

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT BANK

**BRAZIL**

**DEVELOPMENT OF THE CERRADO NATIVE FRUIT CHAIN -  
MARANHÃO**

**(BR-M1097)**

**DONORS MEMORANDUM**

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## **BASIC SOCIOECONOMIC DATA**

The basic socioeconomic data, including information on public debt, are available at the following address:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

## **INFORMATION AVAILABLE IN THE MIF TECHNICAL FILES**

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## **ABBREVIATIONS**

CTI	Centro de Trabalho Indigenista [Indigenous Work Center]
NGO	Nongovernmental organization
PSR	Project status report

# DEVELOPMENT OF THE CERRADO NATIVE FRUIT CHAIN - MARANHÃO

(BR-M1097)

## EXECUTIVE SUMMARY

<b>Executing agency:</b>	Centro de Trabalho Indigenista (CTI)			
<b>Country:</b>	Brazil			
<b>Beneficiaries:</b>	550 small-scale agricultural producers in the states of Maranhão and Tocantins			
<b>Financing:</b>	MIF (nonreimbursable)	US\$ 1,500,000		
	Counterpart (ICCO)	US\$ 1,449,371		
	Counterpart (CTI)	US\$ 419,500		
	<b>Total:</b>	<b>US\$ 3,368,871</b>		
<b>Objectives:</b>	The <b>goal</b> of the project is to implement an operating model that promotes sustainable development and income generation for indigenous communities and small-scale producers of native fruit in the Cerrado region. The <b>purpose</b> is to further integrate these small producers into the native fruit value chain and promote their economic and environmental sustainability.			
<b>Execution and disbursement periods:</b>	The execution and disbursement periods will be 42 and 48 months, respectively.			
<b>Special contractual clauses:</b>	As conditions precedent to the first disbursement, CTI will demonstrate to the Bank’s satisfaction that: (i) its general assembly has approved the Operating Regulations; (ii) the project coordinator has been selected; (iii) the procurement plan and the annual work plan have been defined; and (iv) CTI has signed a cooperation agreement with ICCO that ensures the counterpart funds.			
<b>Environmental and social review:</b>	This project has been classified as category “C” operation (ESR of 22 June 2010).			

## I. BACKGROUND AND RATIONALE

- 1.1 Brazil produces 43 million tons of tropical, subtropical, and temperate climate fruit per year and is one of the world's largest suppliers of fresh and processed fruits, after China and India. It yields a wide variety of fruits throughout the year, many of them native species. Fresh fruit exports have grown at a sustained 19.5% pace over the last eight years, reaching 888,000 tons in 2008, equivalent to US\$724 million (Brazilian Fruit Institute [Instituto Brasileiro de Frutas]); 76% of these exports are to the European Union.
- 1.2 Although the main fruit exports have traditionally been grapes, melons, mangos, apples, lemons, watermelons, and papayas, as well as orange juice<sup>1</sup> in the case of processed products, new fruits are being added. Thanks to the success of açai, the native fruit with greatest penetration in the international market, other native species are attracting market attention as demand for foods with special characteristics grows.
- 1.3 **The Cerrado region and Maranhão state.** In addition to being noteworthy for its size (24% of Brazilian territory), the Cerrado biome is internationally renowned for its great biological diversity, estimated at approximately 320,000 species. The Cerrado is extremely rich in flora and fauna, with nearly 10,000 plant species and 1,600 animal species. Due to this biodiversity, the Cerrado is considered a priority conservation area.<sup>2</sup>
- 1.4 However, the Cerrado's vast stretches are also suitable for agricultural production under the "Green Revolution" model,<sup>3</sup> which takes advantage of the intensive use of mechanization technologies, irrigation, and chemical inputs in large-scale monoculture agriculture. Several large agricultural companies are engaged in the production of commercial crops, particularly soybeans, and have had to use aggressive technologies to overcome the low soil fertility typical of the Cerrado. This nontraditional production is causing erosion and soil and water pollution, a reduction in biodiversity, and the loss of knowledge about the flora and fauna found in this area, chiefly regarding its potential economic value. The Cerrado is being devastated at a rate of 22,000 km<sup>2</sup> per year, and just 20% of this biome is in a good state of conservation.
- 1.5 The local population, mainly of indigenous origin, and small-scale producers have suffered as a result of this production model based on monoculture and the indiscriminate use of the land and natural resources. In fact, subsidies to the Cerrado region's corporate farmers have contributed to the consolidation of

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<sup>1</sup> Brazil produces 60% of the world's orange juice exports (Brazilian Fruit Institute).

<sup>2</sup> The nongovernmental organization (NGO) Conservation International has classified the Cerrado as a biodiversity hotspot, i.e. one of the planet's richest and most threatened animal and plant reserves.

<sup>3</sup> The Green Revolution is the name that was given in international circles to the boom in agricultural production that occurred in the 1960s following the application of modern production techniques, specifically genetic selection and the intensive monoculture farming made possible by irrigation and the wide-scale use of fertilizers, pesticides, and herbicides.

landholdings, the loss of rural jobs, and a mass exodus from the countryside. The local population has thus seen its income-generating opportunities wane and the prospects for development based on the sustainable use of natural resources fade. The reality is that these producers are very poor and living in extremely critical conditions (these small family farms and indigenous communities are located in a poor area, with no employment, social services, or alternative economic development scenarios).

