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Enabling the rural poor  
to overcome poverty

## **President's report**

### **Proposed loan to the Republic of the Sudan for the**

### **Butana Integrated Rural Development Project**

Executive Board — Eighty-ninth Session  
Rome, 12-14 December 2006

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For: **Approval**

## **Note to Executive Board Directors**

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

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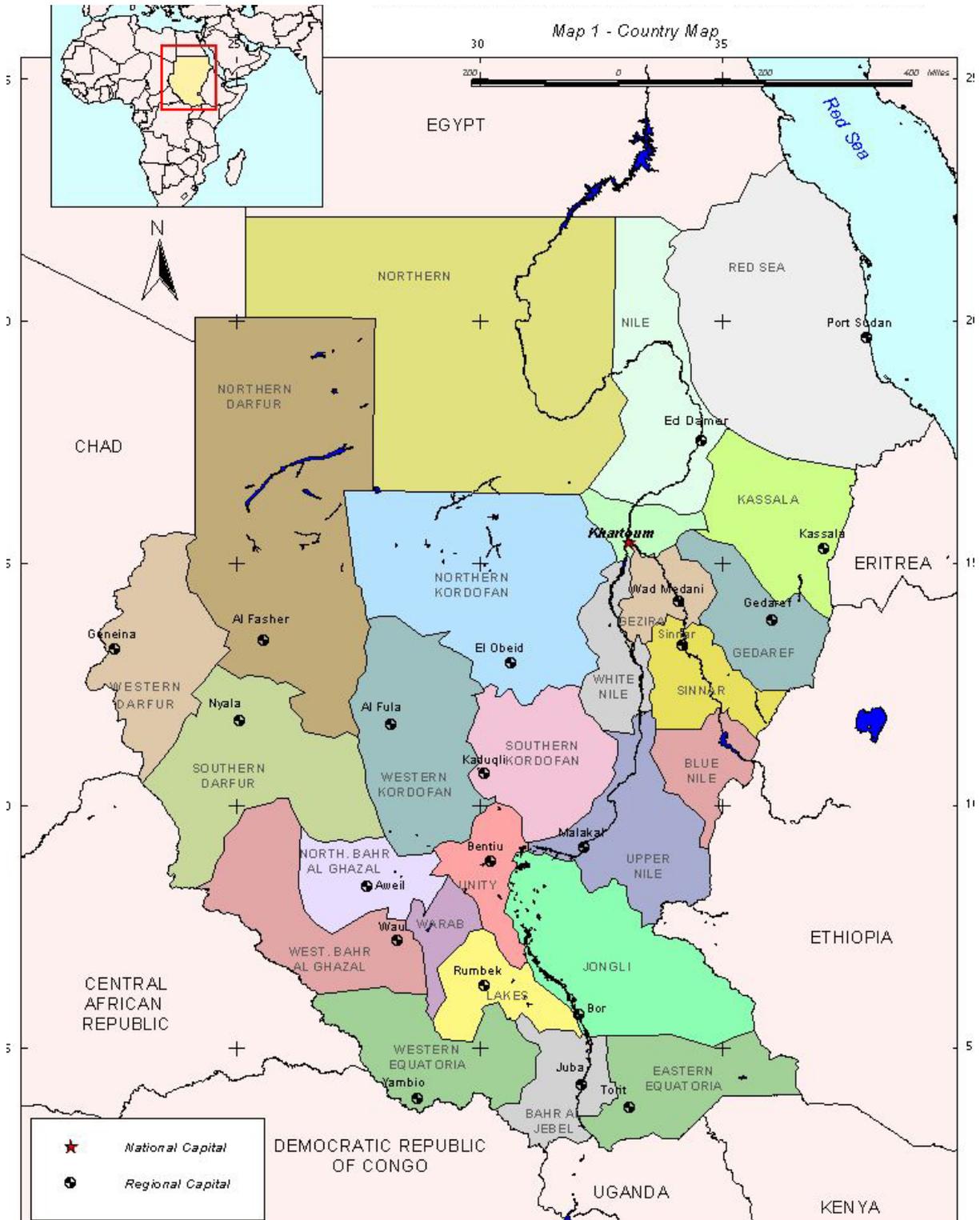
## **Abbreviations and acronyms**

BDA	Butana Development Agency
MAARI	Ministry of Agriculture, Animal Resources and Irrigation

## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed loan to the Republic of the Sudan for the Butana Integrated Rural Development Project, as contained in paragraph 35.

