

Document: EB 2012/106/R.24
Agenda: 11(d)(ii)
Date: 9 August 2012
Distribution: Public
Original: English

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Enabling poor rural people
to overcome poverty

President's report

Proposed loan to the State of Sergipe of the Federative Republic of Brazil for the

Rural Business for Small Producers Project (Dom Távora) (Projeto de Desenvolvimento de Negócios Rurais para Pequenos Produtores – Dom Távora)

Note to Executive Board representatives

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Executive Board — 106th Session
Rome, 20-21 September 2012

For: Approval

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Abbreviations and acronyms

EMDAGRO	Agricultural Development Enterprise of Sergipe
M&E	monitoring and evaluation
PCU	project coordination unit
PRONAF	National Programme for the Strengthening of Family Agriculture
SEAGRI	Secretariat of State of Agriculture and Rural Development

Map of the project area

Brazil

Rural Business for Small Producers Project



8-4-2010



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD

State of Sergipe of the Federative Republic of Brazil

Rural Business for Small Producers Project (Dom Távora)

(Projeto de Desenvolvimento de Negócios Rurais para Pequenos Produtores – Dom Távora)

Financing summary

Initiating institution:	IFAD
Borrower:	State of Sergipe of the Federative Republic of Brazil
Lead project agency:	Secretariat of State of Agriculture and Rural Development (Secretaria de Estado de Agricultura e do Desenvolvimento Rural [SEAGRI])
Total project cost:	US\$37.8 million
Amount of IFAD loan:	SDR 10.3 million (equivalent to approximately US\$16.0 million)
Terms of IFAD loan:	18 years, including a grace period of 3 years, with an interest rate equal to the reference interest rate per annum as determined by the Fund semi-annually
Contribution of borrower:	US\$12.6 million
Contribution of beneficiaries:	US\$9.2 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the State of Sergipe of the Federative Republic of Brazil for the Rural Business for Small Producers Project (Dom Távora), as contained in paragraph 41.

Proposed loan to the State of Sergipe of the Federative Republic of Brazil for the Rural Business for Small Producers Project (Dom Távora)

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Although economic and social conditions have improved substantially since the mid-1990s, Brazil is still a country of great contrasts. Inequality is higher in rural than in urban areas, and in the north and north-east regions than in the south and south-east. The federal government has been playing an active role to change this situation, expanding a cash transfer programme (*Bolsa Família*), increasing the minimum wage, facilitating access to constitutional mechanisms of social protection and greatly expanding the National Programme for the Strengthening of Family Agriculture (PRONAF). Family farming is very important in Brazil. According to the recently released 2006 agricultural census, more than 4 million holdings were classified as family farms, representing 85 per cent of the total agricultural holdings documented by the Census. Family farm conditions vary, but there is a prevalence of small and poor farms with an income below the opportunity cost of labour in the local labour market – some half of the output for self-consumption – and a lack of specialization.
2. The main development opportunities addressed by the Dom Távora project are: (i) the poverty rate in the State of Sergipe, which is significantly higher than the average poverty rate in Brazil; (ii) insufficient development of rural businesses for small producers, despite their potential to generate income and employment; and (iii) a lack of technical assistance services in support of the development of sustainable and profitable rural businesses for small producers.

B. Rationale and alignment with government priorities and the RB-COSOP

3. Combating rural poverty is one of the major priorities of the government of the State of Sergipe, which is located in north-eastern Brazil and presents higher poverty incidence than the national average. The Country Strategic Opportunities Programme (COSOP) formulated in 2008 establishes that IFAD projects will be agreed between IFAD and the state governments, maintaining the focus in the north-east and including the following strategic objectives: (i) increase the commercial agricultural production of small farmers; and (ii) improve access for rural poor people to off-farm employment and business activities, focusing on women and young people.
4. Lessons learned from previous projects in Brazil indicate that participatory processes, technical design and technological matters of productive investments were generally properly managed, but market perspectives and business management needs were usually not well addressed. Part of this bottleneck is due to two main reasons: (i) a predominant approach that considers that small producers do not have the potential to be entrepreneurs;

and (ii) the profile of professionals working in technical assistance, who usually have a rich experience in primary production aspects, but lack a business-oriented approach and thus do not have the skills to support small producers in developing rural businesses. In this framework, the government of the State of Sergipe and IFAD agreed to work together in a project to develop rural businesses for poor small producers.

5. **Alignment with national priorities.** Project objectives and activities are aligned with rural development policies at national and state levels. The project will be framed within the Sergipe sem Miseria Programme, which corresponds to the recently launched Brasil sem Miseria Programme of public policy instruments for the fight against extreme poverty. It is also aligned with the current national policy on technical assistance and rural extension, which is oriented towards strengthening state networks providing technical assistance to rural producers. At the state level, the project is aligned with the multi-annual development plan and territorial development plans. These reflect a strong commitment on the part of the Sergipe state government to combat rural poverty by promoting local potential for income and employment generation, which is at the core of the proposed project.

