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IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
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REPUBLIC OF RWANDA
PRESIDENT's MEMORANDUM
REVISED SCOPE AND IMPLEMENTING ARRANGEMENTS FOR THE UMUTARA COMMUNITY RESOURCE AND INFRASTRUCTURE DEVELOPMENT PROJECT (LOAN 537-RW)

I. BACKGROUND

1. The Umutara Community Resource and Infrastructure Development Project (UCRIDP – Loan 537-RW) in Rwanda was approved by the Executive Board in May 2000 under the Flexible Lending Mechanism (FLM) scheme. The project has a ten-year implementation period to allow sufficient time to consolidate its institutional development objectives in a post-conflict environment. Project implementation will be over three cycles, with joint IFAD/Government of Rwanda evaluation and project reorientation reviews at the end of cycles I and II. In 2001, a complementary "UCRIDP Twin" (Loan 573-RW) was approved by the Executive Board on a non-FLM basis for a five-year period. Each of the IFAD loans focuses on community development and economic activities, and is supplemented by an Organization of the Petroleum Exporting Countries (OPEC) loan for infrastructure investment, administered by IFAD. The proposals contained in this memorandum refer to Loan 537-RW.

2. During its first three years (January 2001 to November 2003), the project focused on putting in place institutional arrangements, building local capacity and generating participatory local development plans. At the end of cycle I, an interphase evaluation mission was carried out to assess the results of UCRIDP and prepare cycle II through a participatory process with stakeholders. The evaluation mission took place in October 2003, and the validation workshop in March 2004.

3. Performance monitoring indicators were listed in the IFAD loan agreement as triggers from cycle I to II of the project. While the picture is not uniform, it can be said that the project has succeeded in achieving indicators relating to community development, which is the basis for all further investments. The participatory planning programme has been completed in all districts, key staff have been trained, most participatory rural appraisals (PRAs) have been completed and subsequent development plans have been drawn up in practically all districts.

4. Most conditions needed to facilitate project implementation and the delivery of project investments and services in cycle II have been achieved. On this basis and in line with FLM guidelines, IFAD management have agreed to move from cycle I to II, and are informing the Executive Board to that effect (see document EB 2004/82/INF.4).

II. REVISION OF CYCLE II ACTIVITIES

5. **Lessons learned.** The interphase evaluation exercise highlighted a number of lessons that needed to be taken into consideration in the formulation of cycle II activities: (i) the project's participatory, demand-driven approach is appropriate but needs to be more directly linked to the delivery of project investments and services; (ii) as PRAs have shown, achieving physical targets is of diminished value if preconditions are not first met for the sustainability of the investments made; (iii) project design and the allocation of project resources need to be better integrated into the country's decentralization process, with districts and sectors having a central role; and (iv) the flexibility provided by the FLM approach is useful in the evolving national context and allows for the integration of additional IFAD and OPEC financial resources.

6. Further to the evaluation's conclusions and at the Government's request, IFAD has taken into account in the formulation of cycle II the need to: (i) adapt the project to the national context and streamline its components to facilitate implementation; (ii) harmonize IFAD and OPEC financial resources in one comprehensive project, to be applied to the new eight districts of the province; and (iii) improve ownership and accountability by elected local development committees. The project's development goal has been maintained, but implementation modalities have been simplified and the project area has been extended to the whole province.

7. **National context.** Considerable economic, social and institutional changes have occurred in Rwanda since the project was conceived in 1999/2000, with: (i) a shift away from the post-conflict/emergency, relief-oriented operations to development assistance; (ii) the finalization of the country's Poverty Reduction Strategy Paper (PRSP) in June 2002, which provides the project with an approved policy framework; and (iii) the Government's commitment to decentralization, as embodied in a new policy (including fiscal reform) that has been fully implemented following the local elections of 2002. The challenge is now to ensure that local elected authorities fulfil their responsibilities; actively participate in planning, programming and budgeting; and take part in project implementation to ensure ownership. Cycle II will integrate the project more closely with the decentralization process and match project implementation with national policies and legislation.

8. **Streamlining of components from five to three.** A distinction will be made in the new components between communal/infrastructure investments (water, roads and other infrastructure) that are public and result in a public good, and investments in support of income-generating activities (relating, for example, to agricultural and microenterprise development) that are essentially private. Under capacity-building activities, the project will ensure the empowerment of local actors: the districts as the owners of project-financed investments; the communities to drive the process and participate in all stages; and the province to provide overall strategic support, technical guidance and coordination.

