

## Ex-Ante Project Evaluation Report

Private Sector Investment Finance Division 2,  
Private Sector Partnership and Finance Department,  
Japan International Cooperation Agency

### 1. Name of the Project

- (1) Country: Federative Republic of Brazil (Brazil)
- (2) Project Site/Target Region: Throughout Brazil
- (3) Project Name: Agricultural Sector and MSMEs Supporting Project (hereinafter referred to as “this project”)
- (4) Date of L/A Signing: May 1, 2024

### 2. Background and Necessity of the Project

#### (1) Current Status and Challenges in the Development of the Agricultural and MSME Sectors in the Country, and the Background of This Project

Brazil is the world’s largest producer of soybean-related foods, sugar, and other agricultural products. As of 2020, the country’s agricultural sector—including agribusiness such as food processing—accounted for 27% of Brazil’s GDP, making it a major industry (U.S. Department of Agriculture, 2022). In terms of exports, Brazil is the world’s largest exporter not only of traditional export commodities such as sugar and coffee but also of non-traditional export commodities such as soybean products, corn, and meat (U.S. Department of Agriculture, 2022). For example, Brazil ranks first in the world in both production and exports of sugar, coffee, and soybeans, accounting for 20%, 34%, and 38% of global production, respectively (U.S. Department of Agriculture, 2022). As one of the world’s leading food suppliers, the promotion of Brazil’s agricultural sector is crucial not only for the country’s economic development but also from the perspective of global food security.

On the other hand, Brazil’s agricultural sector faces challenges such as limited access to finance and the resulting poverty among farmers. According to the World Bank (2017), 75% of farmers in Brazil are smallholders, and the majority of smallholders live below the poverty line. One factor contributing to this is the low productivity of small-scale agriculture, which is attributed to small-scale farmers’ limited access to finance, preventing them from making capital investments that would contribute to productivity improvements (World Bank, 2022). Furthermore, only 15% of all farmers in the country utilize loans (World Bank, 2020), and the disparity in financial access between large-scale and small-scale farmers is particularly significant. In terms of domestic agricultural sector lending, large-scale farmers account for only

6% of the total number of loans but 44% of the total loan amount. In contrast, small-scale farmers, who make up 75% of the total, receive only about 20% of the total loan amount, indicating that their access to finance is far from sufficient (World Bank, 2020). Another challenge is that the majority of agricultural loans are short-term loans (less than one year) for working capital, while long-term loans for capital investment are scarce. Loans with terms exceeding five years account for only about 20% of the total, and the average loan duration shortened from approximately 52.8 months to 34.9 months between 2013 and 2017 (World Bank, 2020).

Furthermore, balancing agricultural development with sustainability is a key challenge in Brazil's agricultural sector. In response to the recent global increase in food demand, illegal deforestation - primarily for the conversion of forest areas into farmland - has been occurring in Brazil, and it has been pointed out that this is contributing to increased greenhouse gas emissions and the loss of biodiversity. Furthermore, the majority of child labor - a social issue in Brazil - occurs in the agricultural sector (U.S. Department of Labor, 2022), and measures to address this issue are also required. Going forward, the Brazilian agricultural sector is expected to expand agricultural production while taking the above challenges into account.

The Brazilian government has traditionally implemented agricultural policies centered on agricultural finance policies to improve access to finance in the country's agricultural sector. Specifically, within the framework of the National Rural Credit System (SNCR: Sistema Nacional de Cadastro Rural), the government works with public financial institutions such as the Brazilian National Bank for Economic and Social Development (Banco Nacional de Desenvolvimento Econômico e Social; hereinafter "BNDES") and other public financial institutions as well as private commercial banks to lend a certain percentage of their customer deposit balances to the agricultural sector at low interest rates set by the government. Through this system, the government aims to provide concessional financing to farmers. To strengthen agricultural production capacity and increase farmers' incomes in Brazil, it is essential to improve financial access within the country's agricultural sector, particularly access to long-term financing. In this regard, the Sicredi system has a strong track record in providing loans to the agricultural sector in Brazil, with a particular focus on lending to small-scale farmers. From a sustainability perspective, the Sicredi system has also taken a pioneering role in promoting sustainability initiatives domestically. It has formulated its own sustainability policy and, based on this, conducts lending operations that take sustainability into account. Additionally, it issued the country's first sustainability bond. It has received high acclaim, including winning the "Lender of the Year" award at the IMPACT Awards 2023, presented by Environmental Finance, a leading global magazine specializing in environmental finance.

