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Enabling poor rural people
to overcome poverty

President's memorandum

Proposed supplementary financing to the Republic of Rwanda

Kirehe Community-based Watershed Management Project

Note to Executive Board representatives

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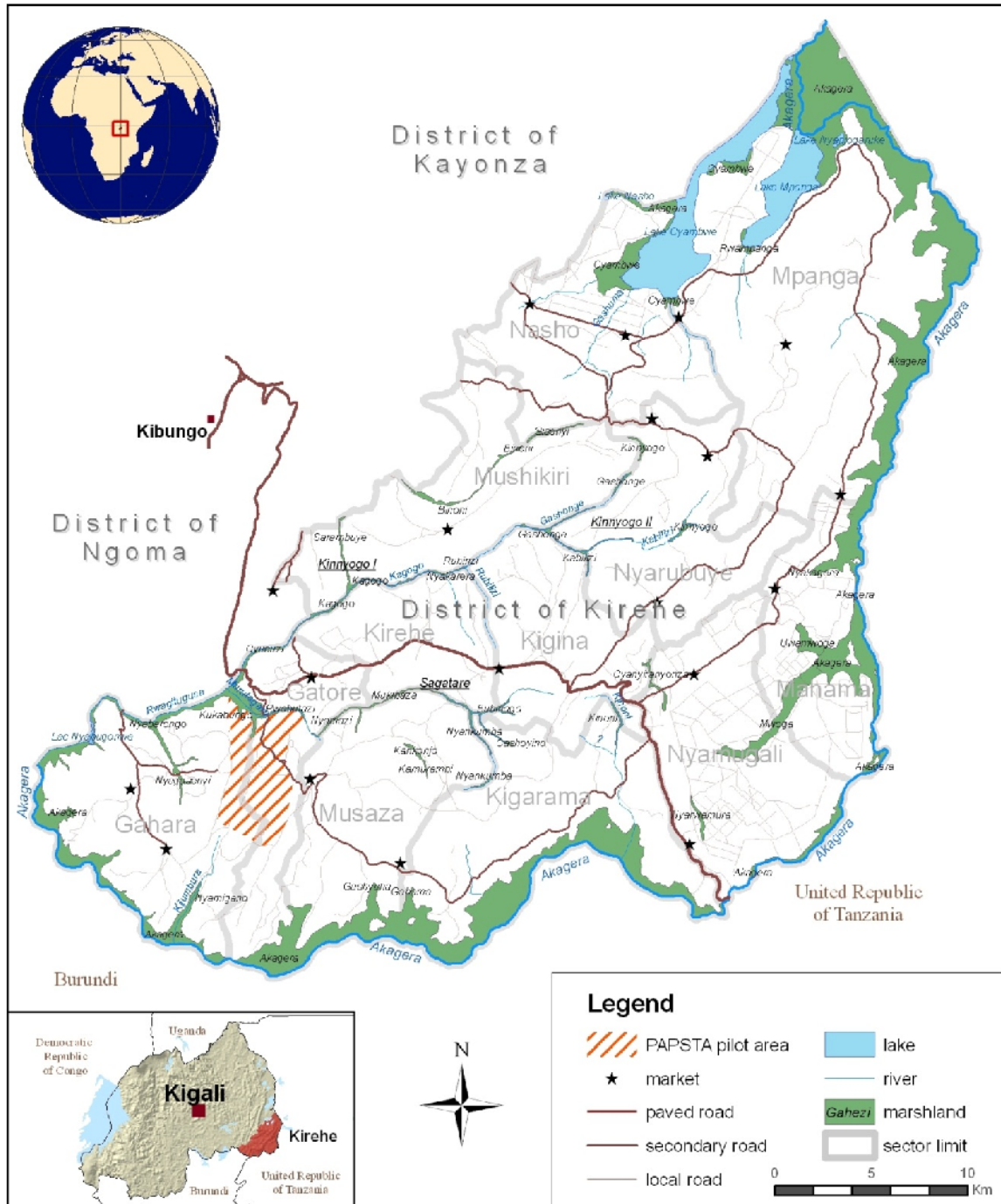
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For: Approval

Map of the project area

Rwanda

Kirehe Community-Based Watershed Management Project (KWAMP)



 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.
 IFAD Map compiled by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary financing for the Kirehe Community-based Watershed Management Project in the Republic of Rwanda, as contained in paragraph 25 and the modifications to the financing agreement as contained in paragraph 21.