- 1.6 **FrutaSã and its processing chain: opportunities and challenges.** Since 1993, there have been various initiatives in the region to improve the local population's quality of life through the sustainable use of natural resources. The projects that were implemented led to the creation of the FrutaSã fruit pulp plant. This initiative has created important income-generating opportunities for indigenous families and small farmers in the region. The pulp plant went into operation in 1994 in connection with the "Fruits of the Cerrado" project, whose objective was to introduce an alternative income-generating activity compatible with conservation of the Cerrado in the indigenous lands of the Timbira<sup>4</sup> peoples. FrutaSã is located in Carolina, in the state of Maranhão, and is owned by the Wyty-Catê Association of the Timbira Communities of Maranhão and Tocantins [Associação Wyty-Catê das Comunidades Timbira do Maranhão e Tocantins], the sole beneficiary of the profits, and the nongovernmental organization Indigenous Work Center [Centro de Trabalho Indigenista]. The project was initially supported by the European Community and the Ministry of the Environment, and involved the Timbira Indians and small-scale producers in the states of Maranhão and Tocantins.
- 1.7 FrutaSã currently has 300 small-scale farmers and indigenous families in its fruit supply chain, and processes 150 tons of frozen fruit pulp per year. FrutaSã's suppliers are small rural producers from the areas surrounding the municipality of Carolina, with their small landholdings and indigenous communities. FrutaSã has dealt with the challenge of making its operation environmental sustainable in an innovative way, by recycling the waste from fruit processing. FrutaSã has offered both seeds and compost to Carolina's Central Greenhouse, run by the Carolina Small Farmers Agricultural Association [Associação Agroextrativista de Pequenos Agricultores de Carolina], thus facilitating the production of 100,000 seedlings of native species per year.
- 1.8 **Problem and challenges.** FrutaSã has not achieved the anticipated economic sustainability due to its inadequate production scale, the seasonality associated with the limited variety of fruit processed, and its meager marketing network. The solution to these limitations and the creation of a sustainable operation depend on developing a more effective and efficient supply chain, and especially an expanded and diversified one, as well as on ensuring the quality of the raw material. This challenge is strongly limited by the following factors:

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<sup>4</sup> The term Timbira is used to refer to seven different indigenous peoples who inhabit the region. They total 7,000 inhabitants over an area of one million hectares.



- a. Insufficient technical capacity among farmers and indigenous communities to improve fruit production and initial treatment in order to facilitate better and more uniform quality, as well as to promote diversification of species and the development of subsistence crops that supplement the seasonality of fruit production;
  - b. The great distances that the product has to travel without proper cooling makes it difficult to ensure quality and even proper plant maturity; this is primarily a logistics problem that can be overcome with innovative solutions that include the involvement of the fruit producers;
  - c. The lack of land management planning, which reduces the opportunities for crop diversification; traditional cooperation problems among farmers make it more difficult to implement this type of management plan and to create networks which could increase their economies of scale. Moreover, the local population, particularly the population of indigenous origin, continues to practice traditional subsistence farming, to which it dedicates the most productive lands, near water sources.
  - d. The limitation of the destination markets and the absence of a brand name that takes advantage of the sustainability of these types of crops.
- 1.9 **Opportunities.** Through the Dutch nongovernmental organization ICCO, a co-investment agreement was signed in February 2010 between the current owner (FrutaSã), QuaTerNes,<sup>5</sup> and ICCO Limited, an entity created by ICCO to make direct investments.
- 1.10 Founded in 1964, ICCO is currently one of the Netherlands' leading organizations in the area of international development. ICCO finances and supports programs aimed at specific economic activities. Its two priorities in partnership with the private sector as follows: (i) the investment must guarantee the small-scale producers' economic independence, and (ii) it must generate sustainable development. ICCO has worked with small and large companies such as supermarkets, wholesalers, and small merchants. It has the commitment, experience, and marketing channels that are essential for spurring local development and generating sustainable production circuits.
- 1.11 Under the new agreement between the original shareholders—CTI and the Wyty-Catë Association—and the new investors in FrutaSã—QuaTerNes and ICCO—the former will retain a 70% ownership interest and the latter will acquire 30% (20% for QuaTerNes and 10% for ICCO) of the company. The agreement calls for a significant expansion of the plant's production facilities, a reorganization of the supply chain, qualified and professional management, and access to QuaTerNes distribution network. In order to take advantage of this expansion while

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<sup>5</sup> QuaTerNes is a Dutch company that has been creating, supporting, and ensuring sustainable and innovative opportunities in developing countries since 1989. The objective is to: (1) create sustainable entities; and (2) support value chains in the international market.

also diversifying products and raw materials, the project will promote increased productivity in the indigenous communities and an increase in the number of producers from 300 to 500.

- 1.12 **Rationale.** The project proposes an innovative solution to the economic development problem of communities rich in biodiversity that are located in areas distant from the markets. FrutaSã could effectively become a model for the sustainable development of the Cerrado region, providing sources of income for small-scale producers and fruit-gathering indigenous communities in northern Tocantins and southern Maranhão. Moreover, the production of native fruit species by the traditional peoples themselves has great potential as a conservation strategy for the Cerrado, promoting the continued existence of the small rural landholding.
- 1.13 In addition, in order to prevent futile land competition between fruit crops and traditional subsistence crops, any action must plan for an increase in the productivity of these products, associated with better land use and better sustainable growing techniques, and envision fruit production as a real alternative for income generation. Moreover, families and communities must be able to diversify their sources of income as a way to cope with the seasonality of fruit production by creating new products and derivatives such as *buriti*, *bacaba*, and *bacuri* oils. The success of initiatives such as these will provide an income-generating model for poor rural populations, which may be replicable in other regions. One innovative aspect of this initiative is the partnership that will be created between the participating NGOs, the beneficiary communities, and a large private company. While the latter can offer access to more sophisticated markets, the involvement of local communities, as well as the sustainable use of natural resources, will pave the way for the creation of an ethnic brand that reflects historical and cultural values.

## II. THE PROJECT

### A. Objectives and description

- 2.1 The goal of the project is to implement an operating model that facilitates sustainable development and income generation for indigenous communities and small-scale producers of native fruit in the Cerrado region. The purpose is to further integrate these small producers into the native fruit value chain and promote their economic and environmental sustainability.
- 2.2 This project has four components: (i) creation of networks and bulking centers; (ii) transfer of best practices in production; (iii) strengthening of marketing, innovation, product diversification, and brand development; and (iv) monitoring, lessons learned, and dissemination of results.

