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Report No: PAD1271

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON

A PROPOSED GRANT

IN THE AMOUNT OF SDR 39.1 MILLION
(US$55 MILLION EQUIVALENT)

TO THE

REPUBLIC OF BURUNDI

FOR A

COFFEE SECTOR COMPETITIVENESS PROJECT

May 26, 2016

Agriculture Global Practice
Africa Region

CURRENCY EQUIVALENTS

Exchange Rate Effective February 28, 2015

Currency Unit	=	Burundi Franc
FBU1,570.00	=	US$1.00
SDR0.71053	=	US$1.00

GOVERNEMENT FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

ABEC	*Association Burundaise des Exportateurs de Café* (Association of Burundi Coffee Exporters)
AfD	*Agence Française de Développement* (French Development Agency)
AFS	Annual Financial Statement
ARFIC	*Autorité de Régulation de la Filière Café* (Burundi Coffee Regulatory Agency)
AWPB	Annual Work Plan and Budget
CAADP	Comprehensive Africa Agriculture Development Program
CAS	Country Assistance Strategy
CNAC	*Confédération Nationale des Associations de Caféiculteurs* (National Consortium of Coffee Growers Association)
COCOCA	Consortium des Coopératives de café (Consortium of Coffee Cooperatives)
COWASA	Coffee Washing Station Alliance
CQI	Coffee Quality Institute
CWS	Coffee Washing Station
DA	Designated Account
DGMAVA	*Direction Générale de la Mobilisation, de l'Auto-développement. et de la Vulgarisation Agricole* (General Directorate for Ag Mobilization, Self-Development and Extension)
DGPAE	*Direction Générale de la Planification Agricole et de l'Elevage* (Generale Directorate for Agriculture and Livestock Planning)
DL	Disbursement Letter
DPAE	Provincial Department of Agriculture and Livestock
EAC	Regional East African Community
ECCAC	Economic Community of Central African States
EIES	Environmental and Social Impact Studies
ESMF	Environmental and Social Management Plan
EU	European Union
FBU	*Franc Burundais* (Burundian Franc)
FFS	Farm Field School
FM	Financial Management
FCFA	*Fond Commun pour les Fertilisants et les Amendements* (Common Fund for Fertilizers and Amendments)
FCVG	Fragility, Conflict & Violence Group
FW	Fully Washed

GALS	Gender Action Learning System
GAPs	Good Agricultural Practices
GDP	Gross Domestic Product
GEF	Global Environmental Facility
GHG	Greenhouse Gas Emissions
GIS	Geographical Information System
GoB	Government of Burundi
GRS	Grievance Redress Service
ICB	International Competitive Bidding
ICO	International Coffee Organization
IDA	International Development Association
IFC	International Finance Corporation.
IFDC	International Fertilizer Development Center
IFR	Interim Financial Report
IPDP	Indigenous People Development Plan
IPF	Investment Project Financing
IPM	Integrated Pest Management
IRR	Internal Rate of Return
ISA	*Institut Supérieur d'Agriculture* (Higher Institute of Agriculture)
ISABU	*Institut des Sciences Agronomiques du Burundi* (Burundi Institute of Agro. Sciences)
ITAB	*Institut Technique Agricole* (Technical Agriculture Institute)
MDGs	Millennium Development Goals
MINAGRIE	Ministère de l'Agriculture et de l'Elevage (Ministry of Agriculture and Livestock)
MEEATU	Ministry of Water, Environment, Land and Urban Planning
MFPDC	Ministry of Finance, Planning and Economic Development
MIS	Management Information System
MoU	Memorandum of Understanding
NAIP	National Agricultural Investment Plan
M&E	Monitoring and Evaluation
NCB	National Competitive Bidding
NPV	Net Present Value
OCIBU	*Office des Cultures Industrielles du Burundi* ((Burundi Industrial Crops Office)
PADZOC	Projet d'Aménagement Durable des Zones Caféicoles au Burundi
PCU	Project Coordination Unit
PDO	Project Development Objective
PIA	Project Implementing Agency
PIM	Project Implementation Manual
PLR	Performance and Learning Review
PMP	Pest Management Plan
PNSEB	*Programme National de Subvention des Engrais* (National Fertilization Subsidy Program)
PPA	Project Preparation Advance
PPD	Public-Private Dialogue
PPP	Public-Private Partnership
PRODEMA	Projet de Productivité et de Développement des Marchés Agricoles
PRSP	Poverty Reduction Strategy Paper
PSC	Project Steering Committee
PSIA	Poverty and Social Impact Assessment
QCBS	Quality Cost Based Selection
QIPs	Quality Improvements Plans

SCAA	Specialty Coffee Association of America
SODECO	*Société de Déparchage et de Conditionnement* (Coffee Curing and Packaging Company)
SOGESTAL	*Société de Gestion des Stations de Lavage* (Company for Managing Coffee Washing Stations)
SWLM	Sustainable Water and Land Management
V/C	Value Chain
UNDB	United Nations Development Business
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
WB	World Bank
W&Y	Women and Youth

Regional Vice President:	Makhtar Diop
Country Director:	Bella Bird
Senior Global Practice Director:	Juergen Voegele
Practice Manager:	Mark E. Cackler
Task Team Leader:	Chakib Jenane
Co-Task Team Leader:	Juvenal Nzambimana
Co-Task Team Leader:	Paola Agostini
Co-Task Team Leader:	Omar Lyasse

BURUNDI

COFFEE SECTOR COMPETITIVENESS PROJECT

TABLE OF CONTENTS

Page

I. STRATEGIC CONTEXT 1

A. Country Context 1

B. Sectoral and Institutional Context 2

C. Higher Level Objectives to which the Project Contributes 7

II. PROJECT DEVELOPMENT OBJECTIVE 8

A. Proposed Development Objective 8

B. Project Beneficiaries 8

C. PDO Level Results Indicators 9

III. PROJECT DESCRIPTION 9

A. Project Components 10

B. Project Financing 16

C. Lessons Learned and Reflected in the Project Design 17

IV. IMPLEMENTATION 18

A. Institutional and Implementation Arrangements 18

B. Results Monitoring and Evaluation 19

C. Sustainability 20

V. KEY RISKS 21

VI. APPRAISAL SUMMARY 23

A. Economic and Financial Analysis 23

B. Technical 25

C. Financial Management 25

D. Procurement 26

E. Social Safeguards 27

F. Environment (including safeguards) 28

G. World Bank Grievance Redress 29

Annex 1: Results Framework and Monitoring 30
Annex 2: Detailed Project Description 36
Annex 3: Implementation Arrangements 55
Annex 4: Implementation Support Plan 78
Annex 5: Summary of the Economic and Financial Analysis 82
Annex 6. GreenHouse Gas Accounting for the Coffee Sector Competitiveness Project 88
Annex 7: Climate and Disaster Risk Screening Results 90
Annex 8: Map of Burundi 92

PAD DATA SHEET

Burundi

Burundi Coffee Sector Competitiveness Support Project (P151869)

PROJECT APPRAISAL DOCUMENT

AFRICA

Report No.: PAD1271

Basic Information			
Project ID P151869	EA Category B - Partial Assessment	Team Leader(s) Chakib Jenane, Juvenal Nzambimana, Paola Agostini, Omar Lyasse	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date 17- June-2016	Project Implementation End Date 17-June-2022		
Expected Effectiveness Date 17-Oct-2016	Expected Closing Date 30-June-2022		
Joint IFC Yes	Joint Level Complementary or Interdependent project requiring active coordination		
Practice Manager/Manager	Senior Global Practice Director	Country Director	Regional Vice President
Mark E. Cackler	Juergen Voegele	Bella Bird	Makhtar Diop

Borrower: Republic of Burundi			
Responsible Agency: Ministry of Agriculture and Livestock			
Contact:	Dr. Déo-Guide RUREMA	Title:	Minister (Ministry of Agriculture and Livestock)
Telephone No.:	+ (257) 22 22 20 87	Email:	ruremadg@gmail.com

Project Financing Data(in USD Million)					
[ ]	Loan	[X]	IDA Grant	[ ]	Guarantee
[ ]	Credit	[ ]	Grant	[ ]	Other

Total Project Cost:	72.25	Total Bank Financing:	55.00
Financing Gap:	0.00		

Financing Source	**Amount**
BORROWER/RECIPIENT	0.00
IDA Grant	55.00
LOCAL BENEFICIARIES	17.25
Total	72.25

Expected Disbursements (in USD Million)

Fiscal Year	2016	2017	2018	2019	2020	2021	2022			
Annual	3.00	9.00	11.00	12.00	9.00	7.00	4.00			
Cumulative	3.00	12.00	23.00	35.00	44.00	51.00	55.00			

Institutional Data

Practice Area (Lead)

Agriculture

Contributing Practice Areas

Environment & Natural Resources

Cross Cutting Topics

[X] Climate Change
[X] Fragile, Conflict & Violence
[X] Gender
[X] Jobs
[ ] Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Agriculture, fishing, and forestry	Crops	35	60	40
Industry and trade	Agro-industry, marketing, and trade	30	90	10
Agriculture, fishing, and forestry	Agricultural extension and research	20	80	20
Public Administration, Law, and Justice	Public administration- Agriculture, fishing and forestry	10	100	
Finance	General finance sector	5	100	
Total		100		

☐ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes		
Theme (Maximum 5 and total % must equal 100)		
Major theme	Theme	%
Rural development	Rural services and infrastructure	30
Trade and integration	Export development and competitiveness	30
Rural development	Rural policies and institutions	25
Environment and natural resources management	Other environment and natural resources management	15
Total		100

Proposed Development Objective(s)

The project development objective (PDO) is to increase coffee productivity and improve its quality among small-scale coffee growers in Burundi.

Components

Component Name	**IDA Cost (USD Millions)**
Component 1 – Institutional strengthening and value chain governance	8.50
Component 2 – Coffee growers' productive capacity enhancement	31.26
Component 3 – Coffee quality improvement and market access	8.08
Component 4 – Coordination, monitoring and knowledge management	7.16

Systematic Operations Risk- Rating Tool (SORT)

Risk Category	**Rating**
1. Political and Governance	High
2. Macroeconomic	High
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Substantial
9. Other: Coffee international market and fertilizer program	Substantial
OVERALL	High

Compliance		
Policy		
Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]
Does the project require any waivers of Bank policies?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04		X
Forests OP/BP 4.36		X
Pest Management OP 4.09	X	
Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10	X	
Involuntary Resettlement OP/BP 4.12	X	
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X

Legal Covenants

Name	Recurrent	Due Date	Frequency
Establishment of a Project Coordination Unit (PCU) and recruitment of selected PCU personnel.		18-Oct-2017	

Description of Covenant

Not later than twelve (12) months after the Effective Date, establish and thereafter maintain at all times during the implementation of the Project, a PCU including a Project coordinator, specialists: in FM, procurement, M&E, environmental, gender & social inclusion, technical officer, internal auditor and accountant and thereafter take all measures necessary to cause the PCU to assume project coordination and implementation responsibility from the PRODEMA PCU.

Name	Recurrent	Due Date	Frequency
Establish a management information system		15-Jan-2017	

Description of Covenant

No later than three (3) months after the Effective Date, establish a management information system with specifications satisfactory to the Association, and shall thereafter maintain such system in a manner satisfactory to the Association throughout the implementation of the Project.

Name	Recurrent	Due Date	Frequency
Acquisition and installation of a computerized accounting system		15-Jan-2017	

Description of Covenant

No later than three (3) months after effectiveness: (a) acquire and install a computerized accounting system for the PCU with specifications satisfactory to the Association and thereafter utilize and maintain such system in a manner satisfactory to the Association throughout the project implementation, and (b) ensure that the staff of the PCU are trained in the use of such system, in a manner satisfactory to the Association.

Name	Recurrent	Due Date	Frequency
Recruitment of an External Auditor		15-Jan-2017	

Description of Covenant

No later than three (3) months after the Effective Date, recruit independent auditors, with qualifications, experience, and terms of reference acceptable to the Association.

Conditions

Source Of Fund	Name	Type
IDA	Preparation of Project Implementation Manuals	Effectiveness

Description of Condition

The Recipient has adopted the Project Implementation Manual in accordance with Section I.B of Schedule 2 of the Financing Agreement, in form and substance satisfactory to the Association.

Source Of Fund	Name	Type
IDA	Establishment of a Steering Committee	Effectiveness

Description of Condition

The Recipient has established the Project Steering Committee, in accordance with the provisions of Sections I.A.1 and 2 of Schedule 2 of the Financing Agreement.

Source Of Fund	Name	Type
IDA	Authorization Letter extending the mandate of PRODEMA PCU.	Effectiveness

Description of Condition

The Recipient has issued an authorization letter, in form and substance satisfactory to the Association, extending the mandate of the PRODEMA PCU to include the coordination and implementation of the Project, in accordance with the provisions of Section I.A.3 of Schedule 2 of the Financing Agreement.

Source Of Fund	Name	Type
IDA	InterCafé PIA MOU and establishment of InterCafé Fiduciary Capacity	Disbursement

Description of Condition

There shall be no withdrawals under Categories (2) and (6) until: (i) a PIA MoU, has been executed on behalf of the Recipient and InterCafé, and has entered into effect in accordance with its terms; (ii) InterCafé has established the fiduciary capacity all in a manner satisfactory to the Association; and (iii) the Association has provided its no-objection to such withdrawal.

Source Of Fund	Name	Type
IDA	ARFIC PIA MOU and establishment of ARFIC Fiduciary Capacity	Disbursement

Description of Condition

There shall be no withdrawals under Category (3) until: (i) a PIA MoU has been executed on behalf of the Recipient and ARFIC, and has entered into effect in accordance with its terms; and (ii) ARFIC has established the fiduciary capacity all in a manner satisfactory to the Association; and (iii) the Association has provided its no-objection to such withdrawal.

Source Of Fund	Name	Type
IDA	CNAC PIA MOU and establishment of CNAC Fiduciary Capacity	Disbursement

Description of Condition

There shall be no withdrawals under Categories (4) and (5) until: (i) a PIA MoU, has been executed on behalf of the Recipient and CNAC, and has entered into effect in accordance with its terms; (ii) CNAC has established the fiduciary capacity satisfactory to the Association; and (iii) the Association has provided its no-objection to such withdrawal.

Source Of Fund	Name	Type
IDA	Amended FCFA Lettre d'Entente and the Amended FCFA Manual of Procedures.	Disbursement

Description of Condition

There shall be no withdrawals under Category (7) until the Amended FCFA *Lettre d'Entente* and the Amended FCFA Manual of Procedures have been executed on behalf of the Recipient and the FCFA Donors, and has entered into effect in accordance with their terms, all in a manner satisfactory to the Association.

Team Composition

Bank Staff

Name	Role	Title	Specialization	Unit
Juvenal Nzambimana	Team Leader	Sr. Operations Officer	Operations	GFADR
Chakib Jenane	Team Leader (ADM Responsible)	Sr. Agribusiness Specialist	Operations	GFADR
Paola Agostini	Team Leader	Sr. Economist	Sr. Economist	GENDR
Melance Ndikumasabo	Procurement Specialist	Sr. Procurement Specialist	Operations	GGODR
Bella Lelouma Diallo	Financial Management Specialist	Sr. Financial Management Specialist	Operations	GGODR
Ademola Braimoh	Team Member	Sr. Natural Resources Mgmt. Spec.	Operations	GFADR
Alice Museri	Team Member	Team Assistant	Operations	AFMBI

Cheikh A. T. Sagna	Safeguards Specialist	Sr. Social Development Specialist	Operations	GSURR
Christian Simbananiye	Team Member	Consultant	Operations	GGODR
Faly Diallo	Team Member	Financial Officer	Financial Officer	WFALA
Grahame Dixie	Peer Reviewer	Adviser	Adviser	GFADR
Jean O Owino	Team Member	Finance Analyst	Finance analyst	WFALA
Kaliza Karuretwa	Team Member	Operations Officer	Operations	GTCDR
Luz Berania Diaz Rios	Team Member	Sr. Agribusiness Specialist	Operations	GFADR
Mamadou Ndione	Team Member	Sr. Country Economist	Operations	GMFDR
Marie-Claudine Fundi	Team Member	Language Program Assistant	Operations	GFADR
Nneoma Veronica Nwogu	Counsel	Sr. Counsel	Legal	LEGAM
Gayle Martin	Team Member	Program Leader	Program Leader	AFCE1
Omar Lyasse	Team Member	Sr. Agriculture Economist	Agriculture Economist	GFADR
Shingira Samantha Masanzu	Associate Counsel	ET Consultant	Legal	LEGAM
Srilatha Shankar	Team Member	Program Assistant	Program Assistant	GFADR
Stephen Ling	Safeguards Specialist	Sr. Natural Resources Mgmt. Spec.	Environmental Safeguards	GENDR
Wilhelmus Gerardus Janssen	Peer Reviewer	Lead Agriculturist	Agriculture Economist	GFADR
Hawanty Page	Team Member	Sr. Program Assistant	Quality Review	GFADR

Extended Team

Name	**Title**	**Office Phone**	**Location**
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Rebecca Robinson	Program Officer	+25722207010	

Locations					
Country	**First Administrative Division**	**Location**	**Planned**	**Actual**	**Comments**
Burundi	Gitega	Gitega Province		**X**	Boarder activities related to Good Agricultural Practices (GAPs), research, quality improvement and marketing will be undertaken at national level
Burundi	Karuzi	Karuzi Province		**X**	
Burundi	Ngozi	Ngozi Province		**X**	
Burundi	Kayanza	Kayanza Province		**X**	
Burundi	Muyinga	Muyinga Province		**X**	
Burundi	Kirundo	Kirundo Province		**X**	

Consultants (Will be disclosed in the Monthly Operational Summary)	
Consultants Required?	Consulting services to be determined

I. STRATEGIC CONTEXT

A. Country Context

1. ***Burundi is one of the poorest countries in the world.*** It is a small, landlocked, and densely populated country, with a total land area of 27,834 km^2 and approximately 10 million inhabitants that straddles Central and East Africa.[1] Its population is increasing at a rate of 3 percent annually and is mostly rural - only 10.6 percent live in urban areas. The country is faced with many challenges: (i) the human capital base is low due to limited access to social services; (ii) a large majority of youths are under-employed because of lack of opportunities; (iii) less than 4 percent of the population has access to electricity; (iv) 52 percent of children under five are chronically malnourished; and (v) 64.6 percent of Burundians live below the national poverty line. Poverty is overwhelmingly rural and most of the country's poor are small-scale farmers. These data explain why Burundi finds itself at the bottom of the list of countries for most development indicators. According to the 2015 Human Development Index, Burundi is ranked 184 out of 188 countries[2].

2. ***Burundi's development trajectory has been marked by successions of periods of peace and conflict.*** After more than 10 years of armed conflict between 1993 and 2003, the country witnessed a decade of political stability, security and economic recovery. Over these 10 years, the annual GDP growth rate in Burundi consistently remained around 4 percent. The consolidation of the peace process has helped start reconstruction and created positive prospects. With substantial improvement in security, the Government focused its resources to expand basic social services in the country and initiated the modernization of the economic infrastructure and institutions. It launched also key reforms to improve governance, public finance management, business environment and investment climate, etc., which led to the country achieving considerable progress towards macro-economic stabilization. These efforts have been recognized by the World Bank which ranked Burundi as a top economic reformer for streamlining business and improving its regulatory environment three years in a row (2012, 2013 and 2014). These performances have not prevented the country from falling back into violence in 2015. The economy contracted by seven percent in 2015 and prospects for recovery are still uncertain. The country still has to address growing challenges in terms of good governance, population vulnerability, economic diversification, and creation of productive jobs for a largely young population.

3. ***This operation is one of two operations that are being taken to the Board since the recent crisis***.[3] It is carefully chosen fundamentally because: (i) Agriculture is critical to addressing the poverty and food security challenges faced by the country; and (ii) the coffee sector provides direct income to nearly 600,000 predominantly smallholder producers and supports the livelihoods of over three million people. Under the country's current circumstances, this Project has the potential to contribute even more to the economy, helping to lift people out of poverty, expanding the country's small industrial base and generating employment.

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[1] *Household Survey of 2013/14.*
[2] *Human Development Index. 2015 data.*
[3] *The other project is the Burundi Social Safety Nets (P151835) which aims to provide cash transfers to extreme poor households in selected areas while establishing the key building blocks for a basic social safety net system.*

4. ***Electoral violence over the last year combined with structural issues of fragility and governance threaten stability in the country.*** The 2015 electoral period saw large-scale demonstrations and riots against the third term of the incumbent president, leading to violence, loss of productive assets and displacement. Some 240,000 refugees have fled the country, mainly to Rwanda, the Democratic Republic of Congo and Tanzania. Regional and international actors have voiced strongly against the third term and the violence that ensued. They have demanded a renewed dialogue with the political opposition, the opening of the private media and the overall respect of human rights. The countryside is still relatively calm, but structural fragility persists.

5. ***Pathways for ending poverty and boosting shared prosperity***. In consultation with its development partners, the Government of Burundi (GoB) has designed policies and strategies to guide its poverty reduction strategy and long-term development. The country's *Outlook 2025* and the second Poverty Reduction Strategy Paper (PRSP II, 2012-2015) identified potential growth sectors with the highest potential impact on promoting sustainable and equitable economic growth. The document rightly focuses on modernizing the agricultural sector since it accounts for 41 percent of the GDP and about 90 percent of current labor force.

6. ***Burundi's main traditional export crop - coffee -*** has been identified as a key sub-sector with high growth potential which can contribute to achieving the results of the PRSP - Pillar II "*Transforming Burundi's economy to generate sustainable job-creating growth*". The country has the potential for exporting more than 50,000 tons annually of high quality Arabica during peak production years. However, that potential has not yet been fully realized (current production averages about 15,000 tons only).

B. SECTORAL AND INSTITUTIONAL CONTEXT

7. ***Agriculture in Burundi is central to the economy but it grows less than the population growth rate.*** The sector plays a key role in economic growth, poverty reduction, food security and employment. It contributes most to GDP, using 90 percent of Burundi's labor force and earning 90 percent of export revenues - primarily from coffee production. Despite the country's dependence on the primary sector, agriculture has not been modernized. It continues to depend essentially on subsistence agriculture which is practiced by about 1.2 million rural households using unreliable and inefficient technology. Over the past decade, the growth rate of agricultural production (2 percent) has been lower than the growth rate of the population (3 percent). This has aggravated the country's food security situation.

8. ***Farm land is scarce and increase in productivity can only be gained by intensification.*** Farms in Burundi are highly fragmented with an average size of less than 0.5 hectare. The pressure on land is increasing due to demographic pressure.[4] The farming systems are predicated on weather cycles and organized around multiple crops to reduce risk. A comparison of crop yields in the country with those in neighboring regions shows that Burundi's agriculture faces major productivity challenges. Various factors combine to reduce agriculture productivity, including: declining soil fertility, low use of improved inputs (seeds, fertilizers, pesticides, etc.), low use of modern technologies, inadequate access to extension services, poor physical infrastructure, limited

[4] *Burundi has one of the highest population densities in Sub-Saharan Africa - from 400 to 1,000 inhabitants per km^2.*

access to credit, and marketing constraints. With the continued fragmentation and scarcity of agricultural land, future growth in agricultural production can only be generated from intensification and productivity gains. These gains are possible given the country's cheap and abundant labor base, and relatively ample water resources.

9. ***Agriculture sector and investment policy.*** Burundi's agriculture sector policy is presented in its National Agricultural Strategy report adopted in 2008. With the support of the Comprehensive Africa Agriculture Development Program (CAADP), the Government prepared a National Agricultural Investment Plan (NAIP), covering the period 2012-2017, which was fully integrated with the PRSP II. The NAIP has two main focus areas: (i) the increase in crop and livestock production by raising productivity and ensuring optimal management of soil and water resources; and (ii) the strengthening of human resources capacities of national institutions and farmer organizations. Important elements addressed by the NAIP are land tenure, development of infrastructure and measures related to agribusiness promotion and market access, including an improved investment climate and access to rural finance.

10. ***The NAIP is structured around four major programs as follows:*** (i) sustainable growth in production and food security; (ii) professional training of farmers and promotion of innovation; (iii) development of value chains and agribusiness; and (iv) institution-building for public bodies. One important aspect of the NAIP is promoting partnership between the public and private sectors. While the private sector is encouraged to increase investment in productive, industrial and marketing activities, the Government is viewed as responsible for establishing an environment favorable to agriculture development. Efforts are being undertaken in this direction for the coffee value chain. Private operators are encouraged to be involved at several levels, notably export, de-pulping, milling and roasting. The proposed funding will typically be shared between the public sector and private operators, producers and investors as part of project-supported partnerships.

11. ***Coffee is identified by the NAIP as a top priority sector for investments; the Coffee Sector Development Strategy was approved in 2015.*** The coffee value chain presents considerable potential for growth. Its impact extends to several other sectors through backward and forward linkages (inputs, processing, transport, financial services, taxes, etc.). Hence, it plays a vital role in the country for job creation, food security and poverty reduction, and is earmarked as a priority sector for investments in the NAIP. Given the existing opportunities in the international market and the excellent potential of the country's coffee quality, Burundi can undoubtedly increase its coffee sales and secure better prices. Recognizing this opportunity, the GoB, launched a study -- under the leadership of the Ministry of Agriculture and Livestock (MINAGRIE) and in collaboration with all stakeholders in the coffee industry to agree on a national development strategy for the coffee sector (2015-2021). This study, supported by the World Bank and USAID, was conducted through a highly participatory process in 2014-2015 concomitantly with early project preparation.

12. ***Presentation of the coffee sector.*** Burundi has a long history of coffee production dating from the colonial period. It is currently the 13th largest producer of Arabica coffee in the world[5]. The sector is of strategic importance to Burundi's national economy. Over the past three decades, it has generated an average of US$40-50 million per year of export and foreign exchange earnings

[5] *International Coffee Organisation (ICO), 2013.*

(60 to 70 percent of national exports). Despite signs of diversification, Burundi's external position and macroeconomic stabilization efforts remain firmly dependent on the dynamics in the coffee sector. The evolution of both the current account balance and the exchange rate is firmly associated with the volatility of coffee production and export prices. The country's ability to pay for imports and debt services is significantly reduced when coffee production decreases, putting the effectiveness of monetary and exchange rate policy at risk.

13. ***In terms of poverty reduction, the coffee industry provides direct income to nearly 600,000 predominantly smallholder producers supporting the livelihoods of over three million people; one in every three rural households.*** The total coffee area includes about 122 million coffee trees (2007 Coffee Census). The current average production of green coffee is around 15,000 tons of which about 50-60 percent are fully washed[6]. The production has been trending downward in the past three decades from over 40,000 tons at the beginning of the 1980s. Average coffee yields are only about 0.8 - 1 kg of coffee cherries per tree. This is far below the yields of 3.0 to 5.0 kg observed in other coffee growing regions of Asia and Central America. The production fluctuates greatly. The cyclical swings of coffee production across years sometimes leave the country with very limited export quantities (5,700 tons in 2003/4).

14. ***Coffee is also a seasonal product that provides well-timed cash proceeds needed for certain expenditures during the 'lean' times of the year (April to August).*** This income is often larger than what farmers can save during the entire year. In addition to contributing to enhancing food security, this revenue allows the farmers to finance social expenses as well as other small investments. Furthermore, during the harvest and processing periods, the sector plays a key role in stimulating the rural economy. The associated industry (washing and de-pulping stations) and the coffee traders inject important sums of cash into rural areas which increases spending on goods and manufactured products, and permits credit reimbursement by rural households. The construction of new washing stations in rural areas has led to a modest first stage of rural industrialization, off-farm jobs for local labor during the coffee campaign (a large fraction of them women's jobs), and, most importantly, the development of rural access roads to coffee producing areas which are also used for other purposes.

15. ***The Government is committed to coffee sector reforms and privatization.*** Since 1986, the coffee industry has been one of the priority sectors targeted for deregulation and privatization as part of the structural adjustment program which aimed to limit the State's involvement in the productive sector. Due to the civil war and subsequent recovery challenges, this process, including privatization of state entities such as the "Office des Cultures Industrielles du Burundi – OCIBU"; the "Société de Déparchage et de Conditionnement – SODECO"; and several washing stations, experienced some delays. But it subsequently led to positive developments, amongst others: (i) the establishment of a new regulatory body (Agence de Régulation de la Filière Café - ARFIC) and an inter-professional association (InterCafé); (ii) an effective deregulation of de-pulping, milling and export activities; and (iii) the construction of new washing stations and milling units by private investors and the "Société de Gestion des Stations de Lavage – SOGESTALs". While it is too early to assess the entire benefit from the coffee privatization process and market reforms, there is evidence that the overall impact on producer prices has been positive, albeit inequities in price transmission remain.

[6] *Industrial process of coffee cherries where the pulp is removed leaving the bean which is then dried.*

16. Findings from the recently completed Poverty and Social Impact Assessment (PSIA) indicate that the average revenue from coffee was more than 30 percent higher for households selling to private Coffee Washing Stations (CWS) than for households selling to state-owned CWSs. Also, coffee growers who sold their harvest to private washing stations experienced a better overall socioeconomic situation. Currently, the Government plans to complete the third and final phase of the privatization process which consists of privatizing some 77 washing stations and a mill plant.