President's memorandum

Proposed supplementary financing for Kirehe Community-based Watershed Management Project

I. Background

1. This memorandum seeks approval for supplementary financing in the form of a loan on highly concessional terms in the amount of SDR 5.10 million (equivalent to approximately US\$7.715 million) and grant financing of SDR 5.10 million (equivalent to approximately US\$7.715 million) for the Kirehe Community-based Watershed Management Project (KWAMP) in the Republic of Rwanda, initially approved by the IFAD Executive Board on 11 September 2008 and as amended herein below. To date, grant financing committed under the Debt Sustainability Framework (DSF) amounts to SDR 17.0 million (equivalent to approximately US\$26.77 million).
2. The development goal of the project is the reduction in rural poverty in Kirehe District, as evidenced primarily by a step improvement in household food and nutrition security, asset ownership and quality of life indicators among vulnerable groups, including woman-headed households, orphans and those living with HIV/AIDS. The immediate objectives of the project all focus on the development of sustainable smallholder commercial agriculture in Kirehe District. KWAMP aims at reaching 48,000 beneficiary households via sustainable incremental income from farming and related economic activities. It intends to generate the following results:
 - Increased production of marketable crop and livestock products, leading to increases in income derived from gains in productivity, farming efficiency and cash returns on effort;
 - The operation and maintenance of affordable irrigation by a large proportion of the active poor and landless farmers in Kirehe District, reducing dependence on increasingly erratic rainfall and permitting a shift to higher-value crops in response to market demand; and
 - A steady improvement in the natural resource base in selected watersheds to enable production in the future, reversing the present negative trends of soil erosion and nutrient depletion coupled with failure to put available water to productive use.
3. KWAMP comprises four components: (i) local institutional development, which has two subcomponents: (a) support to agricultural transformation and (b) water and land use management; (ii) agricultural intensification, which has four subcomponents: (a) value chain development, (b) crop and livestock intensification, (c) irrigation development and (d) soil and water conservation; (iii) feeder roads; and (iv) project coordination.

4. The project is implemented by the Ministry of Agriculture and Animal Resources (MINAGRI). It became effective on 30 April 2009, and is due for completion on 30 June 2016. The total cost of the project was estimated at US\$49.33 million; it is currently financed by grants under the DSF (DSF-8020-RW and DSF-8054-RW) equivalent to approximately US\$26.77 million. Today, as some financiers failed to fulfil their commitments (of US\$8.13 million for World Food Programme [WFP] and US\$0.51 million for the German Development Service [DED]), the total project cost now stands at US\$40.69 million, including government and beneficiary counterpart financing.
5. In a letter dated 7 November 2012, the Minister for Finance and Economic Planning of the Republic of Rwanda, on behalf of the borrower, requested IFAD supplementary financing for KWAMP in the amount of US\$15.43 million. The financing gap is caused by the withdrawal of WFP and DED funding and by an underestimation in the cost of hillside irrigation works due to the limited experience of the country on this issue during the design phase. In response, IFAD brought forward a midterm review (MTR) of the project to December 2012 in order to review the implementation of planned project activities and outputs against actual results and verify the scope and level of supplementary financing required for project completion.
6. This request for supplementary financing is thus based on the MTR findings and recommendations. At a meeting on 30 April 2013, the country programme management team (CPMT) meeting provided input for the proposal and recommended its submission to the IFAD Executive Board for approval through the lapse-of-time (LOT) procedure. The requested supplementary resources are within the 2013-2015 allocation for the Republic of Rwanda under the performance-based allocation system (PBAS).

II. Justification and rationale

7. Following completion of the Rwanda country programme evaluation in 2012, IFAD and the Government engaged in the formulation of a new results-based country strategic opportunities programme (RB-COSOP). This RB-COSOP will cover a six-year period and two PBAS allocations – for 2013-2015 and 2016-2018 – and will be submitted to the IFAD Executive Board in September 2013. The RB-COSOP will be prepared concurrently with the second Economic Development and Poverty Reduction Strategy and the third phase of the Strategic Plan for Agricultural Transformation, which seek to transform Rwanda from a low-income agriculture-based economy into a service-oriented economy in line with Rwanda's Vision 2020. This will allow the COSOP to inform Rwanda's mid- to long-term development goals and ensure alignment of IFAD's ongoing and future operations with the Government's investment programme and policy framework for growth and poverty reduction, which gives agriculture and rural development a central role.
8. The new RB-COSOP will be the first of its kind in a number of ways. First, with the integration of Rwanda into the East African Community (EAC), the COSOP will be aligned with EAC objectives. Second, it will leverage the long-standing partnership between IFAD and the Food and Agriculture Organization of the United Nations (FAO). Moreover, IFAD is committed to reinforcing its partnerships with other key international institutions based in Rwanda to enable implementation of our scaling-up corporate agenda. To follow-up on these potential partnerships, IFAD is currently holding discussions with the European Union, the OPEC Fund for International Development (OFID), and several other partners regarding their interest in contributing to IFAD-funded initiatives to promote a significant cofinancing opportunity for Rwanda.
9. IFAD recently assessed the fiduciary risk of the country portfolio as low. National governance indicators rank Rwanda fiftieth out of 174 countries on the 2012 Transparency International Corruption Perceptions Index. Both procurement and financial management scored well in the 2010 Public Expenditure and Financial