II. Project description

A. Project area and target group

6. The State of Sergipe, located in the north-east region, has 73 municipalities grouped in 13 microregions and three homogeneous mesoregions. With a territory of 21.9 thousand square kilometres, Sergipe is the smallest state of Brazil, representing only 0.26 per cent of the national territory and 1.4 per cent of the north-east region. Some 45 per cent of its territory is considered semi-arid. The project area encompasses 15 municipalities, whose population in 2007 was estimated at 234,993 inhabitants, of which 122,096 are rural. Approximately 50 per cent of the total population of the project area is young – under 29. The area ranks among the poorest in the state, with human development levels below the state average.
7. Project targeting is aligned with the IFAD Policy on Targeting. The target group encompasses 122,000 poor rural families. Within this group the potential direct beneficiaries are an estimated 12,000 families, and indirect beneficiaries include 20,000 poor rural families throughout the State of Sergipe. Beneficiaries will be poor rural producers, with or without land, working in agricultural and non-agricultural rural activities, with the potential and willingness to engage in rural businesses. Special attention will be paid to women, young people and agrarian settlers. In addition, the project will target a specific group of professionals working in public and private institutions, and producers' organizations involved in technical assistance and business promotion in rural areas.

B. Project development objective

8. **Key project objectives.** The overall goal is to contribute to generating sustainable rural income and employment in poor municipalities of the State of Sergipe. Specific objectives are to: (i) support poor producers' groups in developing agricultural and non-agricultural rural businesses; and (ii) develop public and private institutional capacity to provide technical and managerial services for the development of rural businesses and entrepreneurship among the rural poor.
9. **Policy and institutional objectives.** One of the specific objectives is to develop public and private institutional capacity to provide adequate technical and managerial services for the development of rural businesses and entrepreneurship among poor rural people. The underlying principle is to

focus on strengthening existing public and private agencies and producers' organizations in order to ensure institutional sustainability.

C. Components/outcomes

10. **Development of rural businesses.** The objective is to develop agricultural and non-agricultural rural businesses of poor producers' groups. The restrictions faced by poor rural people in entering business can be removed through concerted public and private action, coordinated by the project, to enhance productive and business management capacities and access to markets. Thus the strategy is focused on facilitating investments of small producers and qualifying them to use their scarce available resources to: (i) transform current activities into businesses; (ii) shift resources to create new businesses; (iii) strengthen or expand existing businesses; or (iv) enter into agreements with the private sector as partners, input and/or final product providers or qualified sellers. Component instruments would include the provision of cofinancing to producers and their organizations for productive investments, associated with technical assistance and training in productive and marketing aspects and business management.
11. **Capacity-building for rural business promotion.** The objective is to develop public and private capacities (institutional and individual) to provide adequate technical assistance on productive and managerial topics for the development of rural businesses and entrepreneurship. The project will contribute to strengthening these capacities through formative training, including short- and medium-term specialized courses, targeted at professionals from governmental and private institutions, technicians working in producers' organizations, and young women and men with the potential to become local service providers. It will include partnerships with institutions specialized in capacity-building and universities.

III. Project implementation

A. Approach

12. **The project approach** considers that small producers can develop profitable and sustainable economic activities. This requires merging an adequate identification of business opportunities with development of capacities for and skills in production, articulation in value chains, access to markets, access to financial services, technical assistance and efficient management of small producers' enterprises.

B. Organizational framework

13. **Key implementing partners.** These will be: (i) the Secretariat of State of Agriculture and Rural Development (SEAGRI), which will act as lead project agency; and (ii) the Agricultural Development Enterprise of Sergipe (EMDAGRO), as the main additional project party.
14. **Implementation responsibilities.** SEAGRI will set up a project management unit (PMU) under the direct supervision of the Secretary of SEAGRI. The PMU will include staff from SEAGRI, EMDAGRO, other agencies of the State of Sergipe and/or newly recruited staff. All staff will be assigned full time to the project. The PMU will be responsible for planning, technical and financial management, preparation of workplans and budgets, preparation of project activity reports, follow-up on project activities carried out by partners and maintenance of the operational relationship with IFAD. The PMU will pay special attention to coordinating project activities with other development initiatives at state and local levels.
15. In its capacity of project party, EMDAGRO will be responsible for: (i) promoting the strengthening of beneficiaries' organizations; (ii) supporting

the preparation and implementation of business plans; (iii) assessing the business plans and approving financing for those assessed as viable; (iv) preparing and implementing a capacity-building strategy; (v) entering into arrangements with project implementation partners and service providers, and supervising the activities carried out by them. Taking advantage of the existing field structure, EMDAGRO will set up four local project operational units with full-time staff assigned to project implementation.

16. An executive committee will be established with the participation of several state secretariats (Agriculture, Planning, Assistance and Social Development, Finance and Economic Development) and EMDAGRO, to be chaired by the Secretary of Agriculture and Rural Development. This committee will provide strategic orientation for project management, contribute to the creation of synergies among public agencies and policies and analyse and approve annual workplans, budgets and activity reports. A consultative committee will also be established, composed of executive committee members and representatives of other public institutions, small producers' organizations, the private sector and other relevant partners. This committee will serve as a platform to disseminate project plans and activities, discuss general orientation, provide feedback regarding strategic and operational issues, and facilitate partnership-building.

C. Planning, monitoring and evaluation, learning and knowledge management

17. Monitoring functions will be the responsibility of the PMU. The PMU will include a planning, monitoring and evaluation (M&E) unit. In order to ensure adequate management of the M&E system, all PMU staff, EMDAGRO staff involved in project implementation and eventual service providers will be trained in M&E methodologies and tools, such as formulation and management of logical frameworks, collection and analysis of data, baseline studies and learning processes, among others. This will also support EMDAGRO's efforts to implement an M&E system for its institutional programme. This system will operate hand in hand with knowledge management activities and will contribute to producing data and technical references for SEAGRI, EMDAGRO, other institutions of Sergipe and other IFAD-funded operations. M&E data will also feed into communication materials for disseminating information on project operations, results and achievements.
18. Evaluation processes include setting baseline data for each business plan (as part of the business plan design process) and carrying out mid-term and final results and impact evaluations, a mid-term review and a completion report. The evaluation process will also include evaluation of training and capacity-building activities to assess whether they have had an impact on small producers' group strengthening and business development, as well as to evaluate the results of the methodologies implemented by the technical assistance and rural extension network.
19. The project has many characteristics that favour learning, knowledge-sharing and networking at the regional level, as well as with other regions globally. The functions and processes developed by SEAGRI and EMDAGRO will be systematized as part of the institutional capacity-building process. Significant resources have been included in project activities and the budget to this end.