## **B. Components**

### **Component I: Creation of networks and bulking centers (MIF US\$293,800; Counterpart US\$182,850)**

- 2.3 This component is designed to develop the knowledge and skill base needed to facilitate implementation of the project's other components. In this regard, the component's objective is to support the creation of bulking centers and networks of small-scale producers of fruit and other subsistence crops, based on the following activities: (i) perform a diagnostic assessment of production potential and the demand for technical assistance in the participating communities; (ii) create bulking centers for the storage, pretreatment, and processing of fruits and other Cerrado products; (iii) provide technical assistance to strengthen the rural community associations considered relevant to the project; (iv) set up a FrutaSã producer and gatherer network; and (v) support the formation of producer networks. The community associations to be supported will be selected based on the maturity of the organization, the logistics involved in reaching the company, and the type and volume of production.
- 2.4 The expected results are: (i) a diagnostic assessment of the segmentation of supply and demand; (ii) six bulking centers in operation; (iii) a producer network; (iv) bidding and participation opportunities for producers in the FrutaSã company network; and (v) 30 associations and/or groups with continuous production.

### **Component II: Transfer of best practices in production (MIF US\$481,625; Counterpart US\$247,500)**

- 2.5 This component is aimed at transferring skills, knowledge, and appropriate technologies to improve agro-extractive production in the beneficiary communities. There will be ongoing training and assistance activities for small producers over the four years of the project, following a training program to be determined by the project's technical team. To achieve these objectives, the following activities are planned: (i) provide technical assistance to improve fruit growing, standardize production, and introduce new technologies and practices (including the identification of solutions that reduce the risk associated with production); (ii) facilitate access to credit with the support of the technical coordinators of the chains and production; (iii) perform a diagnostic assessment to identify technological problems and solutions; (iv) monitor production; (v) provide advisory services on business practices for FrutaSã; and (vi) improve the management of FrutaSã and its supplier relationships, through partial, step-down funding of its manager.
- 2.6 The expected results of this component are: (i) implementation of a production monitoring, standardization, and traceability system; (ii) preparation and implementation of six business plans for bulking centers; (iii) ten associations or groups with a 50% increase in production in their units; (iv) five associations with access to credit; and (v) improvement in the quality of the products offered by the beneficiary communities.

**Component III: Strengthening of product marketing, innovation, and diversification and brand development (MIF US\$164,875; Counterpart US\$952,000)**

- 2.7 This component of the project is intended to promote diversification of products from the Cerrado region, strengthen the marketing of the Cerrado, and develop a brand for production of fruits and other products from the Cerrado region that better the biome and its communities, in addition to exploring certification possibilities for these products.
- 2.8 To achieve these goals, the following activities are planned: (i) create and implement a fund to support small initiatives—*Fundo Cerrado em Pé*—aimed at promoting product diversification and the opening of new markets; (ii) perform a diagnostic assessment to determine the possibilities for organic certification for exports; (iii) develop a native product brand; and (iv) provide access for indigenous communities and traditional farmers to the national food procurement program.
- 2.9 The objective of the *Fundo Cerrado em Pé* is to support the small-scale initiatives by indigenous communities and traditional farmers aimed at diversifying production (sweets, cosmetics, oils, seeds, handicrafts). The selected small-scale initiatives will receive financing of up to US\$12,000. These resources may be used for technical assistance, and up to 20% may be used to procure goods essential to the initiative's success. The executing agency, CTI, will draw on its technical specialists to evaluate the proposals and rank them based on the following criteria: (i) the project's community value; (ii) number of beneficiaries; (iii) impact on improved quality of life; and (iv) the project's sustainability. The advisory council for this operation will give final approval for the projects to be supported.
- 2.10 The main expected results are: (i) 15 small projects in execution; (ii) development of brand name and preparation of advertising campaign; (iii) at least one partner or sponsor for the campaign; (iv) diversification of the products made in the communities supported by the project; and (v) a completed diagnostic assessment to determine potential certifications (organic, HACCP,<sup>6</sup> and fair trade), including budget and technical proposal.

**Component IV: Monitoring, lessons learned, and dissemination of results (MIF US\$164,125; Counterpart US\$131,000)**

- 2.11 The objective of this component is to implement a monitoring system, document the experience and lessons learned, and disseminate project results, for application to similar experiences. The monitoring system will include indicators related to school attendance among minors. Plans also include actively participating in government to influence public policies that incentivize agro-extractive activities as

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<sup>6</sup> The Hazard Analysis and Critical Control Points (HACCP) is a systematic preventive procedure for guaranteeing food security in a logical and objective way. It provides for the identification, evaluation, and prevention of all physical, chemical, and biological contamination risks to a product throughout the supply chain, establishing preventive and corrective control measures to ensure food safety.

a model for regional growth. To achieve this, two main areas of action are planned: (a) monitoring; and (b) documentation and validation of the experience.

- 2.12 In terms of monitoring, the activities to be performed are: (i) establish the project baseline; (ii) implement a monitoring system for activities and results, including the creation of a project team for data measurement and analysis; and (iii) conduct periodic measurements and reviews.
- 2.13 With regard to the methodology and validation of the experience, the following activities are planned: (i) participate in international events on project-related issues; (ii) document and validate the experience, with the objective of subsequently including it in the publications of the participating institutional partners, in order to facilitate dissemination; and (iii) hold a closing workshop.
- 2.14 The expected results are: (i) 10 meetings between networks in the Cerrado and Amazonia regions (civil society); (ii) government participation in the closing workshop; and (iii) preparation and dissemination of a document on the experience.

### III. COST AND FINANCING

- 3.1 The project has an estimated cost of US\$3,368,871. Of this, the MIF will contribute US\$1,500,000 (44.4%) and the local counterpart will contribute US\$1,868,871 (55.6%), of which US\$1,449,371 will come from ICCO and the remaining US\$419,500 will come from CTI.

