculture companies. They will be able to profit from potential attractive conditions of a region where all sets of crops can be cultivated due to a good climate, sufficient water provision availability and an appropriate logistical chain to export products.

The project's website (<http://www.pontal.org>) contains several documents regarding the project, such as engineering studies, water and soil analysis and the preliminary version of the tender offer and contract. Given the fact that these documents represent the government's current view and are still in a process of finalization, they can still be changed. Therefore, it is very important to receive your feedback and general comments about these documents and their values. This feedback can be given formally or informally, and available to the public or confidentially, as you prefer. Please do not hesitate to contact us in case you have any doubts or want to give your feedback. **Thank you!**

**Contact information\*:**

**Maurício Portugal Ribeiro** ([mribeiro@ifc.org](mailto:mribeiro@ifc.org))  
5521 2525-5866

**Tomás Anker** ([tanker@ifc.org](mailto:tanker@ifc.org))  
5521 2525-5856

**Fernanda Martins** ([fmartins@ifc.org](mailto:fmartins@ifc.org))  
5511 3525-6312

\* IFC - International Finance Corporation is Transaction Leader of the Pontal Project Structuring Consortium