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REPUBLIC OF RWANDA

SMALLHOLDER CASH AND EXPORT CROP DEVELOPMENT PROJECT

APPRAISAL REPORT

Main Report

Draft

Eastern and Southern Africa Division
Programme Management Department

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REPUBLIC OF RWANDA

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LIST OF FIGURES

APPENDICES: THE KEY FILE (KF)

Working Papers

CURRENCY EQUIVALENTS

Currency Unit	=	RWF (Rwandan Franc)
USS 1.00	=	RWF 445
RWF 1.00	=	USD 0.0022

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi34)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m^2)	=	10.76 square feet (ft^2)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
BADEA	Arab Bank for Economic Development of Africa (Banque Arabe pour le Développement Économique de l'Afrique)
CDC	Community Development Committee
CEPEX	Central Project and External and Finance Bureau
COSOP	Country Strategic Opportunities Paper
CPMCC	Coffe Processing and Marketing (cooperative) Companies
CSO	Civil Society Organization
CTPME	Coffee and Tea Processing and Marketing Enterprises
DALF	Directorate of Agriculture, Livestock and Forestry (Provincial Level)
EU	European Union
FT	Fair Trade
GDP	Gross Domestic Product
GOR	Government of Rwanda
HH	Household
ISAR	National Agricultural Research Institute
MINAGRI	Ministry of Agriculture, Animal Resources and Forestry
MINECOFIN	Ministry of Finance and Economic Planning
MINERENA	Ministry of Energy, Water and Natural Resources
MINETRCO	Ministry of Public Works and Communications
MINICOM	Ministry of Commerce
MINALOC	Ministry of Social Affairs Local Government
NTC	Nshili Tea Company
PCU	Project Coordination Unit
PRSP	Poverty Reduction Strategy paper
RDB	Rwanda Development Bank
RNB	Rwanda National Bank
SME	Small and Medium Enterprises
USAID	U.S. Agency for International Development
WB	World Bank

GLOSSARY

The following is a summary of some of the technical expression used in the report:

Coffee cherries: the fresh fruit of coffee bushes, must be processed within a few hours of picking before fermentation begins.

Café parche: is the result of taking away the pulp from the cherries. This is a stable product that can be stored, but needs further processing before it can be roasted and used.

Café marchand: also known as "green coffee", is the result of a hulling process (de-parching) of *café parche*. This product is packed in jute bags and sold to roasters for blending and final processing, packing in 250 gr. Containers, and retail sale to consumers.

Coffee Washing Stations: handle the fresh coffee cherries and produce *café parche* through a mechanical process that includes washing the final product. A first quality control is exercised at these plants, rejecting fresh cherries that have not been picked at the right time or delivered in poor conditions; a second control rejects the parche which reveals insect puncture or other causes of poor quality.

Coffee hulling plants: "de-parche" the *café-parche*, after checking the quality of the input received, then screen, test, grade and pack the *Café marchand* (green coffee) produced. The final quality control before shipment to buyers is exercised at these plants.

Coffee processing and marketing (cooperative) companies: enterprises that own and operate washing stations and hulling plants, purchase fresh cherries from smallholder coffee planters, and sell green coffee; they will be controlled by primary cooperative societies of smallholder coffee growers.

Tea green leaves: freshly picked tea leaves which are sold by producers to tea processing factories.

Black tea (also known as "dry tea"): the result of processing the green tea leaves. There are two broad categories of black tea: CTC and "orthodox method" black tea. CTC black tea is a powder tea used to fill teabags. Orthodox whole-leaves or broken-leaves tea is of higher value but is no longer produced in East Africa. Only some producer in India, Shri Lanka, and China still make black tea by orthodox methods, such tea being traded in highly specific market niches that supply sophisticated consumers.

The Nshili Tea Company: the proposed private company, ultimately to be owned by smallholder cooperatives of tea planters, that will processes the green tea leaves produced in the Nshili district of Gikongoro province, after distribution of the plantation of OCIR-Thé to poor smallholders.

Fair Trade Organizations: Non-profit to minimum profit organizations specializes in marketing the produce of smallholder cooperatives in developing countries, promoting specialty marketing of high value products, and facilitating access to such market niches with the objective to maximizing returns to primary producers, and to improve their livelihood.

FLO International: In 1997, no. 6 national federations of FT trading partners established "FLO International" with headquarters in Bonn, Germany. FLO sets the standards which must be met by producers to obtain the internationally recognized FLO certification of the labelled product marketed by the FT/trading partners.

EXECUTIVE SUMMARY

The unfavorable international markets for coffee and tea, the traditional export crops of Rwanda, have a significant negative impact on smallholder producers, particularly coffee growers, and on foreign exchange earning capacity of the country. Prices are very low for poor quality coffee producers such as Rwanda's. An important contribution to redressing the coffee situation, which can play key role in sustaining the country's foreign exchange earnings, is to significantly improve the quality of coffee products, to exploit new market niches for quality products, and to search for new marketing channels through the Fair Trade organization network with a view to obtaining better prices and a larger share of the trading margins.

Tea prices are also on the low side, but Rwanda tea is slowly recapturing for international reputation for high quality production, enjoyed before the 1994 war, and thus benefiting of better than average prices. The involvement of Fair Trade organization in marketing Rwanda tea would further strengthen the capacity of the country to withstand unfavorable price trends for average teas in the international markets.

Supported by adequate policies, Rwanda has considerable potential to produce and market high quality coffee and tea, and also to develop other cash and export crops, the production of which has already started under a number of private enterprise initiatives.

The goal of the proposed **Smallholder Cash and Export Crop Development Project** is to maximize and diversify the income of poor smallholder cash crop farmers through the development of financially sustainable production and commercial processing practices and targeted marketing strategies. It will operate in four Provinces of Rwanda: Gikongoro, Kibuye, Kibungo, and Kigali-Ngali. The project has been conceived within the framework of the Government's Poverty Reduction Strategy Paper, PRSP (2001) and of the National Strategy for Agriculture, which recognize that sustainable development of agricultural sectors, access to export markets, support for farmers' groups and professional associations; and credit and other financial mechanisms for rural-based activities are critical to sustaining the economic recovery of Rwanda. The project target group will comprise households living below the poverty line and willing and capable of meeting the project partnership conditions. Poor women heads of households will be especially targeted for assistance to ensure that they have equal opportunity of participation.

The project design is simple, focused and is based on four major objectives:

- to secure production and processing of top quality products for international markets;
- to engage Fair Trade and ethically-minded private trading organizations to secure access to remunerative markets;
- to empower poor smallholder producers to control processing and marketing operations; and
- to ensure sustainable credit for growers and processing/marketing enterprises.

The project will run for seven years, and is comprised of five components: (i) Coffee diversification; (ii) Tea development with two sub-components: (a) Integrated smallholder tea development in the Nshili district and (b) Smallholder tea plantations in the Mushubi district; (iii) Guaranteed credit to smallholders tea and coffee producers; (iv) Development of new cash and export crops; and (v) Project coordination.

Coffee. The project will support about 2000 HHs living below the poverty line to rehabilitate and expand their coffee plots and to organize themselves in primary cooperative societies with legal personality, and the establishment of (cooperative) companies, owned by the primary societies, that will set up industrial facilities to produce and market high quality products for sale at optimum prices. The societies will nominally own the share capital of the processing companies to which they sell their product. The project will pre-finance the shares of the societies, but the shares will be kept in a fund in trust until the after tax profits made by the companies will pay sufficient dividends to allow the primary societies to buy back the shares from the fund in trust. This would take a maximum period of nine years from the date of establishment of each company, after which the cooperatives will fully control the processing and marketing business on their own. Farmers assisted to rehabilitate and/or expand their coffee plots will be in a participation to produce sufficient high quality coffee to significantly increase their income towards the threshold of poverty. Leaders of farmers primary societies will be trained to acquire the necessary experience to run the coffee processing and marketing business in due course. Funds will be provided for research, particularly on agricultural techniques that would enable organic coffee production and certification, thus further strengthening the international market value of Rwanda products. The Free Trade organization TWIN, will be associated to project implementation as the project FT Technical Partner, to monitor farmer training activities, crop quality, to independently assess and certify the quality of the final products of the cooperative companies, and to provide them with market information, and access to Fair Trade marketing outlets. TWIN has accepted to co-finance the project.

Tea. The project will support the privatization of the OCIR-Thé estate in the Nshili District of Gikongoro province. The plantation will be distributed to 4 000 poor smallholders resident in the surrounding area, of which about 30-50% will be women head of households. The project will assist the beneficiaries of the distribution to organize themselves in primary cooperative societies and to train the primary cooperative societies leaders. A new Tea Company in the private sector will be established to build a factory at Nshili to process the tea from the privatized OCIR-Thé plantation. As for coffee, the smallholder primary societies will gradually acquire full control of the tea processing and marketing operations at Nshili. TWIN will provide technical advice, market information, product control and certification, and linkages to Fair Trade organizations and ethically-minded private traders. In addition, the project will provide adequate technical, logistic, and financial support for planting 1 200 ha of smallholder tea in the Mushumbi District.

Smallholder credit scheme. A smallholder credit system will enable Rwanda financial institutions to fund the primary societies supported by the project to provide loans to their individual members. All members of the primary societies will be eligible for a loan amount within the limit of the borrower's capacity to repay, as guaranteed by the delivery of the borrowers' crops for processing by the (ccoperative) companies. The primary societies will be trained in effective operation of the credit schemes.

New cash and export crops. The project will support research into new market outlets and the creation of market linkages for new export crops. This will be done through outsourcing the services of a specialized consulting firm with access to information and specialists on a World wide basis. The project will also assist in the formation and training of farmers' groups that wish to develop new cash and export crops preparation of investment projects by SHE and farmer associations, funding of eligible projects, and agricultural research.

Project coordination. The structure of project coordination involves four levels. The Ministry of Agriculture is the executing agency of the project through the Project Steering committee, MINAGRI and will be ultimately responsible for the overall project supervision and ensuring consistency between implementation and project objectives, strategies and policy. The second level is concerned with the operational management of the project, contracting and monitoring service providers, and project impact evaluation. This level will be managed by a Project Coordination Unit (PCU), comprising a small central unit based in Kigali and three decentralized provincial units. The PCU will produce financial and progress reports in accordance with standard IFAD procedures. The PCU and its provincial offices will be funded in full for five years. During the first year, the Project Coordinator will be assisted by an internationally recruited Technical Advisor to help negotiating contract with the service providers. By year five, the agricultural development in tea and coffee will be completed, the (cooperative) companies will be fully established, and the guarantee credit scheme will be fully operational, and the cost of the PCU will be further reduced. The third level of project coordination concerns the provision of services to poor smallholders, primary cooperative societies, farmers associations, and SMEs. These services will be outsourced by the PCU. The fourth level concerns the production and marketing activities, and it will be managed by the private enterprises established through the project.

Project costs are estimated at a total of approximately USD 25.73 million. In addition to the proposed IFAD loan of approximately USD 16.3 million, the project will be co-financed by BADEA, several Rwanda financial institutions, the Fair Trade organization TWIN, cash crop producers, and the Government of Rwanda.

Benefits and beneficiaries. The empowerment of farmers associations to manage the processing and marketing of their products, the implementation of quality control and certification systems, and association with Fair Trade organizations that will facilitate access to new markets and attract optimum prices, will be reflected in higher farm incomes. Overall, an estimated 25 000 households, comprising about 125 000 people, will directly benefit through the coffee and tea components of the project. It is not possible at this stage to estimate the number of households that will be involved in the new cash crops component, but it is likely that women will especially benefit from developments in this area.

HHs participants in the coffee component are expected to increase their income from well below to very near the threshold of poverty. HHs participating in the tea component will increase their income to above the threshold of poverty. The impact at HH level is sustainable as it depends on the commercial viability of the tea and coffee processing and markets enterprises, while is estimated to last well beyond the support of the project. The assistance of TWIN and through TWIN of other FT organizations is also expected to continue after project completion at no cost to IFAD and/or the GOR.

I. INTRODUCTION

1. The Government of Rwanda (GOR) has requested IFAD to finance a project for the rehabilitation, development, and diversification of the cash and export sub-sector of the agricultural economy of the country. Tea and coffee are the traditional cash and export crop sub-sector, which has been the driving force of Rwanda economic development, and by far the major source of foreign exchange earnings. The sub-sector is currently critically affected by adverse international market circumstances. Smallholder producers of coffee and tea, in particular, suffer from low prices and lack incentives and resources to rehabilitate their export crops farms which were severely damaged by the 1994 war.

2. Responding to the Government request, and in accordance with the priorities and the strategic lines of action approved in the COSOP of 2001, IFAD undertook the identification and formulation of the project in late 2001. An in-depth investigation of the tea and coffee markets, and of the potential for improving marketing channels for the Rwanda coffee and tea products was undertaken. This led to the identification of interesting opportunities linked with the Fair Trade (FT) Organizations, and to the possibility of developing special market niches for top quality Arabica coffee and tea of Rwanda origin, and also for organic coffee production. The possibility of associating a Fair Trade organization to a project in Rwanda aimed at developing new coffee and tea production, processing and marketing operations controlled by cooperatives of poor smallholders was also investigated, and the interest of TWIN in the Rwanda project was secured. Among FT organizations, TWIN is a UK registered charity with a strong experience in developing poor farmer cooperative production of coffee, tea, and cocoa of high quality, and in successfully providing access to its associated Fair Trade trading companies (Café-Direct and The-Direct) for the cooperatives supported by TWIN.

3. The formulation of the Rwanda Smallholder Cash and Export Crop Development Project was finalised **in June 2002**. The Government of Rwanda was kept fully informed about the project approach and the efforts made to secure TWIN participation as the project Fair Trade Technical Partner and co-financier of the project. GOR identified BADEA (Banque Arabe pour le Développement Économique de l'Afrique) as the co-financier for the project's industrial infrastructure requirements.

4. Discussions were held with the Government on several occasions during and after project formulation, leading to the project design presented in this appraisal report. Appraisal was carried out in September 2002. The project attempts to exploit the limited potentialities of the coffee and tea sub-sector to provide a solid and sustainable basis for improving the income of smallholder producers through their full control of the processing and marketing stages, and through access to innovative marketing techniques and channels. In addition, the project supports the identification and development of market opportunities for new cash and export crops by small and medium size enterprises and by cooperatives/associations of poor farmers.

II. THE COUNTRY AND THE POVERTY CONTEXT

A. The country and economic situation

5. Rwanda is a landlocked country of high altitude hills. Its population of about 8 million people is predominantly rural (90%) and is growing at 3% per year. The economy, which had experienced rapid growth during the 1960s and 1970s, propelled by the expansion of tea and coffee exports supported by good international market prices, came to a halt by the mid-1980s. As a result of falling coffee prices, over-valuation of the currency, and increasing government intervention in the economy, the average annual economic growth fell from a high 6.5% per annum during 1973-1980 to 0.3% during 1986-90. Serious civil unrest had begun in many areas since the late 80s, until a civil war broke out by the end of 1993, causing

enormous damage. Over a million people were reported dead and agricultural production almost ceased in many areas abandoned by the inhabitants fleeing abroad. A very large number of refugees were settled temporarily in nearby the Republic of Congo, Tanzania, Uganda, and Burundi.

6. With the restoration of peace in 1994 and the return of the refugees in 1995/96, the situation normalized. The new government initiated policy reforms to stimulate economic recovery. The growth of GDP resumed, albeit from lower levels than before war. Per capita income, which was USD 250 in 1993, was down to USD 180 in 1996, but recovered to USD 250 by 2000. Growth has continued on a sustained basis since 1996, supported by prudent fiscal policies, recovery of exports, and massive inflow of external grants and loans extended on highly concessional terms. The fiscal imbalances improved significantly as a result of adjustments of tax rates, of reforms in tax and customs administration, and of the flow of external grants and of food aid counterpart funds. In 2000, total government expenditure and the primary budget deficit were the equivalent, respectively, of about 26% and 15% of GDP. Inflation is now about 5% per annum.

7. The external value of the Frw has been relatively stable until mid-2000, but lost 25% of its value vis-à-vis the USD as a result of the strong appreciation of the American currency ever since. This trend, combined with the high prices of petroleum products and low coffee prices, generated strong pressure on the balance of trade. Nevertheless, Rwanda managed to keep the value of the foreign exchange reserves to the equivalent of about four months of imports. The external debt rose to USD 1.3 billion by the end of 2001. By that time, the domestic public debt stood at an equivalent of about USD 190 million. Despite the concessional terms of the bulk of external borrowings, and some recent debt relief operations, the external debt service is currently equivalent to one fourth of export earnings.

B. Rural Poverty

8. In 1994, Rwanda's population was 7.75 million, over 300 persons km^2, making it one of Africa's most densely populated countries. As a result of the conflict, the population fell to an estimated 6.1 million in 1995. By 1998, with the return of several waves of refugees, it had risen to 7.9 million, of which 45% are under 14-years old. About 90% of the Rwanda people live in rural areas and for most of them farming is their main source of livelihood.

9. The events of 1994 caused a catastrophic rise in poverty in Rwanda, with approximately 70% of all households falling under the poverty line. The depth of poverty also increased. A dramatic effect was the change in the proportion of female-headed households (FHH) in the population, and the change in the dependency ratio of poorer households. The percentage of households considered "complete"- with two or more adults - fell significantly, with a large number of households being headed by women, male widowers, minors, old and handicapped people. Poverty affects female headed HHs more than male headed HHs, due to labour constraints in the family. Many female headed HHs are very poor and have the same number of people as less poor households, but fewer adult family members.

10. The movements of populations due to the civil disturbances that went on for almost 10 years had a strong impact on poverty levels. For the refugees, these movements were not one-off events, with one period of departure and one period of return, but a continuing source of instability up until the end of 1996. People who moved and people who did not move were equally affected but in different ways. Displaced populations were unable to farm and depended on wild food and food aid distribution, which generally supplied an inadequate diet. The sudden flight of people affected those who did not move as well, because of the resulting abrupt shortage of labour at planting and harvest time, the impact on demand and prices, and the need to allocate productive time to resolving issues of land allocation and shelter when the refugees returned. Thus, while the country has achieved quick re-stabilization since 1995 at the macroeconomic level, for many local communities the process of reconstruction and normalization of economic activities started only in late 1997. In several rural areas, the construction or reconstruction of basic infrastructure, the rehabilitation of agricultural production services, and the restoration and development of efficient market mechanisms, is not

yet fully accomplished. There are still almost 333 000 people living in camps, and waiting to be assigned a plot of land to return to normal life.

11. By 2001, the main country-wise socio-economic indicators were as shown in table 1.

Table 1:

Indicator	Value
Gross domestic product (GDP)	USD 250 per caput
Life expectancy at birth	49 years
Infant mortality	124 of 1 000 births
Incidence of HIV/AIDS	13.7 % of people 15-49 years old
Access to safe drinking water	44 % of the population
Government budget for health services	0.6 % of GDP
Literacy (adults)	48.3 % (women 45 %, men 52 %)
Human development index (HDI)	0,382
Threshold of poverty	USD 450 per HH
People below the threshold of poverty	51.4 %

12. The demographic structure of Rwanda has changed, with women now accounting for about 54% of the total population. In the age group 16-64 years – representing 49% of the total population in 1996 – women accounted for 27% compared with 22% for men, that is adult women were about 23% more numerous than adult men. This situation is reflected in the number of women-(widow) headed household, which has increased significantly to over 22% of all households in 1996, with peaks of 24% and 28% in some provinces (Umutara and Butare, respectively). In order to fully appreciate the situation, a large number of households headed by minors must be added to this. In rural areas, woman and minor-headed households have insufficient labour to cultivate all their land. Many households lost the land their families tilled before the war and have now become extremely poor landless labourers.

13. The HIV/AIDS epidemic constitutes a serious threat to Rwanda's human resources and overall development. A survey conducted in 1997 found that more than 11% of the population over the age of 12 was affected. The infection rate was found to be 10.8% among men and 11.3% among women, and 11.6% in urban centres compared with 10.8% in the rural areas. The HIV/AIDS epidemic has serious consequences. In agriculture the HIV/AIDS causes a reduction of workable labour and public investment due to the re-channeling resources from the agricultural sector to health. In the education sector, the impact of HIV/AIDS is felt by a reduced supply of teachers as a result of illness and death, and/of absenteeism due to caring for sick family members.

C. Government poverty reduction strategy

14. In 2001, the GOR issued the **Poverty Reduction Strategy Paper (PRSP).** The **PRSP** recognizes that a successful poverty reduction policy must be based on a high rate of growth of the economy. In this respect, following the liberalization measures introduced since 1996, the major challenges in the medium term are increasing export earnings, increasing agricultural production, supporting to non-farming activities in rural areas, and diversifying the economy, the latter comprising development of services, including information and communication technologies related services. A major emphasis is placed on market oriented education, to create a competitive, highly skilled labour force that can exploit fully the advantages of national bilingualism.

15. Strategic prongs specifically oriented to improving the economy of poor rural people and rural poverty reduction include: securing land tenure, development of micro-finance institutions based on savings mobilization, improved natural resource management and fight against land degradation, investing in rural

transport and market infrastructure, participatory agricultural technology generation and transfer, demand driven agricultural research, measures to reduce rural food insecurity, and promotion of off-farm income generating activities and employment. The institutional reform aimed at strengthening the rural community representation in the lower levels of local public administrations, through a democratic election process is designed to increase representation and empowerment of the poor in the development planning and implementation process. The process of reconciliation is encouraged through dialogue and careful weighing of public interventions to avoid conflicts and discrimination.

16. A public service specifically targeted to women has been created. An innovative new Family Act *(Code de la Famille)* has been introduced, which recognizes the equal rights of male and female members of a family (with respect to inheritance, for example). A deliberate effort to include women in the staff of the public administration at all levels is of note. All these are signals that an important cultural change is taking place in Rwanda.

17. With respect to the promotion of off-farm income activities in rural areas, MINECOFIN has recently completed the evaluation of the IFAD PPMER project (Loan 411-RW). According to the report, the project approach is well tailored to national priorities as defined in the PRSP. The review, which is based on the survey of a sample of over 2 000 small rural enterprises supported by the project, and on a complete analysis of the returns of the survey, concludes that the project has achieved satisfactory results, and that its impact on poverty reduction has been significant. It also makes some interesting suggestions about the lessons of the experience, and with respect to improvements that should be taken into account in designing a second phase.

III. COUNTRY STRATEGY FRAMEWORK AND LESSONS

A. IFAD and Regional Strategy

18. **IFAD strategy**. IFAD corporate strategy aimed at enabling the poor to overcome their poverty is based on the “centrality of access to assets for rural poverty reduction”. The term “assets” is used in its broadest sense, to include human and social assets (education, health, organizations, social capital), natural assets (land, water, forestry), technological assets (farm production, processing and marketing methods), infrastructures (transport, health care, communications), and financial assets (crop sales and off farm income, fixed and working capital, savings in kind and cash). Three major strategic prongs are set by IFAD to improve the access of poor rural people to these assets, namely:

- Strengthening the capacity of the rural poor and their organizations;
- Improving equitable access to productive natural resources and to technology; and
- Increasing access to financial services and to markets.

19. **Regional strategy**. Within the above framework, the Eastern and Southern Africa Division has developed, in the context of the specific features of the countries it is responsible for, the following main strategic prongs:

- Promotion of effective and equitable linkages between poor producers and market opportunities, particularly with the private sector;
- Development of rural financial services;
- Promoting improved and stable access to land and water, and better soil and water management;
- Creation of an improved system of managing knowledge, know-how, and the transfer of information and technology; and
- Moderating the impact of external exogenous shocks, such that of spreading HIV/AIDS and of civil disturbances and conflicts.

B. Lessons learned: previous and ongoing IFAD projects

20. IFAD's assistance in Rwanda currently totals about SDR 59 million in highly concessional loans for seven projects (Annex 3) including:

- Maize Development Project (loan 150 RW); status: closed;
- Gikongoro Agricultural Development Project (loan 232-RW); status: closed;
- Byumba Rural Development Project (loan 264-RW); status: closed;
- Buberuka Land Intensification Project (loan 314-RW); status: ongoing
- Rural Small and Micro-Enterprise Promotion Project, PPPMER (loan 411-RW); status: ongoing
- Umutara Community Resource and Infrastructure Development Project, UCRIDP (loan 537-RW); status: ongoing and
- Umutara Community Resource and Infrastructure Development Twin Project, UCRIDTP (loan 573-RW); status: effective since October 2002.

In addition, grant assistance under the joint IFAD/BSF/JP and IFAD TAG programme totals about USD 6.8 million, namely:

- Socio-Health Programme (Grant BSF-BG-019/022); and
- Rwanda Returnees Rehabilitation Programme (Grant 377RW).

21. The first three projects were started in the early 1990s and their implementation was severely disrupted during the 1994 war, when IFAD operations were suspended. In 1996 IFAD portfolio was reactivated after being completely reformulated. Both the Gikongoro Project and the Rwanda Returnees Rehabilitation Programme (which was an emergency rehabilitation operation) closed in June 2001. Project Completion Reports for the above projects have been prepared and finalized. By December 2001, Byumba project and the Socio-Health Programme will be closed, whereas the Buberuka and PPPMER projects will be extended to 30 June 2004 and the end of 2003 respectively. The UCRIDP became effective in December 2000, and its twin project became effective since October 2002.

22. The main lessons learned since the reactivation of IFAD operations in 1996 are summarized as follows:

- project "beneficiaries" do not participate in activities planned by project designers and project managers in a top-down manner: participation requires effective beneficiaries empowerment to plan development activities based on their own felt needs and priorities;
- the government decentralization process is progressing rapidly, providing new opportunities to the lower layers of the local government and to Civil Society Organizations (CSOs) at community level, and for associating NGOs and private enterprise to the development process through outsourcing contracts;
- rapid increase in population in already heavily populated areas and related accelerating urbanization calls for particular attention to measures that would facilitate the development of agriculture-related off-farm income generating activities;
- this in turns raises the issue of credit and adequate linkages to market opportunities;
- flexibility in demand driven project design (emphasis on processes rather than on blueprints) is a necessary condition of "designing for success";
- this requires the application of lending mechanisms with more unallocated amounts in project budgets to enable rapid responses to changes in project circumstances, closer supervision and support to project implementation, and new ways of handling the project reporting systems, including ways to link the reports on the performance in the provision of goods and services with its impact at beneficiary level, and with ongoing beneficiary assessments of the pertinence and quality of the services they receive in response to their effective demand;

- there is a real gap between opportunities to invest in small rural enterprises that can exploit new market opportunities in crop livestock and non-farm products, and the financial resources available to these enterprises.
- the gap originates in the structure of rural financial markets. Filling the gap requires a well-conceived effort to promote the development of viable microfinance institutions of different types, with emphasis on local savings mobilizations and product diversification based on effective demand, and of their potential linkages with the formal banking sector;
- projects must pay more attention to issues of asymmetric information in markets and technology, to the infrastructure required to reduce farm to market transport cost with a view to increasing competition among traders in purchasing farmers' surplus products, and to measures that may increase farmers bargaining power vis-à-vis traders;
- this requires, *inter alia*, new ways to support market intelligence in favour of small producers of crops and non-farm products (SMEs), and to farmers' marketing organizations, linkages to micro-finance institutions that may extend short term credit against products in stock at village level, possibly discounting their assets with the formal banking system, as well as other appropriate measures;
- appropriate technology development (production, processing and marketing technologies) is still lagging behind the requirements of both crop and livestock farmers, and of rural entrepreneurs interested in developing off-farm generating activities;
- this requires the introduction of a new approach to technology generation and transfer, based on participatory diagnosis of problems, identification of farmer innovators, close working relationships of provincial and district MINAGRI technicians and research officers, and more demand driven research;
- projects are slow to start, and are not always started in the most effective way: a strong back-up from IFAD is required during the first 1 to 2 years of operations; innovative projects involving institutional development and/or changes in conventional project management practices must be followed-up very closely in the early stages to assist project coordinators and service providers to start-up with the correct approach. This assistance must go well beyond the current practice and scope of Project Start-up Workshops, and of formal supervision by Cooperating Institutions; and
- recruitment of national NGOs as service providers is handicapped by complicated procurement procedures, failure to pre-qualify a short number of competent organizations and to issue-related limited invitations to bid for contracts, unwillingness to recognize that NGOs must be allowed to make a reasonable profit, and sometimes difficulties in drafting the tender documents with respect to the description of the special jobs that bidders are asked to perform.

C. Directives of the 2001 COSOP

23. The COSOP for Rwanda approved in July 2001 by IFAD, reflects IFAD and Regional strategies, the evolving circumstances in Rwanda, the lessons of project implementation experience, and the important changes introduced to the country's institutional setting. The overall aim of IFAD is to comply, as much as possible within the constraints of the Fund limited resources, with the Government's request that IFAD takes the lead in supporting Government efforts to alleviate rural poverty. This would entail investing resources in projects focusing on sustainable activities that respond to the felt needs of the target group, developing and testing approaches that can be replicated in other parts of the country with the support of other Donors, promoting co-financing of own projects by other Donors, and maintaining an effective policy dialogue with the Government on matters related to the economic, human and institutional development of the poor rural community in Rwanda.

24. **Strategic guidelines.** In pursuing its overall aims, IFAD is guided by three basic strategic guidelines:

- emphasis on **institutional development** to achieve the effective transition of project approaches to local communities from the concept of helping project "beneficiaries" to that of dealing with "partners in development";
- e**xploiting all potential means** of increasing the income of the rural poor, including food and cash crops, livestock, and non-farm income generating activities; and
- focus on the **potential synergies between IFAD projects,** undertaking a smaller number of projects covering a smaller area with complementary activities, and correspondingly increase the support of IFAD Headquarters to project start-up and implementation.

25. Accordingly, the COSOP indicates the following nine main thrusts of IFAD strategy in Rwanda:

- support to the government decentralization policy;
- support to the development of sustainable rural microfinance institutions;
- support to new ways to handle issues in technology generation and transfer for crop and livestock;
- support to income generation, income diversification, and market organization;
- integrated support to small and medium size non-farming rural enterprises;
- support to community infrastructure;
- cross cutting emphasis on gender and on fighting impact of HIV/AIDS;
- decentralized project management and improved reporting monitoring and impact evaluation practices;
- improved exploitation of potential synergies among different IFAD projects, and more exchange of experiences among IFAD projects and with other Donors' initiatives with similar objectives.

IV. THE SUB-SECTOR CONTEXT

A. Agriculture

26. Farming is the principal economic activity of 90% of the Rwanda people. About 45% of the total surface of the country is classified as arable land, 18% is rangeland pasture, and 22% is under forest and woodland, the balance being wasteland, lakes, and land used for human settlements, urban areas, roads, etc. In the highlands, population pressure has reduced the average area of the arable land available to about 1.5 ha per household. Agriculture is practiced on all land types, including land of marginal quality and on steep slopes. In large areas of the hill country, however, soils were originally fertile, and the bimodal rainfall makes two crops a year possible, with a third crop grown in the valley bottoms (*marais*, with fertile pit soils) where irrigation is possible with adequate drainage. Because of the slope, most of the arable land requires soil conservation measures and manuring to maintain natural fertility. Rwanda farmers are well aware of this, however good practices are not always followed for a variety of reasons. Before the turmoil of the 90s, in the good areas and under good farming practices, the farmland available was sufficient to provide food security and some cash income to buy basic necessities to the average household, and to send children to school. In the best export crops growing areas, farmers were better off, their dwellings were of higher quality and better maintained.

27. Thirteen percent of the arable land is under perennial export crops, essentially coffee and tea, and some pyrethrum. Crops marketed by smallholders include bananas, which is a widely grown staple food and

is a major source of cash income, often after processing into beer by rural women. Other crops marketed for cash include sorghum, some beans, peas, maize, fruit and vegetables. Recently, new cash crops have begun to develop. Maracuja (passionfruit), has been developed by national private enterprises that process the fruit into juices that have a good domestic market; horticultural products, such as tomatoes and vegetables, supply an expanding demand from the urban centers; intensive production of cut flowers, and smallholder women production of gooseberry for exports, are examples of the emerging diversification of the cash and export crop sub-sector.