## Map of the project area



**Source:** IFAD

*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.*

## Republic of the Sudan

### Butana Integrated Rural Development Project

#### Loan summary

<b>Initiating institution:</b>	IFAD
<b>Borrower:</b>	Republic of the Sudan
<b>Executing agency:</b>	Butana Development Agency
<b>Total project cost:</b>	US\$29.85 million
<b>Amount of IFAD loan:</b>	SDR 16.8 million (equivalent to approximately US\$24.8 million)
<b>Terms of IFAD loan:</b>	40 years, including a grace period of 10 years, with a service charge of 0.75 per cent per annum
<b>Contribution of borrower:</b>	US\$4.29 million
<b>Contribution of beneficiaries:</b>	US\$0.76 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	Directly supervised by IFAD



# Proposed loan to the Republic of the Sudan for the Butana Integrated Rural Development Project

## I. The project

### A. Main development opportunity addressed by the project

1. The Butana Integrated Rural Development Project is premised on the assertion that, in the Butana region,<sup>1</sup> livestock production and marketing constitute the means to build up the assets of poorer smallholders, increase women's economic role, and improve household food security and living conditions. Achieving this objective will require operating on two main fronts: (i) developing an improved governance framework for natural resources that is based on devolving natural resource management to user groups and aligning investments accordingly; (ii) improving smallholders' access to livestock markets, and strengthening their bargaining position through the rehabilitation of market infrastructure, establishing market information systems and organizing producers' groups of women and men.

### B. Proposed financing

#### Terms and conditions

2. It is proposed that IFAD provide a loan to the Republic of the Sudan in the amount of SDR 16.8 million (equivalent to approximately US\$24.8 million) on highly concessional terms to help finance the Butana Integrated Rural Development Project. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of 0.75 per cent per annum.

#### Relationship to the IFAD performance-based allocation system (PBAS)

3. The allocation defined under the PBAS for the Sudan is US\$24.85 million over the three-year PBAS cycle. This is the first project in the current cycle, and the loan size of US\$24.8 million is within the three-year allocation.

#### Country debt burden and absorptive capacity of the State

4. Total outstanding and disbursed debt in 2004 was estimated at US\$19,332 million and total debt service amounted to only US\$312 million. The present value of debt represented 151 per cent of gross national income in 2004. The Sudan has yet to meet the eligibility criteria for the Heavily Indebted Poor Countries Debt Initiative. It received 15 loans from IFAD between 1979 and 2005, and disbursement has been satisfactory. At present, debt-servicing arrangements with the Sudan are operating smoothly.

#### Flow of funds

5. The IFAD loan will be channelled to the Ministry of Finance and National Economy through a standard IFAD loan agreement. The loan proceeds will then be transferred directly to the Butana Development Agency (BDA), which will be responsible for project management. The BDA will maintain a special account and a project account.

#### Supervision arrangements

6. The IFAD loan will be directly supervised by IFAD and the United Nations Office for Project Services will provide financial administration services.

#### Exceptions to IFAD General Conditions for Agricultural Development Financing and operations policies

7. No exceptions are foreseen. The procurement plan will be finalized during the loan negotiations.

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<sup>1</sup> For purposes of the project, the Butana region covers ten localities in the five states of El Gezira, Gedaref, Kassala, Khartoum and Nile.

### **Governance**

8. The following planned measures are intended to enhance the governance aspects of the IFAD loan: (i) regular project supervision and follow-up; (ii) regular auditing of project financial systems and internal controls; and (iii) annual multi-stakeholder reviews of project progress and results especially in relation to natural resource management. Moreover, the BDA will be fully accountable for the correct use of funds.

## **C. Target group and participation**

### **Target group**

9. The target group is composed of smallholder agropastoralist households in the sand dune zone and in the clay plains, smallholder households engaged in irrigation, and smallholder transhumant households. The project area comprises approximately 100,000 households, and an estimated 80,000 households will benefit from the project.

