

Document: EB 2008/95/R.31/Rev.1  
Agenda: 11(d)(iii)  
Date: 17 December 2008  
Distribution: Public  
Original: English

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Enabling poor rural people  
to overcome poverty

## **Federative Republic of Brazil**

### **President's memorandum**

### **North-East Rural Family Enterprise Development Support Project**

### **Modifications to the loan agreement**

Executive Board — Ninety-fifth Session  
Rome, 15-17 December 2008

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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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## **Recommendation for approval**

The Executive Board is invited to approve modifications to the loan agreement for the North-East Rural Family Enterprise Development Support Project as contained in paragraph 12.



## President's memorandum

### North-East Rural Family Enterprise Development Support Project

#### Modifications to the loan agreement

##### I. Introduction and background

1. The Executive Board approved the North-East Rural Family Enterprise Development Support Project in December 2004. The loan agreement between IFAD and the Government of the Federative Republic of Brazil was signed in December 2006, but has not yet entered into force. The agreement designated the Ministry of Agrarian Development as the project's executing agency.
2. The Government recently notified IFAD of its decision to withdraw from the loan agreement because of (i) new internal administrative procedures that make it difficult for it to implement the project from a federal level; and (ii) the decentralization process that it is currently promoting to strengthen public institutions at state and regional levels.
3. The Ministry of Planning, Budget and Management contacted IFAD to assure the Fund of the Government's support for the project and its resolve to explore alternative institutional arrangements with the Fund. As a result, the Government and IFAD have identified the Banco do Nordeste do Brasil (BNB), a public financial institution, as the potential borrower and executing agency for this project.

##### II. The project

4. **Project's objectives.** The project's overall development goal is to reduce poverty levels and social inequality among the rural poor in the North-East Region. Its specific objective is to enable poor rural people in the target area to improve their business and organizational capacities and increase their incomes. This will be achieved by: (i) establishing sustainable and economically viable market-oriented agricultural and other rural enterprises; (ii) allocating and managing financial resources; and (iii) helping poor rural women participate in the local economy and providing them with the support they need to improve their socio-economic positions and achieve gender equity.
5. **Project area.** Project activities will be implemented in the 30 municipalities of the Xingo area located in the north-eastern states of Alagoas, Bahia, Pernambuco and Sergipe. In this semi-arid area, rural poverty is prevalent. Previous local development activities have been carried out to organize rural family producers, create a community of local actors, and identify municipal and territorial development plans.
6. **Targeting.** The project is targeted to rural poor people whose main productive activities are related to small agricultural and other rural enterprises. Within this target population, priority will be given to smallholders, rural women, young people and the beneficiaries of agrarian reform. The project will identify and support people who are already active in rural enterprises linked to agricultural value chains, have microenterprise experience or are interested in developing business proposals to start new entrepreneurial activities.

### III. Justification for the amendment request

7. **Proposed new borrower and executing agency.** BNB is a development bank with financial and legal autonomy, whose main shareholder is the Ministry of Finance. Its mandate is to promote the sustainable development of the North-East Region – the main geographic focus of IFAD’s operations in the country – through the implementation of investment programmes for infrastructure, value chain and territorial development, and through research programmes for employment and income-generation.
8. BNB has the legal capacity, and is authorized by its statutes and national legislation, to accept external debt on behalf of the Government of Brazil. It also has the capacity to act as the executing agency for an IFAD project. It has confirmed its interest in assuming both roles in this project.
9. To effect these changes, negotiations will need to be held with the new contracting party, and subsequently a new loan agreement will need to be drawn up with the new borrower. In addition, a guarantee agreement will need to be concluded, with the Federative Republic of Brazil as guarantor.
10. **Change in supervision arrangements.** In line with the IFAD Policy on Supervision and Implementation Support, it is proposed that, as of 1 January 2009, the project be directly supervised by IFAD instead of by the United Nations Office for Project Services as initially foreseen.
11. **Other amendments.** The project’s objectives and strategy remain relevant and will not be modified. The amount, repayment schedule, maturity and other terms of the loan will also remain unchanged. Any eventual modifications in the loan terms or in the project’s design will be submitted for approval of the Executive Board.

### IV. Recommendation

12. It is recommended that the Executive Board approve the proposed modifications to the loan agreement for the North-East Rural Family Enterprise Development Support Project with respect to: (i) the borrower, to be changed from the Federative Republic of Brazil to Banco do Nordeste do Brasil; (ii) the project’s executing agency, to be changed from the Ministry of Agrarian Development to the Banco do Nordeste do Brasil; and (iii) the supervision arrangements, to be changed from supervision by the United Nations Office for Project Services to direct supervision by IFAD, to take effect on 1 January 2009. The Fund shall carry out negotiations with the new contracting party and conclude the necessary legal arrangements.

