PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID) APPRAISAL STAGE

Report No.:PIDA0101994

Program Name	Transformation of Agriculture Sector Program Phase 3 Additional Financing
Region	Africa
Country	Rwanda
Sector	Agriculture
Lending Instrument	Program for Results
Program ID	P161000
Parent Program ID	P148927
Recipient	Republic of Rwanda
Implementing Agency	Ministry of Agriculture and Animal Resources (MINAGRI)
Date PID Prepared	December 6, 2016
Estimated Date of Appraisal Completion	December 23, 2016
Estimated Date of Board Approval	February 28, 2017

I. Country Context

Rwanda is a small (26,000 km2) landlocked country with few natural resources and a population of 10.7 million (2012) and projected population of 13 million by 2020. Its hilly terrain covers 85 percent of the land mass and the country has the highest population density in Africa with 416 people per square kilometer, with 53 percent of them female. Rwanda has made a remarkable transition from genocide to peace and development. Between 2000 and 2012, GDP growth averaged 8.1 percent per year. Development efforts and results have been significant. Rwanda experienced 14 percentage points reduction in the poverty headcount, from 59 percent in 2001 to 45 percent in 2011 and with the remaining poor on average much closer to the poverty line in 2011 than in 2001. Developments in agriculture were key drivers of this poverty reduction accounting for more than 45 percent in total due to increased agriculture production (35 percent) and increased agriculture commercialization (10 percent). Self-employment in small off-farm non-agriculture business accounted for an additional 13 percent of poverty reduction. Part of this self-employment was associated with agriculture value chain employment.

Despite this impressive performance in the last decade and particularly in the last 5 years, significant challenges remain. While improving, Rwanda remains a low income country with annual per capita income of US$644 in 2012 (with more than 45 percent below the national poverty line). About one in four rural households live in extreme poverty. Poverty is still mostly a rural phenomenon with 49 percent of the poor in rural areas compared to 22 percent in urban areas. Poverty is highest (76.6 percent) among households (often landless) who obtain more than half of their income from working on other people’s farms. The land distribution is skewed – 36 percent of households own 6 percent of farm land, with an average of 0.1 ha per household (compared to the national average of .33 ha per household). Women are more likely to fall into this category. In addition, women provide the bulk of labor in the crop sector, but function mainly at subsistence level with insufficient skills, access to markets and control over land and other agricultural services. If Rwanda is to achieve its targets to reduce the number of people living below the national poverty line to less than 20 percent and eliminate extreme poverty by the year 2020, continuation of the past strong growth performance will not be sufficient. A further acceleration of inclusive growth would be needed, on top of further reductions in inequality.

The strategy for stimulating rapid and sustainable economic growth and reducing poverty is articulated in Rwanda's *Vision 2020. Vision 2020* is the national vision and policy framework which articulates key priorities for the country's development by the year 2020. This vision is further laid out in the Second Economic Development and Poverty Reduction Strategy Paper (EDPRS 2) which delineates the agriculture sector as a key sector and a significant engine of inclusive growth for the country. Likewise, in the recent report *Rwanda Economic Update, Maintaining Momentum* it states that increasing agriculture productivity is the main driver of poverty reduction in Rwanda. Agricultural transformation, especially through competitive value chain development, is expected to boost growth in both the formal and informal sectors, with the effect of reducing the proportion of the population dependent on agriculture from the present 73 percent (2009) to less than 50 percent in 2020. In addition, while agricultural productivity is increasing, there is considerable potential to accelerate and continue to raise productivity, increase commercialization of agriculture production, increase self-employment in small on and off-farm business and achieve significant poverty reduction, income gains and increased prosperity. Gender equity and equality has also been highlighted as a foundational and cross-cutting issue under EDPRS 2 and the Third Phase of the Transformation of Agriculture Sector Program (known by its French acronym, PSTA 3) building on a solid foundation with the highest percent of women in parliament in the world at 64 percent and 32 percent women's participation in all decision-making local government bodies. Accordingly, the Government of Rwanda (GoR) has made a strong commitment to continue to increase gender equity and equality particularly at the local level, and is determined to see it well integrated in government policies and programs at all levels.

II. Sectoral (or multi-sectoral) and Institutional Context

Accounting for 32.7 percent of the GDP (2015), agriculture is a critical driver of economic growth (7.6 percent, 2000-15) and poverty reduction, contributing to 35 percent of the total decline in poverty rates over the past decade. A well-established policy framework, facilitating enhanced access to better agricultural inputs, has greatly contributed to the positive agriculture sector performance. As a result, the total production of cassava and maize, as well as milk, meat, fish and eggs, more than doubled between 2005 and 2015.

