



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
FIP - DECENTRALIZED FOREST AND WOODLAND MANAGEMENT PROJECT
APPROVED ON JANUARY 23, 2014
TO
BURKINA FASO

ENVIRONMENT & NATURAL RESOURCES

AFRICA

| | |
|----------------------------------|---|
| Regional Vice President: | Makhtar Diop |
| Country Director: | Pierre Laporte |
| Senior Global Practice Director: | Karin Kemper |
| Practice Manager/Manager: | Benoit Bosquet |
| Task Team Leader: | Loic Jean Charles Braune, Abdoulaye Gadiere |



ABBREVIATIONS AND ACRONYMS

| | |
|-------|--|
| DFWMP | Decentralized Forest and Woodland Management Project |
| EU | European Union |
| FCPF | Forest Carbon Partnership Facility |
| FIE | National Environment Fund (Le Fonds d'Intervention pour l'Environnement) |
| PIU | Project Implementation Unit |
| REDD+ | Reducing Emissions from Deforestation and Forest Degradation |
| SCF | Strategic Climate Fund |
| TF | Trust Fund |

**BASIC DATA****Product Information**

| | |
|--|--|
| Project ID P143993 | Financing Instrument Investment Project Financing |
| Original EA Category Partial Assessment (B) | Current EA Category Partial Assessment (B) |
| Approval Date 23-Jan-2014 | Current Closing Date 31-Dec-2019 |

Organizations

| | |
|--|---|
| Borrower Government of Burkina Faso | Responsible Agency Ministere de l'Environnement et Developpement Durable |
|--|---|

Project Development Objective (PDO)

Original PDO

The project objective is to promote national development policies as well as to support the definition and implementation of community-based natural resource management processes in 32, mostly rural, communes in a way that strengthen sustainable local development practices and contributes to reducing GHG emissions from deforestation and woodland degradation.

Summary Status of Financing

| Ln/Cr/Tf | Approval | Signing | Effectiveness | Closing | Net | | |
|----------|-------------|-------------|---------------|-------------|------------|-----------|-------------|
| | | | | | Commitment | Disbursed | Undisbursed |
| TF-16915 | 02-Sep-2014 | 02-Sep-2014 | 16-Sep-2014 | 30-Jun-2018 | 4.40 | 3.70 | .30 |
| TF-15339 | 17-Feb-2014 | 17-Feb-2014 | 16-Sep-2014 | 31-Dec-2019 | 16.50 | 2.26 | 14.24 |

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. Background

1. The Decentralized Forest and Woodland Management Project (DFWMP) was approved on January 23, 2014, became effective September 16, 2014 after one extension of the effectiveness deadline. The DFWMP is designed to implement an integrated, inclusive community forest and woodland management approach based on improving livelihoods and reducing poverty while simultaneously enhancing carbon sequestration potential. The project is proving to be instrumental at the national level in helping Burkina Faso integrate REDD+ concepts and principles into its development strategy, and a coherent vision of integrated rural development is becoming more and more apparent and influential in shaping national policies on natural resource management.

B. Project Status

2. The Decentralized Forest and Woodland Management Project (DFWMP) was approved on January 23, 2014, became effective September 16, 2014 after one extension of the effectiveness deadline. The DFWMP is designed to implement an integrated, inclusive community forest and woodland management approach based on improving livelihoods and reducing poverty while simultaneously enhancing carbon sequestration potential. The project is proving to be instrumental at the national level in helping Burkina Faso integrate REDD+ concepts and principles into its development strategy, and a coherent vision of integrated rural development is becoming more and more apparent and influential in shaping national policies on natural resource management.

3. Owing to its innovative nature, the project was conceived in two phases: a project feasibility and planning phase, and then investment led by the local governments. It was agreed that this was the best approach and it would be better to learn from early implementation and to adapt as needed. After an initial challenging start, which caused an 18-month delay, the project is now progressing well towards its planned objectives. The first phase was concluded with a high-level workshop which resulted in government endorsement of a change in implementation arrangements, and the project now shifts to its field investment phase. It has overcome the challenges related to the participatory planning of investments and further delay is not anticipated. The limited progress towards indicator targets will rapidly improve once funds have been transferred to the communes and investments begin. This will tentatively start around February 2018.

4. The mid-term review, held in March 2017, confirmed project design remains relevant and confirmed readiness to implement phase two of the project.

5. This is the second project restructuring. The first of which was to change the disbursement ratio between the two sources of funding - Strategic Climate Fund (SCF) and the European Union (EU) - in the Grant Agreement. After the investment phase is launched, the team will assess the execution and potentially identify areas for improvement such as a revision of the PDO and results framework – such changes are not expected before end of FY18.