D. Financial management, procurement and governance

20. The project budget will be included in the Multi-Annual Plan, the Budget Guidelines Law (*Lei de Diretrizes Orçamentárias*) and the Annual State Budget Law, within the budget corresponding to the Secretariat of Agriculture and

Rural Development as lead project agency. Once this condition is met and the loan agreement signed, the state government will ask the Bank of Brazil to open an account in foreign currency to handle IFAD's loan resources. In addition, the state government will open a separate account to be managed by the lead agency. Both accounts will be handled by state managers, formally appointed by the Governor and with the appointments published in the *Diário Oficial*. Procurement of goods, works and services funded by the loan shall be carried out in accordance with the provisions of the Government of Brazil's procurement regulations, to the extent such are consistent with the IFAD Project Procurement Guidelines. Each procurement plan shall identify procedures that must be implemented by the Government in order to ensure consistency with the IFAD procurement guidelines.

21. The following planned measures are intended to enhance the governance aspects of the IFAD loan: (i) annual independent audits in accordance with international auditing standards and IFAD guidelines; (ii) direct supervision and implementation support by IFAD; and (iii) transparent mechanisms for allocating financial resources to beneficiaries, including safeguards against elite capture.

E. Supervision

22. The project will be supervised directly by IFAD.

IV. Project costs, financing, benefits

A. Project costs

23. Project base cost was estimated at US\$36.2 million over a period of six years. As the exchange rate at the time of data collection (February 2010) was US\$1 = Brazilian reais 1.80 (R\$), the project base cost in local currency (real) was estimated at R\$68 million. Taking into account price contingencies, which total US\$1.6 million and 4 per cent of the base cost, total project cost was estimated at US\$37.8 million.
24. Price contingencies were estimated for any unforeseen expenses that may arise during project implementation due to international and national inflation. The price contingency rate considered was 2.9 per cent annually and was applied to the following categories of expenditure: vehicles and equipment, technical assistance and training, consultancies, audits and studies, operating costs and salaries. Price and physical contingencies have not been applied to the category of productive investment, as these resources will be allocated according to demand.
25. The expenditure categories are as follows: (i) vehicles and equipment; (ii) technical assistance and training; (iii) consultancies, audits and studies; (iv) productive investments; (v) operating; (vi) salaries; and (vii) unallocated costs.

B. Project financing

26. It is proposed that IFAD provide a loan to the State of Sergipe of the Federative Republic of Brazil in the amount of SDR 10.3 million (equivalent to US\$16 million) on ordinary terms to help finance the Rural Business for Small Producers Project (Projeto Dom Távora). The loan will have a term of 18 years, including a grace period of three years, with an interest rate equal to the reference interest rate per annum as determined by the Fund semi-annually. The sources of financing are IFAD (42.3 per cent), the State of Sergipe (33.4 per cent) and beneficiaries (24.3 per cent). The State of Sergipe will pay all taxes related to project expenditures. IFAD will mainly finance the technical assistance required to identify, design and implement business plans, as well as the productive investments for these plans. Beneficiaries designing business plans will contribute – through family labour,

cash and/or kind – at least 50 per cent of the amount of the productive investments.

27. The project costs are shown in the following table, broken down by component and financier.

Project costs by component and financier

(Thousands of United States dollars)

	State of Sergipe		IFAD		Beneficiarios		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Rural business development	3 860.1	13.8	14 862.9	53.2	9 195.6	32.9	27 918.5	73.8
Capacity-building for rural business promotion	4 542.3	87.6	644.0	12.4	-	-	5 186.3	13.7
Project Management and M&E	4 220.3	89.5	493.0	10.5	-	-	4 713.4	12.5
TOTAL COST	12 622.7	33.4	16 000.0	42.3	9 195.6	24.3	37 818.2	100.0

C. Summary benefit and economic analysis

28. **Main categories of benefits generated.** Preliminary estimates show that 10,000 families will directly benefit from grants to cofinance the implementation of business plans (an average of 25 families per business plan supported by the project). These will include investments and technical assistance to start new businesses, reactivate existing ones that are not operating properly, or improve others that are currently functioning. By the end of the implementation period, it is expected that 80 per cent of business plans supported will be operating on a sustainable basis, 80 per cent of families involved in cofinanced business plans will increase their income level, and at least 20 per cent of families involved will increase their incomes by at least one half of the minimum wage. Moreover, some 900 technical assistance providers, 4,000 producers and 600 young women and men will benefit from training as part of capacity-building for rural business promotion. By the end of the implementation period, at least 75 per cent of the trained technical assistance providers, producers and young people will be applying their new knowledge to their jobs or productive activities.
29. **Economic and financial viability.** Nine models representing farm and non-farm activities have been developed in line with the agroecological characteristics and economic potential of the project area. The project is expected to have a significant impact on the productivity of these systems. On this basis, the financial internal rate of return has been estimated at an average of 36.2 per cent. The expected net present value of potential business plans, considering economic or social prices, will average US\$219,400 per business plan and US\$8,400 per participating family. The economic internal rate of return will average 39.5 per cent.

