

AUDITED PROJECT FINANCIAL STATEMENTS

Project N° 1100001674

Loan: 2000000435

Period covered: 1 January to 31 December 2020

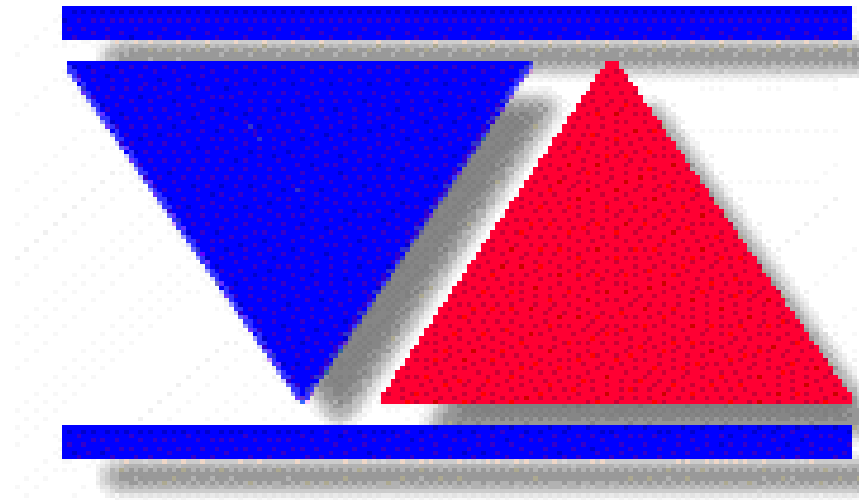
Rural Sustainable Development Project In The Semi Arid Region Of Bahia

Prepared by Tribunal de Contas do Estado da Bahia

Received on 30 June 2021

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**BAHIA STATE COURT OF AUDITORS (TCE / BA)
4th EXTERNAL CONTROL COORDINATION
4D AUDIT MANAGEMENT**



AUDIT REPORT

**SUSTAINABLE RURAL DEVELOPMENT PROJECT IN THE SEMI-ARID REGION
OF BAHIA (PRO-SEMI-ARID)
LOAN AGREEMENT No. 2000000435
PERIOD: 01.01 - 12.31.20 20**

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EXECUTIVE SUMMARY

1 WORK IDENTIFICATION

Nature of Work : Loan Contract Audit
Audited Period: 01.01 to 12.31.2020
Audited Unit: Regional Action and Development Company (CAR)
Manager: Wilson José Vasconcelos Dias
Management Period : 01.01 to 12.31.20 20
Binding: Secretariat for Rural Development (SDR)

2 PROJECT IDENTIFICATION

Loan Agreement: No. 2000000435

Project: Sustainable Rural Development Project in the Semi-Arid Region of Bahia (PRÓ-SEMIÁRIDO).

Objective: Contribute to the reduction of rural poverty in the semi-arid region of the central-north of the State of Bahia, through income generation, increased production, creation of agricultural and non-agricultural work opportunities and development of human and social capital, with special attention women and young people.

Resources Involved: US \$ 95 million, of which: US \$ 45 million from the loan from the International Fund for Agricultural Development (IFAD) and US \$ 50 million from the Government of Bahia.

Execution Period: 20.08.2014 to 30.03.2022¹

Coverage area: 32 municipalities located in the semi-arid region of the center-north of the State of Bahia.

Beneficiaries: 70,000 families of family farmers, settled by agrarian land reform, youth and women, quilombola communities and indigenous peoples and their representations.

Manager (UGP): Wilson José Vasconcelos Dias

Project's Coordenador: Augusto César de Oliveira Maynard

1 - Period initially agreed from August 20, 2014 to August 19, 2020, whose extension occurred on August 11, 2020.

3 AUDIT RESULT

After completing the audit work on the Sustainable Rural Development Project in the Semi-Arid Region of Bahia (PRÓ-SEMIÁRIDO), we present the following summaries of the comments and observations regarding their performance:

1. Regarding internal control, we consider the organizational structure and control systems adopted by CAR, responsible for the execution of the Project, to be satisfactory, except for the weakness mentioned in item 5.1 "a" of the Management Letter (item 3.1 of the Management Letter);
2. The financial statements adequately represent, in all their relevant aspects, the funds received and the disbursements made, as well as the investments accumulated in the Project and the movement of funds in the Special Account, from 01.01 to 12.31.20 20;
3. According to the Statements of the Origins and Applications of Resources, the applications in the year reached US\$13,526,590.93, of which US\$5,000,086.56 from IFAD source, US\$8,138,493.89 from counterpart the state and US\$388,010.48 from the communities. Up to 12.31.2020, 59.62 % of the resources initially allocated were invested in the Project, remaining to be applied, until its completion on 03.30.2022, the amount of US\$38,358,023.72 (item 4.3 of the Management Letter);
4. In the year under review were realized 57 Shopping and 04 (four) Contracts Direct, totaling R\$2.238.430,88. Our exams covered 03 (three) of these bidding procedures, corresponding to 53.40 % (R\$1.195.320,00) of the financial resources involved for the aforementioned modalities, verifying compliance with the IFAD Guidelines for Acquisitions, as well as with the rules contained in the legislation homeland on the subject, with the exception of weakness commented in item 5.1 "a" of the Management Letter;
5. In that same year, 12 terms of contracts were entered into with funds from the Project, resulting in payments in the amount of R\$ 1.003.605,01. We examined 03 (three) of these contracts signed in 2020, corresponding to 67.49 % (R\$1.195.320,00) of the amounts involved, verifying compliance with the Guidelines for Procurement in the loan under the IFAD and the Brazilian legislation on the topic (item 5.2 of the Management Letter);
6. We carry out financial inspection on 23 agreements (signed during the period in question, and previous years), representing 21,16% (R\$2.156.718,39) of the disbursements by the covenants in 2020, considering the records and documents presented as satisfactory; and

7. From the examinations carried out, we observe the compliance with the clauses of an accounting, financial and managerial nature, with regard to the Loan Agreement, laws and official provisions.

AUDIT OPINION

TO THE EXECUTIVE DIRECTOR OF THE DEVELOPMENT AND REGIONAL ACTION COMPANY (CAR)

We have examined the Financial Statements of the Sustainable Rural Development Project in the Semi-Arid Region of Bahia (PRÓ-SEMIÁRIDO), for the period from 01.01 to 12.31.2020, partially financed by the International Fund for Agricultural Development (IFAD), through the Agreement of Loan No. 2000000435, which comprise the Statements of the Origins and Application of Resources (DOAR), Accumulated Investments, Expenses Certificates, the Special Project Account and the Explanatory Notes, prepared under the responsibility of the Development and Regional Action Company (CAR). Our responsibility is to express an opinion on these financial statements, based on our audit.

Our examinations were conducted according to the methodology indicated in the Audit Manual of this Court, in accordance with the Governmental Auditing Standards (NAGs) applied to the Brazilian External Control, with the International Auditing Standards and IFAD Guidelines being applied in addition and comprised: a) the planning of the works, considering the relevance of the values, the volume of transactions and the accounting system and internal controls of the Project; b) verification, based on tests, of the evidence and records that support the values and information disclosed; c) assessing the accounting practices adopted by the Administration, as well as the overall presentation of the financial statements together; and d) verification of compliance with the accounting, financial and managerial clauses provided for in the aforementioned Agreement and in the laws and official provisions related to the Project.

In our opinion, the financial statements mentioned in the first paragraph adequately represent, in all their relevant aspects, the funds received and the disbursements made, as well as the investments accumulated in the Project and the movement of funds in the Special Account, covering the period from 01.01 to 12.31.2020.

We consider the supervision and monitoring activities of the sub-projects co-financed through the loan agreement satisfactory

Salvador, May 17, 2021.

ANTÔNIO LUIZ CARNEIRO **WESLEY FRANCO DE OLIVEIRA**

External Control Coordinator

Audit manager

CRC / BA 18,847

CRC / BA 19,724

ELIELSON SILVA SANTOS **TERESA CRISTINA GM BRAGA**

Audit Leader

Auditor the State of External Control

OAB / BA 34.447

OAB / BA 16,536

NELSON DANTAS DE SOUZA FILHO

Middle Level Technician

CRA / BA 13,604

4 FINANCIAL PERFORMANCE OF THE PROJECT

4.1 Project Cost

The PRO-SEMIÁRIDO has an estimated cost of US\$95 million, of which US\$45 million (equivalent to 29,260,000 SDR²) of funds from the Loan Agreement under review and US\$50 million in counterpart from the Government of Bahia.

In the following Table we show the resources contributed to the Project by category of expenditure.