### **Targeting approach**

10. The project's targeting measures include (i) a focus on the livestock sector, which is the most viable economic enterprise in the Butana region; (ii) support for a shift in natural resource governance from a system of open access to one of regulated access to facilitate poor people's access to and use of rangeland and water resources; and (iii) adoption of tested criteria for selecting poor communities and households. These criteria relate to population size (for both transhumant and non-transhumant communities); location vis-à-vis economic and social infrastructure; the extent of environmental degradation of the area; incidence of poverty in the community; and community capability for natural resource management.

### **Participation**

11. The project approach is characterized by gender-sensitive and participatory planning, implementation and monitoring. Operational arrangements include (i) earmarking staff, responsibilities and training for community development and gender sensitization; (ii) setting quotas and self-targeted activities for women; (iii) applying monitoring and evaluation indicators disaggregated by sex and socio-economic criteria; (iv) using the community capability index to measure the baseline situation and the project's contribution to empowerment of local communities; (v) adopting community development plans and ensuring that engagement with the communities is sufficiently long enough to render them self-reliant; (vi) building the capacity of communities to manage income-generating assets such as water facilities, community rangeland and productive services; and finally (vii) mainstreaming the principle of devolution into the legal framework for natural resource management in the five states covered by the project.

## **D. Development objectives**

### **Key project objectives**

12. The overall goal of the project will be to achieve a sustainable improvement in the livelihoods and drought-resilience of rural poor households. Its specific objectives include (i) establishing a coherent and cost-effective governance framework that ensures regulated access to land and water resources in the region; (ii) improving both women's and men's access to – and bargaining position in – livestock markets; (iii) developing the capacity of community-based organizations to engage in environmentally sound development initiatives that are gender- and socially equitable.

### **Policy and institutional objectives**

13. The project will introduce changes to the present governance structure for natural resources to shift from an open-access regime to a system of regulated access.

### **IFAD policy and strategy alignment**

14. The project is fully aligned with the IFAD strategic thrusts of strengthening the capacity of the rural poor and their organizations and improving equitable access to productive natural resources and technology. It is also aligned with the regional strategic objective of managing natural resources and addressing the linkages between rural poverty, agricultural growth and sustainable environmental management. Lastly, it is fully aligned with the three strategic objectives of the 2002 country strategic opportunities paper: livelihood improvement, empowerment of women and men, and good governance of natural resources.

## **E. Harmonization and alignment**

### **Alignment with national priorities**

15. Butana is one of the areas prioritized by the Government to receive focused support. The project's emphasis on improving livelihoods in rainfed areas and addressing questions of land tenure and use to achieve sustainable livelihoods is in line with the National Poverty Eradication Strategy Concept Note (2004) and the provisions of the wealth-sharing protocol of the Comprehensive Peace Agreement.

### **Harmonization with development partners**

16. The project has been discussed with the in-country donor group on land and water management. The United Nations Development Programme and the Food and Agriculture Organization of the United Nations were found to have the most relevant experience, and this informed project design and will guide project implementation.

## **F. Components and expenditure categories**

### **Main components**

17. The project has four main components: (i) development of agriculture, rangeland and water services (45 per cent of base costs); (ii) livestock and marketing development (16 per cent); (iii) community development (13 per cent); and (iv) institutional support and project management (each representing 13 per cent of base costs).

### **Expenditure categories**

18. Investments constitute 82 per cent of base costs. Civil works is the main expenditure category, accounting for about 41 per cent. The other investment expenditure categories are technical assistance (20 per cent), equipment and furniture (10 per cent), and grants (10 per cent). Recurrent costs represent 19 per cent of base costs: 15 per cent allocated to salaries and allowances and 4 per cent to operations and maintenance.

## **G. Management, implementation responsibilities and partnerships**

### **Key implementing partners**

19. The main implementing partners will be the BDA (a federal entity to be established through a presidential act); the state-level Ministries of Agriculture, Animal Resources and Irrigation (MAARIs); the project localities; and the community organizations established by the project and registered as legal entities under state legislation for voluntary associations.