DESCRIPTION	MIF US\$	ICCO US\$	Local US\$	TOTAL US\$
Component 1. Creation of networks and bulking centers	293,800	182,850		476,650
Component 2. Transfer of best practices in production	481,625	247,500		729,125
Component 3. Strengthening of marketing, innovation, product diversification, and brand development	164,875	532,500	419,500	1,116,875
Component 4. Monitoring, lessons learned, and dissemination of results	164,125	131,000		295,125
Project administration	250,000	329,750		579,750
Evaluations (Midterm and final)	28,000	0		28,000
Audits	48,000	0		48,000
Contingencies	62,075	25,771		87,846
<b>SUBTOTAL</b>	<b>1,492,500</b>	<b>1,449,371</b>	<b>419,500</b>	<b>3,361,371</b>
<i>Impact evaluation account (0.5%)</i>	7,500	0	0	7,500
<b>GRAND TOTAL</b>	<b>1,500,000</b>	<b>1,449,371</b>	<b>419,500</b>	<b>3,368,871</b>

- 3.2 **Sustainability.** This operation's sustainability is based on the fact that it is an inclusive collectively organized initiative and that the owners of the company to be modernized (FrutaSã) are the project beneficiaries, i.e., the small-scale producers

and indigenous families. The project supports the entire production chain, from cultivation and gathering of fruit to processing and marketing, which facilitates the economic sustainability of the initiative.

- 3.3 At least one year prior to the end of the project execution period, the execution unit established in the CTI will hold a sustainability workshop with the participation of the members of the advisory council and representatives from other entities to be decided, in order to evaluate progress and identify the measures and actions needed to ensure the continuity of activities after the project's funding has been exhausted. The scope of this sustainability workshop will be agreed upon sufficiently in advance.

#### IV. EXECUTING AGENCY AND EXECUTION MECHANISM

##### A. Executing agency

- 4.1 Project administration will be the responsibility of the **Centro de Trabalho Indigenista (CTI)**, an NGO legally established as a nonprofit association in March 1979 by anthropologists and indigenists who were already working with several indigenous groups in Brazil. CTI's mission is to help indigenous communities assume effective control of any and every intervention in their territory. To achieve this, CTI works on implementing projects to develop sustainable economic alternatives that allow them to achieve economic self-sufficiency.
- 4.2 Since its founding, CTI has worked directly with the indigenous communities by transferring resources and technical assistance for projects that are prepared and discussed with the communities involved. The indigenous people are more than the project beneficiaries, insofar as they are also the co-authors and co-executors. The projects are designed in response to requests made by the communities to the project coordinators, who give their suggestions and identify funding. The communities discuss and, to the extent possible, also manage these funds.<sup>7</sup>
- 4.3 To execute this project, the CTI will sign a technical cooperation agreement with ICCO, in which the latter will commit to contribute the resources anticipated for this project. CTI has already signed an agreement with the other partners on the composition of FrutaSã and the management responsibilities, consistent with the objectives and activities of this project.

##### A. Project execution and administration

- 4.4 For project execution, an execution unit will be created that will be responsible for coordinating and supervising all project-related activities. Specifically, it will: (i) conduct any contracting deemed necessary; (ii) coordinate activities with

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<sup>7</sup> The projects developed by CTI include "Fruits of the Cerrado," with initial support from the European Community and the Ministry of the Environment. This project involved the Timbira Indians and small-scale producers in the states of Maranhão and Tocantins. CTI has offices in three states: São Paulo, Brasília, and Amazonas. In 2009, it invested approximately \$5 million reais in its projects.

- FrutaSã management; (iii) maintain relations with the Bank and other donors, which includes preparing and submitting periodic status reports and the project execution plan; and (iv) act as secretary of the advisory council. The execution unit will consist of a project coordinator, an administrative-financial assistant, an accounting assistant, a coordinator for the native fruit production chain, a production and network coordinator, three agricultural specialists, and a specialist in indigenous affairs.
- 4.5 An advisory council will be created with representatives from QuaTerNes, Wyty-Catã,<sup>8</sup> ICCO, the MIF, and the CTI. It will be the highest deliberative body for all strategic and organizational decisions. Specifically, the council will: (i) chart the project's strategic course; (ii) approve and monitor the annual work plan; (iii) provide information and ensure the transparency of project decisions; and (iv) approve the Operating Regulations and their modifications.
- 4.6 **Results-based disbursements:** The execution and disbursement periods will be 42 and 48 months, respectively. Project disbursements will be contingent on the achievement of milestones, to be agreed upon by the executing agency and the MIF, along with their means of verification. Achievement of milestones will not exempt the executing agency from fulfilling its responsibility to meet project objectives.
- 4.7 Under the risk- and performance-based project management system, a maximum advance of 20% of the funds will be made to the executing agency against signature of the agreement and fulfillment of the conditions precedent. Subsequent disbursements will be made based on the funds required for the activities needed to achieve that period's milestones. The disbursement ceiling is 20% of the MIF's contribution. The disbursement frequency and method may be modified by the Bank based on project performance. On the agreed dates for meeting the milestones, the executing agency will report on the activities completed since the last disbursement, particularly those indicated in the milestone table in the Operating Regulations.
- 4.8 The milestones for the first year of execution are fixed. During project execution, the remaining milestones may be reviewed jointly between the executing agency and the MIF Specialist at the Country Office, as part of the annual planning exercise for the following period. Meeting the milestones does not release the executing agency from its responsibility to meet the goals defined in the logical framework. The executing agency may ask the Bank to modify the milestones, provided they are not overdue.
- 4.9 **Procurement:** For the procurement of goods and consulting services, the executing agency will apply the Bank's policies (documents GN-2349-7 and GN-2350-7) and the corresponding guidelines issued by the MIF. Before initiating project procurements, the executing agency will submit the procurement

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<sup>8</sup> Wyty-Catã Association of the Timbira Communities of Maranhão and Tocantins.

plan for the Bank's consideration. This plan will be reviewed and updated annually.

- 4.10 Because the executing agency's institutional risk was assessed as "medium," project procurements and contracts will be reviewed ex post every six months. The Bank/MIF will use project funds to hire a consulting firm to provide support and training in fiduciary matters required by the executing agency.

