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Enabling poor rural people  
to overcome poverty

## President's report

## Proposed loan and grant to the Republic of Rwanda for the

## Project for Rural Income through Exports

### Note to Executive Board representatives

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For: **Approval**

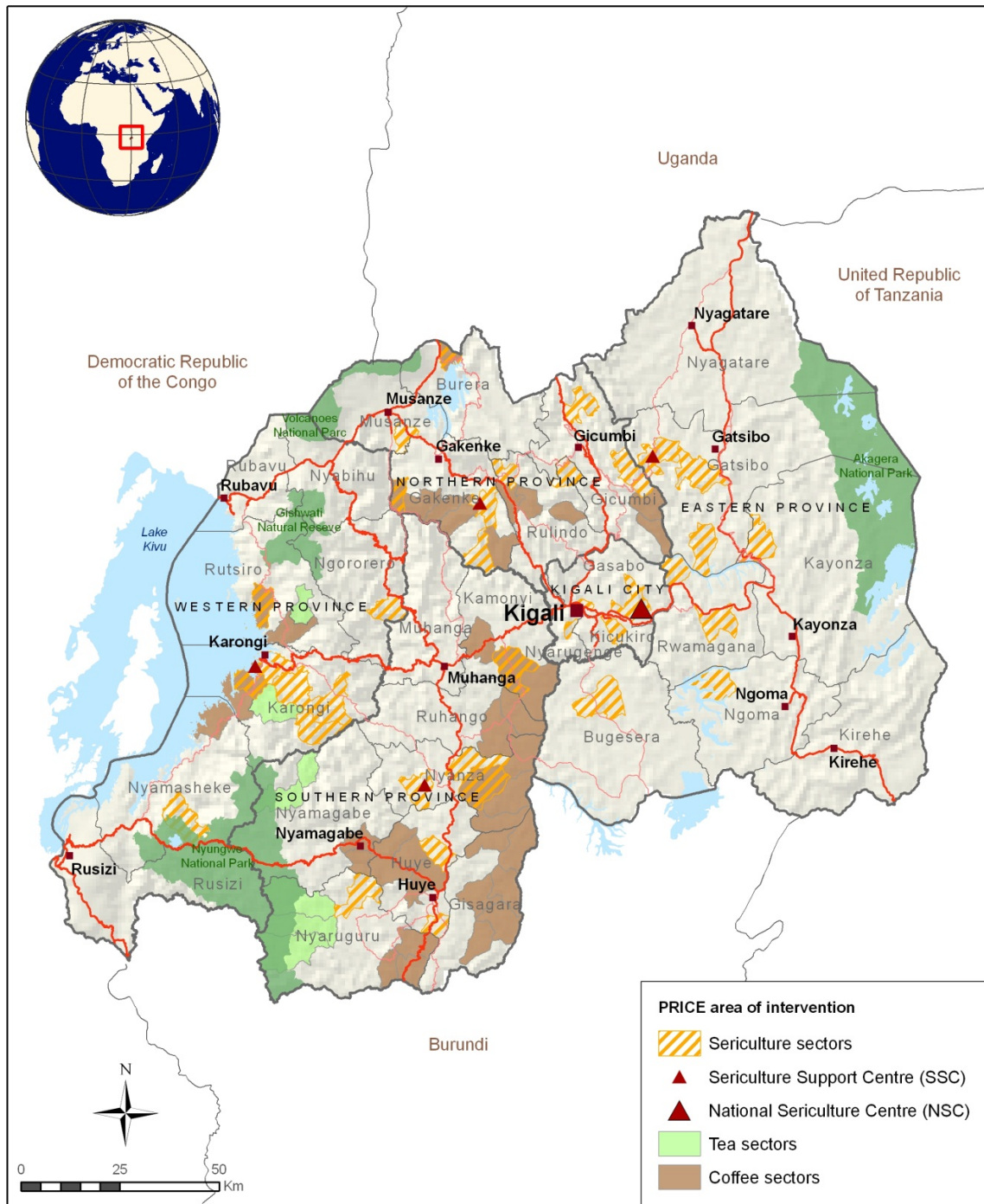
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# Rwanda

## Project for Rural Income through Exports

Priority project sectors



23-6-2011



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD

## Republic of Rwanda

### Project for Rural Income through Exports

#### Financing summary

<b>Initiating institution:</b>	IFAD
<b>Borrower:</b>	Republic of Rwanda
<b>Executing agency:</b>	Single Project Implementation Unit of the Ministry of Agriculture and Animal Resources
<b>Total project cost:</b>	US\$56.1 million
<b>Amount of IFAD loan:</b>	SDR 11.6 million (equivalent to approximately US\$18.7 million)
<b>Amount of IFAD grant:</b>	SDR 11.6 million (equivalent to approximately US\$18.7 million)
<b>Terms of IFAD loan:</b>	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
<b>Cofinancier(s):</b>	Private sector; unidentified
<b>Amount of cofinancing:</b>	Private sector: US\$2.8 million Unidentified: US\$10.3 million
<b>Terms of cofinancing:</b>	Private sector: equity Unidentified: grant
<b>Contribution of borrower:</b>	US\$5.1 million
<b>Contribution of beneficiaries:</b>	US\$0.5 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	Directly supervised by IFAD

## Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of Rwanda for the Project for Rural Income through Exports, as contained in paragraph 37.

## Proposed loan and grant to the Republic of Rwanda for the Project for Rural Income through Exports

### I. The project

#### A. Main development opportunity addressed by the project

1. The project will assist smallholder producers in taking advantage of concrete income opportunities in pro-poor cash crop value chains in partnership with private operators. It will mainly focus on the proven export crops of coffee and tea, the promising export crop of silk, and horticultural crops principally for local and regional markets.

#### B. Proposed financing

##### Terms and conditions

2. It is proposed that IFAD provide to the Republic of Rwanda a loan in the amount of SDR 11.6 million (equivalent to approximately US\$18.7 million), on highly concessional terms, and a grant in the amount of SDR 11.6 million (equivalent to approximately US\$18.7 million) to help finance the Project for Rural Income through Exports (PRICE). The loan will have a maturity of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum.