### **Implementation responsibilities**

20. The BDA will be the lead project agency and will be responsible for overall project management and the achievement of project objectives. The Federal Ministry of Agriculture and Forestry will be the technical supervisor of the BDA as per Public Agency Law 2003. The five state coordination units will report to the Director-General of the relevant MAARI and to the BDA. Each state coordination unit will have a multidisciplinary extension team to reach out to communities in terms of mobilization and organization and the provision of project services. Community organizations will implement community-level project activities, such as the

management of rangeland and water facilities; the targeting of skills training and the community initiative fund for poorer households; the organization of extension and marketing activities; and the monitoring of project implementation results at the community level. Community organizations will report on project progress to the state coordination units.

#### **Role of technical assistance**

21. The IFAD loan includes US\$444,235 for internationally recruited technical assistance to finance the natural resources survey, surface water and groundwater monitoring and the market-related needs assessments. Furthermore, IFAD will provide US\$130,000 under the country-specific grant window to ensure effective start-up.

#### **Status of key implementation agreements**

22. In addition to the IFAD loan agreement with the Republic of the Sudan, the Government will prepare a presidential decree for the establishment of the BDA. The draft decree has already been discussed with IFAD. An implementation agreement between the BDA and each state-level MAARI will be prepared after loan signing to define the ministry's role in coordinating and implementing project activities at the state level, the legal provisions for the new natural-resource governance framework, the financing of the operation and maintenance of project-supported infrastructure on a cost-recovery basis, and monitoring, evaluation and auditing responsibilities.

#### **Key financing partners and amounts committed**

23. The total project cost is US\$29.85 million. The key sources of financing are IFAD (83.1 per cent), the federal government (10.8 per cent), the state governments (3.5 per cent) and the beneficiaries (2.6 per cent).

### **H. Benefits and economic and financial justification**

#### **Main categories of benefits generated**

24. The main sources of quantifiable project benefits are (i) increased livestock productivity on rangelands; (ii) incremental crop production; and (iii) increased income from off-farm microenterprises, particularly from dairy processing. An estimated 80,000 households will benefit directly or indirectly from the project.

#### **Economic and financial viability**

25. The economic internal rate of return on project investments over 20 years is estimated at 15.5 per cent. This rate is robust vis-à-vis implementation delays, reduced benefits and increased costs.

### **I. Knowledge management, innovation and scaling up**

#### **Knowledge management arrangements**

26. The IFAD country presence officer will follow up on programmatic aspects of the project and will document the lessons and knowledge generated together with the implementing agencies. These will be disseminated subsequently at policy forums.

#### **Development innovations that the project will promote**

27. Key innovative features include (i) using the community capability index to measure empowerment and the effectiveness of the project's empowerment strategy; (ii) using the project as a vehicle to invest in a new governance framework for natural resources; and (iii) assigning an active role to the federal-level Ministry of Finance and National Economy and Ministry of Agriculture and Forestry to oversee the distribution of project benefits (also with respect to elite capture) and the project exit strategy.

#### **Scaling-up approach**

28. The by-laws of the BDA will allow it to mobilize additional funds to replicate successful project activities.

## **J. Main risks**

### **Main risks and mitigation measures**

29. The main risks include (i) macroeconomic and political instability undermining the flow of counterpart funds; (ii) unstable livestock markets resulting from disease outbreak or export restrictions; (iii) changes in the administrative boundaries of the project area; and (iv) extended drought. The planned mitigation measures include (i) cost-recovery mechanisms for services provided to the communities, thus allowing counterpart funding to be restricted to covering taxes and duties and 25 per cent of recurrent costs; (ii) reinforcement of veterinary coverage in Butana to ensure that the region remains disease-free; (iii) adoption by the BDA of a subsidiarity function enabling it to work with newly formed local government entities; and (iv) improved rangeland and crop productivity and water availability, which should strengthen community resilience to drought.

### **Environmental classification**

30. 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. In fact, all the components will have a direct beneficial effect on preserving or enhancing the local natural-resource base.

