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President's memorandum

Proposed supplementary grant to the Republic of Rwanda for the

Kirehe Community-based Watershed Management Project

Executive Board — Ninety-eighth Session
Rome, 15-17 December 2009

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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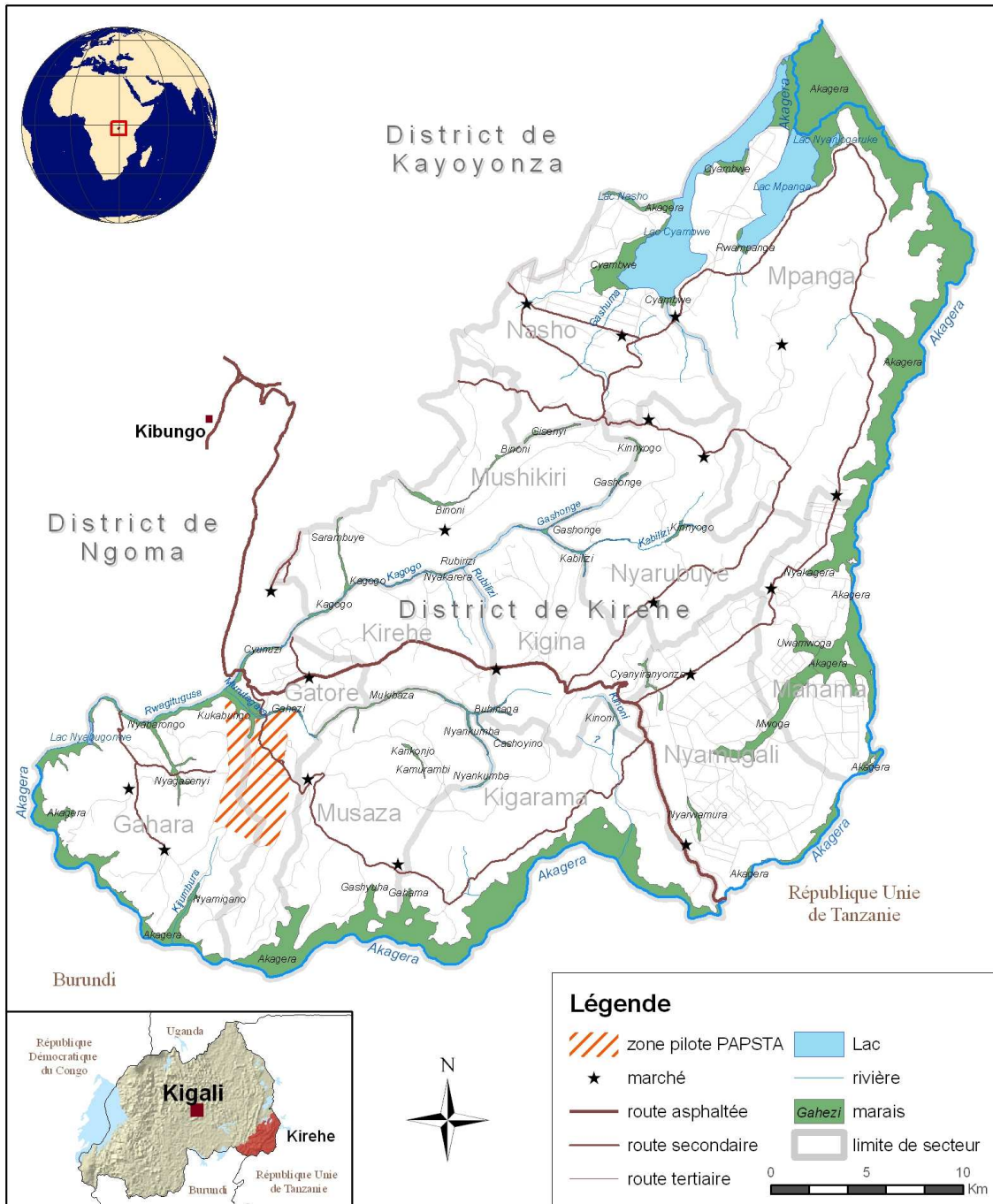
Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary financing to the Republic of Rwanda for the Kirehe Community-based Watershed Management Project, as contained in paragraph 37.

Map of the project area

Rwanda

Projet de gestion communautaire des bassins versants de Kirehe (KWAMP)



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 considérés.