##### Relationship to the IFAD performance-based allocation system (PBAS)

3. The allocation defined for Rwanda under the PBAS is US\$39.8 million over the 2010-2012 allocation cycle. In July 2011, IFAD proposed the equivalent of US\$2.5 million as add-on financing for the Support Project for the Strategic Plan for the Transformation of Agriculture. The entire balance of the allocation is intended to finance the proposed project.

##### Relationship to national medium-term expenditure framework criteria

4. The Government of Rwanda plans its national budget in accordance with the priorities of its Economic Development and Poverty Reduction Strategy. The 2010/11 budget foresees increases to the agricultural sector for the following two years, including the expenditure for the proposed project.

##### Relationship to national sector-wide approaches or other joint funding instruments

5. Project activities are fully aligned with Rwanda's sectoral priorities and the plans to establish an agricultural sector-wide approach (SWAp) to harmonize and link the public interventions in the sector. It will follow the project funding method foreseen in the SWAp memorandum of understanding, the implementation leadership role of the single project implementation unit and sector-wide monitoring and evaluation processes. These arrangements are consistent with the IFAD policy on Sector-wide Approaches for Agriculture and Rural Development.

##### Country debt burden and absorptive capacity of the State

6. As a heavily indebted country, Rwanda was a major beneficiary of the Debt Initiative for Heavily Indebted Poor Countries. Nonetheless, its nominal debt stock remained unsustainable, albeit with recent improvements. The World Bank, African

Development Bank and IFAD are now providing financial assistance in the form of 50 per cent loans and 50 per cent grants under the debt sustainability framework.

#### **Flow of funds**

7. IFAD will open a loan and a grant account for the project. IFAD funds will be channelled to a designated account opened by the Government, denominated in United States dollars, and to a project operations account, denominated in local currency. Both accounts will be managed by the Ministry of Agriculture and Animal Resources.

#### **Supervision arrangements**

8. The project will be supervised directly by IFAD.

#### **Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies**

9. No exceptions are foreseen.

#### **Governance**

10. The following planned measures are intended to enhance the governance aspects of the IFAD financing: (i) contracting in accordance with government procurement processes and regulations, which are in line with the IFAD Procurement Guidelines; and (ii) performance-based contract management.

### **C. Target group and participation**

#### **Target group**

11. In accordance with the IFAD Policy on Targeting, the project will focus on smallholder farmers as the main target group. Within this group, woman-headed households and households with little land will be specifically targeted. The project, while national in scope, will focus on western Rwanda for coffee and tea development. Sericulture and horticulture activities will be widely dispersed. About 128,700 households will benefit from the project.

#### **Targeting approach**

12. Geographical targeting will identify potential project sites based on agroecological and economic conditions. Within these sites, mechanisms of inclusion will promote and facilitate the participation of vulnerable households, especially woman-headed households and households with little land.

#### **Participation**

13. Participating households will be organized into cooperatives, where investment and service decisions will be made. Internal democratic processes will be promoted through training and coaching in cooperative governance. At the project level, the participation of client representatives in planning and oversight will be supported through the participation of beneficiary representatives in the Project Steering Committee.

### **D. Development objectives**

#### **Key project objective**

14. The overall goal of the project is to raise smallholder farmers' incomes. Its development objective is to promote sustainable increased returns to farmers from key export-driven agricultural value chains through increased volume and quality of production, improved marketing and effective farmer organizations.

#### **Policy and institutional objectives**

15. The project aims to change the mechanism determining the farmgate price of tea leaves by improving farmers' negotiating position. Its institutional objective is strengthened producer cooperatives as full-fledged economic partners of the private sector.

### **IFAD policy and strategy alignment**

16. The project will contribute to all three strategic objectives of IFAD's country strategic opportunities programme for Rwanda: (i) increasing economic opportunities for the rural poor and raising their income sustainably; (ii) strengthening organizations and institutions of the rural poor; and (iii) promoting the participation of vulnerable groups in the social and economic transformation. It is also fully consistent with IFAD policies, including the Private Sector Policy, the Rural Finance Policy, the IFAD Strategic Framework (2011-2015) and the Policy on Sector-wide Approaches for Agriculture and Rural Development.

## **E. Harmonization and alignment**

### **Alignment with national priorities**

17. The project is fully consistent with and responds well to both the Strategic Plan for the Transformation of Agriculture and the Economic Development and Poverty Reduction Strategy. It is also closely aligned with the objectives of the country strategic opportunities programme agreed between the Government and IFAD. The intensification of smallholder cash crop production and marketing is a key priority for the Government.

### **Harmonization with development partners**

18. The project was prepared jointly with partners active in rural development through the Country Programme Management Team in Rwanda. Through this process, synergies were developed with the Wood Family Trust, a private foundation, and the World Bank-supported Competition and Enterprise Development Project. The project will also build on the Rwanda Horticulture Support Project supported by the Belgian Technical Cooperation, currently in the closing phase.

## **F. Components and expenditure categories**

### **Main components**

19. The project has six components: (i) coffee development (36 per cent of project base costs), increasing the production and quality of fully-washed coffee and targeting profitable markets; (ii) tea development (30 per cent), supporting tea expansion in a partnership model that introduces competition among private investors; (iii) silk development (7 per cent), establishing a smallholder sericulture sector in Rwanda; (iv) horticulture (6 per cent), supporting business partnerships involving private and smallholder partners; (v) financial services (13 per cent), providing adequate and sustainable financial services to participating stakeholders; and (vi) project management and institutional support (8 per cent), strengthening government agencies for project implementation and for sustainable value chain support.

### **Expenditure categories**

20. There are two expenditure categories: (i) goods and development funds; and (ii) services and recurrent costs.

## **G. Management, implementation responsibilities and partnerships**

### **Key implementing partners**

21. These will be: (i) the National Agricultural Export Development Board (NAEB); (ii) the Rwanda Agriculture Board (RAB); and (iii) the Development Fund of the Rwanda Development Bank (BRD).

### **Implementation responsibilities**

22. The Single Project Implementation Unit (SPIU) will coordinate the project, with NAEB carrying out the majority of project activities. Project coordination functions will be integrated into the SPIU and NAEB, with a PRICE operational manager function temporarily created to assist in discharging management responsibilities. The Permanent Secretary of the Ministry of Agriculture and Animal Resources will chair the Project Steering Committee.