28. Both cattle and small stock were decimated during the genocide. National cattle herds have been rebuilt more quickly than the small livestock, but their ownership has become more unequal. A large number of cattle are presently found in the Umutara province, due to large herds brought back by the "old-case load" refugees when they returned from Tanzania and Uganda. Umutara's cattle currently produce 85% of the milk and 45% of the meat traded in Rwanda. Cattle represent 42% of all animals slaughtered at registered abattoirs, goats about 55%, and sheep about 3%. Swine and poultry, including production of intensively grown broilers and eggs, also contribute to domestic meat production. Small stock is present in many smallholder farms and it is primarily a woman activity. Traditionally, livestock has represented an important source of manuring for the smallholders, a way to accumulate capital and to insure the household against risks.

29. The development of agriculture is critical to sustaining economic recovery, creating employment, and reducing poverty in rural areas. The **National Strategy for Agriculture** identifies constraints to agricultural productivity and the actions needed to address them. The strategy includes rehabilitation of support infrastructure, rehabilitation of extension services, and promotion of agricultural intensification, with a view to increasing rural incomes, enhancing food security, encouraging private investment and market orientated farmers. The strategy lines include: (i) developing markets for both inputs and crops; (ii) improving soil conservation and management; (iii) developing swamplands in an environmentally sustainable framework; (iv) improving farming methods through research, extension and information services, and intensification of the use of inputs on a financially sustainable basis, (v) supporting farmers' groups and professional associations; (vi) rural credit and other financial mechanisms for rural-based activities; and (vii) improving storage-and farm-to-market roads.

30. The land tenure situation is mainly governed by the customary law and traditional practices. Current legislation is fragmentary (a new land act is under formulation), and means of enforcement of western type land legislation are poor or absent. There is a difference between the land on the hillsides and the land on the valley bottoms (*marais*). Access to the hill land is guaranteed by heritage, a principle accepted by customary law and state enacted law. Until the reform introduced in 1999, only the male sons inherited the land. Now the Law gives the same right to women. The hill land can be rented, exploited, or sold by the owner. The marshes, by decree of July 11 1960, are exclusive property of the State but can be placed at the disposal of the population, the Government reserving its right to take back the *marais* land distributed to people, subject to paying compensation. The modalities of land acquisition are critical features of the evolving land tenure situation in the country. Cropland space is changing rapidly due to the continuous distribution of properties among several heirs and the creation of new rural dwellings. Land acquisition modes include inheritance, sale, lease, and donation.

31. Land lease is an increasingly common practice in many areas of the country. Rent payment for leased land can be in kind or cash, the latter form of payment tending to be spread. Land can be leased on a seasonal or annual basis, or even for an unspecified duration. Land in valley bottoms belongs to the State, the peasants are only usufructuaries. The title to use the land can be for a 30-year period, and even longer, but on conditions of continuous use and development of the land by the usufructuary.

B. The traditional export crops sub-sector

32. Coffee and tea constitute by far the principal export crops of the country, representing 71% of the total value of Rwanda exports. The share of the other crops (pyrethrum, *quinquina*, cut flowers, fresh fruits) remains marginal.

33. The main source of foreign currencies for many years, coffee has been surpassed by tea since 2000, when tea exports amounted to USD 25.9 million against USD 22.3 million of coffee export. The main reasons for the change are the fall of international coffee prices and the sharp decline in both quantity and quality of Rwanda coffee production. On the other hand, production of tea is increasing and prices on the international market are still rewarding for good quality tea such as that produced in Rwanda. The rehabilitation by the EU of the tea factories severely damaged during the war has been a major factor contributing to the performance of the tea sector.

34. **Coffee**. Despite the current difficulties, coffee still plays a major role in the economy of the country, contributing significantly to foreign exchange earnings and to the monetisation of the rural economy. Coffee-trees were first planted by German missionaries in the south western part of the country, in Mibirizi, the present province of Cyangugu, at the beginning of the 20th century. Thereafter, the colonial authorities pushed the crop in many parts of the country, and made it compulsory in 1927. After independence in 1962, the growing of coffee remained obligatory for as long as 30 years. The Ministry of Agriculture established a parastatal agency, OCIR-Café, with monopolistic powers to organize the smallholder planters, purchase their crops in the form of *café parche*, contract with private factories the processing of the *parche* into green coffee (*café marchand*), and sell the final product on the international market. With the liberalization policy introduced in the early 1990s, but actually implemented only after the war, the mandate of OCIR-Café has changed. OCIR-Café is expected to become a promotion regulation and monitoring agency in the sub-sector. Private traders are now allowed to purchase *café parche* from the smallholder growers, and to sell it to the hulling companies. Exports are increasingly carried out by private enterprises, acting as agents or paying a fee to OCIR-Café. Currently exporters pay a fee of Frw 3/kg.

35. The coercive planting policy secured a large increase in the number of growers and in production, spread widely the advantages of monetisation, but did not meet the consensus of all farmers. As a result of the liberalization policy, and of the drastic price fall in the late 1990s, farmers started to neglect coffee in favor of more profitable production of food crops. At present, about 400 000 smallholder coffee growers tend a total of approximately 60 million coffee trees, on average 150 plants per grower. The total area planted is estimated at 27 000 ha, approximately 3% of the total arable land. In 2001, exports were a little more than 16 000 tons, about 97% of the total production. Rwanda exports represent a negligible share of the total world market, which is estimated at 4.8 million tons. Nevertheless, the share of coffee in the export earnings of the country remains highly significant, despite the drastic drop in its relative importance. In 1990, coffee provided 64% of total export earnings, compared with 40% in 1998 and 34% in 2000. A reduction in area under coffee cultivation of 30 % is expected, which should not decrease current production if adequate measures are taken to improve yields.

36. Coffee is grown in most provinces, in areas with altitude ranging between 1 400 and 1 900 m, with good annual rainfall (1 500 to 1 600 mm), average temperature ranging between 18°C and 22°C, and on fairly acid soils (pH between 4.5 and 6). By far the largest share of the crop originates in very small plots, to the extent that smallholders coffee holdings are not measured in hectares, but in number of coffee bushes planted. The average plot has about 150 bushes, many HHs have up to 200-250 bushes in the best producing areas, but a large number of poor coffee growers have between 50 and 100 bushes. Planting was originally done at a rate equivalent to 2 222 bushes per hectare, but many plots have now a lower intensity. A substantial percentage of the existing bushes are well over 30 years old. Holdings of 1 ha or more of coffee trees are very rare, and there is no large-scale coffee plantation. The smallholder coffee plot occupies at best 7-10% of the total land available to a family, less than that if the total area cropped during the year is taken into account, since double cropping of seasonal food crops is generally practiced in the coffee growing areas. As a result, the area planted to coffee has little impact on the potential food production of the households,

although its contribution to the cash earnings was important and contributed to overall pad security of the HHs until the international market price dropped in the latter part of the 1990s.

37. The best coffee growing areas in Rwanda are in the provinces of Kibuye, Cyangugu, and Gisenyi on the volcanic soils of the hill slopes overcoming the shores of Lake Kivu. In this area, yields are the best of the county with 1 100-1 600 kg/ha of coffee parche. The eastern part of the Gikongoro province follows, with yields currently about 900 to 1 000 kg/ha, and the districts of the Kigali-Ngali and Kibungo with yields about 800 kg/ha.

38. OCIR-Café did not promote the development of a modern processing industry. With very few notable exceptions, Rwanda coffee is first processed by smallholder planters using manual methods to de-pulp the cherries, or by groups of planters that operate hand-powered machines to produce "*café parche*". Both processes are labor intensive, demand much effort and time, and produce pollution waste that cannot be properly treated. Unlike the fresh cherries, which tend to ferment very rapidly and must be de-pulped within hours of picking, *café-parche* is a product that can be stored for later further processing. *Café-parche* is processed by a few hulling units of relatively large size located in Kigali, which turn it into *café marchand*, the "green coffee" traded in the national and international market.

39. Under the current processing system, little quality control is possible or actually done in Rwanda. As a result, the quality of coffee is poor. During the 1980s, about one fifth of the production was of "standard" quality, the rest was below standard quality. Today, 100% of the export is "ordinary" coffee, which commands a very low price, in many cases below cost of production, processing and marketing. Under the current extremely low international market prices for low quality coffee, OCIR-Café has not been able to keep farmers' prices at the officially recommended level of Frw 300/kg *parche*. Prices paid by private traders are now less than Frw 200/kg, which is inadequate to pay for the cost of correct management of the bushes, let alone for the rehabilitation of bushes long disregarded after the damages of the war.

40. The modern technology in other countries consists of mechanically de-pulping and wash the fresh cherries in coffee washing stations which are located within walking distance of the coffee producing farms, so that delivery occurs within a few hours of harvesting. This process includes a first screening of the fresh cherries, rejecting those of sub-standard quality. After de-pulping and washing, the café *parche* is subjected to a second screen for quality. It is then mechanically hulled (de-parched) and packed in a plant usually located away from the sites of the washing stations, where sufficient *parche* can be collected to exploit the economies of scale of the hulling equipment. Economically viable washing stations and hulling and packing factories can be rather small factories. The *parche* is first screened on arrival at the factory, and the green coffee produced is again screened, and graded before packing. Finally, export lots are tested for a variety of characteristics which determine the quality and the price on the international market.

41. Maintaining a high standard of quality means that a certain proportion of the produce is rejected. This proportion depends on several factors, including the picking of the fruits at the right stage of maturity. Coffee grains punctured by insects (possibly the source of the "potato taste" which heavily penalizes Rwanda and Burundi coffees) can be eliminated by flotation, but this reduces the green coffee to cherries ratio, and is not done. Neglecting to remove insect damaged grains is a self defeating habit because the loss in weight is a small fraction of the loss in price due lower quality of the products. Unlike in nearby Burundi, which has made a successful effort to modernize its coffee sector during the 1990s[1], there are only two coffee washing stations in Rwanda. With the opening up of the sub-sector to private initiatives, some entrepreneurs have begun to invest in processing the fresh crop, and several small projects aimed at producing Fully Washed coffee are under way.

42. Rwanda must establish a reputation for quality supplies, and has a contrary reputation to offset. Improving the quality of Rwanda coffee to the standard that would command remunerative prices is a major task. Cropping practices must be significantly improved, insect control exercised closely over an entire producing location rather than only on the plots of farmers that wish to improve the quality of their crop,

[1] About 200 coffee washing stations were built in Burundi during the last decade.

correct harvesting and fast delivery to the washing stations is essential, and rigorous screening of the quality of throughput at all stages of the processing cycle must be exercised. In Burundi, the construction of about 80 washing stations has not been enough to reach quality standards commensurate to the potential of the growing areas, due to lack of rigorous quality control.

43. **Tea**. Tea growing in Rwanda started in 1952. Since its introduction, tea production has increased steadily, from 60 tons of black tea in 1958, to 12 900 tons in 1990, to 14 500 tons in 2000, reaching a peak of 17 800 tons in 2001. Over 90% of the production is exported, but represents only a small share of the total volume traded in the international market, which is about 1.4 million tons.

44. Rwanda tea is planted on hillsides at high altitude (between 1 900 and 2 200 m), and on well drained marshes at an altitude of between 1 550 and 1 800 m. A total area of approximately 11 400 ha is planted in the provinces of Byumba, Cyangugu, Gikongoro, Gisenyi and Kibuye. Tea plantations must be located near a tea factory because the harvest must be processed within a few hours of picking. There are three forms of tea plantations: (a) the industrial blocks (a total of 4 027 ha in the country); (b) the tea grower co-operatives (1 903 ha); and, (c) the smallholder (*thé villageois*) tea plots (5 469 ha). Industrial estates are large plantations, sized between 300 and 500 ha. One of the industrial estates, the Nshili plantation in southern Gikongoro, is almost 1 000 ha. The industrial estates employ wage labor. The cooperative plantations are also blocks of large size, with each cooperative member having 0.7 ha of tea. They use a mixture of family and wage labor. The planters of smallholder tea (*thè villageois*) have 0.2 - 0.25 ha of tea plots in their family holdings, and essentially use family labor. Yields are low by comparison with other producing countries in Asia and also in nearby African countries. Public sector plantations produce on average the equivalent of 1 400 kg/ha and smallholder plots about 1 200 kg/ha. Private sector managed plantations and cooperative blocks, by contrast, have recently recorded as much as 3 500 and 2 600 kg/ha, respectively, essentially due to applying adequate doses of chemical fertilizers.

45. The green leaves of the tea bushes are harvested all through the year but production peaks during the rains and is less during the dry seasons. This provides a smallholder tea planter with a regular cash income. Smallholder tea is generally picked by women, who receive payment in small amounts every two weeks.

46. OCIR-Thé is a State agency in charge of the tea sector. It was originally set up as a parastatal directly responsible for the production processing and marketing of Rwanda tea. Since the war, Government policy has changed and a new role is now envisaged for OCIR-Thé as a promotion regulation and monitoring agency. OCIR-Thé factories and industrial estates are in the process of privatization. However, the implementation of this policy has been extremely slow.

47. Tea is processed in 11 factories, each with capacity between 1 200 and 1 800 tons of CTC black tea each. Despite the announcement of privatization policy early in the 1990s, 10 of these factories are still owned by OCIR-Thé, one belongs to the private company SORWATHE. Processing capacity is a constraint, and many factories had considerable difficulties in handling the 2001 bumper tea crop. There is no factory near the OCIR-Thé estate established since 1988 in southern Gikongoro (Nshili district) with African Development Bank funding. The failure to build a factory at Nshili means that Nshili green leaves have to be transported to the nearest factory at Mata over a distance of 50 to 80 km on poor roads. This seriously reduces the quality of the tea. Due to the time required to evacuate the crop to Mata, the harvesting time at the plantation is reduced to no more than four hours a day, which also limits the production from the Nshili plantation. In addition, large quantities of tea leaves that arrive in Mata too late in the day for processing and are actually thrown away.

48. The quality of the Rwanda green tea leaves is among the best in the world, although a difference is noted between tea grown on the hillside and that grown in the *marais*. This excellent reputation is still acknowledged by the international market, despite the deterioration of the processed products which occurred after 1994. The state of uncertainty among the staff of OCIR-Thé regarding the privatization programme is partly responsible for the deterioration.

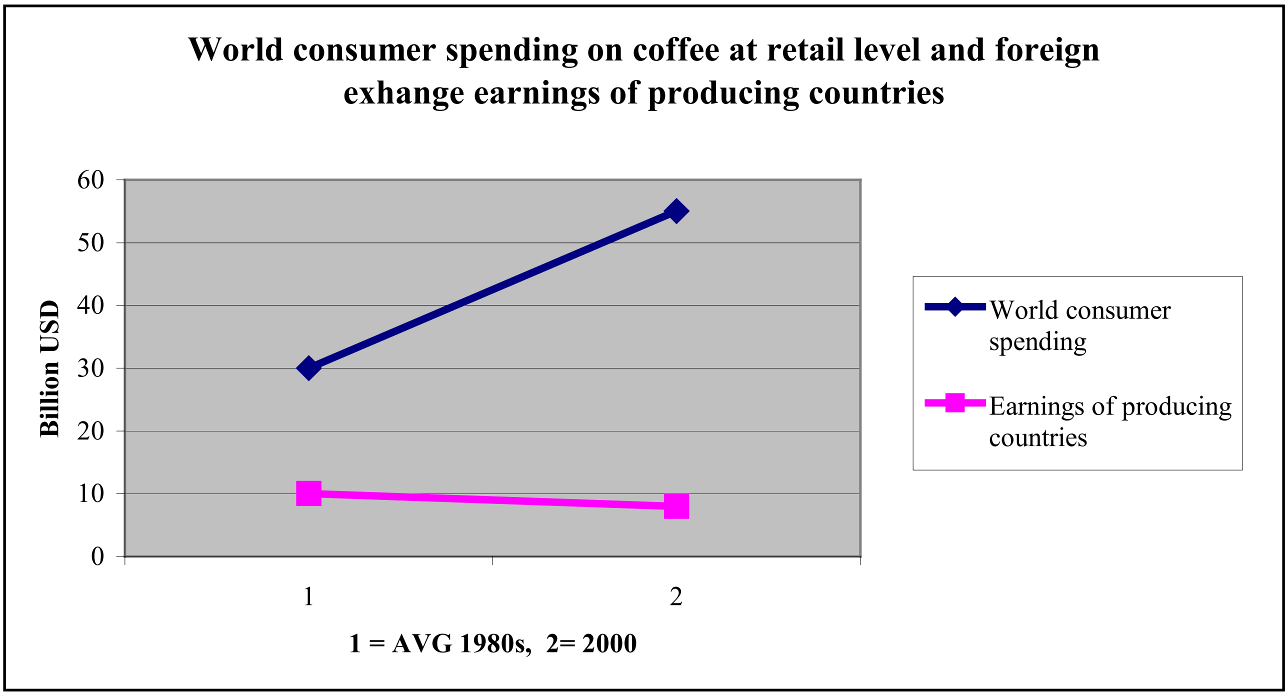
49. Sub-optimal delivery of fertilizers for both the OCIR-Thè industrial estates and the smallholder growers affect both quantity and quality of the green leaves produced. OCIR-Thé uniform green leaves price nation-wide is no incentive to increase production and ensure quality. Low prices for the green leaves have a negative impact on the way smallholder growers handle the pruning and harvesting of their tea bushes.

C. The market of Rwanda traditional export crops

50. The present situation and the future prospects of the international market of coffee and tea are discussed in Working Paper 6 (Part A and B, respectively). The Working Paper includes a synthetic review of the international tea and coffee markets since the early 70s, the impact on Rwanda, the consequences of the termination of the International Coffee Agreement, and the expectation about future prices for coffee and tea products of different quality. Working Paper 7 contains a brief account of the internationally recognized Fair Trade organizations network.

51. **Coffee**. The market of low quality coffee is currently characterized by excess supply with prices at the lowest level in history. The growth of consumption is stable at no more than 60 000 t per annum, despite efforts to break through in the Chinese market. On the other hand, production of low quality arabica and robusta coffees has expanded fast and is expected to continue to grow at a rate higher than demand. Vietnam, a very small producer 15 years ago, is now the second largest coffee producer after Brazil. Over the same period, coffee yields in Brazil have increased tremendously, with total output increased by 30% despite a reduction of surface planted by one third. Brazil produces mostly low quality arabica, and Vietnam mostly robusta coffee. Barring exceptional circumstances, such as the calamity that befell Brazil in 1986, prices are bound to remain very low, possibly even lower than today. Larger quantities produced will only further depress prices.

52. Furthermore, during the last 20 years, the degree of monopoly enjoyed by the multinational coffee trading companies, the price-inelasticity of consumers' demand, and the sophistication of the marketing technologies in consuming countries, have resulted in increasing the margins between export prices and the prices paid by consumers in the importing countries at retail level. Trading companies and roasters have accumulated large profits, despite the large increases of the cost of marketing at retail level. The share of the total world consumer spending on coffee at retail level that reaches producing countries has actually declined from USD 10 billion, out of a total retail value of USD 30 billion in the 1980s, when the international coffee agreement (ICO) was in force, to USD 8 billion out of a total retail value of about USD 55 billion now (see graph). This is viewed as one example of the negative impact of globalization on the economies of primary producing countries. The situation is even worse with respect to the resource transfer from final users to coffee planters, because of the rigidity of the cost structure of the local processing and marketing organizations. Under the circumstances, only very low cost producers, such as Vietnam and Brazil, are able to guarantee a low but remunerative price to their growers. Despite cheap labor, Rwanda is not a very low cost producer.



53. On the other hand, the situation is better with regard to good quality arabica coffees, the demand for which is sustained by a market that increasingly discriminates in favour of quality. Such demand is confronted by a relatively inelastic supply of adequate products. Prospects are, therefore, that the price differential between ordinary arabica and robusta coffees, and top quality arabica, which is already significant, will continue to increase over the next few years.

54. **Tea**. World demand for tea has expanded steadily at 2% per annum, sustained by the expansion of consumption in the main producing countries, such as India and Sri Lanka, until the end of the 1990s, when the increase in demand ceased. Subsequently, a world surplus occurred, causing a drop in price of about 25%. Since overall supply is expected to continue growing at a faster rate than total consumption, low prices are also expected to continue for some time. However, as in the case of coffee, the price decrease has affected essentially producers of low quality teas. Demand for good quality teas, such as Darjiling and Assam teas in India and some Sri Lanka and Kenya teas, has continued to expand, and their prices have commanded a good premium over the price of average or inferior quality teas. From this point of view, Rwanda has a distinct opportunity to exploit, since Rwanda CTC tea is considered among the very best in the world. This reputation, which is a critical factor for the financial viability of new investments in the sub-sector, must be restored after the decline in the quality of OCIR-Thé products occurred after the 1994 war. Currently, not all tea factories in Rwanda are back to the pre-1994 performance in this respect.

55. The view of experts and traders consulted by the mission coincides with the view of the GoR in that, provided the country production is brought back to the pre-war level of quality, Rwanda tea can obtain prices. Some traders feel that most Rwanda CTC teas can fetch higher prices than the best Kenya teas. The Nshili area, in particular, has the potential to be among those, provided growers apply the correct pruning and harvesting practices, fresh green leaves are delivered quickly to the factory, and adequate processing immediately follows.

56. **Traditional export crops and smallholder cash income**. A combination of factors has changed the traditional role of cash and export crops in the livelihood of the rural people of Rwanda. On the negative side, these include: the war damages, which have been very serious at farm and processing industries level; the dramatic drop of international market prices, particularly of coffee prices; the currency adjustments and consequent large increase of input cost; rigidity in the cost structure and degree of monopoly of trading and processing enterprises, scarcity of labor in families affected by the genocide and by the spreading of HIV/AIDS, land disputes with the returnees, uncertainty and slow progress in implementing the privatization

process, particularly in the tea sub-sector. These factors have set in motion a trend for diversification which begins to be noticeable. This trend is supported by two important new factors: (i), the growth of urban demand for food crops and horticultural products, and (ii) private sector initiatives to develop new cash crops markets.

57. Until the end of the 1980s, due to high prices and to the absence of other opportunities, coffee was often the major source of cash for the smallholders, and poor families shared in this even when they had very few bushes to harvest. By the end of the 1990s, with the radically changed situation, the response of many farmers have been to neglect their coffee plots. With prices below 200 Frw per kg of coffee *parche*, the income is hardly worth the effort of harvesting and de-pulping, let alone that of rehabilitating, replanting when necessary, and properly tending the coffee bushes. Unlike in the 1980s. However, other crops can be marketed for cash now, including food crops, and poor farmers who are unable to achieve food security from their own produce tend to get rid of their coffee and plant food crops instead. Since the coffee plot occupies a minor part of the family land holding, the conversion can be done without significant loss of income.

58. The situation is different for smallholder tea growers. A poor family with a plot of 0.2-0.25 ha of tea has a relatively reasonable and regular cash income all the year around even at the current low price paid by OCIR-Thé. Women often retain this income, since they do the picking and delivery of the green leaves, and this generally helps to improve the livelihood of the family. In tea, the smallholder problem is how to get better prices for the excellent quality of green leaves they produce. It can be shown, in the case of Nshili for example, that a new factory, having amortized the long-term debt incurred for its construction, can pay smallholder growers a price twice as high as that which is currently paid by OCIR-Thé (see chapter on Benefits and Justification).

D. New cash and export crops

59. The GoR endeavors to make the economy less dependent on the two traditional export crops. Initiatives in this respect are recent. Before the 1994 war, banana-apples were exported to Belgium (more than 100 tons per annum), spices, mostly pepper, to Switzerland (about 20 tons per annum). After the war, these markets have were lost. Pyrethrum has been exported for a long time, but quantities are constrained by the need to plant at very high altitude. Since the war, new opportunities have emerged. Several private enterprises have succeeded in developing production and marketing of products such as cut flowers (roses), passion fruit (maracuja), and gooseberry (*Physalis peruviana*), now sold in the European markets. Rwanda gooseberry also supplies one jam factory in Uganda. Efforts have been made for re-establishing the markets of banana-apple. Prospects for fresh pineapple and vanilla are currently being tested. Problems must be overcome in the processing of products, for example in the case of maracuja. Most Rwanda processing plants are tiny artisanal units that do not respect health standards, and often packing also a leaves good deal to be desired. A great potential exists for developing markets of “organic” products, since the new cash crops are generally grown without chemical fertilizers or other chemical inputs.

60. Some of the new cash crops can play a role in rural poverty reduction, although a note of caution is necessary with respect to the size and stability of the potential market of each one of the new crops. Farmers having invested in maracuja in Kigali-Ngali, for example, earn more than from coffee from a much smaller area grown to the new crop. The same holds in the case of women producing gooseberry for export from a limited area of the new crop grown in their home gardens. Vegetable growing in the peri-urban areas is also very remunerative for poor farmers, but requires access to land in the *marais*, drainage and irrigation.

E. Moderating the worse effects of globalization: the Fair Trade movement

61. Over the last decade, several organizations in the developed world have responded to the challenge of globalization by introducing innovative marketing methods and market access channels for producers in poor countries, in an attempt to show that globalization can be turned to the advantage of producers in poor

countries and of consumers in rich countries as well. These organizations have created **the Fair-Trade network**. The network includes non-profit and minimum-profit organizations, motivated by the objective of promoting sustainable development of producers' communities. They act as intermediaries with respect to commercial companies that view long-term economic growth and stability in producing countries as a necessary condition of expanding business and prosperity for all.

62. The thrust of the FT organizations is in the specialty markets where products are sold under an internationally accepted label that guarantees origin, quality, and eventually other features such as organic production, and command a significant price differential. These markets are currently expanding at over 12% per annum, but are still only a small share of the overall market.

63. A major thrust of Fair Trade strategy is to exploit the opportunities provided by the diversification of consumer demand in favor of quality products, and to ensure that the extra trading margins in these markets are paid to producers and used for development by the communities of producers. Currently, Fair Trade (FT) organizations are established in 16 highly developed countries. In each country, there are FT trading partners and national federations. The FT network works with 10 products; namely, coffee, tea, cocoa, bananas, honey, mangoes, sugar, rice, orange juice, and cut flowers, but not all FT organizations trade in all of these products. Rwanda has the potential to become a good supplier of top quality coffee, tea, bananas, fruit juices, and cut flowers.

64. The FT trading partners purchase the products from smallholder cooperatives in the producing countries, and sell them to retailers that agree to put the products on their shelves under true labeling and at special prices. Trading partners invest in developing the image of their products, and the market niches where the required price for value can be obtained.

65. In 1997, the national FT federations established "FLO International" with headquarters in Bonn, Germany. FLO sets standards which must be met by producers to obtain the internationally recognized FLO certification of the produce. Independent officers recruited by FLO provide a transparent certification of the products marketed under true labeling by FLO members' and by their registered trading companies. The certification concerns four main tasks:

a) assessing the conformity of FT labeled products to the Fairtrade quality standards;
b) assuring that Fairtrade benefits are used for social and economic development of the producers;
c) auditing FLO registered traders in order to make sure that the Fairtrade price is actually paid to producers; and
d) assuring that the FT labels are only used on products from Fairtrade certified producers.

66. As an indication of the impact of the innovative marketing system of the FT organizations, the following table shows the breakdown of the price of a pack of coffee of 250 gr. marketed by the traditional system as compared with one marketed under the Fair Trade system (figures in Euro, average 2001 data).

Table 2

Traditional marketing system		Fair Trade marketing system	
Consumers prices (supermarket)	1.83-3.04	Consumers prices (supermarket)	2.29-3.35
Import charges, cost of roasting packing and distribution	1.37-2.58	Import charges, cost of roasting packing and distribution	1.31-2.38
		FT label fee	0.05
Export charges	0.15	Export charges	0.15
Intermediaries	0.18		
		Cost of cooperative operations	0.09
Producers price	0.18	Producers price	0.69

Source: Max Havelaar - France

67. In these markets niche, Rwanda faces the competition of other well established producers, and, with respect to coffee, must overcome the poor reputation surrounding the quality of its produce. This requires a two pronged action: one prong is the need to improve the quality of the products from the way it is grown and harvested to the way it is processed. The other is the need to develop effective marketing techniques, and the international trading relationships required to sell in the specialty markets or to traders interested in buying the best of the only slightly inferior qualities. That is, **to transform a commodity into a product**, with its specific characteristics, sold to the extent possible under internationally recognized labels that certify quality and origin.

F. Potentialities constraints and sector development strategies

68. **Potentialities**. The main factor of agricultural development in general, and of cash crop development in particular, is the will of people to overcome the vicious circle of poverty, and their capacity to adapt the farming system and practices within the constraints imposed by the economic and natural environment. Rwanda has considerable agricultural potential, despite the threat of overpopulation. There are large areas with fertile soils suitable for growing many crops with international market potential, including soils with the right pH for tea and coffee, and high altitude locations with adequate rainfall where production of top quality tea and coffee is possible. Excellent potential for producing a wide range of tropical fruits and spices also exists in most of the country. New air charter freight connections have been opened up between Rwanda, Europe, and the Gulf countries. An important asset is in the current practice of producing coffee and new cash crops without chemical inputs, except for the use of pesticides on coffee growing areas. This provides a good basis for growing organic crops that command good international market prices if adequately certified. In coffee, however, a biological solution to control plant pests must still be found. Finally, farmers' familiarity with good agronomic practices, including the use of modern inputs, must be mentioned. The non utilization of fertilizers in coffee plots reflects the negative or marginal viability of fertilizer applications to this crop under current input and output prices, rather than ignorance or risk aversion of the producers.

69. Another important favorable factor for the development of cash and export crops is the existence of many farmer groups, associations, cooperatives, and national NGOs working in the rural areas. Most farmer organizations have little means, but represent the spontaneous structuring of the rural world and signal peoples' willingness to face the challenge of the future jointly, and in an organized manner. The GoR decentralization policy with its focus on the lower levels of the local government is an important factor of political and social dynamics that can be instrumental in backing up the spontaneous structuring of the rural people.

70. Finally, the liberalization and privatization policy of the GoR is slowly beginning to bear fruit. This is evident in the several private initiatives in coffee processing, in cut flowers production, in processing and marketing of new topical fruits, and also in the very significant increase of tea yields connected with the management of the only processing factory that has been privatized.

71. **Constraints**. Rwanda is a landlocked country. High costs of transport affect the cost of fixed assets and of inputs, which must be imported, and the cost of transporting finished products to foreign buyers. The general underdevelopment of the rural areas increases the cost of any ancillary service that economic operators require. The yields of most cash crops are low by comparison with other producing countries. As a result, despite very low labor costs and grower remunerations significantly lower than elsewhere, Rwanda is a high cost producer. Other constraints stem from the lack of up-to-date research, which affects agronomic practices of traditional crops and of new crops. Finally, marketing strategies and methods are antiquated and poorly implemented. To survive in export markets, Rwanda needs to produce high quality products, cashing in the opportunities offered by the natural conditions, and by the skills already developed among growers and in the processing industry, and to market them in new and innovative ways.

72. A major constraint that face poor smallholder cash crop producers is the low level of farm gate prices resulting in a lower share of the price of the processed products by comparison with other exporting

countries, including nearby Kenya. This can only be partly explained by the high cost of processing and marketing mentioned above, some of which also affect Rwanda's neighbors. A full participation of smallholder growers associations in the processing and marketing chain is a key to seriously address this constraint.