Despite these positive developments, Rwanda has yet to meet its production potential. Although key agricultural yields have greatly increased since 2000 (e.g. cereal and cassava yields have trebled, sweet potato yields have doubled etc.), they reached a plateau in 2011. At their current levels, they are estimated to be at 40-50 percent of their productivity potential, resulting from suboptimal use of production factors. Similarly, livestock yields have remained consistently low over time.

A contributing factor is small farm size – a rural household, on average, cultivates 0.6 ha, and has 2-5 animals – and 96 percent of rural households are directly reliant on agriculture as their main or only source of income. The projected increase in the rural population, an estimated additional 2.5-3.5 million people by 2032, is likely to add more pressure on land resources and farm incomes, unless alternative employment opportunities become available.

In addition, Rwanda remains challenged by malnutrition, with a stunting rate of 37.9 percent, while its food security index lies below the average of the Sub-Saharan African countries. Some 20 percent (2015) of Rwandan households remain food insecure, and most of them are located in the western and northern parts of the country.

III. Program Scope

The proposed operation supports the Government of Rwanda's strategic objectives of the Transformation of Agriculture Sector Program Phase 3 with aims to enhance food security and nutrition contributing to a reduction in poverty and inclusive economic growth. The operation supports four broad program areas: (i) agriculture and animal resource intensification; (ii) research, technology transfer and professionalization of farmers; (iii) value chain development and private sector investment; and (iv) institutional development and agricultural cross-cutting issues.

IV. Program Development Objective(s)

The program development objective (PDO) is to increase and intensify the productivity of the Rwandan agricultural and livestock sectors and expand the development of value chains.

V. Environmental and Social Effects

The Additional Financing (AF) will introduce a new disbursement-linked indicator (DLI) on the development of an updated National Agricultural Policy (NAP) and increase several of the existing DLI targets. Increasing the DLI targets and incorporating a new DLI will support GoR's on-going efforts to maximize the productivity of the agriculture sector while transforming the overarching policy environment.

The updated NAP will provide an overarching vision for the agriculture sector. It will place significant emphasis on sustainable production and food security. However, the policy will not include specific policy instruments. Individual policy instruments for all sub sectors will be reviewed, revised, or developed. All policies will need to be compliant with the principles outlined in the NAP (including those of protecting the environment while maintain food security). This approach ensures that sustainable practices will be mainstreamed throughout all sub sectoral policies.

The assessment of these adjustments to the Program is as follows:

a) DLIs that are focused on improving the productivity of land and increasing the productivity of key crops (DLI 1, 2, 3 and 4) will not induce new environmental and social risks but may request to pay more attention to potential direct, indirect or cumulative risk generated from activities such as expansion of irrigation, as some irrigation structures will include canals, as well as small dams. As with any irrigation structure, these dams may have safety-related risks, which were effectively managed by the GoR during RSSP investment projects. Other potential impacts include water quality and quantity degradation (both surface and ground water), surface water sedimentation, and spread of waterborne diseases.

b) Inclusion of DLI 8 focusing on the production of an updated NAP which will integrate new initiatives, such as the climate smart Agriculture and Information Communication Strategy, which could benefit environmental management.

The level of risk remains moderate and can be addressed through: (i) the existing GoR Environmental and Social Management System (ESMS) including the small dam safety guidelines and the Environmental and Social Implementation Manual (ESIM). The process for rolling out the ESIM to all Districts is part of the on-going decentralization process. The rollout to 30 Districts is expected to be concluded by September 2017; and (ii) exclusion of high-risk interventions which include activities that are judged likely to have significant adverse impacts on the environment and/or affected people. Among these high-risks interventions are dam construction/irrigation or drainage infrastructures on transboundary water resources.

While the existing ESMS is adequate, it will be strengthened to further benefit and improve the GoR's understanding of social issues in the following areas by:

- *Strengthening measures to enhance GoR's capacity to implement the ESMS Program.* As a result, this new action includes a "capacity building program based on the ESIM, and the small dam safety guidelines" to benefit the District officers. This program will ensure that: (a) the ESIM has sufficient guidelines on small dams; and (b) all relevant staff are trained in the ESIM. The manual and training program will be prepared by involving the relevant MINAGRI SPIU teams which are already conversant with the safeguards policies; and implemented before the end of the Program.