D. Sustainability

30. The proposed project is based on an existing and sustainable institutional framework. Both the lead agency (SEAGRI) and the main additional project party (EMDAGRO) are permanent government institutions in the State of Sergipe. The current presence of pro-poor policies, programmes and projects at the state and federal level increases the likelihood of positive and sustainable effects. The project has been designed as a tool to strengthen institutional and technical capacity in support of the development of rural business for small farmers. This capacity will remain after the project's conclusion, contributing to the sustainability of the businesses supported by

the project. Once the project is finalized, most activities will continue to be carried out by EMDAGRO, NGOs, producers' organizations and other service providers.

E. Risk identification and mitigation

31. **Main risks and mitigation measures.** The project faces four main risks: agricultural (weather and biological), market (prices and access), financial (access to complementary credit sources), and institutional and management issues. The planned mitigation measures include (i) strategies and technologies to reduce the negative impact of drought; (ii) prioritization of production arrangements or clusters with favourable market prospects; (iii) specific agreements and synergies with current financial service providers; and (iv) performance assessment and selection of existing technical staff in SEAGRI and EMDAGRO, and design and implementation of training to strengthen their capabilities.
32. **Environmental classification.** Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

V. Corporate considerations

A. Compliance with IFAD policies

33. The project's objectives and approach are aligned with IFAD's policies and Strategic Framework. The project is fully consistent with the current COSOP, as its core features include: (i) a focus on semi-arid areas; (ii) a target group composed of poor rural farm and non-farm producers and workers, with special attention to women and young people; (iii) development of farm and off-farm income and employment opportunities; and (iv) knowledge management.

B. Alignment and harmonization

34. The proposed project is designed to coordinate its activities with several of the major development players currently operating in the State of Sergipe: (i) federal government programmes such as PRONAF; (ii) PROSPERAR, the Rural Poverty Reduction Project executed by the Sustainable Development Enterprise of the State of Sergipe and cofinanced by the World Bank; (iii) the Local Productive Arrangements Programme, sponsored by the State Secretariat for Economic Development and aimed at coordinating public policies and investments on value chain development at the local level; and (iv) the Bank of the Northeast and the Bank of the State of Sergipe, the main financial service providers in the state.

C. Innovations and scaling up

35. The project has several innovative features in line with the 2008-2013 COSOP: (i) a strategic orientation towards poverty reduction through the development of small rural businesses within local value chains (this is an innovative strategy for SEAGRI and EMDAGRO, aimed at changing its usual orientation towards traditional technical assistance); (ii) development of processing and marketing activities; (iii) development of partnerships with private stakeholders, including top-tier agro-industries; (iv) provision of monitoring and advisory services, combined with investment capacity for each business plan; and (v) development of market intelligence.
36. The project will phase in its interventions and progressively adapt and scale up its operations according to the results achieved. The proposed project approach has the potential to be replicated and scaled up in other territories of the State of Sergipe, and in other states with similar potentials and

constraints. Particular attention will be paid to promoting knowledge-sharing activities with other IFAD-funded projects.

D. Policy engagement

37. The project foresees its direct participation in discussion platforms for the exchange of knowledge, which is essential in sharing experiences and fostering a process under construction. Privileged relations will be established with other IFAD-funded projects in Brazil to promote a permanent exchange on the developed topics and methodologies. The range of project knowledge-management products will feed directly into discussion of and reflection on a future programme that IFAD will initiate in Brazil on knowledge management in semi-arid regions and policy dialogue on family farming.

VI. Legal instruments and authority

38. A project financing agreement between the State of Sergipe of the Federative Republic of Brazil and IFAD, and a separate guarantee agreement between the Federative Republic of Brazil and IFAD will constitute the legal instruments for extending the proposed financing to the borrower. Copies of the negotiated financing and guarantee agreements are included as annexes.
39. The State of Sergipe of the Federative Republic of Brazil is empowered under its laws to receive financing from IFAD, and the Federative Republic of Brazil is empowered under Brazilian law to guarantee the loan.
40. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

VII. Recommendation

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

RESOLVED: that the Fund shall make a loan on ordinary terms to the State of Sergipe of the Federative Republic of Brazil in an amount equivalent to ten million three hundred thousand special drawing rights (SDR 10,300,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement: "Rural Business for Small Producers (Dom Távora)"

(Negotiations concluded on 15 June 2012, in Brasilia, Brazil)

Loan Number: _____

Project Title: Rural Business for Small Producers (Dom Távora) (the "Project")
Projeto de Desenvolvimento de Negócios Rurais para Pequenos Produtores (Dom Távora)

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

The State of Sergipe (the "Borrower") of the Federative Republic of Brazil

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Preamble

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, (the "General Conditions") and amended on 17 September 2010, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement, the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions set forth in this Agreement.
4. The Loan is to be guaranteed by the Federative Republic of Brazil (the "Guarantor") on terms and conditions set forth in an agreement, of even date, to be entered into by the Fund and the Federative Republic of Brazil (the "Guarantee Agreement").

Section B

1. The amount of the loan is ten million three hundred twelve thousand and two hundred and one Special Drawing Rights (SDR 10 312 201).
2. The Loan is granted on ordinary terms, and shall have a maturity period of eighteen (18) years, including a grace period of three (3) years starting from the date that the Fund has determined that all general conditions precedent to withdrawal have been fulfilled (Section E paragraph 2 below). The Borrower shall repay the principal amount of the Loan in 30 (thirty) equal semi-annual consecutive instalments; the final instalment amount may vary due to rounding.
3. The Loan Service Payment Currency shall be USD.
4. The first day of the applicable Fiscal Year shall be January 1st.