## V. EVALUATION AND MONITORING

- 5.1 **Project status reports.** The executing agency will deliver project status reports (PSRs) to the MIF within 30 days after the end of each six-month period or more often, on the dates set by the MIF and notified to the executing agency at least 60 days in advance. These reports will follow a format previously agreed upon with the MIF and will describe the status of project execution, achievement of milestones, results obtained, and their contribution to project objectives as stated in the logical framework and other operational planning instruments. They will also describe problems found during execution and identify possible solutions. Within 90 days after the end of the execution period, the executing agency will submit a final PSR to the MIF describing the results achieved, the sustainability plan, and lessons learned.
- 5.2 **Evaluation.** With funds from the MIF contribution, the Bank will contract independent consultants to perform two project evaluations. The consultants will be selected and contracted by the Bank through the Country Office in Brazil.
- 5.3 A midterm evaluation will be commissioned when 50% of the MIF contribution has been disbursed or halfway into the execution period, whichever occurs first. The evaluation will focus on the following aspects, among others: (i) the development and sustainability level of FrutaSã; (ii) the effectiveness and degree of use of the bulking centers; (iii) relations between the suppliers and the company; (iv) the maturity of the farmer organizations and the increase in the numbers of beneficiary farmers; (v) the degree of diversification of fruits and other products; (vi) the effectiveness of the advisory council; (vii) the results achieved with respect to the logical framework indicators; and (viii) the fulfillment of basic conditions for mitigating production risks. A final evaluation will be performed when 90% of the MIF contribution has been disbursed. In addition to the factors analyzed in the first evaluation in relation to the project's economic sustainability, the final evaluation will cover: (i) the possibility of the farmer organizations being able to participate in the ownership of the company; (ii) the status of the search for appropriate partners for the company; (iii) corporate governance at the company, its mechanisms and relations with partners; and (iv) results achieved with respect to the baseline and the objectives stated in the logical framework. The evaluations will determine whether there are significant variations in the execution of the activities, recommend corrective measures, and emphasize lessons learned in order to share them with other programs.



- 5.4 At least three months before the end of the project execution period, the executing agency will organize a **closing workshop** with the participation of the beneficiary, Bank/MIF staff, sector representatives, and any other personnel to be agreed on with the Bank/MIF, in order to jointly assess results achieved, identify additional tasks for ensuring the sustainability of actions initiated by the project, and identify lessons learned.
- 5.5 **Financial supervision.** The executing agency will establish and maintain adequate financial accounts, internal control mechanisms, and filing systems for the project, following Bank/MIF accounting and auditing rules and policies.
- 5.6 Based on the institutional capacity assessment report, which indicated “medium” risk, project financial statements will be audited at the end of project execution. Supporting documentation for disbursements will be reviewed ex post every six months.
- 5.7 The application and frequency of the ex post reviews of procurements and supporting documentation for disbursements may be modified by the MIF based on the reports of the reviews and/or institutional assessments performed during project execution.
- 5.8 The Bank/MIF will hire independent auditors to perform audits of project financial statements and conduct ex post reviews of procurements and the supporting documentation for disbursements. The cost of audits and ex post reviews will be covered by the MIF contribution in accordance with Bank procedures.

## **VI. BENEFICIARIES AND RISKS**

### **A. Beneficiaries**

- 6.1 The direct beneficiaries of the project will be approximately 550 traditional small farmers and indigenous family producers in southern Maranhão and northern Tocantins. Given that this is a pilot project, and to the extent possible, more producers may join the beneficiaries and/or the experience may be replicated.
- 6.2 Indirectly, the project will strengthen the FrutaSã value chain, contributing to its sustainability. In addition, the company will benefit from the strategic partnership between ICCO and QuaTerNes, which calls for a major expansion of the plant’s production facilities, skilled management, and access to the QuaTerNes distribution network.

### **B. Risks**

- 6.3 During the analysis mission, a risk analysis exercise was done with the participation of the executing agency (CTI), the MIF, ICCO, QuaTerNes, and the indigenous communities.
- 6.4 The most important risks revealed by the aforementioned analysis were as follows: (i) local rural micro and small producers, including those of indigenous origin, may not get sufficiently involved in the FrutaSã value chain. This risk will be mitigated

by including funds, activities, and specific support events, as well as technical assistance, for the entire production cycle (collective organization, which requires increased productivity; better land use; improved sustainable farming techniques; product diversification; and regular, quality production to access sophisticated and competitive markets); and (ii) little integration between the current institutions (CTI, FrutaSã, Wyty-Catë), the new agroindustrial investors (ICCO, QuaTerNes), and the local small producer associations. This risk will be mitigated by the creation of an advisory council that will involve all parties involved in the project, as well as by the activities intended to develop the value chain (including the local small producer associations). In addition, to ensure smooth operations, funds have been set aside for meetings of the advisory council and for legal advisory services.

## **VII. ENVIRONMENTAL AND SOCIAL REVIEW**

- 7.1 The project will not have any negative social and environmental impacts. On the contrary, it will promote the sustainable use of natural resources and preservation of the cultural and social values of the local communities. In fact, it will support implementation of a model for the sustainable development of agricultural and agroindustrial activities by integrating local communities into the value chain and establishing a partnership between companies and producers organizations that pairs economic and social viability with environmental responsibility. Accordingly, the project will ensure: (i) application of the MIF's exclusion list; (ii) school attendance among minors (paragraph 2.12); (iii) training for producers' families to improve their technical skills and work and product quality, which includes identifying activities that are hazardous for the health and wellbeing of minors to ensure that they do not participate in such activities (paragraph 2.6); and (iv) the participation of all suppliers in FrutaSã's pricing and marketing decisions (paragraph 6.4). The ESR classified this project as a category "C" operation on 19 June 2010.