- *The Grievance Redress Mechanism (GRM)* database will be fully functional (including relevant *staff* training) within MINAGRI by July, 2017. This will be supported by the development of a communication strategy (included in the updated PAP) to ensure there is awareness of the database and that the outcomes of grievances are made public.

VI. Financing

The updated financing table for PSTA3 (see Table below) reflects original commitments from 2013, as well as actual (to June 30, 2016) and projected contributions (to June 30, 2018).

Table: Updated PSTA Financing to June 2018[1] (US$ Millions)

[1] The PAD for the original PforR operation indicated that the PforR represented 12 percent of PSTA financing from the World Bank, USAID, and other DPs exploring the viability of providing co-financing as part of ensuring aligned donor support to the sector. The PAD clarified that co-financing would not change the overall budget envelope and would not bring additional

Source	Original Commitment to PSTA 3	Actual contribution as of June 30, 2016	Projected Contribution to FY 2016/17	Projected Contribution to FY 2017/18	Total (Actual + Projected)
Government	300.0	132	60.0	60.0	252.0
IDA (Agriculture PforR)	100.0	66.3	22.7	0.0	89.0
EU	160.0	52.0	37.0	37.0	126.0
IDA (LWH, RSSP, FRDP)	194.0	106.4	31.9	31.9	170.2
USAID	138.0	121.0	28.5	25.0	174.5
IFAD	120.0	43.0	21.0	21.0	85.0
DFID	39.4	20.3	2.8	2.7	25.8
MDTF (DFID)	50.6	29.1	15.4	6.1	50.6
Netherlands	10.0	8.6	1.4	0.0	10.0
Swiss	6.0	6.0			6.0
Japan/JICA	32.0	20.7	11.0	8.0	39.7
AfDB	20.0	56.6			56.6
FAO	30.0	18.0	8.0	10.0	36.0
Sub-total	**1200.0**	**680.0**	**239.7**	**201.7**	**1121.4**
Financing Gap					78.6
(-) IDA (Ag PforR AF)			23.0	23.0	46.0
(-) MDTF (Ag PforR AF)			5.0	5.0	10.0
Revised Financing Gap					22.6
Total	**1200.0**	**680.0**	**267.7**	**229.7**	**1177.4**

Foreign exchange rate losses have resulted in a total financing gap of US$78.6 million from both GoR and IDA-financed programs. Included in the above projected contribution for 2016/2017 and 2017/2018 is the proposed AF from the IDA Credit (US $46 million) and the MDTF Grant (US$10 million) totaling US$56 million. The combined proposed AF would reduce the financing gap to US$22.6 million.

VII. Program Institutional and Implementation Arrangements

The Public Sector

The lead government ministry for the agriculture sector is MINAGRI. Organizationally, it is composed of four main entities as follows:

MINAGRI Central guides policy, strategy and key programs for the Ministry. It comprises the Minister and Principal Secretary, and four departments/directorates: Planning, Inspection, Crop Production, and Animal Resources.

Rwanda Agricultural Board (RAB) is a semi-autonomous implementation agency of MINAGRI that is responsible for promoting food crop production. It has a national network of research stations, projects and staff that focus on improved production and yields of food staple crops. It has agronomists based in four zones corresponding to the four provinces, and who are responsible for expanding farmer access to enhanced extension services. The RAB is also responsible for all research and certification of seeds and houses two Task Forces (Irrigation and Post-Harvest Infrastructure) which will be assimilated within MINAGRI's structure as of July 1,

resources, but would mean switching modalities from either sector budget support or project financing to programmatic financing (PforR). Apart from DfID, no other donors are providing programmatic support through co-financing of the PforR or participation in the MDTF.

2014 as they have completed their mandates;

National Agricultural Export Board (NAEB) is similarly a semi-autonomous implementation agency of MINAGRI that is responsible for export crop production. It has concentrated in the past on coffee and tea, but is broadening its mandate to cover and expand horticulture and non-traditional export crops. It also has a national network of projects and staff focusing on improved production, yields and competitiveness of export crops. It also has agronomists based in some districts and on plantations responsible for expanding farmer access to improved extension services in support of increasing export crops.

Single Project Implementation Units (SPIUs) were established to ensure efficient and timely implementation of a large portfolio of donor funded projects and are headquartered at MINAGRI Central. Most of the projects being implemented by the SPIUs cover most of the 24 SPs. Three SPIUs are responsible for managing projects/operations funded by three key DPs: (i) IFAD funded projects: the Kirehe District Water Management Programme; Project for Rural Income Through Exports; Climate Resilent Post-harvest and Agribusiness Support Project (PASP); (ii) AfDB-funded Projects: Bugesera Natural Rural Region Infrastructure Support Project; Livestock Infrastructure Support Project; and (iii) World Bank funded projects: LWH (basket fund), RSSP 3, and the FRDP.