5. The Loan shall be subject to interest on the principal amount of the Loan outstanding at a rate equal to the IFAD Reference Interest Rate.
6. Payments of principal and interest shall be payable on each 15 May and 15 November.
7. There shall be a Project Account for the benefit of the Project, where Loan proceeds and cash counterpart resources shall be timely allocated, in a Bank acceptable by the Fund.
8. The Borrower shall provide counterpart financing for the Project in the amount of eight million, one hundred thirty five thousand and four hundred and twenty five Special Drawing Rights (SDR 8 135 425, including taxes).

Section C

1. The Lead Project Agency shall be the Secretariat of State of Agriculture and Rural Development (Secretaria de Estado da Agricultura e do Desenvolvimento Rural - SEAGRI) of the Borrower.
2. The Agricultural Development Enterprise of Sergipe (Empresa de Desenvolvimento Agropecuário de Sergipe - EMDAGRO) is designated as additional Project Party.
3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement and the Financing Closing Date will be established as specified in the General Conditions.

Section D

The Loan will be administered and the Project will be supervised by the Fund.

Section E

1. The following is designated as an additional ground for the suspension of the right of the Borrower to request withdrawals from the Loan: The Project Implementation Manual (PIM), or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior agreement of the Fund and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project, and the Borrower has not taken any measures to remedy the situation.
2. The following are designated as additional (general) conditions precedent to withdrawal:
 - (a) the Guarantee Agreement shall have been duly signed, and the signature thereof by the Guarantor shall have been duly authorised by all necessary administrative and governmental action;
 - (b) the IFAD no objection to the final version of the Project Implementation Manual (PIM) shall have been obtained;
 - (c) the IFAD no objection to the establishment of the Project Management Unit (PMU) shall have been obtained;
 - (d) the Project Account shall have been opened;
 - (e) the no objection of IFAD to the appointment of the Project Coordinator shall have been obtained; and
 - (f) the IFAD no objection to the Subsidiary Agreement between the Lead Project

Agency and EMDAGRO is provided.

3. Any amendment(s) to this Agreement shall only be made by mutual agreement between the Borrower and the Fund, after having obtained the Guarantor's concurrence to such amendment, including the Project Completion Date and the Financing Closing Date.

4. (a) The Governor of the State of Sergipe is the representative of the Borrower for the purposes of Section 15.03 of the General Conditions. The Borrower hereby designate the Secretary of the Secretariat of State of Agriculture and Rural Development (Secretaria de Estado da Agricultura e do Desenvolvimento Rural – SEAGRI) as its agent with full authority to take any action or enter into any agreement with the Fund on behalf of the Borrower in respect of:

- (i) withdrawals from the Loan Account and Special Commitments (Section 4.08 of the General Conditions);
- (ii) the Financing Closing Date;
- (iii) operation of the Project Account (Section 4.02 of the General Conditions);
- (iv) allocations and reallocations of Loan proceeds (Schedule 2 hereto; Section 4.07 of the General Conditions); and
- (v) all matters relating to Project implementation and related reporting (Schedule I and Articles VII, VIII, IX and X of the General Conditions).

(b) Any action taken or agreement entered into by such agent pursuant to the authority conferred hereby shall be fully binding on the Borrower and shall have the same force and effect as if taken or entered into by the Borrower.

(c) The authority conferred on such agent hereby may be revoked or modified only by agreement between the Borrower and the Fund.

The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

The President
International Fund for
Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

For the Borrower:

The Governor of the State of Sergipe
Governo de Sergipe
Av. Adélia Franco, 3305
Palácio Gov. Augusto Franco
Aracaju SE 49027-900
Brazil

With copies to:

Secretaria de Assuntos Internacionais – SEAIN
Ministério do Planejamento, Orçamento e Gestão
Esplanada dos Ministérios – Bloco K – 5º andar
70040-906 - Brasília – DF
Brazil

This agreement, dated _____, has been prepared in the English language in six (6) original copies, three (3) for the Fund, two (2) for the Borrower and one (1) for the Guarantor.

STATE OF SERGIPE
OF THE FEDERATIVE REPUBLIC OF BRAZIL

(insert name and title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

(insert name and title)

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. Target Population. The Project's target population is constituted by approximately 12 000 poor rural households, poor rural producers, with or without land, working in agriculture and/or non-agriculture rural activities. In addition, the Project will also target at a specific group of professionals dealing with technical assistance and rural extension and business promotion in rural areas, working at public and private institutions, as well as in producers' organization.

2. Goal. The Project overall goal is to contribute to reduce poverty levels of rural population living in approximately 15 poor municipalities of the State of Sergipe, that have been identified in the design phase of the Project as Aquidabã, Brejo Grande, Canhoba, Carira, Graccho Cardoso, Ilha das Flores, Japoatã, Neópolis, Nossa Senhora Aparecida, Pacatuba, Pinhão, Poço Verde, Santana do São Francisco, Simão Dias and Tobias Barreto. The selection of the municipalities may be modified during Project implementation following the same selection criteria used in the design phase and upon mutual consent of IFAD and the Borrower. The purpose of the Project is to contribute to improve the income and access to employment of the rural people living in poor municipalities of Sergipe.