17. ***The coffee sector in Burundi faces considerable competitive threats.*** While several steps have been taken toward improving Burundi's coffee sector performance, it currently experiences serious instability and decline which cannot be explained by chance or climatic conditions alone. Some of the causes behind this situation are as follows:

(a) *Persistence of structural deficiencies*, such as inefficiencies in the governance of the value chain. The institutions and the actors involved in the value chain are facing several constraints (incomplete reform and privatization process, lack of technical and managerial capacity for emerging farmers' associations, non-transparent pricing mechanisms, etc.) that hamper their operations and, consequently, limit the development of the coffee sector;

(b) *Low productivity* due to insufficient technical and financial support to farmers. The lack of investments in productivity enhancing technologies following the liberalization of the market has resulted in: (i) low and highly fluctuating production, poor maintenance and degradation of the orchards, low fertilizer use as well as prevalence of pest and disease problems due to low application of pesticides; and (ii) low volume of exports, making Burundi less interesting to an expanding international market. The steep production cycle across years makes it all the more difficult for roasters to engage seriously with the country on a regular basis;

(c) *Limited competitiveness* with a decrease in quantity and quality caused by the aging of the orchard (28 percent of trees are more than 30 years old and 62 percent are between 9 and 30 years old); limited technical know-how to support quality improvement; and inefficient marketing structures for promoting the Burundi brand. Marketing is faced, in particular, with the threat from the "*potato-taste*[7]" which constitutes a major problem in Burundi;

(d) *Primary production has not kept pace with the expansion of processing capacity,* leading to a situation in which coffee is competitively sought after with little consideration for price differentiation based on quality. Many CWSs have experienced low profitability due to high operational costs (partly related to capacity underutilization) and management limitations; and

(e) *Weak infrastructure and services in the transport sector* also negatively affect agribusiness in Burundi as a whole, and the coffee sector in particular. The infrastructure gaps affect the link between producers and washing stations and the partnerships between traders and buyers, ultimately having an impact on quality and price. Coffee growing regions are characterized by rough and mountainous terrain. Years of conflict have contributed to poor rural infrastructure in these areas, which creates delays in delivery of coffee cherries to

[7] *A disease which is caused by a bacteria called Pantoea coffeiphila sp. It is responsible for the potato-like flavor of coffee.*

washing stations. Optimal quality can be achieved when cherries are delivered and processed within 4-6 hours of picking. However, cherries commonly sit for up to a day prior to delivery, undermining their potential quality. Furthermore, the wide geographic distribution of washing stations, combined with a lack of collection services, lead to spatial monopolies, whereby production in any one area is dependent on the ownership, management and strategies of the nearest washing station. On the export side, Burundi's landlocked status means that it is subject to higher transportation costs than its neighbors like Kenya and Tanzania, as well as long shipment delays through the Indian Ocean ports.

(f) *Political economy considerations* related to land and agricultural production. In Burundi, agriculture, in particular coffee, has in the past been used as a source of income for particular business and political interests. Certain cooperatives have resisted commercialization as they were afraid of short-term shocks to their income, and mobilized political actors against this. Access to arable land is also a sensitive issue in the countryside. These issues will have to be carefully managed.

18. ***Despite its current weaknesses, the coffee value chain has major strengths.*** The sector has the following strengths which justify reversing its declining trend: (i) the country is endowed with some of the most ideal biophysical conditions for the production of Arabica coffee, including elevations of 1,500-2000 meters and average rainfall of about 1,650 mm in coffee growing areas; (ii) local producers are interested and experienced in growing coffee; (iii) the country has opened the sector to private investors, farmer associations, and private-led governance structures are emerging, and existing business networks associated with coffee production are expanding; (iv) there is a well-established processing infrastructure to support increased production of high quality coffee – more than 200 washing stations, and substantive dry milling capacity (nine mills in the country only one of which is Government owned and operated); and (v) very importantly, the world consumption offers a ready outlet: it has increased at an average annual rate of 1.9 percent during the last 50 years, with a high demand for specialty coffee in developed markets, and the market outlook for the next 10-15 years is excellent. Moreover, since coffee is a perennial crop, the land is already tied for the life cycle of the existing trees and it is not readily feasible to convert and diversify the production base. Finally, as Burundi is so heavily dependent on coffee, the Government recognizes that failure in the sector is not an option and is committed to forge ahead with the sector reforms and revitalization.

19. ***The project supports the new strategy focused on specialty coffee and niche markets***. The Government's new Coffee Strategy (2015-2021) aims at regaining competitiveness taking into account the changing dynamics at both the global and domestic level. Over the past two decades, since the end of quotas with the suspension of the International Coffee Agreement in 1989, the global market has been characterized by dramatic price fluctuations. This is due primarily to the fluctuation of production in large producing countries such as Brazil and Vietnam, speculation on the futures market, and changing demand for different coffee grades. As a result, prices paid to producers have varied considerably, and, at times, have even fallen below production costs. This has destabilized production systems, but it has also led to positive developments such as the emergence of niche markets driven by certification schemes and the differentiation of specialty coffees. These markets pay price premiums, as in the case of Fair Trade, and help insulate

producers to some extent from low prices. The above developments are recognized by the new Government's Coffee Strategy which focuses on specialty coffee and niche markets.

C. Higher Level Objectives to which the Project Contributes

20. ***The Coffee Sector Competitiveness Project is embedded in Burundi's long-term vision for poverty reduction (PRSP II) and economic growth (Outlook 2025 and NAIP)***. It lies at the heart of Burundi's household farm economy and agri-business sector. It sets the foundation for fundamental changes in these sectors. Indeed, the strengthening of the coffee value chain will result not only in increased coffee production; it will also result in increased production of food crops through intercropping with coffee, hence contributing to food security, as well as expanded income-generating and rural and urban employment opportunities through the upgrade of the coffee processing, storing and transport facilities. The project will help the sector become more competitive, sustainable and private sector-led. This is expected to result in enhanced income for coffee growers, the bulk of whom are smallholders. The project will achieve these results through multiple interventions, along the different segments of the coffee value chain (V/C), designed to address productivity and quality bottlenecks and open new market opportunities (specialty coffee markets). A particular focus will be on empowering small-scale coffee growers, and on more equitable sharing of the benefits from improved quality and market access amongst V/C actors.

21. ***The project is aligned with the National Coffee Strategy (2015-2021)***. The strategy aims at a sustainable and profitable industry for the benefit of all stakeholders, especially small-scale coffee growers. Under the strategy, the industry is expected to produce internationally-recognized high quality coffee and make a significant contribution to Burundi's macro-economic stability and poverty reduction. The coffee production target is 30,000 tons by the year 2021 from the current 15,000 tons, with the increased production volumes being accompanied by an increase in quality to reach at least 75 percent of fully washed coffee from the current 50-60 percent. While the strategy has a six-year time horizon, it is meant to serve the long term development of the coffee value chain. In that respect, it will be reviewed and updated so that it continues to be the blue print for long term sector development. This is recognized under project implementation as provision is made for project resources specifically earmarked for the review and update of the strategy.

22. ***The project contributes to Burundi's FY13-FY16 Country Assistance Strategy (CAS)*** that aims to support the country's development as an increasingly stable, competitive and diversified economy with enhanced opportunities for productive employment and improved standards of living. The CAS identified the proposed project as contributing to its pillar of improving competitiveness by strengthening the country's largest employment sector, expanding research and extension services, assisting farmers' organizations, establishing marketing strategies for high-quality coffee and promoting crop diversification in coffee areas. Building on the recommendations of the 2015 Performance and Learning Review (PLR), the Project focuses on supporting sustainable development in rural areas with a deeper emphasis on agriculture production, productivity and efficiency of the coffee value-chain – linking small-coffee growers to modern integrated markets and stabilizing their income-generation and asset accumulation.

23. ***The project addresses two main pillars of the World Bank Strategy for Africa.*** (i) *'Competitiveness and Employment'* by promoting profitable public-private partnerships for coffee

commercialization and strengthening the coffee V/C which is a labor-intensive sector; and (ii) *'Vulnerability and Resilience'* through the promotion of Sustainable Water and Soil Management (SWLM) practices supporting the adaptation to climate change, building resilience against the impacts of droughts and other agriculture climate-related risks. Furthermore, the proposed project is aligned with the World Bank's goal of promoting shared prosperity and reducing poverty and is well aligned with the Agriculture Global Practice's key priorities areas of inclusive value chains, jobs, links with the private sector and resilience.

II. PROJECT DEVELOPMENT OBJECTIVE

A. PROPOSED DEVELOPMENT OBJECTIVE

24. ***The project development objective (PDO)*** is to increase coffee productivity and improve its quality among small-scale coffee growers in Burundi.

B. PROJECT BENEFICIARIES

25. ***The primary beneficiaries are small-scale coffee growers***. It is expected that at least 300,000 of these producers (from a total of about 600,000 at the national level) will directly benefit from project interventions (of which 30 percent are women and youth). These are mostly hillside farmers with an average of 0.5 hectare of land, who cultivate about 150-250 coffee trees as an integral part of their livelihood base. The main benefits will consist of access to improved planting materials and inputs, training and extension services, and project-financed infrastructure. Total direct and indirect beneficiaries would reach at least two million people factoring in those who will be benefiting from improved rural roads and coffee processing facilities. Smallholders' income is expected to rise through increased coffee production volumes and higher prices arising from better coffee quality. This income is expected to be more stable through lower coffee price volatility.

26. ***The key public institutions and the coffee industry in general*** will also benefit from the project interventions. Benefits include (i) strengthening the capacity of the three key public and private institutions overseeing the coffee sector (ARFIC, InterCafé and the National Consortium of Coffee Growers - CNAC); (ii) sustainable modernization of the processing and storage infrastructure of at least 30 percent of CWSs; (iii) rehabilitated rural access roads to the CWSs; and (iv) a nationwide awareness program on environmental standards for the sector, including education on labor practices and gender equality.

27. ***Global community.*** The project will also benefit the global community. Based on planned interventions, it will result in Net Greenhouse Gas (GHG) sink of 2.99 million tons of CO_2 equivalent. The sink will result largely from improved practices, namely replanting of old unproductive trees, stumping of trees, introduction of good agricultural best practices and systems (e.g., shaded coffee). The increase in carbon sequestration will lead to other co-benefits including enhanced biodiversity and agro-ecosystem resilience.

C. PDO Level Results Indicators

28. The PDO level project indicators are as follows:

(a) Increased coffee productivity (kg/tree) in the project area;

(b) Share of coffee production with AA/A/FW15^{+} quality (Percentage);

(c) Share of specialty coffee of total exports (Percentage); and

(d) Direct project beneficiaries (number), of which female (Percentage).

III. PROJECT DESCRIPTION

29. ***Project design.*** Taking into consideration the current challenges facing the coffee sector in Burundi, in line with the Government's Coffee Strategy, the following short to medium-term strategic thrusts were considered in project design: (i) *upgrading the production base* by supplying improved planting material, facilitating access to inputs, supporting good agricultural practices, strengthening extension services, and promoting applied and field-oriented research; (ii) *modernization of processing facilities* by promoting more efficient and clean technologies within the coffee industry, including attention given to water management to reduce contamination of water sources and their potential impact on both the health of the surrounding populations as well as the quality of water used to irrigate other crops; (iii) *enhancing coffee quality so that it can access the specialty coffee markets*, by promoting quality as it relates to coffee at the production and processing levels, and taking advantage of market segmentation and niche marketing to help producers enter specialty niche markets; (iv) *reinforcing the private sector role in leading the reform of the sector*, i.e., institutional development and value chain integration/coordination with a focus on clarifying the role of the public vs. private actors, strengthening of producer organizations and the coffee sector inter-professional body, and promoting public/private partnerships; and (v) *improving the status of women and youth* in the coffee value chain given the role they play in shaping the sector future.

30. ***Geographic focus***. The Project is geographically targeted to include the provinces with the highest number of coffee growers, density of coffee trees and number of old and unproductive orchards. Other criteria considered were the potential for growing coffee, the established processing infrastructure and the complementarity with the Sustainable Coffee Landscape Project (PADZOC)[8]. Based on these criteria, the Project will cover six provinces as a priority: Kayanza, Ngozi, Muyinga, Karuzi, Gitega and Kirundo. These provinces represent more than 50 percent of the country's coffee growers and production (see map of the project's targeted areas in Annex 8). Broader activities related to Good Agricultural Practices (GAPs), research, quality improvement and marketing will be undertaken at the national level.

[8] *The PADZOC's interventions are located in the provinces of Bubanza, Bururi and Muyinga.*

A. PROJECT COMPONENTS

31. **Component 1: Institutional strengthening and value chain governance (US$8.64 million, including an IDA contribution of US$8.5 million equivalent).** This component will streamline the sector's governance structure by: (i) reviewing and adapting the current institutional framework to improve its effectiveness and efficiency; (ii) improving the dialogue among the main public and private actors so that they resolve value chain bottlenecks; (iii) strengthening the capacity of the key organizations overseeing the sector so that they can provide the needed services to their members and promote an enabling business environment; (iv) enhancing the position of women and youth in the coffee sector value chain; and (v) establishing an information/management system for the sector. The Project financing will include technical assistance, training activities, specific support services, goods and operational costs for the following sub-components:

32. ***Sub-Component 1.1: Streamlining of the institutional framework (US$0.69 million).*** The project will support value chain actors for the design and implementation of solutions addressing specific and cross-cutting constraints to growth. This will include: (i) a thorough assessment of the current institutional framework and introduction of competitive and growth-inducing sector regulations; (ii) studies, including a sector census and an analysis of the mechanisms to access finance for coffee value chain actors; and (iii) the review of the current coffee pricing mechanism.

33. ***Sub-Component 1.2: Enhancing value chain coordination and public-private dialogue-(PPD) (US$0.37 million)***. The Project will: (i) conduct a stakeholder mapping exercise as the basis to put in place a representative and inclusive Private Public Dialogue (PPD) mechanism; (ii) support the establishment and operation of this mechanism, including training of main stakeholders on its effective use to improve the performance of the coffee sector; and (iii) support increased consultations among the value chain stakeholders, through *inter alia* regular forums to discuss the various constraints of the sector, review and update the Government sector strategy, develop a shared vision and harmonized approach to minimize potential conflict, devise mechanisms for coordinating donor assistance and creating an enabling environment for private and public investments.

34. ***Sub-Component 1.3: Strengthening the capacity of the key organizations overseeing the sector (US$6.11 million).*** The key organizations are: (i) InterCafé, a stakeholder-driven coordinating body that has a mandate for most sector management decisions; (ii) ARFIC, a public regulatory authority whose responsibility is to ensure that the basic "*rules of the game*" for managing the sector are adequately defined, transparently implemented, and, where necessary, enforced; and (iii) CNAC, a coffee national producers' confederation representing about 109,000 coffee growers (of which 29 percent are women). These organizations will receive general support regarding *inter alia* training in group dynamics to promote good governance, assistance for strategic planning, business management and enterprise development, M&E and marketing intelligence. This will be achieved through provision of technical assistance (TA) (long term as well as short term specialized expertise), training support and organization of forums and exchange visits (mainly South-South visits), as well as provision of the required mobile equipment (vehicles, motorcycles, bicycles), and office, IT and audio equipment. In addition, specific support will include: (i) InterCafé: technical assistance (a specialty coffee specialist for two-years and specialized short-term expertise for market intelligence, women's and youth's affairs, and

development of an-outreach communication strategy); (ii) ARFIC: strengthening of the statistics department; developing a "one-stop window" and streamlining the procedures for obtaining coffee export certificates; upgrading and expansion of the public laboratories into the main coffee growing areas; support for the monitoring and updating of the coffee sector strategy; and (iii) CNAC: support to coffee growers' organization and functional literacy; support for the registration of coffee cooperatives/unions and development of by-laws; and development of an outreach communication strategy.

35. ***Sub-Component 1.4: Women and youth empowerment (US$0.68 million).*** The project will develop a stand-alone comprehensive coffee gender and youth strategy with the objective to enhance women's and youth's (W&Y) role throughout the value chain from production to processing and marketing. Emphasis will be placed on facilitating their access to assets, training, and employment. In addition to financing the W&Y strategy formulation and M&E, the Project will establish a specific matching grant program to promote their entrepreneurial activities. The matching grants (30 percent provided by beneficiaries and 70 percent by the project) will be used for subprojects: (i) supporting coffee productive activities, particularly those leading to land and resource preservation; and/or (ii) promoting climate-smart infrastructure sub-projects and energy-saving technologies for household use such as solar panels, improved cook stoves, etc.

36. ***Sub-Component 1.5: Geo-referenced information system for the sector (US$0.79 million)***. The project will support the development of a geo-referenced information system for the sector, to provide reliable information on the number of producers, number of trees/age, volume of production, coffee quality, washing stations' performance, and other socio-economic and ecological factors. The system will include a formal Geographic Information System (GIS) module to capture additional agro-ecological variables such as soil types, water sources and other factors that affect coffee quality. The information system will complement InterCafé's Management Information System (MIS) on market data, market promotion initiatives and will be linked to ARFIC databases. The sector information system will constitute an important tool for the coffee value chain actors in terms of planning, monitoring and evaluation of their activities.

37. **Component 2: Coffee growers' productive capacity enhancement (US$47.04 million, including an IDA contribution of US$31.26 million equivalent).** Component 2 is the largest project component representing 65 percent of project costs. Its main objective is to enhance, on an economic and sustainable basis, the productive capacity of small coffee growers so as to increase coffee production, reduce the cyclical swings of production and improve cherry quality. For its implementation, the Project will make use of InterCafé's current contractual system for provision of extension services and supply of inputs, as well as MINAGRIE's technical services including its decentralized extension network, special programs (such as the national fertilization program) and specialized entities (e.g., the Burundi Institute of Agronomy and Sciences - ISABU). The services of the territorial administration will also be enlisted for the general sensitization and outreach campaigns.

38. ***Sub-component 2.1: Rejuvenation of existing plantations (US$13.76 million).*** This sub-component will promote a program to rejuvenate unproductive coffee trees. Rejuvenation of the plantations will be achieved through two sub-programs by: (i) uprooting old trees and planting new ones using improved seedlings, and (ii) full stumping existing unproductive trees. The Project will fund a rejuvenation "package" -- for coffee, as well as for food crops inter-planted during the

2-3 year gestation period of the coffee trees. This package will include planting material, fertilizers and small tools. Farmers will receive a subsidy for the package for three years on a declining schedule (100 percent the first year, 75 percent the second year and 50 percent the third year). Implementation of this program will be carried out by the Project in partnership with MINAGRIE, InterCafé and CNAC. The project will provide capacity building and extension support. Nurseries and storage of certified coffee seedlings will be established close to the main coffee production centers in the different provinces to facilitate access to coffee growers. The distribution of the seedlings and other elements of the package, as well as training and extension support, will be the responsibility of CNAC and MINAGRIE using their network of extension staff. Communication campaigns targeting the rejuvenation program will be organized on a yearly basis in coordination with the territorial administration.

39. ***Sub-component 2.2: Improving access to fertilizer and agro-chemicals (US$25.12 million).*** This will be achieved through the following two sub-programs:

(a) ***Fertilizer input sub-program (US$19.04 million).*** This sub-program is designed to help farmers fertilize their productive coffee trees. It will cover 50 percent of these trees or 26 million trees. The Project will finance 40 percent of the fertilizer cost. To this end, the Project is envisaged to contribute to the existing National Fertilizer Subsidy Program (PNSEB). PNSEB is funded through the Common Fund for Fertilizers and Amendments (FCFA), which is a basket fund into which Government and donor contributions for the PNSEB are pooled. It has been originally conceived for food crops only. The inclusion of coffee within the PSNEB subsidy package, in addition to food crops, is justified, as most smallholders in Burundi cultivate small coffee plots to increase their household income and enable them inter alia to purchase fertilizers for food crops. PNSEB works in close collaboration with the International Fertilizer Development Center (IFDC) which provides technical backstopping and monitoring to the fertilizer program. While the fertilizer inputs will be provided through the existing PSNEB operating arrangements, at mid-term evaluation, the project will evaluate the possibility of using the CWSs as the main organizers of the farmers for access to fertilizers and other inputs.

A designated account specifically targeted to the project beneficiaries will be created within the FCFA, into which IDA's contribution will be channeled. As a risk mitigation mechanism, disbursement on the IDA allocation on fertilizer subsidies will be conditioned on the amendment of the FCFA Lettre d'Entente and Manual of Procedures. In the meantime, the Project Coordination Unit (PCU) will maintain overall coordination of the activity and upon the fulfillment of the disbursement conditions assess and intervene as needed to ensure efficient and effective processes for the distribution of fertilizers to farmers. Both InterCafé and CNAC will be strengthened to enable them to collect and aggregate the needs of individual coffee growers prior to the cropping season. The information will be provided to the PCU which may then make the order for the needed quantity from the agro-dealers. In such instances, CNAC will be responsible for the fertilizers distribution to the farmers by organizing fertilizer campaigns.

(b) ***Pesticide treatment sub-program (US$6.08 million).*** The Project will fund this sub-program in partnership with InterCafé as an emergency program for treatment against selected diseases that are negatively impacting coffee productivity and which are not currently treated, i.e., *Anthracnose* and *Antenstia*. The program will be free of charge for participating farmers. Project support will be in the form of equipment such as sprayers and insecticides. Corresponding extension advice will be provided by CNAC and MINAGRIE.

40. ***Sub-component 2.3: Dissemination of sustainable agricultural practices including climate change adaptation and mitigation (US$5.41 million).*** The Project will support investments to promote the adoption of good agricultural practices (GAPs) for coffee production, including sustainable land management (SLM) practices, nutrition and fertilizer management, pest and disease control (notably Integrated Pest Management-IPM), pruning, harvesting, quality assessment and improvement, best practices for intercropping and coffee under shade. It will also support capacity-building of the staff of agricultural extension and research services (public and private). Project investments will consist of: (i) designing and developing a curricula adapted to the coffee growing zones of Burundi; (ii) providing training to some 1,500 MINAGRIE, CNAC and CWSs monitors and agronomists in order to promote GAPs; (iii) establishing demonstration plots in coordination with ISABU and Farmer-to-Farmer Schools (FFS) to facilitate group-based learning; and (iv) conducting farmer-to-farmer visits, including South-South exchange of knowledge and best practices.

41. The Project will contract a service provider for building MINAGRIE's and CNAC's staff capacity (e.g., ISABU, Institut Supérieur d'Agriculture (ISA), and (Instituts Techniques Agricoles (ITABs)). The service provider will design the curricula to do so, including *inter alia* modules on establishing and managing an integrated coffee farm (including intercropping and livestock management), remedying the coffee pests and diseases, harvesting and post-harvesting practices, establishing business plans for coffee production, and dealing with environment and climate change issues, as well as social responsibility issues. Over the six-year implementation period, the Project aims at GAPs adoption by at least 90,000 coffee growers.

42. ***Sub-component 2.4: Applied coffee research (US$2.75 million).*** The Project will promote a coffee research program, in cooperation with InterCafé, ISABU and academia. The program will target such issues as coffee productivity, production fluctuation and the potato-taste. The Project will finance the development of: (i) new varieties that are more productive and resistant to diseases; including hybrids; (ii) fertilization formulas per agro-ecological zones; and (iii) methods for integrated management of the main coffee diseases and pests. The Project will also fund a number of "coffee plantations of excellence" that will be used to promote best coffee growing practices, including coffee under shade. The objective of these plantations will be to: (i) conduct demonstration trials over at least five ha regarding GAPs; (ii) produce related extension material; (iii) train extension agents and leader producers; and (iv) develop a documentation center that will house research material and will be used for training. The Project will finance the rehabilitation of the seed treatment station, and the construction of a biotechnology laboratory within ISABU. It will strengthen human resources in the field of research through the funding of specialized training, notably in the area of biotechnology and entomology. It will also fund the production of foundation seeds and the preservation of the germoplasm produced.

43. **Component 3: Coffee quality improvement and market access (US$9.4 million, including an IDA contribution of US$8.08 million equivalent).** This component will finance technical assistance, training, infrastructure and goods to promote quality enhancement along the entire value chain (field, washing station, dry mill, quality control laboratories, storage, etc.). It will also promote the Burundi coffee brand for increased market access.

44. ***Sub-component 3.1: Coffee quality improvement (US$6.21 million)***. The focus of this sub-component will be on educating value chain actors on quality issues and building a national testing (or *cupping*) capacity. The following investments are planned:

(a) *Developing cupping capacity*. The Project will support a training program for "cuppers" and establish a number of cupping laboratories in the main producing areas (within selected leader CWSs and mills). The Project will also support the certification of "cuppers" by the Coffee Quality Institute (CQI) or other international-recognized institutions;

(b) *Improving washing stations technical, operational and managerial capacities.* The production and processing of high quality coffee requires sound technical and business management skills and systems. In this respect, the Project will: (i) provide assistance to the managerial staff of the washing stations to develop and implement customized Quality Improvement Plans (QIPs); and (ii) support training programs for CWS staff with a focus on financial, administrative and management topics, organization of cooperatives, and strategic business planning;

(c) *Sustainable modernization of processing facilities.* The project will promote a PPP program to facilitate access to eco-friendly technologies to reduce environmental degradation within the CWSs and their surroundings. Planned investments will be financed on a cost-sharing basis (60 percent by the private sector and 40 percent by the Project). They will include water-conserving eco-pulpers, systems to treat waste water, solar energy applications, equipment to improve sanitation and hygiene, etc. These investments will be associated with: (i) the application of national environmental standards for CWSs (being developed under the ongoing PADZOC project), as well as the additional scrutiny that will come from promotion of eco-certification schemes for access to niche markets; and (ii) awareness on environmental standards (ISO 14000), education on labor practices and social responsibility, and gender equality awareness. In addition, for highly performing washing stations and on a cost sharing-basis (50 percent), the project will support the introduction of traceability systems from the plantations to the destination markets. Such systems will enable buyers and sellers to track each coffee batch from the time it enters the washing station (or is harvested in the field) until it is delivered to its final destination. Ensuring traceability will be an essential element distinguishing specialty coffee production from the production of standard grade coffee.

(d) *Rural access roads.* As part of the coffee processing infrastructure upgrading, the Project will support the rehabilitation of 60 km of rural roads to improve coffee growers' access to the CWSs and marketing facilities in project intervention areas. The need for funding of rural roads far exceeds the funding earmarked under the Project. Hence, taking into consideration the importance for rural roads in the context of Burundi, the Project will fund a review of the existing rural roads in the vicinity of CWSs jointly with an assessment of the financing needs to rehabilitate and upgrade these roads. It will also finance fund-raising consultations with both public and privates sources.

45. ***Sub-component 3.2: Marketing and promoting the Burundi Coffee brand (US$3.19 million).*** This sub-component will support the following investments:

(a) *Building a recognizable image for Burundi coffee*, including, a country logo, brochures, standardized washing station fact sheets, coffee maps, video clips, and other information that may be useful to coffee markets. The project will build on the InterCafé internet platform (*www.cafeduburundi.com*) developed under the USAID-BAP project to maximize the availability of information on the coffee sector for use by the value chain actors and potential buyers. This includes information on production, sales and marketing, regulations, and tracking sector development. This database will be expanded to include: (i) tracking and reporting on the key performance characteristics of all washing stations, for purposes of monitoring and planning, and assessing the impacts of investments on quality improvement; and (ii) disseminating training materials, tools and practices that will benefit all actors in the coffee sector across the country;

(b) *Developing a reliable coffee industry intelligence and forecasting system*. This software based system to be placed within InterCafé (linked to the existing coffee database and internet platform) will allow for analyzing key market information, increase transparency and facilitate free circulation of information. It will be managed by InterCafé and will disseminate information daily on world market prices for differing grades of coffee and the official US$/FBU exchange rate; and

(c) *Introducing other innovative promotional activities* such as buyer tours, coffee competitions, participation in trade and marketing events, and many other features that will place Burundi's coffees in some of the very best markets in the world. These activities will focus on cultivating appropriate contacts and potential coffee relationships in North America, Europe, Japan and other emerging markets such as China and Russia.

46. **Component 4: Coordination, monitoring and knowledge management (IDA US$7.16 million equivalent)**. This component will support: (i) the project administrative, technical, and financial management; (ii) coordination among all institutional partners to ensure an efficient flow of information and support to all value chain actors, in particular the small coffee growers; (iii) effective contractual arrangements with key official implementing partners and private sector operators; (iv) monitoring and evaluation of the performance and the project financial, environmental, and social impact management; and (v) development of communication activities to publicize and disseminate the project results, best practices and success stories.

47. Project financing will cover costs related to: (i) staffing, equipment and operating costs of the Project Coordination Unit (PCU); the PCU will have a core team composed of a project coordinator, a technical operations officer, a financial management specialist, an internal auditor, an accountant, a procurement specialist, a gender and social inclusion specialist, an environment specialist, and an M&E specialist; this core team will be recruited on a competitive basis; (ii) project planning, M&E activities, consultancies and studies, equipment and operating costs, workshops with relevant stakeholders (e.g., for preparation of annual work plans and periodic

implementation status reports, technical and financial audits, as well as surveys and analyses for the project impact evaluation; (iii) the monitoring and supervision of environmental and social safeguards implementation; and (iv) preparation and implementation of the project communication action plan. In order to ensure a fast start-up of the Project activities and as a transitional arrangement of the Project implementation, the existing PCU for the ongoing Agro-Pastoral Productivity and Markets Development Project (PRODEMA) will be entrusted with the responsibility for coordination and implementation. During this transition period, the Recipient will establish the new PCU, which will then take over Project coordination and implementation from the PRODEMA PCU within twelve months after the Project effective date.

48. ***Partnership with the International Finance Corporation (IFC), USAID and other partners***. (i) The Project is part of the joint World Bank-IFC business plan for Burundi. During implementation, support will be sought from IFC, in particular for identifying and promoting specific investment opportunities along the coffee value chain; (ii) partnership will be further strengthened with USAID in selected coffee productivity enhancement activities; (iii) under the fertilizer sub-program, the project will build a strong partnership with the on-going Netherlands, Germany and IFAD financed PNSEB fertilizer program to ensure synergy and economy of scale; and (iv) the project will also establish close linkages with the industry and other organizations that are involved in developing the coffee value chain in Burundi.

B. Project Financing

49. ***Lending Instrument.*** An Investment Project Financing (IPF) to be implemented over six years will be used. The IPF instrument will allow for support for project activities, including providing sufficient time to replace and monitor the tree stock that has passed the age of peak productivity and reverse the current declining trend in coffee production in Burundi.