## **K. Sustainability**

31. At the community level, the exit strategy is based on building the capacity of community organizations to manage rangeland and water resources, and run their own productive and marketing activities. Community organizations will be assisted in devising cost-recovery mechanisms for the operation and maintenance of collective assets. At the locality and state levels, increased local government capacity to manage markets and natural resources will form the foundation of the exit strategy. The cost-benefit analysis for market and rangeland activities indicates that the proceeds to be generated in the localities will largely cover recurrent costs, thereby ensuring continuity of extension services and the enforcement of regulations on rangeland and water access. The experience acquired by the BDA will enable it to enhance coordination among the various states to conserve the resources of the Butana region and develop rural livelihoods in a sustainable manner.

## **II. Legal instruments and authority**

32. A loan agreement between the Republic of the Sudan and IFAD will constitute the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated agreement is attached as an annex.
33. The Republic of the Sudan is empowered under its laws to borrow from IFAD.
34. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

### **III. Recommendation**

35. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of the Sudan in various currencies in an amount equivalent to sixteen million eight hundred thousand special drawing rights (SDR 16,800,000) to mature on or prior to 1 December 2046 and to bear a service charge of three fourths of one per cent (0.75 per cent) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Lennart Båge  
President

## **Summary of important supplementary assurances included in the negotiated loan agreement**

(Negotiations concluded on 17 November 2006)

### **Gender focus**

1. The Government will ensure that target group representation under the project will include females.

### **Pest management practices**

2. The Government will ensure that pesticides procured under the project do not include any pesticides proscribed by the Food and Agriculture Organization of the United Nations or classified as extremely hazardous or highly hazardous by the World Health Organization.

### **Insurance of project personnel**

3. The Government will insure key project personnel against health and accident risks to the extent consistent with the Government's procedures and regulations.

### **Procurement and use of project vehicles**

4. The Government will ensure that all vehicles procured under the project are insured and used for project implementation, and that the types of vehicles procured under the project are appropriate for the needs of the project.

### **Conditions precedent to withdrawals**

5. No withdrawals will be made in respect of expenditures under the project until:
  - (a) the first draft annual workplan and budget has been approved by IFAD; and
  - (b) the State Coordination Unit (SCU) project accounts and community initiative fund accounts have been duly opened and the signatories have been authorized and appointed by the Government.

### **Conditions precedent to effectiveness**

6. The loan agreement will become effective subject to the fulfilment of the following conditions precedent:
  - (a) the act establishing the Butana Development Agency (BDA) has been duly promulgated and has full force and effect;
  - (b) the director, the financial controller and the monitoring and evaluation officer have been duly appointed by the BDA and approved by IFAD;
  - (c) the decrees establishing the SCUs have been duly promulgated and have full force and effect;
  - (d) the Government has submitted to IFAD a framework of understanding for natural resources management agreed upon by the governments of the five states in whose territory the project area is located, based on the principles of (i) regulated access to rangelands and water; (ii) establishment of transhumant herd entry and exit dates to Butana; (iii) devolution of natural resources management to community groups; (iv) registration of community rangelands; (v) cost recovery of water and rangeland development activities; and (vi) dispute resolution mechanisms;
  - (e) the Government has duly opened the special account and the BDA project account;

- (f) the Government has made the initial deposit of counterpart funds into the BDA project account;
- (g) the project loan agreement has been duly signed, and the signature and performance thereof by the Government has been duly authorized or ratified by all necessary administrative and governmental action; and
- (h) a favourable legal opinion, issued by the Ministry of Justice in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

## **Key reference documents**

### **Country reference documents**

COSOP Key File (Feb. 2002), COSOP Report (March 2002), and President's Report (June 2002)

A National Poverty Eradication Strategy concept note, Sudan Joint Assessment Mission, September 2004

#### IFAD Experience with past Projects in the Sudan

IFAD Thematic Study on Rainfed Agriculture, October 1999 (Report No. 1021-SD)

Mid-term review report of North Kordofan Rural Development Project (August 2004) and First Phase Review Report of the South Kordofan Rural Development Programme (May 2005)

Empowerment of the rural poor in volatile policy environments: the Case Study from Sudan, March 2006, by K. Elharizi, IFAD/IFPRI/MOFNE

#### The Butana Integrated Rural Development Project

Butana Report, Ministry of Agriculture and Forestry, Abdel Atti Hassan (2006)

Inception and Formulation reports of the BIRDP

Special Spatial Analysis Study for BIRDP, March 2006, L. You, C. Ross, D. Hawes, IFPRI