## DEVELOPMENT OF THE CERRADO NATIVE FRUIT CHAIN – MARANHÃO (BR-M1097)

### LOGICAL FRAMEWORK

OBJECTIVE	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>GOAL</b>			
The goal of the project is to implement an operating model that promotes sustainable development and income generation for indigenous communities and small-scale producers of native fruit in the Cerrado region.	<u>Four years after project completion:</u> <ul style="list-style-type: none"> <li>- The fruit chain is consolidated and FrutaSã offers sustainable services to the beneficiaries integrated into the fruit chain.</li> <li>- FrutaSã sales have increased by 50% since project startup.</li> <li>- Cultivation has increased by 75%.</li> <li>- The project's beneficiary families have experienced a 100% real increase in their income from fruit sales since project startup.</li> <li>- At least 15 communities (75% of the beneficiaries) have been integrated into the FrutaSã supply chain.</li> <li>- There is at least a 50% increase in the number of rural people participating in the production of fruit and other rural products.</li> </ul>	<ul style="list-style-type: none"> <li>- Statistics from national, regional, and municipal sources</li> <li>- Project impact evaluation (MIF eligibility conditions)</li> <li>- Baseline established at the end of project execution</li> <li>- Progress report from the executing agency (CTI)</li> <li>- DAP and approved projects</li> </ul>	<ul style="list-style-type: none"> <li>- Macroeconomic and political conditions remain stable.</li> <li>- The climate factor in the project area does not significantly affect production levels.</li> </ul>
<b>PURPOSE</b>			
The purpose is to further integrate small producers into the native fruit value chain and facilitate their economic and environmental sustainability.	<u>At the end of project execution:</u> <ul style="list-style-type: none"> <li>- There are at least five commercially viable products.</li> </ul>	<ul style="list-style-type: none"> <li>- Project status report (PSR)</li> <li>- Midterm and final evaluations</li> <li>- Monitoring system reports</li> <li>- Statistics from municipal sources</li> </ul>	<ul style="list-style-type: none"> <li>- Market conditions are stable.</li> <li>- External conditions: climate conditions favorable for</li> </ul>

OBJECTIVE	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> <li>- FrutaSã operations are economically sustainable, with annual growth projections of at least 10% in the subsequent period.</li> <li>- At least one farm product has been replicated in the communities that participated in the project.</li> <li>- There is at least a 100% increase in the production of FrutaSã fruit pulp.</li> <li>- At least five agricultural products have been marketed through 20 projects supported by the Fundo Cerrado em Pé.</li> <li>- At least 15 associations/groups have been integrated into the FrutaSã production chain.</li> <li>- At least 500 beneficiaries are part (through committees/associations) of the production chain for fruit and other farm products.</li> </ul>	<ul style="list-style-type: none"> <li>- Inspection visits, record of final beneficiaries of the project</li> </ul>	<p>production; sale prices with good profit margin in relation to the cost of production; product placement by volume and at appropriate times.</p> <ul style="list-style-type: none"> <li>- Brazil's economic, legislative, and social dynamic does not adversely affect the integration of rural communities into the production chain for fruit and other farm products.</li> </ul>
<b>COMPONENTS</b>			
<p><b>Component 1: Creation of networks and bulking centers</b></p> <p>The objective of this component is to support the creation of bulking centers and networks of small-scale producers of fruit and other subsistence crops.</p> <p>.</p>	<p><u>12 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- At least three bulking centers are in operation.</li> <li>- Five associations or groups have been organized.</li> </ul> <p><u>24 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- At least six bulking centers are in operation.</li> <li>- Ten associations or groups have been organized.</li> </ul> <p><u>At the end of project execution:</u></p> <ul style="list-style-type: none"> <li>- At least nine bulking centers are in operation.</li> <li>- At least 30 associations or groups have been organized.</li> </ul>	<ul style="list-style-type: none"> <li>- PSRs</li> <li>- Monitoring system reports</li> <li>- Technical reports from consultants</li> <li>- Midterm and final evaluations</li> </ul>	<ul style="list-style-type: none"> <li>- The beneficiaries are willing to develop the agro-ecological system in accordance with applicable practices and standards.</li> <li>- The main beneficiaries are concentrated in the project's areas of influence, as established by the executing agency</li> </ul>

OBJECTIVE	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> <li>- At least 500 beneficiaries have access to the bulking centers.</li> <li>- At least 30 associations or groups of producers maintain production at economically sustainable levels.</li> </ul>		to prevent dispersion and negative competition between the final beneficiaries.
<p><b>Component 2: Transfer of best practices in production</b></p> <p>This component is aimed at transferring skills, knowledge, and appropriate technologies to improve agro-extractive production in the beneficiary communities.</p>	<p><u>12 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- Six business plans have been implemented.</li> <li>- International quality control systems (including ISO<sup>1</sup> and HACCP<sup>2</sup> certification, monitoring, and traceability system) for the value chain have been implemented, including all participants in the chain.</li> </ul> <p><u>24 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- Average yields among producers have increased by 30% over the baseline.</li> <li>- The number of hectares under fruit cultivation has increased by 50% over the baseline.</li> <li>- At least 10 associations or groups of producers have experienced a 30% increase in their sales of native fruit.</li> </ul> <p><u>At the end of project execution:</u></p> <ul style="list-style-type: none"> <li>- At least 30 associations or groups of producers have experienced a 50% increase in their sales of native fruit.</li> </ul>	<ul style="list-style-type: none"> <li>- PSRs</li> <li>- Monitoring system reports</li> <li>- Technical reports from consultants</li> <li>- Midterm and final evaluations</li> <li>- Attendance list at workshops</li> </ul>	<ul style="list-style-type: none"> <li>- Climate conditions do not adversely affect cultivation.</li> <li>- The beneficiaries are willing to develop the agro-ecological system in accordance with applicable practices and standards.</li> </ul>

<sup>1</sup> International Organization for Standardization

<sup>2</sup> The Hazard Analysis and Critical Control Points (HACCP) is a systematic preventive procedure for guaranteeing food security in a logical and objective way.