50. ***Project Cost and Financing.*** The total project cost is estimated at US$72.25 million, to which the IDA contribution will be a grant of US$55 million (see Table 1 below). The balance of the financing (US$17.25 million) is from InterCafé, the beneficiaries and the private sector. The counterpart funding will support activities related to access to inputs (fertilizers and pesticides) and research. It will also contribute to the matching grants for modernizing the coffee washing stations and the women and youth sub-projects.

Table 1: Project Cost by Component

Project Components	Project cost		IDA Financing	
	US$ Million	% of total	US$ Million	% financing
1. Institutional strengthening and value chain governance	8.65	12.0	8.50	98.4
2. Coffee growers' productive capacity enhancement	47.04	65.1	31.26	66.4
3. Coffee quality improvement and market access	9.40	13.0	8.08	86.0
4. Coordination, monitoring and knowledge management	7.15	9.9	7.16	100
Total Baseline Costs, including contingencies	72.25	100.0	55.00	76.1

C. LESSONS LEARNED AND REFLECTED IN THE PROJECT DESIGN

51. Project design is based on lessons learned from agriculture portfolio experience and analytical work recently completed in Burundi. These include: (i) learning from successes and failures concerning institutional arrangements for past and on-going project implementation (PRASAB and PRODEMA); (ii) the findings of the study *"Burundi in the Coffee Global Value Chain – Skills for the private sector development"* which provided critical insights and inputs for the preparation of the proposed project; and (iii) other key analytical work carried out by development partners and the Government related to the sector diagnostic, reform and privatization and development strategy.

52. Major challenges and lessons learned from USAID's Burundi Agribusiness Project (BAP 2007-2012), were taken into consideration in project design. These include the need to: (i) improve the effectiveness of extension services to help apply best farming practices and increase productivity; (ii) capitalize on the country's high potential to improve export market competitiveness and retain buyer confidence; (iii) build human capacity for industry development and strengthen value chain governance; (iv) address constraints and challenges in an integrated fashion from field to market throughout the value chain to achieve an overall impact at scale; (v) build public-private partnerships to assume their respective roles and responsibilities for the benefit of the entire sector; (vi) make access to financing available to value chain actors; and (vii) view the participating household not as single monolithic units, but instead analyze the implications of project activities on the individuals within the household and thus support women's and youth's equitable participation at each stage of the value chain.

53. The project approach builds on past World Bank experience in Burundi and lessons learned in value chain development in the region (Rwanda, Tanzania, Uganda, etc.), and in Central and South America. Rwanda saw its coffee production declining by more than half in 1990s (from about 40,000 tons to 15,000 tons). Inefficient and ineffective farming methods combined with aging trees and low quality beans from the use of drying methods significantly undermined both productivity and quality. With little incentive to improve production, producers began to exit the industry, and Rwanda's competitiveness on the world coffee market suffered a major setback. The Government of Rwanda, together with the donor community, thus began to define a strategy for the country's coffee sector. This strategy aimed to improve quality by repositioning the country as a specialty coffee producer, in order to increase returns at production and also achieve national development goals of boosting national revenues and expanding employment. This product upgrading into the specialty coffee sector required a wide range of initiatives led by a variety of different actors at both the national and international level. It also required simultaneous upgrading into the marketing segment of the value chain to ensure that the high quality coffee produced would result in the necessary premiums to justify ongoing investments by producers.

54. Other recent experience considered in the project design is the Coffee Replanting Program carried out in Colombia during the period 1998 to 2011. The program which was financed jointly by the National Federation of Coffee Producers and the Government was very successful. It benefited from a supportive sector environment, bringing together government, research institutions and strong grower organizations. The main lessons emerging from this program include: (i) growers often resist innovation and renewal as a result of risk-aversion, lack of knowledge and/or the absence of the right financial incentives, including cash incentives; in that

sense, cash-flow constraints are critical and need to be taken into consideration; (ii) multi-year program designs need constant review and where necessary adjustment; and (iii) access to finance plays a major role in the success of such programs.

IV. IMPLEMENTATION

A. INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

55. The Ministry of Agriculture and Livestock (MINAGRIE) would be the executing agency of the Project. The Project's institutional set up is organized around the following bodies: (i) the Project Steering Committee - PSC; (ii) the Project Coordination Unit – PCU; and (iii) the Project Implementing Agencies – PIAs.

56. *Project Steering Committee.* Given the nature and complexity of such a program in managing activities that involve a number of different actors in the value chain (government agencies, coffee growers, industry, traders/exporters and others) and the need to expand collaboration and cooperation amongst them − a PSC will be established. It will be chaired by the Minister of Agriculture and Livestock or his/her representative (MINAGRIE). Its main functions and responsibilities will be to: (i) advise the project on strategic directions and support activities to be provided; (ii) approve the project annual work plan and budget (PAWP&B); (iii) ensure the effective collaboration and cooperation between all key stakeholders; and (iv) review the PCU's Implementation Progress Reports (IPRs) and advise on the effectiveness of ongoing activities (including in relation to the NAIP) and any adjustments that need to be made to the annual work plan. The PSC will include representatives of the MINAGRIE (including the Planning Department for Agriculture and Livestock (DGPAE) and the Department for Extension (DGMAVA) [9]; the Finance and Economic Development Ministry (MFDE), the Water, Environment, Land and Urban Planning Ministry (MEEATU), InterCafé, CNAC, ARFIC, ISABU, and the Chamber of Commerce.

57. *Project Coordination Unit.* A PCU to be established by the MINAGRIE will have the overall management responsibility of the financial management of the project including the daily management of the designated account and coordination of project activities and value chain actors. It will be in charge of executing the approved annual work plan and budget and will be accountable to produce the annual project accounts. It will be located within InterCafé premises in Bujumbura and will have dedicated personnel to ensure planning and budgeting of project activities, management of Sub-project Agreements/Conventions/MoUs, financial management and procurement, technical supervision and quality control, gender and social inclusion, environmental and social safeguards, and M&E. Its core personnel is as described in Paragraph 47 above. In order to ensure a fast start-up of the Project activities and as a transitional arrangement for Project implementation, the existing PCU for the ongoing Agro-Pastoral Productivity and Markets Development Project (PRODEMA) will be entrusted with the responsibility for coordination and implementation. During this transition period, the Recipient will establish the new PCU, which will then take over Project coordination and implementation from the

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[9] *Direction Générale de la Planification Agricole et de l'Elevage (DGPAE) et Direction Générale de la Mobilisation, de l'Auto-développement et de la Vulgarisation Agricole (DGMAVA).*

PRODEMA PCU within twelve months after the Project effective date. The extension of the mandate of the PRODEMA PCU for this purpose is a condition of effectiveness.

58. *Project Implementing Agencies.* As some of the project's activities would be executed in partnership with InterCafé, CNAC and ARFIC, the PCU will sign Memoranda of Understanding (MoUs) with those entities as PIAs. Other activities such as specialized training, coffee research, provision of certified planting material, etc. will be contracted directly by the PCU to qualified private sector as well as public executing agencies such as ISABU, ISA, and ITABs. The PCU will also contact private service providers for cross-cutting activities and specific interventions such as the gender and youth strategy, institutional development for the inter-profession and CNAC, etc.

59. Implementation arrangements are discussed in detail in Annex III and will be specified in the Project Implementation Manual. The finalization and adoption of this Operational Manual, acceptable to the Bank, is a condition of effectiveness.

B. RESULTS MONITORING AND EVALUATION

60. The Project M&E system will be embedded into, aligned with, and capitalize on existing M&E systems, as well as national strategies (PRSP, CAADP/NAIP and national coffee sector strategy). It will make use of various tools, including baseline studies (coffee sector census), results framework matrix, PCU and PIAs reports, M&E surveys, beneficiary assessments and databases for recording physical progress. It will also make use of a mix of conventional top-down approaches with the typical participatory methods involving beneficiaries and other external stakeholders. Its design will institute a system involving periodic reporting of the selected key indicators of project performance and impact included in the results framework. As part of its implementation, all PIAs will prepare and submit progress reports to the PCU. At the beneficiary level, the leaders of coffee growers and processing industry will have a recording system on project performance and impact. Finally, the M&E system will aim at enhancing commitment on the part of primary stakeholders (i.e., project implementers, coffee grower leaders and industry, etc.) to achieve a better-performing project and value for money in planned interventions. It will be driven by a results-oriented management philosophy, based on three aspects: performance self-assessment, coffee growers and industry assessment and impact assessment.

61. The PCU will assume overall responsibility on project M&E, including collation, analysis and dissemination of reports. It will prepare IPRs twice a year, as well as quarterly unaudited financial reports (IFRs). The PCU will rely on four key agencies - InterCafé, CNAC, ARFIC and the DPAEs (decentralized units of MINAGRIE) - to perform operational M&E of the implementation progress and related inputs and outputs of activities under their responsibilities. To achieve this objective most effectively, the project will strengthen these institutions' internal M&E and fiduciary system, and will provide specialized technical assistance in data collection, management, analysis and dissemination. A MIS will be established at the PCU and operated by its M&E specialist.

62. The project's impact will also be assessed through specific impact studies. These will be planned by the PCU in partnership with the key value chain actors and the MINAGRIE/DGPAE. They will consist of baseline and follow-up surveys and impact studies for specific project

interventions including at Mid-Term Review and prior to project closure. In addition to capturing the applicable IDA indicators, these studies will assess the project impact on the coffee growers' income, on-farm/off-farm employment, gender, youth participation in the coffee industry, and other variables affecting the social status of the communities where project activities are being implemented.

C. SUSTAINABILITY

63. The sustainability of the project is predicated on the following major considerations: (i) high value addition and intrinsic sustainability of project investments for the coffee sector; (ii) strong government commitment; (iii) continued coffee value chain reforms centered on deregulation and privatization; (iv) prominent role of private sector in project design and implementation; (v) highly participatory consultation process, including through the concomitant preparation of the National Coffee Strategy (2014); and (vi) a strong capacity building program, including coffee governance issues and strengthening of the coffee growers' organizations.

64. *High value addition and intrinsic sustainability of project investments.* The project will finance value-enhancing investments that will provide long-lasting benefits for the coffee growers and their families in terms of improved cash income. This cash income will be used to sustainably improve the growers' livelihood conditions, including increased food security through the acquisition of food during the 'lean' periods of the year when coffee sales are made. The specific field investments made under the Project are expected to be environmentally smart and sustainable, due to the adoption of GAPs including SLM practices.

65. *Government commitment.* The GoB is strongly committed to the proposed project and its objectives. The latter is anchored into the country's key strategy documents, including the National Agricultural Strategy, the PRSP II and the NAIP. In addition, the GoB has a clear strategic vision for enhancing the productivity and the competitiveness of the coffee sector which is spelt out in the Coffee Sector Strategy 2015-2021.

66. *Value chain deregulation and privatization.* The coffee industry was one of the priority sectors targeted for deregulation and privatization in the country's structural adjustment program. Following initial delays due to a protracted civil war, the deregulation and privatization process has proceeded apace and has now included the creation of a coffee regulatory agency, an inter-professional coffee association, and effective deregulation of de-pulping and export. New CWSs and other private processing units have been created. The Project will further support the establishment of strong linkages among value chain participants (producers, processors, traders, etc.) leading to increased value addition and thus returns.

67. *Private sector role in project design and implementation.* Particular attention has been paid to the need for private sector participation in both the coffee strategy development and project design phase. The private sector is slated to play a key technical and managerial role during project implementation. Two private sector organizations merit particular mention: (i) CNAC, which represents 3,226 associations, 143 unions, 87 cooperatives, and five federations; and (ii) InterCafé, whose members include coffee producers, wet and dry millers, roasters and exporters.

68. *Consultation and participation.* The proposed project as well as the coffee sector development strategy underlying its objectives, results, and plan of action were prepared through a highly participatory process over a period of several months in 2014. This process included a number of consultation workshops to elicit the active participation and feedback of a full range of partners and stakeholders (government and private sector representatives, farmer and women organizations, etc.). The process enabled the project design team to draw on different areas of expertise, ensure that all technical and institutional views were considered, build a consensus on the project development objective and its intermediate results, ensure that the indicators selected measure the desired outcomes, and build stakeholder ownership. This consultative process will continue to be used throughout the life of the project to maintain the shared vision and collaborative relationships that have been forged, and to sustain partners' commitments to their assigned roles and responsibilities; it will be used particularly to monitor and update the coffee strategy.

69. *Capacity building and improved governance of the coffee value chain*. Strengthened capacity and improved governance of the coffee value chain are necessary conditions for success of project implementation and sustainability thereafter. The capacity development effort will be targeted to the country's three key coffee organizations: InterCafé, CNAC, and ARFIC. Building the capacity of these organizations will enhance value chain integration in terms of both backward and forward linkages. Improving the overall V/C governance, and the internal structure and capacities of individual governing entities therein, will enable these organizations to provide, in a sustainable manner, the needed services to their members, and better defend their common interest. This will be achieved as part of a meaningful policy dialogue and partnership with the Government responsible with maintaining the required enabling sector policy environment.

V. KEY RISKS

A. RISKS RATINGS SUMMARY TABLE

Systematic Operations Risk- Rating Tool (SORT)	
Risk Category	**Rating**
1. Political and Governance	High
2. Macroeconomic	High
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Substantial
9. Others: Coffee international market and fertilizer program	Substantial
OVERALL	High

B. Overall Risk Rating Explanation

70. *Political and governance risks are high.* Since the 2015 electoral period, the country has been in a political upheaval and violence, with strong polarization between the government and opposition movements. The Government is under economic and social pressure. These risks are being mitigated by: (i) the alignment with Burundi's PRSP II priorities that benefit from wide popular support and cut across party lines; (ii) sustained process of engagement with the counterparts to cement political buy-in from key decision-makers in the Government and the sector leading institutions; (iii) a transparent and inclusive dialogue with independent civil society organizations and the coffee industry to ensure demand side pressure for reforms and prevent capture of resources by private interests; (iv) close coordination with other development partners; and (v) accompanying the project where required with political economy analyses.

71. *Macroeconomic risk is high.* The key factors for the high rating are related to: (i) the current political instability in the country which is slowing down economic activities; and (ii) a sensible reduction of outside development aid to the Government. These factors are leading to a deteriorating macroeconomic situation and public debt is increasing which may have a negative impact on the sectoral reforms and a slowdown of the project implementation. Investing in the agriculture sector, especially the coffee value-chain, has the potential to reduce the current crisis effect on the macroeconomic situation and to provide income to a large number of Burundi's vulnerable population. The project will monitor closely the macroeconomic risk and take appropriate mitigation measures as needed.

72. *Institutional capacity for implementation and sustainability risk is high.* Burundi is a post-conflict country with weak technical and institutional capacity at all levels. Administrative and fiduciary capacity also remain limited in MINAGRIE and targeted PIAs. However, project implementation will rely on a strong PCU and a rigorous engagement of key sector actors. These actors, including InterCafé, ARFIC and CNAC will benefit from a well-designed and diversified capacity-building program (leadership, management, governance, etc.). The involvement of these bodies will technically support the implementation of the project in an efficient and transparent manner, and will also ensure the sustainability of project activities.

73. *Fiduciary risk is rated substantial.* For this risk, a number of safety and risk-mitigation measures have been provided for under the Project. These measures include: emphasis on capacity building of multiple actors in technical, management and governance aspects; and provision of technical support, particularly with respect to fiduciary management and monitoring, where it is not available on a timely basis.

74. *Stakeholder risk is substantial.* Development of the Burundi coffee value chain depends on multiple stakeholder commitment. The package of interventions planned under the Project, including actions to reinforce the private sector role in leading the reform of the sector, may be perceived by government partners as diminishing their role. The project foresees a participatory approach at all stages, including consultations with all key public and private value chain stakeholders to explain the project objectives and discuss/clarify roles and responsibilities. It promotes also various public/private partnerships activities which should contribute to mitigating the stakeholder risks.

75. Other risks include: (i) coffee marketing which was rated as "substantial" given the prevailing price volatility in international markets which may lead to significant price falls. However, the project focuses on sustainable production and quality improvement. It includes important measures to access niche coffee markets which are less subject to high price fluctuations; and (ii) the risks associated with the fertilizer program and the challenge of sustaining such a program. Its cost and its benefits will be closely monitored and alternative solutions will be taken if required.

VI. APPRAISAL SUMMARY

A. ECONOMIC AND FINANCIAL ANALYSIS

76. ***Project benefits.*** An economic and financial analysis has been carried out as part of the project preparation. This analysis is based on the quantified benefits generated from the increased production of coffee trees, as well as the production of the food crops (red beans and soybeans as examples) that will be inter-planted with coffee trees before they are fully productive. These benefits capture indirectly the impact of the upgrade of the CWS and dry milling infrastructure, and access roads, through decrease in production losses and increase in quality. They also capture improvements in marketing through price gains associated with increased coffee quality. The benefits derived from capacity building of producers and other actors targeted at various levels of the value chains are not specifically included. These benefits are important especially for the poorest and most vulnerable farmers since these groups are expected to be better equipped to produce and market coffee efficiently, and, in turn, improve their economic status as a result of project implementation. This applies particularly to W&Y who are expected to represent 30 percent of project beneficiaries. The project benefits, as computed, are therefore conservative.

77. Project-supported investments would generate substantial financial benefits for rural households in the areas served by the project, as well as substantial economic benefits for Burundi's society as a whole, such as (i) additional tax for the Burundian Treasury, and (ii) additional foreign exchange earnings for the Central Bank. They are also expected to generate additional revenues for the entities in charge of the coffee sector. A summary of the Economic and Financial Analysis is provided in Annex 5.

78. ***Additional production.*** The project is expected to generate substantial additional production for rural households of both coffee and food crops (red beans, soybeans, etc.) intercropped with coffee trees during the first years after replanting and/or stumping when the coffee trees are in gestation and do not produce to full capacity. The additional coffee production will generate monetary revenues for households to meet their minimal recurrent cash needs and investment requirements, and the additional food crop production will be used to improve their nutrition and food security status.

79. ***Project financial returns.*** The project will greatly benefit targeted coffee growers, mainly through the coffee rejuvenation and access to inputs programs. These programs will be subsidized as follows: (i) *rejuvenation program*: participating farmers will receive a subsidy for coffee replanting and stumping (a package of seedlings, fertilizers and tools) for three years on a declining schedule (100 percent the first year, 75 percent the second year and 50 percent the third year), and (ii) *program of facilitation of access to inputs*: fertilizers and pesticide treatment for diseases and

pests (*e.g., Anthracnose*, *Antestia*). The farmer's gross margin has been computed in both the 'with' and 'without' subsidy situations.

80. ***Project economic benefits.*** The project economic benefits for the country are substantial. Computed over a 15 year-period, the project Net Present Value (NPV) amounts to FBU 29.9 billion (US$19.3 million), and the project economic internal rate of return (IRR) is 22.7 percent. In addition, over its six-year implementation period, the project will generate US$6.3 million in taxes for the Government Treasury and US$51.7 million in foreign exchange earnings for the Central Bank. The additional revenues for sector entities are expected to amount to US$3.2 million.

81. ***Sensitivity analysis.*** This analysis shows that projected benefits are fairly robust as far as investment costs are concerned. In contrast, they are more sensitive to the gross margin and delay in project execution. If projects costs are 30 percent higher than expected, the IRR decreases to 14.9 percent, and, if the gross margin drops by 30 percent, either from price or quantity produced, the IRR drops to 12.4 percent. In the case of a two-year delay in expected benefits, the IRR decreases to 13.3 percent.

82. ***GHG Accounting.*** Burundi's climate is tropical moist with low activity clay soils. The computing modules used include land use change, crop production and inputs, with a project implementation phase of six years and capitalization phase of 20 years. The planned project intervention will result in net Greenhouse Gas (GHG) sink of 2.99 million tons of CO_2 equivalent. The sink results largely from improved practices, namely rejuvenation of old unproductive trees, stumping of old trees and introduction of shaded coffee. Land rehabilitation and intercrops also contribute to net GHG sink, almost offsetting the expected emissions due to increased input use. The increase in carbon sequestration will lead to other co-benefits including improved biodiversity, reduced soil erosion and enhanced agro ecosystem resilience.

83. ***Justification of public funding.*** Public funding for the project that primarily supports institutional strengthening and other expenses of a private value chain is justified by the fact that the coffee sector is of paramount importance to Burundi in the light of the overall poverty situation of the country, its economic growth and employment generation, and the generation of foreign exchange. Unfortunately, coffee value chain actors, especially those who are not related to outside investors, do not have sufficient access to finance for their contribution to coffee recovery. Hence, they need outside funding assistance. Public funding for coffee production activities is further justified to the extent it concerns small farmers who are Burundi's poorest and most vulnerable segments of the population. The project will fund a mixture of public infrastructures such as roads and laboratories as well as private investment such as rejuvenation of trees, access to inputs, etc. using PPP models.

84. ***Added value of World Bank intervention.*** The Bank has a long experience supporting value chains development in agriculture, for cash crops and food crops. It has supported the coffee sector in Burundi through several projects in the 1980s and 1990s. It has a comparative advantage for this type of project that addresses the entire value chain, as it takes an integrated approach to covering all industry operations and players. In that sense it is complementary and acts as coordination for other sources of funding that are generally interested in only some individual

segments of the value chain. This is the case for USAID, UNIDO and other development partners supporting the coffee sector in Burundi.

B. TECHNICAL

85. ***Project approach.*** The project approach builds on past World Bank (WB) experience in Burundi and lessons learned in coffee value chains development in the region (Rwanda, Tanzania, Uganda and Kenya), and in Central and South America (Colombia). The project's technical design has been widely discussed and agreed upon with the GoB and key public and private institutions overseeing the development of the sector. The project design benefited at all stages from contribution of experts from the inter-profession (InterCafé) and the coffee growers' association (CNAC) which helped focus its planned interventions and objectives. Both the Bank and the Government preparation teams took advantage of key diagnostic and analytical documents prepared for the sector, including: (i) the coffee sector development strategy 2015-2021; (ii) the Burundi coffee value chain analysis conducted by UNIDO in 2013; (iii) income and production costs of coffee sector actors in Burundi by Trademark East Africa, 2013; (iv) Burundi in the Coffee Global Value Chain – Skills for private sector development, by the World Bank, 2014; and (v) the diagnostic of the sector competitiveness and development strategy, conducted under the World Bank Project PAGE[10], 2008.

86. ***Innovative features of the project design.*** A main innovative feature of the project design is the actual inclusion of the small coffee growers at all stages of the value chain and their involvement in the decision-making process to maximize impact. This will be further strengthened by the establishment of an evidence-based and action-oriented PPD mechanism with the objective of supporting the development of a common vision and action plan for the sector, promoting quality and productivity gains, and enhancing private investments. The action plan will address some structural and regulatory issues constraining sustainable growth of the sector post-privatization, including access to inputs, industry export levy, pricing, regulation of new coffee washing stations, among others. Other project innovative features include: (i) strengthening the governance of coffee grower organizations to enable them to provide needed services to their members in a transparent and sustainable manner; (ii) involvement of sector governing institutions (ARFIC, InterCafé, CNAC) in the implementation of activities such as training, extension and research for efficient and sustainable service delivery; and (iii) promotion of a PPP program for environmental upgrading of CWSs. Furthermore, the Project will establish a database for the sector using an integrated GIS, which will be used for M&E, knowledge dissemination, and export promotion.

C. FINANCIAL MANAGEMENT

87. As part of the project preparation phase, a financial management assessment was carried out at the InterCafé, CNAC and ARFIC which were identified as Project Implementing Agencies. The assessment was conducted in accordance with the Financial Management Manual issued by the Financial Management Sector Board on November 3, 2005 as revised in March 2010. The assessment of the FM capacity of these entities revealed some weaknesses and risks mainly in the areas of staffing arrangements and capacity, accounting systems, both internal and external

[10] *Projet d'Appui à la Gestion Economique (PAGE).*

auditing, and reporting arrangements. Appropriate mitigation measures, as outlined in Annex 3, have been incorporated into the design of the financial management arrangements with the aim of reducing these risks.

88. In order to meet the Bank's minimum requirements under OP/BP10.00, the Project Coordination Unit will be put in place within twelve months after effectiveness; the financial management system of that unit will be supported by the following measures: (i) recruitment of a Financial Management expert and provide appropriate fiduciary training; (ii) purchase and installation of a computerized accounting system in the coordination unit; and (iii) establishment of a manual of procedures, to be included in the Project Implementation Manual (PIM), for better implementation of administrative and fiduciary procedures of the project. Also each of the PIAs involved will set up a minimum fiduciary capacity with: (i) the recruitment of a financial management expert; (ii) the preparation of the manual of procedures; and (iii) setting up of an information system. All these arrangements should be linked and aligned with the FM arrangement established at the PCU level, so as to create a synergy of fiduciary arrangements within the project. The objective of such process would be to strengthen the governance structure and institutional framework for the management of the Burundian coffee sector.

89. The PCU and the financial management unit will be responsible for ensuring compliance with the financial management requirements of the Bank and the GoB, including preparing and submitting the quarterly unaudited IFRs and audited Annual Financial Statements (AFS) to IDA. It will maintain adequate financial management arrangements to support the deployment of project resources in an economic and effective manner to achieve the stated development objectives.

90. Although the project coordination unit has not yet been established, the GoB and targeted key implementing partners have initiated preparatory activities (preparing terms of reference, preparation of implementation manuals and manuals of administrative, accounting and financial procedures, etc.) with the support of a Project Preparation Advance (PPA) managed by the PRODEMA PCU (existing implementing entity of a Bank-financed project).

91. The Project includes a retroactive financing option to jump start implementation activities. Such retroactive financing will be in accordance with the procurement plan and reimbursement will be based on expenditures that would have been procured following World Bank policies. The retroactive financing will cover 10 percent of the grant amount.

D. PROCUREMENT

92. Procurement for the project will be carried out in accordance with the following Bank's (i) "*Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers*" dated January 2011, revised July 2014; (ii) "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011, revised July 2014; (iii) "*Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants",* dated October 15, 2006, revised in January 2011; and the provisions stipulated in the Financing Agreement.

93. As mentioned in previous sections, the PCU will be responsible for: (i) selecting and recruiting consultants; (ii) managing procurement of works, goods and non-consulting services; (iii) supervising quality of studies and supervising contracts of works, goods and non-consulting services; (iv) approving invoices; (v) acceptance of works, goods and services; (vi) procurement planning and reporting; and (vii) procurement capacity development to project partners. Technical staff from MINAGRIE will be solicited to participate, as much as possible, in the procurement process, particularly in technical proposals/bids evaluation.

94. In addition to the PCU, selected PIAs were identified for the implementation of a number of project activities. Based on the lessons learned from the PRODEMA experience in partnering with different implementing agencies, it is recommended that all procurement related activities included in different MoUs be centralized and managed by the PCU with full involvement of representatives of each concerned PIA. This arrangement is intended to mitigate risks of mis-procurement, ineligible expenses, and delay in fiduciary reporting.

95. An assessment of the capacity of the PIAs was conducted in October-November 2014, with emphasis on InterCafé, as the main technical interlocutor. The assessment revealed shortcomings in procurement planning, staffing, lack of experience in World Bank procurement procedures, insufficient information on procurement processes in the implementation manual, and inappropriate documents filing. The main risks identified and their proposed mitigation measures are summarized in Annex 3.

96. The procurement plan for the first 18 months of the project has been agreed with the Bank. During implementation, the procurement plan will be updated in agreement with the project team as required - at least annually - to reflect actual project implementation needs and improvements in institutional capacity. It will be available in the project's database and a summary will be disclosed on the Bank's external website once the project is approved by the Bank's Board of Directors.

E. SOCIAL SAFEGUARDS

97. Consultations with key stakeholders involved in the coffee value chain (farmers, processors, traders, etc.), the public sector, civil society, and the most vulnerable groups (women, youth and indigenous groups) have been conducted during project preparation. These actors have been involved in defining the scope of activities and will be engaged throughout implementation. Youth and women, in particular, are expected to benefit from the project because they are heavily involved in most of the production and processing activities all along the coffee value chain.

98. Building on the recommendations of the 2015 PLR, the Project focuses on supporting sustainable development in rural areas with a high emphasis on agriculture production and productivity, and in particular, the efficiency of the coffee value-chain. Expected social benefits of the Project interventions, especially for small scale coffee growers include: increased production capacity, income diversification and security, job creation, and induced local economic development. Despite the focus on a cash crop, the project will contribute to diversifying and strengthening food crop production through the promotion of GAPs and increased access to farm inputs. The project also acknowledges that coffee production is an industry that is well represented across gender, age, ethnicity and income groups. The project will develop a stand-alone

comprehensive coffee gender and youth strategy with the objective to enhance the role of women and youth throughout the value chain from production to processing and marketing. Emphasis will be placed on facilitating their access to assets, training, and employment. It is anticipated that at least 300,000 producers will directly benefit from project interventions, of which about 30 percent would be women and youth.

99. The Project triggered the World Bank policy on Involuntary Resettlement (OP 4.12) because of the planned 60 km rehabilitation of rural access roads to the CWSs. The impact of foreseen rehabilitation work is expected to be minimal and manageable (see Annex 3). Since the specific rural access roads were not know in detail at the project design stage, the GoB suggested using the existing Resettlement Policy Framework (RPF, December 2009) prepared for the ongoing Agro-Pastoral Productivity and Markets Development Project (PRODEMA). This RPF is suitable as PRODEMA had much larger infrastructure investments (including construction of rural roads); it covers the provinces in which the new project will operate; it is implemented by the same lead institution (MINAGRIE); and the beneficiaries (coffee growers) and other stakeholders under the new project would be a subset of those under PRODEMA. The RPF has been updated for the project with an explanatory Cover Note, endorsed by the GoB and disclosed for the project as a new document.

100. **Citizen engagement**. Project design, preparation, and implementation are based on citizen engagement. Consultations with all key value-chain stakeholders have been and will continue to be carried out throughout the project cycle, from preparation to project completion. Project implementation will particularly involve the coffee growers' association (CNAC); the coffee industry and its stakeholders coordinating body (InterCafé); local, provincial, and national administrations; national research and education institutes; and NGOs and development partners active in the coffee value-chain. In the current political situation of Burundi, conflict prevention activities rely firmly on citizen engagement. Recurrent consultations with civil society and direct beneficiaries will be part of the proposed project's M&E strategy; the same is true for the beneficiary assessment. The preparation and implementation of safeguards instruments has been and will be part of the consultation process. Citizen engagement and beneficiary feedback will be monitored through agreed and detailed indicators.