73. Experience in other countries (Kenya, for example) has shown that a significant improvement of the returns to smallholders is clearly associated with the **full** control of crop processing and marketing by the primary producers. In Kenya, several enterprises engaged in tea processing and marketing are fully owned by cooperatives of producers, and provide a service at cost to the cooperatives. All the net profits after mandatory reserves (and eventually allocations to support capacity expansion projects) are returned to growers in the form of higher prices for the raw crops they supply. Such results are only possible in the absence of other (private or public) shareholders of the processing facilities, whose interests and claims on the potential profit of the business are in competition with those of the planters. The IFAD project aims to introducing similar arrangements in Rwanda.

74. In Kenya, the privatization policy of government tea factories in favor of smallholders was not designed with specific poverty reduction objectives in mind. "Smallholder" tea growers cooperatives include farmers that do not belong to an IFAD target group. Many planters have over 10 ha of tea and are well to do people. In some cases, cooperative members are influential people with a large social and economic capital, a very high level of education, and may hold, or have held, important professional positions in major towns and/or government. Such structure of membership has certainly helped to accelerate the institutional development of the form of production and marketing organizations required to effectively compete in the global markets of today. The project mechanism of adaptation in the Rwanda circumstances and in line with the poverty reduction policy, that are required to achieve the full control by poor smallholders of the ownership of processing and marketing enterprises is discussed in Chapter VII, Section B.

75. **Policy issues and sub-sector development strategy in Rwanda**. To increase their export earnings, poor countries in Africa must successfully compete in a global international market, which is constantly evolving. For products that have special characteristics, global markets provide opportunities to fetch correspondingly special prices, which are linked to the area of origin of an agricultural product, and to special processing methods used to handle the crop grown in the special circumstances of that area. Wherever the opportunity exists for high quality export products to feature special characteristics, every effort should be made to transform the conventional export "commodity" into a "product", so that national producers can acquire adequate protection through specialized marketing techniques, quality control certification and true labeling. Such markets require **high and uniform** quality standards of produce that can only be obtained by modern production technologies, rigorous quality control, and efficient operations management.

76. Governments and International Financial Institutions should encourage producers in exporting countries to enter partnerships with those private enterprises of the importing countries that have the means, the know-how, and the established channels to actually put certified labeled products in the specialty and organic products markets. These enterprises would also provide the linkages that are necessary to evolve the products in step with the evolution of market demand in the course of time. This strategic approach should be coordinated with support of Donor Governments and of International Financial Institutions for the Fair Trade movement, aimed at helping to expand the market niche they have developed so far, almost exclusively with private resources. In Rwanda, most premises exist or can be established to seize these opportunities, and to turn them into an effective tool of poverty reduction. This requires, however, a real understanding of the implications for sub-sector policy design and implementation.

77. **Coffee.** In the coffee sub-sector, the emphasis of MINAGRI has so far been on replanting high yielding dwarf varieties, with a view to restoring the quantities produced in the past. Attention to issues of quality and of the potential of traditional varieties for the quality market has been inadequate. However, the quality issue cannot be considered an "add-on" to a coffee rehabilitation programme. It is the central issue, which must be solved to secure success and sustainability.

78. Unlike in Latin America, where they were developed, in Africa the dwarf varieties do not produce the quality of cherries required by high value markets. In Rwanda, the initiatives to produce fully washed coffee by private entrepreneurs, stimulated by the experience of nearby Burundi, are not sufficiently linked to the demand for top quality products or with a national effort to grow coffee varieties that produce quality coffees that can fetch remunerative prices. In the foreseeable future, standard quality coffees are likely to be sold at even lower prices than today. For Rwanda producers of standard (or lower) grade coffees, this would mean lower, not higher, grower prices. A few relatively large coffee farmers may still improve their net benefits from a combination of higher yields and low prices. However, to what extent this would be possible in the case of a large number of poor smallholders is a moot point.

79. During project formulation, IFAD extensively discussed the issue of quality and marketing requirements with the GoR. Other donors, including the USAID, have also presented similar points of view. A more flexible approach of the GoR is currently emerging. The promotion of high yielding varieties will be more mindful of the quality issue. Smallholder farmers will be encouraged to diversify out of coffee if they do not have at least the opportunity to supply a nearby washing station, or to produce coffee of the quality that can secure adequate prices. At the same time, Government will encourage initiatives which aim at exploiting the opportunities offered by an evolving international market, and by the country comparative advantage for growing high quality arabica. A market driven strategy would call for smaller areas growing high quality coffee and organic coffee, adequately processed and marketed. This approach may well earn the country more foreign exchange than a large area producing inferior products, most of which may not be saleable but below production costs for many years to come. Accordingly, in the best coffee growing areas, the GoR will encourage private enterprise production of high quality coffee, linkages with appropriate marketing arrangements, the development of organic production, including emphasis on research on integrated pest management (IPM). In the areas less favorable for coffee, the GOR should encourage farm diversification, possibly into more attractive new cash crops.

80. **Tea**. A good deal of work is still required to formulate an adequate programme for the development of the tea sector, combined with a coherent policy aimed at providing incentives to private investors and at securing adequate income for smallholder tea growers. These ought to include at least the general strategic lines of development of new tea planting and processing capacity, going beyond the statement of principles of the current privatization policy, the implementation of which also needs to be very significantly accelerated. The lack of progress on privatization has indeed been a stumbling block for several years. Donors are reluctant to assist the sub-sector, pending evidence of concrete progress under the privatization policy. Government preliminary plans include the expansion of the area planted two or threefold, without much attention to the potential for increasing yields, demonstrated by the only one privatized operation, and to market prospects, including the implications of nearby Kenya reaching its own production potential of 300 000 tons, which in itself poses a further threat to the stability of the international market price.

81. Priorities for the medium term are not difficult to identify. The construction of a factory at Nshili is by far the top priority. Most existing factories in Rwanda must be expanded so that they can adequately handle even the currently available green leaves in case of a bumper crop, and the potential production that can be attained if measures are taken to increase yields towards levels more in line with comparable areas elsewhere in the world. The drainage systems of several *marais* planted to tea need rehabilitation. New areas can also be planted, with careful attention to producing top quality products, to introducing organic tea with all the related measures aimed at increasing the use of farm yard manure and at strengthening land conservation, and to secure timely construction of new factories, which is essential for the financial survival of such initiatives.

82. **Production and marketing organizations**. For a Government committed to fighting rural poverty, the development strategy must include mechanisms that would facilitate the participation and empowerment of the poor cash crop producers in the exploitation of the opportunities offered by innovative marketing strategies and systems. Fundamental requirements to seize such opportunities are the development of modern industrial processing units, the introduction of rigorous quality control methods, efficient management, and access to new marketing technology and channels. This means also introducing **modern forms of production organizations**, with a legal status that permits the organization to engage in all of transactions

necessary to operate in the international market, and introducing specific mechanism and arrangements to ensure the control of such organizations by poor smallholder producers.

83. **New cash crops**. Diversification is important and is already taking place. To some extent, the development of alternative sources of cash income for smallholders should be coordinated with the farmer's willingness to get out of coffee in the marginal coffee growing areas, supporting in particular very small poor land holders and women. The strategy would emphasize a variety of crops, responding to private initiatives, and should provide incentives and support for those enterprises that meet the standards of quality required by the international market. This includes assistance to identify and develop new markets and new marketing methods and channels, and to cooperative establishment, training, and management.

G. PIP 2001-2003, other donors investment in agriculture, PIP status of the IFAD cash crop project

84. The principal donors who are supporting development in Rwanda during the 3-year period 2001-2003 have pledged a total of about USD 421 million of development assistance. The main donors are, in order of importance: the European Union (118 M USD); the World Bank (108 M USD); the African Development Bank (53 M USD), IFAD (46 M USD), and the UNDP (18 M USD), followed by Germany, Belgium, the United States, and China (between 14 and 11 M USD each). From a total of USD 421 million, the rural sector would receive a little more than USD 100 million. This availability of funds does not mean yet effective commitment, as this will depend on specific project agreements. It is difficult to ascertain the share which would support poverty alleviation, because all foreign and national partners claim that most of their contribution is made with that objective in mind, whereas an adequate design and an effective implementation of projects with that objective is difficult, and in practice does not always clearly emerge from the text of available documents.

85. Prospects for collaboration between the IFAD smallholder cash and export crop and other ongoing donors' projects are good. Among the projects that are undertaking similar or complementary activities, the USAID coffee development project based in Butare is of particular interest. The ongoing National Agricultural Services Project of the World Bank has an allocation of USD 49 million for crop support activities, which will be spent on activities that will be decided by MINAGRI during implementation. Disbursement under this loan is very slow, and the GoR has not yet clearly indicated to which extent they are prepared to draw resource for the coffee or tea sector from this loan. The EU has signed a general agreement with the GoR that includes up to USD 9 million for the coffee sector. This amount includes the development of a unit for *in vitro* reproduction of agricultural planting material (tissue culture laboratory), which can supply the nurseries of the IFAD project cash crop planting programme. In addition, the EU programme includes the rehabilitation of the road from Nshili to Mata, a project that is essential for the evacuation of the tea produced in South Gikongoro province. There is no specific allocation of donors' funds to support the tea sector, except for a sum of about USD 100,000 for a study of tea development, included in the approved EU programme. All donors are waiting to see concrete progress in the implementation of the privatization policy before they consider extending financial support to projects in the tea sub-sector.

V. THE INSTITUTIONAL CONTEXT

A. Decentralization and local government

86. In January 2001, the GoR introduced a far-reaching administrative reform which started the decentralization process. An official document of the Ministry of Local Administration and Social Affairs, issued in May 2000, outlines the main features of the decentralization policy. The document spells out the services and functions of the central administration that will be executed by **de-concentrated** units under the direct supervision of the central Ministries, and those that will be **delegated** to decentralized administrative agencies with full responsibility for execution. It also spells out the power, authority, functions and responsibilities **devolved** from the central Government to the decentralized administrative agencies, which will be given legal status with power to call and be called into courts of justice, so that they will formally become local government agencies. The paper also indicates the functions and responsibilities that must be retained at the center, namely, the formulation of national policies, the national security, foreign affairs, international trade, national financial and monetary policy, the formulation of national programmes in the field of education, culture and health, and the setting of national standards. All other functions would be entrusted to de-concentrated units of the central ministries, or devolved to local government administrations.

87. **District, Sectors, and Cells.** The system that was put in place by the administrative reform of 2000 divides the country into Provinces (*Intara*), corresponding to the old Prefectures, Districts (*Uturere*), corresponding to the old Communes, Sectors (*Imirenge*) and Cells (*Utugari*). The central government appoints the Prefects (*Umuyobozi*) who are responsible for the Provinces.

88. The **Cell** is the grass-root local government organization. Cells are administered by an Executive Committee elected by all adult residents in the Cell territory (between 200 and 400 HHs). Each Cell elects a Cell Development Committee (CDC) responsible for planning social and economic development activities in the Cell territory. The **Sector** is the next level of the democratic local government. Its territory includes several Cells. Cells development plans are coordinated by the Sector Development Committees, elected by the members of the Development Committees of the Cells of the territory of each Sector. Members of the Sector DCs elect their representative in the District CDC (CDDC).

89. The **District** structure includes the District Council, which elaborates the district policy, approves the district budget, mobilizes the population for development, and controls the activities of the Executive Committee of the District. The Executive Committee is the operational authority at District level. It nominates the District Community Development Committee, which is responsible for the formulation of economic and social development plans. *Ex officio* members of the CDC are: the Major (President), the District Secretaries responsible for financial and economic development, for gender affairs, for youth affairs, and the Secretaries responsible for development of each sector of the District. Members of Sector Development Committees are also members of the District CDC. The District Executive Committee recruits the District Secretary, who is a technical officer responsible for coordinating all the technical and administrative units of the central and local administration that operate at district level. He/she will ensure that the units effectively implement the directives of the Executive Committee, as approved by the District Council, in full respect of the country laws and in compliance with the general policies of the central Government.

90. The domain of the District is geographically defined by its administrative boundaries and includes a wide range of responsibilities: agriculture (including livestock veterinary services, forestry, and related extension function); land allocation; local commerce; primary, secondary, technical and commercial education (including teacher training); health services; water supply; tourism and environment protection; land tenure (including the cadastrial service); cooperatives and associations; local roads; gender and youth affairs; support to vulnerable HHs; culture and sports; protection of minors; and care of cemeteries and of the sites of genocide.

91. **The Province.** The document of the Ministry of Local Government defines the Province as a de-concentrated unit of the territorial administration of the central government, established with a view to improve the efficiency in planning and provision of government services. The Province coordinates, monitors and evaluates the planning and implementation of District activities and the provision of services by the deconcentrated units of the Line Ministries posted at Provincial level. The Organigramme of the Province includes a Coordination Committee, The Prefect, the Executive Secretary, and four Departments (Legal Affairs, Economic and Technical Affairs, Social and Cultural Affairs, General Services). Members of the Coordination Committee are the Prefect (Chairman), the Executive Secretary, the Presidents of all the District Councils, the Heads of the four Departments, and the Chiefs of the de-concentrated units of the Central Ministries posted in the Province. An important function of the Executive Secretary is the supervision and evaluation of the performance of the central government agencies operating at provincial level, with a view to ensuring the best possible provision of services by the de-concentrated units

B. Central government agencies relevant to project implementation

92. **Ministry of Finance and Economic Planning (MINECOFIN)** has its headquarters in Kigali. It is headed by a Minister, a State Secretary, and a Secretary-General. The Ministry comprises three principal departments: Finance, which includes Rwanda's tax revenue authority; Planning, and CEPEX, a unit responsible for coordinating the different projects that operate in the country. CEPEX performs a very useful function, facilitating the implementation of development projects, particularly in the field of planning and budgeting and streamlining the relationships between the line ministries, the project coordination units and the Ministry of Finance. Within the Ministry, a special **Privatization Unit** deals with turning over the government assets invested in production and trading to private sector enterprises. Close coordination with this unit is important for the IFAD project to ensure a coherent approach with government development objectives and policies in the cash crop sector

93. **Ministry of Agriculture, Animal Resources, and Forestry (MINAGRI)** is responsible for agricultural development policy and services. It has its headquarters in Kigali, and de-concentrated units in each province and district. The Ministry is headed by a Minister, a State Secretary and a Secretary-General. It is structured with seven technical departments, each headed by a director, who reports to the Secretary-General (who reports to the Minister). The departments are: (i) Agriculture; (ii) Livestock; (iii) Rural Engineering; (iv) Administration and Finance; (v) Planning; (vi) Extension; and (vii) Forestry. Deconcentrated units are established at Provincial and district level. MINAGRI sets the general policy for the development of all sub-sectors in agriculture. However, with regard to the traditional export crops, it operates through the national agencies specifically responsible for tea and coffee: OCIR-Thé and OCIR-Café.

94. **OCIR-Thé and OCIR-Café** were originally established to provide technical extension services, to control production, processing and marketing of the two major export crops of Rwanda. Under the liberalization and privatization reform, they are expected to divest their production and marketing activities. In the processing field, OCIR-Café has only a few assets and the sub-sector is *de facto* liberalized. In contrast, OCIR-Thé is the major industrial concern of the country, owns several large-scale tea estates and 10 tea factories, and plays a dominating role in the sub-sector. The GoR policy envisages that after privatization, the two organizations will continue to play a central role in the development of the traditional export crops, albeit not with regard to production and marketing. Important details of the new functions of these two institutions have not yet been firmly formulated. It is expected that they will have a role in technology generation and transfer, promoting and monitoring development, formulating and enforcing a regulatory framework for the private processing industries and marketing organizations. Both agencies, particularly OCIR-Thé, have a pool of highly trained and experienced technical and managerial staff with expertise in growing, processing the cash crops and providing extension services to growers. These staff represent precious human capital upon which to build further development of the sub-sectors.

95. **Ministry of Land, Resettlement and Environment** is responsible for the conservation of the natural environment of Rwanda, for land allocation in resettlement areas, and for formulating proposals for land tenure policies and legislation. However, land tenure affairs have been devolved to the District Councils, and responsibility for environmental and natural resources is delegated to various line ministries, including the Ministry of Agriculture, Animal Production and Forestry, the Ministry of Water, Energy and Natural Resources, and, in the case of protected areas, to the Rwanda Office of Tourism and National Parks. The overall role of the Ministry of Land, Resettlement and Environment is to control the implementation of the National Strategy for the Environment, and to ensure that technical ministries act in compliance with the environment conservation policy of the government. The ministry is structured into five departments: (i) Environmental Protection; (ii) Planning; (iii) Lands; (iv) Settlement; and (v) General Services. The Department of Environmental Protection has a staff of six professionals divided into three divisions: Environmental Policy and Planning, Monitoring and Evaluation, and Environmental Impact Assessments. No Ministry office is envisaged at provincial level.

96. The **Ministry of Commerce (MINICOM)** sets the policy framework and oversees the smooth functioning and development of the domestic and international market of the country. The *Office national de normalisation* (ONN) has been set up in the Ministry, with the mandate to define the rules governing production and marketing of goods in the domestic and international markets. Within the Ministry, a special unit funded by UNDP is responsible for market research and this unit would be very useful to assess the potential of new cash crops and to design promotional policies and measures for traditional export crops. The results will orient smallholder producers, individually and as groups or professional associations, as well as private entrepreneurs.

97. The ***Institute des Sciences Agronomiques du Rwanda*** **(ISAR)** is the main organization responsible for agricultural research. Its headquarters are in Rubona and it runs field stations in many districts. ISAR produces all the germoplasm required for the production of basic seed by the Department of Agriculture. Heavily affected by the war, during which many-trained staff were lost, it is still in the process of reconstructing its capacity. Currently ISAR appears overcharged with responsibilities, as a result of the heavy demand from projects funded by many Donors, including IFAD. With regard to tea and coffee, the respective role in research of the new OCIRs and of ISAR are not well defined.

98. The **Rwanda National Bank (RNB)**. The RNB is the central bank of Rwanda, responsible for managing the money economy of the country with a supervisory role with regard to all the banking institutions of the country.

99. The **Rwanda Development Bank (RDB)** is the national financial institution responsible for development credit. The bank is a joint venture of the GoR and private financial institutions (with foreign partners – mainly bilateral cooperations, and main Rwandese private companies). A recent World Bank review of the banking system of Rwanda included the RDB among the institutions that are considered viable and soundly managed. The RDB has played a major role in funding the industrial development of the country, contributing to the financial engineering of many commercial enterprises in the public and private sector in which it holds important equity participations. Its staff has experience in launching new enterprises, and in re-capitalizing enterprises that are viable in the long run, but need medium term support to overcome temporary financial difficulties. Loans have been extended to the RDB by the World Bank (3 loans), the AfDB (2 loans), and KfW of Germany (5 loans). The RDB institutional setting, policy, procedures, and currently financial situation are summarized in Working Paper 8.

100. The current financial position of the RDB is still affected by the loss of assets due to the 1994 war, which increased the loan delinquency rate from 17% of total loans outstanding in 1993 to 41% in 2000, despite the serious recovery drive undertaken after 1996. A full re-adjustment of the situation would require clearing all the loans that cannot be recovered due to the war by way of a fresh injection of capital. Pending that, the coverage of delinquent loans has been provided for by tapping the RDB reserves and shareholders' equity account, weakening the bank potential to raise funds in the capital market. Nevertheless, the 2000 income statement shows a modest profit, and the bank liquidity and capital/loans position is satisfactory, reflecting the prudent approach of the bank management.

101. A general programme for re-capitalizing and strengthening the RDB, including support for the bank involvement in the rural areas and in micro finance, was approved by the GoR in July 2001. In approving the RDB programme, the GoR took the view that the RDB, in view of its past performance (which includes funding since its inception sustainable projects that provide employment to over 26 000 people), and of its present sound and dedicated management, is the financial institution in Rwanda which is best placed to provide the required services to developing rural private enterprises and SMEs, in addition to carrying out its basic statutory functions. The RDB will play a central role in the implementation of the IFAD cash crop project.

C. Private sector organizations

102. **Farmers associations and cooperatives**. Rwanda farmers have a tradition for creating associations for a variety of purposes, ranging from social activities to mutual assistance in case of need, to ROSCAS. Some associations are established to exploit opportunities offered by donors funded projects. They are often sponsored by NGOs but tend to disappear when such opportunities fade due to the closing of a project. Other associations respond to specific needs of the people, are more stable and tend to be more permanent even though their membership may be subject to significant turnover. Women generally more interested in group activities than men. A large number of formal cooperatives currently exist. The membership of some formal cooperatives may not be exclusively smallholders. There are many cooperatives of coffee growers, and some large cooperatives of tea growers. In terms of efficiency and capacity, the situation is naturally highly diversified. Many groups, associations, and formal cooperatives are confronted with serious operation and management problems and need considerable support for institutional strengthening and training.

103. **National NGOs**. There are a large number of national NGOs in Rwanda. The quality of their staff and of the services they provide is very variable. However, a number of them have acquired a reputation for having competent, well-trained professional personnel who have organized themselves under the NGO formula to provide services of a public nature. Many among them have returned to the country after a long period abroad where they acquired considerable experience. Several NGOs were initially developed under the financial umbrella of I-NGOs that funded their activities. Over time, they developed their own market, providing services funded by development projects, and/or serving private clients. Most of these NGOs have substantial experience in working with rural people on social development and agricultural production. Some are highly specialized, for example: ARAMET specializes on *aménagement du territoire*, ARD specializes in agricultural development and multiplication of planting material of improved varieties, DUTERIMBERE specializes in microfinance and rural institutions, INADES-RWANDA specializes in cooperative formation and training, IWACU on community development, participatory approach, and training.

104. Several among the best national and international NGOs operating in Rwanda have good experience of formation, training, and general support to farmer associations. Some have good experience in developing rural credit and micro-finance institutions. However, the capacity to train and support processing and marketing operations of farmer groups and cooperatives is generally poor. With the exception of a recently introduced USAID project, experience is practically non-existent with respect to developing export marketing operations. This reflects the slow development of marketing systems and technologies in the country, and the lack of competition in the key export markets for many years, which has prevented the introduction of innovative methods.

105. **Fair Trade International Organizations and TWIN**. A key feature of the IFAD project is the mobilization of the Fair Trade Organizations for introducing a new approach to developing the traditional export crop sub-sector. As indicated in Chapter IV, there are national Fair Trade (FT) Federation established in 16 highly developed countries, that bring together several "Fair Trade Trading Partners" within each country, and an international organization, "FLO International", that provides independent certification of the products retailed by FT trading partners under true labelling of origin and quality in their respective consuming countries.

106. The TWIN group is one of the FLO trading partners. It was established 10 years ago in the UK. TWIN currently operates with 24 production cooperatives in 10 countries, supporting a great number of farmer families. Among the Fair Trade Organisations, TWIN is including countries in East Africa and Latin America, the most experienced in smallholder cooperative development, organisation and management. The TWIN group includes: (i) TWIN, which is a charity limited by guarantees, (ii) TWIN TRADING, a commercial private company, and (iii) three associated trading companies: Café-direct, Thé-direct, and Day Chocolate Ltd. TWIN is mostly responsible for work with poor primary producer cooperatives. TWIN's skills are in the mobilization, training, and organization of farmers associations, and in providing quality control, market information; management assistance and marketing assistance. TWIN provides the link between producers and consumers and ensures that farmers understand and apply the cropping and crop-processing practices required to meet the standards that would command the highest prices in the international markets. The policy of the group is to develop, on behalf of cooperatives of poor producers, specific market niches for labelled products that can sell at very attractive prices. The price at which the produce that meets specific quality standards will be purchased is announced at the beginning of each crop year. The larger trading margins are used in three ways: (i) to return one part of the profits to the cooperative of producers, (ii) to invest in further development of the market niche for the products, and (ii) to pay for the continuation of TWIN services to the cooperatives. The FT organizations statutory mandate is "fair trade as a means to improve the livelihood of poor agricultural producers", and TWIN controls that the communities use the bonus derived from FT sales to promote their own social, economic and human development.

107. TWIN's major function is to facilitate the establishment of close relationships between producers and buyers. This includes providing essential market information to the smallholder planters, activating specific contractual arrangements with members of the FT network, controlling and grading the quality of cooperative products, informing producers of the reasons for the grades and of the causes of inferior grades, and arranging for FLO certification of the produce that meets the required standards. Although TWIN has its own marketing outlet, cooperatives are encouraged to sell to the best offer, either to other FT organizations, or, for the share of production that does not meet the FT quality standard, to other traders. The network of information and relationships made available by TWIN to the cooperatives is an important factor reducing market failures through asymmetric information that affects producers in developing countries. TWIN interventions are initially supported by donors. However, once the production and marketing of the products of a project has been established, and the donor funding ceases, TWIN continues to support the producers' cooperatives with funds allocated by the FT trading partners from the trading margins, thus ensuring the long term sustainability of the operation. TWIN has agreed to participate in the IFAD cash crop project in Rwanda as Fair Trade technical partner of the project, and to contribute to funding part of its own intervention.

108. **Private Sector International Trading Companies**. FT organizations, such as Max Havelaar in France and Holland, act as intermediaries between cooperatives of producers and international trading companies interested in developing attractive market niches for poor countries that meet the required quality standards guaranteed by the FLO certified Max Havelaar-FT-label. A sizeable number of food processing and trading companies in Europe, the USA and Japan, have begun to cooperate with the FT network, prompted by the view that securing more stable relationships with producing countries, and helping local producers to improve their crops by offering remunerative prices for quality products, is necessary for the long term stability and development of sustainable trading relations. More recently, a number of trading companies (referred to as "ethically minded trading companies") have also followed similar approaches independently of the FT network. They are beginning to pay prices that are comparable to those of the FLO network for similar quality. Some of these companies are willing to invest in partnerships with smallholder producers to help their local partners to strengthen their sustainable economic activities. This policy is prompted by a primary long-term interest in securing reliable supplies of products of high quality and a favourable trading environment with a reliable supplier.

VI. PROJECT AREA, GENDER SITUATION, TARGET GROUP

A. The Project Area

109. At the request of the GOR, the project area includes four Provinces: Kibuye, Gikongoro, Kigali-Ngali, and three districts of Kibungo. The territory (see map no 1) includes the crest of hill chains that runs parallel to lake Kivu in a north-south direction at an altitude over 2 000 m, and the central plateau running east of the crest at an average altitude of about 1 700 m. The entire area is a series of hills, between 1 500 and 2 200 m high. Most hills have rather steep slopes, and are separated one from the other by narrow valleys, often of poorly drained peat soils. Soils were originally fertile soils of volcanic origin across most of the area. However, many areas now have low natural fertility due to over exploitation, deforestation, and erosion. Seven agro-ecological zones are found in the area. About 2/3 of the total territory is included in the high altitude high rainfall agro-ecological zones of the Congo-Nil crest and the Central Plateau.

110. Rainfall is bimodal, ranging from 1 250 mm in the lower and drier areas, to 1 700 mm at the higher altitudes. Average annual temperature is 19 to 22 degrees C, dropping considerably at night during the 22^{o}C rains. Two crops a year are normally produced, with a third one also grown in the valley bottoms after drainage. Population density is high (about 2.6 million people, 500 000 rural households). Farmers crop very small plots of land, seldom left fallow because the total land holdings at their disposal (on average 1 ha per household, consisting of several plots in different sites) is just sufficient to make a living.

111. Ninety per cent of farmers in the project area are poor smallholders, land holdings of more than 1.5 ha are less than one tenth of the total. The farming system includes food crops of various types, depending on altitude. Maize, beans, sweet potatoes and bananas are grown at lower altitudes, and maize, wheat, peas, and potatoes are common as altitude increases. Coffee growing is widespread in the smallholder farming system. Tea is more common at higher altitude, grown by farmers located within convenient distance from the existing factories. Fruit and vegetables farming is beginning to become a significant feature of the farming system, particularly in areas well connected to larger urban centers. Horticultural products occurs in the valley bottoms, where drainage and irrigation facilities have been installed. Most farmers keep some livestock, the less poor have one or two cows, women keep one or two small ruminants, some poultry and also pigs.

112. **Coffee**. Table 3 shows the number of districts officially classified as "*caffeicoles*" in the project area, and the percentage of coffee planters in each province. Not all of the project area is equally well suited for coffee production. The best coffee areas are in the Kibuye provinces, with yields between 1.2 and 1.5 tons of café parche per ha. This area produces high altitude, potentially very high quality coffee. In the eastern part of Gikongoro, there is also good potential for high altitude and good quality production, and current average yields being about 1 000 kg/ha. In Kibungo and Kigali-Ngali, conditions are less optimal, and average coffee yields are about 700 and 800 kg/ha. Nevertheless, there is also potential for producing good quality cherries and better yields in the southeastern part of Kibungo, and in the higher sites of Kigali-Ngali.

Table 3

Province	Number of project districts	Number of sectors	Number of *Sectuers cafeicoles*	Percent of total coffee planter HHs in the project area
Kibuye	5	102	44	10
Kigali-Ngali	9	139	129	56
Gikongoro	4	125	34	12
Kibungo	3	40	40	17

113. In 1999, a total of 133 000 coffee growers, 27% of the total number of rural households, were recorded by OCIR-Café in the four provinces. These planters produced 5 400 tons of café parche, about 30% of the national total. The present distribution of coffee bushes does not reflect site comparative advantages or farmer preferences, because coffee was not a free choice of the growers until recently. Almost all bushes planted were under compulsory coffee growing schemes. The varieties planted are mostly of the traditional Burbon type, with the exception of a small area replanted recently to high yielding dwarf varieties by some well-off farmers who responded to the advice of the government extension officers. Approximately one quarter of coffee bushes are over 30 years old. Many plots that were abandoned during the war need rehabilitation. Some are hardly tended due to the very low level of prices. Farmers sell café parche to private traders, the cherries are de-pulped manually at their farms or processed with simple hand operated machines owned by groups of growers.

114. The average size of a coffee plot is largest in Gikongoro with about 300 bushes per planter, followed by Kibungo with 240 bushes, Kigali-Ngali with 150 and Kibuye with 125. However, some of the wealthier extended families may control up to 3 000 bushes in several plots. Formally all the plots would belong to the head of the extended family who control the entire income, even if the individual plots are allocated to his children who tend the plots. In Kibuye, about 400 of these farmers have formed a coffee grower association that is very active and energetically run. Other coffee grower associations exist in Kibuye, Gikongoro, and Kigali-Ngali, with membership including very small coffee growers as well as growers that may control up to about 1 ha of coffee in several plots.

115. In Gikongoro, the most frequent coffee plot is hardly 0.14 ha on average, less than 10% of the total land cropped during a year, when account is taken of the double cropping of seasonal crops. In the other provinces, the share of the coffee plot in the most frequent total land holding is even less. Poor farmers have generally some 150 bushes and very poor farmers may have 50 bushes, or sometimes none. For poor households, coffee has never been the main source of livelihood, and with the present low farm-gate prices it is no longer an important source of cash income.

116. **Tea**. Tea is grown by smallholders and in industrial estates at high altitude in Gikongoro and Kibuye provinces, and transported for processing to three factories located at Mata and Kitabi in Gikongoro, and at Gisovu in Kibuye province. A total of 4 100 ha is planted, 36% of the total tea area in Rwanda. About 3 000 ha are in Gikongoro, and a little over 1 150 ha in Kibuye. The area planted by industrial estates is about 2 200 ha in the two provinces. There are four OCIR-Thé industrial estates, three in Gikongoro, including the estate at Nshili where there is no factory, and one estate in Kibuye.

117. Smallholder tea covers a total of 1 900 ha, planted by 7 200 HHs in Gikongoro, and 2 500 HHs in Kibuye, respectively 7% and 3% of the rural HHs in the two provinces. The average size of the smallholder tea plots is 0.22 ha. Yields vary depending on the weather and location. Between 1.0 and 1.2 tons/ha of tea is bush/ha produced in smallholder plots, and 1.3 to 1.5 tons/ha in the industrial estates. Yields are low in both industrial estates and smallholders, largely due to inadequate supplies of fertilizers and to less than optimal cultural practices. Yield increases of 30-50% are perfectly possible, with more inputs and better care of the bushes. The experience with cooperative tea farming in Rwanda, is outside the project area. In Mulindi, Byumba province, tea is grown by cooperatives of planters who have been allocated plots of 0.70 ha per cooperative members. For a long time, these plots recorded an average of 1.3 tons of tea per hectare. However, in 2001 the cooperatives have succeeded in increasing the average yield to a peak at 2.5 tons, through a combination of good weather and timely and adequate doses of fertilizers made available by the private management of the SORWATHE.

