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Investing in rural people

President's memorandum

Proposal for additional financing to the Republic of Rwanda for the Project for Rural Income through Exports

Note to Executive Board representatives

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Updated Logical Framework

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed additional financing to the Republic of Rwanda for the Project for Rural Income through Exports, as contained in paragraph 18.

Proposal for additional financing to the Republic of Rwanda for the Project for Rural Income through Exports

I. Background

1. Following the request of the Government of Rwanda, this memorandum seeks the approval of the Executive Board for additional financing amounting to the equivalent of US\$11.3 million for the Project for Rural Income through Exports (PRICE) in the Republic of Rwanda.
2. The funds will be allocated under the 2016-2018 cycle of the performance-based allocation system. They will be supplemented by a Government contribution of US\$0.56 million, a contribution from the private sector of US\$0.533 million, and a contribution by beneficiaries of US\$0.138 million.
3. The purpose of the additional financing is to support the consolidation and sustainability of results and impacts achieved to date, which have been confirmed by IFAD supervision reports, the project's midterm review (MTR) and a recently conducted impact study. The activities to be supported by the additional financing are consistent with ongoing project objectives and components.

II. Justification for the additional financing

4. This additional financing request fully complies with the eligibility criteria for additional financing in accordance with President's Bulletin PB/2014/01/Rev.1, namely that: (i) the additional financing does not call for a modification of the original financing agreement or project design report; (ii) the additional financing is intended to close a financing gap for a project that is almost fully disbursed (91 per cent); (iii) PRICE is considered a highly performing project with an average project status report rating of 4.36 and satisfactory fiduciary performance (average of 5.0); (iv) no extension of this additional financing is expected; and (v) the additional financing is expected to leverage additional government counterpart resources, as well as private sector co-investment and commercial bank lending as part of the public-private-producer partnerships (4Ps) to be facilitated and sustained in the value chains targeted by the project.

A. Project implementation performance

5. The project's implementation performance is satisfactory, as evidenced by IFAD supervision reports, the MTR and a recent impact assessment, which note the positive results achieved so far and the likelihood of development objectives being reached.
6. The recently commissioned impact study illustrated the emerging impacts of the different value chains supported and the MTR noted that the project is on track to achieving its objectives. However, the MTR and recent implementation support missions have provided a number of recommendations to ensure that the sustainability of the project's achievements is not put at risk.
7. Specific achievements under the project components include: (i) a satisfactory level of implementation in activities surrounding coffee, especially regarding plantation expansion, capacity building of coffee cooperatives through farmer field schools

(FFSs), the Turnaround Programme and the national coffee census; (ii) the targets in tea have been surpassed in seedling production and planting and so far 3,395 hectares of new plantations have been established, of the 2,645 hectares planned. Good progress is also noted in consolidation and research activities, development of the national brand and mark of origin, the FFS programme and the support to the Rwanda Federation of Tea Cooperatives; (iii) the farmer-based production model in the sericulture component is also progressing well and a number of farmers are now able to earn supplementary income from cocoon production. Access to eggs, young silkworms, technical services and markets has been well rated and the mainstreaming of the National Sericulture Centre into the National Agricultural Export Development Board (NAEB) has contributed to the initiation of a sound exit strategy and sustainability for the component; (iv) PRICE has delivered a “proof-of-concept” for adapted business partnership models in selected horticultural crops and proved that horticulture farming and related investments are bankable and profitable; and (v) the performance of the financial services component is rated satisfactory considering the demonstrative effect, especially in horticulture, of the PRICE-supported facilities (the performance-based grant scheme and guarantee fund), which have attracted 35 financial institutions.

B. Description of activities and expected benefits

8. The strategy for the additional financing is to reinforce the sustainability prospects of the project and ensure a sound exit strategy. It intends to consolidate viable and sustainable inclusive business models in the coffee, tea, sericulture and horticulture value chains, with a clear objective of providing institutions, mechanisms and capacities with the necessary support to continue on their own after project completion. In particular, the additional financing is aimed at enabling NAEB/Ministry of Agriculture and Animal Resources to take the project a step forward to support the brokering of formal 4Ps involving farmers' cooperatives and private sector in these value chains.
9. The additional financing will focus on the following strategic thrusts:
 - (a) In tea, the priority will be strengthening farmer cooperatives' capacities to deliver higher volumes and quality of green leaves to processing factories through formal business planning and formal tea supply agreements and acquiring important certifications and equity shares from factories that offer favourable conditions, thereby enabling the cooperatives to gain a significant level of participation in management decisions. The development of a cooperative economic and social upgrading programme is recommended, to be implemented in the remaining period of the project in order to improve sustainability and lay the foundation for an exit plan. The recent study and road-map developed by the Institute of Development Studies to promote equity shareholding in tea factories on behalf of cooperatives will be used to guide 4Ps in the tea sector from a legal and practical perspective.
 - (b) In coffee, support for the development of a model similar to the crop intensification programme will ensure regular supply of inputs and extension services, and the coordinated and timely application of agricultural practices that will guarantee the expected results;
 - (c) In sericulture, priorities will include boosting cocoon production in order to meet the minimum production volumes and rebuilding the market avenues that are critical for the development and sustainability of the sector. On the institutional side, efforts will be made to ensure that the National Sericulture Centre is operating effectively and efficiently when the Government is ready to take over its financial support in 2017-2018 and financial contributions from the project decrease drastically;
 - (d) In horticulture, the focus will be on developing sustainable market linkages. Specifically, activities will include: (i) re-engaging the international service