3. Objectives. The specific objectives of the Project are to: (i) support poor producers' groups to develop agricultural and non-agricultural rural businesses; and (ii) develop public and private institutional capacity to provide adequate technical and managerial services for the development of rural businesses and entrepreneurship among the rural poor.

4. Components. The Project shall consist of the following Components: (1) Development of Rural Businesses; (2) Capacity Building for Rural Businesses Promotion; and (3) Project Management, Monitoring and Evaluation.

Component 1: Development of Rural Businesses

Component 1 will focus on developing existing pro-poor rural businesses, creating new ones when pertinent, and trying to re-activate former rural investments currently not operating. The Project will support: (i) the development of production and services according to market demand in terms of quality and quantity, (ii) the partnership with private sector and value chain stakeholders such as agro-industries or supermarkets to foster the negotiation of joint business plans, agreements and contracts, (iii) structuring pro-poor value chains where poor producers can integrate several steps; and (iv) taking advantage of public purchase programmes.

Specific methodologies and processes will be implemented with the aim of identifying business opportunities, preparing sound and sustainable business plans, strengthening organizational capacities of producers' groups, and providing technical support for the execution of such business plans. The implementation strategy will be differentiated according to the organizational maturity of producers' groups. The business plans will consider all the necessary conditions for proper execution, including, among others, productive, economic, financial, market, social, organizational and environmental aspects. Access to financial support for productive investments is conditioned to business plans approval according to rules set out in the PIM.

Productive investments included on business plans will be co-financed by the Project on

a grant basis up to 50%, as part of a broader long-term and short-term financial strategy for each business plan. The Project integrates a rural finance strategy to foster access of small producers to rural finance services, particularly short and long-term credit. The Project would therefore support beneficiaries' access to credit in different ways; it will enter into agreements with the different financial services providers to supply credit to Project's beneficiaries, who will be provided by the Project with technical assistance for the preparation and implementation of business plans. Such technical assistance will mitigate business risks and therefore encourage the banks to finance projects' holders. The Project will develop market intelligence services and close dialogue with value chain stakeholders to identify and promote business ideas and pro-poor business plans with private firms. Private and public technical assistance providers will be actively mobilized through result-based contracts, and they will benefit from capacity building activities. Indeed on a complementary way, component two will channel resources and existing national capacities to form professionals and producers with business perspective and develop methodologies to be implemented for the promotion of rural businesses.

The main value chains which have been identified for their potential to integrate poor producers are, inter alia, the following: goat meat and milk production and processing, beekeeping and honey/pollen processing, extraction and processing of local fruit species, fish production and processing, aquaculture, free-range poultry production and processing, handcraft and rural tourism.

Component 2: Capacity Building for Rural Businesses Promotion

The component aims at developing public and private institutional capacity to provide adequate technical and managerial services for the development of rural businesses and entrepreneurship among the rural poor. The institutional capacities range from personal skills, particularly technical and professional qualifications, cultural aspects, rules and behaviour to the institutional infrastructure and resources that guide and/or constrain the actions of the individuals and the organization. The Project instruments will essentially be formative (training) events and mechanisms, methodologies and toolkits for delivery of business support, as well as some infrastructure support. The component activities will focus on EMDAGRO, relevant producers' organizations, public and private technical assistance providers and a selected group of beneficiaries. The target group will be technical assistance and rural extension (Assistência Técnica e Extensão Rural - ATER) professionals, rural poor producers (part of business plans or not) and youngsters, with special attention to women.

The component builds around seven main interrelated axes: (i) Building human resources for promotion of business, (ii) Development of tools for business promotion, (iii) Strengthening coordination, networking and communications capacity, (iv) Supporting monitoring and evaluation, (v) Investments in infra-structure for business promotion, (vi) Strengthening knowledge management capability, and (vii) Strengthening organization and management capacity.

The capacity building instruments will include training, courses, post graduate qualification, scholarships for internships, workshops and exchange visits. The issues will be related to the promotion of rural business among rural poor, market access, business management, rural finance services, organizational strengthening, primary production and processing, gender, among other. The Project will develop methodologies and training material to support these activities. It will foster partnerships and synergies with research and educational institutions, as well as private and public service providers.

The capacities of Project Management Unit (PMU) and technical partners will be particularly strengthened regarding institutional network fostering and management, result-based management, monitoring and evaluation, knowledge management and

learning processes. Besides, the Project include small investments in business promotion equipment.

Component 3: Project Management, Monitoring and Evaluation

The Project will finance the establishment and operations of the Project Management Unit (PMU) within SEAGRI, as well as the establishment and operations of the Monitoring and Evaluation (M&E) system.

The objective of the component is to ensure a strategic implementation of the Project thanks to the setting up of an appropriate PMU and the adoption and use of adequate planning, monitoring and evaluation tools.

II. Implementation Arrangements

1. The Lead Project Agency.

The SEAGRI will play the role of Lead Agency of the Project, due to its attributions as head of the agricultural and rural public sector at the state level. It will have the overall responsibility for the implementation of the Project.

2. The Project Management Unit (PMU).

2.1 *Establishment:* SEAGRI will set up a Project Management Unit under direct supervision of Secretary of SEAGRI.

2.2 *Responsibilities:* The PMU will be responsible for (i) preparing the Annual Work Plans and Budgets; (ii) identifying institutions and/or organizations to participate as partners in project implementation and services providers; (iii) following-up the Project activities; (iv) defining the terms of reference of the audit services as defined in the General Conditions; (v) preparing Project activities reports and financial reports; (vi) preparing withdrawal applications and no-objections requests; (vii) maintaining the operational relationship with IFAD.

