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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
LAND HUSBANDRY, WATER HARVESTING AND HILLSIDE IRRIGATION
PROJECT

DECEMBER 22, 2009

TO THE
REPUBLIC OF RWANDA

JULY 20, 2011

Agricultural and Rural Development Unit
Sustainable Development Department
East Africa Country Cluster II
Africa Region

ABBREVIATION AND ACRONYMS

CIDA	Canadian International Development Agency
FA	Financing Agreement
FM	Financial Management
GAFSP	Global Agriculture and Food Security Program
GoR	Government of Rwanda
IDA	International Development Association
LWH	Land Husbandry, Water Harvesting and Hillside Irrigation
MINAGRI	Ministry of Agriculture and Animal Resources
PDO	Project Development Objective
RSSP	Rural Sector Support Program
USAID	United States Agency for International Development

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RWANDA
LAND HUSBANDRY, WATER HARVESTING AND HILLSIDE IRRIGATION

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LAND HUSBANDRY, WATER HARVESTING AND HILLSIDE IRRIGATION

RESTRUCTURING PAPER

SUMMARY

1. Subsequent to the IDA Financing Agreement (FA) dated February 8, 2010 for the Land Husbandry, Water Harvesting and Hillside Irrigation (LWH), the LWH program expanded to receive commitments from three further sources of funding: the Global Agriculture and Food Security Program (GAFSP) Trust Fund, USAID, and CIDA. The additional financing from GAFSP of US\$ 50 million was approved on April 9, 2011. As a part of that preparation, appraisal and approval process, the Project cost tables were rigorously revised and reviewed to include not only the GAFSP scale up monies, but those of the notionally committed USAID and CIDA. Since then, administrative agreements have been signed with both USAID and CIDA, confirming these commitments. Together with the original IDA commitments in the aforementioned FA, these additional three sources provide a total financing of US\$106 million for LWH (see Annex 1). Additional resources are allocated across component activities. As detailed in the GAFSP scale-up documentation, the additional resources from all sources will be used to increase the scope of coverage and the number of sites covered by the LWH. Further sites are identified as part of implementation and then figure in Bank-approved annual work plan and budgets (AWPB)s. The increase in the number of sites therefore does not alter the project development objectives or indicators in any way. Most targets in the results framework rely on a 'rolling baseline' where the target values are evaluated based on the number of sites/beneficiaries/hectares ultimately covered by the Project. Targets are therefore evaluated throughout implementation and will be done so as additionally financed sites come on-line.
2. The World Bank administers all four sources of funding for the LWH. During the recent implementation support mission (June 2011), the Ministry of Agriculture and Animal Resources (MINAGRI), as well as USAID and CIDA, expressed a strong preference for a pooled funding approach to the funding of LWH. This arrangement did not previously figure in the original IDA FA due to the staggered timing of final commitments of the different sources. As per the agreements signed with bilateral co-financiers and the GAFSP grant agreement, scale up from co-financiers is for the complete project package, resulting in extension of the Project to other sites.
3. A basket funding approach as requested by the Government of Rwanda implies a pooled designated account from which all agreed LWH program activities will be funded by each source in proportion to their contribution to the pooled account. This approach would greatly simplify MINAGRI's management of these resources, avoiding the need to allocate expenditures and contracts to a particular financier. This restructuring paper recommends implementing this approach by amending the IDA Financing Agreement (Credit Number 4674-RW) and the GAFSP Grant Agreement (Grant Number TG099108) accordingly. The two

project codes (P114931 and P124785, respectively) are linked as parent and child and this restructuring paper therefore covers both sources and has for its objective the modification of the disbursement arrangements to one of a basket funding approach.