9. **Unified provincial programme.** The strategic foundation for UCRIDP is sound. The Government has shown clear commitment in reforming the project for the past 14 months (most results were achieved in 2003). The proposed harmonization of the two projects (UCRIDP and UCRIDP Twin) in one comprehensive project should boost performance in cycle II and facilitate the smooth and equitable delivery of investments to the inhabitants of the Umutara province (proposed allocations in Annex I). The expenditure categories of 537-RW will be harmonized with the categories of 573-RW to facilitate accounting processes.

10. **Expansion of the project area**. Umutara is a recently created province in north-west Rwanda comprising eight districts, four of which are new administrative units set up to cater for the large population of returnees who have settled there after the end of the war in 1994. A former natural park, the province is undergoing tremendous changes, through urbanization, progressive land appropriation and the adaptation of agricultural and livestock systems by the new settlers. Extending the project area of Loan 537-RW, from four to all eight districts of the province, will facilitate project management and the promotion of joint district-community ownership through the planning and investment process.

11. **Trigger indicators from cycle II to III.** The progressive transfer of responsibilities from the project coordination unit to districts and communities will be essential to measure the success of cycle II. It is proposed that the trigger indicators currently specified in the loan agreement be reduced from 32 to 7, and that high priority be assigned to impact monitoring (see Annex II).

III. RECOMMENDATIONS

12. In order to proceed to the implementation of cycle II of the project in a manner consistent with both the experience gained in cycle I and the evolving country conditions, I recommend that the Executive Board approve the new implementing arrangements for cycle II within the existing envelope, through the following amendments to Loan 537-RW designed under the FLM:

(i) streamline the project from five components to three: (a) support for decentralization and infrastructure development; (b) rural economic transformation; and (c) project management;

(ii) extend the project area from the initial four districts to all eight districts of Umutara province;

(iii) revise loan categories and the percentage of expenditures eligible for IFAD financing of 537-RW to harmonize with the loan categories of 573-RW and reallocate funds accordingly, as indicated in Annex I; and

(iv) adjust the triggers for proceeding from cycle II to III to take into account recent implementation experience (Annex II).

COSTS AND FINANCING

TABLE 1: SUMMARY OF PROJECT COSTS[a]
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Total Base Costs
A. Support for decentralization and infrastructure development					
Infrastructure investment	12 597.7	3 508.6	16 106.3	22	43
Equal and sustainable access to development benefits	2 584.4	82.8	2 667.2	3	7
Local institution-building and community empowerment	1 316.0	522.8	1 838.8	28	5
Subtotal	**16 498.0**	**4 114.2**	**20 612.3**	**20**	**55**
B. Rural economic transformation					
1. Support to agriculture, livestock and forestry					
Agricultural market-oriented technical support services	2 184.5	403.0	2 587.5	16	7
Agricultural support for group enterprises and market-based initiatives	1 137.1	219.8	1 356.9	16	4
Livestock development	2 571.9	347.8	2 919.7	12	8
Forestry management	873.2	648.4	1 521.6	43	4
Subtotal (1)	*6 766.6*	*1 619.1*	*8 385.7*	*19*	*22*
2. Rural enterprise and rural finance development					
Rural enterprise development	1 659.4	55.4	1 714.8	3	5
Rural financial services	3 074.2	-	3 074.2	-	8
Subtotal (2)	*4 733.6*	*55.4*	*4 789.0*	*1*	*13*
Subtotal (1) and (2)	**11 500.2**	**1 674.5**	**13 174.7**	**13**	**35**
C. Project management	**3 350.3**	**249.1**	**3 599.4**	**7**	**10**
Total base cost	**31 348.5**	**6 037.9**	**37 386.4**	**16**	**100**
Physical contingencies	1 447.0	423.6	1 870.5	23	5
Price contingencies	302.5	308.0	610.5	50	2
Total project costs	**33 097.9**	**6 769.4**	**39 867.4**	**17**	**107**

[a] Discrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN[a]
(USD '000)