Accountability (PEFA) assessment and the Public Financial Management Risk Assessment, undertaken in 2011 by the United States Agency for International Development, of MINAGRI which implements KWAMP. Rwanda's annual disbursement levels for the IFAD portfolio, standing at around US\$16.0 million and US\$17.4 million in 2011 and 2012 respectively, makes it one of the four best-performing countries in the East and Southern region.

10. According to the MTR of the project, implementation progress and achievement of development objectives are on track, with most targets already being achieved. As indicated, the project's target group at design was 48,000 small farm households with less than 1 hectare of land and landless farm households residing in 15 watersheds. The project has already exceeded this target, having reached 59,800 households, representing 125 per cent of the target. Within the next three years, the project plans to reach an additional 10,000 direct and 15,000 indirect beneficiary households and expand the number of watersheds covered to 18. At design, the project aimed to reach 15 different categories of groups. To date, the project is reaching 25 cooperatives; 18 watershed management committees; 17 water user associations; four *Inteko y'Imihigo* groups;¹ and 54 livestock groups, among others. The criteria for targeting beneficiaries for the various components will continue to be applied by the community based on the same poverty categories identified during design. While the project has already generated numerous benefits for target groups, these are not yet sufficiently documented in statistical terms. A midterm impact study to enable KWAMP to evaluate those benefits is under way and will be finalized prior to starting the second period of project implementation.
11. As a result of the financing gap, the project has slowed down the implementation of some activities contemplated in the 2012/2013 annual workplan and budget. It is estimated that the remaining project financing will run out in July or August 2013 at current rates of expenditure. Given the proposed supplementary funding amount, a LOT submission has been recommended by the CPMT. Should this proposal elicit a query from Board members that would require discussion at the September 2013 Executive Board, then alternative short-term financing will be required to avoid halting project operations.

III. Strategy during the remaining period and activities

12. The project's objectives, strategy, geographic coverage, components, and organization and management will remain unchanged, and the original termination and closing dates will not be modified as a result of this supplementary financing request. In line with the MTR recommendations, during the remaining implementation period, the project will focus on: (i) building capacity of local institutions (local committees for supervision and management, community innovation centres, cooperatives, water users associations, *Inteko y'Imihigo* groups), including district staff, to take over responsibility for sustaining the activities supported by the project; (ii) completing ongoing hillside irrigation activities; and (iii) implementing remaining activities to meet design targets. The latter include mainly value chain development, feeder roads, marshland development, soil and water conservation, and scaling up of available biogas technologies.
13. KWAMP will continue to provide support to the Government's Crop Intensification Programme in order to sustain current achievements in land use consolidation and improve performance in the private sector-led input distribution system. It will place special emphasis on promoting good agriculture practices (including the system of rice intensification). These will be promoted through farmers' field schools and demonstration plots to sustain increased yields for maize and rice and roll out the banana rehabilitation programme alongside clean cassava planting material (i.e. free of insects, mites and pathogens). The proposed strategy for livestock development during the remaining period will be based on gradual

¹ Groups promoting community competitions for resources adapted from similar IFAD initiatives in Peru.

disengagement by the project accompanied by increased involvement of the district's institutions and farmers' cooperatives.

14. In order to enable the project to fulfill its objectives in soil and water conservation and consolidate previous investments, priority will be given to completing the comprehensive land husbandry technique activities. The project will also build on existing structures established at the community level (resource persons, *relais villageois* [village contact points], watershed management committees) to ensure the full participation of beneficiaries.
15. To better handle livestock effluents and produce on-farm energy, IFAD supplementary financing will facilitate scaling up the flexi-biogas technology piloted under KWAMP with support from the Initiative for Mainstreaming Innovation project – Making biogas portable: Renewable technologies for a greener future. Expected benefits include reduced use of wood for cooking, reduced greenhouse gas emissions, increased bio-slurry production capable of significantly improving crop production (thus food security) and reduced incidence of respiratory and ocular diseases caused by smoke from cooking (particularly among women and children).