118. **Other Cash Crops**. According to the socio-economic investigation undertaken by IFAD before project formulation, smallholders in the project area do not have the same perception of the concept of “cash crop” as government officials and project planners. For smallholders, any crop which they can sell in the market is a “cash crop”, and this includes crops that are their basic food supplies, as well as crops produced (almost) exclusively for the market. The distinction of cash crops vs. food crops is artificial. Maize and bananas, as well as banana and sorghum beer, are traditionally marketed by smallholders, the latter being an important source of cash revenue for women. Many farmers in Kigali-Ngali are engaged in horticulture

production consisting of tomatoes, onions, carrots, cabbages, and other types of vegetables. Some of this production is consumed, but most is sold to the Kigali and other urban markets. There is inadequate statistical data on this activity to report how many households are involved and to which social stratum they belong.

119. Fruit production is also rapidly expanding in the project area, particularly in Kigali-Ngali. Passion fruit (maracuja), in particular, has a good market. Yields are about 20 tons/ha, no chemicals are used, and prices paid to growers for export quality is Frw 250/kg. A smallholder planting 0.02 ha of passion fruit may earn a net income of about USD 70, twice as much as from 0.1 ha of coffee. The fruits are purchased by traders, and also by small and medium size private enterprises that produce excellent juice, some of which is exported. Air export of fresh passion fruit has also begun. In an area in the north of Kigali-Ngali up to 30% of the farmers have planted a small plot of passion fruit. In three districts of this province, a total of about 110 ha of passion fruit are grown, producing 2 200 tons. The absence of technical support to passion fruit growers is a problem, there are signs of emerging difficulties due to poor control of the quality of planting material, and to pest and plant diseases.

120. One of the new crops is Cape gooseberry, which are a native plant in Rwanda. A single woman entrepreneur has begun to export from Byumba, marketing the produce of an association of about 500 women who cultivate the berries. This activity has been extended in Kigali-Ngali involving an additional 400 women farmers. The women planted the crop in their home gardens. The harvest is collected, selected, cleaned and packed for air shipment to Europe and is also purchase by a farm factory in Uganda. The quantity actually exported to Europe is 500 kg per week, fetching a price in Europe of about USD 5/kg. Shipment to Uganda are about 2 times per week. Women producers are paid USD 0.9/kg, their average income being of the order of USD 40 per annum from growing gooseberry on 0.05 ha. Cut flowers are also produced in Kigali-Ngali. This is essentially a large-scale industrial sophisticated and intensive glasshouse activity. It generates significant employment among women, but is not a small farmer business.

121. In the parts of the project area that are near to the main consumption and export outlets and better connected with transport infrastructure, there is scope to significantly increase production and export of passion fruit, particularly concentrate juices of fresh gooseberries and of other high quality tropical fruits. The opening up of regular airfreight traffic from Rwanda to Europe and to the Arabian peninsula states via Uganda has created new opportunities. In these activities, smallholders will benefit as primary producers. However, they will have to either acquire the management and technical skills, and to master the resources required to develop modern processing and marketing activities of their own, or sell their crops to private entrepreneurs who are capable at providing and manage the critical processing and marketing of the farm produce.

B. Poverty, gender situation, and HIV/AIDS

122. Poverty and extreme poverty are common in the project area. The average HH size is 5 people. About 30% of the HHs are women headed. Between 6 and 10 percent of the HHs are composed of one adult over 60 years old and several orphan children. Minor heads of HHs are 1.2%. Literacy is 57% among males and 53% among females, with 67% and 60%, respectively, of the boys and girls in school age actually attending school. Between 40% and 60% of the families complement their agricultural income by selling their labor. Money revenues are reported at very low levels (maximum the equivalent of USD 130 per household per year, USD 26 per member of HH). Some reports suggests that very poor and vulnerable HHs have a family cash income of only USD 12 per member and per annum, which generally does not originate from production of cash crops.

123. Two crops a year are planted in the area, except of course for the perennial crops (coffee, tea, bananas, cassava, and fruit trees). About 10% of the HHs have no land. However, these include a large number of returnees who are still in the camps waiting for the District authorities to assign to them a plot of land. The majority (about 70%) of the HHs have less than 1.5 hectare of land holdings. Among these, there are many

HHs with only about 0.5 ha of land. Ten to fifteen percent of the HHs have between 1.5 and 2 ha of land, are relatively well off, and have more livestock than families with less land. About 5% of the HHs have more than 2 ha, rear a few cattle and sheep, have some forestry plots, and are considered wealthy.

124. In all provinces, the majority of the HHs live below the threshold of poverty which is estimated at an income of USD 425 per HH: 77% in Gikongoro, 73% in Kibuye, 71% in Kigali-Ngali, 51% in Kibungo. Broadly speaking these HHs are classified in two categories: the "poor" and the "very poor", the latter including many vulnerable HHs, who live at the bottom of the social stratification. The following table shows an estimate of the different sources of annual income of "poor" and "very poor" coffee planter HHs in the project area. The data represent an elaboration of information collected by IFAD during the formulation and appraisal missions, and of information contained in the Government poverty studies undertaken for the formulation of the PRSP. The farm models for "poor" and "very poor" HHs have been elaborated in Working Paper 4 on the basis of a modal farm holding of 1.1 ha and 0.6 ha, respectively. Poor HHs are near to food self-sufficiency, at least in terms of total calories produced in their farms, whereas very poor HHs cover only half of their requirements. They earn more cash income than poor HHs from selling their labor, and are probably forced to use all of their wage earnings to supplement their own food production.

Table 4: Sources of income (annual) and gaps to threshold of poverty. "Poor" and "very poor" coffee planter HHs in the project area

Type of households by stratum	Poor HHs	Very poor HHs
Modal land holdings	1.1 ha	0.6 ha
Sources of income (USD equivalent)		
Net farm income	248	135
of which, coffee	20-30	10-15
Other income	100	120
of which, cash income	50	70
Total income	348	235
Total cash income	125	80-90
Nutritional value of the food-crops produced (Kcal/person/day)	1,819	992
Gap (USD) to threshold of poverty (USD 425)	-77	-190

125. Tea growers are generally better off. In Gikongoro, the income of a household with 0.22 ha tea plot and a total farm size of 1.1 ha is only marginally less than the threshold of poverty. At Nshili, however, a poor HH selling labor to the OCIR-Thé plantation is well below the threshold of poverty, more or less in the same position as poor coffee growers elsewhere in the province, despite the cash income from working on the plantation. People not employed at the plantation and women head of HHs who live in the district, are distinctively worse off. An approximate estimate of the situation is shown in Table 5.

Table 5: Sources of income and gaps to threshold of poverty: Smallholder tea planter HHs in central Gikongoro, and tea plantation labor HHs in the Nshili district

Type of HH: complete family with 5 members, 2.5 labor units	Smallholder tea planter HHs in central Gikongoro	HHs selling labor to the Nshili plantation
Modal land holdings	1.1 ha	9 ha
Sources of income (USD equivalent)		
Net farm income	341	233
of which, tea	84	0
Other income	80	120
of which, cash income	30	90
Total income	411	353
Total cash income	114	90
Nutritional value of the food-crops produced (Kcal/person/day)	2,040	1,850
Gap to threshold of poverty (USD 425)	-14	-72

126. IFAD interviews with the smallholders in the four provinces indicate that the causes of poverty, as perceived by the people include:

- too many people for the available land;
- insufficient labor in the family;
- no access to land in the valley bottoms;
- non availability of agricultural inputs (fertilizers and pesticides);
- poor marketing facilities for all crops (except for tea planters);
- very low and unstable prices of coffee; and
- large number of associations but little impact of their presence.

Women in the Project Area

127. Women head approximately 30% of all households in the project area. In order of importance, women's main tasks are: farming (food and cash crops; livestock husbandry (especially small ruminants, pigs and chickens); domestic chores (fetching water and firewood, preparation of meals); family responsibilities (care and education of children); and off-farm tasks such as basket-making, pottery, embroidery; petty trading and hiring themselves out as paid labour, etc.. Women spend 14-17 hours of their day on these burdensome and tiring tasks, often working with the most rudimentary implements. With the limited spare time available to them, women have little rest and are thus at risk in terms of health and have little interest in further education or training or in attending meetings organized at the village level. As opposed to men, who earn more - especially from the sale of cash crops or at harvest time - women's earnings are much more modest and spread out over the entire year. However, whereas men spend much of their earnings on consumer goods for their own use (including alcoholic beverages), the money earned by women is ploughed back into the family since it is essential to the very survival of the household. This does not, however, apply in the case of households headed by women as they take all decisions.

128. **Activities Targeted at Women.** The activities proposed under the project aim at reducing the above-mentioned inequalities between men and women. Each project component will promote actions in favour of women that deal both with their immediate needs and increase their access to information, production means, resources and financial services and their participation in community management.

129. Activities targeted at women will mainly involve: (i) formation of associations/cooperatives of tea or coffee producers and nursery women (production of tea or coffee plants and forest species); (ii) distribution of 965 ha of existing tea plantations and 200 ha of new tea plantations in Nshili to 4 800 poor households, of which 33% to 50% will be women heads of HH; (iii) distribution of tea and eucalyptus plants to women heads of household with a view to creating new tea plantations and woodlots in Mushubi; and (iv) for women members of the primary societies of tea and coffee growers access to microcredit.

130. **HIV/AIDS in the Project Area.** The HIV/AIDS epidemic constitutes a serious threat to the Project Area human resources and overall development in the Project Area. The nationwide 13.7% of the population over the age of 12 is affected by the epidemic. According to some reports, 23% of HH in Gikongoro and 60% of those of Kibuye are infected. GoR is planning to undertake studies to obtain the HIV/AIDS disagregated data by province. The HIV/AIDS epidemic has serious consequences for (i) the agricultural sector, by reducing the labor force available in the family and public investment due to re-channeling resources from the agricultural sector to health. In the education sector the impact of the disease is felt in less the supply of teachers as a result of illness and death, and absenteeism due to caring for sick family members.

C. Potential role of traditional cash crops for poverty reduction in the project area

131. Coffee growers are classified in Rwanda according to the number of bushes in their plot. In the project area, one tenth of the planters have less than 50 bushes, 60% between 50 and 150 bushes, 25% between 150 and 250 bushes, and 5% more than 250 bushes. Under the prevailing size of holdings and prices, the gross income from coffee is not very large. At the current price (Frw 200/kg of *café parche*) the monetary value of the annual production of 150 bushes would be around USD 25-30 in the best yielding areas. In lower yielding areas, a farmer's annual earnings would be around USD 10-15 from the same number of trees. Farmers with less trees would earn correspondingly less.

132. Most poor smallholder farmer have about 1.1 ha of land and 150 coffee bushes. In order to increase the income of these HHs from the present level to near the threshold of poverty, the project should be able to provide an annual extra net income of the order of USD 80 from coffee. This is possible, through a combination of higher producer prices, a minimum of 250 plants on a 0.1 ha plot, better crop yields, production of top quality cherries, adequate industrial processing, and innovative marketing strategies and methods. Very poor coffee planter HHs could increase their cash income by about USD 30 as a result of participation in the project. This would not be sufficient to raise them to the threshold of poverty but would made possible a significant improvement.

133. Smallholder tea is only grown in areas within convenient distance of a tea factory. Growers gross income from 0.22 ha of tea is about USD 120 per annum, to which cash costs of about USD 50 must be deducted resulting in net cash earnings of about USD 70. This is not only better than having 150 coffee bushes, but offers the considerable advantage of representing a continuous, regular, cash inflow during the year.. There is considerable scope for increasing tea production in the project area, with a good market for the potentially excellent quality tea that the high altitude hills can produce. There is also considerable scope for significantly increasing, in due course, the price paid to growers.

D. The project target group

134. The definition of the target group of a cash and export crop development project must identify the area of convergence of three major sets, namely, (i) the number of HHs living below the poverty line, which are the target of the GOR and IFAD poverty reduction strategies, (ii) within that group, the number of HHs willing and capable of meeting the conditions required to join financially sustainable development activities in the sub-sectors, and (iii) the number of HHs of the latter group that can be accommodated, taking into account the suitability of natural conditions for quality production, and the market constraints and opportunities that would make such sustainable development activities possible. Within the smaller set, gender-targeting issues would be addressed. Finally, consideration must be given to the opportunity of including some of the local wealthier farmers coffee growing associations. This would increase the very limited initial social capital of the poor participants in the IFAD project, facilitate start up by building on existing local groups, and avoid potential conflicts. However, measures should also be introduced to ensure that the wealthier groups do not acquire a dominant position over the interests of the poor.

135. For the next decade, the scope for producing coffee of the quality that can be sold in remunerative markets is probably limited to 1 200-1 300 tons of Fully Washed coffee, of which one quarter to one third may be absorbed by the speciality markets. Most of the balance would be sold at significantly lower prices, at least until a worldwide reputation for good quality Rwanda coffee producers and for ease of doing business with them has been established. This production would require a maximum of 8 000-10 000 tons of cherries of good quality. To secure the extra net income required to reach the threshold of poverty, a coffee grower must have 250 bushes in his/her plot, and a yield equivalent to at least 5 000 kg/ha of cherries of good quality. This means that the project could in theory accommodate between 15 000 and 20 000 poor HHs, with a large proportion having plots of 150 to 250 plants. This number of HHs would represent 12-15% of the total number of coffee planters in the project area recorded by OCIR-Café in 1999, probably as much as 20% of those remaining in the sub-sector, after the expected reduction of the number of coffee growers forecast by the government. It is a very ambitious target for a first phase of the innovative development proposed in the project, because it implies that one out of five coffee growers in the project area will be capable of achieving, and of **maintaining** over time, the high standards of coffee husbandry required to produce the quality demanded by the market. The potential target group of the coffee component of the project would include some 80-100 thousand people, 3.5-4% of the total population of the four provinces.

136. With respect to tea, the situation in the Nshili district (southern Gikongoro province) offers a unique opportunity to concurrently implement the GoR privatization and poverty reduction policies. Several thousands poor households live around the OCIR-Thé Nshili plantation, including about 3 000 women head of HHs. Many of these women are war-widow and/or victims of the genocide. The privatization of the OCIR-Thé estate by distributing the planted area to smallholders on the basis of plots of 0.25 ha each, would benefit about 4 000 poor HHs, and a relatively minor expansion of the planted area would benefit another 800 poor HHs.

137. Another very poor area suitable for high quality tea production is the Mushubi District of northern Gikongoro, where about 1 200 ha of smallholder tea can also be planted. The project target group can thus include about 4 800 HHs in the Nshili District, and an approximately equal number in Mushubi District.

138. The number of potential beneficiaries of the new cash crop development cannot be estimated *ex ante*, since project design must be flexible, and market potentials for new crops will be established from time to time during project implementation. In all cases, the project will give preference to supporting SMEs, and groups, associations, and cooperatives of poor and very poor families.

139. Gender targeting requires special attention to the problems of women cash crop producers. To the extent that women head of HH are involved, their major problem would be cash to buy planting material and inputs and possibly some loss of income due to replanting or to expanding her coffee plot at the expense of some food crop production. The cash problem is addressed in two ways: (i) by the project providing planting material and inputs for coffee rehabilitation and plot expansion free of charge, and (ii) by extending to

smallholders participating in the project credit guaranteed by the sale of their crop to the processing companies. It is not unlikely that very poor women head of HH may have very small coffee plots, and might be more interested in crops other than coffee. In this case, they would be helped to diversify. The successful experience with cape gooseberry, women crop grown in the house garden, suggests that there are opportunities to develop new crops, which specifically provide incremental cash income for women. Such crops require labor inputs that are within the reach of very poor women headed HHs. In the case of tea, women do most of the harvesting work. Measures should be introduced by the project that would strengthen the control of tea revenues by women. Whenever possible and feasible, as in the case of the Nshili tea area, poor women heads of HH would be selected on a priority basis as direct beneficiaries of project interventions.

140. Whereas the bulk of the potential project target group is made up of poor and very poor HHs, the nature of the activities envisaged require some flexibility. In the coffee and tea sub-sectors, the project must avoid creating conflicting situations with local wealthier coffee and or tea grower associations. The project should actually build on existing farmers institutions in the area of intervention, introducing measures to moderate the risk that wealthier participants in the project end up dominating poor participants. One solution to this problem would be to plan the control of processing and marketing by several producers associations, each with equal formal voting power. One or two of these associations may well be wealthy members dominated, others (the majority) should be fully in the hands of the poor. In addition, the project must ensure that individuals or groups external to the local communities do not acquire dominant or influential positions in the organizations that implement the processing side of the project.

141. In the case of the new crops, however, the inclusion of SMEs is necessary and welcome. In this field the entrepreneur is a key actor of development. The SMEs would be often controlled by entrepreneurs who may well not qualify as IFAD target group. Some may not even be resident in the production area. These people will be essential to promote and manage the new activities for their own benefit, but also to make it possible for participating farmers belonging to IFAD target group to benefit as well. However, the project will make a special effort to support poor farmers' associations and new entrepreneurs that will emerge from the membership of such associations.

142. *Ex ante* targeting may remain a declaration of good intentions if it is not followed by actual implementation. The danger is real in a project that promotes situations that are expected to be very dynamic, with success depending on reaching high standards of management of the production processing and marketing cycles, and capacity to overcome stiff competition in the world markets. Accordingly, beneficiary tracking, including tracking of women participation and related problems, must be an important part of the M&E system of the project, with resources available for adequate monitoring, and to fund interventions in case of unforeseen events that may modify the target group of the project to an undesired extent.

VII. PROJECT RATIONALE, GOAL, SPECIFIC OBJECTIVES, STRATEGIES, IMPLEMENTATION POLICY

A. Rationale of a crop focused project

143. The choice of a crop focused project responds to the challenge of assisting the GoR to develop sub-sectors of agriculture, which are of key importance for the growth of the national economy, and, at the same time, to seize emerging opportunities for combining such economic development objectives with poverty reduction objectives. Support of subsistence agriculture alone, however is not sufficient to reduce poverty. Effective poverty reduction requires market-oriented intervention, effective linkages with market opportunities, and initiatives that can generate multiplier effects in the economy. In Rwanda, the rehabilitation and development of the export crops sub-sector, and the maximization of related foreign exchange earnings, are key factors of sustainable economic growth and balance of payment equilibrium.

Rwanda has good potential for significantly increasing the quantity and the value of the traditional export crops and for diversifying the production of cash crops to meet both export and local market demand.

144. Due to poor international market prices, the current coffee production is half of the level reached in the 1980s, and the quality is poor due to inadequate processing and absence of control over quality. However, several areas of Rwanda produce excellent arabica coffee at farm level. This production can be expanded, and processed with modern methods, to produce coffees that can be marketed at much higher prices than currently obtained. Several areas of Rwanda produce valuable tea crops, for which current export prospects are still favourable. There is scope to increase tea production, expand processing facilities, and improve marketing. Diversification of cash crop production is possible wherever local and export market demand exists. Such crops include selected tropical fruits and spices, silk from silk worm mulberry trees, other crops such as vanilla, etc. These new sectors would provide employment to many poor women.

145. New market opportunities for coffee and tea producers in developing countries are emerging as a result of the activities of private enterprises of the Fair Trade (FT) network in the markets of high income countries. The FT network has developed special market niches for labelled quality products and offers remunerative prices to cooperatives of smallholder producers that manage to supply such quality products. The participation of FT network members in this project will secure organisation and training of smallholder cooperatives in processing and marketing their crops so that they can meet the quality standards required, innovative marketing strategies, and access to remunerative markets for the cooperative products. As part of their mandate, the FT organisations provide continuous support to the cooperatives, well beyond the completion of projects, thus enhancing sustainability. To this effect, the project has secured the participation of TWIN, the FT organisation most experienced in working with poor smallholder cooperatives in East Africa and Latin America, in the capacity of FT technical partner and co-financier of the project.

B. The goal of the project

146. The **goal** of the project is to maximize and diversify the income of poor smallholder cash crop growers, subject to developing financially sustainable commercial processing and marketing activities. To this end, the project would deal with coffee, tea, and new cash and export crops.

C. Specific Objectives

147. The project design is simple, focused and has the following specific objectives: (i) introduce mechanisms that secure the maximum increase of growers' prices compatible with financially sound processing and marketing; (ii) maximise the quality and the value of the coffee and tea products sold in the international market; (iii) develop efficient and democratically managed spontaneous primary cooperative societies of coffee and tea growers, and secure their full participation and empowerment in the processing and marketing phase; (iv) facilitate the participation of poor women head of household in the coffee and tea development activities; (v) develop efficient, cost effective, and financially sustainable processing and marketing enterprises in the private sector, ultimately controlled by the primary cooperative societies; and (vi) promote the diversification of the cash and export crops produced by SMEs and smallholder cooperatives, with particular attention to women and very poor households participation.

D. General Strategy

148. As discussed in Chapter IV, the achievement of the goal requires, particularly in the case of tea and coffee, the establishment of modern processing industries, modern production organizations and effective forms of smallholders empowerment of the production and marketing process, as well as developing new market access and innovative marketing methods. The general strategy of the project is based on five basic prongs:

- securing production of top quality products requested by the international markets;
- associating Fair Trade private organizations to secure access to remunerative markets;
- empowering poor smallholder producers to full control of processing and marketing operations in tea and coffee;
- supporting farmer associations and private sector SMEs to produce and market new export crops; and
- ensuring sustainable credit for growers and processing/marketing enterprises.

149. **A flexible approach**. The project strategy may be implemented in several ways depending on the dynamic circumstances that will be encountered in the course of time in the different sub-sectors of intervention. For example, in the case of coffee, the project model described in Chapter VIII is constructed on the basis of one possible option, which is presented as an illustration and to provide a basis for costing the component and for estimating the financial and economic viability of the proposal. However, other options are possible, which cannot be fully examined at the moment, or may emerge as a result of the initial project activities, as indicated on Working Paper 12, Section 4.

150. Therefore, a general implementation strategy of the project would be **flexibility**. The approach will be more flexible in the sub-sectors where there are more options to be examined in detail at the time when actual implementation decisions are taken, in the light of circumstances that may change between the time of appraisal and the time of action in the field. However, in examining specific investment options, the project will be guided by a set of implementation principles, which would ensure that the project goal and specific objectives are achieved. Specific decisions will be taken during implementation after clearance from IFAD. The project includes mechanisms to release funds only against specific investment decisions that meet fully the project criteria as described below.

E. Project Strategic and Implementation principles

151. Specific arrangements for actual implementation will be approved for funding only if they comply with the following project strategic and implementation principles.

152. **Coffee**. In the coffee sub-sector:

- to support the rehabilitation, rejuvenation, and expansion of poor smallholder coffee plots in selected areas suitable for top quality coffee production, with a view of enabling participating farmers to achieve the standard of quality production that would secure adequate remuneration for their crops;
- to promote and train existing and newly established coffee growers primary cooperatives/societies so that they are enabled to fully control the processing and marketing phases in due course;
- to introduce a credit scheme, guaranteed by the supply of coffee cherries, that would enable the members of the primary societies to purchase inputs and other means of production and livelihood;

- to support the establishment of modern mechanical de-pulping, washing and hulling units of a size that can be ultimately owned and managed by local farmers, the membership of the majority of such societies qualifying as IFAD target group;
- to introduce mechanisms that will ensure the gradual acquisition of full ownership of the processing and marketing facilities by the primary cooperative societies of poor planters;
- to fund such facilities in accordance with sound commercial and development finance practices,
- to provide temporary general management services for the coffee processing and marketing enterprises, and management training for the primary cooperative societies leaders that would take over control of the enterprises in due course;
- to mobilize the services of TWIN to provide to the cooperatives: technical advice on crop production and temporary overall management of processing and marketing cooperative enterprises, market information, product control and certification, promotion of the image of Rwanda quality coffee abroad, and access to Fair Trade organizations and to commercial enterprises connected with the network, with a view to supporting the sale of the coffee at the best price for quality, and to enter the specialty and eventually the organic coffee markets; and
- to support agronomic research on technologies that would eliminate quality imperfections in the Rwanda coffee crop, and to reduce or eliminate the use of chemical inputs for pest and disease control in coffee growing, with a view to introducing organic coffee production to the greatest extent possible.

153. **Tea**. In the tea sub-sector:

- to support the privatization of the OCIR-Thé estate at Nshili by distributing the plantation to poor smallholders resident in the surrounding area, securing that between one third and one half of the beneficiaries of the distribution are women head of HH, and introducing mechanisms that would ensure that the tea holding of each beneficiary would neither change the nature of the exploitation, nor be transferred to other subjects not qualifying as IFAD target group;
- to organize the beneficiaries of the land distribution into smallholder primary cooperatives/societies, and to train them to properly handle the tea crop;
- to introduce a credit scheme, guaranteed by the supply of green leaves, that would enable the members of the primary societies to purchase inputs, and other means of production and livelihood;
- to establish a new Tea Company in the private sector that would build a factory at Nshili to process the green leaves of the privatized OCIR-Thé plantation, funding the new company under arrangements that would enable the primary societies of beneficiaries of the distribution of the OCIR the estate to gradually acquire actual full control of the tea processing and marketing operations, securing effective private sector oriented management of the new company;
- to mobilize the services of TWIN to provide technical advise, market information, produce control and certification, and access of Fair Trade organizations to trading companies connected with the FT network, with a view to supporting the sale of Rwanda tea at the best price for quality, and to enter the specialty market;
- to provide organization and training support to the primary societies/cooperatives to enable their leaders to manage the business, the property of which would be gradually acquired; and
- to support new smallholder tea planting and eventually organic tea production in the Mushubi area.

154. **New cash and export crops**. In the new cash and export crops:

- to provide market research and marketing assistance ensuring easy access of private individuals, SMEs and poor farmer associations to these services;
- to support the formation and training of spontaneous farmers' asosciations wishing to develop new cash and export crops, responding to initiatives of private sector enterprises, or wishing to start independent activities of their own;
- to support agricultural research require to solve problems of farmers investing in new cash crop production;
- to support extension activities by private enterprises that process and/or market new cash and export crops, with a view to enhancing poor farmers participation;
- to support investment project preparation and information exchange by SMEs and farmer association; and,
- to provide funds for extending credit to the SMEs and farmer associations on condition that their projects meet certain criteria regarding the creation of employment and income generation for IFAD target group, and the basic hygienic and safety production and environment protection standards that are required to sell in the international market.

F. Smallholders empowerment in commercial organizations

155. **Empowering smallholders to control crop processing and marketing operations**. The key to increasing the share of smallholder producers in the processing and marketing margins of the coffee and tea trade is the control of processing and marketing operations by the smallholders. The experience of the FT organizations in several countries supports this view. The experience of some Kenya tea factory privatization projects have been recalled in Chapter IV (Section F). In Rwanda, the poverty reduction mandate of IFAD, the weak current situation of most growers and associations, and other reasons, suggest that a gradual approach must be followed without, however, deviating from the principle that a controlling interest in processing and marketing enterprises supported by the project must be formally owned **from the outset** by cooperatives of smallholders, the members of which qualify as IFAD target group.

156. The project must establish modern production organization units with legal entitlement to engage in all the operations and financial transactions required by a modern economy. At the same time, the project must find ways to develop the necessary skills, and above all the **organizational culture**, among poor farmer cooperative members, that are required for the cooperatives to become capable of managing a relatively complex business along modern organizational lines. The project must concurrently secure efficient business operations with the confidence of cooperative members that they will be enabled, within a reasonable time, to exercise their rights as full owners of the facilities, and therefore run them in such a way as to maximize returns on the cropping efforts. To this end, the project may adopt, in the case of tea and coffee, an especially designed financial package, whereby the actual taking over of the business administration by the poor smallholder planters, but not the formal property of controlling interests of the industrial facilities, will be phased.

157. Tea and coffee processing and marketing activities will be entrusted to newly established companies. This form of production organization responds to the operational requirements indicated above, permits the creation of joint ventures of small farmer cooperatives with private sector companies, and complies with the absence of differentiation, under Rwanda fiscal law, between cooperatives and private companies.

158. There will be several coffee processing and marketing (ccoperative) companies (CPMCC) and are tea company at Nshili (NTC). At farmer level, the project will work through primary cooperative societies of poor planters. Around each processing unit, there will be several primary cooperative societies of planters

that accept the conditions for participating in the project. The size of the primary societies will be such as to secure effective democratic management and control of the affairs of the society by its members. Members must be resident smallholder planters that qualify as IFAD target group. Continuous membership over time will depend on delivery of crops acceptable quality, such crops being actually produced in the members' own farm. Initially, primary society members will be those smallholder coffee and tea planters who demand to participate, and are accepted by the general assembly without external intervention, except for ensuring that they are actually resident poor HHs and that the conditions of project intervention regarding the crop husbandry practices and crop quality requirements are fully understood. Thereafter, the same criteria will apply for new members, whereas the existing members must confirm their participation with the acceptable quality of the crops they deliver for processing.

159. **Pre-financing the equity capital on behalf of the smallholders**. The CPMCCs and the NTL will be funded according to standard commercial practices, which require a sound relationship between the risk (equity) capital and borrowed funds. To enable the primary societies to acquire the equity capital of the companies, the project would pre-finance the funds necessary to pay-in the shares. In the case of each company, such shares, issued in the name of the participating primary societies, will be deposited in a fund in trust with the Rwanda Development Bank (RDB), opened on behalf of the societies. The fund is established with the understanding that the shares will be actually acquired by the primary societies through the mortgage of the future dividends paid by the companies, and that the societies would acquire control of the companies when full payment of all the shares deposited in the fund has been completed.

160. By this procedure, the primary societies will have formal title deed to the ownership of the companies, but the related right to control them is suspended and must be earned through the cooperatives' full participation in the efforts of the companies to make profits. As the payment of sufficient dividends to buy back the shares would take several years, the project would have the time to train the primary society members and their leaders so that they would acquire understanding and experience in handling the problems that they will face when in full control. Such sharing training and experience with the management of the companies is a major undertaking of the project.

161. During the interim period, when the shares of the primary societies are kept in the fund-in-trust of the RDB, the CPMCC and NTC will be controlled by Boards of Directors, in which the nominal majority shareholders will be represented by the Trustee of their shares, the RDB. Other Board members will include minority private shareholder (in case of apossible joint venture with an FT organization), and one representative of MINECOFIN, of MINAGRI, and of the Rwanda National Bank. Representatives of the primary societies will attend the Board meetings without voting power. For an initial period of five years the project will provide a general manager and a financial controller to run all the coffee companies established, each company will employ technicians and plant managers. The management contract will provide for training primary societies leaders and associating them to the day-to-day running of the companies so that they will learn how to run all the aspects of the coffee business effectively by the time the primary societies have acquired full control.

162. During project implementation the participation of a private sector partner that may wish to acquire a minority participation in the share capital of the cooperative companies could be considered. This partner would assume overall company management responsibility, and act as sales agent. Because of economies of scale, only two private partners could be envisaged, one in coffee and one in tea. In both cases, the private partner must be a reputable company engaged in international marketing of coffee or tea, should have established linkages with one or more of the Fair Trade organizations, and must accept to liquidate its interests when all the cooperative shares are paid for, transforming its relationship with the companies from being a shareholder to that of a preferred trading partner. The possibility of this option depends on the interest and capacity to participate of the FT organizations, the statutory mandate of which is very similar to IFAD's. Few other private interests might be ready to accept conditions imposed on investing risk capital for a relatively short-lived operation.