provider to further analyse, support and broker supply/purchase contracts with regional and/or international importers; (ii) supporting farmers' empowerment through FFSs; (iii) obtaining certification support to comply with European Union standards (GlobalG.A.P) and access niche markets; (iv) supporting applied research focusing on high-value products with niche markets; and (v) continuing support to essential oils value chains; and

- (e) In the financial services component, efforts will be directed at leveraging resources from the ongoing IFAD-funded Post-Harvest and Agribusiness Support Project for the horticulture sector, with a particular emphasis on the avocado, mango, onion, garlic and hot pepper value chains.
10. The economic and financial analysis of the project remains unchanged since the activities and expected benefits for the additional financing remain the same as at design.

III. Project costs and financing

11. The total revised financing for the project is US\$58.322 million. The revised financing has only increased by 4 per cent the original total financing of US\$56.1 million, since the additional financing will cover the gap left by the unidentified financier and some additional costs associated with inflation, underestimated staff costs at design, and the strategic thrusts for the remaining implementation period. The additional financing of US\$12.531 million will be composed of an IFAD loan equivalent to US\$11.3 million, a Government contribution of US\$0.56 million, private sector investment of US\$0.533 million and a beneficiary contribution of US\$0.138 million. Details are presented in the tables below.

Table 1
Revised financing by financiers
(United States dollars)

Source of funds	Original Financing		Additional Financing		Total Revised Financing	
	Amount	Share of Total (%)	Amount	Share of Total (%)	Amount	Share of Total (%)
IFAD loan	18 700 442	32	11 300 000	19	30 000 442	51
IFAD grant	18 700 442	32	-	-	18 700 442	32
Government	5 074 176	9	560 102	1	5 634 279	10
Beneficiaries	512 871	1	138 050	-	650 921	1
Unidentified financier	10 304 916	18	(10 304 916)	-18	-	-
Private Sector	2 802 520	5	533 432	1	3 335 952	6
Total	56 095 367	96	2 226 669	4	58 322 036	100

Table 2
Revised financing by expenditure categories and financiers
(United States dollars)

Category	Revised Financing										Total Funding	
	IFAD loan and grant		Additional IFAD loan		Farmers		Private Sector		Government of Rwanda		Amount	%
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Goods and development funds	20 924 270	60	6 035 000	17	365 159	1	3 335 952	10	3 963 394	11	34 623 775	59
2. Services and recurrent costs	16 476 614	70	5 265 000	22	285 762	1	-	-	1 670 885	7	23 698 261	41
Total	37 400 884	64	11 300 000	19	650 921	1	3 335 952	6	5 634 279	10	58 322 036	100

IV. Financial management, procurement and governance

12. The project will use the existing financial management, procurement and governance procedures which are in line with those of IFAD and the Government. The IFAD additional financing will be channelled through the project's existing bank accounts. In addition to the existing PRICE financing, a Single Project Implementing Unit within the Ministry of Agriculture and Animal Resources also manages two other ongoing IFAD-financed projects and has been consistently assessed by IFAD missions as having a financial management rating of "low risk".

V. Audit

13. The current audit risk is rated low with unqualified audit opinions. Both the financial statements and the quality of the auditor's performance are rated highly satisfactory. The Office of the Auditor General of the Government of Rwanda will continue as the auditor, as is the case for all other IFAD-financed operations in Rwanda. Consolidated financial statements will be audited in accordance with International Standards on Auditing and IFAD Guidelines on Project Audits by the Office of the Auditor General of the Government of Rwanda.

VI. Legal instruments and authority

14. Subject to the approval of the Executive Board, the current financing agreement will be amended to reflect the additional financing. The proposed changes to the agreement will require revision to the allocation of IFAD financing to include the additional resources granted as a loan.
15. The amendments will not require an extension of the project. The additional financing does not imply any modification to the project description and will be used to reinforce the sustainability of activities originally foreseen under the project.
16. The Republic of Rwanda is empowered under its laws to borrow from IFAD.
17. I am satisfied that the proposed additional financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

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

RESOLVED: that the Fund shall provide an additional loan on highly concessional terms to the Republic of Rwanda in the amount of eight million four hundred and ten thousand special drawing rights (SDR 8,410,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Updated Logical framework