**Role of technical assistance**

23. The project will provide significant technical assistance to boost the capacities of participating cooperatives to manage economic processes, and to selected central government entities and farmers' organizations. In particular, technical assistance is foreseen to provide support to farmer field schools and the cooperative Turnaround Programme.

**Status of key implementation agreements**

24. The Government, which committed to making NAEB operational by end-July 2011, has set up the new institution and filled key management positions.

**Key financing partners and amounts committed**

25. The total project cost is US\$56.1 million over seven years. The sources of financing are IFAD (66.7 per cent), unidentified financiers (18.4 per cent), farmers (0.9 per cent), private sector (5.0 per cent) and Government (9.0 per cent). The Government's contribution will cover all taxes and part of the salaries and operating costs of the silk development component.

**H. Benefits and economic and financial justification****Main categories of benefits generated**

26. Main benefits will include production increases and higher farmgate prices. For coffee, the yield per tree in targeted existing plantations will increase by at least 30 per cent, and the tea growers' share of the final market price will reach at least 40 per cent.

**Economic and financial viability**

27. The economic internal rate of return of the project is estimated at 17.2 per cent. Its economic viability is resilient to adverse changes in project costs.

**I. Knowledge management, innovation and scaling up****Knowledge management arrangements**

28. A project learning system integrating planning, M&E and knowledge management will be developed in early project implementation as a NAEB tool to measure and analyse project progress and impact, identify successes and share knowledge with project stakeholders. In addition, the project will assist NAEP in the development of a knowledge management strategy and management information system covering project-specific and sector-wide information.

**Development innovations that the project will promote**

29. Key innovations include: (i) targeted extra support to vulnerable households for establishing tea and coffee plantations, (ii) competitive mechanisms for allocating project support to the sites where private partners offer the best prices for farmer-produced green leaves of tea, and (iii) the smallholder production model for silk.

**Scaling-up approach**

30. The project represents a scaling-up of its predecessor, the Smallholder Cash and Export Crops Development Project, with improvements in its pro-poor approach and the operating effectiveness of support operations.

**J. Main risks****Main risks and mitigation measures**

31. The project faces two main institutional risks relating to: (i) the creation of NAEB; and (ii) the management capacities of the cooperatives. The former entails potential inefficiencies and delays, which will be mitigated by ensuring that sufficient staff, technical assistance and service providers are available. The latter is addressed by the inclusion of each participating cooperative in the Turnaround Programme (a comprehensive programme strengthening cooperative governance and management) and the development of monitoring and evaluation systems to support



the internal management of the cooperatives. Another main risk is the as yet unidentified financing of US\$10.3 million for the project, which has been mitigated by not planning any unfinanced costs up to project year four. In the case that no other cofinancier is found, IFAD is foreseen as financier of last resort.

#### **Environmental classification**

32. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that by design it is environmentally friendly and aligned with national environmental policies and strategies. The key environmental risk relates to organic effluents from coffee washing stations, which will be mitigated by installing fully subsidized water treatment facilities and supporting their operation.

#### **K. Sustainability**

33. The project will develop viable and sustainable business models in the coffee, tea, sericulture and horticulture value chains, with the clear objective of developing institutions that are able to operate independently after project completion.

### **II. Legal instruments and authority**

34. A project financing agreement between the Republic of Rwanda and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.
35. The Republic of Rwanda is empowered under its laws to receive financing from IFAD.
36. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

### **III. Recommendation**

37. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall make a loan on highly concessional terms to the Republic of Rwanda in an amount equivalent to eleven million six hundred thousand special drawing rights (SDR 11,600,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of Rwanda in an amount equivalent to eleven million six hundred thousand special drawing rights (SDR 11,600,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein..

Kanayo F. Nwanze  
President

## **Negotiated financing agreement:**

### **"Project for Rural Income through Exports"(PRICE)**

(Negotiations concluded on 2 September 2011)

Loan Number: [click and insert number]

Grant Number: [click and insert number]

Project Title: Project for Rural Income through Exports (PRICE) (the "Project")

The Republic of Rwanda (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

#### **Section A**

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 17 September 2010, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan and a Grant to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

#### **Section B**

1. A. The amount of the Loan is eleven million six hundred thousand Special Drawing Rights (SDR 11 600 000).  
B. The amount of the Grant is eleven million six hundred thousand Special Drawing Rights (SDR 11 600 000).
2. The Loan is granted on highly concessional terms as defined in Section 5.01 (a) of the General Conditions.
3. The Loan Service Payment Currency shall be the United States Dollars (USD).
4. The first day of the applicable Fiscal Year shall be the first of July.
5. Payments of principal and service charge shall be payable on each 15 April and 15 October.

6. The Borrower shall open a Designated Account in the National Bank of Rwanda for the purposes of financing the Project with IFAD loan and grant proceeds and operated by the Lead Project Agency.

7. There shall be a Project Account opened in the National Bank of Rwanda and operated by the Lead Project Agency.

8. The Borrower shall provide counterpart financing for the Project in an approximate amount of four million one hundred sixty thousand United States Dollars (USD 4 160 000). The counterpart financing provided by the Borrower shall cover the payment of duties and taxes related to the Financing and some recurrent costs.

### **Section C**

1. The Lead Project Agency shall be the Ministry of Agriculture and Animal Resources (MINAGRI) of the Borrower, acting through its Single Project Implementation Unit (SPIU).

2. The following are designated as additional Project Parties: National Agricultural Export Development Board (NAEB), the Rwanda Agriculture Board (RAB), and the Development Fund (BDF) of the Development Bank of Rwanda (BRD).

3. The Project Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement.

### **Section D**

The Financing shall be administered and the Project supervised by the Fund.

### **Section E**

1. The following are designated as additional grounds for the suspension of this Agreement:

- (a) The Project Implementation Manual (PIM), or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior agreement of the Fund and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project, and the Borrower has not taken any measures to remedy the situation; and
- (b) The Project Coordinator and/or the PRICE Operational Manager and/or the Project Director of Administration and Finance (DAF) have been removed from the Project without the prior concurrence of the Fund.

2. The following are designated as additional general conditions precedent to withdrawal:

- (a) The Designated Account and the Project Account shall have been duly opened by the Borrower;
- (b) The first draft of the PIM shall have been submitted to the Fund;
- (c) The Project Coordinator, the PRICE Operational Manager, and the DAF shall have been duly appointed by the Borrower with the prior no-objection of the Fund; and

(d) The Borrower shall have established the Project Steering Committee.