6. To date disbursements stand at 28 percent with commitments representing an additional 5%. More than 90 percent of the EU grant has been disbursed and the team received late December 2017 the second tranche of EUR3,12 million funding to be available (of which EUR2,951,000 will be added to the recipient executed part).

7. The status of components as of January 2018:

- (a) **Component 1. Mainstreaming Climate Change and REDD+ into Sectoral Frameworks and Strategies:(Cost \$6.10 M).** REDD+ clearly appears now as a comprehensive and integrated tool for decentralized landscape management rather than a forestry policy, and a clear roadmap has been developed to include REDD+ into the national strategy. Government capacity on REDD+ continues to be built and a firm has been hired to provide the technical content, create communication tools, facilitate consultations on the ground, as well as to train resource persons for the waves of consultation. Though delayed, the REDD+ strategy is under preparation with the first wave of consultations at the village level. In October 2014, the government received 3.8 million USD from the Forest Carbon Partnership Facility (FCPF) to support the country's preparation phase for REDD+. As such, the funding previously earmarked for REDD+ activities will be reallocated to component 2. Activities related to the strengthening of Burkina Faso's climate governance and resilience are delayed but are in preparation and should be launched in March 2018.
- (b) **Component 2. Participatory Planning and Management of Forests and Woodlands:(Cost \$17.10 M).** The local participatory diagnostics in each of the 32 communes using an innovative methodology ("Territories", a patented methodology from the Agricultural Research Centre for International Development, a French research institute) have been completed. A high-level workshop involving the Minister of Environment and the Minister of Decentralization, the 32 mayors - plus officials from the Ministry of Finance (cadaster) and the Ministry of Agriculture (rural land tenure services) was held on May 18th, 2017 to validate the approach, the tools and the methodology (communal REDD+ investment projects aligned with the land use plans, as opposed to sporadic micro-projects). This showed that the innovative approach, which had been debated for a long time, including within the Steering Committee, was finally endorsed by the government representatives. The land use plans and the long list of investments (including conservation area identification and land security strengthening activities) were presented and adopted by the Municipal councils to ensure ownership. All 32 municipal councils were satisfied with the outcomes of the participatory process. The procurement of the firms/NGOs in charge of helping communities develop their Communal Investment Plan for REDD+ (PDIC/REDD+) is complete and the firms have started designing the PDIC/REDD+ to assess their carbon impact. The Food and Agricultural Organization Ex-Ante Carbon-balance tool is being integrated into the project. In conjunction with the geographic information system (GIS) system, it will allow the project monitoring and valuation (M&E) team to estimate and monitor the expected carbon emissions from each PDIC/REDD+ investments.
- (c) **Component 3. Coordination and Information and Knowledge Sharing:(Cost \$3.10 M).** The innovative approach set up in Burkina Faso is catching the attention at international level. In addition to the land tenure sector, which is now exploring how to build on the project experience, other countries have been inspired by the lessons learned from the project regarding the decentralized and participatory approach to natural



resources management. The project approach has been identified as a best practice for participatory land rights security and welcomed a mission from Cameroon's Ministry of Territorial Administration and Decentralization. Interest in the Burkina Faso experience also came from Guinea (presentation mission in 2017) and the project was invited to present its results at the regional level to the Sahel and West Africa Program (SAWAP) participants.

- (d) **Project management:** Following a change in Project Coordinators in January 2017, project management has improved from Moderately Unsatisfactory (MU) to Moderately Satisfactory. However, both Financial Management (MU) and Procurement (MU) remain a concern due to capacity constraints and deteriorating quality of work that continue to impact the pace of implementation. Financial management is weak on budgeting and reporting and there is currently no adequate system in place to monitor disbursements/available budget by component. M&E is performing well and the team has been further strengthened with the hiring of a GIS specialist. No Safeguards issues have been flagged. As the project needed to refine its implementation methodology, the Environmental and Social Framework and Process Framework had to be updated.

C. Rationale for Restructuring

8. Reallocation between components and disbursement categories. During the mid-term review it was agreed that component 1 (REDD+) would need to be simplified owing to its complexity, and considering that most activities had been taken over by the REDD+ Readiness Preparation project (P149827) with a US\$3.8 million grant. At the same time, needs for component 2 appeared to be higher than anticipated based on studies performed during implementation. It also appeared that the configuration of the management accounting reporting system TOMPRO artificially increased the use of component 3 with technical expenses (such as field staff costs and dedicated technical assistants) that were initially budgeted in component 2 and component 1. Thus, following the MTR conclusions, it is proposed to reallocate the budget between components to take those changes into consideration.