F. ENVIRONMENT (INCLUDING SAFEGUARDS)

101. The expected environmental impacts from this project would be largely positive (see Annex 3). These will result from: (i) *at the farm level* - the application of good agricultural practices, including rejuvenation of old unproductive trees, promotion of SLM, intercropping and introduction of shaded coffee, etc. These practices will contribute to reducing land degradation and at the same time lead to a net GHG sink (2.99 Million tons of CO_2 equivalent). The increase in carbon sequestration will lead to other co-benefits including improved biodiversity and enhanced agro-ecosystem resilience; and (ii) *at the industry level* - reduced water pollution from project-supported investments in modernizing the CWSs processing facilities.

102. The project has been classified as a "*Category B*" as the expected environmental impacts are likely to be small-scale and site specific, as well as remediable. These are linked to: (i) the coffee plantations rejuvenation program and increased use of fertilizers and changes in agricultural pest

management practices which, on balance, are more likely to be environmentally positive; (ii) civil works to upgrade the CWSs; and (iii) rehabilitation of 60 km rural access roads.

103. Further project screening revealed that in addition to triggering OP 4.12 (Involuntary Resettlement), the project triggers OP/BP 4.01 (Environmental Assessment); OP 4.09 (Pest Management); and OP/BP 4.10 (Indigenous Peoples). These policies will be addressed through the following safeguards instruments prepared by the GoB and approved by the World Bank: (i) an Environmental and Social Management Framework (ESMF); (ii) a Pest Management Plan (PMP); (iii) an Indigenous People Development Plan (IPDP – Batwa community involved in coffee production); and (iv) a Resettlement Policy Framework (RPF). These instruments provide mitigation measures that would be effective in managing the potential environmental and social impacts; and ways to monitor their effectiveness and to detect any unforeseen impact.

104. The implementation arrangements and recommendations for capacity building needed by the institutions involved are specified in the ESMF. The provisions of the ESMF will be fully incorporated into the PIM. The needed expenditures on environmental and social sustainability outlined in the ESMF, PMP, IPDP, and RPF are incorporated into the project budgets. On March 20, 2015, the GoB approved and published the safeguard documents in accessible areas such as public libraries, the office of the Minister of Agriculture and Livestock, and the administrative offices of CNAC, InterCafé and ARFIC. These documents were also sent by the World Bank to InfoShop (March 20, 2015) and subsequently publicly disclosed.

G. World Bank Grievance Redress

105. Communities and individuals who believe that they are adversely affected by a World Bank supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

ANNEX 1: RESULTS FRAMEWORK AND MONITORING

Country: Burundi

Coffee Sector Competitiveness Support Project

Project Development Objective

The project development objective (PDO) is to increase coffee productivity and improve its quality among small-scale coffee growers in Burundi.

These results are at	Project Level

Project Development Objective Indicators

Indicator Name	*Baseline*	*Cumulative Target Values*						
		YR1	*YR2*	*YR3*	*YR4*	*YR5*	*YR6*	*End Target*
1. Increased coffee productivity in the project area, kg/tree	0.8	0.8	1	1.2	1.4	1.6	1.6	1.6
2. Share of coffee production with AA/A/FW15+ quality, (Percentage)	59	59	60	63	65	67	69	69
3. Share of specialty coffee of total exports, (Percentage)	7.5	7.5	7.5	10	12.5	15	15	15
4. Direct project beneficiaries, (Number) - (Core)	0	30000	90000	150000	210000	270000	300000	300000
Female beneficiaries, (Percentage) - (Core)	0	10	15	20	25	30	30	30

Intermediate Results Indicators

Indicator Name	*Baseline*	*Cumulative Target Values*						
		YR1	***YR2***	***YR3***	***YR4***	***YR5***	***YR6***	***End Target***
Component 1: Institutional strengthening and value chain governance								
1. Coffee Act adopted by the Ministry of Agriculture and Livestock,(Yes/No)	No	No	No	Yes	Yes	Yes	Yes	Yes
2. Coffee cooperatives legally registered, (Percentage)	31	50	60	65	65	70	70	70
3. Coffee pricing formula accepted by InterCafé, CNAC and ARFIC, (Yes/No)	No	No	No	Yes	Yes	Yes	Yes	Yes
4. Coffee sector MIS in place and operational, (Yes/No)	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Component 2: Coffee growers productive capacity enhancement								
5. Coffee trees replanted, (In million)	0	1.65	4.95	8.25	11.55	14.85	16.50	16.50
6. Coffee trees rejuvenated through full stumping, (In million)	0	1.88	5.63	9.38	13.13	16.88	18.75	18.75
7. Total area established with improved inter-cropping systems, (Hectare)	0	700	2100	3500	4900	6300	7050	7050
8. Clients who have adopted an improved agricultural technology promoted by the project, (Number) - (Core)	0	4900	13700	30000	48000	72000	90000	90000

Intermediate Results Indicators								
		Cumulative Target Values						
Indicator Name	***Baseline***	***YR1***	***YR2***	***YR3***	***YR4***	***YR5***	***YR6***	***End Target***
Component 3: Coffee quality improvement and market access								
9. Number of new cupping labs operational in major production areas, (Number)	0	15	30	45	45	45	45	45
10. CWSs and dry mills equipped with eco-friendly tech/ infrastructure and/or up-graded storage facilities, (Number)	0	10	25	45	60	70	70	70
11. Additional man/days offered by CWS (by gender), (Number)	0	0	0	0	80000	160000	240000	240000
12. Roads rehabilitated, Rural (km) - (Core)	0	10	30	50	60	60	60	60
13. Coffee export procedure processing time (ARFIC) - (Days)	10		8		5		3	3
14. Beneficiary satisfaction with project services (including CNAC, InterCafé), (Percentage)	0		50		60		70	70

Indicator Description

Project Development Objective Indicators

Indicator Name	***Description (indicator definition etc.)***	***Frequency***	***Data Source / Methodology***	***Responsibility for Data Collection***
Increased coffee productivity in the project area	Measured for cherry coffee (in kg/tree); only to be measured for producing trees in the project area. CNAC will measure this indicator annually based on self-reporting from the farmers. In addition two surveys (mid-term and end of the project) will be undertaken by an independent firm to verify and confirm quality of data.	Annual (CNAC) Twice with external firm (PCU)	Field surveys	CNAC (regular monitoring) PCU (firm survey)
Share of coffee production with AA/A/FW15+ quality	Coffee production as share of total production in the project areas that has AA/A/FW15+ quality	Annual	Domestic and export price data	ARFIC/InterCafé
Share of specialty coffee of total exports	Coffee sold at least at New York price + 20%	Annual	Export price data	ARFIC/InterCafé
Direct project beneficiaries	Direct beneficiaries are people or groups who directly derive benefits from a project intervention	semi-Annual	Project M&E system	PCU
Female beneficiaries	Based on the assessment and definition of direct project beneficiaries, specify what percentage of the beneficiaries are female.	Semi-Annual	Project M&E system	PCU

Intermediate Results Indicators

Indicator Name	*Description (indicator definition etc.)*	*Frequency*	*Data Source / Methodology*	*Responsibility for Data Collection*
Coffee Act adopted by the Ministry of Agriculture and Livestock	Coffee Act developed with the help of the project that is formally adopted by the Ministry of Agriculture and Livestock	Annual	Project M&E system	PCU
Coffee cooperatives legally registered	Coffee cooperatives that are legally registered at API (Agence pour la Promotion des Investissements) and/or at the Ministry of Commerce	Annual	Project M&E system	PCU/CNAC
Coffee pricing formula accepted by InterCafé, CNAC and ARFIC	Detailed coffee pricing formula accepted by InterCafé, CNAC and ARFIC	Annual	Project M&E system	PCU
Coffee sector MIS in place and operational	Management Information System (MIS) includes: i) GIS component, ii) participation of key institutions, and iii) updated data	Annual	Project M&E system	PCU/InterCafé/ARFIC /CNAC
Coffee trees replanted	Coffee trees that are being replanted through the project activities (Number in million)	Annual	Project M&E system	PCU/CNAC
Coffee trees rejuvenated through full stumping	Coffee trees that are being rejuvenated (full stumping) through the project activities	Annual	Project M&E system	PCU/CNAC
Total area established with improved inter-cropping systems	Area that will be established with inter-cropping best practices, which will be assessed based on: i) inter-spacing, ii) cropping mix, and iii) maintenance of area	Annual	Project M&E system	PCU/CNAC
Clients who have adopted an improved agricultural technology promoted by the project	Coffee growers adopting GAPs - Adoption of at least two management practices/technologies promoted by the project. End target is calculated based on 60% of total farmers trained (150,000)	Annual	Survey	CNAC/DPAE

Intermediate Results Indicators

Indicator Name	*Description (indicator definition etc.)*	*Frequency*	*Data Source / Methodology*	*Responsibility for Data Collection*
Number of new cupping labs operational in major production areas	Cupping labs (taste testing coffee labs) that have been set up and that are operational	Semi-Annual	Project M&E system	PCU/InterCafé
CWSs and dry mills equipped with eco-friendly tech/ infrastructure and/or up-graded storage facilities	Number of CWSs and dry mills equipped with eco-friendly tech/ infrastructure and/or up-graded storage facilities through project activities	Semi-Annual	Project M&E system	PCU/InterCafé
Additional man/days offered by CWS (by gender)	One ton is equal to approximately 20 additional man/days at the CWS. Expected increase in production in project area is of 4,000 tons per year for the last three years of the project. Therefore the yearly increase of man/days is calculated as 80,000 man/days per year (4,000 x 20 man/days). Share of female workers is estimated at least at 50%	Annual	Project M&E system	PCU/InterCafé
Roads rehabilitated, Rural	Rural Roads that will be rehabilitated by the project	Annual	Project M&E system	PCU
Coffee export procedure processing time (ARFIC)	Time it takes to formally process papers to export coffee (in number of days)	Bi-Annual	Survey	PCU
Beneficiary satisfaction with project services (including CNAC, InterCafé)	Satisfaction of beneficiaries with the different services that the project will be delivering through all the components. This will be done through a survey	Bi-Annual	Survey	PCU

ANNEX 2: DETAILED PROJECT DESCRIPTION

BURUNDI: Coffee Sector Competitiveness Project

I. PROJECT DEVELOPMENT OBJECTIVES

1. The project development objective (PDO) is to increase coffee productivity and improve its quality among small-scale coffee growers in Burundi.

II. PDO LEVEL RESULTS INDICATORS

2. At the PDO level, the key results and indicators expected from this project are as follow:

(a) Increased coffee productivity in the project area (kg/tree);

(b) Share of coffee production with AA/A/FW15^{+} quality (Percentage);

(c) Share of specialty coffee of total export sales (Percentage); and

(d) Direct beneficiaries (number), of which female (Percentage).

3. The PDO will be achieved through three major intermediate results: (i) regulatory framework and coffee value chain governance strengthened; (ii) smallholders' productive capacity enhanced; and (iii) coffee quality and market access improved. Related indicators are described in details in the Results Framework (Annex 1).

III. PROJECT BENEFICIARIES

4. ***The primary target groups are small-scale coffee growers.*** It is expected that 300,000 of these producers (from a total of about 600,000 coffee growers at the national level) will directly benefit from project interventions. These are mostly hillside farmers with less than one hectare of land, who cultivate an average of 150-250 coffee trees as an integral part of their livelihoods activities. Benefits will consist of access to improved planting materials and inputs, training and extension services, and project-financed infrastructure. Total direct and indirect beneficiaries would reach at least two million people factoring in those who will be benefiting from improved rural roads and coffee washing stations. Smallholders' income is expected to rise through higher production of coffee, higher price premiums due to better quality of coffee and lower coffee price volatility.

5. ***Women and youth: a*** **target of 30 percent of project beneficiaries.** Project upgrading activities of the coffee value chain will also offer opportunities of improving the welfare of women and youth: (i) women's livelihood and status will be enhanced through improved decisions about agricultural production, better access to and decision-making power about productive resources, stronger leadership in the community, and better time allocation; and (ii) upgrading the value chain will attract youth participation in both farm and off-farm activities as it creates additional new jobs

in both rural and urban areas, especially at the middle-technician and highly-skilled level. Wet coffee processing will provide significant off-farm employment in rural areas and dry milling will offer similar job opportunities in urban centers.

6. ***Coffee industry.*** Through a Public Private Partnership (PPP), the project will also support the coffee industry -- at least 30 percent of the coffee washing stations (from a total of more than 200) with benefit from a sustainable modernization of their processing facilities[11]with: (i) downstream water users, through the establishment or improvement of environmentally-friendly technologies for treatment of solid and liquid effluents; (ii) introduction of renewable energy; (iii) equipment to improve sanitation and hygiene; and (iv) storage facilities, etc. The coffee industry will also benefit from a nationwide awareness program on environmental standards for the sector, including education labor practices and gender equality.

7. ***Key public and private institutions*** overseeing the development of the sector: The project will strengthen the capacity of the three key public and private institutions involved in the coffee sector: ARFIC, InterCafé and CNAC.

8. ***Global community.*** The project will also benefit the global community. Based on planned interventions, it will result in net greenhouse Gas (GHG) sink of 2.99 million tons of CO_2 equivalent. The sink will be largely from improved practices, namely rejuvenation of old unproductive trees, stumping of old trees, introduction of good agricultural best practices and shaded coffee, etc. The increase in Carbon sequestration will lead to other co-benefits including improved biodiversity and enhanced agro-ecosystem resilience.

IV. PROJECT DESIGN

9. Burundi is a small player in international coffee markets and is operating in an environment of aggressive competitors. The area where the best results may be realized in terms of the sector productivity and competitiveness is not only limited to production increase, but most importantly, quality improvement along the value chain and a focus on the lucrative specialty coffee markets[12,13]. Such efforts would certainly allow differentiating the country's products and also provide a better buffer for the inevitable periods of low prices. However, the business principle driving improvements needs to be that quality starts at the farm level and can be maintained only through proper processing and storage.

[11] Most of the CWSs have poor environmental management practices, with pulp and mucilage not being handled properly. Because most of them rely on disc pulpers, their water demand during processing is high and so they are located close to streams. The nature of these machine leads to a high level of waste water and the facilities for handling waste water and pulp are inadequate. A lot of waste is finding itself into water ways/sources.

[12]Specialty coffee from Burundi has been shown to net three or more times the price for commercially traded coffee. Revenue generated for farmers from this coffee were as high as US$3 million in 2011 (USAID, 2013), that is, US$2 million more than if the same coffee had been sold as commercial grade. Currently, however, only an estimated 4-7% of Burundian coffee is exported to the specialty market (USAID, 2013). Outdated production practices, combined with aging trees, the lack of traceability systems, insufficient market linkages and physical constraints, such as the distance to deliver cherries, have to date limited upgrading into specialty markets.

[13] The retail value of the U.S. coffee market is estimated at US$30-32 billion, with specialty coffee comprising approximately a 37% volume share but nearly 50% value share (Specialty Coffee Association of America, 2012).

10. Taking into consideration the current challenges facing the coffee sector in Burundi, the competitive dynamics of the global sector and Burundi's position within the coffee global value chain, the following short to medium-term strategies were considered for the project design:

(a) *Reinforcing the private sector role* in leading and structuring the sector, namely the coffee growers and the industry: institutional development and value chain integration/coordination with a focus on clarifying the role of the State and of private actors; strengthening of producer organizations and the coffee sector inter-professional body; and promoting public/private partnerships;

(b) *Process upgrading to drive productivity* by promoting applied research, and strengthening extension services, supplying improved planting material, facilitating access to inputs and adoption of good agricultural practices;

(c) *Sustainable modernization of processing facilities*[14] by promoting the adoption of more efficient and clean technologies within the CWSs, especially water management to reduce contamination of water sources and their potential impact on both the health of the surrounding populations as well as the quality of water used to irrigate other crops. A number of certifications, including Rainforest Alliance and Fair Trade, as well as buyer programs such as Starbuck's C.A.F.E. program have begun to incorporate and audit water management practices throughout their supply chain, and it is likely to become an important factor for achieving and maintaining certification in the future. In addition to certification programs, the incorporation of appropriate water management techniques is also being considered by the Specialty Coffee Association of America (SCAA) as a new requirement for coffee to receive "specialty" certification. The failure to implement better water management practices in Burundi could thus have important implications in terms of achieving the necessary upgrading into the specialty coffee segment;

(d) *Product upgrading into specialty coffee niche* by introducing the notion of quality as it relates to coffee at the production and processing levels and explaining the concepts of market segmentation and niche production/marketing efforts to encourage producers to enter the specialty market; and

(e) *Enhance the position of women and youth* in the coffee value chain to play an important role in shaping the sector's future.

V. GEOGRAPHIC FOCUS

11. The Project is geographically targeted to include the provinces with the highest number of coffee growers, density of coffee trees and old and unproductive orchards. Additional criteria considered are that the selected areas offer a high potential for cultivating coffee, the existence of a well-established processing infrastructure, and complementing the PADZOC project[15]. Based on these criteria, the project will cover as a priority six provinces: Kayanza, Muyinga, Ngozi, Karuzi,

[14] Burundi has more than 187 CWSs. These are ranging from traditional, full-sized operations with a capacity of 1,500 MT/green/year to cooperatively managed mini CWSs with a capacity of 500 MT of coffee cherry/year.
[15] The PADZOC interventions are located in the provinces of Bubanza, Bururi and Muyinga.

Gitega, and Kirundo (see Annex 8: Map of Burundi). These provinces represent more than 50 percent of the country's coffee growers and production. The most recent coffee sector census suggests that the number of coffee growers for the targeted provinces ranges from 102,500 to 263,500 per province. The distribution of coffee trees in the same provinces varies between five to 22.5 million. Activities related to GAPs, the fertilizer and agro-chemicals program, research, quality improvement and marketing will however cover the national level.

VI. PROJECT COMPONENTS

12. **Component 1: Institutional strengthening and value chain governance (US$8.64 million, including an IDA contribution of US$8.5 million equivalent).** An essential component of a value chain is its governance structure, which determines to a considerable extent how resources are allocated and gains are shared. Despite the considerable progress that has been made in recent years, the coffee value chain in Burundi continues to face critical constraints due to lack of capacity to implement specific sector policies, weak coordination, limited information exchange, and non-transparent price-setting mechanisms. To help alleviate these constraints, this component will aim at streamlining the sector's governance structure by supporting the following activities: (i) reviewing and adapting the current institutional framework to improve its effectiveness and efficiency, with a particular focus on higher transparency in decision-making and price-setting; (ii) improving the dialogue among the main public and private actors to reach a consensus on how to solve value chain bottlenecks; (iii) strengthening the capacity of key organizations overseeing the sector to provide needed services to their members and to advocate for a more enabling business environment with a view to developing an inclusive value chain and enhancing the sector profitability; (iv) enhancing the position of women and youth in the coffee sector value chain; and (v) developing a comprehensive information system for the sector.

13. More specifically, the Project will finance technical assistance, training, services, goods and operational costs for the following sub-components:

14. ***Sub-component 1.1: Institutional framework review and adaptation (US$0.69 million).*** The project will support value chain actors with design and implementation of solutions to industry specific and cross-cutting constraints to growth. This will include a thorough review of the current institutional framework and introduction of competitive and growth-inducing sector regulations; studies and recommendations to address the pressing access to finance problems in the sectors following the Government's exit from the sector; and the review of the current coffee pricing mechanism and promotion of alternative ways (fair, transparent, and reliable price for coffee).

15. ***Sub-component 1.2: Enhancing value chain coordination and public-private dialogue (US$0.37 million).*** Towards this objective, the Project will: (i) conduct stakeholder mapping to ensure that a representative and inclusive PPD mechanism is put in place; (ii) support the establishment and operation of an effective PPD, including training of main stakeholders on effective use of PPD to continue improving the performance of the coffee sector; and (iii) support increased consultations among the value chain stakeholders; for instance, through regular forums to discuss the various constraints of the sector; review and update the sector strategy; develop a

shared vision and a harmonized approach to minimize potential conflict and devise mechanisms for coordinating donor support and private and public investments[16].

16. ***Sub-component 1.3: Strengthening the capacity of key organizations overseeing the sector (US$6.11 million).*** These are (i) InterCafé, a stakeholder-driven coordinating body (representing the coffee growers, wet millers, dry millers, exporters and roasters) that has a mandate for most sector management decisions; (ii) ARFIC, a public regulatory authority whose responsibility is to ensure that the basic "rules of the game" for managing the sector are adequately defined, transparently implemented and, where necessary, enforced; and (iii) CNAC, a coffee national producers' confederation which is composed of 3,226 associations of coffee growers representing about 109,000 individual members (of which 29 percent are women).

17. The following activities are planned under this sub-component:

(a) *InterCafé:* (i) training in group dynamics promoting good governance of the inter-profession, strategic planning, business management and enterprise development, M&E and marketing intelligence; (ii) development of an-outreach communication strategy for the inter-profession; (iii) support for the organization of forums, and (iv) provision of technical assistance (TA), including a two-year long-term contract for a specialty coffee specialist, specialized short-term expertise, logistics, IT and audio equipment, etc.;

(b) *ARFIC:* (i) training in good governance and the role of the public and private sector, strategic planning, M&E, etc.; (ii) strengthening the statistics department within AFRIC; (iii) developing a "One-stop window" and streamlining the procedures for obtaining coffee export certificates; (iv) upgrading public laboratories to provide quality, inspection and certification services to the coffee industry in a timely manner; the Project will support the modernization of existing laboratories in line with international standards and their expansion within the main coffee producing regions; (v) support to enforcing coffee quality norms, grades and standards (sensitization, training and communication); (vi) support for the coffee sector strategy implementation, monitoring and updating; and (vii) provision of TA, including logistics, IT and audio equipment; and

(c) *CNAC:* (i) training in group dynamics promoting good governance of the coffee growers' organization, group management, business development, M&E and functional literacy; (ii) advocacy and dissemination events on coffee quality norms and standards; (iii) support the registration of coffee cooperatives (or unions) and development of by-laws if needed, in order to facilitate their access to rural finance and the establishment of contracts with suppliers or traders, etc.; (iv) development of an outreach communication strategy for CNAC, and (v) provision of technical assistance, including logistics, short-term expertise, IT and audio equipment, etc.

18. ***Sub-component 1.4: Women and youth empowerment (US$0.68 million)***. The project will develop a stand-alone comprehensive coffee gender and youth strategy with the objective to enhance women and youth' role throughout the value chain from production to processing and

[16] It is important to note that these discussions have already been initiated as a result of the highly participatory consultation process used to develop the new six-year coffee development strategy (2015-2021).

marketing. Emphasis will be on facilitating their access to assets, training, and employment. In addition to financing the strategy formulation, the Project will establish a specific matching grant to promote their entrepreneurial activities. The matching grant (30 percent provided by the beneficiary and 70 percent financed by the project) will encourage *inter alia* activities: (i) that are linked to coffee production and leading to land and resource preservation; and/or (ii) promoting climate-smart infrastructure sub-projects and eco-friendly technologies for household use such solar panels, improved cook stoves, etc.

19. ***Sub-component 1.5: Geo-referenced Information System for the Sector (US$0.79 million).*** Under this component the Project will support the development of a comprehensive geo-referenced information system for the sector that will provide reliable production-related information such as: the number of producers, number of trees, production, quality, washing stations' performance and other ecological and socio-economic factors. It can be further expanded to include a formal GIS module to capture additional agro-ecological variables such as soil types, water sources and other factors that affect coffee quality. The information system will be placed within InterCafé, and will be linked to ARFIC's statistical databases. This investment will constitute an important tool for the value chain actors in terms of planning, monitoring and evaluation of their activities and return on investment.

20. Table 1 provides a summary of the project costs and financing plan for Component 1:

Table1: Project Costs for Component 1- Institutional strengthening and value chain governance

Sub-component	**Cost, US$ Million**			
	Total	**IDA**	**InterCafé**	**Beneficiaries**
Institutional framework review and adaptation	0.69	0.69	0	0
Capacity building of key organizations	6.11	6.11	0	0
Public-private dialogue (PPD)	0.37	0.37	0	0
Women and youth empowerment	0.68	0.54	0	0.14
Geo-mapping of the sector	0.79	0.79	0	0
Total, US$	8.64	8.50	0	0.14

21. **Component 2: Coffee growers' productive capacity enhancement (US$47.04 million, including an IDA contribution of US$31.26 million equivalent).** The main objective of this component is to enhance small coffee growers productive capacity on an economically and sustainable basis so as to increase coffee production, reduce the cyclical swings of seasons and improve cherry's quality. The direct beneficiaries of the component are the smallholders and their cooperatives in the six provinces targeted by the Project. The following interlinked sub-components will be supported. They include technical assistance, trainings, goods, services and operational costs.

22. ***Sub-component 2.1: Rejuvenation of existing plantations (US$13.76 million).*** The objective of this sub-component is to promote a sustainable program to rejuvenate exiting old coffee trees. Rejuvenation of the plantations will be by both planting new trees using seedlings or by full stumping of existing trees. During the six-year period, the project will aim at rejuvenating some 35.25 million trees (16.50 million trees to be replanted and 18.75 million trees to be

stumped). Financing will involve a “package” including planting material, fertilizers, support of multi-cropping and training/extension.

23. Availability of plant nutrients is a critical factor in the successful establishment of new plantations, particularly where the stumping method is used, as the tree is left without leaves and must subsist on nutrient reserves in the roots alone. Therefore, facilitating access to fertilizer was selected as the basis for the incentive granted to coffee growers under this program. In addition, since cash flow problems can represent a major drawback to the successful implementation of replanting programs, particularly for those producers for whom coffee is their major source of income as new trees will not yield for a period of up to two-three years, depending on the rejuvenating method used, the Project will promote multi-cropping (with beans, soybeans, etc.) as a way to support diversification and farmer income during the gestation period of the new plantations. Approximately 7,050 ha of intercropping will be supported by the project, including provision of seeds, fertilizers, tools and training/extension.

24. Implementation of this program will be carried-out in partnership with MINAGRIE, InterCafé, and CNAC. The project will support these institutions with capacity-building, access to equipment/nurseries and inputs, and handling, and storage of certified coffee seedlings. Nurseries will be established close to the main coffee production centers in the different provinces to facilitate access to coffee growers. The distribution of the seedlings and associated incentives will be coordinated by CNAC and MINAGRIE under the supervision of their agronomists and extension staff. Communication campaigns targeting the rejuvenation program will be also organized on a yearly basis.

25. ***Sub-component 2.2: Improving access to fertilizer and agro-chemicals (US$25.12 million).*** Under this sub-component, the project will improve access to inputs through the following two sub-programs: (i) the fertilizer input sub- program; and (ii) the pest treatment sub-program. These sub-programs will be implemented in close collaboration with existing programs with joint funding of IDA, InterCafé and the beneficiaries.

26. ***Access to fertilizers (US$19.04 million)***. The project will fund a fertilizer sub-program designed to help farmers fertilize their productive coffee trees. It will cover 50 percent of these trees or 26 million trees. It will finance 40 percent of the fertilizer costs. To this end, the Project is envisaged to contribute to the existing National Fertilizer Subsidy Program (PNSEB). PNSEB is funded through the Common Fund for Fertilizers and Amendments (FCFA), which is a basket fund into which Government and donor contributions for the PNSEB are pooled. A designated account specifically targeted to the project beneficiaries will be created within the FCFA, into which IDA’s contribution will be channeled.

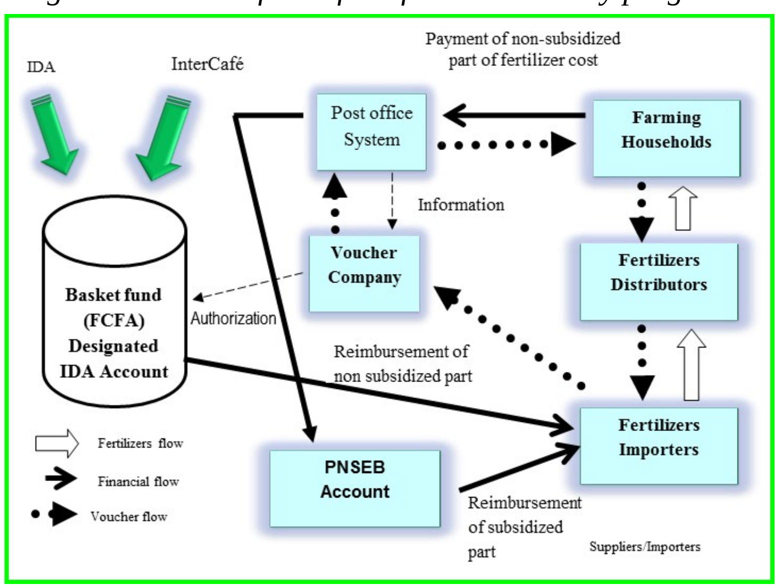
27. PNSEB had been originally conceived for food crops only. Therefore, in order to allow the provision of fertilizer inputs for coffee production under PSNEB, the governing agreement between the Government and the current FCFA donors (the Netherlands, the EU, Germany, IFAD, etc.), the FCFA “*Lettre d’Entente*” and the FCFA manual of procedures will be revised to include cash crops within the scope of PNSEB. The inclusion of coffee within the PSNEB subsidy package, in addition to food crops, is justified, as most smallholders in Burundi cultivate small

coffee plots to increase their household income and enable them *inter alia* to purchase fertilizers for food crops.