IV. Financial management, procurement and governance

16. The MINAGRI single project implementation unit for IFAD-supported operations is the regional leader in financial reporting and control, and is fully compliant with IFAD procurement and contract management guidelines. Financial reporting is rated as highly satisfactory. KWAMP will continue to maintain accounts and records in accordance with IFAD-accepted accounting practices. Therefore, the project will adhere to the Government's accounting system using a modified cash basis of accounting that is acceptable to IFAD and will also maintain a separate ledger and register in the TOMPRO² accounting system to record project expenditures by category, project component, subcomponent and activity.
17. **Flow of funds.** The IFAD supplementary financing will be channelled through the existing project bank accounts.
18. **Audits.** As for all other IFAD-financed projects in Rwanda, the consolidated financial statements will be audited in accordance with International Standards on Auditing and the IFAD Guidelines on Project Audits by the Office of the Auditor-General of State Finances. The Auditor-General's Office has been assessed as being independent and as having the necessary capacity for this assignment and its performance on previous audits has been rated as satisfactory.

V. Project costs and financing

19. The revised project costs for the period 2013-2016, including physical and price contingencies, have been calculated at US\$23.71 million. KWAMP will be financed by IFAD in the form of a DSF grant of US\$7.715 million (50 per cent of total IFAD financing) and a highly concessional loan of US\$7.715 million (50 per cent of total IFAD financing) amounting to US\$15.43 million overall; the Government will contribute US\$5.40 million (including central and district levels) and value chain actors/beneficiaries will provide US\$2.88 million.
20. Tables 1 and 2 show expected contributions to be provided by each cofinancier and the proposed allocation of the supplementary funding by expense category (table 1) and by component/activity (table 2). Table 3 shows the total IFAD financing broken down by category. Civil works represent the largest category for the new financing (SDR 3.80 million) while the investment funds are the next largest cost (SDR 2.10 million). All funds are subject to audit. There are no new cost categories.

² Project financial management software specifically designed for donor-funded projects.

Table 1
Allocation of supplementary financing by category and financier
(in thousands of United States dollars)

| | IFAD financing (Highly concessional loan and DSF grant) | | Beneficiaries amount | | Private sector amount | | Government amount | | Total amount | | Foreign exchange | Local (excl. taxes) | Duties and taxes |
|---|--|-------------|----------------------|------------|-----------------------|------------|-------------------|-------------|---------------|--------------|------------------|---------------------|------------------|
| | | % | | % | | % | | % | | % | | | |
| I. Civil works | 6 380 | 56.6 | 256 | 2.3 | - | - | 4 636 | 41.1 | 11 272 | 47.5 | 2 254 | 7 748 | 1 270 |
| II. Investment fund | 3 516 | 60.7 | 1 053 | 18.2 | 999 | 17.2 | 224 | 3.9 | 5 792 | 24.4 | - | 5 568 | 224 |
| III. Vehicles, equipment and materials | 430 | 78.4 | 82 | 15.0 | - | - | 36 | 6.6 | 549 | 2.3 | 412 | 101 | 36 |
| IV. Training, technical assistance, studies and service contracts | 2 205 | 88.2 | - | - | 66 | 2.6 | 230 | 9.2 | 2 500 | 10.5 | 396 | 1 921 | 184 |
| V. Salaries and allowances | 1 987 | 99.9 | - | - | - | - | 1 | 0.1 | 1 988 | 8.4 | - | 1 987 | 1 |
| VI. Operation and maintenance | 913 | 56.7 | - | - | 420 | 26.1 | 278 | 17.2 | 1 610 | 6.8 | 725 | 608 | 278 |
| VII. Unallocated | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total project costs | 15 432 | 65.1 | 1 391 | 5.9 | 1 485 | 6.3 | 5 404 | 22.8 | 23 712 | 100.0 | 3 786 | 17 933 | 1 992 |

