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President's memorandum

Proposed additional financing to the Republic of Burundi for the Agricultural Intensification and Value-Enhancing Support Project

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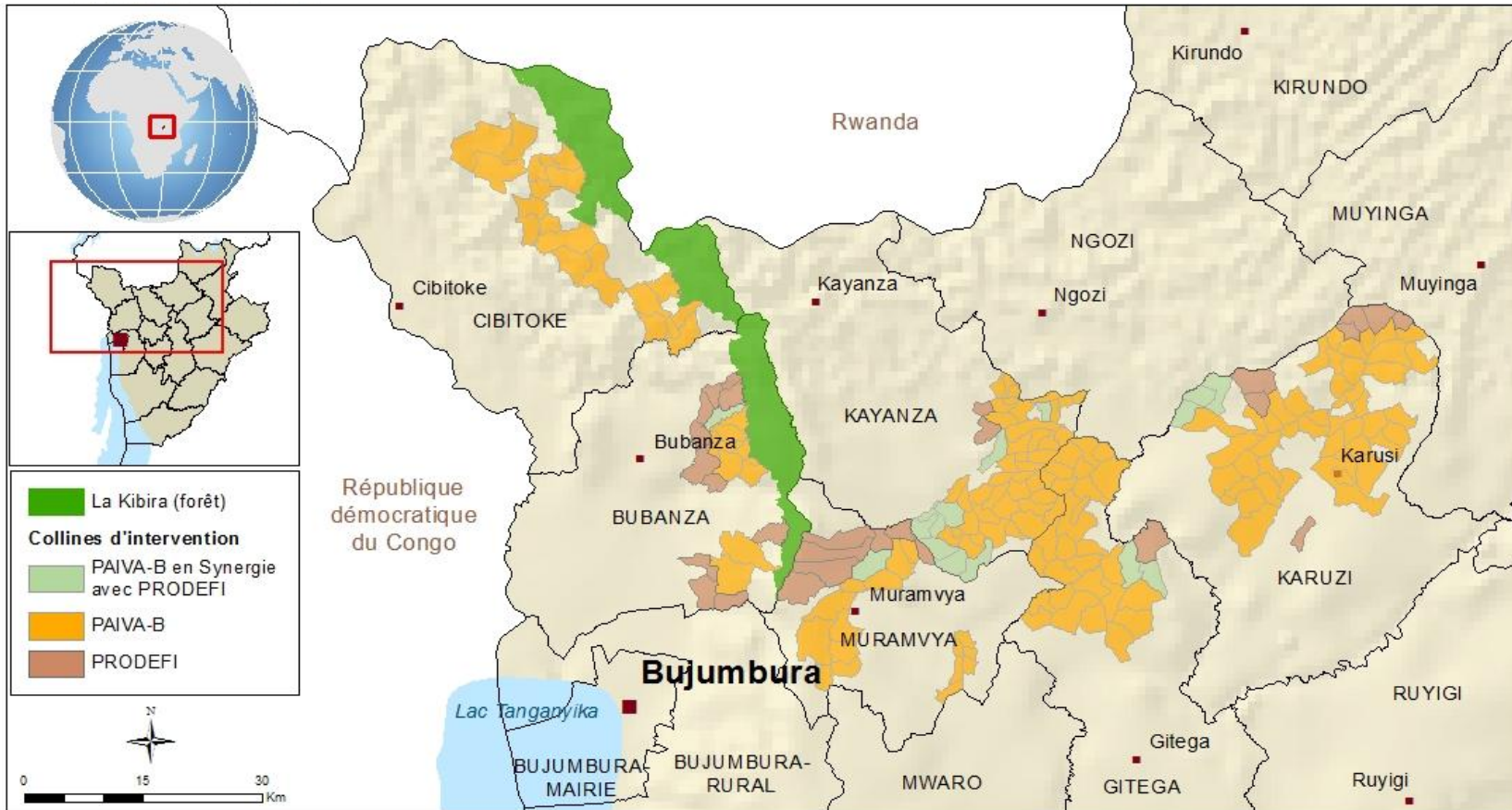
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For: Approval

Burundi
 Agricultural Intensification and Value-Enhancing Support Project

Map of the project area



Les appellations figurant sur cette carte et sa représentation graphique ne constituent en aucun cas une prise de position du FIDA quant au tracé des frontières ou limites, ou aux autorités de tutelle des territoires concernés.

Source: FIDA | 21-07-2014

Recommendation for approval

The Executive Board is invited to approve the recommendation for proposed additional financing in the form of a grant to the Republic of Burundi for the Agricultural Intensification and Value-Enhancing Support Project (PAIVA-B), as contained in paragraph 23.