28. As a risk mitigation mechanism, disbursement on the IDA allocation on fertilizer subsidies will be conditioned on the amendment of the FCFA Lettre d'Entente and Manual of Procedures. In the meantime, the Project Coordination Unit (PCU) will maintain overall coordination of the activity and upon the fulfillment of the disbursement conditions assess and intervene as needed to ensure efficient and effective processes for the distribution of fertilizers to farmers. Both InterCafé and CNAC will be strengthened to enable them to collect and aggregate the needs of individual coffee growers prior to the cropping season. The information will be provided to the PCU which may then make the order for the needed quantity from the agro-dealers. In such instances, CNAC will be responsible for the fertilizers distribution to the farmers by organizing fertilizer campaigns.

29. PNSEB is designed as a demand-driven program and works in close collaboration with IFDC which provides technical backstopping and monitoring to the fertilizer program. PNSEB operates as follows: smallholder farmers are first registered at the village level. Thereafter, they place their order by paying a non-refundable deposit, corresponding to 20 percent of the cost of fertilizer. The payments are made through the Post Office system. When the period for advance payment is over, the fertilizer is imported and made available to farmers by private distributors. The farmers have to pay the balance of the non-subsidized cost of fertilizer through the Post Office in order to get the vouchers to be used for the actual purchase of the fertilizer from the distributors. The latter redeem the vouchers after they have been verified by the specialized Voucher Company. The process is depicted in the diagram below.

Figure 1: Process flow of the fertilizer subsidy program



30. The fertilizer sub-program under the project will be consistent with the requirements of the regulations governing PNSEB, which will be in compliance with World Bank procurement and disbursements guidelines. While the sub-program is expected to be implemented through the

existing PSNEB operating arrangements, at mid-term evaluation, the project will evaluate the possibility of using the CWSs as the main organizers of the farmers for access to fertilizers and other inputs.

31. ***Pesticide treatment program (US$6.08 million).*** The project will fund in partnership with InterCafé an emergency program for treatment of selected diseases that are negatively impacting coffee productivity and which are not currently treated: *Anthracnose* and *Antenstia*. The program will be free of charge for participating farmers. For *Anthracnose*, the project will support two campaigns in year two and five while for the other disease, farmers will receive yearly support. Support for all diseases will be in the form of equipment such as sprayers and insecticides. Corresponding extension advice will be provided by CNAC and MINAGRIE.

32. ***Sub-component 2.3: Dissemination of sustainable agricultural practices including adaptation and mitigation to climate change (US$5.41 million).*** The project will support investments to promote adoption of GAPs for coffee production, including sustainable land management practices, nutrition and fertilizer management, pests and diseases control (promoting IPM), pruning, harvesting, quality assessment and improvement, and best practices for coffee under shade and intercropping with food crops. It will also support capacity-building of extension and Research and Development Services (public and private), linking coffee growers to these services, and promoting a two-way flow of information between these entities. More specifically, the project investments will consist of: (i) designing and developing a curricula adapted to the coffee growing zones in Burundi; (ii) providing training to some 1,500 MINAGRIE[17], CNAC and CWSs monitors and agronomists in order to promote GAPs in their area of coverage; (iii) establishing a number of demonstration fields (84 sites) and Farmer-to-Farmer Schools (FFS) to facilitate group-based learning; and (iv) conducting farmer-to-farmers visits, including south-south exchange of knowledge and best practices.

33. Capacity building for extension services on GAPs will be based on training field agents (public agents from MINAGRIE and CNAC monitors and agronomists) who will in turn train lead farmers to cascade training down to surrounding neighbors, serving CWSs as well as the processors themselves. To ensure the sustainable adoption of recommended techniques, the project will test the technologies on demonstration plots, monitor findings, and calculate the additional income generated to farmers who use those techniques to incentivize farmers to apply them. Over the six-year project period, the project aims at the adoption of GAPs by at least 90,000 coffee growers.

34. Promoted GAPs will not only target coffee alone, but coffee farming systems from which producers live and earn a livelihood. Specific emphasis will be on sustainable production that conserves the natural resources base (water, soil, etc.), allowing the farmers not only to access niche coffee markets which require achievement of certain standards and certifications, but also mitigate against and/or adapt to potential climate change effects. For the latter, GAP techniques will focus on: (i) promoting best practices such as cover crops in coffee, mulching, applying organic manure, digging trenches and gully traps to minimize the effect of erosion; (ii) using integrated pests and diseases management practices (biological, chemical, cultural); (iii) where possible, irrigating coffee trees because of erratic rainfall and drought; and (iv) other climate

[17] *DGMAVA and DPAE.*

change innovations available in other countries which would be made available for demonstration to local coffee growers.

35. The Project will contract a service provider for building the capacity of the MINAGRIE and CNAC staff (e.g., ISABU, ISA and ITAB) and for the design of the curricula. The latter will include modules on establishing and managing an integrated coffee farm (including intercropping and livestock), the main coffee insect/pests, main coffee diseases, harvesting and post-harvest handling of coffee, coffee farming as a business, environment and climate change and social responsibility.

36. ***Sub-component 2.4: Applied coffee research (US$2.75 million).*** Under this sub-component, the Project will promote a coffee research program, in cooperation with InterCafé. The research program will focus on short and long-term research needs of the sector and will target the link between coffee plant vigor, production fluctuation and potato-taste. Specifically, the Project will finance the development of (i) new varieties that are more productive and resistant to diseases, including hybrids; the varieties developed will be sorted out for their resistance to anthracnose and rust; (ii) fertilization formulas per agro-ecological zones; tests will be performed in pilot plots in these zones; and (iii) methods for integrated disease and pest management. Chemical products, preferentially organic products, will be tested and biological pest management against coffee bug will be promoted.

37. The Project will also fund a number of "coffee plantations of excellence" that will be used to promote best coffee growing practices (six sites). The objective of these plantations will be to (i) conduct demonstration trials regarding good agricultural practices such as planting densities, pruning techniques, fertility management techniques, coffee intercropping with food crops, SLM practices; (ii) produce related extension material -- at least four extension modules will be prepared; (iii) train extension agents and leader producers; and (iv) develop a documentation center that will house research material and will be used for training.

38. The Project will finance vehicles, computer equipment, the rehabilitation of the seed treatment station, and the construction of a biotechnology laboratory within ISABU. It will strengthen human resources in the field of research through the funding of specialized training, notably in the area of biotechnology and entomology. It will fund the production of foundation seeds and the preservation of the germoplasm produced.

39. For the implementation of planned investments under Component 2, the proposed project will make use of InterCafé's current contractual system for provision of extension services and supply of inputs[18]. It will extend service provision to a larger number of coffee farmers, as well as provide support to coffee-specific agronomic and processing research activities. InterCafé has a revenue mechanism already in place to finance such activities. But, at current levels of national coffee production, the revenues are limited and only permit financing the above activities at a modest scale.

[18] Contributions to the cess revenue are received from all members, including the producers, the CWSs, the mills and the exporters. These amount to 3.5 percent for fully washed coffee and 3.8 percent for washed coffee. For the 2012/2013 harvest year InterCafé budget for supporting production was 3,430,996,515 FBU (about $2,214,282).

40. Table 2 provides a summary of the project costs and financing plan for Component 2:

Table 2: Project Costs for Component 2 - Small coffee growers' productive capacity enhancement

Sub-component	**Cost, US$ Million**			
	Total	**IDA**	**InterCafé**	**Beneficiaries**
Rejuvenation of existing plantations	13.76	11.73	0	2.03
Improving access:				
• Fertilizers	19.04	6.52	4.26	8.26
• Agro-chemicals	6.08	5.08	1.00	0
Dissemination of sustainable GAPs including adaptation and mitigation to climate change	5.41	5.41	0	0
Applied coffee research	2.75	2.52	0.23	0
Total, US$	47.04	31.26	5.50	10.29

41. **Component 3: Coffee quality improvement and market access (US$9.4 million, including an IDA contribution of US$8.08 million equivalent).** The management of quality in the coffee value chain is the most immediate instrument growers can use to access premium markets and upgrade their earnings from coffee. It represents a critical element of the current strategic objective toward coffee differentiation in Burundi. To this end, the project will finance technical assistance, training, infrastructure, goods and services to promote quality enhancement activities along the value chain which would require changes in the field, at the washing station and at the dry mill. The project will build on successes of a recently closed USAID project in the country[19].

42. ***Sub-component 3.1: Coffee quality improvement (US$6.21 million)***. A main focus of this sub-component will be on educating all value chain actors on quality and building a national cupping capacity. In addition to applying GAPs at the farm level, best practices for flotation of cherries at the washing stations reception, meticulous hand sorting during pre-drying and several other technical improvements will be promoted within the industry to allow Burundi to be recognized as a reliable supplier of coffee specialty markets. Planned investments under this sub-component are as follows:

(a) *Developing cupping capacity*. The project will support a training program of "cuppers" and establish a number of cupping laboratories in the main producing areas (within selected leader CWSs and mills). Cupping candidates will be selected from all institutions in the coffee sector as well as unemployed graduates from agricultural technical colleges and universities (ISA and ITABs). These will be further trained in the specifics of discerning "quality". The selected leader CWSs will be used as training hubs and demonstration sites to maximize the dissemination of best practices that will help in improving the quality throughout coffee producing regions in Burundi. The project will also support certification of a number of "cuppers" by the Coffee Quality Institute (CQI) or other international recognized institutions;

(b) *Improving washing stations technical, operational and managerial capacities.* The production and processing of high quality coffee requires sound technical and business

[19] *USAID Burundi Agri-business Project - BAP.*

management skills and systems. Currently, the management (and governance) capacity of most private and cooperatively owned washing stations needs improvement. This element is critical to obtaining the highest returns, continued access to financing and sustainability. Furthermore, selected strategic supplier certification programs offer substantial price premiums to growers but require the implementation of detailed and transparent financial reporting systems. In the particular cases of cooperatives where the governance can be problematic, it is also important to maintain a fully transparent financial management system to ensure cooperative cohesion. In this respect, the project will: (1) provide assistance to the managerial staff of the washing stations to develop and implement customized Quality Improvement Plans (QIPs), and (2) support training programs for the CWS management staff with a focus on cash flow, management, organization of businesses and cooperatives, and business planning;

(c) *Sustainable modernization of processing facilities:* The project will promote a Public-Private Partnership (PPP) program which will facilitate access to eco-friendly technologies to reduce water use and environmental degradation within the CWSs and their surroundings[20]. It will concern all CWSs nation-wide willing to engage in the program. Selection criteria may include: (i) being officially registered with ARFIC; (ii) have not benefited from a similar program previously; and (iii) submission of a well-documented modernization plan, including a business plan and engineering drawings or technology proposal. Planned investments will be on a cost-sharing basis (60 percent by the private sector and 40 percent by the project) and may include, among others, water-conserving eco-pulpers, systems to treat waste water[21], removing pulp from waste water and using it as fertilizer, solar energy application within CWSs, equipment to improve sanitation and hygiene, etc. Such investments, for instance, water treatment and recycling, can lead to substantial cost reduction of production (reduction of water quantities used for de-pulping). Most importantly, responsible environmental stewardship is not only a best practice, but is an obligation for certification to several preferred supplier programs such as the Starbucks' C.A.F.E. Practices Program. These investments will be associated with: (i) the application of national environmental standards for CWSs (being developed under PADZOC), as well as the additional scrutiny that will come from promotion of eco-certification schemes for access to niche markets; and (ii) awareness on environmental standards (ISO 14000), education on labor practices, social responsibility, and gender equality awareness. In addition, for highly performing washing stations and on a cost sharing basis (50 percent), the project will support the introduction of traceability systems from the plantations to destination markets. Such systems will enable buyers and sellers to track each lot from the time it enters the washing station (or even the field) until it is delivered to its final destination. This feature is also an essential element that distinguishes specialty coffee production from the production of standard grade coffee.

[20] *This activity will be scaling up the work already initiated under the PADZOC project which is addressing pollution sources in CWS and also providing matching grants.*

[21] *Waste water evacuation systems in CWSs can be based on control systems which separate solid pulp from water effluents, dry the pulp and treat the water to remove sediments, equilibrate pH and re-oxygenate it before returning it to surface and ground waters. The separation of the pulp will have a major impact on the noxious odors at the washing stations and will permit offtake of the pulp by farmers for composting.*

(d) *Rural access roads.* As part of the coffee processing infrastructure upgrading, the project will support the rehabilitation of 60 km of rural roads to improve coffee growers' access to the CWSs and marketing in project intervention areas.

43. ***Sub-component 3.2: Marketing and promoting the Burundi Coffee brand (US$3.19 million).*** Burundi must learn to market its coffee to new consumers and also minimize the risks and uncertainties associated with coffee production, processing and marketing. To this end, this component will support the following activities:

(a) Building a recognizable image for Burundi's coffee, including, a country logo, brochures, standardized washing station fact sheets, coffee maps, video clips, and other information that may be useful to coffee markets. The project will further build on the InterCafé internet platform (*www.cafeduburundi.com*) developed under the USAID-BAP project to maximize the availability of information on the coffee sector for use by the value chain actors and potential buyers. This includes information on productions, sales and marketing, regulations, and tracking sector development. This database will be also expanded to: (i) track and report on key performance characteristics of all washing stations for purposes of monitoring and planning and assessing the impacts of investments in quality improvement; and (ii) to disseminate training materials, tools and practices that will benefit all actors in the coffee sector across the country;

(b) Developing a reliable coffee industry intelligence and forecasting system. This software based system (linked to the existing coffee internet platform) will allow for analyzing key market information, increase transparency and facilitate free circulation of information. It will be managed by InterCafé and will disseminate daily information on world market prices for different grades of coffee and the official US$/FBU exchange rate; and

(c) Introducing other innovative promotional activities such as buyer tours, coffee competitions, participation in trade and marketing events, and many other features that will place Burundi's coffee in some of the very best markets in the world. These activities will focus on developing appropriate contacts and potential coffee relationships in North America, Europe, Japan and other emerging markets such as China and Russia.

44. Component 3 will require full coordination of investments and activities at multiple levels, including growers, washing stations, mills and other supporting institutions. A key player in this process will be InterCafé which will be strengthened to take a lead role in coordinating these activities and promoting the Burundi coffee brand. The table below provides a summary of the project costs and financing plan for this component.

Table 3: Project Costs for Component 3
Coffee quality improvement and expanded markets and trade capacity

Sub-component	**Cost, US$ Million**			
	Total	**IDA**	**InterCafé**	**Beneficiaries**
Coffee quality improvement	6.21	4.89	0	1.32
Marketing and promoting the Burundi Coffee brand	3.19	3.19	0	0
Total, US$	9.40	8.08	0	1.32

45. **Component 4: Coordination, monitoring and knowledge management (IDA US$7.16 million equivalent).** This component will facilitate: (i) project administrative, technical and financial management; (ii) coordination among all institutional partners to ensure efficient flow of information and support to all value chain actors, in particular the small coffee growers; (iii) effective contractual arrangements with key implementing partners (InterCafé, CNAC and ARFIC) and other private sector operators; (iv) monitoring and evaluation of the performance and the financial, environmental, and social impact of the project; and (v) development of communication activities to publicize and disseminate the project results, best practices and success stories.

46. ***Subcomponent 4.1: Project coordination, management and M&E***. The sub-component will finance the following activities:

(a) *Staffing, equipment and operating costs of the Project Coordination Unit.* The PCU will comprise a core team hired on a competitive basis and composed of a project coordinator, a technical and operations officer, a financial management specialist, an internal auditor, a procurement specialist, a gender and social inclusion specialist, an environment specialist and an M&E specialist. The PCU will benefit from the support of a technical team of focal points appointed in the national and regional directorates of the MINAGRIE (DPAEs) and under the supervision of the Director General of Agricultural and Livestock Planning. The team's role will be to facilitate project implementation through systematic review of periodic reports and briefing notes to the MINAGRIE, to the Project Steering Committee, facilitate review of programming and implementation documents and speed up the decision-making process. The Government will allocate counterpart funds for the proper functioning of the technical team;

(b) *Project planning and internal M&E*. The project will cover consultant fees, studies, workshops and operating costs for the preparation, with Project Implementation Agencies (PIAs) and relevant stakeholders, of annual work program budgets and periodic implementation status reports, completion of technical and financial audits, as well as a project impact evaluation study;

(c) *Environmental and Social Safeguards Management*. The project will support implementation and follow-up of environmental and social safeguards' instruments, notably with the preparation of environmental and social impact studies (EIES), as well as follow-up and supervision of their implementation; and

(d) Preparation and implementation of a communication plan, including a Grievance Redress Mechanism on project activities.

47. ***Subcomponent 4.2: Knowledge management.*** The Project will package and disseminate information to respective value chain actors in various formats (e.g. brochures, videos, articles, newsletter, TV and radio programs), using a central knowledge management and communication platform to be established within InterCafé. As described in Paragraphs 19 and 43, the Project will also develop an online information system with services focused on coffee market information, training and extension materials, and dissemination of information through a web-based portal. This knowledge sharing process will be supported by workshops and learning events. In addition,

the Project will encourage south-south exchange for coffee production, for instance, with coffee growing countries including Rwanda, Ethiopia and Colombia. This exchange will aim at various learning and knowledge exchange programs on production techniques, extension methodologies, coffee under shade, etc. It will build on cooperation already established between the PADZOC Project (Sustainable Landscape Coffee Project – Global Environment Facility (GEF)) and Columbia coffee growers. Over the longer term, the Project will seek to encourage expansion and replication of positive and successful experiences, based on lessons learned. Successful approaches, processes, investments, technologies, etc., could be progressively scaled up where there is demand and where the conditions prevailing are favorable.

VII. GENDER AND YOUTH STRATEGIES

48. **Gender strategy.** Gender inequalities are profound in Burundi as reflected in the fact that Burundi ranks 104 of 157 in the Gender-Related Development Index. Eighty five percent of Burundian women are farmers. They form 77 percent of the active population in the sector. With no adequate equipment and tools, agricultural techniques and practices are still archaic for most poor rural women farmers. Despite their vital role in the production of coffee and other crops, women have little or no control over productive assets and in many cases have no decision making power over the use of family incomes. In particular, women's access to land is heavily constrained by dominant cultural practices. Therefore, a priority task under the project will be to develop a comprehensive coffee gender strategy from the outset. The major objective of the strategy will be to enhance women's role throughout the value chain from production to processing and marketing. Emphasis will be placed on women's access to assets, strengthening women's groups governance, and easing women's workload and improving their well-being. To assess progress, the results and output indicators of the strategy will be rigorously monitored and evaluated throughout the life of the project.

49. *Gender Action Learning System.* In implementing the gender strategy, the project will apply a Gender Action Learning System (GALS). GALS is an innovative community-led methodology based on the application of a series of tools that enable household members to negotiate their needs and interests and find gender-equitable solutions in livelihoods planning and V/C development. Initially piloted in Uganda, the methodology is now expanding into other countries such as Rwanda, Nigeria, Sierra Leone and Ghana[22]. GALS will serve as an empowerment methodology aiming at "constructive economic and social transformation" on gender justice and at strengthening communication and win-win collaboration between vulnerable and more powerful value chain actors. The GALS methodology is based on action-learning exercises used with various stakeholder groups (e.g., men and women farmers, middlemen and traders) at both the individual and collective levels, to identify challenges and opportunities at different nodes of the value-chain. Multi-stakeholder workshops involving different value chain actors will be organized to identify and plan win-win strategies. A peer learning structure will be built to promote the adoption of the GALS system among coffee value chain farmers in all project sites.

50. *Strengthening women's groups in terms of value chain governance.* Given the strong risk of male-capture that exists in mixed organizations, the project will strengthen the management,

[22] See, for instance, Women's Empowerment Mainstreaming and Networking for Gender Justice in Economic Development (http://www.wemanglobal.org/1_WEMANVision.asp).

leadership and technical capacity of women groups to help them retain control over produce, technology and income. Gender equity will be mainstreamed throughout the value chain using the GALS methodology, promoting gender-sensitive strategies that benefit both women and men, and strengthening coffee women groups so that they can play a key role in the decision-making of major value chain governing bodies such as InterCafé and CNAC.

51. *Coffee value chain women's empowerment index*[23]. A coffee value chain women's empowerment index in Burundi will be developed and monitored over the life of the project. This is an aggregate index based on individual-level data collected by interviewing men and women within the same households. It assesses the degree to which women are empowered in five domains: (a) decisions about agricultural production; (b) access to, and decision-making power about productive resources; (c) control of use of income; (d) leadership in the community; and (e) time allocation. It also measures gender parity by reflecting the empowerment gap that needs to be closed for women to reach the same level of empowerment as men.

52. *Skills upgrading and facilitating women's access to assets.* Women will be targeted in all training activities and project output indicators will reflect that objective. In designing training programs, the project will place particular emphasis on activities in which women are already present in large numbers or have a comparative advantage, such as plantations maintenance, harvesting, and grading. The project will also ensure that the gender of the extension agents reflects that of the trainees. Training will focus on technical skills that will enhance productivity, entrepreneurship and organizational self-representation. However, training will not focus on improving production skills alone; it will be part of a more comprehensive package that includes assets such as new coffee trees, equipment, transportation support to washing stations, etc.

53. *Matching grant program.* This program (70 percent to be provided by the project and 30 percent by the beneficiary) will be earmarked to implement the planned gender strategy. It will not only enable women in the project areas to upgrade their production and processing capacity, but also increase their productivity and income in a shift that will persist after project assistance is withdrawn. Selection criteria for proposed sub-projects by women and matching grants may include: (i) vulnerability aspects; (ii) sub-projects that encourage them to engage in activities linked to coffee production; (iii) sub-projects leading to land and resource preservation; and (iv) sub-projects that promote climate-smart infrastructure and eco-friendly technologies for households use such as solar panels, stoves, etc.

54. *Easing women's workload and improving their well-being.* The project will promote the adoption of labor-saving production and processing tools by women's groups. Construction of rural roads will reduce transport time, thus easing women's workload. The Gender Action Learning System will facilitate intra-household negotiations on sharing household responsibilities. Such an integrated approach is expected to bring about changes in the gender division of labor -- for instance, husbands contributing more to farming activities and household-related tasks, thereby enhancing household productivity and income.

[23] *The coffee value chain women's empowerment index would be similar to the Women's Empowerment in Agriculture Index developed by the International Food Policy Research Institute (IFPRI). See Alkire, Sabina, Meinzen-Dick, Ruth, Peterman, Amber, Quisumbing, Agnes R., Seymour, Greg, Vaz, Ana (2012). IFPRI Discussion Paper 01240.*

55. *Monitoring and evaluation of gender parity.* The project's M&E system will include a well-defined set of input, output and outcome indicators on the gender dimension of project activities. The project will also recruit a gender and social inclusion specialist as part of the project monitoring and evaluation team. The primary tasks of this specialist will be to ensure that the project's gender strategy is implemented most effectively and that corrective action is taken when progress falls short of expectations. Evaluation of the gender dimension of value chain upgrading will also be part of the planned study to assess the social status of the communities where project activities are being implemented.

56. **The coffee value chain offers a large potential for young people in Burundi.** The Project is built on the premise that accelerating the transformative change in coffee production, processing and marketing through a well-designed program that simultaneously raises productivity, boosts rural incomes, and create jobs will pay high dividends. However, without a dedicated effort to ensure inclusion of young people in the coffee value chain renaissance, the youth dividend cannot be collected and widely shared. Although the elderly have played and will continue to play a substantial role in coffee production in Burundi, the value chain's requirements for energy, innovation, and physical strength make it ideally suited for the younger generation -- men and women in the 15-34 year-old age range. These can be true engines of transformation as they are full of energy and enthusiasm and more open to technology and innovation. Moreover, including them in value chain revitalization will have spillover effects that extend beyond coffee production. The new coffee farming methods and associated innovations are likely to promote diversification and structural change throughout the rural economy. Providing economic alternatives and jobs to youths may also diminish social tensions and prevent enrollment into activities that may increase violence and criminality.

57. The project's strategy to realize that potential has seven interrelated components: (i) enhancing sector dynamism, productivity and profitability; (ii) expanding employment capacity; (iii) workforce development; (iv) asset building; (v) matching grants; (vi) support to youth cooperatives and business associations; and (vii) M&E.

(a) *Employment.* Employment plays a central role in the social integration of young people, and the coffee value chain in Burundi is uniquely positioned to play that role. Coffee employs over one million people (estimates range between 0.6 million to 1.6 million). The cultivation stage is highly labor intensive, but employment is both seasonal and cyclical. Employment peaks two-three months during the harvest and processing season, and international price fluctuations lead value chain actors to exit from and enter into the value chain with a frequency that mirrors those fluctuations. Wet and dry processing provides off-farm employment in both rural and urban areas. Project interventions will result in product upgrading into specialty coffee and process upgrading to increase productivity. Better coffee quality will raise coffee prices and reduce price volatility. New job opportunities will be created in response to higher demand for labor in terms of both volume (especially farm labor) and quality (as reflected in the need for skilled controllers, managers, technicians, cuppers, and financial and marketing personnel). Since upgrading production will be achieved through the use of modern inputs and new technology, and since most coffee producers in Burundi are elderly, this shift is likely to alter the nature and characteristics of the workforce by attracting youth participation in both on-farm and off-farm activities;

(b) *Value chain profitability*. To attract young people, the coffee V/C will have to be more dynamic, competitive and profitable. At less than 30 percent of global averages, the coffee productivity gap in Burundi is considerable. With the planned interventions to enhance productivity -- such as dissemination of better agricultural practices, higher fertilizer application and rejuvenation of orchards -- production is expected to double by 2021 (from the current 15,000 MT/year to 30,000 MT/year). Since the increase will be generated almost exclusively through higher productivity (not through expansion in area cultivated), coffee profitability is expected to expand accordingly. Profitability will be further enhanced through project investments to increase processing capacity and improve higher coffee quality. This outcome is all the more likely because of the robust international demand for coffee, forecast to grow significantly in the next several years;

(c) *Workforce development.* The success of the workforce development program will require a coordinated strategy for the value chain as a whole. It will also depend on how that strategy will be tailored to the various job profiles and workforce categories (e.g., smallholder producers, extension workers, and workers in washing stations). To respond to the needs of the new young men and women entering the coffee workforce, additional skill-development features and proactive attention will be added to enhance the ability of the program to serve them. For instance, as the project recruits trainers and trainees, young men and women from local coffee farming families will be actively sought. Such an approach will not only create employment but will also build capacity and develop modern farming knowledge. Study tours will also be organized to promote entrepreneurship and knowledge sharing among young participants;

(d) *Asset building.* As for gender, youth skills training will be part of a larger package that addresses not just human capital but other constraints associated with access to coffee trees, fertilizer and other farm inputs, equipment, and credit to ensure that the shift to coffee production is likely to be maintained after the project ends;

(e) *Matching grants.* The project's matching grant scheme (see above) will be also used to promote employment among young people. A special effort will be made to focus those programs on the needs of young participants. To this end, at least 30 percent of the dedicated matching grant program will be used to build their capacity in production, processing, marketing and management, thus enabling them to provide such services as contract spraying on farmers' fields, transport services, and equipment maintenance;

(f) *Support to youth cooperatives and business associations.* The project will provide technical and managerial support to emerging cooperatives and business associations run by youth, or whose members are mainly youth, to enable them to pool resources, share risks, acquire stronger bargaining power, and enhance access to productive resources and markets; and

(g) *M&E.* The project's M&E system will include input, output and outcome indicators on youth participation in coffee production, processing and marketing. Progress will be regularly monitored so that when key results fall short of expectations, special evaluations will be conducted to analyze constraints and identify corrective action. The contribution of young men and women to value chain upgrading will also be part of the planned study to assess the social status of the communities where project activities are being implemented.

VIII. PARTNERSHIP WITH THE INTERNATIONAL FINANCE CORPORATION

58. This Project is part of the World Bank-International Finance cooperation (IFC) joint business plan for Burundi. IFC provided Advisory Services towards the implementation of the third phase of the coffee sector privatization. These included advice on financing options for the coffee growers to acquire shares of washing stations and the development of a list of experienced international investors who may be interested in the opportunity offered by the sector privatization. During implementation, further support will be sought from IFC, in particular for identifying, packaging and promoting specific investment opportunities along the coffee value chain: (i) analyzing gaps and opportunities in the coffee value chain in Burundi requiring further private sector investment; and (ii) designing and implementing a targeted investment promotion campaign, including technical assistance around the marketing of specialty coffees and developing new direct buyer relationships. These activities may lead to an IFC investment or development of an IFC Access to Finance (A2F) guarantee facility for the coffee sector similar to IFC's intervention in Ethiopia's coffee sector.

IX. PARTNERSHIP WITH USAID AND OTHER PARTNERS

59. Partnership will be further strengthened with USAID which supported the Government in the preparation of this project and is also financing selected coffee productivity enhancement activities. USAID will continue to network and work together with the Project and other donors to cultivate and share industry best practices to improve processes and relationships across the entire coffee value chain in Burundi. Under the fertilizer sub-program, the project will build a strong partnership with the on-going Kingdom of Netherlands financed PNSEB fertilizer program to ensure synergy and economy of scale. Consultations between the Netherland Embassy in Burundi, the GoB and the Bank were very constructive. The Netherlands had worked with PNSEB and IFDC since 2012 to fund the fertilizer program, focusing on food crops and this project will expand the program to include cash crops, namely coffee and tea. The project will also establish close linkages with the industry and other organizations that are involved in developing the coffee value chain in Burundi. These include key multinational companies operating in the coffee sector in Burundi (Ecom, Olame, Sucafina, etc.) and non-profit organizations such as Kahawatu (*http://kahawatu.org*), Café Africa international (*http://www.cafeafrica.org*) and Christian Aid (*www.christianaid.org*). The project will seek appropriate coordination and collaboration with these entities e.g. in the area of national coffee sector mobilization/sensitization workshops; GAPs demonstration and dissemination; coffee quality enhancement and marketing strategies and the promotion of income generating activities to achieve overall sustainable livelihood improvement and food security.

