

Document: EB 2010/101/R.35  
Agenda: 15(e)(iv)  
Date: 28 October 2010  
Distribution: Public  
Original: English

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Enabling poor rural people  
to overcome poverty

## **President's memorandum**

### **Proposed supplementary grant to the Republic of The Sudan for the**

### **South Kordofan Rural Development Programme**

#### **Note to Executive Board representatives**

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Executive Board — 101<sup>st</sup> Session  
Rome, 14-16 December 2010

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**For: Approval**

## Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary financing to the Republic of The Sudan for the South Kordofan Rural Development Programme, as contained in paragraph 15.

## President's memorandum

### Proposed supplementary grant to the Republic of The Sudan for the South Kordofan Rural Development Programme

#### I. Introduction

1. This memorandum seeks approval for supplementary grant financing of US\$2.1 million for the South Kordofan Rural Development Programme (SKRDP) approved by the Executive Board in September 2000 (EB 2000/70/R.19). The supplementary funding being sought is available under Sweden's complementary contribution to the Eighth Replenishment of IFAD's resources.
2. The SKRDP is financed by IFAD under a highly concessional loan of SDR 13.30 million, and by a supplementary grant of EUR 6.55 million provided by the Netherlands. The Dutch grant was provided in December 2009 to expand the outreach of the programme until December 2013. The supplementary financing from the Swedish contribution will enable SKRDP to scale up a central *sandug* (a member-based savings and credit group) called Bara'ah into a licensed rural microfinance institution. The use of the Swedish contribution for the SKRDP programme is consistent with the Executive Board's decision of September 2009 that the Swedish funds be used "for both grant financing and the enhancement of the design and implementation of regular IFAD projects and programmes to increase food security in the least developed countries." Moreover, "up to 25 per cent of the complementary contribution could be used, where appropriate, for technical assistance, in collaboration with the Investment Centre of the Food and Agriculture Organization of the United Nations." (EB 2009/97/R.40/Rev.2.)

#### II. Background

3. The SKRDP was initiated in South Kordofan State in 2001, at a time when continued civil strife led to a decrease in cultivated areas and a decline in crop yields and animal off-take. Insufficient knowledge, a scarcity of inputs and limited capacity of farmers to salvage and maintain their enterprises aggravated the situation. The development of rural financial services to address these issues was a major component in SKRDP's original design. Formal financing through the Agricultural Bank of Sudan was an additional component to establish community-based *sandugs* and capitalize and link them to formal sources of financing. In 2007, the SKRDP refined the approach and federated 45 communities of the Al-Rashad locality into **Bara'ah, a local-level *sandug***, which then received SKRDP revolving fund grants.
4. A business plan approach, defining Bara'ah's governance, management, growth and financial details, was adopted to ensure systematic development and sustainability. Implementation started in 2009, through the delivery of three savings and six loan products using the joint liability group methodology. So far, Bara'ah has reached

443 households through 34 groups in 35 communities and is expected to reach a total of 15,000-20,000 households in about five years. In seven months, Bara'ah has mobilized US\$7,200 and small farmers have managed to save their surplus cash income after the harvesting season. Bara'ah has disbursed US\$0.14 million in loans, with an average loan size of US\$325 to support: (i) inputs for small-scale agricultural activities; (ii) the purchase of livestock; (iii) small trading, processing and production enterprises related to both agricultural and non-agricultural sectors; and (iv) storage of agricultural products during market gluts. Anecdotal evidence suggests that timely access to small loans by poor households has increased income, mainly from agro- and livestock-based activities. Actual benefit levels will be captured through the upcoming impact assessment by the Investment Centre of the Food and Agriculture Organization of the United Nations (FAO-TCI). Bara'ah has an impeccable repayment performance with a repayment rate of 100 per cent and a portfolio-at-risk (PAR) rate of zero per cent. In recent history no other rural credit programme in the region has achieved such a record.

5. Bara'ah has obtained a provisional license from the Central Bank of Sudan as a local non-deposit-taking rural microfinance institution and plans to become a regional-level deposit-taking financial institution in order to maximize outreach over the next decade. It has developed technical assistance linkages with (i) the Sudanese Microfinance Development Facility (SMDF) for management systems development, staff training and capacity-building; and (ii) FAO-TCI for a baseline survey and impact assessment. The Government of Al-Rashad Locality has donated land for the construction of the Bara'ah office. The Swedish contribution will assist Bara'ah in developing the infrastructure, management systems and human resource base for expanding outreach and becoming sustainable according to the sustainable growth scenarios envisaged in the business plan.

### **III. Justification and rationale**

6. The supplementary grant will allow Bara'ah to break even at the beginning of 2015 with an outreach of 10,000 households, self-sustainability of operations of 110 per cent, and a rapidly declining operation cost ratio of around 38 per cent. It is expected that this result will be achieved by maintaining a PAR rating of less than 5 per cent.
7. The grant will therefore enable Bara'ah to enhance the living standards of poor households in the Al-Rashad Locality. The sustained access to savings and credit services offered by this viable, community-owned but professional rural microfinance institution has led to greater food security. It will also result in greater involvement by women, by strengthening their roles and influence in the family and encouraging their participation in economic decision-making within the household.
8. Of note is IFAD's involvement and support to Bara'ah, which is guided by an objective of the country strategic opportunities programme (COSOP) that promotes access to markets and microfinance services by poor women and men. Bara'ah's development is in line with the programmatic approach enabling the sustainable flow of commercial microfinance funds to rural areas, which has been adopted to achieve this strategic objective.

### **IV. Programme costs**

9. Up to August 2010, Bara'ah received its funding from the SKRDP, the Government of South Kordofan and the communities. These funds, totalling US\$0.31 million, served as start-up costs. Bara'ah now needs a further US\$2.35 million of external funding in order to break even within a period of three years. Of this amount, the supplementary contribution will fund US\$2.10 million (89 per cent), SMDF will provide US\$0.20 million (9 per cent) and SKRDP, through its existing rural finance budget, will fund US\$0.05 million (2 per cent).

10. The programme has four components: (i) licensing and portfolio growth (56 per cent); (ii) technical assistance (7 per cent); (iii) infrastructure development (26 per cent); and (iv) bridging of the operations gap (11 per cent). It will be implemented over 18 months, in line with the completion date of the SKRDP. The supplementary contribution will finance four categories of expenditures: (i) civil works (15 per cent); (ii) vehicles and equipment (11 per cent); (iii) grants to *sanduqs* (68 per cent); (iv) technical assistance, training and studies (6 per cent).

## **V. Proposed modification to the financing agreement**

11. Upon agreement of the Executive Board, the financing agreement will be amended to reflect the supplementary financing. This financing strengthens the financing plan initially agreed at design and does not imply any modification of the programme's description.

## **VI. Legal institutions and authority**

12. An amendment to the current programme's financing agreement between the Republic of The Sudan and IFAD will constitute the legal instrument for extending the proposed supplementary financing to the recipient.
13. The Republic of The Sudan is empowered under its laws to receive financing from IFAD.
14. I am satisfied that the proposed supplementary financing will comply with the Agreement Establishing IFAD.

## **VII. Recommendation**

15. I recommend that the Executive Board approve the proposed supplementary financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a supplementary grant to the Republic of The Sudan in an amount of US\$2.1 million and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze  
President