President's memorandum

Proposed additional financing to the Republic of Burundi for the Agricultural Intensification and Value-Enhancing Support Project (PAIVA-B)

I. Context

1. The present memorandum seeks approval for additional financing in the form of a grant under the Debt Sustainability Framework of approximately US\$20 million (equivalent to SDR 14.25 million) for the Agricultural Intensification and Value-Enhancing Support Project (PAIVA-B), which was approved by the Executive Board in April 2009 and entered into effect on 21 July of the same year, with completion and closing dates set at 30 September 2017 and 31 March 2018 respectively. This additional grant will enable the original components, subcomponents and activities of PAIVA-B to be strengthened and will thus help to broaden the reach of the project and reinforce the components related to climate change adaptation.
2. The initial grant of SDR 9.3 million was approved by IFAD for the implementation of a project covering the provinces of Gitega, Karuzi, Cibitoke, Kayanza, Bubanza and Muramvya. These six provinces, especially Gitega and Kayanza, are among the country's most densely populated, which exerts considerable pressure on agricultural land and leading to periods of food deficit and food insecurity.
3. IFAD and the Government of Burundi have decided that the sum of US\$20 million from the 2013-2015 cycle of the performance-based allocation system (PBAS) should be allocated to covering project needs for additional financing in order to expand the project area within the provinces originally targeted and replicate activities that have proved cost-effective and helped increase household incomes, and to complete activities already implemented by PAIVA-B in the targeted communes.

II. Justification and rationale

4. Following the midterm review mission carried out in Burundi from 4 to 22 November 2013, the Government and IFAD have made every effort to mobilize additional funding to ensure that the project achieves its objectives.
5. This funding is to be used to support the activities identified for the second phase of PAIVA-B (2014-2015) as set out in the midterm review report, with a view to achieving the quantitative objectives of the project and replicating cost-effective activities. The following factors should be taken into account: (i) the activities carried out in the first four provinces will be completed and consolidated; and (ii) the project will implement the activities carried out in the last two provinces (Bubanza and Muramvya) by expanding the areas developed in catchment basins.
6. PAIVA-B is intended to consolidate the benefits of the Rural Recovery and Development Project (PRDMR) implemented in the same target area and now closed. The PAIVA-B project design report called for starting up implementation in the provinces of Gitega and Karuzi, followed by expansion to two other provinces –

Kayanza and Cibitoke. The additional financing will allow the project to be expanded to two further provinces – Bubanza and Muramvya – and enable completion of activities not yet fully implemented in the four initial provinces, to optimize their effects and impact.

7. The first two provinces were selected on the basis of a series of criteria; specifically, the presence of marshland, the incidence of poverty and food insecurity, and the severity of land tenure problems. Communes and collines (subdivisions of communes) are the local territorial units to be used as the basis for planning and project implementation. Activities in the other provinces were also selected and then implemented on the same basis.
8. The project area faces a number of constraints. There are marked disturbances in weather patterns, accompanied by the following phenomena: (i) insufficient or no rainfall, leading to increasingly long periods of drought for up to six months a year rather than the normal three to four months; (ii) excessive rainfall leading to flooding, particularly in the developed lowlands and marshlands, and also to soil erosion on hillsides, where fertility continues to deteriorate; (iii) rainfall accompanied by violent winds or intense hail, both of which cause considerable damage to crops; (iv) degrading plant and forest cover at higher altitudes with the expansion of cultivated areas; (v) limited capacities among pre-cooperative groups and farmers' organizations to manage the developed areas; and (vi) the low level of processing and marketing of farm produce, which limits the share of value added that accrues to farmers.
9. The extension of PAIVA-B through additional financing is justified by the need to eliminate the constraints hampering growth in the sector by establishing favourable conditions for agricultural intensification in the main production centres in the six provinces concerned. With a view to allowing adequate time to address certain obstacles, the additional financing will be granted along with a one-year extension of the project completion and grant closure dates.