163. The participation of Rwanda national intervention in the equity capital of the CPMCC and the NTC (other than local members of IFAD target group) will only be allowed if they are suppliers of coffee and tea respectively, organised in a primary cooperative society

164. **Checks and balances, penalties and incentives**. The scheme is carefully designed to provide a system of interlocked checks, balances, penalties and incentives. The members of the primary societies have a very interest in remunerative and stable prices for their crops from the start of the operations, but must produce the quality that can command such prices. On the other hand, they must accept to limit their claim on the trading margins if they want the processing companies to make profits, out of which the societies will acquire the final right to control processing and marketing operations, and ultimately the price of their crops. Growers must understand that failure to produce the required quality of crops will reduce their income, affect the profit of the companies, and delay the acquisition of controlling rights by their primary cooperative societies.

165. The private management contractor has an interest in the profitability of the operations he is is responsible for managing because part of his remuneration will depend on the level of profit. Transparency of operations will be ensured: (a) with regard to the quality of products, by the TWIN independent control and certification of the quality of all the products of the companies, and by the option of the FT organizations to buy at their announced preferential price the share that meets their standards, and (b) on the financial side, by the independent audit of the accounts under commitment of full disclosure, controlled by the RDB.

166. In case a private partner with a Fairtrade corporate culture is prepared to subscribe to the companies equity capital on a minority basis, its primary long-term interests would be to secure access to remunerative markets for the primary producers, and to develop a favorable business environment for Rwanda partners that can reliably supply such products. The private partner equity investment should not be so large as to be perceived as an excessive risk, but should be adequate to show the stakeholders' commitment, and to motivate the investor's keen interest in the profit of the companies that he would manage during the interim period. The company profits would ensure the returns on his equity investment, and the value of the shares that he will eventually sell when the cooperatives are in full control. The conditions of such participation are discussed in Working Paper 12.

167. The shares of the coffee and tea processing cooperative companies supported by the project will only be issued in the name of primary cooperative societies of producers, each primary society having right to holding one share, irrespective of the size of the membership and of the quantities of crops delivered for processing by its members. The number of primary societies that own shares in any one crop processing (cooperative) company would vary from site to site. Members would be a very maximum of 500 individual HHs, so that direct and active participation of all members to the affairs of the society will be possible in practice. Accordingly, given the number of poor smallholder planters expected to participate in the project, there will be a **minimum** or 12 primary societies at Nshili, and a minimum of 9-12 primary societies holding shares in the CPMCC. The membership of these primary societies must be IFAD target group. To these, a maximum of 2 other primary societies of non-IFAD target group members could eventually be added. Individuals or organizations not involved in producing crops for processing will not be allowed to buy shares in the processing companies, except for the case of an international FT organization that would accept to become a temporary shareholder with the objective of promoting the business in the primary interest of the smallholder producers, as suggested above and further discussed in Working Paper 12.

168. **Policy regarding disbursement of project funds for tea development**. Disbursement of project funds earmarked for tea plantation development in Mushubi, and for factory construction in Nshili will be made conditional to: (a) the successful distribution of the Nshili plantation to smallholders, including a minimum of one third beneficiaries being women head of household; the selection of beneficiary; HHs will be done by the Cell DC of the sectors neighbouring the estate. The Cell DCs will call for general assembly meetings to ensure transaprency of and fairness in the distribution. Selection criteria are broadly defined in Working Paper 2, Appendix 3, and to (b) the successful organization of cooperatives among the beneficiaries, all such cooperatives having obtained the relevant legal personality, and thus being entitled to

own shares in the Nshili Tea Company, that alone can draw project funds to construct and operate the factory.

169. **Policy regarding terms and conditions of funding the NT and the CPMCCs established under the project**. Project funds channeled to the tea and coffee (cooperative) companies will be extended by Rwanda Financial Institutions on terms which must be adequate to secure: (i) a sound financial structure; (ii) the smooth start-up and development of profitable commercial operations; (iii) the acquisition of the cooperative shares through dividends in a reasonable period of time; and (iv) the coverage of the financial institutions transaction costs and reasonable profit.

VIII. PROJECT DESCRIPTION, ACTIVITIES AND PHASING OF IMPLEMENTATION

A. Project duration and structure

170. The project will have a duration of seven years, and is structured into five components: (i) Coffee diversification, (ii) Tea development in Gikongoro Province, with two sub component: (a) The integrated tea production processing and marketing in Nshili district, and (b) New smallholder tea plantations in Mushibi district, (iii) Guaranteed credit to smallholder cash crop growers, (iv) Development of new cash and export crops, and (v) Project coordination.

B. The Coffee diversification component

171. **Coffee diversification** (USD 6,109 million of base cost). Under this component the project will fund:

- In selected suitable locations of the project area, the required rehabilitation and replanting of existing poor smallholder coffee plots and their expansion to enable the smallholders to produce 8 000 to 10 000 tons of cherries of top quality arabica coffee;
- The agricultural research required to back up the continuous improvement of the quality of the coffee produced, and to introduce viable environment-friendly agricultural practices, with special emphasis on integrated pest management and on production of organic coffee;
- The services of TWIN and of national organizations required to: (i) identify and train those spontaneous poor coffee planters willing to group into primary cooperative societies, with a view to participating in the processing and marketing of their crop, and who commit to apply the cultural practices required to improve their production as required to achieve set quality standards; (ii) animate and organize the primary societies and train their leaders; and (iii) monitor their performance;
- The construction of coffee washing stations and hulling plants by CPMCCs, adequate to process up to a total of 10 000 tons of cherry coffee and to produce 1 200-1 400 tons of fully washed green coffee of high quality, with sufficient funding to cover investment in fixed assets, working capital, and start up costs, in accordance with sound development financing practices;
- The services of TWIN required to coordinate the technical and administration management of the CPMCCs for an initial period of five years, and to help primary societies leaders to acquire the experience necessary to take over management;
- The services of TWIN required to control and certify the quality of produce of the CPMCC, to promote the image of the Rwanda high quality coffee in the world market, and to help them develop access to FT coffee specialty and organic markets; and

- If proven advisable and of interest to the CPMCC, the establishment of a coffee marketing and export company, as a joint venture of the CPMCCs and TWIN, with a view to securing the continuation of the quality control and special marketing arrangements after the IFAD project completion; and
- The feasibility study of converting two coffee growing areas of the project to organic coffee production, and the cost of organic conversion and certification to the first three years if proven feasible.

172. The location of the project intervention within the four provinces will be selected by a technical committee chaired by the project coordination, and including TWIN and OCIR-Café. The criteria for selection will include the suitability of the location to produce top quality coffee, the intensity of coffee planting around potential washing station sites, availability of water, the degree of poor planters social organization, and their willingness to establish primary cooperative societies of producers meeting membership and management standards acceptable to TWIN and IFAD.

173. Assuming an average production of 5 000 kg/ha of fresh cherries (*café parche* equivalent 1 000 kg) in the good areas, the coffee rehabilitation programme would involve a total of about 2 000 ha planted to coffee around the processing factories envisaged. Such an area would include as many as 20 000 smallholder growers HHs with the most frequent coffee plots having 200-250 bushes.

174. Not all of the existing smallholder coffee plots require rehabilitation, and those that need improvement may require interventions of different intensity. It is envisaged that most coffee bushes over 30 years old will be gradually replaced with new plantings. In addition, a number of farmers will be willing to expand their coffee plantation, responding to project incentives. To these growers, the project would distribute free seedlings of the appropriate varieties along with the initial package of chemical inputs. Nurseries run by local farmer groups will produce the seedlings. Sufficient basic planting material of the appropriate coffee varieties (acceptable to TWIN) will be obtained from the EU funded in-vitro multiplication project (see paragraph 85). As in the case of other IFAD projects in Rwanda, the project will supply the nurseries with the basic planting material and tools, and guarantee the nurseries' market within the framework of the coffee replanting and new planting programme agreed between the growers and the project recruited service providers.

175. The project would mobilize the technical staff of OCIR Café to train and equip the nursery farmers, and to distribute planting material and tools to the primary societies for delivery to the members wishing to rehabilitate their coffee plots. The primary societies will collect the growers' demands, and organize the input distribution. The technical staff of OCIR-Café will assist growers with the advice required to properly rehabilitate and expand their plots, and to apply the agronomic practices required to produce the quality cherries demanded by remunerative markets. Local cell and sector development committees will be informed of the project opportunities and will be animated to play a key role in promoting the formation and strengthening of the primary societies.

176. The existing production will be very important to enable adequate and financially sustainable processing and marketing activities to start. The project will make a determined effort to improve farming practices in the short term, with the view to increasing yields and, in particular, to securing the good quality of the cherries delivered at the washing stations. Training to this effect by the OCIR-Café technicians will be undertaken by TWIN. A study will be conducted in year 1 of the project regarding the feasibility of converting one or two coffee growing areas of interest to the project to organic coffee production. If the technical and financial viability of organic production is proven, an action plan will be prepared, and TWIN will arrange for the necessary training of the OCIR-Café technicians to train farmers accordingly. TWIN will supervise, guide, and monitor the technicians' extension work, to ensure that the information required about the practices that produce high quality coffee are correctly transferred and fully appreciated by the growers, and that the evolution of quality market requirements over time is reflected in the extension programme.

177. OCIR-Café and TWIN will ensure the necessary linkages with the agricultural research outfits supported by the project. Growers will be encouraged to adopt integrated pest management practices, intensify manuring rather than use chemical fertilizers, and to adopt adequate soil conservation practices. Pending a decision about organic coffee conversion, the project would also provide spraying equipment and initial chemicals to the primary societies, in quantities sufficient to secure that the entire area that supplies the washing stations associated to the societies is adequately protected against major pests, irrespective of whether the coffee plots belong to people who have accepted to participate in the project.

178. Farmers' incentive to participate in the project will be secured by introducing a grower price policy based on the following principles: (i) the growers will sell fresh cherries, which will relieve them of the painstaking and unclean work required to produce *café parche* by manual methods. This in itself is an innovation most welcome by farmers, particularly women coffee growers; (ii) producers will be paid an average price for the fresh cherries higher than the corresponding price for *café parche* presently paid by traders; and (iii) however, the price paid for each lot of cherries delivered to the washing stations will differentiate according to quality, the best lots will get more than the average price, the lower quality lots will receive less. Sub-standard lots will be rejected.

179. Under this component, the project will provide funds to Rwanda and/or Regional/International agricultural research outfits to improve the country capacity in the field of coffee agronomy. Research would concern varieties, with particular emphasis on high quality of the coffee produced in the conditions of the project area. Priority will be attached to integrated pest management, investigations on the causes of the "potato" taste and remedial action, and to cropping practices suitable to produce organic coffee. Other research themes may also become relevant for the project performance during implementation. The project will fund technical advice from international coffee growing experts and foster relationships with research institutes abroad.

180. A major thrust of the component will be cooperative organization and management. The project vision about the role of the coffee producers' organizations is fairly ambitious. The objective is to put them in a position to run processing factories that produce top quality coffee, and to enable them to trade in the international market on a strong basis. This requires intensive training, practice of management experience, and above all the acquisition of the right **corporate culture** of rigorous management, quality and cost control, as well as transparency of financial transactions. To this end, the cooperative development function will be entrusted to TWIN, who has a strong experience of dealing with export crop coffee producers associations in several countries, and can arrange linkages with FT organizations interested in buying at the FT price the share of coffee that meets FLO certification standards, thus securing higher and more stable grower prices. TWIN will select and train national service providers to work at the field level on a regular basis under TWIN supervision.

181. The number of growers cooperatives included in the project will depend on growers initiative. TWIN and the associated national service provider will work closely with the district, sector and cell development committees, who will help to motivate the local communities and spread information about the project. In carrying out their activities under the project, TWIN will pursue its own statutory mandate for cooperative development. IFAD concurs with the objectives and standards set by the FT organizations, and by TWIN in particular, concerning the democratic nature and the social and economic development objectives of the farmer associations they are prepared to support. In addition, the project will require that the great majority of the primary societies members are poor smallholders, and that women head of HHs be specifically helped to meet the standards for participation imposed by the FT trade. To this end, the service providers will acquire knowledge about the local communities using, as required so far as feasible, the approach described in the IFAD document entitled "Gender and Poverty Targeting in Market Linkages Operation, A Sourcebook and a Toolkit for Practitioners".

182. To implement the project policy smoothly, the size of the primary societies should be rather small so that direct and full participation of all members in decision making is facilitated. Primary societies will be formed around each one of the coffee washing stations. Washing stations have a capacity of 500 or 1 000 t of fresh cherries each, and will be supplied by about 800 and 1 500 growers respectively, living within a radius

of 3-4 km. Decisions about the specific number of the primary societies and their membership will be made by the communities, building on the associations and groups that already exist in the area. As a reference information, the size of a cell, the lowest level of the local government, is about 300-400 HH. Around the smaller washing stations there may be two or three primary societies, and five or six in the case of the larger stations.

183. The primary societies will be asked to perform a role with respect to pest control in the coffee growing area. The project will distribute sufficient spraying equipment to cover the entire coffee producing area where cooperative members operate. This practice was once common in coffee growing areas. Cooperative members will pay an annual membership fee sufficient to buy the chemicals required for spraying, and to replace the equipment when necessary. In addition, members will commit to provide the labor required for such work. Spraying will be necessary for adequate coffee growing in most areas of Rwanda, until a favorable outcome of the research on IPM funded by the project would significantly reduce the requirement for chemical pest control and the cost to the farmers.

184. Training will include primary society members and elected managers. Training subjects includes cooperative organization, procedures, accounting, management, control of quality, store keeping, efficiency principles, and savings and development. Cooperative members will be introduced to the project scheme that envisages them becoming owners of the processing facilities in course of time. The ultimate advantages of their ownership will be explained, along with the conditions that must be met for them to obtain and maintain the benefit of such ownership.

185. To comply with the flexible strategy approach, under this component the project would provide funds of about USD 3 million to finance newly established CPMCCs. The fund will be disbursed through the Rwanda National Bank to the RDB, who will be the major channel for these funds to the ultimate users. Different scenarios and investment options concerning the use of the funds will be explored during implementation, and specific decisions about the release of funds to the RDB will be taken following IFAD clearance that the project policy has been correctly applied in each case.

186. For purposes of illustration, and to provide a basis for project costing and for the financial evaluation of coffee commercial operations, the project appraisal is based on one possible scenario. This involves the establishment of four CPMCCs, each one to be ultimately owned by the primary societies of smallholder coffee planters of its area of operation. Each company would construct and operate two or three coffee washing stations with the combined capacity to process 2 000-2 500 tons of fresh cherries, and a small hulling factory that would produce 300-350 tons of fully washed coffee per annum. In accordance with the financial engineering policy discussed in Chapter VII, the shareholders of each company would be several primary societies of planters, cooperative will own one share of the processing company. The company shares will be held in trust by the RDB until fully paid through the company's dividends accruing to the shareholders. In the interim period, the RDB would represent the shareholders in the Board of Directors of the companies.

187. The technical management of the coffee processing plants will be entrusted to national professionals, a national deputy manager and an accountant will be recruited by each one of the CPMCC. The General Manager and the Financial Controller of all the four companies will be provided by TWIN for a period of five years. Under the control of the companies Board of Directors, TWIN, as the provider of general management services for the CPMCCs will have the overall responsibility for the construction of the industrial facilities, related procurement of goods and services, and for the ordinary conduct of business of each one of the CPMCCs, including the obligation to associate selected members of the cooperative leadership to the conduct of the business, with a view to facilitating their acquisition of the necessary experience to take over in due course. Produce marketing will be done under conditions that include: quality control by TWIN/OCIR-café, options to purchase by FT network organizations of the share of products that meet FLO standards, FLO certification of labelled products sold by TWIN or other FT organizations, other produce sold in accordance with marketing strategies agreed by TWIN.

188. Under the assumed scenario, the companies will be responsible to supply the agricultural inputs demanded by the members of the primary societies. Inputs will be purchased by the CPMCC, in cash, using funds provided to the primary societies by the smallholder credit scheme (see "Guaranteed Credit to Smallholder Cash Crop Growers" component below). Repayment of loans extended by the primary societies to their members under the scheme will be deducted from the payment due at the time of crop delivery to each primary societies.

189. **Structure of the component cost**. To summarize, the following table shows the cost structure of the coffee diversification component:

Table 6: Cost of the coffee diversification component

	USD x 1,000
1. Contract with OCIR-Café for: farmers support and technical assistance for 2000 ha of coffee plots rehabilitation and expansion	472
2. Coffee planters labor applied to coffee plots rehabilitation and expansion	211
3. TWIN contract: directly provided and subcontracted services for: coffee cooperative formation and training, management of cooperative coffee processing enterprises including supervision and contracting of construction of coffee processing units, assistance to cooperative marketing and access to FT markets, control of coffee produced, promotion of cooperative coffee products abroad, study of organic coffee conversion, training of OCIR-café and cooperative technicians	1,860
4. Vehicles and office coffee testing equipment for TWIN	157
5. Allowance for coffee organic certification, if proven feasible	270
6. Contracts with research institutes for coffee agronomic research and IPM	145
7. Fund to finance cooperative coffee processing enterprises	3,000
Total costs of coffee diversification component	6,115

C. Tea development in Gikongoro Province

190. This component (USD 12.070 million of base cost) has two sub-components: (a) Integrated smallholder tea production processing and marketing in Nshili district (USD 10.601 million of base cost), and (b) Smallholder tea plantation development in Mushubi district (USD 1.469 million of base cost).

191. **Integrated smallholder tea production processing and marketing in Nshili District** (USD 10.64 million). Since IFAD primary objective in funding this sub component is to achieve full control of production, processing and marketing by its target group of poor farmers living in the District, no other scenario will be explored under the flexible project implementation strategy. Under this sub-component the project will support:

- The minor rehabilitation of the existing 965 ha OCIR-Thé industrial estate at Nshili, and the continuation of services required to sell the green leaves to other factories and to supply the required agricultural inputs, until a new factory at Nshili becomes operational;
- The establishment of 200 ha of tea by 800 new poor smallholder tea growers within the OCIR-Thé land concession area;
- The rehabilitation of the houses of OCIR-Thé damaged by the war to the extent required by the staff of a processing factory to be constructed at Nshili;

- The distribution of the land planted to tea to about 4 000 smallholder growers (0.25 ha each) living in the surrounding area, a minimum of one third of the beneficiaries being women head of HH;
- The services required to organize the beneficiaries of the distribution and the new smallholder planters into primary cooperative societies, to train them to properly manage their plots of tea and to monitor their performance, and to assist women head of HH to manage their tea crops, ensuring that no child in school age is prevented from attending school because of the labor requirement in the tea plots;
- The preparation of a detailed construction plan and feasibility study for a new Nshili tea factory with a capacity to produce 1,800 t of black tea;
- The establishment of a new private company to build, own and operate the tea factory, such company to be funded along a financial engineering package that would secure a sound capital structure, and provide for the take over by the primary societies of tea growers in the course of time;
- The services required to manage the company for an initial period of five years and to help leaders of the primary societies to acquire sufficient experience to take over control of the company;
- Agriculture research activities required to test and adapt in Gikongoro new technology obtained abroad in tea production; and
- The connection of the factory site to the national electric grid.

192. The project would fund the necessary measures to secure the full production potential of green leaves at Nshili. This includes the rehabilitation of the tea bushes of the industrial plantation of the OCIR-Thé. About 10 percent of the area needs refilling (equivalent to 100 ha). In addition, about 200 ha of new smallholder planting will be done, to ensure the total production required to supply the full capacity of the new factory against possible shortfall of the smallholder planters during the initial years of operation of the factory. About 800 poor smallholders will benefit from this extension of the tea planted area. They will be given a plot of 0.25 ha, planting material of the correct varieties produced by private nurseries funded by the project, and an initial stock of fertilizers and of biodegradable weed killers. The size of the plots is in line with the plots managed by smallholder tea planters elsewhere in the country.

193. The industrial plantation will be divided into about 4 000 plots of approximately the same value, allocated to an equal number of poor farmers living in the neighborhood. Between 33% and 50% of the assignees will be women head of household. The project will fund the cost of distributing the land. This includes detailed mapping of the plantation, preparation of the detailed plan for splitting the area into about 4 000 small plots of approximately equal potential for tea production, demarcation of the plots boundaries, selection of the beneficiaries[2], and issuance of certificates of right to use the land for tea production. Beneficiaries will pay a symbolic fee for the use of the land, will lose their right to it if they do not tend the tea bushes properly, and will not be allowed to grow other crops on the land. This operation will be entrusted; to a national firm of Quantity Surveyors for the technical topographic side, and to OCIR-Thé, acting in very close cooperation with the Sector and Cell Development Committees of the District, for the selection of beneficiaries and actual allocation of the individual plots.

194. The beneficiaries of the distribution of the industrial plantation will supply the labor to clear and shape the 200 ha of land for the new smallholder tea plots, to plant the tea seedlings in the new plots, and to plant the missing tea plants in the existing plantation. This procedure will reduce the disparity of treatment between the beneficiaries of the distribution of the plantation, which is in full production, and those who will receive a plot that will take time to begin to produce an income.

[2] Selection of beneficiaries will be done through sector-CDCs neighbouring the industrial estate in a fair and transparent manner using the broad selection criteria as found in WP 2, Appendix 3.

195. Many of the potential beneficiaries of the tea plots distribution are experienced tea growers. However, most of the potential women beneficiaries have only been employed as tea pickers. The project will provide training to those people in properly handling all the aspects of tea growing. OCIR-Thé, will to provide the technical support to the growers. The beneficiaries of the distribution must have sufficient labor in the HH to be able to tend their tea plots without a negative impact on the production of food crops on their other smallholdings. This may handicap the participation of women head of HH, who constitute an important part of IFAD target group. The project will make a special effort to overcome this difficulty, in close consultation with women headed HHs, by devising arrangements that would enable at least 1,500 poor women head of HHs to participate without jeopardizing the production potential of the plots assigned to them.

196. The new tea growers will be encouraged to form primary cooperative societies with a legal personality (*personnalité juridique*). The number and membership of the primary societies will be set according to the potential members own freely expressed preferences. However, the project will encourage the formation of several relatively small primary societies with a view to securing social cohesion, easy access of all members to the elected leaders and transparency of operations, and to avoid concentration of status and influence. The project will fund the animation/training organization and consulting services required to form a number (possibly 10 to 12) primary societies among the 4 800 beneficiary HHs. The same approach mentioned for the primary societies of coffee growers will be used. The project will entrust TWIN with the implementation of the cooperative development activities at Nshili. TWIN will be responsible for organizing and training the primary societies. It will provide direct services and recruit one or more national NGO(s) to work directly with the societies on a regular basis.

197. The construction of a tea factory at Nshili is estimated to cost about USD 4 million, including necessary ancillaries. A detailed design and construction plan and feasibility study will be prepared under the project to confirm the cost estimate. In selecting the Consultants, preference will be given to Kenya or Indian firms with experience in building and operate comparable factories. The Nshili Tea Company (NTC) will be established to build and operate the factory. This company will be ultimately owned by the primary societies of tea growers. For an illustrative financial projections aimed at working out the broad lines of the financial engineering of this company see Working Paper 12. Details of the main technical features and of the cost of the factory are given in Working Paper 9a.

198. The project would also fund the rehabilitation of the housing compound of OCIR-Thé, consisting of 18 houses, a canteen and a dormitory. It was originally built for the plantation staff and workers, and was severely damaged during the war. Since the buildings will be needed from the start of the project implementation at Nshili, the project will pre-finance this activity, and the assets will be transferred to the Nshili Tea Company once established. In addition, the GoR will arrange for the transfer of the woodlot plantations of OCIR-Thé at Nshili to the newly established company.

199. The project will include a fund of USD 6 million adequate to funding the Nshili Tea company (inclusive of construction, equipment, vehicles, interest during construction, working capital, start-up expenses and deferred revenue expenditure). The mission estimates of the financial requirements are presented in Working Paper 12. Details of the financial package (equity capital, long term loans, and overdraft facilities) will be updated by the RDB after the implementation of the detailed design and feasibility study funded separately by the project. It is envisaged that sound funding of the Company would require an equity capital of about USD 1.25 million, in addition to a long-term loan and overdraft facilities to be provided in accordance with sound development financing of industrial projects. The shares of the company will be issued in the name of the cooperatives of the smallholder beneficiaries of the distribution of the industrial plantation and of those undertaking the new planting. The project would pre-finance the shares of the cooperatives, through the fund just mentioned, and the shares will be deposited in a fund-in-trust with the RDB as described in Chapter VII, section D. The project will provide 75% of the overdraft facilities and the remaining 25% will be extended either by RDB or any participating Rwanda Commercial Bank. The financing plan of the Nshili Tea Company will be approved by the Rwanda National Bank, after IFAD review and clearance.

200. The Nshili Tea Company will be managed by an independent private service provider of proven capacity for an initial period of 5 years, including the factory construction period. The service provider will be contracted directly by the Nshili Tea Company. The preliminary capitalization of the company includes and amount of USD 100 000 per annum for five years to pay for this service. Part of the remuneration of the service provider will be linked to efficient construction of the factory and to profitable operations of the company. By this contract, and under the control of the companies Board of Directors, the service provider will have the overall responsibility for the construction of the industrial facilities, related procurement of goods and services, and for the ordinary business, including the obligation to associate selected members of the cooperative leadership to the conduct of the business, with a view to facilitating their acquisition of the necessary experience to take over in due course. Tea marketing will be done under conditions that include: quality control and certification by TWIN/OCIR-thé, options to purchase by FT network organizations the share of products that meet FLO standards, other produce sold in accordance with marketing strategies agreed by TWIN. TWIN will help marketing a share of the produce under FLO certified packages labeled for origin. It will control and certify the produce of the factory, and channel part of the production through the associated Thé-Direct company or other recognized Fair Trade organization.

201. The company will recruit all technical management positions, including the financial controller, among national professionals with the required experience, drawing on the surplus staff of OCIR-Thé after privatization of its factories.

202. Tea is continuously harvested during the year and tea growers receive regular payment for their deliveries. Traditionally in Rwanda tea leaves are paid for two weeks after delivery. This provides a steady cash flow for the growers, and greatly reduces the need for production credit. With a view to helping the new planters to get started, the project will provide a free input package to each smallholder new tea grower in the form of the fertilizers and chemicals needed for the first six months of their new activity. Thereafter, they will be in a position to purchase inputs for cash. The Tea Company will encourage them to set aside a small amount from each payment for the green leaves to accumulate the sum required to receive the inputs at the time required in the field. In addition, and as an alternative if so preferred by the growers, they may use their borrowing capacity under the smallholder credit scheme to purchase fertilizers from the cooperatives, as described below under project component four.

203. Finally, under this sub-component, the project would fund the construction of the power line required to connect the Nshili factory site to the national grid, at an estimated cost of USD 2 million. The Rwanda Electricity Company has provided the cost estimate. The mission was in no position to verify the cost indicated which will be confirmed during project implementation. The power connection will not be for the exclusive use of the factory, although for a time the factory may well be the largest costumer of the Rwanda Power Company in the District. The cost of the power line will not be charged to the tea factory.

204. **Development of smallholder tea in the Mushubi district of northern Gikongoro** (USD 1.62 million of base cost). Under the sub-component, the project will:

- establish 1,200 ha of new smallholder tea plantations, based on individual plots of 0.25 ha each;
- establish 500 ha of firewood plantations, of which 200 ha of District plantations and 300 ha on individual farmers' plots, to provide fuel to power the new factory;
- undertake adequate soil surveys, prepare a master plan of the tea and woodlot plantation programme, and carry out a study of the feasibility of introducing organic tea production in the new smallholder plantations.

205. The farming system in Mushubi is constrained by altitude and soil acidity. Banana and cassava cannot grow in the district, the cropping pattern is limited to seasonal crops, and double cropping requires soil correction by liming or intensive manuring to obtain reasonable yields. This is a major reason for the extreme poverty of the district. Although the total size of individual land holdings is not much larger than

elsewhere in the province, some of the land is left fallow, but could be planted with tea that tolerates a fair level of soil acidity. The project will support individual smallholders to plant 0.25 ha of tea each on their follow land, up to a total planted area of 800 ha.

206. The project will also support smallholder tea planting on 200 ha of land which is of marginal value for food-crop production, including parts of the *terrasses radicales* constructed with IFAD funds through the recently closed IFAD project PDAG (Loan RW 232). In addition, new smallholder tea planting will be done on 200 ha of district land, which has been recently allocated to poor vulnerable returnee HHs, transferred there from the forest reserve of Gishwati (Gikongoro province) where they had found a temporary settlement.

207. The project will fund a soil survey of selected locations suitable for tea production in the district, and a study of the potential and feasibility of undertaking organic tea production in the new plantations. The conclusions of these investigations will provide guidance about the agronomic practices that farmers should follow in tending their new tea crops.

208. The organization of smallholder tea planting will be entrusted to OCIR-Thé. Acting in close contact with the District DALF and the Cell and Sector CDCs, OCIR-Thé will determine the farmers willingness to participate in the planting programme, plan the plantation campaigns, organize smallholder group nursering to produce the required tea seedlings, arrange for the distribution of the seedlings, and provide the technical assistance required for the smallholders to properly plant their plots of tea.

209. The development of sufficient tea production to the point of requiring a new tea factory in Mushubi would take between six and eight years. Government is committed to find the resources required to construct the factory by that time, and IFAD is prepared to eventually consider extending another loan to Rwanda to co-finance the Mushubi factory under similar arrangements as those planned for Nshili, if the latter prove successful. In anticipation of the energy requirements of the new factors, the project will fund DALF activities aimed at the establishment of 500 ha of woodlot plantation, of which 200 ha will be on District land, and 300 ha on individual plots responding to farmers demand.

210. **Structure of the component cost**. To summarize, the cost of the tea component is structured as shown in Table 7a and 7b.

Table 7a: Cost of the Nshili Integrated tea development sub-component

	USD x 1,000
OCIR-Thé contract no 1: distribution of the plantation to smallholder planters	225
OCIR-Thé contract no 2: interim management of existing plantation production and sale of green leaves, net of value of sales	127
OCIR-Thé contract no 3: filling of existing plantation and new smallholder plots (total 300 ha)	476
Farmer labor for new smallholder tea planting and plantation filling	60
TWIN contract for directly provided and subcontracted services for: Cooperative formation, training, monitoring, marketing information and marketing support access to FT markets, new product development and promotion abroad	1,219
Contract for OCIR-Thé housing rehabilitation	315
Supervision of OCIR-Thé and of housing rehabilitation contracts	90
Design and feasibility study of tea factory	90
Fund to finance the Nshili Tea Company	6,000
Connection to national power grid	2,000
Total cost of the Nshili sub-component	10,601

Table 7b: Cost of the Mushubi smallholder tea development sub-component

b. New smallholder tea plantation at Mushubi	USD x 1,000
OCIR-Thé contract : support & technical assistance for planting 1,200 ha of smallholder tea plots	928
Vehicles for OCIR-Thè	62
Farmer labor for tea and private woodlot plantations	265
DAEF contract for 500 ha of district and smallholder woodlots & for nursery nurseries	120
Plantation planning and soil surveys	80
Total cost of the Mushubi sub-component	1,469

D. Guaranteed credit to smallholder tea and coffee growers

211. Under this component (USD 0.680 million), the project will establish a credit system for the members of the primary societies of tea and coffee growers, repayment of loans to growers will be guaranteed by the processing factories. If successful, the scheme may be extended to some of the new cash and export crops ventures funded by the project.