Annex 3: Implementation Arrangements

Burundi: Coffee Sector Competitiveness Project

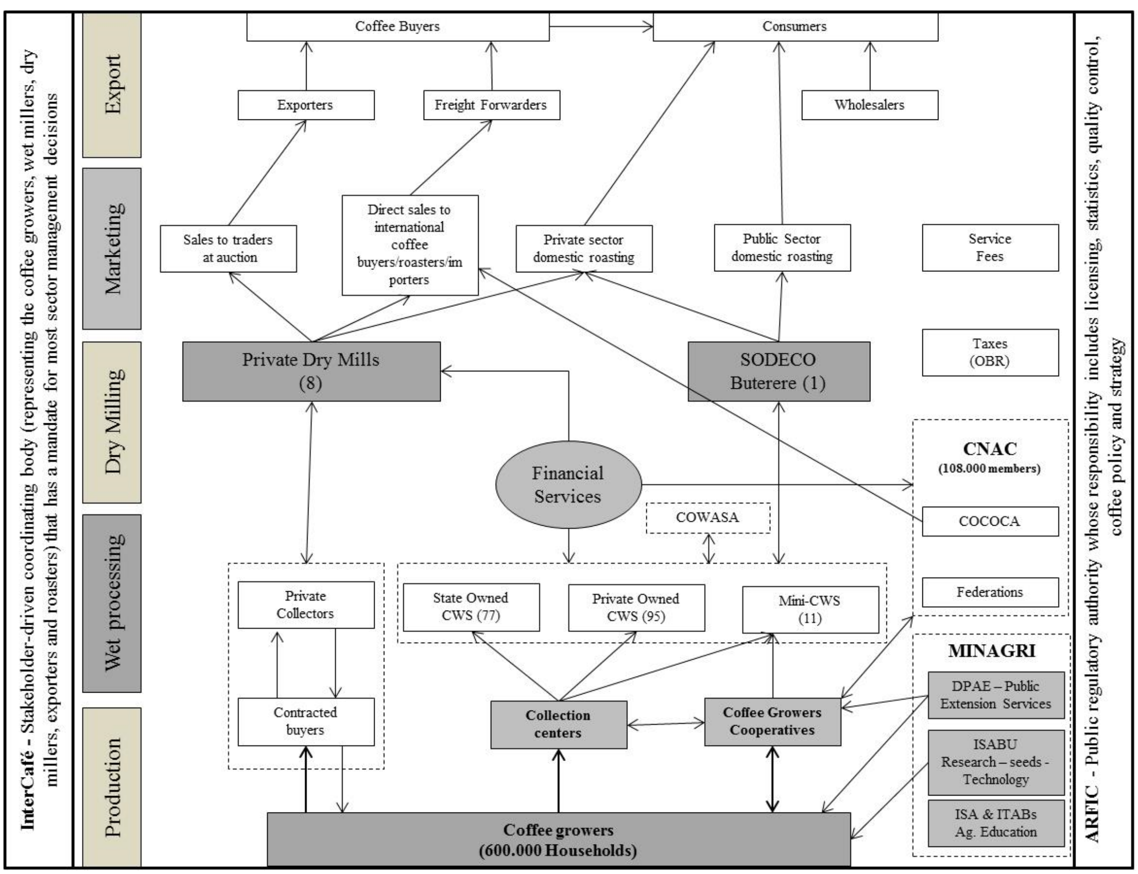
I. Project Institutional and Implementation Arrangements

1. An institutional analysis and a mapping of the coffee value-chain stakeholders in Burundi was carried out in June 2014 and further refined during a preparation mission in November 2014 along with the assessment of proposed implementing agencies. The results of the analyses were discussed and validated by project stakeholders and agreed on with the Government authorities at the end of the mission. These were further reconfirmed in a mission in Burundi (April 25-May 5, 2016). Annex 3 summarizes agreements reached regarding project administration mechanism and implementation arrangements.

A. Stakeholders Mapping

2. As illustrated in Figure 1 below, stakeholders along the coffee value chain are various and are all involved in a number of interlinked agricultural, industrial and marketing activities. These could be clustered around the following main entities:

Figure 1: Coffee sector value chain



(a) *ARFIC:* The public regulatory authority which is charged with guiding policy, monitoring production, maintaining official coffee statistics, certifying coffee quality and licensing exporters;

(b) *InterCafé:* A stakeholder-driven coordinating body (representing the coffee growers, wet millers, dry millers, exporters and roasters) that has a mandate for most sector management decisions. It serves also as a framework for dialogue. Its other responsibilities include the provision of agro-inputs such as fertilizers and chemicals;

(c) *CNAC:* A national coffee producers' confederation. Its main functions are to be the voice for the coffee growers in matters that affect them and to offer extension services to their members in both growing and processing coffee. CNAC is composed of 3,226 associations of coffee growers representing about 109,000 individual members (of which 29 percent are women);

(d) *Governmental institutions*, include: (i) the MINAGRIE representing the entity hosting the project as part of the country's National Agriculture Investment Program (NAIP), and responsible for agricultural research and extension services; (ii) the Ministry of Finance, Planning and Economic Development (MFPDC); (iii) the Ministry of Water, Environment, Land and Urban Planning (MEEATU) in charge of promoting regulatory aspects towards environmentally friendly coffee industry; (iv) ISABU, the main national research and development agency for the agricultural sector; and (v) Agricultural training institutes, including ISA and ITABs; and

(e) *Other project partners* include: (i) Development partners such as USAID which supported the Government in the preparation of this project and is also financing selected coffee productivity enhancement activities; and (ii) private coffee industries such as SUCAFINA S.A., Ecom Agro-industrial Corp. Ltd, and Webcor Group, etc., which contribute to the financing of the project through the inter-profession fund.

B. Institutional Arrangements

3. *Overview.* Project implementation is designed around the existing institutional framework within the public and the private sector for the coffee sector development in Burundi. In this respect, at Government level, MINAGRIE has the overall responsibility for the project implementation. Other entities involved in project implementation are: (i) the Ministry of Finance, Planning and Economic Development; (ii) the Ministry of Water, Environment, Land and Urban Planning; (iii) a number of lower level government entities such as ARFIC and the agricultural education, research and extension system (composed of ISABU, ISA, ITABs, etc); and (iv) InterCafé and CNAC. While the role of the Ministries will be to provide overall strategic orientation and supervision; the lower level government entities, will play a key role in project implementation, either as technical support partners to PCU and/or as service providers. To this end, the PCU will establish Memoranda of Understanding (MoUs) specifying the responsibilities of each Project Implementing Agency (PIAs), in particular with:

(a) ARFIC which will support the project activities related to developing the Coffee Act law, coffee quality training programs, modernization of existing laboratories and statistics services (including the rehabilitation of the existing building), establishing the “one-stop window” and coffee sector strategy implementation, monitoring and updating;

(b) CNAC which will be directly involved in supporting the project in the registration and development of coffee cooperatives and unions, implementation of coffee rejuvenation activities, monitoring of fertilizer and agrochemical distribution and use, the development of coffee demonstration plantations, and the dissemination of good agricultural practices;

(c) InterCafé which will contribute to the implementation of project activities related to outsourcing targeted training and research, access to input, upgrading the coffee washing stations, branding the coffee of Burundi, organization of an annual forum; and establishing a reliable coffee industry intelligence and forecasting system.

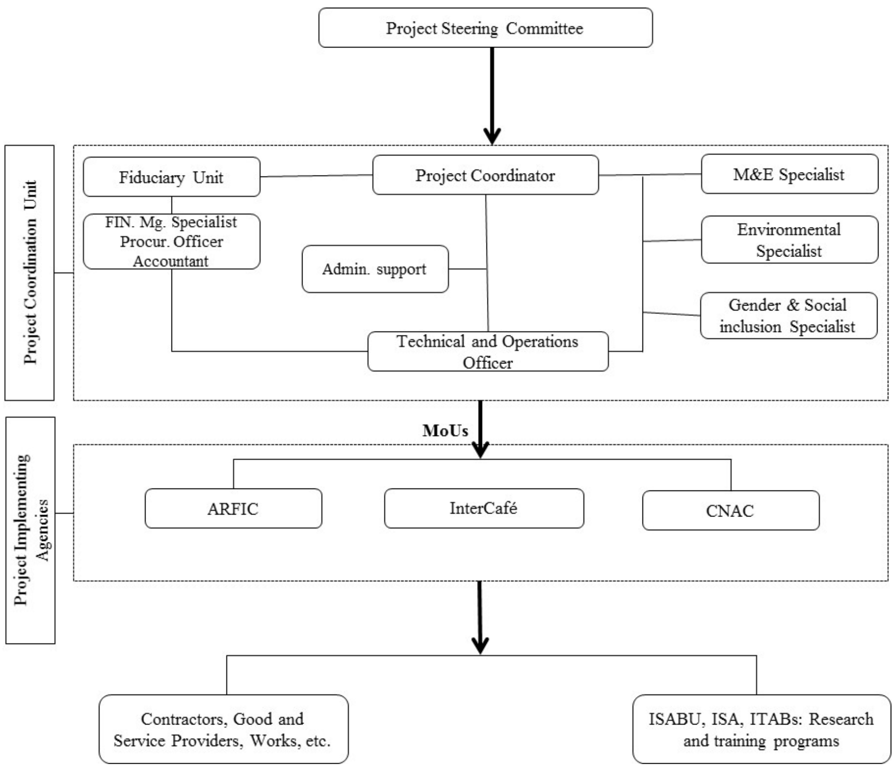
4. *Project oversight and orientation.* Given the nature and complexity of such a program in managing activities that involve a number of different actors in the value chain (government agencies, coffee growers, industry, traders/exporters and others) and the need to expand collaboration and cooperation amongst them − a Project Steering Committee (PSC) will be established. It will be chaired by the Minister of MINAGRIE or her/his representative. Its main functions and responsibilities will be to: (i) advise the project on strategic directions and support activities to be provided; (ii) approve the Project annual work plan, and budget (AWPB); (iii) ensure the effective collaboration and cooperation between all key stakeholders; and (iv) advise on the effectiveness of the ongoing activities, including any adjustments that need to be made to the annual work plan. It will be composed of- but not limited to- representatives of the Ministry of Finance, Planning and Economic Development; the Ministry of Water, Environment, Land and Urban Planning, InterCafé, CNAC, ARFIC, ISABU, and the Chamber of Commerce.

5. *Project Coordination.* A PCU acceptable to the Bank will be established by MINAGRIE to support the project implementation. It will be physically located within InterCafé premises and will have dedicated personnel to ensure planning and budgeting of project activities, management of Project Agreements/MoUs, coordination of Project Implementing Agencies, financial management and procurement, technical supervision and quality control, gender and social inclusion, environmental and social safeguards, and M&E. All staff of the PCU will be recruited on a competitive basis taking into consideration their qualification and experience.

6. The PCU will be headed by a Project Coordinator. He/she will be responsible for the overall management aspects of the project and the coordination of its activities in line with the AWPB. He will report directly to the MINAGRIE and will submit quarterly project progress reports and IFRs to concerned ministries and partners. This arrangement will ensure accountability of the PCU vis-à-vis the hosting Ministry, as well as sound alignment of project activities with the NAIP and the coffee sector development strategy (2015-2021). The Project Coordinator will be assisted by other key staff, including: (i) a technical and operations officer who will be tasked with the overall technical quality control of project activities and will act as deputy coordinator; (ii) a financial management specialist, an internal auditor, an accountant, and a procurement specialist who will constitute the fiduciary unit; (iii) an environment specialist and a gender and social inclusion specialist who will be also in charge of project safeguards awareness and accountability, and will

follow up on issues related to mediation (if/where required) in potential conflicts, and ensure there is no elite capture of project resources; and (iv) an M&E specialist. The MINAGRIE has launched the selection process under the project preparation advance and this process is on-going. In order to ensure a fast start-up of the Project activities and as a transitional arrangement for Project implementation, the existing PCU for the ongoing PRODEMA Project will be entrusted with the responsibility for coordination and implementation. During this transition period, the Recipient will establish the new PCU, which will then take over Project coordination and implementation from the PRODEMA PCU within twelve months after the Project effective date. The extension of the mandate of the PRODEMA PCU for this purpose is a condition of effectiveness.

Figure 2: Organizational structure of the Project



7. *Implementation of Project activities:* A number of project activities under the technical components will be implemented to the extent possible through the National Regulatory Coffee Agency (ARFIC), InterCafé and CNAC's programs. To this end, the PCU will sign MoUs with these entities as Project Implementing Agencies. The MoUs will specify subcomponents or activities to be implemented by each PIA, expected outputs to be achieved by the end of the project, provisional cost and cost sharing, capacity to be mobilized and the implementation plan. The signing of such an MoU by each PIA is a disbursement condition linked to the disbursement of the funds allocated to the key activities to be undertaken by such PIA. Activities and associated budget and results will be specified for each year as part of the project annual work planning and budgeting process, and subject to approval by the Project Steering Committee. Disbursements of Project funds will be linked to attainment of results and will follow the IFR cycle.

8. The PCU will enter into contracts with contractors, suppliers of goods, and services providers, including consultants in accordance with Bank procurement guidelines, as specified in Project Implementation Manual and in the annual procurement plan. To strengthen the fiduciary capacities of the PIAs, these will be provided with support including: (i) the recruitment of a financial management specialist and a procurement officer; (ii) a procedures manual; and (iii) setting up of an information system. As part of the PPA, the fiduciary teams of the PIAs will benefit from a series of formal training workshops on Bank operational policies.

II. FINANCIAL MANAGEMENT, DISBURSEMENTS AND PROCUREMENT

B. Financial Management and Disbursements

9. As part of the Project preparation phase, a financial management assessment for the three identified PIAs was carried out in accordance with the Financial Management Manual for World Bank-Financed Investment Operations that became effective on March 1, 2010. The objective of the financial management assessment was to determine whether the financial management arrangements (i) are adequate and capable of correctly and completely recording all transactions and balances relating to the project activities; (ii) facilitate the preparation of regular, accurate, reliable and timely financial statements; (iii) safeguard the project's entity assets; and (iv) are subject to audit arrangements acceptable to the World Bank.

10. Although the PCU is not yet established, the Government and designated implementation agencies have started preparatory activities (terms of reference, technical specifications, draft of implementation manual, etc.) with the support of a Project Preparation Advance (PPA) managed by PRODEMA[24]. In order to meet the World Bank's minimum requirements under OP/BP10.00, the financial management system will need to be supported through the following measures: (i) strengthening the PCU with the recruitment of a financial management expert and providing him/her with fiduciary training; (ii) recruitment of an internal auditor to strengthen the internal control system; (iii) preparing a Project Implementation Manual (PIM) including the accounting, administrative and financial management procedures; and (iv) purchasing an accounting software which should comply with World Bank procedures especially in terms of accounting and reporting.

11. In addition, each of the designated PIAs (ARFIC, InterCafé and CNAC) will require a minimum fiduciary capacity with (i) the recruitment of a financial management specialist and a procurement officer; (ii) the preparation of a procedures manual; and (iii) setting up of an information system. All these arrangements should work closely and in line with the FM arrangement of the PCU, so as to create a synergy of fiduciary arrangements within the project implementing entities -- the objective being to strengthen the governance structure and institutional framework of key actors overseeing the coffee sector development in Burundi.

12. *Risk Assessment and Mitigation Measures.* The main financial risks and mitigating measures of this project are listed in Table 1 below.

13. *Implementing Entity.* The PCU will have the overall responsibility of project financial management and procurement aspects, including budgeting, disbursement, book keeping,

[24] *Existing implementing entity for the Agriculture and Livestock Modernization Project.*

reporting, supervision, management of the designated account and auditing. It will be established within the premises of InterCafé and strengthened with the recruitment of a fiduciary team well experienced in World Bank fiduciary procedures. The financial team will be composed of at least one financial management expert and one accountant. These will be recruited through a competitive process. The World Bank will have the right to review the recruitment process and issue a non-objection before formal appointment. The overall selection should be finalized within twelve months after Project effectiveness. The fiduciary team will be trained on the use of World Bank procedures as well as the project's software.

14. *Planning and Budgeting.* The Annual Work Plan and budget (AWPB) along with the disbursement forecast will be elaborated by the PCU in coordination with the PIAs. It will be submitted to the Project Steering Committee for approval, and thereafter to IDA for no objection no later than December 31 of the year preceding the year the work plan should be implemented. The fiduciary unit of the PCU will monitor its execution with the accounting software in accordance with the budgeting procedures specified in the Project Implementation Manual as well as in the Financial Regulation and Rules. The budgeting system should forecast for each fiscal year the origin and use of funds under the project. Only budgeted expenditures would be committed and incurred so as to ensure that the resources are used within the agreed upon allocations and for the intended purposes. The quarterly IFRs will be used to monitor the execution of the AWPB.

15. *Information and Accounting System*. Burundi is a member of the "*Organisation pour l'Harmonisation en Afrique du Droit des Affaires - OHADA*". In line with the international accounting standards, Burundi adheres to OHADA accounting standards, namely SYSCOHADA. Hence SYSCOHADA accounting standards will apply to this project. An integrated financial and accounting system will be put in place and used by the fiduciary unit. The Project code and chart of accounts will be developed to meet the specific needs of the project and documented in the Project Implementation Manual. The accounting system is expected to include a general ledger, auxiliary ledgers, general balance, cash record, and fixed assets record. The charter project account should be prepared according to the wording used in tables for sources and uses of funds for the accepted eligible expenditures as agreed during negotiations of the Project. These ledgers and records should be maintained with the support of financial management software that should be operational no later than three (3) months after Project effectiveness. Financial management staff at the PCU and the PIAs should also be trained in the use of the software by the same date.

16. *Internal Control and Financial, Administrative, and Accounting Manual.* A financial management manual (which will be part of the Project Implementation Manual) which details all key internal control procedures from transaction initiation, review, approval recording and reporting will be implemented. There will be a clear separation of duties within the financial management units.

17. *Disbursement arrangement.* The proceeds of the Grant will be disbursed in accordance with the World Bank's traditional disbursement procedures and will be used to finance activities through the disbursement procedures currently used, namely Direct Payment, Advances, Reimbursement and Special Commitment.

Table 1: Risk Assessment and mitigation measures

Risk	***Risk Rating***	***Risk Mitigating Measures Incorporated into Project Design***	***Conditions for Effectiveness (Y/N)***	***Residual Risk***
Inherent risk	S			S
Country level. Burundi is still a high risk country from the fiduciary perspective. The PER, the PEFA 2008 and 2014 as well as the UCS reports outlined PFM weaknesses at both central and decentralized levels.	H	The Government is committed to a reform program that includes the strengthening of the PFM. This project will enhance Government's institutional capacity in adopting and using IDA FM procedures.	N	H
Entity level. Financial and regulation rules which govern the fiduciary arrangement will be implemented by the PCU under the Ministry's supervision.	S	The PCU finance team will be composed of a financial expert and an accountant with extensive experience with WB fiduciaries procedures. Implementing a FM procedures manual (which will be part of the Project implementation manual) will also help to mitigate internal control weaknesses.	N	M
Project level. The project will be implemented by a PCU team to be recruited. In addition, a number of activities will be implemented by the PIAs (ARFIC, InterCafé and CNAC), with the risk of additional coordination challenges. These PIAs do not have experience in implementing IDA financed projects. Ensuring funds are used for purposes intended, as well as a fluid and efficient flow of funds might be challenging.	S	The recruitment of a project coordinator, a financial management specialist and a procurement specialist will be completed within 12 months after effectiveness. Training on fiduciary procedures will be conducted for all FM staff throughout the life of the project. Three FM supervision supports will be conducted the first 12 months following effectiveness.	N	S
Control Risk	**S**			**S**
Budgeting. The AWPB will be prepared jointly by the PCU and the PIAs and approved by the Project Steering Committee based on the policy guideline. The weakness of the PIAs in budgetary execution and control represents a risk.	M	The project Financial Procedures Manual (which will be part of the Project implementation manual) will define the arrangements for budgeting, budgetary control and the requirements for budgeting revisions. Annual detailed disbursement forecasts and budget will be required. IFRs will provide information on budgetary control and analysis of variances between actual and budget.	N	L
Accounting. This project will use accounting software which should comply with the WB procedures. The risks will be the following: Poor policies and procedures, and delay in keeping reliable and auditable accounting records.	S	The project will adopt the OHADA accounting system. Accounting procedures will be documented in the manual of procedures (which will be part of the Project implementation manual). The FM functions will be carried out by qualified consultants (individuals) composed of one Financial Expert and one accountant to be recruited on competitive basis. The new software will be customized to take into consideration the need for this new project. Training will be provided to the Financial team on the use of international accounting procedures as well as the project's software.	N	S
Internal Control. Internal control system may be weak due to the fact that some of the project activities will have technical control by the PIAs. Insufficient safeguards and controls may result in misuse of funds and impact the implementation. of the project	S	Implementing a project financial management Manual of Procedures (which will be part of the Project Implementation Manual) and training on the use of the manual will help to mitigate the risk relating to internal control	N	M

Funds Flow. Risks include delays in disbursements of funds and delays of replenishment of designated account.	S	Training on the new disbursement procedures particularly e-disbursement will be provided. Also regular meetings between the PCU, the PIAs, the Gov. technical focal points and FMS will be organized when required.	N	S
Financial Reporting. The risk will be to have inaccurate and delays in submission of IFR to the WB due to delays from PIAs or weak capacity of the FM team.	S	A computerized accounting system will be used. In addition, IFRs and financial statements formats and contents were agreed upon during project negotiations and IFRs template will be included in the FM manual of procedures. The IDA team will follow-up closely on FM reporting, including training at the outset of the project in IFRs.	N	M
Auditing. The risk would be the delay in submission of audit report or qualified opinion and delays in the implementation of audit reports recommendations.	S	IFR will be produced on a quarterly basis. Bank FMS will provide support when required. The audit firms will be recruited before the end of the first year of the project.	N	M
Governance and Accountability. Possibility of circumventing the internal control, and abuse of administrative positions are potential risks, mis-procurement etc., is a critical issue.	M	The TOR of the external auditor will comprise a specific chapter on corruption auditing. In addition, (i) FM procedures manual will be approved before project effectiveness; (ii) robust FM arrangements will be established with quarterly IFR including budget execution and monitoring; and (iii) Measures will be taken to improve transparency such as providing information on the project status to the public.	N	M
OVERALL FM RISK	H			**S**

18. *Retroactive Financing.* At the request of the Borrower and in order to jump start project implementation activities, retroactive financing will be allowed to reimburse pre-paid eligible payments for goods and services made after June 30, 2016 as long as the goods and services are procured in accordance with the applicable WB procurement procedures. The total amount of retroactive financing will not exceed 10 percent of the grant amount (US$5.5 million).

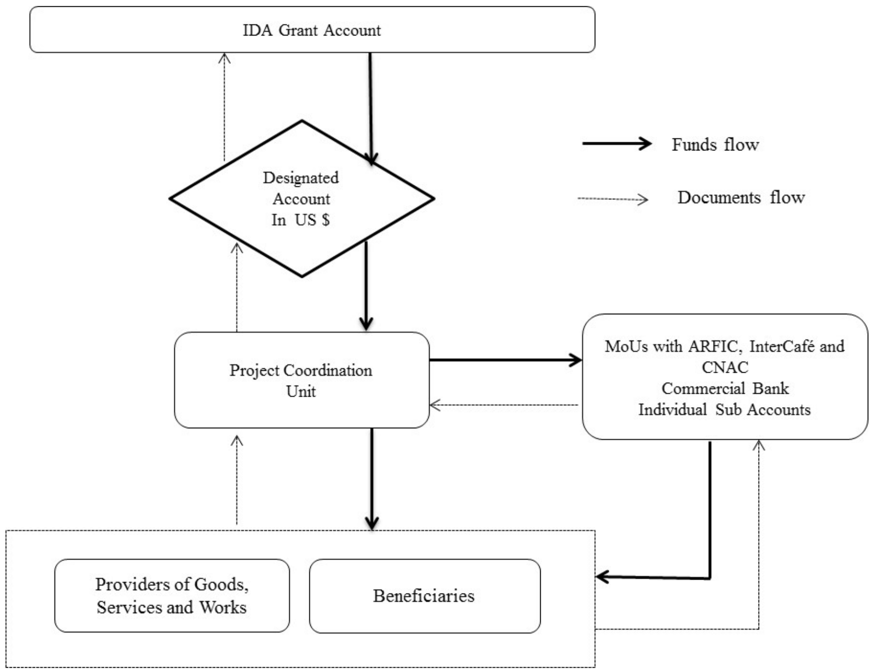
19. *A Designated Account* (DA) will be opened at the Burundi Central Bank (BRB) on terms and conditions acceptable to IDA under the fiduciary responsibility of the PCU. The ceiling of the Designated Account will be set at US$6.0 million. Replenishments to the Designated Accounts will be made on a monthly basis against withdrawal applications supported by Statements of Expenditures (SOE) or records and other documents as specified in the Disbursement Letter (DL).

20. Upon project effectiveness, transaction-based disbursements will be used. The PCU should produce regular unaudited interim financial reports (IFRs). The WB will review the quarterly IFRs and issue a pronouncement on their accuracy and adequacy. Thereafter, the option to disburse against submission of quarterly unaudited IFR (also known as the Report-based disbursements) could be considered subject to the quality and timeliness of the IFRs submitted to the WB and the overall FM performance as assessed in due course. The other methods of disbursing the funds (reimbursement and direct payment) will also be available to the project. The minimum value of applications for these methods is 20 percent of the DA ceiling.

21. Another acceptable method of withdrawing proceeds from the IDA grant is the special commitment method whereby IDA may pay amounts to a third party for eligible expenditures to be paid by the Recipient under an irrevocable Letter of Credit (LC).

22. The project will have the option to sign and submit Withdrawal Applications (WA) electronically using the e-Signatures module accessible from the Bank's Client Connection website. The flow of funds is summarized as follow:

Figure 3: Flow of funds



23. *Reporting Arrangement.* The PCU will record and report on project transactions and submit to the World Bank Interim Financial Monitoring Reports (IFRs) no later than 45 days after the end of each calendar quarter. At a minimum, the financial reports must include the following tables with appropriate comments: (i) sources and Uses of Funds; (ii) Uses of Funds by Project Activity/Component and comparison between actual expenditures and budget (iii) special account activity statement; and (iv) notes to the IFR. At the end of each fiscal year, the project will issue the Project Financial Statements (PFS) comprising: (i) a balance sheet; (ii) a Statement of Sources and Uses of Funds; (iii) accounting policies and procedures; and (iv) notes related to significant accounting policies and accounting standards adopted by management and underlying the preparation of financial statements. These PFS will be subject to annual external audits as described below. The reporting requirements from the PIAs to the PCU will be determined in the respective MOUs to be signed. The reporting frequency by the PIAs will feed into the reporting calendar of the PCU reporting frequency. The MOU will comprise inter alia, the frequency of reporting, the format of the reports and will be part of the annual financial audits

24. *External Auditing Arrangement.* A qualified, experienced, and independent external auditor will be recruited on approved terms of reference three months after effectiveness. The external audit will be carried out according to International Standards on Auditing (ISAs) and will cover all aspects of project activities implemented and include verification of expenditures eligibility and physical verification of goods and services acquired. The report will also include specific

controls such as compliance with procurement procedures and financial reporting requirements and consistency between financial statements and management reports and field visits (e.g. physical verification). The audits should also look at the implementing agencies' compliance to the MOU as indicated in the flow of funds above. The audit period will be on annual basis and the reports including the project financial statements submitted to IDA and to the auditors six months after the end of each fiscal year. The project will comply with the WB disclosure policy of audit reports (e.g. making them publicly available, promptly after receipt of all final financial audit reports (including qualified audit reports) and place the information provided on the official website within one month of the report being accepted as final by the team.

25. *Governance and Accountability*. The risk of fraud and corruption within project activities is high given the country current context. However, the effective implementation of the proposed fiduciary mitigation measures should contribute to strengthen the control environment. Also, appropriate representation in, and adequate oversight by the PSC, transparency in implementations project activities, as well as sound communication to and with stakeholders and to the wider public, should constitute a strong starting point to tackle governance and corruption issues during project implementation.

26. *Financial Management Action Plan.* The Financial Management Action Plan described below has been developed to mitigate the overall financial management risks.

Table 2: Financial Management Action Plan

Issue	**Remedial action Recommended**	**Responsible entity**	**Completion date**	**FM conditions**
Project Staffing	Recruitment of one financial management expert, one accountant and one internal auditor.	PCU and WB	12 months after effectiveness	Yes
Accounting software	Purchase and installation of a new software which integrates all the functionality required to manage a World Bank project. Train the fiduciary staff on the use of that software.	PCU and WB	3 months after effectiveness	Yes
Training	Training of fiduciary staff at the PCU and the PIAs	WB	3 months after effectiveness	Yes
FM procedures manual	Prepare a project manual of procedures (which will be part of the Project implementation manual) which will define FM and accounting procedures to run the project.	PCU, PIAs and WB	Before effectiveness	Yes
External auditing	Selection of an external auditor on terms of reference acceptable to the World Bank	PCU	3 months after effectiveness	Yes

27. *Supervision Plan.* Supervision missions will be conducted over the project's lifetime. The project will be supervised on a risk-based approach. It will comprise inter alia, the review of audit reports and IFRs, advice to task team on all FM issues. Based on the current risk assessment which is substantial) the project will be supervised at least twice a year and may be adjusted when the need arises. However, three FM supervision supports will be conducted the first 12 months

following the effectiveness. The ISR will include a FM rating of the project. An implementation support mission will be also carried out before effectiveness to ensure the project readiness. To the extent possible, mixed on-site supervision missions will be undertaken with procurement monitoring and evaluation and disbursement colleagues. Taking into consideration, the current political instability in Burundi, the Bank's Fragility, Conflict & Violence Group (FCVG) will also provide support to the project where required in terms of political economy and fragility assessments.

28. Based on the outcome of the FM risk assessment, the following implementation support plan is proposed with the objectives of ensuring the project maintains satisfactory financial management systems throughout the project's life.