3. This Agreement is subject to ratification by the Borrower.

4. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

President  
International Fund for Agricultural Development  
Via Paolo di Dono 44  
00142 Rome, Italy

For the Borrower:

Ministry of Finance and  
Economic Planning  
of the Republic of Rwanda  
P.O. Box 158  
Kigali, Republic of Rwanda

This Agreement, dated [click and type], has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

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For the Fund  
[insert name and title]

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For the Borrower  
[insert name and title]

## Schedule 1

### *Project Description and Implementation Arrangements*

#### I. Project Description

1. *Target Population.* The Project shall benefit smallholder farmers, and especially woman-headed households and households with little land, involved in the production of coffee, tea, sericulture and horticulture, which is estimated to amount to 128 700 households, including some 72 400 coffee farmers, 14 300 tea farmers, 1 600 farmers producing raw silk and about 7 200 horticultural producers. The Project Area shall have a national scope, and it shall comprise the Southern and Western Provinces of Rwanda for tea activities. Sericulture and coffee activities shall be dispersed in agro-ecological zones across the country, and horticulture activities shall be implemented in agro-ecological zones established on the basis of pre-determined production criteria.
2. *Goal.* The goal of the Project is to raise the income of smallholder farmers.
3. *Objectives.* The objective of the Project is to achieve sustainable increased returns to farmers from key export-driven agricultural value chains, through increased volumes and quality of production, improved marketing and effective farmer organisations. Additionally, the Project shall strengthen producer cooperatives as full-fledged economic partners of the private sector.
4. *Components.* The Project shall consist of the following Components: (I) Coffee Development, (II) Tea Development, (III) Silk Development, (IV) Horticulture, (V) Financial Services, and (VI) Project Management and Institutional Support.

**4.1. Component 1: Coffee Development.** This component shall include three sub-components.

4.1.1. Sub-component 1.1: Production and quality. The activities under this sub-component shall include:

- (a) *Research* on the: (i) production of in vitro plantlets; (ii) increase in the number of high quality clones to enhance productivity and reduce dependence on a few varieties; (iii) development of Integrated Pest Management (IPM) packages to eliminate major pests. In addition, national Soil and Leaf Analyses shall be conducted to define fertiliser requirements for the different coffee growing areas.
- (b) *Increasing access to clean planting material* by training farmers on adequate tree planting techniques and nursery management to reduce the loss of seedlings.
- (c) *Increasing access to fertilisers* by: (i) developing farmers' capacity to use fertilisers through farmers field schools (FFS); (ii) disseminating and implementing the Soil and Leaf Analysis, including building the capacities of extension service personnel; (iii) linking cooperatives to private suppliers, and assisting them in placing adequate and timely orders through the Turnaround Programme, described in sub-component 1.2 (section 4.1.2); (iv) developing a cooperative-based voucher system for purchasing fertilisers; and (v) facilitating cooperatives' timely access to commercial credit.

- (d) *Increasing access to training and advisory services* by: (i) financing FFS for 60 000 coffee growers on existing plantations and 12 000 coffee growers on new ones; (ii) financing the Turnaround Programme; and (iii) establishing an advisory system for coffee cooperatives by training NAEB; developing cooperatives' and unions' capacities to provide services for which they have a comparative advantage; promoting the use of radio and cell phones to provide access to technical messages and information; and improving linkages between cooperatives and exporters.
- e) *Expansion of plantations* by producing 3,100 ha of new coffee plantations in an initial three year phase, including 600 ha of coffee plantations started by the Smallholder Cash and Export Crops Development Project (PDCRE) entered into between the Republic of Rwanda and the Fund (IFAD Loan No. 596-RW). At the end of the initial three year phase, the Borrower shall make an assessment of performance results. Pending a positive performance assessment, the Project shall initiate a second phase of coffee plantations that shall cover an additional 2 900 ha.

4.1.2. Sub-component 1.2: Processing and marketing. The activities under this sub-component shall include:

- (a) *Supporting cooperative-owned coffee washing stations* by implementing the Turnaround Programme in approximately 67 additional cooperative owned coffee washing stations. Under the Turnaround Programme, selected business advisors shall ensure tailor-made support to each coffee cooperative in order to develop a business plan, strengthen organisation and governance, develop linkages with buyers and financial institutions, provide training in processing techniques and quality control, set up a coffee traceability system and strengthen management skills.
- (b) *Financing 50 new coffee washing stations* in carefully targeted areas with grants to meet part of their investment costs, on the basis of need, production and marketing potential.
- (c) *Quality enhancement* through the provision of cupping training workshops to coffee farmers, and *assisting* coffee cooperatives in accessing certification programmes.
- (d) *Branding and promotion* through the development and implementation of a Rwanda coffee branding *strategy* to promote both national and regional origins.
- (e) *Capacity building* for cooperative-owned export and marketing companies, including Misozi, based on capacity assessment.
- (f) *Roasting support for women in selected cooperatives* in order to develop coffee roasting activities for the domestic market.

4.1.3. Sub-component 1.3: Value chain governance. The activities under this sub-component shall include:

- (a) Assisting the national coffee multi-stakeholder platform gathering value chain stakeholders and district-level multi-stakeholder coffee task forces.
- (b) Supporting the Rwandan Coffee Cooperatives Federation (RCCF) and its unions through: (i) capacity assessments; (ii) the revision of the RCCF strategy and the establishment of annual business plans; (iii) training and

other capacity building support; and (iv) technical support to make RCCF and unions financially sustainable.

- (c) Providing technical assistance to coffee farmers, through a service provider, for innovation and value chain development.
- (d) Creating a Coffee Information System.

**4.2. Component 2: Tea Development.** This component shall build on the tea expansion model of PDCRE in partnership with private investors. The objective of this component is to increase farmer revenues by: (i) building their capacities to produce more and better green leaves, (ii) support tea factories in reaching high value markets, and (iii) promoting cooperation between tea cooperatives and private factories in order to enable farmers to earn a higher share of the end market price. This component shall include three sub-components.