Table 2
Allocation of supplementary financing by component and financier
(in thousands of United States dollars)

| | IFAD financing (Highly concessional loan and DSF grant) | | Beneficiaries amount | | Private sector amount | | Government amount | | Total amount | | For. exch. | Local (excl. taxes) | Duties and taxes |
|--|--|-------------|----------------------|------------|-----------------------|------------|-------------------|--------------|---------------|--------------|--------------|---------------------|------------------|
| | | % | | % | | % | | % | | % | | | |
| 1. Local institutional development | | | | | | | | | | | | | |
| 1. 1 Support to agricultural transformation | 694 | 96.1 | - | - | - | - | 28 | 3.9 | 723 | 3.0 | 84 | 611 | 28 |
| 1. 2 Water and land use management | 276 | 96.6 | - | - | - | - | 10 | 3.4 | 286 | 1.2 | 21 | 255 | 10 |
| Subtotal 1. Local institutional development | 970 | 96.2 | - | - | - | - | 38 | 3.8 | 1 009 | 4.3 | 105 | 865 | 38 |
| 2. Agricultural intensification | | | | | | | | | | | | | |
| 2. 1 Value chain development | 1 113 | 52.1 | - | - | 999 | 46.8 | 23 | 1.1 | 2 135 | 9.0 | 2 | 2 110 | 23 |
| 2. 2 Crop and livestock intensification | 1 726 | 55.3 | 591 | 18.9 | 486 | 15.6 | 319 | 10.2 | 3 122 | 13.2 | 882 | 1 921 | 319 |
| 2. 3 Irrigation development | 6 358 | 82.5 | - | - | - | - | 1 353 | 17.5 | 7 711 | 32.5 | 1 613 | 4 745 | 1 353 |
| 2. 4 Soil and water conservation | 3 085 | 75.5 | 800 | 19.6 | - | - | 201 | 4.9 | 4 086 | 17.2 | 252 | 3 632 | 201 |
| Subtotal 2. Agricultural intensification | 12 823 | 72.0 | 1 391 | 8.2 | 1 485 | 8.7 | 1 895 | 11.1 | 17 053 | 71.9 | 2 750 | 12 408 | 1 895 |
| 3. Feeder roads | - | - | - | - | - | - | 3 366 | 100.0 | 3 366 | 14.2 | 673 | 2 693 | - |
| 4. Project coordination | 2 178 | 95.4 | - | - | - | - | 105 | 4.6 | 2 284 | 9.6 | 258 | 1 967 | 59 |
| Total project costs | 15 432 | 65.1 | 1 391 | 5.9 | 1 485 | 6.3 | 5 404 | 22.8 | 23 712 | 100.0 | 3 786 | 17 933 | 1 992 |

Table 3
Allocation of IFAD financing by category
(in thousand of special drawing rights)

| | <i>IFAD DSF grant 8020</i> | <i>IFAD DSF grant 8054</i> | <i>Existing IFAD financing</i> | <i>Proposed highly concessional loan</i> | <i>Proposed DSF grant</i> | <i>Proposed supplementary financing</i> | <i>Proposed total financing</i> |
|---|--|--|--|--|-----------------------------------|---|---|
| I. Civil works | 4 130 | 3 020 | 7 150 | 1 900 | 1 900 | 3 800 | 10 950 |
| II. Investment fund | 2 170 | - | 2 170 | 1 050 | 1 050 | 2 100 | 4 270 |
| III. Vehicles, equipment and materials | 480 | - | 480 | 125 | 125 | 250 | 730 |
| IV. Training, technical assistance, studies and service contracts | 4 640 | 600 | 5 240 | 650 | 650 | 1 300 | 6 540 |
| V. Salaries and allowances | 1 150 | - | 1 150 | 600 | 600 | 1 200 | 2 530 |
| VI. Operation and maintenance | 430 | - | 430 | 275 | 275 | 550 | 980 |
| VII. Unallocated | 50 | 330 | 380 | 500 | 500 | 1 000 | 1 380 |
| Total project costs | 13 050 | 3 950 | 17 000 | 5 100 | 5 100 | 10 200 | 27 200 |

VI. Proposed modifications to the financing agreement

21. Upon approval by the Executive Board, the existing financing agreement will be amended to reflect the proposed changes as described herein. This supplementary financing does not imply any modification of the original project description and it will be used to finance the activities originally planned.

VII. Legal instruments and authority

22. An amendment to the current financing agreement between the Republic of Rwanda and IFAD will constitute the legal instrument for extending the proposed supplementary financing to the Republic of Rwanda.
23. Rwanda is empowered under its laws to receive financing from IFAD.
24. I am satisfied that the proposed supplementary financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

VIII. Recommendation

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

RESOLVED: that the Fund shall provide a supplementary loan on highly concessional terms to the Republic of Rwanda in an amount equivalent to five million one hundred thousand special drawing rights (SDR 5,100,000) 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 supplementary grant to the Republic of Rwanda in an amount equivalent to five million one hundred thousand special drawing rights (SDR 5,100,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President