9. In addition, the initial design anticipated sub-grants would only cover hard investments while “soft” activities (capacity building, training...) supporting the reduction of deforestation and improvement of the land management would be budgeted under a different disbursement category and would be executed directly by the Project Implementation Unit (PIU). With the refined approach, all activities supporting the reduction of deforestation and the management of forested land, including tangible investment, land tenure security, capacity building, communication, awareness campaigns and operating costs for the execution of the sub-projects are now integrated into a unique PDIC/REDD+ – and as a consequence, the budget for the sub-grants increased. As such, this paper proposes to reallocate funding across disbursement categories to meet these needs, with the sub-grant category for sub-grants moving from US\$3.72 million to US\$7 million for TF015339 (respectively from 0.8 million to 3 million for TF16915).

10. Change in disbursement arrangements. The fiduciary capacity of the implementing unit continues to be a concern now that the project is gaining momentum particularly as disbursements will soon be made to the communes for the sub-projects. In addition, lessons learned from other projects have showed the need to have a very rigorous cash management process for the funds to be transferred to the communes. Thus, the Government has sought for a solution to improve the financial control and has identified the National Environment Fund (FIE, Le Fonds d'Intervention pour l'Environnement) as



a sub-contractor to oversee and control the financial management and procurement aspects of the sub-grants provided to the communes - given their strong fiduciary capacity and their relationship with the municipalities. The share of responsibility will be the following:

- a. Each commune is elaborating its PDIC/REDD+, whose technical quality is checked by the Project Implementation Unit after an initial review by the respective administration representatives. After all due diligence (including safeguards) is conducted, the PDIC/REDD+ is approved by the Commune council.
- b. A Sub-grant agreement is signed between the government and each Commune. It clarifies that the Commune implements the sub-grant, while the Project Implementation Unit (and the Ministry of Environment) is in charge of the technical supervision. The Sub-Grant agreement mentions that FIE will be in charge of disbursing the funds to the Communes and will perform the financial and fiduciary control. FIE is not in charge of the sub-project management, its responsibility lies only in the fiduciary management of the funds following the arrangements in the Sub-grant agreement. FIE will be contracted by the project PIU for this role.
- c. The PIU will be in charge of the technical supervision, providing technical assistance and reviewing the technical progress reports that will trigger the disbursement of tranches to the Communes;
- d. FIE will be contracted for the fiduciary responsibility of the funds. It will open a transfer account to receive the money for the 32 communes according to the disbursement schedule defined in each Communes sub-grant agreement, and distribute the funds to the Communes in a dedicated Trésor account (*compte Trésor dédié*). FIE would take responsibility for internal control, internal audit, technical assistance for fiduciary purpose (procurement and financial management) as well as fiduciary reporting. FIE will not have any technical responsibility.

11. As a conclusion, the PIU's role will remain identical to the one in the current grant agreement. The only change is that FIE is contracted as an intermediary between the project and the Communes for fiduciary management.

12. Since FIE is a separate legal entity, a single source contract will need to be signed with the FIE for its intermediary role (effectiveness condition). A simplified FM assessment of FIE conducted in November 2017 concluded that the Entity has acceptable FM capacity, although it is not familiar with the Bank FM procedures. The FIE has the basic Financial Management staffing arrangements in place including a Finance Director, a Management Controller and an Internal Auditor, and acceptable management tools such as a manual of procedures and a project accounting software TOMPRO. The FM team is supported by an international technical assistant and a financial controller (from the Ministry of Environment). The FIE has adequate arrangements for external auditing of the project's accounts. E&Y, an audit firm, conducted in June 2017 an assessment of the FIE's systems, managerial and organizational capacity. The two parties agreed on an action plan. The follow up mission conducted by E&Y in October 2017 concluded satisfactory progress had been achieved in the implementation of the action plan.

13. The overall Fiduciary Risk of the project is rated Substantial. This is due to the design of the project which includes the following risk factors: (i) small value and multiplicity of actors with an expected large number of transactions; (ii) largely beneficiaries based in remote and geographically dispersed locations within the country; and (iii) scattered locations of sub-projects with activities generally prone to irregularities (workshops, conferences, trainings, outreach activities...). The following mitigation measures have been incorporated into the design of the project FM arrangements such as (i) clear



transparency rules; (ii) integrating fiduciary management supervision with monitoring & evaluation; (iii) accountability mechanisms (e.g. participation, public announcement and training and empowering community to exercise fiduciary control over their leaders); (iv) widening of the scope and sample size of transactions reviewed during supervision missions; (v) strengthening the capacity of the fiduciary team of PCU and FIE.