Table 3: Implementation Support Plan

FM Activity	Frequency
Desk reviews	
Interim financial reports review	Quarterly
Audit report review of the program	Annually
Review of other relevant information such as interim internal control systems reports.	Continuous as they become available
On site visits	
Review of overall operation of the FM system	Semi-Annually (Implementation Support Mission)
Monitoring of actions taken on issues highlighted in audit reports, auditors' management letters, internal audit and other reports	As needed but at least during each implementation support mission
Transaction reviews (if needed)	As needed
Capacity building support	
FM training sessions by World Bank FM team	At project launch and thereafter as needed

29. *List of conditionality and covenants.* FM effectiveness conditions are presented in Table 2 above. Other FM standard covenants, include: (i) IFRs will be prepared on a quarterly basis and, submitted to the World Bank 45 days after each quarter; (ii) Annual detailed work program and budget, including disbursement forecasts will be prepared each year by end of December; and (iii) The overall FM system will be maintained operational during the project's entire life in accordance with sound accounting practices.

C. Procurement

General

30. *The Country Procurement Environment.* In 2008, Burundi enacted a new public procurement law that provides a set of modern rules on standardized procurement processes, procedures and controls, and their application. However, its implementation is facing, among others, weak institutional capacity and significant shortcomings in procurement processes as revealed in the recent report of the public procurement independent audit of October 2014. In addition, the GoB

has initiated revision process of the current law. This public procurement law, as it is now, allows external financing to take precedence over any contrary provisions in local regulations.

31. *Applicable Guidelines.* Procurement for the project will be carried out in accordance with the World Bank's (i) "*Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers*" dated January 2011, revised in July 2014; (ii) "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011, revised in July 2014; (iii) "*Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants",* dated October 15, 2006, revised in January 2011; and the provisions stipulated in the Financing Agreement. The various items under different expenditure categories, identified by appraisal, are described in general terms below. For each contract to be financed by the grant, the client and the World Bank will agree upon, and record in the Procurement Plan, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame. The procurement plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. The Borrower, as well as contractors, suppliers, and consultants, will observe the highest standards of ethics during procurement and execution of contracts financed under this project.

32. *Procurement documents.* Procurement would be carried out using the World Bank's Standard Bidding Documents (SBD) for all International Competitive Bidding (ICB) for goods and works and for Standard Request for Proposal (RFP) for the selection of consultants through competitive procedures. The Recipient will develop standard documents based on the World Bank's SBDs for National Competitive Bidding (NCB) for goods and works and the World Bank's RFP for the selection of consultants through methods other than Quality and Cost Based Selection (QCBS), with modifications that will be submitted to the IDA for prior approval. The following compliance requirements will be considered:

- In accordance with paragraph 1.16 (e) of the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Financing shall provide that (a) the bidders, suppliers, contractors and their subcontractors, agents, personnel, consultants, service providers, or suppliers shall permit the Association, at its request, to inspect all accounts, records and other documents relating to the submission of bids and contract performance, and to have said accounts and records audited by auditors appointed by the Association; and (b) the deliberate and material violation of such provision may amount to an obstructive practice as defined in paragraph 1.16 (a)(v) of the Procurement Guidelines.
- Invitations to bid shall be advertised in national newspapers with wide circulation.
- The bid evaluation, qualification of bidders and contract award criteria shall be clearly indicated in the bidding documents.
- Bidders shall be given adequate response time (at least four weeks) to submit bids from the date of the invitation to bid or the date of availability of bidding documents, whichever is later.
- Eligible bidders, including foreign bidders, shall be allowed to participate.
- No domestic preference shall be given to domestic contractors and to domestically manufactured goods.
- Bids are awarded to the lowest evaluated bidder proven this bidder is qualified.

- Fees charged for the bidding documents shall be reasonable and reflect only the cost of their printing and delivery to prospective bidders, and shall not be so high as to discourage qualified bidders.

33. *Advertising procedures.* General Procurement Notice, Specific Procurement Notices, Requests for Expression of Interest and results of the evaluation and contracts award should be published in accordance with advertising provisions in the Guidelines reported in para. 31. The Borrower will keep a list of received responses from potential bidders interested in the contracts.

34. For ICB and request for proposals that involve international consultants, the contract awards shall be published in the UN Development Business (UNDB) online within two weeks of receiving IDA's "*no objection*" to the recommendation of contract award. For works, *goods and non-consulting services*, the information to publish shall specify: (i) name of each bidder who submitted a bid; (ii) bid prices as read out at bid opening; (iii) name and evaluated prices of each bid that was evaluated; (iv) name of bidders whose bids were rejected and the reasons for their rejection; and (v) name of the winning bidder, and the price it offered, as well as the duration and summary scope of the contract awarded. For *consultants*, the following information must be published: (i) names of all consultants who submitted proposals; (ii) technical points assigned to each consultant; (iii) evaluated prices of each consultant; (iv) final point ranking of the consultants; and (v) name of the winning consultant and the price, duration, and summary scope of the contract. The same information will be sent to all consultants who submitted proposals. The other contracts should be published in the national gazette periodically (at least, quarterly) and in the format of a summarized table covering the previous period with the following information: (i) name of the consultant to whom the contract was awarded; (ii) the price; (iii) duration; and (iv) scope of the contract.

Scope of Procurement and methods

35. *Procurement of Works.* Works procured under this grant would fund: infrastructure upgrading for the CWSs, construction and rehabilitation of storage facilities, rehabilitation of rural roads at all levels up to the connection with the national networks; upgrading of laboratory infrastructure, establishment of nurseries, sub-projects by women and youth, and small office rehabilitations. Contracts of works estimated to cost US$5,000,000 equivalent or more per contract shall be procured through ICB. Contracts estimated to cost less than US$5,000,000 equivalent may be procured through NCB. Contracts estimated to cost less than US$50,000 equivalent per contract may be procured through shopping procedures. For shopping, contracts will be awarded following evaluation of bids received in writing on the basis of written solicitation issued to several qualified suppliers (at least three). The award would be made to the supplier with the lowest price, only after comparing a minimum of three quotations open at the same time, provided he/she has the experience and resources to execute the contract successfully. For shopping, the project procurement officer will keep a register of suppliers updated at least every six months.

36. *Procurement of Goods.* The goods to be financed by IDA would include: office furniture, equipment, vehicles, coffee processing technology, irrigation equipment, operational equipment for the coffee growers (sprayers, weighing and quality control meters, etc.), simple solar dryers, seedlings and other inputs for establishing nurseries, planting materials for distribution to farmers,

fertilizers and pesticides, laboratory equipment, etc. Similar goods that could be provided by a same vendor would be grouped in bid packages estimated to cost at least US$0.5 million per contract and would be procured through ICB. Limited International Bidding for goods may exceptionally be used when there are only a limited number of known suppliers worldwide. Contracts estimated to cost less than US$0.5 million equivalent may be procured through NCB. Goods estimated to cost less than US$50,000 equivalent per contract may be procured through shopping procedures. For shopping, the condition of contract award shall be the same process as described above for procurement of works. For the fertilizer subsidy program through a basket fund, procurement would be undertaken by beneficiaries (farmers with facilitation and subsidy from ad-hoc structure within MINAGRIE) in accordance with well-established Private Sector Procurement Methods or Commercial Practices which have been found acceptable to the Association and set forth in the PIM. As much as possible, consideration will be given to the use of competitive methods set forth in the World Bank procurement guidelines.

37. *Procurement of non-consulting services.* Non-consulting services are services that are not intellectual or advisory in nature (e.g. designing, editing and printing project promotion supports). Procurement of non-consulting services shall follow the competitive bidding procedures acceptable to IDA and as prescribed in the Project Implementation Manual (PIM) to be agreed by project effectiveness.

38. *Direct contracting for works, goods and non-consulting services* may exceptionally be an appropriate method in accordance with para 3.7 of procurement guidelines and provided the WB is satisfied in such cases that no advantage could be obtained from competition and that prices are reasonable.

39. *Procurement from United Nations Agencies.* There may be situations in which procurement directly from agencies of the United Nations (UN), following their own procurement procedures may be the most appropriate methods. In such circumstances the Recipient shall submit to the WB for its no objection a full justification and the draft form of agreement with UN agency.

40. *Selection of Consultants.* The project would finance consultant services for activities such as engineering designs and supervision of work surveys, environmental and social safeguards studies and supervision, technical and financial audits, technical assistance to project partners, etc. The consulting services will, as far as possible, be awarded under Quality and Cost Based Selection (QCBS) procedures. Other methods of selection will be determined for each assignment depending on the type of assignment and the provisions of the Consultant Guidelines and will be indicated in the procurement plan. Shortlists of consultants for services estimated to cost less than US$200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

41. *Training, Workshops and Conferences.* Trainings (including training material and support), workshops and conferences, will be carried out based on a Capacity Building and Training Plan (CBTP) to be approved along with the Project’s Annual Work Plan and Budget (AWPB). Detailed TORs will be prepared for each line of activity in the CBTP, providing information on the nature of activity (training, workshop, study tour, field missions, etc.), the number of trainees/participants, of which women, duration, staff months, timing and estimated cost, and will be submitted to IDA

for review and approval prior to initiating the process. The appropriate method of selection will be derived from the detailed schedule. The project would be requested to include a write-up in the quarterly PIAs and Project's implementation progress report (IPR) summarizing completed activities under the CBTP and their outcomes as regards to the attainment of the project development objective.

42. *Operational Costs.* Operating costs financed by the project are incremental expenses incurred for implementing project activities by the PCUs and PIAs. They include facility services (electricity, internet, tap water, etc.), vehicles operation and maintenance, maintenance of equipment, communication costs, supervision costs (i.e. transport, accommodation and per diem), and salaries of locally contracted staff. They are not subject to procurement guidelines but will be procured using the procurement procedures specified in the Project Financial and Accounting Manual (which will be part of the Project implementation manual).

43. *Community participation in procurement and selection of consultants will include* matching funds to the beneficiaries to facilitate modernization of the CWSs, storage facilities and identified sub-projects by youth and women. They will depend on the needs identified and will be procured following simplified procurement procedures as described in the PIM for community-based projects. The main procurement methods to be used would be the following: (i) Shopping for goods and works where quotations are solicited from at least three qualified suppliers or contractors on basis of simplified documents; (ii) Local bidding for goods and works which is an open competition similar to NCB except that the invitation for bids is advertised using radio, local (instead of national) newspapers or through posting notices at strategic places in the community; (iii) Community force account where the communities implement the subproject themselves using their own resources; and (iv) Direct contracting. For services, the selection methods to be used are the following: (i) individual consultants; (ii) consultants qualifications; and (iii) single source selection for the selection of individual consultants and firms. All the above mentioned selection methods will be applied as spelled out in the World Bank's consultant guidelines.

Assessment of the Capacity of the Agencies to Implement Procurement

44. As agreed with the MINAGRIE, a PCU will be established for the proposed project. The PCU will be responsible for: (i) selecting and recruiting consultants, (ii) managing procurement of works, goods and non-consulting services, (iii) supervising quality of studies and supervising contracts of works, goods and non-consulting services, (iv) approving invoices, (v) acceptance of works, goods and services, (vi) procurement planning and reporting, and (vii) procurement capacity development to project partners. Technical staff from MINAGRIE will be solicited to participate, as much as possible, in the procurement process, particularly in technical proposals/bids evaluation.

45. In addition to the PCU, selected PIAs (InterCafé, ARFIC, and CNAC), were identified for the implementation of a number of project activities. At project pre-appraisal stage (October-November 2014), the mission assessed their capacity and ability to perform procurement activities in accordance with World Bank procedures and guidelines. The conclusions of the assessment are as follows: (i) these agencies have limited experiences in procurement and none at all in WB

procurement procedures; (ii) regarding the Fiduciary staff, none of the agencies has dedicated staff on procurement, but rather staff with other specialty exercising procurement tasks; (iii) inadequate filing procedures for maintaining procurement documents; and (iv) none of the agencies have a manual of procedures in accordance with WB requirements. Nonetheless, all identified agencies are performing procurement for their activities in accordance with the requirements of their board members and/or national rules and procedures.

46. Given that major activities will closely involve ARFIC, InterCafé and CNAC, a detailed procurement risk assessment has been conducted for these PIAs. The assessment concluded that the overall risk associated to procurement at this project preparation stage is "high". This rating is also taking into consideration the country's overall inherent risk which is categorized as high from the fiduciary perspective. The procurement risk factors and their mitigation measures are summarized in table 4 below.

Table 4: Main Procurement risks and their mitigation measures

Risk	Mitigation measure	Date	Responsible entity
Procurement planning	Prepare a realistic procurement plan for the first 18 months and update it as needed	Agreed upon during negotiations and updated during Bank mission (April 25-May 5, 2016)	GoB
Staffing and accountability	Recruitment of procurement specialists on Terms of Reference acceptable to IDA.	No later than12 months after effectiveness. Prior to this period, The PIU for PRODEMA will be handling procurement under this project.	GoB
Internal manuals and clarity of the procurement process	Preparation of PIM with adequate procurement processing, contract management and ethical standards	Before effectiveness	GoB/PCU
Record keeping and document management systems	Implement knowledge on archiving following Bank's filing manual World Bank supervision to ensure filing procedures implemented	Three months after effectiveness First supervision mission	PCU World Bank
Appropriateness of Bids/proposals evaluation processes and contract award mechanism	The different procurement committees (opening, evaluation and award) are formed and members are only allowed to participate in only committees for the same contract Technical staff from MINAGRIE will be solicited to participate in the technical evaluation.	To be part of the PIM	PCU

Transparency and competition in the commercial practices for procurement of fertilizers subsidy through basket fund	The operations manual for fertilizers subsidy program will be reviewed to be acceptable to the World Bank.	Before the launch of fertilizers subsidy program financed under this Grant (to be included in Project implementation manual)	World Bank

Frequency of Procurement Reviews and Supervision

47. The World Bank's prior and post reviews will be carried out on the basis of thresholds indicated in the following table. The IDA will conduct six-monthly supervision missions and annual Post Procurement Reviews (PPR); with the ratio of post review of at least one to ten contracts. The IDA may also conduct an Independent Procurement Review at any time until two years after the closing date of the project.

Prior review thresholds

48. Based on the overall procurement risk at the preparation stage, the prior review thresholds are as follows. These thresholds would be subject to update throughout the project implementation based on actual procurement assessed risk:

a) Procurement of Goods and Works

Expenditure category	Procurement method	Threshold (US$)	Contracts subject to prior review
Works	ICB NCB Shopping Direct Contracting	≥ US$5 million < US$5 million < US$50,000 ≥US$All values (*)	All contracts None None All contracts
Goods	ICB NCB Shopping Direct Contracting	≥ US$0.5 million < US$0.5 million < US$50,000 ≥US$ All values (*)	All contracts None None All contracts
IT Systems, and Non-consulting Services	ICB NCB Shopping Direct Contracting	≥ US$0.5 million < US$0.5 million < US$50,000 ≥US$ All values (*)	All contracts None None All contracts

(*): Direct contracting below US$ 100,000 will be reviewed outside procys, through exchanges of emails between the client and the World Bank

b) Selection of Consultants

Expenditure category	Contract value (Threshold) US$	Procurement method	Contracts subject to prior review
Firms	≥ US$200,000	QCBS, QBS, FBS, LCS, CQS	All contracts
	≥US$ All values	SSS	All contracts
Individuals	≥ US$200,000	Three CVs	All contracts
	≥US$ All values (*)	SSS	All contracts

(*): Single source selection below US$ 100,000 will be reviewed outside procys, through exchanges of emails between the client and the World Bank.

Procurement Plan

49. The procurement plan for the first 18 month of project implementation was prepared by the Government, reviewed and approved by the World Bank. The procurement plan will be updated at least annually, or as required, to reflect the actual project implementation needs and capacity improvements. All procurement activities will be carried out in accordance with approved original or updated procurement plans. All procurement plans should be published on the World Bank's website according to the Guidelines. Attached is an indicative summary of the procurement packages to be processed within the first eighteen month following project approval (including those that are subject to retroactive financing and procurement under the Project Preparation Advance).

Table 5: Summary of the major Procurement Packages planned during the first 18 months after project effectiveness

a. Procurement of works, goods, IT systems and non-consultant services					
1	**2**	**3**	**4**	**5**	**6**
Ref. No.	**Description**	**Procurement Method**	**Domestic Preference**	**Review by WB**	**Expected bid-opening date**
Works					
1	Rehabilitation of the "one stop window", quality control lab and statistics department (ARFIC)	NCB	No	Post	December 2016
2	Rehabilitation of 30 km earth roads to CWS	NCB	No	Post	March 2017
3	PCU office rehabilitation	Shopping	No	Post	November 2016
Goods and IT systems					
4	Vehicles	IAPSO-UNOPS	No	Post	January 2017
5	Motorcycles CNAC	NCB	No	Post	February 2017
6	Computers/scanners/photocopiers	NCB	No	Post	November 2016
7	Fertilizers for rejuvenation 2016-2017	NCB	No	Post	December 2016
8	Insecticides and fungicides	ICB	No	Prior	December 2016
9	Laboratory equipment	NCB	No	Post	March 2017
10	Software for the "one stop window" coffee marketing/export process	NCB	No	Post	May 2017
11	Software for coffee data collection/management	NCB	No	Post	July 2017
12	Software on M&E at PCU	SS	No	Post	November 2016
13	Software financial management	SS	No	Post	November 2016

b. Consultant services, including core staff of the PCU				
Ref. No.	**Description of Assignment**	**Selection Method**	**Review by WB (Prior / Post)**	**Comments**
1	Study/survey on coffee trees and CWSs localization	QC	Post	October 2015 (phase 1) and March 2017 (phase 2)
2	Execution studies and rehabilitation of 30 km earth roads to CWS	SFQC	Prior	November 2016
3	Establishment of Management information system	QC	Post	October 2016
4	Recruitment of a consultant to prepare the PIM	IC	Post	September 2015
5	Capacity building of project partners (InterCafé, ARFIC et CNAC)	QC	Post	July 2016
6	Coffee policy and framework for support to ARFIC	QCBS	Prior	March 2017
7	Marketing strategy (InterCafé)	QC	Post	March 2017
8	Baseline study on gender in coffee sector (CNAC)	IC	Post	April 2017
PCU Staff				
9	Coordinator	IC	Prior	August 2017
10	FMS specialist	IC	Prior	August2017
11	Procurement specialist	IC	Prior	August 2017
12	M&E specialist	IC	Prior	August 2017
(*): FMS and PS staff supporting PIAs will be also selected using WB procedures, including prior review requirements.				

III. Environmental and Social (including safeguards)

50. *Social and environmental impacts.* These are expected to be largely beneficial both in terms of: (i) *Social impacts:* providing increased incomes to small coffee growers as a result of higher-production and quality of coffee and the application of best practices for intercropping (improved food security and diversification of incomes). Considering the role of women and youth along the coffee value chain, these will particularly benefit from increased access to assets, strengthening their groups in terms of value chain governance, easing their workload and improving their well-being. (ii) *Environmental impacts:* The planned project intervention will promote sustainable cultivation and environmentally sound processing of a perennial crop, representing a considerable improvement over most competing agricultural land uses. It will result in net GHG sequestration of 2.99 Million tons of CO_2 equivalent. The sink results largely from improved practices, namely rejuvenation of old unproductive coffee trees, introduction of GAPs such as intercropping, coffee under-shade, etc., which offset the expected emissions due to increased input use (fertilizers and pesticides). The increase in carbon sequestration will lead to other co-benefits including improved biodiversity, reduced soil erosion and enhanced agro-ecosystem resilience. Finally, through its sustainable modernization of CWSs processing facilities, the project will lead to improved water management practices and reduced pollution.

51. Potential negative environmental impacts from the project are limited in scope and include:

(a) Direct impacts: (i) The project will subsidize around 5,000 tons of chemical fertilizers and directly provide around 35 tons of pesticides to combat key coffee pests and diseases. If used inappropriately, these chemicals present a risk to aquatic environments and food chains, and the pesticides present a direct risk to the health of the farmers applying them; and (ii) The project will include a limited variety of small-scale civil works – upgrading of around 100 coffee-washing stations, mostly to improve wastewater management and environmental compliance; construction or renovation of small-scale storage facilities and around 45 cupping (i.e. tasting) labs; rehabilitation of around 60km of existing rural access roads, involving (unsealed) re-surfacing of the existing roadway. None of these works present unique or complex environmental challenges, but they could have minor local impacts if not managed appropriately.

(b) Indirect impacts from increased coffee production: (i) Increased use of agrichemicals, both through expansion of the area under coffee cultivation and adoption of more intensive production techniques; and (ii) Increased volume of coffee processing and therefore of associated volumes of organic waste from pulp and parchment.

52. Proposed mitigation of the risks is as follows:

(a) *Direct and induced increase in use of agrichemicals.* The package of agronomic support provided to farmers will include training in integrated pest and nutrient management to ensure their appropriate application. Pesticide use will be consistent with OP 4.09. Class Ia or Ib pesticides will not be purchased, and Class II pesticides will only be provided via controlled supply chains to farmers who have received suitable training, sprayers and personal protection equipment. Appropriate application of pesticides will be monitored by extension staff. Effectiveness of the program will be assessed through the monitoring of coffee diseases.

(b) *Small-scale civil works.* Standard mitigation measures will be applied to civil works, providing particular emphasis to the sourcing of road surfacing materials from authorized locations. Standard clauses on environmental obligations for contractors are also provided. A screening process will ensure that any unanticipated major environmental impacts are identified. Unavoidable significant environmental impacts would lead to the associated investment being dropped.

(c) *Induced increase waste generation from coffee processing.* The project will partially finance renovation of around 100 coffee washing stations, including provision of wastewater management systems to remove and compost coffee cherry pulp, and greatly reduce the amount of residual organic matter in effluents. It will also support implementation of environmental standards for coffee washing stations that are being developed under PADZOC, and enhance awareness on eco-certification schemes and adoption of environmental management systems such as ISO 14000. Water quality monitoring will verify the effectiveness of the measures taken to reduce organic effluent from coffee washing stations.

53. *Policies triggered and safeguards instruments.* Given the small scale of impacts and planned mitigation measures, the project is classified as a "*Category B*". The following World Bank safeguards policies are triggered:

(a) *The policy on Involuntary Resettlement (OP 4.12).* This policy was triggered because of the planned 60 km rehabilitation of rural roads. The impact of foreseen rehabilitation work is expected to be minimal and manageable and since the specific rural access roads were not know in detail at the project design stage, the GoB suggested to use the existing Resettlement Policy Framework (RPF, December 2009) prepared for the ongoing Agro-

Pastoral Productivity and Markets Development Project (PRODEMA). This RPF is suitable as PRODEMA had much larger infrastructure investments (including construction of rural roads); it covers the provinces in which the new project will operate; it is implemented by the same lead institution (MINAGRIE); and the beneficiaries (coffee growers) and other stakeholders under the new project would be a subset of those under PRODEMA. The RPF details the policy, institutional and legal framework, eligibility criteria and entitlement matrix, methods for evaluating the assets, organizational arrangements, budget and monitoring issues. It includes also a grievance redress mechanism (GRM). The RPF has been updated for the project with an explanatory Cover Note, endorsed by the GoB and disclosed for the project as new document.

(b) *Other policies triggered are:* Environmental Assessment (OP/BP 4.01); Pest Management (OP 4.09); and Indigenous Peoples (OP/BP4.10). These policies will be addressed through the following safeguards instruments: an Environmental and Social Management Framework (ESMF), a Pest Management Plan (PMP) and an Indigenous Peoples Development Plan (IPDP). These instruments provide mitigation measures that would be effective in managing the potential environmental and social impacts; and ways to monitor the effectiveness of these measures and to detect any unforeseen impact.

54. Diligent and efficient implementation of the Project's ESMF (and other safeguards instruments) would be an overarching responsibility of the PCU and PIAs, with leadership from the PCU Coordinator. Regular monitoring of the day-to-day activities of the ESMF implementation would be given to the Safeguards Specialists of the PCU. These would be the point of contact for all issues related to environmental and social impact management of project initiatives and activities. They will liaise with the PIAs and provide training/advice on the ESMF as needed, creating a general awareness of environmental management throughout participating organizations/partners and the beneficiaries (coffee growers, CWSs, etc.).

55. The cost of implementation of the environmental and social measures of the project is US$816,000. These investments have been included in the detailed project budgets. The various measures prescribed in the ESMF will be fully incorporated in the project operational manual(s).

56. The safeguards instruments have been prepared by the Borrower, reviewed and approved by both the Borrower (i.e. the MINAGRIE) and the World Bank. On March 20, 2015, the GoB published the safeguard documents in accessible areas such as public libraries, the office of the Minister of Agriculture and Livestock, and the administrative offices of CNAC, ARFIC and InterCafé. These documents were also sent by the World Bank to the InfoShop (March 20, 2015) and subsequently publicly disclosed.

IV. MONITORING & EVALUATION

57. ***Overview.*** The Project M&E system will be embedded into, aligned with and capitalize on existing M&E systems, including World Bank reporting system as well as national strategies (PRSP, CAADP/NAIP and coffee sector strategy). It will make use of various tools, including baseline studies (coffee sector census), results framework matrix, PCU and PIAs reports, M&E surveys, beneficiary assessments and simple databases for recording of physical progress. It will also make use of a mix of conventional top-down approaches with the typical participatory

methods involving beneficiaries and other external stakeholders. Its design will institute a system involving periodic reporting of selected key indicators of project performance and impact. As part of its implementation, all PIAs will prepare and submit progress reports to the PCU. At the beneficiary level, leaders of coffee growers and the processing industry will have a recording system on project performance and impact. The overall objective of the M&E system is to establish a management information system that enhances commitment on the part of primary stakeholders (i.e. project implementers, coffee grower leaders and industry, etc.) to achieve a better-performing project and value for money in planned interventions. It will be driven by a results oriented management philosophy, based on three aspects: performance self-assessment, coffee growers and industry assessment and impact assessment.

58. *System principles*. The following principles will be adopted: (i) *Project performance* will be monitored through recording delivered activities or achieved outputs, such as training sessions, studies, demonstrations and construction of facilities against those planned. This information will be kept to a minimum and be functional. It will be linked to financial data to ensure overall measurement of project progress, collecting early-stage indicators of project performance, and supporting project supervision by ensuring that data on performance indicators are available according to a predetermined schedule; (ii) *Project impact*, providing insight into the higher-level indicators of the results framework, which will be evaluated through specific impact studies. These will be planned by the PCU in partnership with the key value chain actors and the MINAGRIE/DGPAE and will consist of baseline and follow-up surveys and impact studies for specific project interventions. As far as feasible, these will be related to some of the IDA core indicators and to broader aspects; for instance, assessing the project impact on small coffee growers' income, on-farm and off-farm employment, gender, youth participation in the coffee industry, and other variables affecting the social status of the communities where project activities are being implemented; and (iii) *Learning* will be an important component of the M&E system, and will provide information for annual and quarterly planning and review meetings. Documentation of best practices, challenges, outcomes and impact at all project levels will be carried-out as part of the standard M&E activities.

59. *Institutional structure and responsibilities*. The PCU will assume overall responsibility on project M&E, including collation, analysis and dissemination of reports. It will prepare implementation progress reports (IPRs) twice a year, as well as quarterly unaudited financial reports (IFRs). The PCU will rely on four key implementing agencies -- InterCafé, CNAC, ARFIC and the DPAEs (decentralized units of MINAGRIE) -- to perform operational monitoring and evaluation of the implementation progress and related inputs and outputs of activities under their responsibilities. To achieve this objective most effectively, the Project will strengthen these institutions' internal M&E and fiduciary system, including development of a computerized data management and membership mapping systems for all coffee value chain actors, and specialized technical assistance in data collection, management, analysis and dissemination. A management information system (MIS) will be established at the PCU and operated by the PCU M&E specialist. A major task of the M&E specialist will be to ensure that all institutional partners' M&E personnel at the national, provincial and communal levels have the requisite capacity to collect the required information and adhere to uniform reporting procedures.

60. *Data collection.* Using the M&E system to document indicator definitions, sources, and methods of data collection increases the likelihood that comparable data will be collected over

time, even when key personnel change. To achieve this objective, a performance indicator reference sheet will be prepared for each indicator before any data collection activity is undertaken. The reference sheet will at a minimum include precise indicator definitions; unit of measure; justification or management utility; disaggregation (e.g., gender, geographic location) as applicable; method of data collection or calculation; data source(s); data collection periodicity or timing of data acquisition; estimated cost of data acquisition; known data limitations and significance (if any); actions taken or planned to address data limitations; procedures for data quality assessment; and plan for data analysis, review, and reporting.

61. The project will collect missing baseline data and a plan for collecting performance data for subsequent years will be established at the start of the project. A joint World Bank-GoB semi-annual implementation support mission will assess the status of key project outcomes. Results will be monitored throughout project implementation. When key results fall short of expectations, special evaluations will be conducted. Such evaluations will be based on special surveys, interviews, or case studies designed to respond to the emerging information and to answer the associated questions. A mid-term review will be conducted three years into the project to assess achievements and constraints, and recommend potential adjustment. A final evaluation will be conducted to assess overall achievement of expected results. A project completion report will be prepared no later than six months after the end of the project.

ANNEX 4: IMPLEMENTATION SUPPORT PLAN

BURUNDI: Coffee Sector Competitiveness Project

I. STRATEGY AND APPROACH FOR IMPLEMENTATION SUPPORT

1. The strategy for the implementation support plan aims to : (i) kick-off implementation of project even before effectiveness, and keep the disbursement ratio above the project disbursement profile at any time during project life; (ii) prevent occurrence of key project risks (technical, fiduciary, etc.) or reduce their potential impact to a minimum level when unavoidable; (iii) include adequate monitoring and evaluation of project implementation progress and results; including at least one rigorous impact evaluation study of project interventions and document scalability to other value chains and in other regions. The strategy involves three levels of responsibilities and actions:

(a) *At project level*: to minimize the risks associated with project design and capacity risk, core PCU staff will include a National Coordinator who will be responsible for the overall day-to-day implementation and coordination of project activities. He will be assisted by a Technical Operations Officer who will be in charge of project technical aspects as well as technical support to the PIAs on their respective areas of needs. When necessary, the PCU will also request support from government bodies, such as the DPAEs and the DPVAs in their respective areas of expertise. The project will supplement the PIAs with additional technical and fiduciary staff to upgrade their capacity. The duration and scope of such support will depend on the specific needs of each entity as identified during project preparation. Such support will allow implementing agencies to hire qualified consulting firms, individuals and providers of good and services to deliver timely and quality products and services for the project.