4.2.1. Sub-component 2.1: Consolidation at Nshili and Mushubi sites. This sub-component shall consolidate PDCRE's achievements at the Nshili and Mushubi Project sites. The activities under this sub-component shall include:

- (a) *Developing a new business model.* The Project shall assist the existing tea cooperative at Nshili and the Nshili-Kivu Tea Factory (NKTF) to negotiate and sign an agreement to define their respective responsibilities in reaching a profitability objective. The tea cooperative shall be responsible for meeting agreed quantities and quality of green leaves, for planning and executing new planting; for ensuring proper maintenance of the tree bushes; and for applying state-of-the-art practices to production. NKTF shall be responsible for purchasing green leaves against an agreed formula enabling a higher and more equitable pricing than the current minimum price set by the National Tea Working Group.
- (b) *Support to tea cooperatives.* Under this sub-component, the Project shall finance, for the two tea cooperatives in Nshili and Mushubi respectively: (i) FFS in existing tea plantations; (ii) technical support to improve the operational and financial management of the tea cooperatives; (iii) technical staff (agronomists and field technicians) for the tea cooperatives; (iv) a NAEB team to support and assist the cooperative technical staff in the first year of the Project; and (v) legal capacity building to improve the tea cooperatives' negotiating ability.
- (c) *New plantations.* The Project shall finance the planting of an additional 445 ha of *thé* villageois (smallholder tea) if certain pre-conditions, as determined in the Project Implementation Manual are satisfied.

4.2.2. Sub-component 2.2: Greenfield site development. The activities under this sub-component shall promote the development of the institutional capacities of the four tea cooperatives recently established on the new Greenfield tea sites of the Project area (the Greenfield sites of Gatara, Rutsiro, Karongi, and Muganza-Kivu), and to support the development of these four new Greenfield sites. The activities under this sub-component shall include:

- (a) *Assisting new tea cooperatives* through: (i) the implementation of FFS; (ii) assisting the management capacity building of the cooperatives along the Nshili model, in line with sub-component 2.1 (section 4.2.1); (iii) providing legal assistance and the services of an investment broker for the tea

cooperatives; (iv) financing the initial salaries of essential tea cooperative staff; and (v) office construction and the provision of equipment.

- (b) *Greenfield site packages.* The Project shall: (i) purchase equity shares belonging to the tea factories for the benefit of the tea cooperatives on the Greenfield sites; (ii) provide seedlings, initial fertilisers, and planting equipment to the tea cooperatives. Moreover, the Project shall establish a total of 1 800 ha of tea plantations on the Greenfield sites; (iii) develop infrastructure, by constructing farm roads and collection points; (iv) provide marketing support to tea factories, by implementing activities aimed at assisting them in increasing the quality of production, in forging links with buyers for direct sales, and in raising added value, for example, through certification; and (v) implement FFS on the Greenfield sites for the beneficiaries. The size of the Greenfield Site packages shall be staggered, with the largest package implemented at the site where the private investor shall have offered the most favourable conditions to tea growers.

4.2.3. Sub-component 2.3: Tea support services. Activities under this sub-component shall include:

- (a) *Research.* The Rwanda Agriculture Board (RAB) shall conduct research on: (i) the development of high performing and high quality tea clones; (ii) experimental trials on fertiliser use; and (iii) soil and leaf analysis.
- (b) *Support to the federation and unions of tea cooperatives by:* (i) carrying out a capacity assessment of the federation and unions; (ii) establishing an annual business plan for *the* federation and unions; (iii) training and developing the capacity of the federation in becoming financially autonomous.
- (c) *Land titling.* The Project shall implement land registration and titling for tea growers in the new plantations described in sub-component 2.1 (section 4.2.1).
- (d) *Technical assistance for innovation and value chain development.* A service provider with proven experience in supporting the tea industry shall be contracted to provide short-term technical assistance to the tea factories and participating cooperatives in the Project Area on: strategic guidance, problem identification and solving, and coordination support.

**4.3. Component 3: Silk development.** Under this component, the Project shall progressively set-up a cost-effective business model for sericulture and basic processing in Rwanda, in order to increase the sustainable income of the members of the 40 sericulture cooperatives in the Project Area. This component shall include three sub-components.

4.3.1. Sub-component 3.1: Farmer-based production. The activities under this sub-component shall include:

- (a) Assisting individual farmers in building simple rearing houses of raw clay bricks by providing each participating cooperative with one brick moulding machine, which in turn shall be rented to farmer.
- (b) Supplying individual farmers with roofing material and rearing equipment.
- (c) Providing individual farmers with sericulture input packages for three consecutive cycles.



- (d) Training farmers on appropriate production techniques, both for mulberry trees cultivation and silkworm rearing.

4.3.2. Sub-component 3.2: Field support services. The activities under this sub-component shall include:

- (a) *Importation of silkworm eggs.* the National Sericulture Centre (NSC) shall import approximately 11 000 boxes of silk worm eggs.
- (b) *Access to fertilisers.* The Project, through NSC, shall set up a revolving fund in every silk *cooperative* in order to purchase fertilizers and other critical inputs (lime, formalin, etc.) needed for the maintenance of mulberry and silkworm rearing.
- (c) *Access to management services.* The Project, through NSC, shall contract one management advisor in each of the five Sericulture Support Centres (SSCs). These *management* advisors shall assist each SSC Manager. The management advisors shall support the cooperatives in preparing and implementing their annual business plans, and developing the cooperatives' capacities to organise support services on a cost-effective basis.
- (d) *Access to technical services.* The Project, through NSC, shall contract sericulture specialists and extensionists in each of the five SSCs to provide a range of technical *assistance* to cooperatives and their members. The technical assistance shall include, amongst other things, sericulture techniques, mulberry tree maintenance and leaf production, and intercropping techniques to grow food crops in the mulberry tree plantations.
- (e) *Access to markets.* The Project shall finance approximately 10 cocoon drying *chambers* for sericulture cooperatives and private partners.