2.3 *Composition:* The PMU will be managed by a Project Coordinator under direct supervision of the Secretary of SEAGRI. The Coordinator shall have relevant professional qualifications and experience and his/her designation or selection shall have the prior no objection of the Fund. The PMU will be comprised by a manager of Component 1 with skills and experience in the promotion of rural businesses and agricultural development; a manager of Component 2 with skills and experience in vocational training, capacity building and knowledge management; a financial manager with experience in contract and covenant management; a M&E manager with skills and experience in M&E and strategic and operational planning; an environmental specialist; and the required professional, technical and administrative staff from SEAGRI, EMDAGRO, other agencies of the State of Sergipe and/or newly recruited, all of them with full-time assignment to Project activities.

3. Project Party: EMDAGRO.

3.1 *Designation.* The Agricultural Development Enterprise of Sergipe (Empresa de Desenvolvimento Agropecuario de Sergipe, EMDAGRO) will be the main additional Project Party. EMDAGRO is an autonomous public agency which mission is to contribute to strengthen family farming and agribusiness expansion in the State of Sergipe.

3.2 *Responsibilities.* In its capacity of Project Party, EMDAGRO's responsibilities will include, *inter alia*:

- a. Regarding component 1: (i) promoting the strengthening of beneficiaries' organizations; (ii) providing technical assistance to support the preparation of business plans; (iii) assessing the technical quality and the financial sustainability of business plans; (iv) approving the financing to the business plans assessed as viable and eligible and in accordance with the PIM; (v) following-up and providing technical support to beneficiaries during the business plans implementation;
- b. Regarding component 2: (i) defining the priorities and necessities for capacity building; (ii) preparing and implementing the operational capacity building strategy; (iii) defining the methodologies to be applied in capacity building activities;
- c. Regarding components 1 and 2: (i) entering into arrangements with partners in Project implementation and/or contracting services providers to carry out Project activities; (ii) supervising and following-up the activities to be carried out by partners or service providers; (iii) reporting to PMU in the terms to be determined in the Subsidiary Agreement.

3.3 Taking advantage of its field structure already in place, EMDAGRO will set-up four Project local operational units with full-time staff dedicated to Project implementation.

The staff assigned to Project activities will work complementarily with EMDAGRO's ATER technicians who will contribute to identify, promote and support potential rural businesses among rural poor.

3.4 *Subsidiary Agreement.* Based on the above, the Lead Project Agency and EMDAGRO shall enter into a Subsidiary Agreement that will detail EMDAGRO's responsibilities in Project implementation, the proceeds of the financing to be made available to EMDAGRO, EMDAGRO's contributions and the administrative and financial arrangements. Prior to its signature, the Subsidiary Agreement will be submitted to the no objection of the Fund.

4. Partners in Project Implementation and service providers.

4.1 The implementation of each component may require the collaboration of technical partners with complementary institutional capabilities and profiles or service providers. To execute component 1, the EMDAGRO will enter in partnership with institutions or contracts with service providers that have operational capacity to provide technical assistance to small producers for the development of rural business. Component 2 requires partners or service providers whose role in the Project will be to design and implement programs for institutional development and professional qualification needed to support the rural business.

4.2 The participation of these partners in implementation and service providers shall be formalized through implementation arrangements and service contracts, respectively, to be entered into between the EMDAGRO and each partner or service providers. These agreements or service contracts will establish among other things the goals to be achieved, the services and the amount of resources to be transferred or paid for the implementation of activities.

5. The Executive Committee and the Consultative Committee.

5.1 *Establishment of the Executive Committee.* An Executive Committee will be established by SEAGRI with the participation of representatives of SEAGRI, the State Secretariat of Planning, Budget and Management (SEPLAG), the State Secretariat of

Inclusion, Assistance and Social Development (SEIDES), the State Secretariat of Economic Development, Science and Technology (SEDETEC), the State Secretariat of Finance (SEFAZ) and EMDAGRO; or the institutions that succeed any of them. The Secretary of SEAGRI will chair this committee and the President of EMDAGRO will be the technical secretary. The Executive Committee will provide strategic orientation to the Project, contribute to create synergies among different public agencies and policies, analyse and approve the annual working plans, budgets and activity reports, and will acknowledge the audit reports. SEAGRI may call upon further members to this Committee without right to vote.

5.2 *Establishment of the Consultative Committee.* The Executive Committee will establish a Consultative Committee that will serve as a platform to disseminate the plans and activities carried out by the Project, discuss its general orientation, provide feedback regarding strategic and operational issues, and facilitate the building of partnerships. The Executive Committee will invite public institutions, representatives of small producers' organizations, private sector and other relevant partners to participate in the Consultative Committee.

6. Project Implementation Manual.

6.1 The Project will be executed in accordance with the PIM, which shall provide among other things: (i) guidelines for the design of the business plans; (ii) detailed procedures regarding formulation and approval of businesses plans; (iii) eligibility criteria for access to investment resources, technical assistance services and capacity building activities; (iv) rules for accessing to financial support for productive investment (processing facilities, new technologies, etc.); (v) thresholds per beneficiary and per business plan; (vi) mechanisms for selection of business plans and transfer of resources; and (vii) guidance for implementation of each component.

6.2 The Lead Project Agency may propose modifications to the PIM that will be effective only after the no objection of the Fund.