III. Project description

10. The following components will be supported by the additional financing: (i) strengthening productive capital by expanding catchment basin development schemes and adopting appropriate techniques for sustainable soil and water management; (ii) value enhancement of agricultural produce and improved market access, including the creation of secondary milk collection centres, mini-dairies, rice-husking units to produce high-quality rice and storage units; and (iii) project coordination and facilitation. With respect to the quantitative objectives established in the midterm review: (i) the area of catchment basins to be developed will increase by approximately 20,000 hectares and the area of marshlands to be developed by 661 hectares; (ii) recapitalization will consist of distributing 2,500 additional heifers through the community cattle solidarity chain; (iii) 12 additional milk collection centres will be established; and (iv) a 30 per cent increase in the volume of rice stored and processed and a minimum increase of 10 per cent in the volume of milk and rice marketed will be obtained.
11. Activities initiated in the provinces of Gitega, Karuzi, Cibitoke and Kayanza will be completed in order to optimize their effects and remain consistent with the approach of concentrating on the area encompassing marshlands and surrounding catchment areas. These activities will be extended to the provinces of Bubanza and Muramvya. PAIVA-B will create synergies with the Value Chain Development Programme (PRODEFI) in communes targeted by both operations to ensure efficient

resource use in the context of the country programme restructuring currently under way.¹

12. The project reached approximately 62,000 households between 2009 and 2013. The additional financing will increase the number of beneficiary households to approximately 103,000. Women and young people will be targeted in the same way as during the 2009 and 2013 periods, specifically with capacity-building activities and improved access to microcredit for the joint guarantee groups established and the community cattle solidarity chain.

IV. Planning, and monitoring and evaluation

13. A results-based budgeting exercise was carried out as part of the PAIVA-B midterm review to align the structure of the logical framework with that of the costs table. This approach was adopted during formulation of the additional financing and will have the following effect on project management: (i) the costs table was drawn up on the basis of results to be achieved; (ii) contracts with service providers will be drawn up on the basis of results to be achieved and the related budgets included in the costs table; (iii) annual workplans and budgets (AWP/Bs) will be structured in the same way as the costs table; (iv) physical and financial monitoring indicators will be easier to link, as it will be possible to associate expenditures with specific results at any point in time; and (v) this approach will be consolidated within the country programme framework and used in all ongoing projects, as in the upcoming PRODEFI midterm review, and future projects, as in implementation of the Platform for Food Security and Rural Development Programme in Imbo and Mosso (PNSADR-IM).

V. Direct effects and impact anticipated from the project

14. The additional financing is expected to have the following direct effects and impact:
 - With regard to agricultural production:
 - (i) The production of an additional 2.5 tonnes of paddy per hectare (1 tonne per hectare prior to development and 3.5 tonnes per hectare afterwards) will mean approximately an additional 1,650 tonnes from the 661 hectares of newly developed marshlands in the case of a single cropping season per year. With two rice-growing seasons per year, additional production would be 3,300 tonnes per year.
 - (ii) The additional milk production marketed, averaging 5 litres per cow x 1,600 cows x 250 milking days per year x 40 per cent, will increase from 468 tonnes of additional milk in 2015 per year to 9,363 tonnes of additional milk in 2034 per year, assuming that 40 per cent of the imported cows are producing milk each year.
 - (iii) An additional 4 tonnes of manure produced per year per cow housed in permanent cement stables, which for 1,760 cows translates into a total of 7,040 tonnes of manure per year.
 - (iv) Production of the main food crops (banana, bean and maize) should at least double for the 1,760 recipients of heifers, thanks to the use of manure.
 - With regard to storage, conservation and processing:
 - (i) In the case of rice, husking – with an improved husking unit that gives a yield containing 12 per cent broken rice sold at an average of Burundi Franc (BIF) 1,500 per kilogram compared to BIF 1,000 per kilogram for rice containing 25

¹ In this connection, a map has been drawn up, showing the PAIVA-B activities already carried out, those planned for 2014 and those to be carried out on the basis of the additional financing, together with those of PRODEFI already under implementation and planned for 2014 in communes targeted by both projects.

per cent broken grains – will bring in additional revenue of at least BIF 320 million over a traditional husking unit.

- (ii) Refrigeration of milk will mean that it can be sold to large-scale operators and over the counter, with an added value of at least BIF 200 per litre, generating additional revenue of at least BIF 134.4 million for the additional cows alone. This figure will increase by at least BIF 1,863 million taking into account the optimization of milk that previously could not be refrigerated, produced by the cows already in place (3,549).
- (iii) The new secondary collection centres and motorized collection network will mean that milk previously left on the farm in the communes of Mutaho, Muhanga, Bukinanyana, etc. can now be optimized, providing additional revenue of at least BIF 580 million.