4.3.3. Sub-component 3.3: National value chain support. The activities under this sub-component shall include:

- (a) Technical assistance to NSC. A service provider with proven experience in supporting the sericulture industry shall be contracted by NSC to provide technical assistance related to: (i) training NSC and SSCs technicians in appropriate sericulture technologies; (ii) assisting NSC and SSCs in organising support services to cooperatives and farmers; (iii) assisting NSC in introducing and testing the new concept of Young Sericulture Rearing Centres; (iv) assisting the NSC and SSCs in improving cultural techniques for maintaining mulberry plantations and increasing mulberry leaf yields; and (v) organising study tours to silk-producing countries for technicians and farmers.
- (b) Institutional support to NSC. The project, through NSC, shall contract a sericulture technician, a financial manager and an office assistant, to assist the institutional development of the NSC.
- (c) Market study. The Project, through NSC, shall commission a market study to explore possible market development opportunities for sericulture activities, including developing added value at farm level and the possible diversification of silk products manufactured in Rwanda.
- (d) Intermediate assessment. An independent assessment of the national sericulture sector shall be carried out at the end of the third year of the Project in order to evaluate the performance of this sector.

- (e) Assistance to Rwanda Silk Farmers Federation (RSFF) and unions. The Project, through NSC, shall contract a service provider to provide overall support to RSFF and its member unions, including, amongst other things: (i) carrying out a capacity assessment of RSFF; (ii) supporting RSFF in designing a mid-term development strategy, which shall include an organisation model and a definition of RSFF responsibilities in terms of service provision and policy dialogue; (iii) designing annual business plans for unions and providing assistance to their implementation; and (iv) designing a capacity building plan for RSFF and assisting its implementation.

**4.4. Component 4: Horticulture.** The Project shall develop the emergent horticulture sector in Rwanda by supporting NAEB in promoting new business models benefiting smallholder farmers in carefully selected value chains. This Component shall include four sub-components.

4.4.1. Sub-component 4.1: Business partnerships and business models. Under this sub-component, NAEB shall develop business partnerships between the beneficiaries and private investors. NAEB shall commission a study to identify priority value chains, and then invite and select project proposals from beneficiaries and assist them in developing, negotiating and implementing agreeable business partnerships in the agreed value chains with private investors. The Project shall assist the implementation of the agreed business partnerships.

4.4.2. Sub-component 4.2: Business development services. The activities under this sub-component shall include:

- (a) *Access to non-financial services* for the beneficiaries, including establishing a critical mass of small-holder plantations of identified value chains in order to attract private partners (300 ha of avocado, 300 ha of mango, 200 ha of oranges), management capacity building, technical support services, market linkages and certification.
- (b) *Promotion of rural service providers* through the provision of grants and capacity building *assistance* to new rural service providers that can respond to business partnership needs.

4.4.3. Sub-component 4.3: Enabling environment for value chain development. Under this sub-component, the Project shall:

- (a) *Conduct applied research and technology* in research areas that are relevant to participating business partnerships, including the production of clean planting material.
- (b) *Provide expert advice and market promotion* for the business partnerships, including studies to analyse key constraints and solutions to the business *environment*, and promotional activities. The Project shall also stimulate multi-stakeholder engagement through the development of value-chain based stakeholder organisations.
- (c) *Provide technical assistance for innovation and strategic development* for the horticultural industry. NAEB shall contract a service provider who shall provide: strategic *guidance* in developing methodologies, problem solving, coordination support for activities under this component, in particular with regard to business planning and development; technical input to value chain

selection; and technical support. In addition, the service provider shall also build the capacity of NAEB staff and build commercial linkages.

4.4.4. Sub-component 4.4: Essential oils. Under this sub-component, the Project shall assist business partnerships for essential oils through design and implementation assistance, involving capacity building, technical and extension support services, adaptive research, market linkages and certification. In addition, the Project shall create an enabling environment for essential oils by providing analysis services for essential oils, and by assisting the institutional development of NAEB.

**4.5. Component 5: Financial services.** This component shall include three sub-components.

4.5.1. Sub-component 5.1: Access to financial services. Under this sub-component, the Project shall make the following investments to facilitate the beneficiaries' access to bank and micro-finance institution loans:

- (a) *Partnership with the Development Fund (BDF) of the Development Bank of Rwanda (BRD).* The Project shall work with BDF, a non-lending subsidiary of BRD, in order to increase the beneficiaries' access to loans from financial institutions. To this end, the Project shall provide funds for: (i) a performance-based grant facility to the BDF, which shall in turn be made available to the Project beneficiaries, and (ii) a loan guarantee facility to commercial banks, micro-finance institutions, and SACCOs to back their investment and working capital loans to the beneficiaries. The project shall provide technical assistance to BDF for developing an innovative mechanism of "portfolio guarantee". An institutional assessment of BDF shall be carried out at the start of the Project to assess capacities.
- (b) *Insurance products for risk mitigation.* Based on a preliminary feasibility study, the Project shall assist insurance companies and commercial banks, through the provision of technical assistance, in developing three new insurance products for the beneficiaries: (i) life insurance; (ii) weather index-based insurance; and (iii) coffee price insurance.
- (c) *Equity financing.* In support of the tea value chain (sub-component 2.2, section 4.2.2), the Project shall finance up to 40% of the share capital of the new tea factories that shall benefit from Greenfield site packages and these shares shall be held by the tea cooperatives.
- (d) *Conditional post-investment support.* The Project shall cover part of the outstanding investment loan debt of PDCRE supported coffee cooperatives, conditional upon stringent criteria and modalities established in the Project Implementation Manual.

4.5.2. Sub-component 5.2: Capacity building. This sub-component shall build the capacities of four categories of target institutions:

- (a) *Producer cooperatives.* The Project shall contract a service provider to build the capacities of the different value chain cooperatives in preparing business plans and loan applications meeting bank requirements, and to provide training on credit management.
- (b) *Commercial banks and microfinance institutions.* The Project shall provide technical assistance to commercial banks and microfinance institutions so that they *gain* a better knowledge of the cooperative sector, of value chain analysis

and of financing requirements in the selected value chains, and to improve their procedures for disbursing working capital loans and for monitoring their repayment.

- (c) *Savings and Credit Cooperatives (SACCOs)*. The Project shall contract a service *provider* to provide technical assistance to participating SACCOs with regards to the financing of farmer-based activities related to the Project value chains.
- (d) *Other microfinance institutions*. The Project shall collaborate with financial sector support *initiatives* to promote alternative delivery and collection mechanisms for loans, savings and remittances with a high potential for large-scale development.

**4.6. Component 6: Project Management and Institutional Support.** Under this Component, the Project shall strengthen government agencies in order to deliver Project outputs and support sustainable value chain development beyond Project completion. Project management functions shall be undertaken by existing government structures, and these structures shall be strengthened in order to fulfill their implementation responsibilities. This Component shall include two sub-components.