Furthermore, improving financial access for micro, small, and medium-sized enterprises

(MSMEs) is a major challenge in Brazil. In Brazil, MSMEs account for 98.5% of all domestic businesses, contribute approximately 27% of the country's GDP, and support 54.5% of formal employment (OECD, 2022). On the other hand, the financing gap for MSMEs in Brazil stands at approximately US\$626 billion, equivalent to about 35% of the country's GDP (World Bank, 2017). Furthermore, the share of domestic credit extended to MSMEs has declined from 48.15% in 2010 to 41.66% in 2020, indicating a deteriorating trend in financial access for Brazilian MSMEs (OECD, 2023).

In response to this situation, the Brazilian government has been working to improve financial access for MSMEs, focusing primarily on institutional finance. For example, the BNDES has established loan programs that offer MSMEs loans at interest rates lower than market rates, as well as guarantee schemes for MSMEs, thereby promoting improved financial access for MSMEs. Furthermore, as a policy to promote economic growth, the Brazilian government has been implementing the "Plano Mais Brasil (Plan for Brazil's Further Leap Forward)" since 2019. Under the MSME support measure "Prospera Micro e Pequena Empresa (Micro and Small Enterprise Prosperity Program)" aligned with this plan, the government is promoting support such as various consulting services related to starting a business and training programs for entrepreneurs. In contrast, Sicredi Bank is also working to increase lending to MSMEs in states where development is lagging (states with a Human Development Index (HDI) below the national average).

This project aims to improve financial access for the country's agricultural sector and MSMEs through loans to the Sicredi System, Brazil's largest credit union group with strengths in financing the agricultural sector and MSMEs, and is consistent with the country's policy direction.

## **(2) Cooperation policies of Japan and JICA for the country's agricultural sector**

Japan's Country Development Cooperation Policy for the Federative Republic of Brazil (April 2018) states that "support will be provided to sectors that contribute to the stable supply of natural and food resources," and this project is consistent with that policy. Furthermore, the policy identifies "improving the investment environment" as a priority area, stating that Japan will provide support "in fields that promote economic growth, including the expansion of human resources, with a view to collaboration with private capital, such as environmental and technical support to strengthen industrial competitiveness." This project is also consistent with this policy.

Furthermore, on May 20, 2023, at a side event on the G7 Global Infrastructure Investment Partnership, Prime Minister Kishida stated that Japan would contribute to the sustainable development of partner countries through public-private infrastructure investment. He also announced plans to establish a new financing framework totaling \$4 billion through JICA to

support food security, small and medium-sized enterprises (SMEs), and women. Based on this, JICA established the “Facility for Supporting Agricultural supply chain and Food security Enhancement (SAFE)” and the “Facility for Accelerating Financial Inclusion (FAFI)” on May 22, 2023. This project aims to improve access to finance for the agricultural sector and MSMEs in Brazil, aligning with the objectives of the SAFE and the FAFI.

Furthermore, this project aligns with the JICA Global Agenda (Sector Project Strategy) under “Private Sector Development (improving the external environment for private-sector growth and enhancing financial and market access)” and “Agricultural and Rural Development (reducing rural poverty by increasing farmers’ incomes and revitalizing rural economies, while ensuring food security through stable food production and supply).”

Furthermore, while JICA has previously implemented projects such as the “Cerrado Irrigation Project” (ODA Loan; approved in 1985; loan period: 25 years) and the “Strengthening the Agricultural Technical Support System to Small-Scale Farmers in Tocantins State Project” (Technical Cooperation; 2003-2006), among others, to improve agricultural infrastructure and strengthen the capabilities of local farmers. However, support for improving farmers’ access to finance has been limited; this project will play a complementary role in JICA’s initiatives within the Brazilian agricultural sector. Furthermore, regarding support for MSMEs, while the “MSME Financial Access Improvement Project in Brazil” (Private Sector Investment Finance) promotes improved financial access for MSMEs, the demand for MSME financing remains high; therefore, this project will serve to further promote the initiatives of existing JICA projects.

### **3. Project Description**

#### (1) Project Description

##### ① Project Objectives

This project aims to improve financial access for the agricultural sector and micro, small, and medium enterprises (hereinafter referred to as “MSMEs”) in Brazil through support for the lending operations of the Sistema de Crédito Cooperativo Sicredi (hereinafter referred to as the “Sicredi System”), Brazil’s largest credit union federation, thereby contributing to the country’s sustainable economic growth centered on the expansion of agricultural production, the improvement of farmers’ incomes, and the promotion of MSMEs.