(b) *At the Government level*, DGPAE may carry out periodic or unscheduled missions based on the issues that may surface during the project implementation phase. The MINAGRIE decentralized units such as the DPVAs would help identify such issues at an early stage by performing regular reviews and providing summary notes on project quarterly reports, and by participating in planning and coordination activities at national and provincial levels.

(c) *The World Bank Task team* will provide continuous implementation support, through a core team composed of the TTL, the fiduciary specialists (FM and PS), and a Program assistant based in the Country's office. Frequency of formal implementation support mission (ISM) would be as follows: (i) an ISM every four months for the first sixteen months following project approval, and one ISM every six months in the subsequent project period; and (ii) in-between ISMs, virtual ISMs will be agreed on with the Government as the need arises. ISM mission scheduling and TORs would be agreed on with the Government. An MTR will be conducted two and a half years after project effectiveness to assess project progress toward achieving the PDO. The skills mix of mission teams will be selected taking into account the World Bank expertise, and as necessary additional support will be provided by FAO Investment Center, and independent consultants.

2. As successfully experienced during project preparation, the ISM will include as much as possible a two to three day workshop involving all project stakeholders (Ministries, ARFIC, InterCafé, CNAC, development partners, and civil society) for information sharing, enhancing participation, inclusion, and accountability of all parties in project successes and possible failures. In addition, this practice will ensuring adequate level of project exposure to the wider public and will also contribute to reducing governance risk.

3. Particular emphasis would be put on the following aspects during project implementation supervision missions:

(a) Institutional capacity of the PCU and the PIAs to ensure that adequate capacity is in place at any time to carry out project activities efficiently. Guidance on the establishment of MoUs with the PIAs will be also provided;

(b) Targeting of beneficiaries and M&E: regular update of the project results framework and issuance of implementation progress reports and IFRs. This entails support to the implementing agencies in upgrading their M&E systems, including regular updates of the GIS database to be developed under the project. The World Bank will provide technical assistance through its impact evaluation support program (DIME) to design and implement a rigorous impact evaluation study of project interventions;

(c) Environmental and social safeguards instruments: The World Bank team will supervise the implementation of all safeguard instruments and provide guidance to the PCU and the PIAs on how to address any issues that may come up. In addition, capacity building activities in the areas of environmental and social management will be provided to implementing partners at all levels;

(d) Fiduciary management: the supervision plan for FM aspects of the project is detailed earlier in Annex 3, and will focus on safeguarding project resources while providing technical support to PCU and PIAs;

(e) Procurement: the focus will be on providing training to PCU/PIAs staff, reviewing procurement documents and providing timely feedback; providing detailed advice on the World Bank's Procurement Guidelines; monitoring procurement progress against the detailed Procurement Plan; and monitoring that implementation of contracts is compliant with the World Bank's fiduciary guidelines as well as with contract obligations. Both the FM and PR specialists will be core members of the periodic implementation support missions; and

(f) Coordination with development partners: the mission support will include promoting close coordination with other development partners, research institutions, NGOs and the private sector involved in the coffee sector.

II. IMPLEMENTATION SUPPORT PLAN

Table 1: Focus of support to implementation during the project period

Time	Focus	Skills Needed
Project launch (1mission)	Constitution and transfer of project documentation and files to the PCU, Technical assistance to PCU and project partners on project planning, including MoUs with implementing agencies, Validation of the implementation plan for Y1 Training on projects and WB safeguards instruments	Agribusiness Specialist Social and Environmental Safeguards Fragility, Conflict & Violence Group Specialist Financial Management Specialist Disbursement Specialist Procurement Specialist Institutional Development Specialist Operation Officer Prog. Assistant and Communication Specialist
0-12 months (3 missions)	Procurement - processing of first contracts and management of project funds Technical support on specifics of the implementation plan Technical assistance to implementing the Project MoUs Support to kick-off the Impact evaluation study: questionnaire sampling design, selection of partners and launch of the baseline	Agribusiness Specialist Impact Evaluation Specialist Social and Environmental Safeguards Fragility, Conflict & Violence Group Specialist Financial Management Specialist Procurement Specialist Institutional Development Specialist Program Assistant
13-24 months (2 missions)	Technical support for implementing activities per component, and sub-component; Routine FM and Procurement reviews; Management of Safeguards and monitoring of implementation of safeguards related measures	Agribusiness Specialist Social and Environmental Safeguards Fragility, Conflict & Violence Group Specialist Financial Management Specialist Procurement Specialist Institutional Development Specialist Operation Officer Prog. Assistant and Communication Specialist
25-36 months (2 missions)	Technical support for implementing activities per component, and sub-component; routine FM and Procurement reviews; Management of Safeguards and monitoring of implementation of safeguards related measures; M&E; *Medium Term review-Elaboration of a MTR action plan*	Agribusiness Specialist Social and Environmental Safeguards Financial Management Specialist Procurement Specialist Institutional Development Specialist Operation Officer Prog. Assistant and Communication Specialist
37-48 months (2 missions)	Support MTR action plan and follow up on: Adjust plan for implementing activities per component; FM and Procurement reviews; Management of Safeguards and monitoring of implementation of safeguards related measures; M&E and follow up survey of the impact evaluation study	Agribusiness Specialist Legal adviser Social and Environmental Safeguards Financial Management Specialist Procurement Specialist Prog. Assistant and Communication Specialist
49-60 months (2 missions)	Technical support for implementing activities per component, and sub-component; routine FM and Proc. reviews; Management of Safeguards and monitoring of implementation of safeguards related measures; M&E	Agribusiness Specialist Social and Environmental Safeguards Financial Management Specialist Procurement Specialist Operation Officer Prog. Assistant and Communication Specialist
61-72 months (2 missions)	Technical support for implementing activities per component, and sub-component; routine FM and Procurement reviews; Management of Safeguards and monitoring of implementation of safeguards related measures; M&E	Agribusiness Specialist Social and Environmental Safeguards Financial Management Specialist Procurement Specialist Operation Officer Prog. Assistant and Communication Specialist
73-78 months (1 mission)	*Implementation Completion and Results Report (ICR)*	ICR TTL and assessment team

Table 2: Skills mix required (per year)

Skills Needed	Number of Staff Weeks	Number of Trips per year	Comments
Team Leader (TTL)	12	2	HQ based
Economist, co-TTL	6	1	HQ based
Natural Resources Management Specialist	6	1	HQ based
Procurement Specialist	4	na	CO based
Financial Management Specialist	4	1	CO based
Disbursement Specialist	1.5	1	HQ based
Counsel	2	1	HQ based
Team Assistant	12	na	CO based
Operations Specialist	4	1	HQ based
M&E Specialist	4	1	Kenya Office
Institutional Development Specialist	4	1	Consultant
Environmental Specialist	2	1	HQ based
Fragility, Conflict & Violence Group Specialist	4	2	Kenya Office
Social Specialist	2	1	Mozambique Office
Communications Specialist	2	na	CO based

Table 3: Partners

Name	Institution/Country	Role
ARFIC	National Regulatory Authority/Burundi	Implementing Agency: Statistics; coffee quality improvement; laboratory upgrades; and modernization of CWCs
InterCafé	Inter-Profession/Burundi	Implementing Agency: Promotion of the Burundi coffee brand
CNAC	Coffee Growers Association/Burundi	Implementing Agency: Rejuvenation program; access to inputs program; and adoption of GAPs
ISABU	Agricultural Research Institution/Burundi	Coordination of project research related activities
ISA	Agricultural University/Burundi	Coordination of project training of trainers activities (monitors and technicians)
IFDC	International Fertilizer Development Center	Technical backstopping and monitoring of National Fertilizer Subsidy Program (PNSEB)
USAID	Development Agency/USA	Consultations and complementarity for selected activities
Embassy of the Netherlands in Burundi	Netherlands	Consultation and complementarity for the National Fertilization Subsidy Program (PNSEB)

ANNEX 5: SUMMARY OF THE ECONOMIC AND FINANCIAL ANALYSIS

BURUNDI. Coffee Sector Competitiveness Project

I. CONCEPTUAL FRAMEWORK

1. The project would target major coffee growing areas in six provinces of Burundi (Kayanza, Ngozi, Karuzi, Gitega, Muyinga and Kirundo). These provinces represent more than 50 percent of the country's coffee growers and production. In these provinces, the project would support a coffee rejuvenation program (replanting and stumping of coffee trees, Sub-Component 2.1), and a program of access to inputs (fertilizer and pesticides, Sub-Component 2.2), as well as support to research and extension (Sub-Components 2.3 and 2.4). The project will target not only coffee but also the food crops associated with the rejuvenation program. In addition, it will support coffee processing and marketing to enhance coffee quality and obtain better prices (Component 3), and the institutional strengthening of the coffee industry (Component 1). Finally it will fund expenses related to the management and coordination of project activities (Component 4).

2. **Direct project benefits.** The project will provide direct socio-economic benefits to at least 300,000 coffee growers, and to a number of other actors involved in the coffee industry, thereby contributing to Burundi's national socio-economic welfare. As part of project preparation, an attempt has been made to measure some of the direct incremental benefits that are expected as a result of the project implementation, by comparing the '*with*' and '*without*' project situations. Direct project benefits have been estimated for activities pertaining to the programs of rejuvenation and access to inputs. For the other project activities (support to extension and research, upgrade of coffee processing, access to markets, institutional strengthening and project coordination and management), no cost-benefit analysis was prepared. Indeed, the related benefits, although they are substantial, are often intangible and difficult to quantify.

3. **'Without' and 'with' project situations.** In the *'without project'* (or reference) situation, coffee trees are low yielding (average of 0.8 kg of cherries per tree). Producers use some manure but virtually no chemical fertilizer, and outdated implements. They get little or no outside advisory support neither for cropping, nor for post-harvest or marketing activities. They typically practice intercropping which is a practice well adapted to low input agriculture. In the *'with project'* situation, producers are given access to an improved production package (high yielding plants for coffee replacement and seeds for associated crops, improved implements, chemical inputs, etc.) This package is subsidized. Producers are also provided with advisory services to apply the technical packages, as far as good production and soil fertility management practices are concerned. They get access to better processing facilities (Coffee Washing Stations-CWSs and dry-milling units) supported through public-private partnerships. These facilities add value to their products. Finally, the project funds marketing advice that improves producers' knowledge of markets, increases their negotiating power and allows them to obtain better prices. The replanting and stumping of coffee trees, and the adoption of the improved packages for coffee trees in production are expected to result in a doubling of coffee yields, and a 70 percent to 100 percent yield increase for associated crops (beans and soybeans selected in the analysis as typical intercrops).

4. **Benefit streams.** Project activities are expected to generate three main benefit streams: (i) increased amount of production of coffee and associated crops due to rejuvenation (replanting and stumping), use of improved planting material, fertilizer and pesticides, as well as improved cultural practices (pruning, weeding, mulching, use of compost, etc.); (ii) returns to investments on product quality enhancement mainly through processing facilities, as well as investments in access roads linking producing areas to Coffee Washing Stations (CWSs); and (iii) benefits from capacity building for farmers' groups and cooperatives, and other organizations down the value chain. These benefit streams lend themselves either fully or less readily to quantification. For purposes of the economic and financial analysis, the returns are fully estimated for the benefit stream (i), in both the 'with' and 'without' subsidy situations. For the benefit stream (ii), the returns are partially captured through the coffee price used that incorporates premiums for quality. Benefits are not computed for category (iii). These benefits are positive and are expected to substantially enhance overall project returns. Overall, as computed, the benefits are therefore conservative.

5. **Economic and financial analysis.** The financial analysis (gross margin and returns to family labor) was prepared for crop enterprises concerning coffee, and intercrops (red beans and soybeans). For the economic analysis, benefits from individual enterprises were aggregated using the number of hectares covered each year of project implementation in the five targeted provinces. The total benefit streams were compared to project costs nets of transfers to derive the Net Present Value (NPV) and compute the project economic Internal Rate of Return (IRR).

6. The analysis used cost data for the production year 2013-14. During that year, there were no major policy distortions affecting the prices of inputs or outputs, so financial prices and economic prices for tradable goods were essentially identical following correction for transfers and taxes. Trade barriers with major trading partners (Uganda, Rwanda and Tanzania) have been negligible since Burundi's accession to the East Africa Community Customs Union in the 2000s, and exchange rate distortions are minimal. With regard to production factors, the shadow price of unpaid family labor was assigned a value of FBU 1000 per day for the economic analysis, half the cost of unskilled hired labor used in agricultural production (FBU 2000). The use of a shadow price was considered appropriate in view of the limited alternative employment opportunities for casual labor in rural areas.

II. RATIONALE FOR PUBLIC FINANCING

7. Public funding for the project that primarily supports investment and other expenses of a private value chain is justified by the fact that the coffee sector is of paramount importance to Burundi in the light of the overall poverty situation of the country, its economic growth and employment generation, and the generation of foreign exchange. Unfortunately, coffee value chain actors, especially those who are not related to outside investors, do not have sufficient access to finance for their contribution to coffee recovery. Hence, they need outside funding assistance. Public funding for coffee production activities is further justified to the extent it concerns small farmers who are Burundi's poorest and most vulnerable segments of the population. The project will fund a mixture of public infrastructures such as roads and laboratories as well as private investment such as rejuvenation of trees, access to inputs, etc. using PPP models.

III. World Bank's value added

8. The Bank has a long experience of support to value chains in agriculture, for cash crops as much as food crops. It has supported the coffee sector in Burundi through several projects in the 1980s and 1990s. It has a comparative advantage for this type of project that addresses the entire value chain, as it takes an integrated approach to covering all industry operations and players. In that sense it is complementary and acts as coordination for other sources of funding that are generally interested in only some individual segments of the value chain. This is the case for USAID, UNIDO and other development partners supporting the coffee sector in Burundi.

IV. Burundi Coffee Farms and Peasant Strategies

9. **Farm characteristics**. With about 10.5 million people (90% rural) and a small land mass of about 28,000 km^2, Burundi's has a rural population density amongst the highest in Africa. The targeted coffee areas are located in the highlands of the country which exhibit cool temperatures (15 to 18 degrees Celsius year round) and abundant rainfall (average 1650 mm). These areas have the highest population density exceeding 500 inhabitants per km^2 in many areas. Smallholdings are the norm with farm size about 0.5 ha. Average rural household size is about six persons.

10. Owing to the small farm size, Burundian agriculture is very labor intensive. It is characterized by low management practices and little use of improved inputs. This applies to all crops equally, including coffee which receives little chemical fertilizer and pesticide application. All farms keep one or several animals, not only for milk and meat that are important for food security and nutrition, but also for manure used to fertilize crops. Livestock is also important for social status and is kept for emergency situations when cash is needed.

11. **Subsistence and cash crops in peasant strategies**. In Burundi, peasant strategies are governed by a twin objective of subsistence combined with profit maximization. Farmers typically grow both (i) food crops (e.g., beans, soybeans, maize, tubers) with the view to both obtaining the desired degree of food security and placing some surplus production on the market; and (ii) commercial crops (coffee essentially) to serve basic monetary needs, and generate increased monetary proceeds to recapitalize means of production and embark on a sustainable growth path. Bananas are ubiquitous in all parts of Burundi and a major contributor to the peasant twin objective. In addition to cropping activities, farmers typically keep some animals (cows and/or goats). There are strong linkages between cropping and livestock activities through fodder crops and manure. Animals produce milk for home consumption and sale on the market, and also manure used to fertilize crops.

12. **Intercropping and low productivity**. In order to best take advantage of their tiny farms, Burundian producers typically increase cropping intensity, by intercropping or undertaking two or more cropping cycles yearly on part of their farms. They practice intercropping in particular when they replace or stump coffee trees. During the two to three year gestation time during which the trees grow or re-grow, farmers plants food crops in association with coffee to generate income at the time the coffee trees are not yet productive. In the quasi-absence of chemical fertilizer, manure is used extensively; but it is insufficient to maintain soil fertility. In recent decades, the depletion of soil fertility has accounted for the downward trend of food crops and coffee yields.

V. Gross Margin and Remuneration of Family Labor

13. **Gross margin from coffee and associated crops.** The project-generated gross margin has been computed for individual crop enterprises (coffee and associated crops), based on estimated incremental expenditures and revenues over the reference situation. With the project, as compared to the initial situation, the expenditures increase substantially. But revenues increase much further so that the gross margin is substantially higher. Coffee performance is very dependent on the linkages that exist between production and the other stages of the value chain (post-harvest, processing and marketing). Benefits will only materialize if these linkages exist. Hence, the project focuses on improving not only production, but also storage, processing and marketing of coffee. It supports public-private partnerships for that purpose.

14. **With and without subsidy situation**. In order to test the influence of the project support, the gross margin has been computed in both the 'with' and 'without' subsidy situations. The results show that even without the subsidy the returns at farmer level are significantly positive: (i) for the rejuvenation program the Internal Rate of Return IRR is 36.4 percent; and (ii) for the fertilization program, the IRR is 75.5 percent. The problem for producers is being able to cover the negative cash-flow they are likely to experience in the first years. Given their tight cash flow situation, producers would not be able to pay for the expenditures related to the replacement or stumping of trees. Indeed, they are left with a much reduced cash income during the two to three year gestation period required for the trees to be back into full production, even with the returns generated by associated crops. Similarly, they are expected to have a negative cash-flow the first year under the fertilization program. Hence, they will be given a subsidy under the project: (i) for the rejuvenation program, the subsidy will be on a decreasing schedule 100 percent the first year, 75 percent the second year and 50 percent the third year; (ii) for the fertilization program, the subsidy will be 40 percent for three years; and (iii) the pesticide treatments will be free of charge. With the subsidy, the rate of return for participating farmers is 123 percent for the rejuvenation program, and 117.4 percent for the fertilization program.

15. **Remuneration of family labor**. The available family labor per coffee plot corresponds to the number of equivalent adult members in the family unit multiplied by the yearly number of work days available. Total labor requirements were estimated for both coffee and associated crops (based on the individual requirements for each production task, e.g., planting, seeding, weeding, harvesting, etc.). Casual labor was deducted from this total to get an estimate of the family labor use. The division of the gross margin per total family labor days in turn permitted to estimate the remuneration per family labor day. In the 'with project' situation, the remuneration of family labor increases to FBU 3,376 and 3,646 respectively for the rejuvenation and fertilization/ pesticides programs compared with FBU 628 in the reference situation. Owing to this substantial increase, the farmer should be highly motivated to embark on these programs if appropriate communication and extension advice is provided.

VI. Overall project profitability measures

16. **Additional production.** The project will generate substantial additional production, a share of which will be used to ameliorate the food security status of rural households and another share will generate monetary revenues for these households to meet their minimal recurrent cash needs and investment requirements. Based on the hypotheses retained in the enterprise budgets, the

additional production in the project area is estimated at about 12,000 tons of green coffee representing about US$103 million yearly at the steady state when the project will have had its full impact (year 10 onward). Moreover the project will generate an additional 9,820 tons of red beans and 9,650 tons of soybeans from intercropping as part of the replanting and stumping programs. The latter quantities of food crops are limited compared to national production, so that they will be absorbed by the domestic market without causing any glut of surplus.

17. **Overall project benefits.** Project-supported investments are expected to generate substantial financial benefits for rural households in areas served by the project, as well as substantial economic benefits for Burundi's society as a whole with additional taxes for the Treasury and foreign exchange for the Central Bank. Only the benefits generated from increased coffee production and associated crops have been quantified. These benefits capture indirectly the impact of CWS infrastructure and access roads through decrease in production losses and higher prices due to enhancement of quality. The benefits derived from capacity building of producers and other actors targeted at various levels of the value chains are not included. These benefits are important especially for the poorest and most vulnerable since these groups are expected to be better equipped to produce and market efficiently, and, in turn, improve their economic status. This result applies particularly to women and youth expected to represent 30 percent of project beneficiaries.

18. **Economic profitability measures**. The project economic benefits computed over a 15 year period are expected to yield a NPV of FBU 29.9 billion or US$19.3 million at a 10 percent discount rate representing the opportunity costs of funds for the country, and generate an economic rate of return of 22.7 percent. In addition, the project will generate US$6.3 million in taxes for the Government Treasury and US$51.7 million in foreign exchange earnings for the Central Bank over its six-year implementation period. Finally, the Project will generate a total of US$3.2 million cess revenues for the sector.

19. **Sensitivity analysis.** This analysis shows that projected benefits are fairly robust as far as investment costs are concerned. In contrast, they are more sensitive to the gross margin and delay in project execution. If projects costs are 30 percent higher than expected, the IRR decreases to 14.9 percent and, if the gross margin drops by 30 percent, either from price or quantity produced, the IRR drops to 12.4 percent. In the case of a two-year delay in expected benefits, the IRR decreases to 13.3 percent. The sensitivity to price means that every effort should be made to facilitate production collection, processing and marketing, as well as partnerships between farmers and marketers, to produce quality coffee that will command a higher price. The sensitivity to production (yield) level implies that the project will have to provide close support for adoption of new technology developed by research and ensure that farmers adhere strictly to technology prescriptions. The project will also have to ensure that input delivery services are readily available. Finally, the sensitivity to delayed benefits suggests that project implementation delays should be avoided to the extent possible.

Table 1: Summary of Internal Rate of Return, Net Present Value and Sensitivity Analysis

Expected outcome	**Percent**
- Internal Rate of Return	22.7
- Present Value at 10% discount rate (US$ million)	19.3
Sensitivity Analysis	
- 10% increase in costs	19.7
- 20% increase in costs	17.2
- 30% increase in costs	14.9
- 10% decrease in gross margin	19.4
- 20% decrease in gross margin	16.0
- 30% decrease in gross margin	12.4
- One-year delay in benefits	17.1
- Two-year delay in benefits	13.3

ANNEX 6. GREENHOUSE GAS ACCOUNTING FOR THE COFFEE SECTOR COMPETITIVENESS PROJECT

1. *Coffee plantation baseline.* Existing coffee plantations are estimated at 70,000 ha with 122 million coffee trees. Current yield per tree is 0.8 kg and is expected to double (1.6 kg/tree) at the end of the project.

2. *Project planned interventions.* These are summarized below.

Year	1	2	3	4	5	6	Total
Rejuvenation of old unproductive coffee trees – new trees (target 16.5 million new trees)							
% to be replanted per year	5.0%	10.0%	10.0%	10.0%	10.0%	5.0%	50%
Number of trees per year	1,650,000	3,300,000	3,300,000	3,300,000	3,300,000	1,650,000	16,500,000
Area, ha	660	1,320	1,320	1,320	1,320	660	6,600
Rejuvenation of old unproductive coffee trees – stumping of old trees (target 18.75 million trees)							
% to be replanted per year	5%	10.0%	10.0%	10.0%	10.0%	5%	50%
Number of trees per year	1,875,000	3,750,000	3,750,000	3,750,000	3,750,000	1,875,000	18,750,000
Area, ha	750	1,500	1,500	1,500	1,500	750	7,500
Intercropping with beans and soybeans. The project will promote multi-cropping (with bananas, beans, soybeans) on an estimated 7050 ha as a way of supporting diversification and improving farmer income during the gestation period of the new plantations.							
Area, ha	705	1410	1410	1410	1410	705	7050
Introduction of Good Agricultural Practices. These include crop residue management, manures, Integrated Pest Management, proper maintenance of the plantations, pruning, inter-cropping, etc.							
Application of fertilizers. Only 8 percent of the coffee growers use fertilizers. The project aims at increasing the percentage to 35 percent. Currently 1,200 tons of fertilizers are used. Target is to increase to 8,000 tons.							
Application of pesticides. Baseline: All plantations are treated against bugs. Insecticide lambacyhalothrin is applied at the rate of 0.13 cc/tree and imidaclopride at the rate of 0.05 cc/tree. In partnership with the GoB, the project will support the provision of inputs to reduce the impact of pests and diseases (including *Anthracnose* and *Antenstia*) on coffee trees.							
Introduction of coffee under shade in existing coffee plantations. Baseline = 0 ha. Project = 500 ha.							

3. *Results of Carbon Balance Analysis.* Burundi's climate is tropical moist with low activity clay soils. The EX-ACT modules used included land use change, crop production, and inputs, with a project implementation phase of 6 years and capitalization phase of 20 years.

	Gross fluxes		
	Business as usual	**Project scenario**	**GHG Balance**
	All GHG in tCO_2eq		
	Positive = source ; negative = sink		
Coffee	-1,880,400	-5,127,829	-3,247,429
Intercrops	0	-98,700	-98,700
Inputs	71,951	423,960	352,010
Total	-1,808,449	-4,802,569	**-2,994,119**
Per hectare	-62	-165	-103
Per hectare per year	-2.4	-6.3	**-4.0**

4. The planned project intervention will result in Net GHG sink of 2.99 Million tons of CO_2 equivalent, corresponding to 4.0 tons of CO_2 equivalents per hectare per year. The sink results largely from improved practices, namely rejuvenation of old unproductive trees, and stumping of old trees and shaded coffee. Intercrops (annual) also contribute to net GHG sink (98,700 tons of CO_2 equivalents). Even though, increased input use will emit additional 352,010 tons of CO_2 equivalent, this is insignificant compared to the net sinks from other project activities. The increase in carbon sequestration will lead to other co-benefits including improved biodiversity, reduced soil erosion and enhanced agro-ecosystem resilience.

Annex 7: Climate and Disaster Risk Screening Results Report for the Coffee Sector Competitiveness Support Project

1. Overview. Burundi is a small, landlocked country of which only 36 percent is arable. The country has two main rainy seasons, which run from September to November and from February to May, as well as a short rain period of about 2-4 weeks in January. The rainfall varies from 2,000 mm in higher altitudes to 1,000 mm in low-lying areas.

2. The coffee sector provides well-timed cash proceeds needed for expenditures during the non-rainy season, June to August. The sector is currently threatened by structural deficiencies, low productivity, weak infrastructure, and limited competitiveness.

3. *Climate vulnerability*.

- Exposure: Burundi is exposed to a number of climate hazards. These hazards will pose a moderate to high risk to the project. The country is currently at risk for flooding, droughts, and landslides. In the future, these risks will be exacerbated as temperature increases and precipitation patterns change.
- Extreme Temperature: The mean annual temperature is expected to increase by 1.9°C by 2050.
- Extreme Precipitation and flooding:
  - The mean annual rainfall is projected to increase 3-10 percent. The rain from the beginning of October to the end of May is expected to decrease 4-15 percent
  - Climate change scenarios project precipitation losses of 50-100 mm in the northern and eastern provinces, areas that already have a history of intermittent drought. At the same time, precipitation is expected to increase to 200mm in the western provinces, increasing the risk of flooding, especially in the Central plateau and the Congo Nile Divide, where precipitation levels are already above average.
- Drought:
  - Droughts currently account for 67.8 percent of the distribution of natural hazards that occur in the country.
  - Droughts are expected to become more intense and more frequent, occurring between 40 and 60 percent of the time.
  - An increase in droughts is expected in the northern part of the country that will cause a decrease in water levels in the northern lakes.
- Landslide:
  - Heavy rainfall leads to severe landslides in the country. As precipitation increases, the number of landslides per year should also be expected to increase.
  - Particular attention should be paid to the risk of landslides since the targeted coffee areas identified by the project are located in the highlands of the country.

4. *Sensitivity*. High reliance on rainfed agriculture increases the sensitivity of Burundi agriculture to climate change and variability. The combination of steep slopes and high rainfall predisposes many parts of the landscape to high soil erosion rates. Extreme temperatures, flooding, and increased dryness increase the chance of certain diseases. Higher temperatures extend the

territory of certain vectors, like mosquitos, that carry transmittable diseases to humans (e.g. malaria), with the potential impact of reduced labor available for farming. Standing water from floods or excessive rainfall contributes to upticks in waterborne and diarrheal diseases.

- Burundi's tropical humid climate implies that as the temperature increases, there will be high evapo-transpiration rates, which will result in a reduction of water available for plant growth and other uses.
- The shortening of the rainy season in the northeastern provinces leads to torrential rains, lightening, and thunder during the rainy season, increasing their vulnerability to loss of livestock, food insufficiency, decreased agricultural output, bush fires, and loss of human life.
- Prolonged and more intense dry periods favor diseases such as meningitis or those associated with deficits in food production, i.e. malnutrition, or lack of water for people to use. In addition to climate, these impacts are also made worse by lack of knowledge on prevention, inadequate hygiene and sanitation, and poverty.
- Floods threaten to over-silt the lower valleys, increase soil erosion, decrease agricultural productivity, lead to famine, loss of human life, etc. Additionally, the revival of waterborne diseases such as cholera and bacillary dysentery increase with serious floods.

5. *Adaptive Capacity and Resilience Measures.* By addressing the entire value chain of the coffee sector, the project's components will assist Burundi in adapting to the climate hazards in the future. Examples of adaptive and resilience measures proposed by the project that will address the identified vulnerabilities:

- Good Agricultural Practices (GAP)
    - Rejuvenation of coffee plantations
    - Improving fertilizer and agro-chemicals
    - Promotion of GAPs, including adaptation and mitigation to climate change
    - Introduction of food security initiatives
    - Development of geo-mapping for the sector
- Improvement in Policy
    - Reviewing and adapting the current institutional framework to improve its effectiveness and efficiency
    - Strengthening the capacity of key organizations overseeing the sector
    - Strengthening of technical, operational and managerial capacity of CWS
    - Environmental upgrading of CWS
    - Educating on social responsibility
- Value Chain development
    - Improving the dialogue among the main public and private actors
    - Building a recognizable brand for Burundi's coffee
    - Developing reliable coffee industry intelligence and forecasting system
    - Introducing innovative promotional activities

ANNEX 8: MAP OF BURUNDI