Carte compilée par le FIDA

Republic of Rwanda

Supplementary grant for the Kirehe Community-based Watershed Management Project

Financing summary

Initiating institution:	IFAD
Recipient:	Republic of Rwanda
Executing agency:	Ministry of Agriculture and Animal Resources
Total project cost:	US\$49.33 million
Amount of IFAD supplementary grant:	SDR 3.950 million (equivalent to approximately US\$6.324 million) in additional resources resulting from an increased allocation in the performance-based allocation system
IFAD's original contribution:	US\$20.45 million grant
Cofinancier(s):	World Food Programme (WFP) Private-sector partners German Development Service (DED)
Amount of cofinancing:	WFP: US\$8.13 million Private sector: US\$1.25 million DED: US\$0.51 million
Terms of cofinancing:	Grants
Contribution of recipient:	Central Government: US\$7.59 million District Government: US\$1.96 million
Contribution of beneficiaries:	US\$3.12 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

President's memorandum

Proposed supplementary grant to the Republic of Rwanda for the Kirehe Community-based Watershed Management Project

I. The project

A. Main development opportunity addressed by the project

1. In the project area, a propitious agroecological environment exists for the intensification of agriculture in an environmentally sustainable integrated production system. In addition, supportive public policies and the emergence of private-sector interest in agricultural trade allow the market-led development of this intensification process through decentralized support structures. The project responds well to the needs of poor people living in this densely populated area threatened by serious soil erosion.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide a supplementary grant to the Republic of Rwanda in the amount of SDR 3.950 million (equivalent to approximately US\$6.324 million) to help finance the Kirehe Community-based Watershed Management Project. This grant will fund the project activities as yet not financed on the same terms as the existing grant approved in September 2008 (EB 2008/94/R.16/Rev.1).

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

3. The allocation defined for Rwanda under the PBAS is US\$29.77 million over the 2007-2009 allocation cycle. In December 2008, IFAD committed the equivalent of US\$20.45 million to finance the Kirehe Community-based Watershed Management Project. The balance of the allocation is intended to cover the entire financing gap of the Kirehe project, and part of the financing gap of the Support Project for the Strategic Plan for the Transformation of Agriculture (PAPSTA).

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

4. The activities to be financed under the proposed supplementary funding are fully aligned with Rwanda's sectoral priorities. Furthermore, Rwanda aims to establish an agricultural sector-wide approach (SWAp) to harmonize and link its public interventions in the sector. This process is progressing towards the establishment of joint implementation systems. Once adequate fiduciary arrangements for financial management are in place, it is envisaged that this project will become part of the SWAp initiative, provided it is consistent with the IFAD Policy on Sector-wide Approaches for Agriculture and Rural Development.

Country debt burden and absorptive capacity of the State

5. As a heavily indebted country, Rwanda became a major beneficiary of the Debt Initiative for Heavily Indebted Poor Countries. Nonetheless, its nominal debt stock remained unsustainable. The World Bank, the African Development Bank and IFAD are now providing financial assistance in the form of grants under the Debt Sustainability Framework.

Flow of funds

6. IFAD will open a second grant account for the project. The flow of funds will follow the channels and procedures established for the existing project.

Supervision arrangements

7. The project is supervised directly by IFAD.

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

8. No exceptions are foreseen.

Governance

9. The following measures will enhance the governance aspects of the original project design: (i) contracting in accordance with the procurement guidelines; and (ii) performance-based contract management.

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

10. Farmers with less than one hectare of land and landless households constitute the main target groups. Within these groups, woman-headed households will be specifically targeted. The project will be implemented in about 15 watersheds in Kirehe District. The target group is composed of about 48,000 households identified within the framework of the IFAD Policy on Targeting.

Targeting approach

11. Geographical targeting will identify potential watersheds based on agroecological and social conditions. Within the watersheds, vulnerability targeting will be applied through a community-based watershed planning process. The watershed-based local management committees will ensure that benefits reach the main target groups. Special targeting arrangements will favour orphans, woman-headed households and households affected by HIV.

Participation

12. The participating communities will drive local diagnostic and planning processes. Through the local management committees and the community innovation centres, the communities will be able to direct development processes, actively contract and manage capacity-building activities, and organize community competitions. In addition, community-based groups will be active in managing small-scale irrigation schemes and local marketing activities.

D. Development objectives**Key project objectives**

13. The overall objective is the development of sustainable and profitable small-scale commercial agriculture in Kirehe District. Sustainable incremental income from farming and related economic activities, including reforestation, is the operational instrument for poverty reduction among the majority of poor people.