4.6.1. Sub-component 6.1: Project Management. Under this sub-component, the Project shall assist government agencies responsible for project implementation in integrating the planning, budgeting, contracting, implementation, management and Project monitoring responsibilities into their regular programmes. The activities under this sub-component shall include:

- (a) *Project coordination*. SPIU shall be strengthened by professional staff in order to carry out its project coordination functions, including the Project Coordinator, the DAF, the Financial Services Officer, the Knowledge Management Officer, the Monitoring and Evaluation Officer, and Officers responsible for Procurement, Accounting, and Technical Oversight, as well as support staff as required.
- (b) *Project management*. NAEB, a key implementing agency, shall be strengthened by professional staff in order to carry out the project management functions assigned to it, including the PRICE Operational Manager, four Value Chain Officers, one Cooperative Development Officer, one Planning and Monitoring and Evaluation Officer, and Officers responsible for Procurement and Accounting, as well as support staff as required.
- (c) *The recruitment of all additional Project staff*, amongst the Project staff mentioned above, shall be undertaken by the Borrower, under recruitment procedures acceptable to the Fund, on an open, transparent and competitive basis. The Project staff shall have professional qualifications and work experiences commensurate with their duties. The appointment of the Project Coordinator, the PRICE Operational Manager and the DAF, and their removal where appropriate, shall be subject to prior concurrence between the Fund and the Borrower.

4.6.2. Sub-component 6.2: Institutional support. Under this sub-component, the Project shall provide capacity building to MINAGRI and NAEB to build their capacities for monitoring and evaluation, for analysing and anticipating value chain performance and for disseminating relevant information to value chain stakeholders.

## 5. Implementation of Project Components

5.1 Coffee, Tea, and Horticulture Development. NAEB shall have overall responsibility for implementing Components 1, 2, and 4. NAEB shall provide, through its regular staff, extension services assisted by professional staff mentioned in section 4.6.1. NAEB shall contract service providers for the implementation of the activities of these Components, including RAB for research activities.

5.2 Silk Development. NSC shall be responsible for the overall implementation of this component until such time as NSC eventually integrates into NAEB, at which point NAEB shall ensure overall implementation of this Component along the same modalities described below. NSC shall provide, through its regular staff, extension services assisted by professional staff mentioned in section 4.6.1. NSC, through SPIU, shall contract service providers for the implementation of the activities of this Component, including RAB for sericulture research activities.

5.3 Financial Services. SPIU shall be responsible for the overall coordination and implementation of this component, through its regular staff, with the assistance of professional staff mentioned in section 4.6.1. SPIU shall contract all service providers for the implementation of the activities of this Component.

## II. Implementation Arrangements

### 6. *Lead Project Agency*

6.1 Designation. MINAGRI, in its capacity as the Lead Project Agency, shall have the overall responsibility for the implementation of the Project. The Project Coordinator shall be responsible for overall Project coordination. The majority of project activities shall be carried out by NAEB, acting through the PRICE Operational Manager. MINAGRI shall establish, through its SPIU, MOUs with NAEB, the NSC, and the Development Fund (BDF) of the Development Bank of Rwanda (BRD), in order to define the range of project activities to be carried out by each institution, as well as the flow of funds and accountability modalities.

6.2 Responsibilities. SPIU shall ensure the planning, implementation, financial management, and monitoring of Project activities. SPIU shall direct, through MOUs with NAEB and NSC the planning, implementation, financial management, and monitoring of Project activities for components 1 to 4. NAEB and NSC shall follow the directions of the SPIU in executing their implementation responsibilities, including: (i) planning of component activities and their preparation in the Project's Annual Workplan and Budget (AWPB); (ii) contracting and procuring the services and supplies necessary for the components' implementation; (iii) coordinating the activities of the various component Project parties; (iv) supervision, monitoring and evaluation and knowledge management in relation to the Component activities; and (v) preparation of progress reports for the components. Component 5 of the Project shall be implemented directly by SPIU.

### 7. *Project Steering Committee (PSC)*

7.1 Establishment. The Lead Project Agency shall establish a national PSC.

7.2 Composition. The PSC shall be chaired by MINAGRI's Permanent Secretary, and its membership shall include, *inter alia*: the Project Coordinator; the Director General of NAEB; and senior representatives of key public and private institutions involved in the Coffee, Tea, Silk, and Horticulture sectors, including financial institutions and cooperative federations.

7.3 Responsibilities. The PSC shall provide oversight and overall strategic guidance. The PSC shall meet at least twice a year to review Project progress against targets, assess management effectiveness, review progress reports, determine lessons learned and good practices, decide on corrective measures where appropriate and approve AWPBs.

8. *Service Providers.* The Project, through SPIU and NAEB, shall outsource the execution of Project activities to service providers within the public and private sectors, including international and national non-governmental organizations. These service providers shall be contracted through competitive government procedures and based on renewable performance based contracts. The Project Coordinator and/or the Director General of NAEB, as appropriate, shall develop specifications and sign performance contracts with these service providers, specifying the activities to be undertaken, expected outcomes, the obligations and rights of each party, time frames, deadlines for submitting reports and indicators for monitoring and evaluation.

9. *Mid-Term Review.* (a) The Lead Project Agency and the Fund shall jointly carry out a review of Project implementation no later than the end of the third year of the Project (the "Mid-Term Review") based on terms of reference prepared by the Borrower and approved by the Fund. Among other things, the Mid-Term Review shall consider the achievement of Project objectives and the constraints thereon, and recommend such reorientation as may be required to achieve such objectives and remove such constraints.

(b) The Borrower shall ensure that the agreed recommendations resulting from the Mid-Term Review are implemented within the agreed time frame and to the satisfaction of the Fund. Such recommendations may result in modifications to the Project or cancellation of the Financing in conformity with Section 8.03 paragraph c) of the General Conditions.

10. *Project Implementation Manual.* The Lead Project Agency shall finalize the Project Implementation Manual (PIM) and obtain the Fund's no-objection to the final version of the PIM no later than 6 months after the entry into force of this Agreement. The PIM shall include, among other things:

- (a) terms of reference and implementation responsibilities of all Project staff and all likely service providers and Project parties,
- (b) criteria for the performance appraisal of the Project staff and service providers,
- (c) project operational, financial and accounting procedures, including eligibility criteria and modalities for Project financing, procurement, participatory planning, monitoring and evaluation system and procedures, including the Results and Impact Management System (RIMS), and
- (d) implementation modalities for all Project Components.