Schedule 2

Allocation Table

1. *Allocation of Loan Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category and the percentages of expenditures for items to be financed in each Category:

Category of expenses	Amount Assigned of the Loan (in SDR)	% of eligible expenses of Loan to be financed by IFAD
I. Technical assistance and training	3 344 300	100% net of taxes and counterpart financing
II. Consultancies, audits and studies	605 400	100 % net of taxes and counterpart financing
III. Productive investments	5 337 500	100 % net of taxes, counterpart financing and beneficiaries' contributions
Unallocated	1 025 001	
Total	10 312 201	

(b) The terms used in the Table above are defined as follows:

- I. Technical assistance and training: Technical assistance and extension services to producers for their business plans. Training includes courses and workshops, including training fees, participants expenses and materials, as well as scholarships for young participants and extension services beneficiaries.
- II. Consultancies, audits and studies: Consulting services and studies for the different project components, mostly for the development of training programs and monitoring and evaluation activities.
- III. Productive investments: Includes the financing of productive assets for the development of the rural businesses of small producers. Also includes technical assistance as a resource and as part of small producers business plans.

Unallocated: It is not a category and will be reassigned to the above categories by agreement between the Borrower and the Fund.

Logical framework

	Indicators (<i>RIMS in italics</i>)	Means of verification	Assumptions and risks
<p>Goal</p> <p>The project contributed to generate sustainable income and employment in 15 poor municipalities of the State of Sergipe</p>	<p>12 000 households directly benefited from project services</p> <ul style="list-style-type: none"> • 20% of households with improvements in household assets ownership index • 10% reduction in the prevalence of child malnutrition, by gender (measure through SISVAN if current prevalence higher than 10%) • 80% of beneficiary households increased their income • 20% of beneficiary households increased their income by at least a half of minimum salary • 10% annual increase in volumes and values of marketed products supported by the project, by product • 80 % of agricultural and non agricultural businesses operate profitably after three years • 2 000 person/year of labor created by the economic activities supported by the project (at least 40% of women) • 75% of the trained service providers, producers and youngsters apply the knowledge in their job or productive activity <p>20 000 poor rural families, benefited indirectly from the project, receive regular attention from the public and private ATER providers to promote rural businesses</p>	<ul style="list-style-type: none"> • Local business register • Project Baseline Survey • Mid-term and final evaluation • Project's Management Information System (MIS) • Systematizations of experiences and case studies • Specific studies on local economic activities • Business plans participative self-evaluations • National statistical data (IBGE, SISVAN)) • Labor information system • CADUNICO 	<ul style="list-style-type: none"> • Targeted markets stable and likely to absorb incremental production • Present policies to strengthen public extension services maintained • Droughts • Difficulties to target and generate rural business with poorest population • Constraints to access to short-term credit • Political changes in state government
Component 1: Rural Business Development			
<p>Output 1. Small producers develop sustainable rural businesses</p>	<ul style="list-style-type: none"> • 10000 rural poor households supported to design 400 business plans • 320 business plans (80%) receive US\$ 10.9 million for productive investment and technical assistance (by value chain) • Small producers' groups enhanced their access to financial services for short and/or long term credit • 84 producers receive US\$ 115 thousand for productive investment and technical assistance through innovation competition • 8000 rural poor households received technical assistance to implement their business plans (at least 40% of women) • At least 30% of business plans integrate a majority of women involvement 	<ul style="list-style-type: none"> • Mid-term and final evaluation • MIS • Business plans participative self-evaluations • Systematizations of experiences and case studies 	<ul style="list-style-type: none"> • Present policies to strengthen public extension services maintained • Rural extension workers available to ensure regular support to business plans • Difficulties to target and generate rural business with poorest population

	Indicators (<i>RIMS in italics</i>)	Means of verification	Assumptions and risks
Component 2. Capacity building for rural business promotion			
<p>Output 2. Small producers' groups strengthened to manage sustainable rural businesses</p> <p>Output 3. Rural youngsters professionally trained</p> <p>Output 4. Public and private rural extension institutions strengthened their capacities to promote rural business among rural poor</p>	<ul style="list-style-type: none"> • <i>1800 small producers trained on rural business management (at least 50% of women)</i> • <i>1200 small producers trained on organizational strengthening (at least 50% of women)</i> • <i>1000 small producers participated in exchange visits and business travels (at least 50% of women)</i> • <i>635 youngsters (50% of women) received individual scholarships for technical courses and training</i> • <i>900 extension workers from public and private institutions trained on rural business management and promotions (at least 50% of women)</i> • Quality of at least 80% of training is assessed satisfactory • Rural business promotion methodologies and tools are developed and diffused in rural extension institutions • EMDAGRO foster dialogue and articulation in rural extension network • At least 25 systematizations and case studies are carried out 	<ul style="list-style-type: none"> • Mid-term and final evaluation • MIS • Business plans participative self-evaluations • Systematizations of experiences and case studies 	<ul style="list-style-type: none"> • Present policies to strengthen public extension services maintained • Limitations in adopting rural business approach in rural extension institutions • Extension workers and resources are available to organize new producers' groups and strengthen incipient ones
Component 3. Project management, monitoring and evaluation			
<p>Output 5. Effective project management unit established and operational</p>	<ul style="list-style-type: none"> • Supervision mission rate project technical and financial management as satisfactory and complied with implementation manual procedures • At least 70% of interventions/activities effectively implemented as planned in AWPB • At least 40% of project staff are women • Project MIS and M&E system operational 	<ul style="list-style-type: none"> • Audit reports • Supervision reports • MIS 	<ul style="list-style-type: none"> • SEAGRI and EMDAGRO do not increase enough the human resources for project implementation • Competition in time allocation in PMU • PMU adequately trained to implement the project • Political changes in state government