In addition to MINAGRI, six additional government ministries have significant responsibilities in the agriculture sector, as follows:

The Ministry of Local Government (MINALOC) is responsible for 30 Districts, which in turn, are responsible for expanding local level service delivery. They promote agriculture development as part of their responsibility for local economic development. Funds are earmarked in District budgets for implementation of MINAGRI priorities as defined in PSTA 3 (currently 10 percent of MINAGRI's total budget). Although these resources pass directly to the Districts from MINECOFIN, they form part of MINAGRI's overall budget ceiling and programs. Each District and sector has an agronomist that is responsible for local level implementation of agriculture activities. These agronomists work closely with RAB and NAEB agronomists who work in the Districts. The on-going local government restructuring exercise is expected to further expand fiscal decentralization, including expanded earmarking of funds from MINAGRI and other central ministries, and strengthen local government implementation capacities. The implementation of the ASIP, as well as PforR program will involve expanded roles of the local government actors, while also restructuring central government organizational and staffing structures to be more supportive of these decentralization changes/reforms. MINALOC also collaborates on implementation of the National Nutrition policy with MINAGRI, ensuring community training and service provisions to improve nutrition outcomes.

The Ministry of Natural Resources (MINIRENA) is responsible for state forests around the country, although MINAGRI is responsible for on-farm agroforestry. MINIRENA is also responsible for environmental protection and in this capacity has its own programs of hillside terrace construction, which reinforce the land conservation terracing that MINAGRI undertakes. MINIRENA is also responsible for the RNRA water resources department, and seeks closer collaboration with MINAGRI.

The Ministry of Trade and Industry (MINICOM) has the key responsibility of promoting business and trade growth and development, including expanded agribusiness. It leads the development of policy and strategy to accomplish Rwanda's goal of an expanding, competitive and healthy private sector.

The Ministry of Infrastructure's (MININFRA) Rwanda Transport Development Agency (RTDA) has the responsibility of supporting Districts and monitoring implementation of feeder roads rehabilitation, upgrading and maintenance. RTDA works closely with the Districts in procurement, contract management and management of social and environmental systems. In addition, MININFRA/RTDA provides guidance on technical standards and specifications.

The Rwanda Development Board (RDB) is responsible for investment promotion in Rwanda. Although it concentrates on foreign direct investment (FDI), it also promotes local investment. It brings together all the government agencies responsible for investment under one roof. This includes key agencies responsible for business registration, investment promotion, environmental clearances, privatization and specialist agencies which support the priority sectors of Information, Communication and Technology (ICT) and tourism as well as Small and Medium Enterprises (SMEs) and human capacity development in the private sector. RDB has a substantial portfolio of agriculture and agri-business investment projects which it is promoting for private sector-driven investment, including expanding the public and private partnerships.

The Rwanda Development Bank (RDB) is the government's main investment arm and offers long and medium-term loans. The GoR is pursuing privatization of the Bank and has signed an MOU with a prospective investor. In April 2014 the RDB had an agriculture and agri-business loan portfolio of RWF 33.3 billion accounting for a significant proportion of the Bank's total lending. Most agricultural loans were for coffee and tea production and processing and the import of fertilizer. On May 16, 2014 the International Finance Corporation (IFC) issued its first bond denominated in Rwandan francs, raising RWF 15 billion (about US$22 million) to expand the availability of long-term local-currency finance for local businesses through the RDB.

The Private Sector

In addition to the public sector agriculture entities, there are two organizations dedicated to supporting private sector actors in agriculture as follows:

The Private Sector Federation (PSF) is the representative umbrella body for the private sector in Rwanda and advocates and dialogues with government for policies and programs which will promote the growth of the private sector. Amongst its objectives are business promotion and development, building private sector capacity and effective private sector advocacy. It is composed of nine chambers, including the Chamber of Rwanda Farmers. The Chamber conducts a program to train farmers and build entrepreneurship. The member associations of the Chamber cover most of the major agricultural commodities produced in Rwanda.

The Rwanda Cooperative Agency (RCA) is the representative body for the cooperative movement in Rwanda. There are 1,953 agricultural and 1,307 livestock cooperatives operating as farmer associations involved in crop production, agricultural savings and credit, livestock development and processing and marketing of outputs. RCA promotes the interests of the cooperative movement and runs support and training programs in helping cooperatives function and perform as private sector entities

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