	IFAD (537)		IFAD (573)		OPEC (791)		OPEC (873)		Government		Beneficiaries		Total			Local	Duties and
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	For. Exch.	(Excl. Taxes)	Taxes
A. Support for decentralization and infrastructure development																	
Infrastructure investment	-	-	-	-	7 012.2	39.1	6 463.6	36.1	2 469.7	13.8	1 977.8	11.0	17 923.3	45.0	4 053.7	11 399.9	2 469.7
Equal and sustainable access to development benefits	1 158.8	42.3	1 439.6	52.6	-	-	-	-	141.0	5.1	-	-	2 739.4	6.9	88.8	2 509.6	141.0
Local institution-building and community empowerment	438.6	22.1	461.9	23.2	383.8	19.3	383.8	19.3	319.9	16.1	-	-	1 988.0	5.0	566.6	1 101.6	319.9
Subtotal	**1 597.4**	**7.1**	**1 901.5**	**8.4**	**7 396.1**	**32.7**	**6 847.5**	**30.2**	**2 930.6**	**12.9**	**1 977.8**	**8.7**	**22 650.8**	**56.8**	**4 709.1**	**15 011.1**	**2 930.6**
B. Rural economic transformation																	
1. Support to agriculture, livestock and forestry																	
Agricultural market-oriented technical support services	1 155.0	42.9	1 259.1	46.8	-	-	-	-	276.3	10.3	-	-	2 690.4	6.7	428.0	1 986.1	276.3
Agricultural support for group enterprises and market-based initiatives	566.8	39.8	710.1	49.9	-	-	-	-	146.2	10.3	-	-	1 423.1	3.6	229.0	1 047.8	146.2
Livestock development	1 127.2	35.4	1 693.9	53.2	-	-	-	-	248.0	7.8	112.6	3.5	3 181.7	8.0	393.8	2 540.0	248.0
Forestry management	562.7	35.3	699.3	43.9	-	-	-	-	330.3	20.7	-	-	1 592.2	4.0	683.5	578.4	330.3
Subtotal (1)	*3 411.7*	*38.4*	*4 362.4*	*49.1*	-	-	-	-	*1 000.8*	*11.3*	*112.6*	*1.3*	*8 887.4*	*22.3*	*1 734.4*	*6 152.2*	*1 000.8*
2. Rural enterprise and rural finance development																	
Rural enterprise development	839.9	47.4	839.9	47.4	-	-	-	-	93.1	5.3	-	-	1 772.9	4.4	59.7	1 620.1	93.1
Rural financial services	729.2	25.6	1 787.7	62.7	-	-	-	-	61.5	2.2	272.0	9.5	2 850.3	7.1	-	2 788.8	61.5
Subtotal (2)	*1 569.1*	*33.9*	*2 627.6*	*56.8*	-	-	-	-	*154.6*	*3.3*	*272.0*	*5.9*	*4 623.2*	*11.6*	*59.7*	*4 408.9*	*154.6*
Subtotal (1) and (2)	**4 980.8**	**36.9**	**6 989.9**	**51.7**	**-**	**-**	**-**	**-**	**1 155.3**	**8.6**	**384.6**	**2.8**	**13 510.6**	**33.9**	**1 794.1**	**10 561.2**	**1 155.3**
C. **Project management**	**1 503.5**	**40.6**	**1 932.9**	**52.2**	**-**	**-**	**-**	**-**	**269.6**	**7.3**	**-**	**-**	**3 706.0**	**9.3**	**266.2**	**3 170.2**	**269.6**
Total project costs	**8 081.7**	**20.3**	**10 824.3**	**27.2**	**7 396.1**	**18.6**	**6 847.5**	**17.2**	**4 355.5**	**10.9**	**2 362.4**	**5.9**	**39 867.4**	**100.0**	**6 769.4**	**28 742.5**	**4 355.5**

[a] Discrepancies in totals are due to rounding.

TRIGGER INDICATORS

The following indicators are proposed as triggers for passing from cycle II to III:

(i) At least five of the eight districts have taken responsibility for the planning and implementation of project activities jointly with their communities, including: assessing community demand and priorities for project investment; identifying and tendering for service providers to undertake implementation on behalf of the district; carrying out monitoring, supervision and reporting; and effectively managing the project resources made available to the district.

(ii) UCRIDP staff have sufficiently trained and supported provincial technical staff, with whom they have been working during cycle II, so that the province is fully able to backstop project activities during cycle III with only part-time support from the project.

(iii) A monitoring and evaluation/management information system is functioning effectively; a practical and manageable set of monitoring indicators has been developed as part of a revised logical framework and the requisite information is being collected, processed and used by the management team; the baseline survey(s) has/have been completed; and the project and its different components and activities are being monitored for impact.

(iv) The districts have demonstrated that the project's poverty criteria of involving the poorer and more disadvantaged segments of their communities have been satisfied and that gender is being mainstreamed (to be verified by a poverty reduction and gender mainstreaming assessment carried out prior to the second interphase evaluation).

(v) The reorientation of project-supported agricultural, livestock and forestry activities to a more market-oriented, and where appropriate commodity chain, approach has been instituted and effectively integrated into the project's strategy.

(vi) Water users' groups have been formed and trained and are functioning for at least 80% of water facilities constructed by the project so that the facilities are in use and the operating and maintenance costs are being met by the water users' groups.

(vii) For the feeder road programme, road maintenance teams and the sector road maintenance brigades that support them have been formed, trained and equipped for all project-financed roads and at least 80% are functioning effectively; and the roads are being maintained (a survey will be carried out prior to the second interphase evaluation to ascertain that this condition is being met).