

**BRAZIL**  
**SMALL AGRICULTURAL PRODUCERS**  
**SOCIAL ENTREPRENEURSHIP PROGRAM**  
**(SP/TC – 9810575)**

**EXECUTIVE SUMMARY**

**EXECUTIVE  
AGENCY:**

Cooperativa Valentense de Crédito Rural Ltda. (COOPERE).

**AMOUNT AND  
SOURCE:**

Financing	US\$300,000 (reimbursable)
Technical Cooperation	<u>US\$200,000</u> (non-reimbursable)
Total IDB	US\$500,000
Local Counterpart Funds	<u>US\$100,000</u>
Total	US\$600,000

The total amount of the US\$500,000 Bank financing will be drawn from the Fund for Special Operations (FSO) in local currency.

**FINANCIAL  
TERMS AND  
CONDITIONS:**

Amortization period:	10 years
Grace period:	3 years
Execution period:	36 months
Disbursement period:	42 months

The interest rate to be charged on the loan will be fixed at each disbursement, and will be established annually the first of January of each year corresponding to the disbursement period according to the Consumer Price Index (CPI) determined by the Central Bank of Brazil plus 5%, which information will be provided by the Country Office in Brazil. The interest rate will be paid by COOPERE in local currency. The US\$200,000 of the technical cooperation subprogram will be non-reimbursable.

**OBJECTIVES:**

The general objective of the project is to improve the socio-economic situation of small agricultural producers in rural municipalities surrounding the province of Valente in the state of Bahia. The specific objectives are: (i) to facilitate the access of small producers to credit, savings and technical assistance services; and (ii) to provide institutional strengthening to COOPERE, enabling the institution to expand its credit and savings operations under principles of efficient administration and financial sustainability.

**DESCRIPTION:**

The project will consist of two subprograms: (i) provision of financing for COOPERE to expand its portfolio of loans to small rural producers; and (ii) nonreimbursable technical cooperation funding to provide institutional strengthening for COOPERE.

The sum of \$300,000 in financing will be used to fund a loan program intended to meet the credit needs of small rural producers of sisal and other agricultural products. These resources will be used to provide working capital, to purchase raw materials, and to acquire fixed assets needed by the small producers.

The nonreimbursable resources will be used to provide institutional strengthening for COOPERE with the following specific objectives: (i) improvement of the management skills of COOPERE, by designing a business plan and a funding strategy for the institution. Under these activities, the provision of management training to their executives and officers is expected; (ii) implementation of suitable and efficient methodologies for rural lending; (iii) redesign and marketing of COOPERE's savings products; and (iv) improvement of the management information systems (MIS). In addition, these resources will finance a mid-term and a closing evaluation. The mid-term evaluation will be used to determine future disbursements for this operation.

Because the experience of COOPERE shows that a strong technical assistance is necessary to increment the probabilities of loan repayments by small rural producers, a local counterpart equivalent to US\$100,000 will be used to provide direct technical assistance to the small producers. These services will be provided by Associação dos Pequenos Agricultores do Município de Valente (APAEB) specialized in these kind of services. These resources will be earmarked towards the following activities: (i) design of projects and strategies for specific groups of small producers; (ii) specific technical assistance in agricultural methodologies to improve productivity; (iii) counseling services in agriculture and livestock management; and (iv) technical assistance to assist small producers in improving: occupational health and industrial security, environmental management of the harvest and production process, handling of agrochemicals, solid waste disposal, and labor practices; and (v) training and awareness on environmental safety and labor issues for the small producers and other affected community groups.

**BENEFICIARIES:** The program will help improve the living conditions of the beneficiaries. It is estimated that with this project, at least 600 small rural producers and their families will directly benefit from increased access to credit and technical assistance. As result, it is expected that the beneficiaries will improve their level of income from about US\$63 to approximately US\$110 per month, US\$34 over the minimum wage.

**ENVIRONMENTAL  
CLASSIFICATION:**

The Committee on Environment and Social Impact (CESI), at its meetings of April 16, 1999, October 4, 1999, and October 29 reviewed this operation and made recommendations which have been taken into account by the project team in designing the present operation.

**RISKS:**

The long-term portfolio of COOPERE represents a long-term financial risk for the institution. A large portion of COOPERE's long-term loans are relatively new and carry grace periods between 18 and 24 months. As a result, it is difficult to predict the future performance of this long-term portfolio. Nevertheless, experience has shown that this long-term portfolio seems to be safe. Also, it is expected that this risk will be mitigated by the activities designed under the technical assistance component, and particularly by developing and improving current lending and credit recovery practices. The mid term evaluation will also reduce this risk, because it will further analyze the performance of the credit portfolio, and will determine future disbursements in excess of 50% of the total allocated resources under the credit program.

Another risk factor stems from the high degree of concentration of small producers of sisal in the region. If for some macroeconomic reason or because of financial difficulties with the sisal carpet factory, the demand and prices for sisal were to drop, COOPERE could encounter some difficulties in recuperating loans. This risk will be mitigated by assuring that the Credit Regulations of the Program include certain loan portfolio diversification measures according to the production capabilities of the different kind of small producers in the region.

Finally, another risk associated with this operation relates to the need to ensure that the lending rates are positive in real terms. At least at the beginning of the operation, this factor could cause a drop in estimated demand for credit on the part of the small producers. However, the experience of COOPERE and other similar institutions in Brazil seems to indicate that small producers are able to pay such interests as long as they have the certainty that transaction costs will be lowered through the prompt and efficient delivery of loans. This has certainly been the experience elsewhere in the world.

**THE BANK'S  
STRATEGY:**

The Bank's strategy in Brazil concentrates on supporting its objectives of systematically eliminating the causes of chronic inflation, alleviating some of its social consequences, investing in human resources, and promoting economic modernization. It also calls for an increased role of the Bank in

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

support of microenterprise development in the country through its various instruments such as Social Entrepreneurship Program (SEP) projects, technical cooperations, and global credit loans.

In addition to the general contractual provisions it is recommended that the following special conditions be added to the agreement.

The following will be conditions precedent to the first disbursement under the credit program: (i) that COOPERE submits a business plan to be designed with resources from the technical cooperation component; and (ii) that the Credit Regulations to be developed for the credit program are approved in advance by the Bank (see paragraphs 2.4 and 4.7).

As a condition precedent for first disbursement of the technical cooperation component, COOPERE must have reached agreement with the Bank on the terms of reference of the consultants that will carry out the activities related to the project. Additionally, the Bank must have received a letter of intent from APAEB, confirming provision of US\$100,000 of in-kind counterpart resources; and also another letter indicating the agreement reached between APAEB and COOPERE as to the coordination in the delivery of the services to be provided by APAEB, including a plan of action prepared by APAEB describing the objectives, activities, performance indicators, timing and budget for the delivery of these services (see paragraph 4.9).

No more than 70% of the technical cooperation funding may be disbursed until such time as at least 20% of the resources under the credit program have been disbursed (see paragraph 4.11).

A mid-term evaluation of COOPERE will be carried out when 40% of the resources of the credit program have been committed. Also, a closing evaluation will be conducted once 90% of the credit component has been disbursed (see paragraph 4.14).

Disbursements under the Credit Program may not exceed 50% of total allocated resources until such time as COOPERE demonstrates to the Bank's satisfaction, that it has taken the corrective measures agreed on with the Bank based on results of the mid-term evaluation of the program (see paragraph 4.12).

Because of the nature of this program, the technical-cooperation funding must be immediately available. For this reason, if so requested by COOPERE, the Bank will provide an advance of up to 30% of the total amount of the technical cooperation funds (see paragraph 4.11).