TABLE 01: Composition of the amount allocated to the Project, by category of expenditure

COMPONENT	(In US \$ million)	
	TOTAL COST	%
Category 1 - Human and Social Capital Development	43,225	45,50
Category 2 - Productive Development, Market Access and Environmental Sustainability	38,950	41,00
Category 3 - Project Management / Project Management	9,785	10,30
Category 4 - Monitoring, Evaluation and Knowledge Management / Monitoring, Evaluation and Knowledge Management	3,040	3,20
TOTAL	95,000	100

Source: Project Implementation Manual (MIP) and Explanatory Notes to the Project's Financial Statements.

4.2 Annual Operating Plan (POA)

For the period audited, the CAR has prepared the Annual Operating Plan (POA), forwarding it to the Bank in 15.10.2019, by electronic means, in compliance with the condition provided for in Article VII, Section 7.01.b (ii) of the Loan Agreement. The approval of this Plan was informed through Official Letter IFAD No. 00004032 / Pro-semi-arid Project / 4206, dated 07.01.2020.

2. "Special Drawing Rights"

According to the approved POA, the PRO- SEMIÁRIDO budget for 2020 totaled US\$29,107,935.42, equivalent to R\$119.360.000,00, of which US\$15,851,338.83 (R\$ 65,000,000.00) came from the State Government and US\$8,501,926.55 (R\$34.863.000,00) of IFAD source, in addition to being authorized to this state entity to contribute to the Project US\$4,754,670.05 (R\$19.497.000,00) from other sources, as reported in the following item. Thus, the resources allocated to the State Government in 2020 totaled US\$20,606,008.88 (R\$84.497.000,00).

The activities for which financial resources were invested in the Plan include actions aimed at the implementation of community projects, technical assistance to rural producers, as well as the management of the Project.

4.3 Resource Applications

Initially, it is worth mentioning that during the Project's Mid Term Review Mission, which took place from 19 to 30 November 2018, the State of Bahia proposed to IFAD to present, as a counterpart, expenses related to agreements from other sources³, following eligibility criteria and municipalities where the Project operates.

The IFAD Mission agreed with the request, as ratified in item 82 of its Report, as follows:

82. The mission agreed that complementary expenditures to productive and socio-cultural investment agreements are exceptionally acceptable for agreements signed until November 30, 2018. Agreements signed after this date should integrate complementary investments with this information from other sources. (...) This information should be included in the Semiannual / Annual Financial and Progress Reports, as well as in the Annual Financial Statements. As this contribution shall be considered contribution to the PSA it is under scope of the audit which should consider these expenses are for opinion and analysis purposes. **In the POAs of 2019 and 2020 the values of these counterparts must be reported in a segregated manner** with the corresponding information. (*sic*) (emphasis added)

Thus, according to Statement of Sources and Uses Recourses applications occurred in the year 2020 reached **US\$13,526,590.93** (R\$52.950.585,07), corresponding to 46.47 % of the amount foreseen in that Operative Plan .

³ –_According to item 81, of the Project's Mid-Term Review Mission Report, from November 19 to 30, 2018, the following sources were listed: Water for all; Bahia Productiva; Special CAR Project for Productive Inclusion, Mechanization, Agribusiness, Promotion of Production and Infrastructure; State Program for the Distribution of Palms, Seeds, Rainfed Fruit; and Rural Housing for Quilombolas.

Considering the accumulated values and comparing them with the resources foreseen for the Project, the investments presented, on 12.31.2020, the composition shown below.

TABLE 02: Resources planned and applied in the period - by source

(In US \$)

SOURCE	PROVIDED (A)	INVESTMENT IN THE YEAR	ACCUMULATED UNTIL 31.12.20 20 (B)	% (B / A)
IFAD	45,000,000.00	5,000,086.56	33,188,895.23	73.75
STATE	50,000,000.00	8,138,493.89	37,814,892.40	75.63
Project Source	50,000,000.00	5,338,927.87	23,453,081.05	46.91
Other State Sources	-	2,799,566.02	14,361,811.35	-
LOCAL	-	388,010.48	3,172,609.56	-
TOTAL	95,000,000.00	13,526,590.93	74,176,397.19	59.62 *

Sources: Loan Agreement, statement of the origins and applications of resources (DOAR) and Statement of Investments in the Project - Base Date 31.12.2020

* Without considering the value of Other State Sources and the Local counterpart.