OBJECTIVE	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> <li>- Average yields among producers have increased by 100% over the baseline.</li> <li>- The number of hectares under fruit cultivation has increased by 100% over the baseline.</li> </ul>		
<p><b>Component 3: Strengthening of product marketing, innovation, and diversification and brand development</b></p> <p>This component of the project is intended to promote diversification of products from the Cerrado region, strengthen the marketing of the Cerrado, and develop a brand for production of fruits and other products from the Cerrado region that betters the biome and its communities, in addition to exploring certification possibilities for these products.</p>	<p><u>12 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- The fund for small diversification projects has been implemented.</li> <li>- Five associations have access to credit.</li> <li>- FrutaSã has increased production by 25%.</li> </ul> <p><u>24 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- A brand for “fruits of the Cerrado” has been developed and established.</li> <li>- At least four associations or groups of producers have developed organic products for sale.</li> <li>- FrutaSã has increased production by 50%.</li> </ul> <p><u>At the end of project execution:</u></p> <ul style="list-style-type: none"> <li>- At least 10 associations or groups of producers have developed organic products for sale.</li> <li>- At least 15 diversification projects are in execution by the fund.</li> <li>- FrutaSã has increased production by 100%.</li> <li>- There is a 100% increase in the number of communities with access to the food procurement program – PMA/CONAB.</li> </ul>	<ul style="list-style-type: none"> <li>- PSRs</li> <li>- Monitoring system reports</li> <li>- Technical reports from consultants</li> <li>- Midterm and final evaluations</li> </ul>	<ul style="list-style-type: none"> <li>- There is sufficient international demand.</li> <li>- The quality and quantity of production is consistent with global demand.</li> <li>- Agreement on product purchases by FrutaSã. Agreement by small-scale producers concerning pricing and volume.</li> </ul>

OBJECTIVE	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><b>Component 4: Monitoring, lessons learned, and dissemination</b></p> <p>The objective of this component is to implement a monitoring system, document the experience and lessons learned, and disseminate project results, for application to similar experiences.</p>	<p><u>6 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- The baseline has been established and the monitoring system has been implemented.</li> </ul> <p><u>12 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- Information on project activities and results has been published in the media and on the website.</li> <li>- The monitoring system working properly.</li> </ul> <p><u>24 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- The monitoring system continues to work properly.</li> </ul> <p><u>At the end of project execution:</u></p> <ul style="list-style-type: none"> <li>- At least two meetings between networks in the Cerrado and the Amazonia regions (civil society) have been held.</li> <li>- There is government participation in the closing workshop.</li> <li>- A document on the experience has been prepared and disseminated.</li> </ul>	<ul style="list-style-type: none"> <li>- PSRs</li> <li>- Monitoring system reports</li> <li>- Technical reports from consultants</li> <li>- Midterm and final evaluations</li> <li>- Reports on events held</li> </ul>	<ul style="list-style-type: none"> <li>- The relevant institutions are interested in learning about the results of the project.</li> <li>- The project generates positive results.</li> <li>- There are enough actors and institutions linked to the business chain that are interested in learning about the results of the project.</li> </ul>
<b>ACTIVITIES</b>			
<p><b>Component 1: Creation of networks and bulking centers</b></p> <p>1.1. Perform a diagnostic assessment of production potential and the demand for technical assistance</p> <p>1.2. Create bulking centers</p> <p>1.3. Provide technical assistance to participating communities and producer networks</p> <p>1.4. Support the formation of producer networks</p>	<p><u>12 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- A diagnostic assessment of the segmentation of the supply of fruit and the demand for technical assistance has been conducted.</li> <li>- At least three bulking centers have been set up and are in operation.</li> <li>- At least five associations or groups have been organized.</li> </ul>	<ul style="list-style-type: none"> <li>- PSRs</li> <li>- Monitoring system reports</li> <li>- Technical reports from consultants</li> <li>- Midterm and final evaluations</li> <li>- Network database</li> </ul>	

OBJECTIVE	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p><u>24 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- At least six bulking centers have been set up and are in operation.</li> </ul> <p>At least 10 associations or groups have been organized.</p> <p><u>At the end of project execution:</u></p> <ul style="list-style-type: none"> <li>- A network of producers has been set up and is in operation.</li> <li>- At least 500 beneficiaries have access to the bulking centers.</li> <li>- At least 30 associations or groups of producers maintain production at economically sustainable levels.</li> </ul>		
<p><b>Component 2: Transfer of best practices in production</b></p> <p>2.1. Provide technical assistance to improve and standardize production and introduce new technologies and practices</p> <p>2.2. Perform a diagnostic assessment to identify technological problems and solutions</p> <p>2.3. Monitor production</p> <p>2.4. Provide advisory services on business practices for FrutaSă</p> <p>2.5. Improve the management of FrutaSă and its supplier relationships, through partial funding of its manager</p>	<p><u>12 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- At least two additional workshops on agricultural production management have been held.</li> <li>- At least five agricultural production management plans have been prepared.</li> <li>- At least three business plans have been prepared to support the bulking centers.</li> <li>- At least 10 different crops have been planted.</li> <li>- At least 10 high-density production zones have been established.</li> <li>- At least 15-20 producers have been selected by their communities and are receiving training.</li> </ul> <p><u>24 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- At least four additional workshops on agricultural production management have been held.</li> </ul>	<ul style="list-style-type: none"> <li>- PSRs</li> <li>- Monitoring system reports</li> <li>- Technical reports from consultants</li> <li>- Midterm and final evaluations</li> </ul>	