Policy and institutional objectives

14. The project aims to support substantial local institutional development activities by empowering farming communities to become local planning and implementation partners, and by creating a strong district administration that provides the key public services required for local economic development processes.
15. In addition, the Government is in the process of developing a strategic framework for carbon credits, which is likely to include reforestation. The project-supported pursuit of environmental stabilization would contribute towards these climate protection objectives.

IFAD policy and strategy alignment

16. The project is harmonized with the IFAD Strategic Framework 2007-2010 by prioritizing access of the rural poor to land and water; agricultural technologies; functioning agricultural input and produce markets; and local policy and programming processes. It is also fully coherent with the agreed principles of

engagement by: (i) focusing on rural economic development; (ii) including specific pro-poor targeting mechanisms; (iii) empowering local organizations; (iv) integrating effective local learning mechanisms; (v) forging partnerships with local government, community-based institutions, development partners and the private sector; and (vi) promoting sustainability through sound environmental practices.

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. Given the participation of national stakeholders in the preparation of the country strategic opportunities programme, the project is also closely aligned to the country-specific strategic direction agreed between the Government and IFAD. Agricultural intensification, particularly when undertaken through irrigation and integrated livestock development, is a key priority for the Government in both general and sectoral terms.

Harmonization with development partners

18. The project was developed in collaboration with partners active in rural development through the Country Programme Management Team in Rwanda. Through this process, synergies were developed with the World Bank-supported Rural Sector Support Programme, and cofinancing arrangements made with the World Food Programme (WFP) and the German Development Service.
19. The partnership with WFP for food-for-work environmental protection activities successfully piloted under the Support Project for the Strategic Transformation of Agriculture will be continued. In addition, the project will make use of specialized technical assistance from the local office of the Food and Agriculture Organization of the United Nations, within the framework of the One United Nations Initiative. Moreover, by linking project management to an existing project coordination unit, the project directly supports the non-proliferation of separate management units, in line with the Paris Declaration on Aid Effectiveness.

F. Components and expenditure categories

Main components

20. The four existing components will remain the same: (i) local institutional development (14 per cent of project base costs) to increase the capacity of government and community institutions first to support a rapid and sustained increase in profitable smallholder agriculture in the District, and second to ensure effective water and land use management; (ii) agricultural intensification (64 per cent), to provide the market-led investments in value chain development, crop and livestock intensification, irrigation development and soil and water conservation that are required to transform agriculture into a business for smallholders; (iii) feeder roads (17 per cent) (financed by the Government), to provide a fully functional road network allowing trade to pick up in both agricultural inputs and produce; and (iv) project coordination (5 per cent) is dealt with by the unit managing the Support Project for the Strategic Transformation of Agriculture. However, the soil and water conservation subcomponent will henceforth include reforestation.

Expenditure categories

21. No changes will be made to the existing six categories of expenditure.

G. Management, implementation responsibilities and partnerships

Key implementing partners

22. The project is being implemented by (i) the Ministry of Agriculture and Animal Resources; (ii) the district authorities; (iii) the communities; and (iv) contracted service providers, including government agencies, NGOs, private firms and specialized United Nations agencies.

Implementation responsibilities

23. Overall oversight is exercised by the National Steering Committee of the Support Project for the Strategic Transformation of Agriculture, while the oversight of district activities is entrusted to a district steering committee. Project coordination responsibilities rest with the joint project coordination unit, while most district-based activities are managed by the district authorities.

Role of technical assistance

24. The project provides significant technical assistance to boost the capacities of communities and district authorities to plan and manage local development processes, and to support selected central government entities and farmers' organizations. In particular, technical assistance will be used for watershed management planning, water users' associations, land tenure security activities, value chain development, soil and water conservation, engineering for irrigation and road works, and decentralized management. Furthermore, technical assistance will be required to set up the carbon finance arrangements.

Key financing partners and amounts committed

25. The total project cost is US\$49.33 million over seven years. The sources of financing are IFAD, with the existing and proposed grants (41 per cent and 13 per cent respectively); WFP (17 per cent); the German Development Service (1 per cent); the beneficiaries (6 per cent); the private sector (3 per cent); central government (15 per cent) and district government (4 per cent).

H. Benefits and economic and financial justification

Main categories of benefits generated

26. The main benefits include: appropriate local development solutions through active local participation; better land tenure security; improved input supply and produce marketing in value chains; effective storage and processing services; the intensification and diversification of profitable agricultural production; improved access to agricultural knowledge, technology and information; greater livestock production and off-take; improved and stabilized soil fertility, increased carbon-sequestration of soil; and reduced commercial transaction costs through better road access.