##### ② Project Details

Loans under this project are provided by Banco Cooperativo Sicredi S.A. (hereinafter referred to as “Sicredi Bank”), which is responsible for fundraising within the Sicredi System, to the credit unions affiliated with the Sicredi System. These funds are then on-lent by the

credit unions to the agricultural sector (70%) and to MSMEs in municipalities with a Human Development Index (hereinafter referred to as “HDI”) that are below the average (30%). Additionally, of the \$30 million in loans for MSMEs in municipalities with an HDI below the average, \$10–15 million will be allocated to loans for the northern and northeastern regions of Brazil.

③ Project Beneficiaries (Target Group)

MSMEs in Brazil’s agricultural sector and in municipalities with an HDI below the average

(2) Total Project Cost: \$297 million (of which \$100 million is the JICA loan amount)

(3) Project Implementation Schedule (Collaboration Period): May 2024 – May 2029

(4) Project Implementation Structure

① Borrower: Sicredi Bank

② Project Implementing Agency: Sicredi Bank

③ Operation Agency: Sicredi Bank

(5) Coordination and Division of Roles with Other Projects and Aid Agencies

① Japan’s Aid Activities:

To date, JICA has supported the development of agricultural infrastructure and capacity building for domestic farmers through initiatives such as the “Cerrado Irrigation Project” (ODA Loan) and the “Strengthening the Agricultural Technical Support System to Small-Scale Farmers in Tocantins State Project” (Technical Cooperation). Additionally, regarding support for MSMEs, JICA is promoting improved financial access for MSMEs through the “MSME Financial Access Improvement Project in Brazil” (Private Sector Investment Financing).

② Aid Activities by Other Donor Agencies:

The International Finance Corporation (hereinafter “IFC”) provided a \$120 million loan to Sicredi Bank in 2021, designated for green loan purposes. The European Investment Bank provided a €200 million loan to Sicredi Bank in 2023, designated for small-scale solar power generation projects.

(6) Environmental and Social Considerations

1) Environmental and Social Considerations

① Category Classification: C

② Basis for Category Classification: This project is classified as Category C under the “Japan International Cooperation Agency (JICA) Environmental and Social Considerations (published in January 2022) because it is determined to have minimal adverse environmental impacts.

(7) Cross-cutting Issues: N/A.

- (8) Gender Classification: Not applicable ■ GI (Gender Mainstreaming Needs Survey and Analysis Project)  
<Reason for Classification> Although gender mainstreaming needs were identified during the review, specific indicators or measures to contribute to gender equality or women's empowerment were not established.
- (9) Other Remarks: This is a bank loan, and there are no particular safety concerns.

#### **4. Project Impact**

(1) Quantitative Impact: To measure the contribution to improvement of financial access of companies in agricultural sector and MSMEs, the following indicators have been established.

- Outstanding loans to the agricultural sector
- Number of loans to the agricultural sector funded by JICA
- Outstanding loan balance for MSMEs (in municipalities with an HDI below the national average)
- Number of loans to MSMEs (in municipalities with an HDI below the national average) funded by JICA

(2) Qualitative effects:

Improved financial access for the agricultural sector and MSMEs, Increased productivity through capital investment by farmers and MSMEs, and the resulting improvement in the living standards of farmers and MSME employees.

#### **5. Assumptions and External Conditions**

N/A

#### **6. Lessons from Past Projects**

Lessons learned from the ex-post evaluation (evaluation year: 2016) of the ODA loan (two-step loan) project for India, "New Renewable Energy Support Project," indicate that during the due diligence not only the screening capabilities of the intermediary financial institutions but also their monitoring systems should have been verified. In cases where these were deemed insufficient, the necessity of establishing a monitoring system should have been assessed, also with the aim of strengthening debt management capabilities. In this project, through the due diligence, Sicrodi's experience in lending operations and its lending implementation framework was verified and it was confirmed that it possesses sufficient implementation capacity; therefore, we judge that there are no particular concerns regarding

the implementation of this project.

## **7. Evaluation Results**

As outlined above, this project supports existing JICA initiatives and contributes to sustainable economic development, job creation, and the reduction of inequality by improving financial access for MSMEs in the agricultural sector and in rural areas, particularly in impoverished provinces. Therefore, it contributes to SDG Goal 1 (No Poverty), SDG Goal 8 (Decent Work and Economic Development) and Goal 17 (Partnerships), and the significance of support through Private Sector Investment Finance is high.

## **8. Future Evaluation Plan**

- (1) Indicators to be used: As described in Section 4.
- (2) Future Evaluation Schedule (Tentative) Ex-post evaluation is planned approximately five years after the signing of the L/A.

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