PROJECT STATUS

4. The LWH first became effective in June 2010 and has had an impressively rapid and comprehensive start on Project activities in its first year: mass mobilization of beneficiaries for sensitization; implementation of a labor-intensive approach to land works; preparation and disclosure of safeguards; development and execution of participatory crop selection on all sites; and staffing up of Project Teams. The first set of contracts have been signed and land husbandry works on the first four sites have started; preparation for irrigation works in all four LWH sites selected to date has begun; preparation on dam safety is advanced; and extension and marketing support for production on the first terraces has been completed for the very first planting season after effectiveness.
5. These activities represent an intensive set of parallel community and procurement activities that provide the necessary basis from which indicator progress is expected to be seen over the next six to twelve months. Even so, some important progress on results indicators is visible immediately. As of June 2011, the Project has increased the proportion of land protected against soil erosion in project areas to 27 percent of the total area identified for the four sites, from a baseline of zero. The absolute numbers of women and men accessing formal financial services has also increased over that time, as has the number trained in improved land husbandry methods. With the first LWH rainfed harvest in Karongi, the Project is able to report on productivity and commercialization (which are both PDO indicators) for that site. Productivity of targeted non-irrigated hillsides is US\$1925/ha, up from the baseline of US\$1000/ha. Beneficiaries' share of commercialized products rose from the baseline of 35 percent to 65 percent, exceeding the FY11 target of 30 percent for that site. Total revenues from the first season amount to US\$257,822 for the 3447 smallholders on the first Karongi site.

PROPOSED CHANGES

Financing

6. *Financing Plan.* The amount allocated and phasing reflected in the IDA and GAFSP financing plans remain unchanged. The total project cost, however, has been increased to reflect the amounts available from USAID and CIDA trust funds. Allocation between expenditure categories has been adjusted to ensure that amounts available allow for identical percentages for each donor, for each category of expenditure. In addition, an operating cost category has been added to the original IDA credit allow the borrower to seek an equal reimbursement

percentage from each category of expenditure. See Annex 1 and the Data Sheet for the new financing plan. The Borrower and Local Community contributions have also been revised based on the careful re-calculation of the Project cost tables at the time of GAFSP preparation.

7. *Disbursement arrangements.* The IDA and GAFSP disbursement letter has been amended to reflect a pooled funding arrangement, which will disburse funds from all four sources of financing in agreed proportions. For accounting purposes, harmonized financial reporting among donor partners will identify proportional financing from each donor. All source of donor funding would be deposited in a pooled Designated (special) Account, to meet eligible project expenditures. Counterpart funding would not be pooled and would separately finance operating expenditures. The Bank would need to advise the Borrower to submit four withdrawal applications (one for each source of financing) simultaneously, attaching the required expenditure documentation for the entire basket and indicating the agreed percentage (see Annex 2), which would be applied respectively to each source of financing for accounting and documentation of advances.

8. *Reallocation.* The percentage to be financed from IDA and GAFSP has been amended to reflect the percentage of the total basket funding being made available from these two sources, 29 percent¹ and 49 percent respectively (see Table 1) . The forthcoming USAID and Canadian CIDA grant agreements will reflect the balance of the funding (13.5 percent and 8.5 percent respectively). See Table 1 and Annex 2.

Table 1 IDA Disbursement to Date

CATEGORY	ALLOCATED (SDR)	EXPENDITURES DOCUMENTED (SDR)	
1. Goods	3,300,000	290,065.98	
2. Works	9,300,000	437,332.06	
3. Consultant Services	5,500,000	654,141.16	
4. Training	1,500,000	43,241.00	
5. Operating Costs	-	-	-
6. PPF Refinancing	600,000	221,013	
7. Unallocated	1,200,000	-	
Special Account - Credit		1,588,796.44	
Special Account - PPF		9,402.45	
			Undisbursed:

¹ As per Table 1, 29 percent reflects undisbursed IDA as at August 2011 of US\$29 million out of the undisbursed total available of US\$101 million for LWH from the four sources of finance.

TOTAL	21,400,000	3,243,992.30	18,156,007.70
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Financial Management

9. Financial reporting will be done in a unified, harmonized manner, to document expenditures from all four sources of funding through quarterly financial reports. The annual financial statements would also be on this basis and be subject to audit. All co-financiers will receive one combined statement of expenditure or financial reports for their accountability purposes, as per the agreements with them. The project entity has the accounting capacity to produce these reports. The LWH has received repeated intensive assessments from the Task Team's financial management specialist as part of appraisal for GAFSP (November 2010) and regular implementation support (November 2010 and again in June 2011). LWH's financial management (FM) system remains moderately satisfactory and the Project risk rating for FM remains moderate. The mission notes the significant steps undertaken by the Ministry to merge the LWH fiduciary functions with that of the Rural Sector Support Program (RSSP), the GoR's other main IDA-financed agricultural program. Key steps already achieved include the drafting of a new organizational structure and terms of references for the concerned staff, both submitted to MINAGRI for approval. World Bank FM assessments of the merged unit did not flag any major issues and these were undertaken specifically with an eye to assessing capacity for a scaled up implementation. Total disbursements as at May 31, 2011 amount to US\$4.22 million or 12 percent of total IDA resources. Total disbursement of counterpart funding is US\$2.03 million at a rate of 29 percent of total Borrower commitment and disbursement progress was found to be satisfactory.