Community capability assessment

Environmental Screening and Scoping Note

### **IFAD reference documents**

IFAD Guidelines: Design Document and Key File (2001)

Pre-requisites for gender-sensitive design

PMD Learning Notes, Version 31.3.06

### **Other miscellaneous reference documents**

UNDP ADS/ARS Programme

# Logical framework

<i>Narrative</i>	<i>Indicators</i>	<i>Means of verification</i>	<i>Assumptions</i>
<b>Goal:</b>			
To improve in a sustainable manner the livelihoods and resilience to drought of the poor rural households	<ul style="list-style-type: none"> <li>- Number of persons receiving project services by gender.</li> <li>- Number of households that have improved food security, by type of household (women and men headed households, agro-pastoralist and transhumant households)</li> <li>- Decrease in child malnutrition, among boys and girls</li> <li>- Increase in household asset base, by type of household</li> </ul>	<ul style="list-style-type: none"> <li>- RIMS baseline and impact surveys</li> <li>- UNICEF MICS survey</li> </ul>	Continued political and macroeconomic stability.
<b>Objectives:</b>			
1. Establishing a coherent and cost-effective governance framework that ensures a regulated access to land and water resources of the Butana;	<ul style="list-style-type: none"> <li>- Number of communities with registered community range resources.</li> <li>- Ratio of dispute cases adjudicated by community organizations and native courts.</li> </ul>	<ul style="list-style-type: none"> <li>- Registration and court records</li> <li>- Community Capability survey at baseline, mid-term and completion</li> <li>- Market studies and locality record keeping of market throughput and prices</li> </ul>	Agriculture and Livestock sector performance improves in the national economy (GNP and balance of trade)
2. Improving the access and bargaining position of women and men in the marketing of livestock;	<ul style="list-style-type: none"> <li>- Decrease in transportation and market transaction costs</li> <li>- Increase in farm gate price for milk and livestock products</li> </ul>		
3. Developing the capacity of community-based organizations to engage in environmentally sound, socially and gender equitable development initiatives and management of natural resources.	<ul style="list-style-type: none"> <li>- Increase in the CCI value from average of 60 per cent to average of 70 per cent.</li> </ul>		
<b>Outputs (for objective 1):</b>			
Areas for open access range and for community range are delimited. Improved crop productivity.	<ul style="list-style-type: none"> <li>- Number, area and geographic coordinates of delimited rangelands.</li> <li>- Increase in yields of subsistence and cash crops</li> <li>- Number of women and men farmers adopting technology recommended by the project</li> </ul>	<ul style="list-style-type: none"> <li>Environmental monitoring system</li> <li>- Household survey</li> <li>- Community organization reports</li> <li>- Development team reports</li> </ul>	Continued Government decentralization policy In case of extended drought, national drought coping mechanisms are in place
Improved range carrying capacity and biodiversity.	<ul style="list-style-type: none"> <li>- Increased carrying capacity of the range.</li> <li>- Type of exclusionary practices applied by type of range.</li> <li>- Savings in SD on smallholders' purchase of feed in the dry season.</li> </ul>	<ul style="list-style-type: none"> <li>- Environmental Monitoring System</li> <li>- CCI</li> <li>- Household survey</li> </ul>	
Improved water availability.	<ul style="list-style-type: none"> <li>- Number and type of water infrastructure operating after 3 years.</li> <li>- Savings in SD on the poorer households' purchase of potable water.</li> </ul>	<ul style="list-style-type: none"> <li>- Community organization reports</li> <li>- Household survey</li> </ul>	
<b>Outputs (for objective 2):</b>			
Improved accessibility to markets and market services.	<ul style="list-style-type: none"> <li>- Decrease in market transportation costs during the rainy season.</li> <li>- Beneficiary assessment of market services.</li> </ul>	Project progress reports	
<b>Outputs (for objective 3):</b>			
Functional and representative community based organizations established.	<ul style="list-style-type: none"> <li>Number of groups operational after 3 years</li> <li>Number of groups with women in leadership position</li> <li>Rate of implementation of the community development plans</li> </ul>	<ul style="list-style-type: none"> <li>Community organization reports</li> <li>Project progress reports</li> </ul>	