VI. Project cost and financing

15. The amount of the additional financing is US\$20 million. The project budget has increased from US\$28,739,200 to US\$53,034,646 as a result of the following: (i) additional funds of US\$20 million from IFAD; (ii) counterpart funds of US\$2,785,213 from the Government of Burundi, bringing its total contribution to US\$6,185,213; and (iii) a contribution of US\$1,510,233 from the beneficiaries, bringing their total contribution to US\$2,910,233. The total budgetary increase – the object of the report – is US\$24,295,446. The cofinanciers of the initial financing – European Union, World Food Programme and Canadian development cooperation – will not participate in the additional financing.

Table 1
Costs by category and by financier in the additional financing
(Thousands of United States dollars)

	<i>Financier 1: IFAD</i>	<i>Financier 2: EU</i>	<i>Financier 3: Government</i>	<i>Financier 4: WFP</i>	<i>Financier 5: Canada</i>	<i>Financier 6: Beneficiaries</i>	<i>Total</i>
	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>
1. Civil engineering	6 743	-	-	-	-	1 510	8 253
2. Equipment and supplies	4 746	-	-	-	-	-	4 746
3. Vehicles	344	-	-	-	-	-	344
4. Studies and technical assistance	1 057	-	-	-	-	-	1 057
5. Training	1 002	-	-	-	-	-	1 002
6. Support fund	1 407	-	-	-	-	-	1 407
7. Supply of services	2 387	-	-	-	-	-	2 387
8.a.Wages	1 567	-	-	-	-	-	1 567
8.b. Operating costs	618	-	2 785	-	-	-	3 404
9. Unallocated	130	-	-	-	-	-	130
Total	20 000	-	2 785	-	-	1 510	24 295

Table 2
Costs by component and by financier in the additional financing
 (Thousands of United States dollars)

	<i>IFAD loan</i>	<i>IFAD grant</i>	<i>Other cofinanciers</i>	<i>Beneficiaries</i>	<i>Borrower/ counterpart</i>	<i>Total</i>
	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>
Component 1 Strengthening of productive capital		10 744		1 510	-	12 254
Component 2 Value enhancement of agricultural produce and increased market access		6 707		-	-	6 707
Component 3 Project coordination and facilitation		2 549		-	2 785	5 334
Total		20 000	-	1 510	2 785	24 295

16. The overall fiduciary risk of the project is currently low. However, the project's internal audit system needs improvement; this risk is mitigated by the presence of an Inspector General, within the Ministry of Agriculture and Livestock, mandated to carry out at least one mission per year, per structure, and report back to the authorities. It is also recommended that the internal audit system of the project be improved and that an external evaluation of the quality of the ministry's internal control system be carried out.
17. During the first phase of the project, the disbursement rate of 54.5 per cent as at 31 May 2014 for the IFAD Debt Sustainability Framework grant and the AWP/B execution rate were satisfactory. Disbursement could be speeded up by the measures taken to adopt a results-based approach to management and budget in the recruitment of service providers and by making available additional human resources to the project. To respond to the project's operational needs, project financial management staff in the field should be strengthened (in terms of both numbers and skills) to enable close monitoring of the financial activities of the providers.

VII. Innovation and scaling up

18. Under the IFAD additional financing for PAIVA-B, the activities that have proved cost-effective – such as the community cattle solidarity chain, which increases household incomes directly through the sale of milk and indirectly through manure use for food crops, including banana – will be replicated on a larger scale. Marshland development will increase rice production, while installing and upgrading professionally managed rice processing units to improve quality will allow rice to be marketed at a higher price and compete with imported rice from the United Republic of Tanzania. In addition to refrigeration at milk collection centres,² milk will be further optimized by setting up mini-dairies, which will allow milk to be kept for longer periods. The motorized collection network will provide access to remote areas and transportation of milk to the retail sales points to be established.

VIII. Proposed modifications to the financing agreement for the project

19. Upon approval by the Executive Board, the grant agreement will be modified to take into account the additional financing provided by IFAD and any other changes necessary. Modifications include an extension of the project completion date to 30 September 2018 and the grant closure date to 31 March 2019. This financing

² One of the milk collection centres located in an area with difficult access to the electricity grid will be equipped with a solar energy system.

reinforces the financing plan initially agreed at project design and does not entail any change to its description.

IX. Legal instruments and authority

20. An amendment to the current financing agreement between the Republic of Burundi and IFAD constitutes the legal instrument whereby the proposed additional financing will be granted to the recipient.
21. The Republic of Burundi is empowered under its laws to receive financing from IFAD.
22. I am satisfied that the proposed additional financing is in compliance with the provisions of the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

X. Recommendation

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

RESOLVED: that the Fund shall make an additional grant to the Republic of Burundi in an amount equivalent to fourteen million two hundred and fifty thousand special drawing rights (SDR 14,250,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President