Economic and financial viability

27. A financial analysis of a number of income-generating activities promoted by the project showed a significant increase in gross and net returns and high benefit/cost ratios. The economic analysis projected an internal economic rate of return of 16.8 per cent for the project.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

28. The project will set up local management structures, including entities for district and sectoral planning, watershed planning, shared agricultural water use, and community innovation centres. These initiatives are meant to establish permanent institutions and reinforce them as needed. They also aim to involve local stakeholders in monitoring and evaluation and managing the community capacity-building funds to empower communities to acquire, keep and use local knowledge.

Development innovations that the project will promote

29. The project's key innovations are: (i) an approach that integrates commercial and intensified agriculture with sound and sustainable resource management; (ii) integrated management arrangements that give substantial planning and financial management responsibilities to the district and – through the community capacity-building fund – also to the communities; (iii) the introduction of hillside irrigation and household biogas technology; and (iv) the integration of carbon finance arrangements to contribute to the project's poverty alleviation objective.

Scaling-up approach

30. Within the project, approaches tested elsewhere will be scaled up. These include watershed-based planning and implementation, the promotion of land tenure security, marshland irrigation, animal solidarity chains (revolving livestock schemes) and the soil and water conservation approach of *embocagement* (hedging). Furthermore, through its watershed-based approach and the planned modular carbon finance arrangements, the project has potential for replication in other parts of Rwanda.

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

31. The project faces five main risks: (i) the decentralization process may not move ahead steadily; (ii) the Government may delay adoption of the principles of integrated water resource management and subsidiarity in watershed planning; (iii) the production systems for hillside irrigation may fail to produce the expected results; (iv) reputable private partners with rural business interests might not be available to develop rural value chains; and (v) the carbon finance programme might not be approved by the United Nations Framework Convention on Climate Change, which would halt the implementation of the reforestation activities. The planned mitigation measures include: follow-up on government assurances at negotiations regarding the transfer of resources to the district; the establishment of a support unit for water users' associations; and the provision of experienced technical advisors to support hillside irrigation activities. Efforts will be made to attract private investors. An appropriate framework will be formulated to help ensure the success of the carbon finance initiatives.

Environmental classification

32. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

K. Sustainability

33. The project will lead to sustainable local institutions, intensified sustainable agricultural practices and ongoing commercial relationships with rural producers.

II. Legal instruments and authority

34. An amendment of the project grant agreement between the Republic of Rwanda and IFAD will constitute the legal instrument for extending the proposed supplementary financing to the recipient.
35. The Republic of Rwanda is empowered under its laws to receive financing from IFAD.
36. I am satisfied that the proposed supplementary financing will comply with the Agreement Establishing IFAD.

III. Recommendation

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

RESOLVED: that the Fund shall provide a supplementary grant to the Republic of Rwanda in various currencies in an amount equivalent to three million nine hundred and fifty thousand special drawing rights (SDR 3.950 million) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Key reference documents

Country reference documents

Economic Development and Poverty Reduction Strategy, 2008-2012 (The Republic of Rwanda, September 2007)

Strategic Plan for the Transformation of Agriculture in Rwanda – Phase II (Ministry of Agriculture and Animal Resources, December 2008)

IFAD reference documents

Rwanda Country Programme Evaluation Report (July 2006)

Kirehe Community-based Watershed Management Project (KWAMP) - Project Design Report (September 2008)

Rwanda Country Strategic Opportunities Programme (October 2007)

Carbon Finance Document – Hilltop Reforestation Rwanda (draft, October 2009)