OBJECTIVE	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> <li>- At least 10 agricultural production management plans have been prepared.</li> <li>- At least six business plans have been prepared to support the bulking centers.</li> <li>- Ten associations or groups experience a 25% increase in production.</li> <li>- At least 25 different crops have been planted.</li> <li>- At least 25 high-density production zones have been established.</li> <li>- At least 25-30 producers have been selected by their communities and are receiving training.</li> </ul> <p><u>At the end of project execution:</u></p> <ul style="list-style-type: none"> <li>- A production monitoring, standardization, and traceability system has been implemented.</li> <li>- Six business plans for bulking centers have been designed and implemented.</li> <li>- Ten associations or groups experience a 50% increase in production.</li> <li>- Five associations have access to credit.</li> <li>- The beneficiaries increase savings by 10%.</li> <li>- The quality of products offered by the beneficiary communities has improved.</li> </ul>		
<p><b>Component 3: Strengthening of product marketing, innovation, and diversification and brand development</b></p> <p>3.1. Create a competitive fund for small projects to encourage innovation and the opening of new markets</p> <p>3.2. Strengthen marketing</p> <p>3.3. Pursue management and commercial integration</p>	<p><u>12 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- A fund is being established and developed to finance small agricultural diversification projects.</li> <li>- At least 10 small diversification projects are being developed.</li> </ul>	<ul style="list-style-type: none"> <li>- PSRs</li> <li>- Monitoring system reports</li> <li>- Technical reports from consultants</li> <li>- Midterm and final evaluations</li> </ul>	

OBJECTIVE	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p><u>24 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- At least 8 small projects have been approved</li> <li>- At least 4 standards of dissemination.</li> <li>- A fund has been established to finance small agricultural diversification projects.</li> <li>- A diagnostic assessment to identify potential certifications (organic, HACCP, and fair trade), has been completed.</li> </ul> <p><u>At the end of project execution:</u></p> <ul style="list-style-type: none"> <li>- A brand has been developed.</li> <li>- An advertising campaign has been designed and implemented.</li> <li>- Production in the communities supported by the project has been diversified to include at least two new products.</li> <li>- At least 15 small projects are in execution.</li> <li>- At least one partnership/financial sponsor has been arranged for the campaign.</li> <li>- At least 12 of the small projects have access to the national food procurement program.</li> </ul>		
<p><b>Component 4: Monitoring, lessons learned, and dissemination</b></p> <p>4.1. Implement a monitoring system</p> <p>4.2. Document, validate, and disseminate the experience</p>	<p><u>6 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- The baseline has been established and the monitoring system has been implemented.</li> </ul> <p><u>12 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- At least five technical actions and project beneficiaries in events on related issues.</li> </ul>	<ul style="list-style-type: none"> <li>- PSRs</li> <li>- Monitoring system reports</li> <li>- Technical reports from consultants</li> <li>- Midterm and final evaluations</li> </ul>	

OBJECTIVE	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p><u>24 months into project execution:</u></p> <ul style="list-style-type: none"> <li>- Information on project activities and results has been published in the media and on the website.</li> <li>- On-site midterm evaluation.</li> <li>- At least 10 technical actions and project beneficiaries in events on related issues.</li> </ul> <p><u>At the end of project execution:</u></p> <p>The document produced at the closing workshop is distributed.</p>		

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COMPONENTS		TOTAL US\$	MIF		COUNTERPART	
			US\$	(%)	US\$	(%)
<b>Component I: Creation of networks and bulking centers</b>		<b>476,650</b>	<b>293,800</b>	<b>61.6%</b>	<b>182,850</b>	<b>38.4%</b>
	Activity 1.1: Diagnostic assessment of production potential and demand for technical assistance	32,000	32,000	100%	0	0.0%
	Activity 1.2: Creation of bulking centers	168,350	18,500	11.0%	149,850	89.0%
	Activity 1.3: Technical assistance	110,250	110,250	100.0%	0	0.0%
	Activity 1.4: Producer networks	166,050	133,050	80.1%	33,000	19.9%
<b>Component II: Transfer of best practices in production</b>		<b>729,125</b>	<b>481,625</b>	<b>66.1%</b>	<b>247,500</b>	<b>33.9%</b>
	Activity 2.1: Product improvement and standardization	523,375	315,875	60.4%	207,500	39.6%
	Activity 2.2: Production monitoring	205,750	165,750	80.6%	40,000	19.4%
<b>Component III: Strengthening of product marketing, innovation, and diversification and brand development</b>		<b>1,116,875</b>	<b>164,875</b>	<b>14.8%</b>	<b>952,000</b>	<b>85.2%</b>
	Activity 3.1: Creation of a competitive fund for small projects that incentivize innovation and the opening of new markets	287,500	8,000	2.8%	279,500	97.2%
	Activity 3.2: Strengthening of marketing	46,875	46,875	100.0%	0	0.0%
	Activity 3.3: Management and commercial integration	782,500	110,000	14.1%	672,500	85.9%
<b>Component IV: Monitoring, lessons learned, and dissemination</b>		<b>295,125</b>	<b>164,125</b>	<b>55.6%</b>	<b>131,000</b>	<b>44.4%</b>
	Activity 4.1: Monitoring system	218,250	102,250	46.8%	116,000	53.2%
	Activity 4.2: Documentation, validation, and dissemination of the experience	76,875	61,875	80.5%	15,000	19.5%
<b>Project administration and coordination</b>		<b>579,750</b>	<b>250,000</b>	<b>43.1%</b>	<b>329,750</b>	<b>56.9%</b>
<b>Evaluations - midterm and final</b>		<b>28,000</b>	<b>28,000</b>	<b>100.0%</b>	<b>0</b>	<b>0.0%</b>
<b>Audits</b>		<b>48,000</b>	<b>48,000</b>	<b>100.0%</b>	<b>0</b>	<b>0.0%</b>
<b>Contingencies</b>		<b>87,846</b>	<b>62,075</b>	<b>70.7%</b>	<b>25,771</b>	<b>29.3%</b>
<b>SUBTOTAL</b>		<b>3,361,371</b>	<b>1,492,500</b>	<b>44.4%</b>	<b>1,868,871</b>	<b>55.6%</b>
<b>Impact evaluation account</b>		<b>7,500</b>	<b>7,500</b>	<b>100.0%</b>	<b>0</b>	<b>0.0%</b>
<b>TOTAL</b>		<b>3,368,871</b>	<b>1,500,000</b>		<b>1,868,871</b>	