Note: According item 11, the M annual I MPLEMENTATION the Project, there may be counterpart funds of the beneficiaries, "under the monetary form or hand labor supply, materials, mobilization or any other type of available resource by the community."

From the data presented, it is observed that until December 31, 2020, 73.75% were disbursed by the source FIDA and 46.91% by the state source directly linked to the Project, noting that, according to the agreement of FIDA, as previously mentioned, also the State of Bahia was authorized to contribute amounts from other sources to the Project, whose investments totaled US\$2,799,566.02, representing 58.88% of the amounts provided for in the POA.

In turn, although it was not established what the counterpart amount would be for the communities benefited by the Project, they allocated US\$388,010.48 during that year. Thus, considering only the resources initially allocated to the Project, totaling US\$95 million, the amount of US\$38,358,023.72 (40.38%) remains to be applied.

From the examinations carried out in the accounting and financial records, we found the regularity of the investments made, as well as the consonance of the accumulated investments with the goals and objectives of the Project, in the year under review.

4.4 Movement of the Special Account

In the period from January to December 2020, the amount of US\$1,738,674.00 (R\$9,312,986.01) was deposited in the Special Account, destined to their feed, corresponding to the withdrawals made in that same period, zeroing the balance of that Account.

4.5 Reimbursement Requests (PR)

In that same period, CAR issued Reimbursement Requests no^s. 23 to 25, in the amount of US\$5,000,086.56, whose reimbursements totaled US\$2,638,674.00, equivalent to R\$14,145,986.01. From the examinations carried out on these requests, we found that they are in line with IFAD's rules.

It is noteworthy that, in 2020, US\$2,361,412.56 were deducted from these reimbursement requests, to recover the initial advance of funds to the Designated Account (US\$6,500,000.00), as commented on item 8 of the Explanatory Notes.

Furthermore, for Refund Request No. 25, it was agreed with IFAD that the amount of the refund (US\$900,000.00) would be deposited in the Special Project Account in January 2021. It should be noted that this PR was submitted for analysis in December 2019, as commented on in item 6 of the Explanatory Notes.

4.6 Payment of Principal and Interest

The Directorate of the Treasury (DEPAT), which is part of the structure of the State Finance Secretariat (SEFAZ), is responsible, among other duties, for the registration and control of credit operations carried out by the State, as well as the accounting and financial control of the Special Account. .

According to the statements presented by SEFAZ, in 2020 the State of Bahia made payments to IFAD corresponding to the amortization of the principal of Loan Agreement No. 2000000435, in the amount of US\$2,712,169.77 (R\$14.982.337,59), and the interest in the amount of US\$519,713.94 (R\$2.896.536,44).

In our exams, we found that the commitments were correctly calculated and paid by the Executive Board, observing the dates foreseen in the Loan Agreement, as shown in the table below:

TABLE 03: Principal and interest payments on the loan in 2020

DESCRIPTION	PAID ON 08.05.2020		PAID ON 11.09.2020		TOTAL	
	US \$	R\$	US \$	R\$	US \$	R\$
Main	1,332,394.02	7.731.616,02	1,379,775.75	7.250.721,57	2,712,169.77	14.982.337,59
Fees	302,007.46	1.752.488,89	217,706.48	1.144.047,55	519,713.94	2.896.536,44
TOTAL	1,634,401.48	9.484.04,91	1,597,482.23	8.394.769.12	3,231,883.71	17.878.874,03

Source: SEFAZ - DEPAT - Contract Expenditures Report on 2020.

4.7 Financial Valuation

From the examinations carried out, we found that the accounting and financial records related to the Project's actions adequately represent, in all their relevant aspects, the funds received and the disbursements made, as well as the investments accumulated in the Project and the movement of resources in the Special Account , in the period from 01.01 to 12.31.2020 .

It is worth mentioning that, due to the pandemic of the New Coronavirus (COVID-19), the State of Bahia adopted several health protocols as temporary measures to prevent its spread; for this reason, CAR informed IFAD (email sent on February 3, 2021) about the need to remotely carry out the audit of the subprojects under agreement, that is, without on-site inspection, in order to avoid face-to-face contact between technicians and the beneficiaries of the project. It should be noted that, in an email sent on February 9, 2021, IFAD's Financial Division promptly responded to this request.

Salvador, 17 of May of 20 21 .

ANTÔNIO LUIZ CARNEIRO
External Control Coordinator
CRC / BA 18,847

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