The Trustees of the GAFSP will transfer funds annually against annual disbursement projections for the project, up to the cumulative amount of \$50m for the life of the project. As per the schedule stipulated in the administrative agreement (AA) with USAID will disburse an initial sum of USD5.5 million, with the remainder of the total estimated Grant amount of USD14 million provided in subsequent increments subject to the availability of funds. Similarly, the CIDA funds will be annually disbursed as per the schedule specified in the AA with CIDA. A separate disbursement letter will be issued for CIDA and USAID authorizing pooling of funds into a common designated account.

Closing Date

10. To accommodate the expanded size of the LWH, the closing date for the IDA operation was extended to December 31, 2015 in an Amendment Letter signed April 15 2011, at the time of the LWH-GAFSP Grant Agreement signing. No further changes to the closing date are required.

ANNEX 1: Financing Plan

Revised Financing Plan (US\$m)		
Source	Total Amount (US \$m)	Financing Proportion (%)
IDA Original Financing ²	34.0	29
GAFSP Additional Financing	50.0	49
USAID Trust Fund ³	14.0	13.5
CIDA Trust Fund	8.0	8.5
Total	106.0	100

Borrower and Beneficiary Contributions	
Source	Total Amount (US \$m)
Borrower Contribution	7.7
Local Community Contribution	7.6
Total	15.3

Financing Plan per Expenditure Category *Amount US\$*

Category	IDA	GAFSP	CIDA	USAID	Total
1) Goods	3,200,000	4,300,000	800,000	1,300,000	9,600,000
(2) Works	13,800,000	22,100,000	3,600,000	6,400,000	45,900,000
(3) Consultant Services	8,700,000	13,800,000	2,200,000	4,100,000	28,800,000
(4) Training	4,100,000	6,800,000	1,200,000	1,900,000	14,000,000
(5) Operating Costs	700,000	800,000	200,000	300,000	2,000,000
(5) Project Preparation Advance	230,000				230,000

² Undisbursed IDA as of August 2011 used as IDA contribution to new pooled funding arrangements in Annex 2.

³ As per standard procedures within the US Government, USAID contributions are made in Congressionally-approved annual tranches. USD 14 million represents the total commitment of USAID to the LWH. The first year's annual tranche is for USD5.5 million. The table of percentage contributions is based on the full expected USAID commitment. Actual percentages are determined annually after taking into account actual receipts from USAID, but are expected overall as stated in the table.

(6) Unallocated	3,270,000	2,200,000			5,470.000
TOTAL	34,000,000	50,000,000	8,000,000	14,000,000	106,000,000

ANNEX 2:

Reallocation of Proceeds

Amendment to Schedule II of IDA Original Financing Agreement

The table set forth in the Section IV. A. 2 of Schedule II of the Agreement is deleted in its entirety and replaced with the table set forth in the Annex to this letter.

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods	2,000,000	29%
(2) Works	8,700,000	29%
(3) Consultant Services	5,500,000	29%
(4) Training	2,600,000	29%
(5) Operating Costs	400,000	29%
(6) Project Preparation Advance	140,000	Amount payable pursuant to Section 2.07 of the General Conditions
(7) Unallocated	2,060,000	
TOTAL AMOUNT	21,400,000	

“Operating Costs” means the expenses incurred on account of Project implementation, based on Annual Work Plans and Budgets approved by the Association pursuant to Section II.C of Schedule 2 to this Agreement, including office equipment and supplies, vehicle operation and maintenance, maintenance of equipment, communication and insurance costs, office administration costs, utilities, rental, consumables, accommodation, travel and per diem, excluding the salaries of the Borrower’s civil service.

Amendment to Schedule Two of GAFSP Additional Financing Grant Agreement

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods	4,300,000	49%
(2) Works	22,100,000	49%
(3) Consultant Services	13,800,000	49%
(4) Training	6,800,000	49%
(5) Operating Costs	800,000	49%
(6) Unallocated	2,200,000	

TOTAL AMOUNT	50,000,000	
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