Narrative summary	Key Indicators and Targets by June 2018 (except where other dates are specified)	Means of Verification	Assumptions
GOAL AND DEVELOPMENT OBJECTIVE			
GOAL: Raised smallholder income.	Increased assets for participating households (HH) (RIMS) Reduced child malnutrition (RIMS)	Project baseline & impact surveys National statistics (EICV)	Favorable economic environment Continued government committed to improve returns to farmers in export value chains
DEVELOPMENT OBJECTIVE: 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 % of value added in value chains supported by project accruing to producers 118 500 households (37% women) receiving project services (RIMS 1.2.5) 160 cooperatives (= community groups) formed/ strengthened (RIMS 1.6.4) 82 700 farmers (37% women) adopt the recommended technologies (input for RIMS 2.2.2)	Project surveys/ cooperative reports NAEB statistics Project surveys/ cooperative reports Cooperative reports Project surveys/ cooperative reports	
OUTCOMES			
OUTCOME 1: Increased volume and quality of coffee production reaching high value markets and generating increased share of market end prices to coffee growers.	95 400 coffee growers (38% women) accessing facilitated advisory services (RIMS 1.2.5) 115 coffee cooperatives formed/ strengthened (RIMS 1.6.4) 66 800 coffee growers (38% women) adopt recommended technologies (input for RIMS 2.2.2) Yield per tree in targeted existing plantations increases by at least 30% (from 1.35 kg/tree in 2008) 3 100 ha of first phase new plantation producing at least 2.5 kg of cherries per tree Average total cherry price received by PRICE clients is above that of other producers	Project surveys/ cooperative reports Cooperative reports Project surveys/ cooperative reports Project surveys Project surveys Cooperative reports	Industry stakeholders willing to adopt quality standards allowing to reach high value market The differential between prices for fully-washed (FW) coffee and semi-washed (SW) coffee is sufficient to motivate farmers' steady switch from SW to FW
OUTCOME 2: Increased volume and quality of tea production earning tea growers a higher share of increased market-end prices.	14 300 tea growers (30% women) accessing facilitated advisory services (RIMS 1.2.5) 6 tea cooperatives formed/ strengthened (RIMS 1.6.4) 9 800 tea growers (30% women) adopt the recommended technologies (input for RIMS 2.2.2)	Project surveys/ cooperative reports Cooperative reports Project surveys/ cooperative reports	Private investors interested in cost sharing with IFAD along proposed conditions Tea processing companies share the objective of targeting direct,

	<p>PPP developed on 4 new greenfield sites by June 2013</p> <p>Yield of pre-2012 plantations by COTHENK (Nshili) reaches 9.0 t/ha</p> <p>Average yield of <i>the villageois</i>, early production, reaches 2.4 t/ha</p> <p>Tea growers' share of final market price reaches at least 40%</p>	<p>Project data</p> <p>COTHENK reports</p> <p>Cooperative reports</p> <p>FERWACOTHE reports</p>	<p>more profitable markets</p>
<p>OUTCOME 3: Increased volumes of high quality silk cocoons produced profitably by smallholders and their cooperatives.</p>	<p>1 600 farmers (54% women) accessing facilitated advisory services by June 2015 (RIMS 1.2.5)</p> <p>40 sericulture cooperatives strengthened (RIMS 1.6.4)</p> <p>1 100 farmers (54% women) adopt recommended technologies by June 2015 (input for RIMS 2.2.2)</p> <p>Participating farmers and cooperatives produce 13 200 t of wet cocoon in 2014/15</p> <p>40 participating cooperatives report profits by June 2015</p>	<p>Project surveys/ cooperative reports</p> <p>Cooperative reports</p> <p>Project surveys/ cooperative reports</p> <p>Cooperative reports</p> <p>Cooperative reports</p>	<p>World market prices for raw silk remain above USD 30/kg</p>
<p>OUTCOME 4: Viable smallholder-oriented business models developed for selected horticulture value chains.</p>	<p>7 200 farmers (40% women) accessing facilitated advisory services (RIMS 1.2.5)</p> <p>5 000 farmers (40% women) adopt recommended technologies (input for RIMS 2.2.2)</p> <p>800 ha of perennial smallholder crops are contractually linked to large-scale private traders</p> <p>10 horticulture cooperatives formed/ strengthened (RIMS 1.6.4)</p>	<p>Project surveys/ cooperative reports</p> <p>Project surveys</p> <p>Project surveys</p> <p>Cooperative reports</p>	
<p>OUTCOME 5: Selected value chain stakeholders have timely and adequate access to a range of diversified financial products, including risk-mitigating products.</p>	<p>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)</p> <p>At least 40 000 voluntary savers (31% women) in participating SACCOs (RIMS 1.3.6)</p> <p>At least 60 000 active borrowers (31% women): 20 000 from participating SACCOs, 40 000 from other RFI's (RIMS 1.3.8)</p> <p>Average SACCO portfolio-at-risk < 5% (main element contributing to assessment of RIMS 2.3.3)</p> <p>Tea factory equity share owned by 3 tea cooperatives above 10%</p> <p>32 000 participating farmers included in insurance schemes</p>	<p>Project surveys</p> <p>SACCO reports</p> <p>SACCO and MFI reports</p> <p>SACCO reports</p> <p>Tea cooperative reports</p> <p>MIS of participating financial institutions</p>	<p>Government remains interested in raising tea cooperatives' share of tea companies' equity.</p> <p>Sufficient weather-related data available for weather-index insurance.</p>