Other miscellaneous reference documents

SWAp MOU and road map

Logical framework

Summary	Performance questions and target indicators	Assumptions
Goal		
Reduction in rural poverty in Kirehe District.	<ul style="list-style-type: none"> - Evolution of RIMS basic socio-economic impact indicators (MDG) - Rate of reduction in the prevalence of extreme poverty (MDG). - Number of households with improved food security (RIMS). - 253 000 individuals receiving project services, by gender (RIMS). 	<ul style="list-style-type: none"> - Economic and social stability. - Decentralization policy - MINAGRI's gender strategy approved. - GoR determined to combat poverty.
Component purposes		
Development of sustainable profitable small-scale commercial agriculture in Kirehe District.	<ul style="list-style-type: none"> - Increased level of marketed production of crops, livestock products. - Operation and maintenance of affordable irrigation facilities. - Steady improvement in the natural resource base in Watersheds. 	<ul style="list-style-type: none"> - MTEF allocates share to agriculture - Effective implementation of PSTA. - Implement the National Land policy.
Expected outputs		
1. Strong public and private local institutions with effective planning and management capacity in the natural resource sector.		
Permanent institutions supporting profitable smallholder agriculture in Kirehe: <ul style="list-style-type: none"> - Decentralized structures. - Community focal points for the promotion of economic activities. - Farmer organizations. 	<ul style="list-style-type: none"> - Local Government cadres capable of supplying crucial "public goods" services to economic operators. - Access to technical advice, training and support on production, marketing issues for farmers and livestock keepers. - Single enterprise (cooperatives) focused on service provision to members. - Farmers' interests represented in District planning, KWAMP support activities. 	<ul style="list-style-type: none"> - Devolution of power will be funded. - Dynamism of decentralization process maintained. - Human/financial resources available. - Conducive environment for community participation.
Effective water/land use planning adopted: <ul style="list-style-type: none"> - Watershed planning and management. - Regularization of land tenure. - Water use management. 	<ul style="list-style-type: none"> - 15 coherent Watershed Management Plans developed and implemented. - Land tenure secure on 21 000 ha for legal and planning purposes. - Effective Water Users' Associations operate without external assistance and mobilise fees for system maintenance and repairs. 	<ul style="list-style-type: none"> - Newly-established watershed community organs integrated into local consultation and decision-making process.
2. Increased efficiency in agricultural and livestock production with a positive effect on the natural resource base.		
Increase in volume and profitability of trade in agricultural and livestock products: <ul style="list-style-type: none"> - Direct action to link farmers to markets 	<ul style="list-style-type: none"> - Evidence of change in practices of farmers' organizations - Preparedness of market operators to prefinance producers - Marked increase in real demand for and number of intermediaries interested in agricultural output of Kirehe. 	<ul style="list-style-type: none"> - Strategies for service supply, development of commodity subsectors exist. - Lucrative/accessible markets identified.
Crop and livestock production intensified: <ul style="list-style-type: none"> - Development of integrated crop-livestock systems - Use of biogas to reduce consumption of fuelwood. 	<ul style="list-style-type: none"> - Sustainable farming systems making optimum use of limited resources. - Maximum use of waste and by-products. - Behaviour driven increasingly by real market signals. 	<ul style="list-style-type: none"> - Conducive environment is created for the development of economic functions of local FOs and private-sector involvement.
Farmland brought under irrigation: <ul style="list-style-type: none"> - Substantial improvement in the reliability of crops. - Shift to more profitable crops - Cooperate to form enterprises efficient. 	<ul style="list-style-type: none"> - Full utilization of the irrigated command area. (2 000 ha) - The introduction of second crops where the water supply permits. - Farmers shifting to higher value crops once confident with irrigated agronomy. 	<ul style="list-style-type: none"> - Intensive rice-cultivation system succeeds - Appropriate irrigation with yield-enhancing inputs found
Watershed basins protected through erosion control and carbon sequestration: <ul style="list-style-type: none"> - Farmers trained in conservation techniques. - Appropriate tree and hedge planting materials 	<ul style="list-style-type: none"> - Purposeful technically sound conservation measures on 25 000 ha. - Soil and water losses and damage reduced substantially. - 1 000 ha of degraded hilltops reforested. 	<ul style="list-style-type: none"> - GoR adopts principles of integrated water resources management - Carbon finance programme is approved by UNFCCC.
3. Physical access to markets.		
Restoration / establishment of year-round road links between producers and markets: <ul style="list-style-type: none"> - Reduction in transport costs and physical losses 	<ul style="list-style-type: none"> - Commercial traffic counts go up on the 190 km improved roads. - Farmers' enterprise selections reflect increased confidence in marketing prospects. 	
Proper maintenance of feeder roads in Kirehe: <ul style="list-style-type: none"> - Avoidance of deterioration of restored road links. - Regular employment opportunities for communities. 	<ul style="list-style-type: none"> - 100 % of rehabilitated road maintained every year by the district. - Communities display a strong sense of ownership in their local roads. - Equal access for women and men to the periodic road maintenance employment opportunities. 	<ul style="list-style-type: none"> - Proper funding levels for District's annual and period maintenance programme.