212. Loans made under the system will not be specifically linked to input purchases. The project approach is that the demand for input depends on the comparative advantages of input application with respect to other priorities of the borrowers for the use of cash resources. Therefore, loans will be extended to all members of the primary societies that will demand credit, irrespective of the purpose for which they wish to borrow. Loans will be made within the limit of what borrowers are capable of repaying from a controllable source of cash income. This amount is set at 50% of the value of the crop that each member of the primary societies delivers for processing. This amount is more than the maximum cost of fertilizers and other chemicals required for efficient cash crop production. Therefore, farmers who decide to use the credit facility to buy inputs are able to do so. In line with the stated approach, the project will not interfere with the use made by the farmers of the input they purchase on credit. Since the project will make a determined effort to convert at least two of the selected coffee growing areas to organic production, the demand for chemical inputs in those areas may be much less than the borrowers creditworthiness, leaving room for funding other household needs, or inputs for food crops, with loan money. Use of part of the inputs purchased on credit on food rather than cash crops is in line with the IFAD and GoR HH food security objectives. However, in estimating the value of the crop delivered by each grower, that is the extent of their guarantee of each individual borrower, the processing companies will assume lower yields than made possible by the full use of the purchased inputs on the coffee or tea crop.

213. Under the proposed loan administration procedure the chances of loan delinquencies are minimized, since a controllable source of the borrowers' cash income is firmly in the hands of the processing companies. Tea growers have no other potential buyers of the green leaves. Coffee growers could in principle sell to private traders, but only at considerably lower prices and after processing the fresh cherries into *parche* at their own cost. Furthermore they would run the risk of losing their membership in the primary society, and therefore their right to preferential remuneration for their coffee crop in the future. Nevertheless, to avoid conflicts of interest at specific sites, and possible sale of coffee cherries to other washing stations by fraudulent cooperative members, the government would discourage the installation of other coffee washing stations in the command area of any one of the washing stations established under the project.

214. The primary societies will operate the credit scheme in coordination with the processing factories that buy the crops of their members. Three sources of funds for lending by the primary societies will be provided: (i) savings mobilization, in the initial form of a USD 5 membership fee, paid by all members of a primary society who wishes to join the credit scheme, (ii) a project grant to pay for the membership fee of women head of household at Nshili, and (iii) loans from a Rwanda financial institution. The membership fees (and the project grant in favor of the women at Nshili only) will be deposited in an account with a commercial bank, opened in the name of the primary society. This deposit makes up the society equity capital.

215. Each primary society that has deposited the equity capital will receive a loan from a Rwanda financial institution interested in participating in the scheme. Resources for these loans will be drawn from IFAD to the extent of 75% and from the financial institutions own resources to the extent of 25%. The loan to each society will not exceed the equivalent of 50% of the expected value of the fresh crops sold to the processing factories by all the members of the society who have paid the membership fee. The loan amount will be deposited in the society' bank account. Loans made by the society to their members using the bank account will be guaranteed by the processing factories. All checks drawn on this account will be countersigned by the processing factory senior accountant or by the financial controller.

216. The primary societies keep a record of the production potential of their members, this record being routinely checked and verified by the processing factories. The record will show the limit of the

creditworthiness of each member, which will be agreed by the processing company. The societies will collect the demand for credit, and the demand for chemicals and other agricultural inputs from their members and channel the requests for inputs to the processing company, who will order the goods on behalf of the societies. The company will keep a record of the individual loans extended to each member by the societies. Therefore, two sets of books will be kept, one by the primary societies and one by the processing company. The latter transactions will be kept separate from the ordinary accounts and separately audited. Audits will include reconciliation of the two sets of books and of the bank account opened by the primary society to operate the lending scheme.

217. The processing companies will pay suppliers for the inputs ordered by the primary societies drawing checks on the primary societies' bank accounts such checks being co-signed by the primary societies President and cashier. Cash loans to farmers in excess of the order for inputs will be disbursed to the individual borrowers by the societies, also drawing cash with checks co-signed by the processing company. Having completed input procurement, the company will deliver the goods to the primary societies for distribution to their members. Repayment of loans (principal and interest) into the primary societies bank accounts will be made by the companiy from amounts deducted at the time of payment for the crop to each individual member of the primary societies. The companies will be bound to make such payments within 10 working days from the date of delivery of the crop to the factories, concurrently with the payment made to the growers. Having received the loan repayments, the societies will transfer the funds to the bank that has extended the loan inclusive of the interest due on the bank loan. Such transfer would be made within a period not exceeding one month from the date of the deposits of the individual loan repayments made by the company.

218. The primary societies will be required to keep their equity capital as a reserve. Loans to individual members will be made at a rate of interest decided by the general assembly of the societies. However, such rate will include a spread over the cost of the loan extended to the society by the bank. The spread must cover the cost to the societies of administering the loans, and some profit to reward the equity capital. The local banks participating in the scheme will charge 4% interest over the rate charged by the RNB to them for the transfer of IFAD funds that will cover 75% of the loans made to the societies, a rate sufficient to cover their transaction costs and profit. The 25% drawn from the banks own resources will be at current interest rates charged by the banks to preferred clients.

219. All repayment of loans made to coffee growers by the primary societies must be made at coffee harvesting time. Repayment of loans by tea planters may be spread in equal small installment concurrently with the payment of green leaves to the borrowers.

220. The project will fund a minimum of office equipment and space for the societies, to be installed at the premises of the processing factory within easy access of the members of the societies, some communication equipment, and the training required to operate the equipment supplied. Office equipment will be shared by more than one society. Maintenance will be the responsibility of the factories. The technical assistance required by the cooperatives to run the credit scheme is funded within the framework of the cooperative training assistance provided under the coffee and tea components (see TWIN contract).

221. Depending on the experience with project implementation, the primary societies will be encouraged in due course to sophisticate their product portfolio, increase savings mobilization, sophisticate their lending terms and conditions, and become full-fledged rural micro finance institutions, developing the relationships with the formal banking system established under the project.

222. The maximum amount of guarantee that the CPMCCs and NTC can offer at full development against loans made by the primary societies to their members is estimated at USD 400 000 for the coffee planters, and USD 350 000 for the Nshili tea growers (see Working Paper 12). However, the project allocation is limited to USD 500 000 for both the tea and coffee primary societies combined. This amount is sufficient to develop the scheme and to generate the confidence of the participating Rwanda banks to the point that they would be willing to increase their lending to the societies with their own resources, responding to larger effective demand from the cooperative members.

223. **Structure of the component cost**. To summarize, the cost of the coffee and tea smallholder credit component is structured as follows:

Table 8

Cost of the smallholder coffee and tea credit component	**USD x 1000**
Savings of members of primary societies associated with:	
- coffee processing factories	100
- Nshili Tea Company (shares of women head of HHs paid by the project)	14
- project grant for women head of HHs membership fee	10
Credit line to the primary societies (coffee and tea)	500
Office space and equipment for the primary societies	50
Total cost of the component	**674**

E. Development of new cash and export crops

224. Under this component (USD 1. 585 million), the project will:

- support the search for new market outlets and the creation of market linkages for Rwanda enterprises investing in new cash crop production, processing, and marketing. To this effect, the project will strengthen the capacity of the Rwandese Federation of the Private Sector, who will contract the services of an international specialized consulting firm that has access to information and specialists around the World. Such information will be made available to Rwanda entrepreneurs and leaders of farmer groups. The project would also fund experimental shipments of test products to foreign markets, participation in International Fairs and exhibitions of Rwanda products, diffusion of market information, and legal advice for Rwanda entrepreneurs entering agreements with foreign buyers. The service provider will supply advice and technical assistance on specific subjects as required, investigate local opportunities and constraints, and assist to develop adequate contacts between interested Rwanda SME/farmer groups and potential buyers in the domestic market and abroad;
- support farmer groups, formal cooperatives, and private sector SMEs for the preparation of the project documents required to obtain project funding though the RDB or other banks. To this effect a unit will be created in the Ministry of Agriculture, staffed by one agro-economist who will help farmer groups and small entrepreneurs in following the procedures required by the bank, and will verify the technical and financial projections used by the sponsors of the projects. The agro-economist will draw on the technical expertise of MINAGRI and on the services of local consultants using funds made available by the PCU to the MINAGRI unit;
- extend a credit line of a total amount of USD 0.6 million to the RDB/or other local banks for financing projects aimed at developing new cash and export crops. SME and private individual projects must provide significant employment and net income farmers that qualify as IFAD target group. Costs incurred by a project sponsor for establishing market access for a product, costs incurred in organizing smallholder production around a processing or packing unit, cost incurred in transferring know-how to the farmers who supply the raw material to a processing or packing plant, etc. will be eligible for funding, along with the cost of processing plants, buildings, equipment, vehicles, and working capital;

- specific support to poor farmer groups (women, gender mixed, or men groups) that wish to participate in the development of new cash/export crops, and to be trained in the fields related to establishing associations or formal cooperative organizations, management, accounting, contracting etc. Such support will be extended by contracting national service providers and/or NGOs; and
- support agricultural research on new and existing cash and export crops. This would be done though a contract with ISAR, or other research institutes in or outside of Rwanda. The PCU will ensure that research activities are carried out on themes requested or approved by entrepreneurs willing to make use of the results for an immediate production objectives.

225. The PCU will coordinate the activities of the RFPS, MINAGRI, RDB, Local Banks, NGOs and research institutes through a series of contracts and will monitor performance.

226. To facilitate the design of the implementation arrangement, the project implementation will begin by funding a special pilot operation connected with the recent successful experience of Cape gooseberry production in Byumba province. This initiative is an interesting example of a successful women entrepreneur in Rwanda. There is room for considerable expansion of this activity in the project area, but much needs to be understood about technical, marketing, infrastructure and other requirements to support successful expansion. The pilot project, costing about USD 35 000 would also provide answers as to the problem that small emerging entrepreneurs meet in obtaining access to advice, and also access to credit. Such information would guide the structuring of the implementation arrangements of the new cash and export crop component.

227. **Structure of the component cost.** To summarize, the cost of the component is structured as in the following table:

Table 9: Cost of the new cash and export crop component

	USD x 1000
Market information and marketing assistance	500
Assistance to SMEs/farmer associations for project preparation	100
Assistance to poor farmers association for capacity building	200
Contracts with agricultural research outfits	150
Credit fund for SMEs and farmer associations projects	600
Pilot project on gooseberry	35
Total cost of the component	1,585

F. Project Coordination

228. The project coordination component (USD 2 ,651 million) will fund:

- The cost of the Project Coordination Unit, comprising: (i) a small central unit based in Kigali and (ii) three decentralized provincial liaison units. The central unit will consist of a small staff, including a Project Coordinator, a Financial Controller, the Monitoring and Evaluation Officer, an accountant, a secretary, and three drivers. In the three provincial units, a Project Liaison Officer, a secretary and one driver will be posted;
- The cost of an internationally recruited Advisor to assist the start up of the project for an initial period of 12 months;

- The cost of furniture and equipment for the office space provided by MINAGRI in Kigali, and for the provincial units, office space for the latter will be provided by the provincial authorities;
- The cost of all the vehicles purchased for the use of the PCU;
- A consultants fund to pay for technical and/or sociological investigations, in addition to funds specifically budgeted under the production and marketing components;
- The cost incurred by the RDB to coordinate the establishment of the CPMCCs and NTC;
- The cost of surveys and Workshops required to undertake adequate beneficiaries tracking surveys, and to organize participatory assessment of project impact with smallholder participants; and
- The cost of Mid-Term review, of the annual audit of project accounts, and of the external audit of each established tea and coffee processing and marketing companies for the first five years of their operations.

229. The PCU and its provincial offices will be funded in full for 5 years. During the first twelve months, until the main contracts with the service providers and with TWIN are negotiated and the service providers operations are in place, the Project Coordinator will be assisted by an internationally recruited Senior Technical Advisor, responsible for assisting the PCU Coordinator in negotiating the contracts. Candidates for the posts of Project Coordinator and of Project Technical Advisor must have a good understanding of the project approach and of the implications of working with private sector partners, as well as experience of implementation of projects funded by International Financial Institutions and demonstrated capacity to take decisions.

230. By year 5, the agricultural development in tea and coffee will be completed, all the private cooperative companies will be fully established and operational, and the guarantee smallholder credit scheme will be also operational. The services of OCIR-Thé and OCIR-Café at growers level will no longer be required, since the CPMCC and the NTC will be in a position to handle the required technology services through the primary societies. The services required from TWIN will be much reduced, the cooperative development work having been completed, and further inputs from TWIN will be funded by the FT producer support fund. The new cash and export crops will also firmly under way. The number and amount of the PCU financial transactions will be much reduced, most of the work will concern impact evaluation, beneficiary tracking, general reporting, and contracting audits. Therefore, the cost of the PCU can be drastically reduced during the last two years of project implementation. The staff will then only include the Coordinator, the PM&E officer, one accountant, one driver, and one secretary. The Financial Controller will be recruited on a part-time basis. The provincial offices will be closed, their functions, particularly with respect to new cash/export crops absorbed by the DALF as part of their normal duties.

231. Support to the RDB will be for three years and will include a senior staff member who will be responsible for following up on all aspects related to company establishment, representation of the bank in the companies Board meetings, preparation of procedure manuals for the companies, legal documentation, negotiations with private partners, and for the start-up and coordination of the credit scheme to coffee and tea planter cooperatives, and of the credit to SMEs and farmer cooperative under the new cash crop scheme. The RDB will set up a special office to handle the affairs connected with the IFAD cash and export crop project. Advisors on specific subjects will be recruited as required. The legal and loans departments of the RDB will provide the necessary complement of inputs in the course of their normal operations. After year 3, the bank will be in a position to cover its costs from the interest spread and commissions earned on the operations funded with project resources.

232. **Structure of the component cost**. The structure of the basic cost of this component is shown in the table below:

Table 10: Basic cost of the Project Coordination Component

	USD x 1,000
Vehicles and vehicles running costs	360
Office furniture and equipment	42
Consultancies, including design of M&E system	200
Technical Advisor for PCU	180
Support to RDB under RDB contract (staff costs, consultancies, and legal opinions and advise)	200
Beneficiary tracking and Participatory Performance Evaluation Workshops	160
Annual Audits (Project, CPMCCs and NTC)	420
Salary and allowances (PCU)	1,026
PCU current office expenses	63
Total cost of the component	2,651

G. Phasing of project implementation

233. During the first year of implementation, the organization and management arrangements of the project will be put in place and completed. This consists of: the recruitment of the staff of the PCU, the equipment of their premises in Kigali, in the provincial offices, the rehabilitation of the OCIR-Thé housing at Nshili, the preparation and negotiations of the contracts with all the service providers including TWIN, and the related recruitment of personnel, purchase of vehicles, office equipment, and so on. In addition, the pilot project of the new cash and export crop component (assistance to gooseberry producers) will be undertaken and lessons learned will be drawn to ensure the completion of the detailed organization of the component. The target for the end of year 1 of the project will be to have all personnel involved in implementation of project activities ready for action, and the selection of the coffee growing areas for project intervention completed.

234. The following table summarizes the expected phasing of key project implementation activities after year 1.

Table 11: Phasing of project activities

Project years	1	2	3	4	5	6	7
Project activities							
Setting up implementation arrangements	xxxxxxxxx						
1. Coffee diversification component	xx	xxxxxxxx	xxxxxxxx	xxxxxxxx			
- Area selection	xxx						
- mobilization & training of local communities	xx	xxxxxxx	xxxxxxx	xxxxxxx			
- Cooperatives & processing company 1		xxxxxxx					
- Cooperatives & processing company 2 & 3			xxxxxxx				
- Cooperatives & processing company 4				xxxxxxxx			
- TWIN support under the project	xxxxxxxx	xxxxxxxx	xxxxxxxx	xxxxxxx	xxxxxxxx		
2. Nshili tea sub-component							
- distribution of OCIR-Thé plantation	xx	xxxxxxxx					
- cooperative formation		xxxxxxxx					
- factory detailed design & feasibility study		xxx					
- Tea (cooperative) Co establishment		x					
- factory construction			xxxxxxxx	xxxxxxxx			
- power connection design & construction		xxxx	xxxxxxxx				
- TWIN support under the project	xxxxxxxx	xxxxxxxx	xxxxxxxx	xxxxxxx	xxxxxxxx		
- Tea Company management contract			xxxxxxxx	xxxxxxxx	xxxxxxxx	xxxxxxxx	xxxxxxxx

Project years	1	2	3	4	5	6	7
3. Mushubi tea sub-component							
- plantation planning with farmers	xx	xxx					
- nursery development		xxxx					
- plantation 1/3 of tea and woodlots			xxxxxxxx				
- plantation 1/3 of tea and woodlots			xxx	xxx			
- plantation 1/3 of tea and woodlots				xxxx	xxxx		
- tea cooperative formation & training			xxxxxxx	xxxxxxx	xxxxxxx		
4. Smallholder credit scheme							
- establishment of scheme for coffee growers			xxxxxx	xxxxxx			
- establishment of scheme for Nshili tea growers				xxxxxx			
5. New cash and export crop							
- pilot project (gooseberry)	xx						
- definition of implementation arrangements	xxx						
- SME support activities, other than loans		xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	
- establishment of credit arrangements for SMEs		xxx	xxx	xxx			
6. Monitoring & Evaluation							
- Design of M&E system		xxx					
- Interim project performance review			xx				
- Mid Term Evaluation					xxx		
- External audits, commercial & financial operations			xxxxxxxx	xxxxxxxx	xxxxxxxx	xxxxxxxx	xxxxxxxx
- Beneficiary assessment and impact evaluation		xxxxxxxx	xxxxxxxx	xxxxxxxx	xxxxxxxx	xxxxxxxx	xxxxxxxx

235. The above schedule envisages a very heavy workload during the first four years of project implementation. By the end of year four, all the industrial and commercial enterprises would be established and operating, and the support for new cash and export crops would be tested and functioning. There will be an interim project performance review in year 3, from which possible adjustments to the organization and rescheduling of the operations may be called for, and a full Mid-Term review during year five, when the size of the PCU will be drastically reduced, since a large share of project funds should have been disbursed by that time. Barring unforeseen delays, the only remaining activities will be the continuous M&E functions, audit, reporting and wind up activities.

H. Project cost and financing

236. The total project costs are estimated at USD 25.54 million, inlcuding price and physical contingencies. About 37% of the total cost (USD 9.36 million) represent foreign exchange costs. Duties and taxes make up 7.4% (USD 1.89) of total project costs. The project will be financed by IFAD (USD 16.3 million), the BADEA (USD 5.66 million), the Government (USD 1.88 million), TWIN (USD 0.41 million), the local banks (USD 0.637 million) and the beneficiaries (USD 0.63 million).

Rwanda
Smallholder Cash&Export Crops Development Project
Components Project Cost Summary

	(Frw '000)			(US$ '000)			% Foreign Exchange	% Total Base Costs
	Local	**Foreign**	**Total**	**Local**	**Foreign**	**Total**		
A. Coffee Diversification	1 582 670.0	1 489 772.0	3 072 442.0	3 165.3	2 979.5	6 144.9	48	27
B. Small holder tea development								
NSHILI project	2 713 130.1	2 572 595.9	5 285 726.0	5 426.3	5 145.2	10 571.5	49	46
Mushubi Project	689 687.7	44 957.0	734 644.7	1 379.4	89.9	1 469.3	6	6
Subtotal Small holder tea development	3 402 817.8	2 617 552.9	6 020 370.7	6 805.6	5 235.1	12 040.7	43	52
C. Garantied Smallholder Credit	330 750.0	6 250.0	337 000.0	661.5	12.5	674.0	2	3
D. New Cash/Export Crops	792 500.0	-	792 500.0	1 585.0	-	1 585.0	-	7
E. Project Management Unit	1 101 535.2	223 804.8	1 325 340.0	2 203.1	447.6	2 650.7	17	11
Total BASELINE COSTS	7 210 273.0	4 337 379.7	11 547 652.7	14 420.5	8 674.8	23 095.3	38	100
Physical Contingencies	240 083.6	243 977.5	484 061.1	480.2	488.0	968.1	50	4
Price Contingencies	641 140.7	97 385.0	738 525.7	1 282.3	194.8	1 477.1	13	6
Total PROJECT COSTS	8 091 497.3	4 678 742.2	12 770 239.5	16 183.0	9 357.5	25 540.5	37	111

Rwanda
Smallholder Cash & Export Crops Development Project
Components by Financiers
(US$ '000)

	IFAD		BADEA		Beneficiaries		Local Bank		The Government		TWIN		Total			Local	Duties &
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	For. Exch.	(Excl. Taxes)	Taxes
A. Coffee Diversification	5 543.2	82.4	-	-	197.8	2.9	200.0	3.0	500.4	7.4	288.1	4.3	6 729.5	26.3	3 237.7	2 991.4	500.4
B. Small holder tea development																	
NSHLI project	4 517.9	39.3	5 663.8	49.3	58.6	0.5	312.5	2.7	819.5	7.1	123.7	1.1	11 496.2	45.0	5 556.1	5 120.6	819.5
Mushubi Project	1 320.2	75.4	-	-	267.5	15.3	-	-	164.2	9.4	-	-	1 751.9	6.9	92.8	1 494.8	164.2
Subtotal Small holder tea development	5 838.1	44.1	5 663.8	42.8	326.1	2.5	312.5	2.4	983.8	7.4	123.7	0.9	13 248.1	51.9	5 648.9	6 615.4	983.8
C. Garantied Smallholder Credit	431.0	63.4	-	-	114.0	16.8	125.0	18.4	10.1	1.5	-	-	680.1	2.7	13.9	656.1	10.1
D. New Cash/Export Crops	1 755.0	98.1	-	-	-	-	-	-	34.6	1.9	-	-	1 789.6	7.0	-	1 755.0	34.6
E. Project Management Unit	2 735.7	88.4	-	-	-	-	-	-	357.5	11.6	-	-	3 093.2	12.1	457.1	2 278.6	357.5
Total Disbursement	16 303.0	63.8	5 663.8	22.2	637.9	2.5	637.5	2.5	1 886.4	7.4	411.9	1.6	25 540.5	100.0	9 357.5	14 296.6	1 886.4

237. With respect to the industrial tea development at Nshili, BADEA will fund the cost of the detailed design and feasibility study for the tea factory, the construction of factory buildings and ancillary facilities including the water supply, the purchase of the factory equipment, and the connection of the factory site to the national electric grid. IFAD will fund the equity capital of the Nshili Tea Company on behalf of the cooperatives of smallholder growers. The overdraft facility required by the company will be funded by IFAD to the extent of 75% and by other Rwanda financial institutions (including the RDB) to the extent of 25%. The coffee processing equipment will be funded by IFAD, through pre-financing the shares of the cooperatives in the equity capital of the enterprises, and the long-term loans to be extended by the RDB. However, the overdraft facilities of the CPMCCs will be funded by IFAD to the extent of 75% and by other Rwanda financial institutions (including the RDB) to the extent of 25%.

238. TWIN will contribute to project costs in two ways. One way represents direct cofinancing of project activities. During the 5 years of the contract with the project, TWIN will contribute an amount of USD 380 000, of which USD 300 000 represents TWIN own costs and USD 80 000 would be paid by the FT "Producers Support Fund (PSF)" of Café Direct and of other FT organizations that market the project coffee production. The other way represents the continuation of TWIN support to the Rwanda producers after the completion of the contract with the IFAD project. For years 6 and 7 of the project, this contribution is estimated at USD 40 000 per annum, a total of USD 80 000 for the two years, sufficient to pay for the remaining services of TWIN. Resources will be drawn from the FT PSF. In addition, after project completion, TWIN will continue supporting the Rwanda Cooperatives over the foreseeable future, drawing resources from the PSF at a rate equivalent of between USD 60 000 and 70 000 per annum. This arrangement ensures the sustainability of TWIN contribution over time and of the relationship of the Rwanda cooperatives of coffee and tea producers with the FT network. TWIN own support to the project initiatives, calculated over a period of 15 years, would be of the order of USD 1 million.

239. The partnership with TWIN is the key to establishing a workable and effective link between associations of poor agricultural producers in Rwanda on the one hand, and, on the other hand, the complex world of global markets and the niche markets that can best add value to poor producers' efforts, and thus improve their livelihood. TWIN, as the key technical partner of the project, will play a central role, complementing the knowledge and experience of both IFAD and the GOR. The choice of TWIN as project technical partner is by virtue TWIN's experience and capacity in both the FT market and in poor producers' cooperatives training and development. TWIN expertise far exceeds those of other FT organizations, and it has experience with operations in two of Rwanda neighboring countries, Uganda and Tanzania.

240. Smallholder coffee and tea growers will co-finance the project development costs to a significant extent, through the value of the family labor applied for tea and the private woodlot planting in Nshili and Mushubi (USD 325 000) and in the rehabilitation and expansion of the coffee plots (USD 60 000).

241. Government contribution will also consist of two parts. The resources directly made available to the project cash flow are estimated at USD 2.1 million. In addition, the Government contribution includes the transfer of the housing compound and of the woodlot plantations in Mushubi to the Nshili Tea Company. Whereas the current value of the houses is limited (the project will spend USD 355 000 for rehabilitation from the war damage), the woodlots have a good commercial value. The form of the transfer to the Nshili Tea Company could either be a grant to the company, or a long-term lease at a reasonable annual cost to the NTC.

J. Counterpart funds and PIP status

242. The project will be approved by the Council of Ministers, and will be included in the next update of the PIP. The Ministry of Finance and Economic Planning will ensure the availability of the Government counterpart funds of a total amount of USD 1.88 million, which represents duties and taxes throughout the seven years of the project life.

243. The government will open a project account in the Central Bank of Rwanda (BNR) into which it shall deposit an amount in Frw equivalent to USD 270 000 representing its average contribution for the first year of project implementation. The Government shall provide exemption of duties for all items imported by the project.

K. Procurement

244. Goods and services funded by the project will be procured by the PCU and by the private CPMCC and NTC. Procurement by the PCU will concern the recruitment of the service providers, all goods and services delivered directly by the PCU to the service providers, all goods and services required for the PCUs own functioning, and the special services required for monitoring and evaluating project performance and impact and for audits. Procurement will be in accordance with the stipulation of the loan agreement.

245. To the extent possible, vehicles and equipment will be procured in lots in order to obtain the best possible prices. International competitive bidding will be used for the supply of goods and services estimated to cost more than USD 100 000; local competitive bidding for supplies and services estimated between USD 100 000 and USD 7 000; and local shopping for less than USD 7 000.

246. Contracts with MINAGRI, OCIR-Café, OCIR-Thé, and TWIN (as project technical partner and co-financier of the project) will not be subject to tendering. Invitation to bid for contracts to private service providers (other than TWIN), will be limited to a short-list of national NGOs or other national private enterprise, pre-selected on the basis of experience, record of performance, and capacity for delivering the services requested by the tender documents. With a view to avoiding long delays and misunderstanding experienced by other IFAD projects, pro-forma contracts for each one of the activities envisaged will be prepared under SOF financing, with technical assistance from IFAD. All contracts will be reviewed by IFAD and the Cooperating Institution.

247. The CPMCCs and the NTC established with project funding channeled through the RDB will procure all goods and services required for their investment and commercial operations. Procurement procedures will be set to be compatible with the procedures imposed by the RDB on their clients, and will be approved by IFAD and the CI. The RDB has entered agreements with several International Development Banks (WB & AfDB for example) regarding procurement procedures, and will ensure that IFAD specific requirements will be complied with. In its double capacity as major lender to the company and of representative (Trustee) of the shareholders in the Board of Directors of the companies, the RDB will ensure that such procedures are actually followed.

Rwanda
Smallholder Cash&Export Crops Development Project
Procurement Arrangements
(US$ '000)

	Procurement Method					
	International Competitive Bidding	National Competitive Bidding	Direct Contracting	Consulting Services	N.B.F.	Total
Civil Works	608.2	409.7 (336.0)	-	-	-	1 017.9 (336.0)
Vehicules	806.4 (661.3)	-	-	-	-	806.4 (661.3)
Equipment	1 794.6 (156.5)	-	-	-	-	1 794.6 (156.5)
Equity fund	-	-	1 850.0 (1 850.0)	-	-	1 850.0 (1 850.0)
Long term credit	5 610.0 (1 760.0)	-	-	-	-	5 610.0 (1 760.0)
Overdraft facility	-	-	2 050.0 (1 537.5)	-	-	2 050.0 (1 537.5)
Training	-	489.6 (401.5)	-	-	-	489.6 (401.5)
Working capital	-	-	-	-	-	
Other expenses	-	-	-	-	-	
Studies and Technical Assistance	-	-	-	2 441.9 (2 432.7)	-	2 441.9 (2 432.7)
Services	-	-	-	5 792.7 (3 960.0)	-	5 792.7 (3 960.0)
Research and Development	-	-	-	-	-	
Snallholder and SME Credit	-	-	1 224.0 (985.0)	-	-	1 224.0 (985.0)
Inputs	-	-	1 125.7 (1 125.7)	-	-	1 125.7 (1 125.7)
Recurrent Costs	-	-	1 337.7 (1 096.9)	-	-	1 337.7 (1 096.9)
Total	8 819.2 (2 577.7)	899.3 (737.4)	7 587.4 (6 595.1)	8 234.6 (6 392.7)	- -	25 540.5 (16 303.0)

Note: Figures in parenthesis are the respective amounts financed by IFAD

L. Disbursement

248. For the disbursement of funds not channeled through the RNB, the PCU will open and operate a Special Account in United States dollars in the Central Bank of Rwanda (BNR). Upon request by Government's designated signatories, IFAD will deposit USD 1 000 000 into the Special Account. All expenditure below USD 20 000 will be settled from the Special account. Withdrawals from the loan account may be made against statement of expenditures (SOEs) for categories of expenditures that will be jointly determined by GOR, IFAD and the CI.

249. In accordance with project policy outlined at the end of Chapter VII, disbursement of project funds will be done on certain conditions. With respect to the **tea development component**, the Loan Agreement will specify that only funds required to undertake (a) the distribution of the Nshili Tea estate to smallholders, and (b) the establishment, organisation and training of the primary cooperative societies among the beneficiaries of the distribution of the individual plantation, will be disbursed initially. The effective implementation of the distribution, and the establishment of the primary societies of assignees with full legal personality, will trigger disbursement of funds to support other project activities under the component, in both Nshili and Mushubi districts. There would be no similar condition applied to the other project components, except for the general rule that funds for constructing coffee and tea processing facilities will

only be disbursed to the CPMCCs supported by the project, upon satisfactory establishment of such cooperative companies including the ownership of their equity capital by the primary societies of smallholder coffee growers.

250. The Loan Agreement will provide for a Subsidiary Agreement with the Rwanda National Bank to handle the funds allocated to the coffee and tea processing and marketing enterprises, and to channel funds to participating Rwanda financial institutions for the coffee and tea smallholder credit scheme, and to lend to SMEs and farmer associations for the new cash crops development. Funds released under the project to extend short term loans and overdraft facilities to CPMCCs, and the NTC, and primary societies, irrespective of the size of individual lending, are subject to the participating financial institutions to co-finance 25% of the loans with their own resources.

251. There will also be a Subsidiary Agreement with the Rwanda Development Bank concerning the operational coordination of all the financial operations funded by the project.

252. Disbursement of funds to establish the CPMCCs and the NTC, and the credit lines for smallholder credit and new cash crop project financing, will be directly disbursed by IFAD to the BNR, responding to a request for disbursement from the BNR to IFAD. In the case of the CPMCCs and the NTC such request would be accompanied by the documentation concerned, showing the list and juridical status of the would-be shareholders, the feasibility study, and the company financing arrangement proposed by the RDB and approved by the BNR. IFAD will review the proposal and issue the non-objection directly to the BNR, along with the transfer of the funds. In the case of credit lines to the Rwanda financial institutions participating in the other credit operations envisaged by the project, a similar procedure will apply for any specific proposal made by individual financial institutions wishing to utilize project funds and to co finance the operation, approved by the BNR.