11. *Monitoring and Evaluation (M&E).* The Lead Project Agency shall establish an M&E system by the end of the first year of the Project, in accordance with the RIMS. The M&E system shall be based on a baseline study that shall be undertaken by the Lead Project Agency within the first six months of the Project. The M&E system of the Project shall be participatory and shall be used as a management tool. Interim monitoring reports shall be sent to the Fund. These reports shall contribute to the certification of the work completed by service providers and Project staff in order to assess their performance and decide whether or not to renew their contracts. The M&E system shall collect and analyze the necessary information concerning the:

- (a) quantitative and qualitative performance of Project activities,

- (b) technical and financial implementation of Project activities,
- (c) financial appraisal of investment costs,
- (d) participation of beneficiaries, and
- (e) data management and update.

## Schedule 2

### *Allocation Table*

1. *Allocation of Loan and Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the Grant and the allocation of the amounts of the Loan and the Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	Percentage
I. Goods and Development Funds	5 840 000	5 840 000	100% Net of tax
II. Services and Recurrent Costs	4 600 000	4 600 000	100% Net of tax
Unallocated	1 160 000	1 160 000	
<b>TOTAL</b>	<b>11 600 000</b>	<b>11 600 000</b>	

(b) The terms used in the Table above are defined as follows:

“Goods and Development Funds” means Civil works, vehicles, equipment, fertilizer and planting materials, the Value Chain Facility (comprising the contributions to BDF, equity financing for tea factories, and conditional post-investment support for existing coffee washing stations), and production support (comprising support to FFS).

“Services and Recurrent Costs” means contracts for the provision of services, technical assistance, studies, training and workshops, salaries and operating costs.

2. *Request for Withdrawals.* Requests for withdrawals shall be drawn equally from the Loan and Grant amounts, according to a 50/50 ratio.

3. The financing of Silk Development activities (Component 3, Section 4.3 of Schedule I) beyond a total amount equivalent to USD 2 730 000 after the third year of the Project shall be conditional upon a positive assessment of the national sericulture sector, to be conducted by the Borrower by the end of the third year of the Project, and accepted by the Fund.



4. The financing of Horticulture activities (Component 4, Section 4.4 of Schedule I) beyond a total amount equivalent to USD 3 000 000 after the third year of the Project shall be conditional upon a positive assessment of the horticultural interventions of the Project, to be conducted by the Borrower by the end of the third year of the Project, and accepted by the Fund.

### **Schedule 3**

#### *Special Covenants*

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan and Grant Accounts if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. The Borrower shall entirely finance the NSC and SSC recurrent costs, including salaries and office operating costs, described in sections 4.3.2 and 4.3.3 of Schedule I, after the end of the fifth year of the Project.
2. The audit of Project accounts, to be carried out annually by Rwanda's Office of the Auditor General, shall be completed promptly in order to comply with the submission deadline provided in Section 9.03 of the General Conditions.

## **Key reference documents**

### **Country reference documents**

Economic Development and Poverty Reduction Strategy (EDPRS) (2007)

Strategic Plan for the Transformation of Agriculture (PSTA) (2008)

### **IFAD reference documents**

Project design document (PDD) and key files

COSOP

Interim Evaluation Report, Smallholder Cash and Export Crops Development Project (PDCRE), 2010

### **Other miscellaneous reference documents**

## Logical framework

Narrative summary	Key Indicators and Targets by June 2018 (except where other dates are specified)	Means of Verification	Assumptions
<b>GOAL:</b> Raised smallholder income.	Increased assets for participating households (HH) (RIMS) Reduced child malnutrition (RIMS)	Project baseline & impact surveys National statistics (EICV)	Favourable economic environment
<b>DEVELOPMENT OBJECTIVE:</b> Sustainable increased returns to farmers from key export-driven agricultural value chains through increased volumes and quality of production, improved marketing and effective farmer organisations.	Increased volume and value of annual produce marketed from target areas 118 500 households (37% women) receiving project services 160 cooperatives (= community groups) formed/ strengthened 82 700 farmers (37% women) adopt the recommended technologies	Project surveys and cooperative reports	
<b>OUTCOME 1:</b> Increased volume and quality of coffee production reaching high value markets and generating increased share of market end prices to coffee growers.	Yield per tree in targeted existing plantations increases by at least 30% (from 1.35 kg/tree in 2008) 3 100 ha of new plantation producing at least 2.5 kg of cherries/tree Average total cherry price received by PRICE clients is above that of other producers	Project surveys Project surveys Cooperative reports	The price differential between fully-washed and semi-washed coffee is sufficient to motivate farmers' steady switch to the latter
<b>OUTCOME 2:</b> Increased volume and quality of tea production earning tea growers a higher share of increased market-end prices.	Average yield of <i>thé villageois</i> , early production, reaches 2.4 t/ha Tea growers' share of final market price reaches at least 40%	Cooperative reports FERWACOTHE reports	Continued government committed to improve returns to tea farmers
<b>OUTCOME 3:</b> Increased volumes of high quality silk cocoons produced profitably by smallholders and their cooperatives.	Participating farmers and cooperatives produce 13 200 t of wet cocoon in 2014/15 40 participating cooperatives report profits by June 2015	Cooperative reports Cooperative reports	World market prices for raw silk remain above USD 30/kg
<b>OUTCOME 4:</b> Viable smallholder-oriented business models developed for selected horticulture value chains.	7 200 farmers (40% women) accessing facilitated advisory services (RIMS 1.2.5) 10 horticulture cooperatives formed/ strengthened (RIMS 1.6.4)	Project surveys and cooperative reports	
<b>OUTCOME 5:</b> Selected value chain stakeholders have timely and adequate access to a range of diversified financial products, including risk-mitigating products.	At least 75% of participating farmers (31% women) accesses financial services (by type of client and of service, gender, by province, by financial institution – including SACCOs) 32 000 participating farmers included in insurance schemes	Project surveys MIS of participating financial institutions	Sufficient weather-related data available for weather-index insurance.