Rwanda
Smallholder Cash&Export Crops Development Project
Disbursement Accounts by Financiers
(US$ '000)

	IFAD		BADEA		Beneficiaries		Local Bank		The Government		TWIN		Total			Local	Duties &
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	For. Exch.	(Excl. Taxes)	Taxes
Civil Works	336.0	33.0	498.8	49.0	-	-	-	-	183.2	18.0	-	-	1 017.9	4.0	245.9	588.9	183.2
Vehicles	661.3	82.0	-	-	-	-	-	-	145.2	18.0	-	-	806.4	3.2	534.5	126.8	145.2
Equipment	156.5	8.7	1 315.1	73.3	-	-	-	-	323.0	18.0	-	-	1 794.6	7.0	1 112.6	359.0	323.0
Equity fund	1 850.0	100.0	-	-	-	-	-	-	-	-	-	-	1 850.0	7.2	925.0	925.0	-
Long term credit	1 760.0	31.4	3 850.0	68.6	-	-	-	-	-	-	-	-	5 610.0	22.0	4 207.5	1 402.5	-
Overdraft facility	1 537.5	75.0	-	-	-	-	512.5	25.0	-	-	-	-	2 050.0	8.0	-	2 050.0	-
Training	401.5	82.0	-	-	-	-	-	-	88.1	18.0	-	-	489.6	1.9	-	401.5	88.1
Studies and Technical Assistance	2 432.7	99.6	-	-	-	-	-	-	9.2	0.4	-	-	2 441.9	9.6	468.4	1 964.3	9.2
Services	3 960.0	68.4	-	-	523.9	9.0	-	-	896.9	15.5	411.9	7.1	5 792.7	22.7	1 863.7	3 032.1	896.9
Producers short term credit	985.0	80.5	-	-	114.0	9.3	125.0	10.2	-	-	-	-	1 224.0	4.8	-	1 224.0	-
Inputs	1 125.7	100.0	-	-	-	-	-	-	-	-	-	-	1 125.7	4.4	-	1 125.7	-
Recurrent Costs	1 096.9	82.0	-	-	-	-	-	-	240.8	18.0	-	-	1 337.7	5.2	-	1 096.9	240.8
Total	16 303.0	63.8	5 663.8	22.2	637.9	2.5	637.5	2.5	1 886.4	7.4	411.9	1.6	25 540.5	100.0	9 357.5	14 296.6	1 886.4

253. **Accounts, reports and audits.** The Financial Controller of the PCU will be responsible for keeping the project accounts in accordance with established international practices. She/He will produce by biannual and annual financial reports. Project records accounts and financial statements for each financial year shall be audited by independent auditors acceptable to IFAD in accordance with appropriate auditing principles. The auditor shall provide to IFAD not later than six months after the end of each year, certified copies of the project financial statements and the audit report for the year. The external auditors will provide separate opinion on the utilisation of the SOEs and of the Special and Project Accounts. The SOE submitted by the service providers for payment by the PCU will be controlled by the PCU Financial Controller, and verified by the financial management team, within PIFU. In addition, the RDB will provide quarterly financial reports of its operations under the project, and annual financial statements of the commercial enterprises funded by the project, such statements being audited by external auditors acceptable to IFAD.

M. Special Operation Facility (SOF)

254. In order to accelerate the start-up of project implementation, IFAD will make available a Special Operation Facility (SOF) of USD 100 000. The SOF will finance: (i) the drafting of pro-forma contracts to be negotiated with the key service providers (RDB, TWIN, OCIR-Café, OCIR-Thé, NGOs to provide cooperative formation and training services, Rwanda Power Company), (ii) the preparation of the list of beneficiaries of the distribution of the OCIR-Thé plantation at Nshili, and of the new smallholder tea plots at Nshili, (iii) the assessment of the procedures for transferring the assets of OCIR-Thé at Nshili to the NTC company once established, and (iv) the cost of the Project Start-up Workshop. The innovative features of the project (dealing with commercial operations, and with the privatisation of a large government asset in favour of poor smallholders), and Rwanda's qualification for highly concessional lending terms, justify granting the SOF, in line with IFAD policy.

IX. ORGANIZATION AND MANAGEMENT

A. Overall project organization and coordination

255. The structure of project implementation involves four levels. The upper level has the general responsibility for project implementation, is concerned with the overall project supervision and monitors the consistency of implementation with project objectives strategies and policy, and approves the WP&Bs. All project implementation issues that need policy decisions are resolved at this level. The second level is concerned with the operational management of the Special Account and its related obligations, with contracting service providers and monitoring their performance, and with the evaluation of project impact. The third level concerns the provision of services to poor smallholders, primary cooperative societies, farmers associations, and SMEs. The fourth level concerns the production and marketing activities funded under the project.

256. **The Project Steering Committee**. The Ministry of Agriculture is the **executing agency** of the project. Through the Project Steering Committee (PSC), MINAGRI will be ultimately responsible for the management of the first level. Members of the Project Steering Committee will be the Secretaries General of MINECOFIN, MINAGRI, MINICOM, the Governor of BNR, the Director of the Privatisation Unit, the DG of Rwanda Development Bank, the Prefects of the four concerned provinces and the representative of TWIN. The PCU Coordinator will be the secretary of the PSC. The Chairman of the PSC will be designated by GOR.. All public, semi-public, and private institutions involved in project implementation would be invited to nominate representatives and to participate in the meeting of the PSC. The PSC meets twice a year, assesses implementation progress, provides policy guidance as required, and approves the annual progress report of the PCU and the AWP&B. The PSC also approves the arrangements made for the establishment and financing of the CPMCC/NTC, reviews their quarterly and annual financial reports and audits, as well as the quarterly reports and annual audits of the smallholder guaranteed credit scheme, and ensures that adequate project resources are actually channelled to viable enterprises wishing to develop new cash crops,

in accordance with project objectives. The requirement of the CPMCC/NTC and of the RDB to submit reports and audit to the sub-committee will cease when the primary societies shareholders acquire full control of the companies.

257. **The Project Coordination Unit**. A Project Coordination Unit (PCU) will be appointed to provide autonomous coordination and day to day administration of the project. The PCU reports to the Ministry of Agriculture. The Ministry of Agriculture will provide suitable office accommodation including space for TWIN . Within six months of project effectiveness, the PCU will prepare a project implementation manual. The role of the central PCU will be: to handle the project accounts, to prepare the AWP&B, consolidating the AWP&B of all the service providers contracted to implement the project components; to contract the providers of services; to procure all goods and services (excluding those that are included in the contracts with service providers and those that are required by the CPMCC/NTC; to monitor and evaluate the performance of the service providers; to undertake beneficiary tracking surveys and evaluate project impact at beneficiary level; and to contract independent audits of the project accounts and of the CPMCC/NTC. The central unit will produce financial and progress reports, in accordance with standard IFAD procedures. The Senior Technical Advisor will play a special role in negotiating the contracts with the service providers, in close consultation with the Project Coordinator.

258. The provincial units will be set up in Kigali-Ngali, Kibuye, and Gikongoro (the latter also to serve the two districts of Kibungo province included in the project area). Their function is to facilitate the relationships between the central unit, the staff and consultants of IFAD and of the Cooperating Institution, TWIN and other service providers, the DALF and the provincial and district governments; to provide logistical support, including office space and use of office equipment, to the service providers operating in their area; to monitor implementation at provincial level, and to report on performance and problems. The provincial units are accountable to the central unit.

259. The PCU will facilitate and monitor the funding arrangements and management of the tea and coffee processing and marketing enterprises supported by the project, whereas it is understood that the control over their investment and operations is the responsibility of the respective Boards of Directors, in which the RDB will play a major role. Through the life of the project, the PCU coordinator will be invited to Board meetings as observer. The PCU will exercise the right to control the membership of the primary societies, to ensure compliance of IFAD and GoR directives that members qualify as IFAD target group, and that adequate chances are given to women, and in particular to women head of HHs, to fully benefit from the project funded activities.

260. **Arrangements with the Banque Nationale de Rwanda (BNR)**. A special arrangement will be worked out with the BNR with regard to the funding of industrial and commercial enterprises in tea and coffee, to the credit lines for the tea and coffee smallholder credit guarantee scheme, and to the funding of SPME and farmer associations projects for new cash crop development. Under the arrangement, the BNR will disburse project funds to the Rwanda financial intermediaries interested in funding the ultimate project clients. The RDB will prepare the necessary documentation about each one of the tea and coffee commercial companies sponsored by the project, and propose a financial package with the required structure of equity, long term loans, and overdraft facilities. The long term funding (equity and loans) will be channelled through the RDB, whereas overdraft facilities may be channelled through the RDB or other banks. For the other credit schemes the BNR will distribute project funds to different financial intermediaries, including the RDB, depending on which financial institution is interested to participate in the credit schemes from time to time. IFAD funds to be used for lending by the financial intermediaries will be loaned out by the BNR at a rate of interest to be approved by IFAD. Funds used to pre-financed the cooperatives equity investment will be loaned out with no interest to the RDB, to be returned by the RDB when the cooperative shares have been fully paid for by the dividends of the companies. Each operation approved by the BNR will be cleared by IFAD.

B. Contracts with service providers

261. With regard to managing the third level, all project implementation activities concerned with crop development, with farmer organizations, with introduction of new marketing strategies and channels, and with training of cooperatives, associations and SMEs will be outsourced by the PCU to service providers. The service providers envisaged include: OCIR-Café and OCIR-Thé, MINAGRI (on behalf of the central office for activities under the new cash and export crop component, and of the Gikongoro Provincial DALFs for the Mushubi tea component), the RDB, ISAR, TWIN, the Rwandese Federation of Private Sector, other national private sector operators and NGOs.

262. The experiences of the Umutara and of other IFAD projects in Rwanda and elsewhere in the Region suggests that implementation can be seriously delayed by slow and cumbersome procedures in contracting service providers, inadequate attention to all the costs involved in delivering services, and failure to pre-qualify those who are invited to tender. Under the project SOF, IFAD will provide funds to draft pro-forma contracts, to assess the procedures for contracting, train the PCU accordingly, prepare pro-forma budgets for the contracts to ensure that recognised costs will be in accordance with the project estimates, particularly with respect to the service providers' overheads. The internationally recruited Senior Technical Advisor will assist the Coordinator in drawing up tender documents and in negotiating the contracts.

263. In addition to the contracts with TWIN and with the RDB, the following contracts are envisaged:

(i) with OCIR-Café for the technical supervision of the smallholder coffee rehabilitation and replanting programme;
(ii) with OCIR-Thé for the minor rehabilitation of the Nshili plantation, for planting the 200 new smallholder tea plots, for the selection of the beneficiaries, in close coordination with the Cell and Sector DC of the area, securing that between one third and one half of the beneficiaries are women head of HH, for assigning the individual plots to the beneficiaries, and for the continuation of managing the Nshili green leaves production and sale in the interim period until the tea factory is constructed and becomes operational;
(iii) with a firm of quantity surveyors, for topographic work needed to plan the distribution of the Nshili plantation to the poor smallholders;
(iv) with OCIR-Thé for planning and implementing the smallholder tea planting operations in the Mushibi district;
(v) with MINAGRI for the implementation by the Gikongoro DAEF of the smallholder groups nursery programme and of the forestry part of the smallholder tea planting programme in Mushubi;
(vi) with the local banks interested in the establishment and funding of the smallholder coffee and tea planters guaranteed credit scheme;
(vii) with interested local banks for extending credit to SMEs, farmer groups, associations or cooperatives, for development of production processing and marketing of new cash and export crops;
(viii) with Rwandese Private Sector Federation to operate a market research and marketing facilitation unit concerned with new cash crops, sub-contracting the technical side of the unit work programme to an international specialised private Consulting Firm;
(ix) with MINAGRI to establish a small technical and economic unit to assist individual entrepreneurs, farmer associations, and SMEs to prepare projects for production processing and marketing of new cash and export crops, such projects to be submitted to the local banks for funding;
(x) with one or several national NGOs for the support of poor smallholders and SMEs in group formation, associations and cooperative establishment related to the production and marketing of new cash crops, including the related training requirements;
(xi) with ISAR and/or other research institutions for agricultural research on tea coffee and new cash and export crops; and
(xii) with the Rwanda Power company to construct the power line connection from Nshili to the national grid .

264. **The contract with TWIN**. TWIN, a co-financier of the project, will intervene as the project Fair Trade Technical Partner under a special contract with the PCU. The contract will cover two categories of services: (a) those related to services provided directly by TWIN; and (b) those services which TWIN will procure from third parties in Rwanda and abroad, subcontracting them on behalf of the PCU. The contract will fund the following activities:

265. **Services to be provided directly by TWIN**. These will include the establishment of a TWIN office in Rwanda for a period of 5 years. The office would include: a senior Regional Advisor responsible for the entire TWIN operation, who will be resident in Rwanda for at least six-seven months each year, one TWIN project national coordinator on a full time basis, a national general manager of the CPMCC, a financial controller, an accountant, one secretary, and two drivers. The TOR of the TWIN office include:

- Participation with OCIR Café and the PCU in the selection of the coffee growing areas of project intervention;
- selection of participating grower organizations/primary cooperative societies at Nshili and in the selected coffee growing areas;
- recruitment and supervision of national NGOs to carry out cooperative formation, animation, and training, in the selected coffee growing areas and at Nshili;
- training of the national organizations, including the staff of OCIR-Café, and OCIR-Thé recruited by the PCU to provide technical assistance to growers in coffee and tea production according to top quality market requirements;
- contracting for the production of related training material;
- providing the general management of the coffee processing and marketing companies, including arrangements for the construction of the coffee processing plants, contracting suppliers and supervision of suppliers delivery and installation, and training cooperative members to take over management in due course;
- establishment of appropriate linkages with FT trading organizations;
- supply of market information to the primary societies of growers, ensuring that such information is actually received and understood by the membership of the primary societies;
- quality control of the products of the CPMCC and of the NTC and arrangements for FLO certification of the products that meet FLO standards;
- marketing the products of the companies supported by the project, with special attention to Channeling products through the FT organizations as much as possible;
- support to improving product marketing abroad and access to special markets, including participation in Trade Fairs with representatives of Rwanda partners, design and production of material and supplies for the Fairs;
- attendance to meetings of the Project Policy Steering Committee, and to annual Project Component Participatory Performance Evaluation Workshops; and
- production of quarterly and annual financial and progress reports.

266. **Services sub-contracted by TWIN to third parties**. The following will be contracted out by TWIN using project funds:

- specific consultancies on technical and agronomic aspects, including preparation of feasibility studies for organic coffee and tea production, related action plans and initial certification if organic conversion proves feasible, and training Rwanda technicians in organic conversions; and
- coffee and tea growers cooperative formation, animation, training, operation monitoring and support, by national NGOs;
- cooperative training in smallholder loan making and supervision, by national NGOs;
- preparation of training materials for above;
- product promotion in world markets, including design of marketing promotions materials, and
- specific design and construction supervision of coffee processing facilities.

267. The contract will be for five years, subject to good performance verified annually by the local partners' organizations, the PCU M&E officer, and the IFAD supervision missions. Thereafter, it is envisaged that the services of TWIN will continue, and, as in the case of other TWIN initiatives elsewhere in the world, they will be funded by the project beneficiaries (processing companies and primary cooperative societies) themselves.

268. **Contracts with the financial institutions**. These will concern contracts with the RDB and with other Rwanda financial institutions interested in participating in project implementation.

269. **Contract with the RDB**. The PCU will negotiate a contract with the RDB, under which the RDB will play a pro-active role for the establishment of the CPMCC and of the NTC. Whereas the NTC as described in Chapter VIII is the only scenario that the project will implement for coffee processing and marketing, the possibility of other options will be explored without deviating from the project policy and approach to secure control of the enterprises by the primary societies of smallholders, and to avoid all potential future conflicts between owners of interests in processing and marketing and producers of raw crops for processing.

270. Within the framework of the coffee diversification component and of the Nshili integrated smallholder tea development sub-component, the RDB will:

- coordinate the activities of the PCU, TWIN, OCIR-Café, OCIR-Thé, and the Privatisation Secretariat of the ministry of Finance, for the establishment of the CPMCC and of NTC, or of any other commercial organization that might be established under the project in the coffee sub- sector (this function includes promotional activities, including identification and assessment of potential private partners among FT organizations, contracting feasibility studies of crop processing operations, appraisal of the viability of the growers primary societies, negotiations, contracting legal advise, facilitating the quantity of legal personality to the primary societies, etc.);
- prepare draft Articles of Agreement, Statutes, and Operation Manuals for the private companies, for discussion and approval by the Board of Directors of the commercial enterprises funded by the project when established;
- handle the equity investment fund of the project that pre-finances the primary societies shares in the commercial enterprises funded by the project;
- hold in trust the shares of the cooperatives, collect the dividends payable on those shares until such a time when all the shares are paid for through dividends, establishing a separate deposit account to hold such payments as reserve until the cooperatives take over the control of the enterprises;
- act as representative of the shareholders in the Board of Directors of such enterprises;
- grant and administer the long term loans required by the CPMCC and by NTC, using funds made available by the project;
- arrange for the necessary overdraft facilities to be extended to the enterprises by the RDB and/or other commercial banks interested in participating and co-financing the lending operations;
- supervise the procurement procedures of the CPMCC and of NTC in accordance with established RDB practices, ensuring that IFAD requirements on procurement are taken into account;
- monitor the financial situation of each enterprise supported by the project on a quarterly basis, and report to the PCU and IFAD;
- cooperate with the PCU that will arrange for external audit of the enterprises' accounts;
- transmit the quarterly and annual reports of the enterprises financed with project funds to the PCU and IFAD; and
- submit quarterly and annual reports on its own activities to the PCU.

271. **Other contracts with Local Banks**. These will concern the smallholder tea and coffee guaranteed scheme and the funding of new cash crop projects of SMEs and farmers associations. The contracts will be negotiated with any interested Rwanda financial institutions, including the RDB.

272. Under the smallholder coffee and tea growers credit guaranteed component, the financial institution will:

- Negotiate with the processing and marketing enterprises the procedures for guaranteeing loans made by the primary societies to their members under the project funded smallholder guaranteed scheme;
- Assess the capacity of the primary societies to handle a loan from RDB under such scheme;
- Establish a fund to finance the loans extended to the primary societies under the scheme, and make arrangements with local commercial banks for handling the accounts;
- Report on the progress made in implementing the scheme, and on the financial position of the related accounts;
- Contract external audit of the accounts of the primary societies, including reconciliation with the commercial banks and the processing companies accounts; and
- Submit quarterly and annual reports on its own activities to the PCU.

273. Under the new cash and export crop component, the participating financial institutions will fund financially viable projects related to the development of new cash and export crops. Such projects would be submitted by private entrepreneurs and private enterprises (SMEs), farmer associations sponsored by the MINAGRI project preparation unit, or by other supporting agents (other IFAD projects, NGOs, etc…). Irrespective of which institution will participate, individual projects will be appraised in accordance with the standard procedures and investment criteria as currently applied by the RDB.

C. Production and marketing organizations

274. Private enterprises will manage the fourth level of project implementation activities. In addition to individual crop growering HHs, these include the CPMCC, the NTC and any other commercial organizations established are supported by the project in the tea and coffee sub sectoral, as well as the farmer associations, cooperatives, and SMEs that will respond to project incentives to produce and market new cash and export crops.

275. The statute, organization structure, staffing and operation manual of the coffee and tea processing and marketing companies will be approved by the Boards of Directors of each commercial enterprise funded by the project, in accordance with practices and procedures generally accepted in private business. Since the RDB represents the majority shareholder in all cases, the RDB representative on the Boards will cast the deciding vote. The RDB will prepare a draft proposal for discussion at the Board meetings. Resources to draft the proposal are included in the first contract of the PCU with the RDB. The joint management of the CPMCC will be paid by the project for 5 years under the contract with TWIN. The management of the Nshili Tea Company is funded under the general financial arrangements envisaged to support the new company, and details will be worked out at the time of establishment of the company.

276. During project implementation, the possibility of several options for the actual organisation and management of the coffee diversification component will be examined. Among them, the advantages of establishing a central export company (tea and coffee) will be assessed, such company to be a joint venture of TWIN with the CPMCC, and the NTC (see last section of Working Paper 12).

D. Contracting agricultural research

277. ISAR may be the main contractor of the research services required by the project. A number of themes, in particular those related to IPM and to methods to eliminate the “potato” taste in coffee, may be directly contracted by the PCU to specialised outfits with experience and previous success in the specific fields. Similarly, research work on new cash crops may require know-how and experience not available at ISAR, which may be contracted to other regional or international research institutes. OCIR-Thé, OC IR-Café, and TWIN will assist the PCU in contracting and monitoring research projects, and will monitor the performance of ISAR and/or other research outfits in the tea and coffee sub-sectors. The research contracts

with ISAR will include the commitment to keep an up-to-date data bank to keep abreast of world wide research developments and results related to all of the crops funded by the project, and to keep contacts worldwide, with research workers in these fields through the INTERNET network.

E. Monitoring and Evaluation

278. The PCU will monitor and evaluate performance and progress in project implementation with respect to four main categories of indicators:

a) indicators of the general production and financial performance of the enterprises funded by the project;
b) beneficiary tracking, with particular attention to the participation of women, and women head of HHs;
c) incremental income obtained by the participating farmers through cash crop production, and of the impact of such income of the livelihood of the HHs; and
d) assessments of the quality of the institutional development at farmers level, with respect to the transparency of their operations and to the application of democratic decision making processes.

279. The production and financial performance of the CPMCC and of NTC will be monitored by the Rwanda Development Bank in accordance with the standard procedure applied to all of the bank's clients. Quarterly and annual reports on production, purchase of raw materials, sales, prices, stocks, employment, etc., as well as financial statements, will be regularly produced by the companies and submitted to the RDB. After review, such reports will be transmitted to the PCU for further analysis and to IFAD. Annual audit of the accounts of the companies will be contracted by the PCU with approved external auditors, and their reports transmitted to the RDB and IFAD.

280. With respect to the SMEs and the farmer associations engaged in new cash crops development, the M&E office of the PCU will recruit consultants to review their production and financial performance on a regular basis. The surveys should be designed to capture the problems of the enterprises, their chances of success and causes of setbacks, their genuine need for project support, the requests made for support, and the effectiveness of the service providers, and of research institutes in providing the requested support to their clients. The PCU M&E officer will report on TWIN performance in providing several management services to the CPMCC.

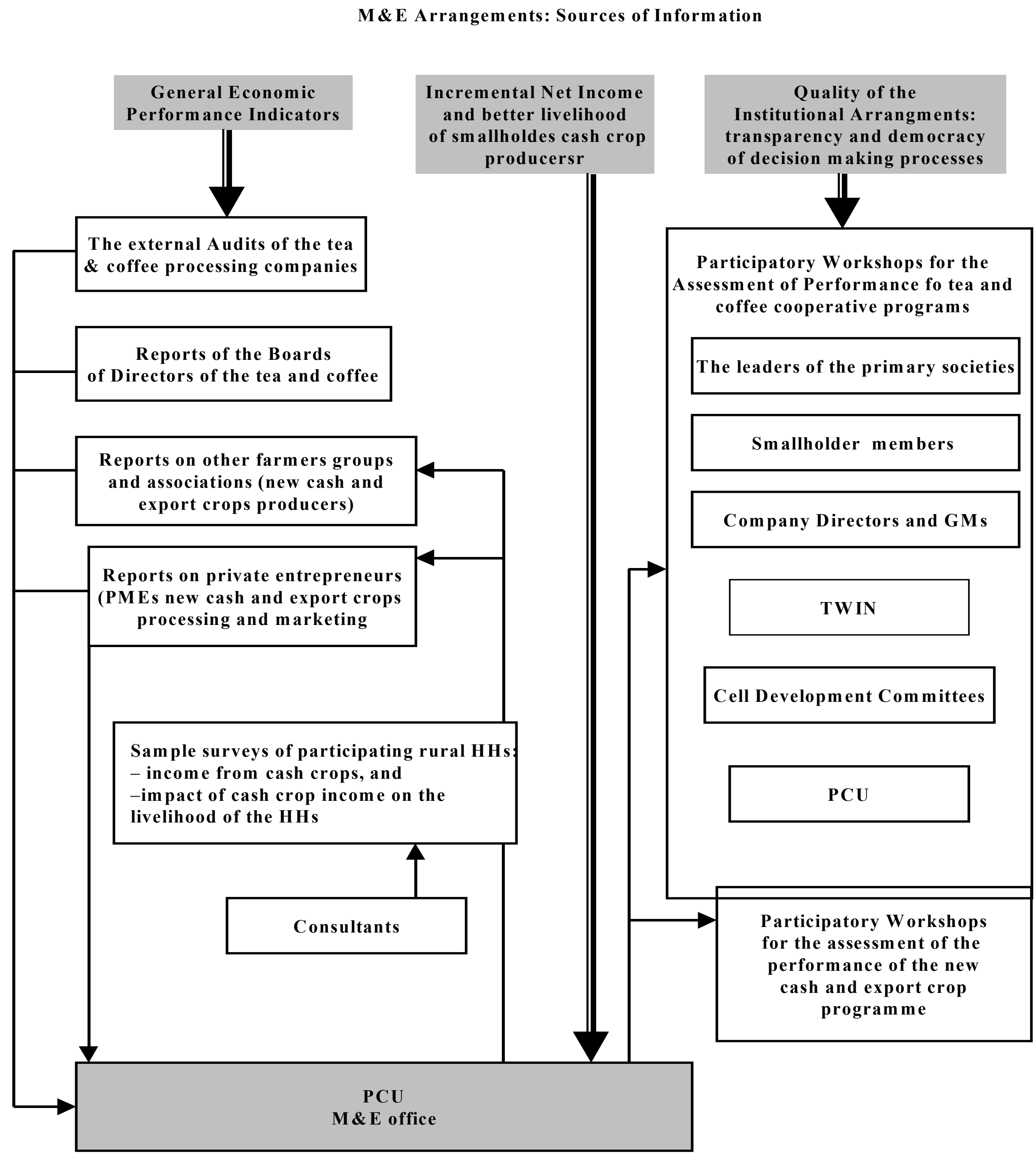
281. A special role in M&E will be played by TWIN. On the operational side, TWIN, in cooperation with specialists of OCIR-Thé and OCIR-Café, will certify the quality of the coffee and tea produced by the companies supported by the project. In addition, TWIN will also report on the performance of the general manager of the NTC with respect to the contractual obligation to associate primary societies leaders to the day-to-day conduct of business. TWIN will also monitor the quality of the management of the primary societies holding shares in the companies, with a view to verify that the standards imposed by the FT network for their partnership with the producers' cooperatives (which are fully shared by IFAD) are actually part and parcel of the *modus operandi* of all organizations supported by the project.

282. The goal of the project being to help cash crop producers in Rwanda to rise above poverty, the most important indicator of project success will be the incremental net returns to family labour obtained by tea, coffee and other cash and export crops producers supported by the project, and the impact such increments have with respect to the participating HHs getting over the threshold of poverty. It will be important also to follow the improvement in the livelihood of the HHs participating in the project. This is of course a more complex matter which must be carefully examined to ensure that cost effective methods are applied to collect the minimum of (quantitative and/or qualitative) information sufficient to draw conclusions on this point. The PCU M&E officer will contract *ad hoc* participatory surveys to collect information about the behaviour of the indicators over time, from a limited number of typical HHs. Starting in year 3, an annual summary report will be produced.

283. The project will institutionalise the practice of stakeholders verification of the progress made in project implementation, and of open debate on problems encountered in implementing the project on behalf of the target group. To this end, the PCU will organise, starting from the second year of the project, annual Participatory Project Performance Evaluation Workshop. Four separate workshops will be held each year: for the Nshili tea programme, for the smallholder tea plantation expansion programme, for coffee diversification, and for the new cash crop programme. These workshops will be designed in such way so as to provide ample room for the rural households to express their views on the performance of the service providers, to make and debate suggestions for improvement, and to facilitate the most participatory project implementation possible.

284. Funds are included in the Project Coordination component for designing the M&E system during the first year of implementation. The following chart shows the general concept and the main sources of information of the M&E system.

Figure 2



X. BENEFITS, JUSTIFICATIONS AND RISKS

A. Cash crops markets and marketing

285. **Traditional crops**. The present situation and the future prospects of the international market of coffee and tea, and the constraints and opportunities that Rwanda faces in these markets have been summarised in Chapter IV, and analysed in details in Working Paper 6 and 12. The conclusions of the project formulation mission have been reviewed and commented upon by a TWIN specialist consultant at appraisal. This section discusses the conditions that the project supported CPMCC, and the NTC must meet in order to be financially viable on a sustained long-term basis.

286. **Coffee**. The viability of the proposed CPMCC rests on two basic assumptions: (i) that the quality of their products will be such as to command a price comparable to that of the very good arabica coffees produced elsewhere in the world, and (ii) that the management of the companies will be able to establish a favourable trading environment, building up the confidence of buyers regarding the quality of the products and the ease of doing business with the Rwanda suppliers, that is, the international reputation of the project supported exporters. TWIN will test and grade the quality of the products, negotiate FLO certification for the grades that meet FLO standards, and arrange for the special linkages with the FLO network trading companies that will have a first option on the purchase of the FLO certified lots at FT guaranteed prices for trading under true labelling in the speciality markets overseas. TWIN will also assist in promoting the image of the coffee produced by the CPMCC among coffee buyers other than FT organizations. It is expected that at full development, the share of the total project supported produce sold at FT prices may be up to 30% of the total, that is, about 375-400 tons per annum.

287. The size of the coffee market of the entire FLO network in 2001 was about 15 000 tons, growing at 12% per year. Assuming a slower growth rate for the future (7%), it will expand to over 22 000 tons by 2010. The sale of 375 tons from Rwanda by that time would be equivalent to only 2% of the volume of the FLO network World business in coffee, and to 25% of the volumes handled by the TWIN associated trading company, Café Direct, also assumed to expand at no more than 7% per annum. Café Direct, having to cater for its many partner cooperatives in 16 other countries, from whom it now purchases about 1 000 tons, may well be in a position to purchase between 150 and 250 tons from its Rwanda partners. The balance of the FT grades produced should not be difficult to sell to other trading companies of the FT network. The following table shows the projection of the FT grade output of the four project supported coffee enterprises used as a possible scenario of project implementation.

Table 16: Annual Phasing of the FT Standards Coffee Produced by the four CPMCC Supported by the Project (tons)

Compared with projected sales of labelled products by TWIN Trading and the FLO network

Project Years	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Company 1		0	46	70	93	94	94	94	94	94
Company 2			0	46	70	93	94	94	94	94
Company 3				0	46	70	93	94	94	94
Company 4				0	46	70	93	94	94	94
Sub total A		0	46	115	254	326	373	374	374	374
Twin trade		1000	1070	1145	1225	1311	1403	1501	1606	1718
FLO network		15000	16050	17174	18376	19662	21038	22511	24087	25773
Sub-total A as % of TWIN			4%	10%	21%	25%	27%	25%	23%	22%
Sub-total A as % of FLO			0,3%	1%	1%	2%	2%	2%	2%	1%

TWIN and FLO volumes expected to grow at 7% per annum compound (current rate 12% p.a.).

288. The balance of the produce of the CPMCC should consist to a very large extent of grades that can still be sold at a premium price. The quantities that do not fall in this category would depend on the effectiveness of the quality control exercised by the processing companies on the fresh cherries purchased from the farmers and during the de-pulping and hulling process. Since the companies policy will be to reject all cherries that do not meet set standards, and to screen carefully the products at different stages, it can be reasonably expected that no more than 5-10% of the total output will be of “standard” quality, and that no “ordinary” coffee will be produced. The companies’ pricing policy for the fresh cherries will provide reasonable incentives to ensure top quality deliveries by farmers. The independent grading of the produce by TWIN and OCIR-Café (under its new mandate) will monitor the companies performance and improve the chances of a fair “price for quality ratio” at the time of negotiating sales. In addition, it is envisaged that at least two of the areas where project supported CPMCC are established may be converted to organic coffee producing areas. TWIN has experience of organic coffee production in nearby Uganda, and feels confident that this can be done. Provided net positive returns to organic coffee production is demonstrated, the project supported companies will have a further opportunity to market their coffee at premium prices, entering a larger market than that of speciality products.

289. The present size of the of the world trade in high quality arabica, a large share of which is of Colombia origin, is about 780 000 tons. Demand is expanding slowly, but slightly faster than supply. The incidence of the non-FT standard share of the production of the project supported companies, some 800-900 tons, in that market is minimal. However, the best Rwanda coffees are not comparable with Colombia Mild products, because of technical differences in flavouring balance. Nevertheless, despite this drawback (less flexibility for blending), there are chances that the objective high quality will be recognised in specific market niches. In this connection again, it is expected that TWIN will be able to help by providing access to buyers associated with the FLO network who do not deal exclusively in products sold in the speciality markets. Ease of doing business is, along with constant and reliable quality, the second most important factor of developing remunerative market channels. Good management of the coffee companies, non interference by government, other public agent, local or national external organizations, efficient and speedy banking and costumes operations, will help a good deal to sell the CPMCC output at remunerative prices.

290. Currently, the FT organizations offer to their associate cooperatives of producers a minimum free on board price of USD 2.78/kg, for the share of the produce that is of the required quality. This price compares to the USD 0.90/kg (some 20 cents less than the New York Future C equivalent to USD 1.09/kg) paid to OCIR-Café. International buyers of quality products are expected to buy at least some of the produce not purchased by FLO members at prices not far below the minimum FT price. Nevertheless, the price assumed for the non Fairtrade uptake is considerably below that level.

291. The financial projection for the coffee processing enterprises has been based on the following assumption about “free on board” (fob) and “free on truck” (fot) prices and share of produce by quality:

Table 17: “Free on board” and “free on truck” prices

Prices in USD/kg	f.o.b. Mombasa	f.o.t. hulling factory	Share of total produce
Quantity sold at Fair Trade minimum price	2.78	1.73	30%
AVG of non Fair Trade uptake	1.42	1.29	70%
From f.o.b. to f.o.t.: sale commission, USD 0.10/kg transport, warehousing and port handling costs			

292. The average price of the share of the output that would not be purchased by FT organizations would depend on the structure by quality of the produce. In most cases there will be aspectrum of different qualities, each valued differently in the market. As already discussed, the expectation is that the bulk of the non-FLO standard products will be of high quality, the share of “standard” coffee will be marginal and no “ordinary” coffee will be produced. Nevertheless, prudence in price projections is mandatory. Accordingly, the average fob price used (USD 1.42/kg) is only a little higher than the recent New York C quotations.

293. **Tea**. The future for tea looks less unfavourable than for coffee. In the case of tea as well, quality makes a significant difference. Good quality tea prices fare, and are expected to fare in the future, much better than the average. From this point of view, Rwanda has a distinct opportunity to exploit, since Rwanda CTC tea is considered among the very best in the world. This reputation, which is a critical factor of the financial viability of new investment in the sub-sector, is being restored after some decline in the quality of OCIR-Thé products after the 1994 war. At the moment, not all tea factories in Rwanda are back to the pre-1994 level. Nevertheless, OCIR-Thé has managed to sell at fairly good prices in 2001, despite the drop of the average tea quotations by 25% in 2000. This confirms, that price volatility in tea is less of a problem for good quality products than for average or low quality products.

294. The judgement of experts and traders consulted by the project formulation mission coincides with the view of the GOR that, provided that country production is brought back to the level of quality of before the war, Rwanda tea will be paid top prices. Some traders felt that most Rwanda teas can fetch even higher prices than the best Kenya teas. The Nshili area has the potential to be among those, provided growers apply the correct pruning and harvesting practices, fresh green leaves are delivered rapidly to the factory, and adequate processing immediately follows. A similar potential exists in the Mushubi area.

295. As in the case of high quality coffee, the tea produced at Nshili will include some of the very best, some of the good quality tea, and some of the less good quality that will be sold in the domestic market. Products falling into the first category are expected to be a larger share than in the case of coffee. The following price structure is assumed in the financial projections:

Table 18: Price structure for financial projections

Prices in USD/kg	f.o.b. Mombasa	f.o.t. tea factory	Share of total produce
Top quality (direct sale, partly through FT organizations)	1.90	1.80	66%
Good quality, (auctions and direct sales)	1.60	1.45	24%
Lower quality (domestic sales) (a)	1.10	1.10	10%
From f.o.b. to f.o.t.: 2% sale commission, USD 0.10/kg transport, warehousing, and port handling costs (a) net of 10% VAT			

296. The quantity produced by the Nshili factory (1 800 tons per annum) is quite small in relation to the size of the international market for top quality tea. There is expecting to be no problem in disposing of such quantities at the projected prices.

297. **New cash and export crops**. This component is not specifically designed. It will be implemented on the basis of knowledge about a number of different opportunities that will become apparent during project implementation, especially once results fo research into new crops and the Cape gooseberry pilot proejct are evaluated.

B. Project beneficiaries and project benefits

298. **General**. It is expected that between 15 000 and 20 000 poor smallholder farmers will participate in the project coffee diversification component, including a significant number of women head of households. The tea programme will concern about 9 600 HHs. In the Nshili District, the number of smallholder beneficiary HHs would be about 4 800, at least one third of which should be women head of household. In Mushubi similar numbers will be targeted. In total, the project support to the traditional export crop sub-sector would benefit some 125-150 thousand people.

299. **Coffee**. The survey of smallholder coffee farmers' opinion conducted by the project formulation mission record and among the poor growers' issues: (i) the need for stable and better prices, (ii) delays in payment by traders, (iii) lack of resources to rehabilitate their coffee bushes, (iv) absence of equipment to de-pulp the cherries, (vi) the painstaking dirty and time consuming work to de-pulp manually, and (vii) the non-availability of inputs, tools, and spraying equipment.

300. The benefits of the project for the farmers willing to accept the project partnership conditions would vary over time. Over the years during which the primary societies purchase their ownership of the industrial facilities through the dividends paid by the processing companies, the major benefits would be:

- free planting material and initial inputs for rehabilitation and expansion of their coffee plots;
- a stable price higher than what they could get otherwise;
- no delay in payments;
- the purchase of the fresh cherry they produce, rather than the *parche*; and
- access to credit through advance payments guaranteed by the delivery of coffee crops for processing.

When the cooperatives are fully in control of the processing companies, the smallholder participants will be in a position to further raise the fresh crop price.

301. The price for the farmers to obtain such benefits is based on the rigorous application of the technical requirements for producing the quality of fresh cherries that the processing companies will accept to market the final products at a profit, having paid growers the prices announced for the quality of cherries that they must deliver.

302. The average growers price assumed for the financial projections of the processing and marketing companies is USD 0.11/kg (FRW 50 at the May 2002 rate of exchange) for the fresh cherries, equivalent to Frw 250 per kg of *café parche*. This is higher than the price actually paid currently by local traders, which is less than Frw 200/kg of *parche*. A stable price of USD 0.11/kg and a ready outlet for the fresh cherries, is a very good incentive for the growers. The impact on the HH budget would vary with location and size of the coffee plot relative to the rest of the farm holdings.

303. By way of example, the income model of a "poor" coffee grower HH in Kibuye (see table 4 of Chapter VI), shows a total net HH income of USD 348, of which no more than USD 20-30 from coffee, and a gap to the threshold of poverty of USD 77. As a result of the project, that HH can improve and marginally increase its coffee plot from 150 to 250 plants (0.11 ha), and obtain a net income form coffee of USD 80-90, through better prices, increased production, and some higher yields. The increase in net cash income of USD 50-60 per annum on account of coffee, will represent a significant improvement, getting the HH near to, although not quite over, the threshold of poverty. Coffee benefits would be larger when the cooperatives, finally in control of the factories, are in a position to increase the price of the fresh cherries. The financial projection a typical CPMCC shows that such increase can be of the order of 30%.

304. These results can be obtained with a marginal increase in the cropping intensity of seasonal crops, such as to keep the total farm production of calories per HH member at the pre-project level, which cover the minimum requirement for food security. The farm model analysis also shows that the returns to the day of family labour applied to coffee would be in the range of the other most remunerative crop (banana), and almost three times the current daily wage for casual work. The following table summarises the with-and-without project situation of a HH improving the coffee plot to 250 plants under the project. Details of the farm models are given in Working Paper 4.

305. A similar model is presented in Working Paper 4 for a woman headed HH with 0.6 ha of land and 100 plants on 0.05 ha coffee plot. This HH could increase the number of plants on the coffee plot to 150, without jeopardising food crop production. The net income from coffee would be half of the previous case, and the overall nutritional value of the farm produce per HH member, would also be about half. The coffee income could in principle supply 20-25% of the food deficit of the HHs. In this case also the model shows that this

very poor and incomplete HH has no shortage of labour to handle food and cash crop production from the limited amount of land they control.

Table 19: Expected benefits to smallholder coffee planter HHs

HH of 5 people, 2.5 labor units, 1.1 ha farm	Without project	With project	Difference
Coffee plot, surface (ha)	0.08	0.12	+0.04
Number of plants	150	250	+100
Cropping intensity, seasonal crops	113	122	+8%
Net coffee income	27	80-90	50-60
Total HH income, USD	345	410	65
Kcal/person produced at the farm	2,045	2,045-2,315	0-260
Remuneration of family labour day (Frw):			
- Coffee growing	200	795-880	595-680
- Best other crop (banana)	866	866	-
Wage of casual labor (Frw/day)	250	250	-
Gap to threshold of poverty (USD 425)	-80	-10	

306. A coffee grower participating in the project would also benefit from the guaranteed credit scheme. In the case of the HH shown in the table above, the HH would be in a position to borrow each year up to USD 30 against its coffee delivery, which would permit them to buy some fertilisers on credit not only for coffee, but also for food crops, and so increase the ceiling intake produced of the farm, or to provide for other urgent necessities, or to purchase a goat, for example, at a price of USD 20.

307. **Tea**. The current situation of a poor HH selling labour to the OCIR plantation at Nshili is compared in the following table to the “with project” situation estimated in Table 5 of Chapter VI. The green leaf price assumed is Frw 45/kg, which is slightly higher than currently paid (Frw 43/kg). As a result of the project, the income of the beneficiaries of the plantation distribution is expected to increase from well below to just above the threshold of poverty. However, when the primary societies are in a position to acquire the full control of the factory, the price of the green leave can double, increasing the net income of the HHs by about USD 130, bringing the total income well above the threshold of poverty. At Frw 45/kg of green leaves, the remuneration of a day of work by the HH members in tea growing (Frw 900) will be well above the current daily wage for casual labour, and lower only to that of growing peas. However, when the price of the green leave doubles, tea growing will be by far the most remunerative crop for the farmers.

Table 20: Expected benefits of Nshili project on a poor HH beneficiary of the distribution of the OCIR-Thé plantation

Type of HH: complete family with 5 members, 2.5 labour units	HHs selling labour to the Nshili plantation (before project)	After plantation distribution (with project)	Differentials
Modal land holdings	0.9 ha	1.15	0.25 ha
Sources of income (USD equivalent)			
Net farm income	233	381	233
of which, tea	0	134	148
Other income	120	50	-70
of which, cash income	90	20	-70
Total income	353	431	78
Total cash income	90	154	64
Nutritional value of the food-crops produced on the farm (Kcal/person/day)	1,711	3,296	1,585
Remuneration of family labour day (Frw):			
- Tea growing	-	900	n.s.
- Best other crop (peas)		1,069	-
Gap to threshold of poverty (USD 425)	-72	6	66

308. The figure presented in Table 20 assume that, after organising their tea plot the beneficiaries of the distribution use their cash income to purchase fertilisers also for their food production, which exploring the very large increase in the motion value of their farm production.

309. **Availability of family labour for tea and coffee growing**. The mission has investigated the question of whether poor smallholders in the project area have sufficient labour to handle a new approach to coffee and tea growing. The farm models presented in Working Paper 4 are based on a poor HH farming 1.1 ha with 0.1 ha coffee plot. This HH would have a labour force equivalent to 2.5 adult persons per day available during peak demand for agricultural work on the family farm, that is, net of the labour required to perform mandatory HH maintenance tasks that cannot be postponed during such periods of the year. Such labour force is well in excess of what is required to handle all the cropping tasks during the two growing seasons, which is estimated at a total of no more than 250 work days per annum, with a peak of 64 work days per month during the month of May. A coffee grower with 250 bushes does not need to apply more than 50 workdays to this crop, out of the total of 250 days. The most labour intensive activities (mulching and harvesting) are actually spread over a harvest season of 2-4 months. Coffee cherries do not all mature at the same time, so that only a small input of family labour is required on a weekly basis to harvest 250 plants over several weeks. Similar considerations apply to a very poor HHs with only 1.5 labour units in the family that would handle half the farm holding size, and a coffee plot with between 50 and 150 plants. A tea planter with 1.1 ha of land, and 0.25 ha of tea, has a heavier workload a little more than 300 days, but more evenly spread throughout the year. Picking is done twice a month, but is not done at the same time across a plot of 0.25 ha. Normally, the plot is split into three or four sections, so that harvesting takes one person 3 to 4 working days twice a month. Some time is required for pruning, however, there is no need for mulching, and little weeding is required once a good tea bush canopy is established to protect the soil.

C. Financial Analysis of the coffee and tea companies

310. Working Paper 12 presents the financial evaluation of a typical CPMCC and of the NTC. Several simulations of the expected financial performance of the proposed companies have been carried out to

explore the conditions that would lead to sustainability in the long term, to engineer sound financing, and to determine the sensitivity of the expected results to changes in the critical parameters used to build the financial models.

311. Investment costs have been estimated by independent consultants. With respect to the Nshili Tea Company, a firm with wide experience of tea factory construction and operations in Kenya has been recruited. For coffee, the services of a consultant familiar with the coffee processing plants recently established in Burundi have been used. Products and raw material prices have been discussed in the two sections above. The cost of labour and professional staff reflects current private sector practices in Rwanda. Employees of the coffee processing plants will be mostly cooperative members, plus few external professional technicians. Management will be provided by TWIN for 5 years, including the financial controller services. With few exceptions, employees will be paid only for the duration of the harvesting washing and hulling campaign. The employees of the tea factory will include national technicians with good experience, recruited from the staff of OCIR-Thé, and will be paid for the entire year since the factory works all the year around. Other inputs in the production process have been estimated by the national consultant in the case of coffee. In the case of tea, they have been derived from the average costs of the public factories of OCIR-Thé, which may result in a degree of overestimation. Import duties and corporate income tax rates reflect the GoR fiscal laws in force in May 2002.

312. **CPMCCs**. An indicative model of one CPMCC has been elaborated to explore the conditions and limits of the financial viability of the proposed enterprises. The financial engineering package used in the model includes USD 150 000 of private equity capital, USD 400 000 long-term loan, and overdraft facilities peaking at about USD 250 000. Under this funding package, the company would acquire about USD 600 000 of fixed assets, a peak of about USD 200 000 of working capital, and would be able to finance differed revenue expenditure incurred during the first three years of operations, totalling about USD 100 000.

313. In accordance with the project policy stated at the end of Chapter VII, the project-supported CPMCC will borrow from the Rwanda Development Bank on terms and conditions applicable to private business. However, gearing ratios and lending terms must comply with the criteria mentioned in Chapter VII. The financial analysis model assumes that the long term loan will be for seven years, with no interest paid in the year the loan is made, at a real rate of interest of 8% thereafter, inclusive of all RDB fees and commissions. Overdraft facilities granted by the RDB and/or by commercial banks are also assumed to cost the borrowers 12% per annum, also inclusive of fees and commissions. These rates must be agreed upon during loan negotiations.

314. If carried out with adequate resources, and following private enterprise commercial procedures, the construction of the washing stations and of the hulling plant would take a few months, with production starting in year 2 from the company establishment, and reaching full capacity in year 4. The slow pick up of production is due to ensuring the right quality of the fresh cherries. Better capacity utilisation is possible by processing some inferior quality cherry or hand produced parche as well, but these operations must be kept separate. In these cases, the raw materials will be bought at prices comparable to those paid by traders, and have not been taken into account.

315. The financial projections show that dividends will be payable from year 6 onward. The total amount of payable dividends would equal the original amount of paid-in share capital by the end of year 9, despite payment of income tax at 40% over the same period. The companies will keep an adequate gearing ratio, below 3:1 at all the times. The expected dividends policy can be implemented with the Net Worth constantly kept above the nominal value of the original equity investment. During year 9 or 10 the cooperatives will be in a position to acquire control of the companies, and to increase the price of the fresh crop by about one third. The projections are at constant prices, and the future situation of exporting companies that borrow funds in Frw, may improve as a result of a possible appreciation of the USD with respect to the Rwanda currency in the course of time. This may accelerate the take over of the companies by the primary societies.

316. **Sensitivity of the expected financial results of the coffee companies**. These favourable results are fairly sensitive to:

- marginal changes in the projected average price of products;
- small increases in the investment costs;
- oversized technical and administration staff and excessive employment of labour; and
- higher interest rates on borrower funds payable during construction and start-up of operations.

317. These risk factors are moderated, on the one hand, by the conservative assumptions built in the computer model used for the analysis, and, on the other hand, by the likely impact of inflation and of the future external value of the Rwanda currency. There are ways also to reduce the cost of the fixed assets, by fabricating parts of the required equipment in Rwanda. All efforts must be made by the CPMCCs to control investment, start-up costs, and operating expenses, and to produce the quality of output required to obtain remunerative prices. Rigorous management and no interference with appropriate conduct of business by external factors, are essential for achieving success by the coffee companies. Deviation from these practices would jeopardise the chances of the cooperatives to acquire control of the companies in a reasonable time, and would endanger their financial sustainability when the cooperatives finally are in full control of the enterprises.

318. **Nshili tea factory**. The preliminary financial plan of the tea factory presented in Working Paper 12 envisages private equity capital of USD 1.25 million, a RDB loan of USD 3 million, and commercial banks overdraft facilities peaking at of USD 1,25 million. These amounts would fund fixed assets costing USD 4.6 million, working capital peaking at USD 700,000, and differed revenue expenditure peaking at a little over USD 1.2 million, amortised over 3 years, starting in year 4. In the case of the tea factory also, the financial projection shows that the company will keep an adequate gearing ratio, below 3:1 throughout the project, and that the expected dividends policy can be implemented with the Net Worth constantly kept above the nominal value of the original equity investment. The accumulated amount of payable dividends is expected to equal the total amount of paid-in equity capital by the end of year 8. By the end of year 9, the cooperatives would have acquired all their shares, assumed full control of the Nshili Tea Co, and will be in a position to double the price paid for the green leaves to cooperative members.

319. **Sensitivity of the financial results of the Nshili Tea Company**. The financial model of the Nhili Tea Company is more robust that that of the CPMCCs. Higher investment costs of the order of 15%, however, would require a larger RDB long-term loan or more equity investment, or a management contract grant, or a combination of these. Higher interest rates on borrowed funds during factory construction and start up will have a similar effect. The risk of lower prices for the company output is much less than in the case of coffee, the assumed grade structure of the products is, in theory, rather conservative, given the potential of the growing area, the experience of the Rwanda technical personnel, and the international reputation of Rwanda tea. Larger staff costs will have a negative impact, and must be carefully kept under control by the manager during the interim period, and by the cooperative shareholders once in control. Any increase in staff cost would reduce operating margins, and lower the chances of increasing growers' prices. The same risk moderation factors discussed for the coffee companies, in particular the possible depreciation of the Rwanda currency over time, will apply to the tea company as well.

320. **Return of funds to the Treasury**. The project funds used to pre-finance the shares of the primary societies will be returned to the RNB by the RDB when the fund-in-trust holding the shares of the societies is liquidated. Funds used to extend long term loans by the RDB will be returned *pari passu* with the repayment of the amortisation of the loans extended to the companies.

321. During the first 10 years of their operations, under the option of establishing four CPMCCs, the expected accumulated payment of corporate income tax by the four companies would total about USD 350 000. The accumulated corporate income tax payable by the Nshili Tea Company during a similar period is estimated at over USD 900 000.

D. Economic analysis

322. The economic justification of the project has been assessed by estimating a separate Economic Rate of Return (ERR) for the two sub-components of the tea development component, and for the coffee diversification component. All project costs budgeted under the components have been charged to the related benefits, except for the Government contribution corresponding to the value of the OCIR-Thé estate, as this represents only a transfer of existing economic resources and is a poverty alleviation (distribution), and not a development, measure. All prices used are current market prices, with no allowance for possible higher values of foreign exchange earnings and of equipment imports, and in potential lower value of local labour costs. The ERR of the Nshili sub-component works out at 21.4%, that of the expansion of smallholder tea in Mushubi at 14.3%, and that of the coffee diversification component at 19.37%. The ERR are significantly higher than the IRR estimated in the financial projections, due to the much longer time span over which economic benefits are taken into account (25 years) as against financial benefits (10 years).

323. No estimate of ERR has been attempted for the new cash crop component, because the specific flow of costs and benefits of the different initiatives that the project may support is not known this stage. No has an estimate has been done also for the credit scheme, as this involves transfer payments only.

324. Gross project benefits for the Rwanda balance of trade would include annual foreign exchange earnings of the order of USD 5 million at full development, of which USD 2 million on account of coffee exports, and USD 3 million on account of tea. Of these about USD 4 million per annum would be incremental net foreign exchange earnings.

E. Environmental status

325. The project is classified in category “A” because no significant negative environmental impacts are expected. In fact, there are likely to be substantial positive environmental impacts.

326. Smallholder grown traditional cash crops, coffee bushes in particular, are sometimes planted in overexploited highly eroded hillsides. Being a perennial shrub, which requires mulching among the good husbandry practices, coffee can play a role in soil conservation, if adequate practices are applied. The poor remuneration of coffee growers during the 1990s has caused most smallholders to abandon such good practices. The IFAD project, by providing a stable and more interesting price to growers will contribute to re-establishing good crop coffee husbandry, which will help restoring the potential role of coffee bushes in soil conservation. Similar considerations apply to tea which are also perennial plants. Perennial plants have relatively deep and robust root systems which bird the soil and further enhance soil stability.

327. The project funded technical assistant services provided to cash crop growers will include the standard recommendations of MINAGRI with respect to soil conservation and anti erosion techniques. The higher farm income, resulting from the project interventions, and the guaranteed credit scheme, are expected to remove some of the farmers’ income and cash-related constraints for adopting such practices.

328. The project funded feasibility studies of organic conversion of tea and coffee production will establish the technical requirements and the financial viability of adopting such practices. With respect to coffee, in particular, the project funded agricultural research will emphasise IPM and other means to reduce the use of chemicals. If proven feasible, organic conversion will significantly contribute to environmental protection in the tea and coffee growing areas supported by the project.

329. Most new cash and export crops developed recently in Rwanda also contribute to checking soil erosion. For example, maracuja is a vine, useful for holding the soil where it is planted. Mulberry trees (silk worm production), and other fruit trees can be used to check soil movement. Gooseberries are a native plant in Rwanda, grown on a handkerchief of land, very closely controlled in the family home garden. In addition, the new cash crops are normally grown with little of no use of chemical inputs, which not only helps to

develop a market of organic products, but also ensures that incremental production will not be at the expense of pollution of the Rwanda farmer's fields and ground water resources. Eventually, organic conversion will also be extended to new cash and export crops production, where feasible.

330. Significant project induced environmental hazards are limited to the impact of the effluent of the new coffee washing stations. This could produce serious damages. The cost estimate of the washing stations includes the plant required to avoid releasing any pollution material from the stations. Consultants employed by the PCU will control that the coffee processing companies comply with the project policy in this respect.

F. Risk and risk moderation measures included in the project design

331. The main risks of non-performance of the project components are indicated below.

a) Smallholder tea development. With respect to the Nshili sub-component the following risk factors are important:

- delays and interferences with the distribution of the OCIR plantation to poor smallholders, and in particular to the women head of households and survivors of genocide living in the area. This would have a negative impact on the main project objective, delay the construction of the tea factory, slow down production of green leaves, and affect the financial sustainability of the Nsili Tea Company;
- the yield of green leaves obtained by the smallholder beneficiaries of the OCIR-Thé estate distribution is less than expected, possibly due to sub-optimal application of fertilisers. This may reduce the financial viability of the tea factory during the first years of operation and delay the acquisition of the, shares by the cooperatives;
- delays in granting the *personnalité juridique* to the primary societies of smallholder tea planters. This will delay the establishment of the Nshili Tea Company and the construction of the tea factory.

Risk moderation measures include:

- GoR to attach top priority to the distribution of the OCIR-Thé industrial estate to smallholders; IFAD will withhold disbursement of funds for any other activity in tea development (in both Nshili and Mushibi) until the land distribution is completed and formalised, all individual beneficiary HHs identified, their qualification as IFAD target group verified, IFAD is satisfied that the number of women head of HHs being given user rights to tea plots is according to project policy, the primary societies formed and granted *personnalité juridique* so that they can acquire shares in the Nshili Tea Company and primary societies;
- The projected yields of green leaves (8 t/ha) is perfectly possible in the area, provided adequate quantities of fertilisers are applied. Yields obtained by the cooperative plots that supply SORWATHE in a similar area have been significantly higher when correct amount of fertilisers have been applied. Nevertheless, the project includes the expansion of the area grown to tea by smallholders in Nshili by 200 ha, which would offset up to 20% shortfall of the projected yields.

332. With respect to development of smallholder tea plantations in Mushubi, the risk is connected to delays in construction of a factory to process the crop there.

Risk moderation measures include:

- Government commitment to undertake the timely construction of the factory with other sources of funds, in case IFAD and BADEA are not in a position to support the factory project with the necessary complementary funding at the required time.

b) The coffee diversification component. The following risk factors affect the performance of the coffee diversification programme:

- delays in organising suitable smallholder coffee growers primary societies in four different areas suitable for high value coffee production, leading to establishing the CPMCCs over a longer period than three years, which would increase the cost of the management contract for the enterprises, requiring an extension of the contract with TWIN for the management of the enterprises;
- poor performance of TWIN and or other service providers under the coffee diversification component;
- political interference with the management of the CPMCCs and/or with the management of the primary societies;
- lack of success in sufficiently improving the quality of the coffee produced and processed; and
- exceptionally bad climatic conditions.

Risk moderation measures include:

- close monitoring and supervision of cooperative formation and training activities;
- GOR commitment to defend the autonomy of primary societies from political interference, and close monitoring of their performance, including the transparency and democracy of their decision making processes; and
- close monitoring of the agricultural research activities required to back up coffee quality improvement.

c) The new cash and export crops component. Risk will vary depending on the crop. Oversupply of a specific product in the domestic market, or in a particular export market may occur. Outbreaks of unforeseen pest or disease may severely damage production and/or increase costs beyond profitable operations. Not enough new opportunities may be identified to absorb all the funds allocated to this component. Risk moderation measures will be elaborated during project implementation on a case by case basis.

G. Innovative Features and Conformity with the COSOP Strategic thrusts

333. The major innovation of the project is the set of measures aimed at introducing the Rwanda poor smallholder growers of cash and export crops in the world of modern industrial business, marketing and finance. The institutional and financial arrangements proposed provide the bridge between local small farmers associations and the type of organizations that have the legal and financial power to play in the global international market. A key innovation of the project design is the association of a non-profit organization specialised in promoting the linkages between producer cooperatives in developing countries and Fair Trade organizations having access to the retail gourmet market in high income countries. In view of the limited experience of both IFAD and the partner Government of Rwanda in dealing with FT organization, IFAD has secured the participation of TWIN as FT project partner and project co-financier. These features of the project respond to IFAD strategy aimed at increasing participation and empowerment of the poor in the full cycle of production processing and marketing of their produce, and of securing effective cooperation with the private sector.

334. The key points of IFAD Strategic Framework and of the Regional strategies have been recalled at the beginning of Chapter IV. The project design attempts to put them into practice within the context of the cash and export crop sub-sector in Rwanda. The following table summarises the response of the project design to the IFAD strategic thrusts in Rwanda as adopted in the COSOP approved in 2001.

Table 8: Reponses of the project design to the IFAD strategic thrusts adopted in the COSOP

Project components	Coffee Diversification	Tea development	Smallholder guaranteed credit	New cash crop development	Project Coordination
IFAD strategic thrusts					
1. Support to GOR decentralisation and privatisation policy	Establishment of autonomous private (cooperative) companies for processing and marketing			Project responds to demand of grower groups., small and medium size private enterprises	
2. Development of sustainable micro-finance institutions			Strengthening role of primary cooperative societies and farmer associations, linkages with viable commercial enterprises, and establishment of relationships with RDB and commercial banks		
3. new ways of technology generation & transfer	Linkages with FT organizations to secure know-how for top quality production Funding national research to keep abreast of developments				
4. diversification of income generation and marketing	Emphasis of top quality production, FLO certification of tea and coffee products, prices guarantee by quality control and FT trading partners	Smallholders including women get tea plot in Nshili		Farmers, particularly women, not involved in traditional crops are encouraged to grow new cash crops	Participatory Performance Evaluation Workshops. Beneficiary Tracking
5. support to small and medium size enterprises			Main thrust of new crop development		
5 support to community infrastructure					
6. cross cutting emphasis on women	Women coffee growers encouraged to join primary societies	30 to50 per cent of tea plots of Nshili OCIR-Thé estate go to women		Many new crops will be grown by women	
7. decentralised project management & improved reporting and monitoring	Processing and marketing enterprises are private independent units with fully autonomous management		The credit scheme is operated by independent autonomous primary societies	Production processing and marketing by autonomous PMEs or farmers associations	Outsourcing implementation, agreements with providers of services to poor smallholders

XI. ASSURANCES AND CONDITIONS TO BE SOUGHT AT NEGOTIATIONS

335. At appraisal the following needs to be given particular attention.

- Subsidiary agreement with Rwanda National Bank. This will concern (a) the role of the RNB, and (b) the rate of interest charged to the RDB and other financial institutions to draw funds from the RNB used for on-lending, and (c) the provision that funds drawn by the RDB to pre-finance the cooperative shares will bear no interest.

- Subsidiary agreement with RDB. This will concern the arrangement regarding the operational role of the RDB in promoting the establishment of the cooperative companies and the coordination of the lending operations envisaged under the project with other participating national financial institutions.

- Conditions of effectiveness to include:

  The preparation by the Nshili communities of the list of the beneficiaries of the distribution of the OCIR-Thé Nshili plantation and of the new smallholder tea plots in the OCIR-Thé land concession at Nshili, such activity to be funded under the SOF

- Condition of disbursement under the tea development component for other activities than the distribution of the Nshili OCIR Thé plantation:

  Effective assignment of individual plots to all beneficiaries, including minimum 33% women head of HH
  Issue of usufructuary title to all beneficiaries
  Formation of cooperatives of beneficiaries and granting of *personnalité juridique* to all the cooperatives
  Preparation by MINAGRI of the complete documentation necessary for the transfer of the OCIR-Thé Nshili woodlots and housing compound to the Nshili Tea Company (NTC), upon establishment of the NTC.

- Condition of disbursement under the coffee diversification component:

  Formal acceptance of TWIN as project technical advisor and signature of the contract with TWIN in accordance with the principles established in the appraisal report
  Government assurances regarding the policy of location of new coffee washing stations, to avoid overlapping of areas of influence

- Government to accept that an internationally recruited specialist advisor to the project coordinator be recruited for one year to assist in negotiating all the contracts with the service providers. Pro-forma contract will be prepared under the SOF. Failure to sign the contracts with the key service providers within one year from project effectiveness will cause the cancellation of the Loan!

- The Ministry of Agriculture to specifically commit to provide suitable office accommodation for the PCU central office in Kigali, including space required by TWIN, and for the provincial units of the PCU in Gikongoro, Kibuye, and Kigali-Ngali.