14. The FM arrangements for FIE will be as follows: (i) assignment of a dedicated accountant to work under the responsibility of the FIE's Finance Director; (ii) strengthening the FIE's internal audit function by selecting an assistant auditor "junior internal auditor"; (iii) opening a transfer account by FIE in a commercial Bank to receive the funds for the 32 Communes according to the disbursement schedule defined in each Commune's sub-grant agreement, and distribute the funds to the Communes in a dedicated Trésor account based on an agreed annual work program and budget; (iv) the review of the ToRs for the project auditor to request, in addition to the audit report covering the consolidated financial statements of the project, a separate opinion on the use of funds managed by FIE and transferred to the 32 communes.

15. Other changes in disbursement arrangements. Following the Administrative Agreement, as the Trustee for the European Union contribution is currently 80 percent disbursed, it will trigger the second installment of the EU contribution. Thus, the Trustee will receive an additional amount of EUR3,12 million, of which EUR2,951,000 will be added to the recipient executed child Trust Fund TF016915 (the total amount for the RETF will therefore be EUR 6,500,000). Simultaneously, the child Trust Fund TF016915 will be extended to September 2018 in order to ensure that the EU's additional contribution will be disbursed. As there is no possibility of extending the Trustee beyond December, the team proposes to change the disbursement arrangements to allow for a full disbursement of the EU TF before it closes, after which the SCF TF will cover the remaining expenses. The proposed restructuring will also ensure that the project maximizes funding available by utilizing a sequential rather than concurrent -as done currently- disbursement arrangement.

16. Deletion of the third legal covenant. The initial Grant Agreement included a legal covenant stating that the draft Terms of Reference for the external audit had to be cleared by the Court of the Accounts (CoA) prior of contracting. However, the CoA declined this suggestion in the past and the legal covenant was unable to be matched. As the external audit for the past 3 years have been satisfactory, it is proposed to remove this covenant from the revised Grant Agreement. I understand the CoA declined this suggestion in the past.

II. DESCRIPTION OF PROPOSED CHANGES

- (a) Reallocation between components and disbursement categories: Reallocate financing between the components as activities from component 1 have been taken over by another project and the sub-grants in component 2 have a broader scope. The disbursement table will be modified and this amendment will be reflected in the disbursement letter.



- (b) Change in disbursement percentages: Modify the funding arrangement to fully utilize the EU TF before it closes. The previous restructuring in 2014 sought to better utilize resources by splitting the disbursement ratio 38 percent/62 percent between the SCF TF and the EU TF. This restructuring will revise this arrangement and the disbursement ratio will be split between the SCF TF and EU TF in sequence (i.e. EU TF would cover 100% of the expenses, after which SCF TF will be used once the EU TF is fully disbursed. This will also result in an amendment to the Grant Agreement.
- (c) Modify the amount and the closing date for TF016915 to reflect the second tranche of EU grant (the new amount is 6,500,000 EUR), as per project appraisal and as per the Administrative Agreement TF072116 between the World Bank and European Commission, and to extend the recipient executed grant to August 31, 2018.
- (d) Drop third legal covenant “Endorsement of TOR for external auditor by supreme audit institution”, which is not relevant to the project as this requirement does not apply to this project.

III. SUMMARY OF CHANGES

| | Changed | Not Changed |
|--|---------|-------------|
| Change in Components and Cost | ✓ | |
| Change in Loan Closing Date(s) | ✓ | |
| Reallocation between Disbursement Categories | ✓ | |
| Change in Disbursements Arrangements | ✓ | |
| Change in Disbursement Estimates | ✓ | |
| Change in Legal Covenants | ✓ | |
| Other Change(s) | ✓ | |
| Change in Implementing Agency | | ✓ |
| Change in DDO Status | | ✓ |
| Change in Project's Development Objectives | | ✓ |
| Change in Results Framework | | ✓ |
| Cancellations Proposed | | ✓ |
| Change in Overall Risk Rating | | ✓ |
| Change in Safeguard Policies Triggered | | ✓ |
| Change of EA category | | ✓ |
| Change in Institutional Arrangements | | ✓ |



| | | |
|---|--|---|
| Change in Financial Management | | ✓ |
| Change in Procurement | | ✓ |
| Change in Implementation Schedule | | ✓ |
| Change in Economic and Financial Analysis | | ✓ |
| Change in Technical Analysis | | ✓ |
| Change in Social Analysis | | ✓ |
| Change in Environmental Analysis | | ✓ |

IV. DETAILED CHANGE(S)

COMPONENTS

| Current Component Name | Current Cost (US\$M) | Action | Proposed Component Name | Proposed Cost (US\$M) |
|---|----------------------|---------|---|-----------------------|
| Component 1: Mainstreaming Climate Change and REDD+ into Sectoral Frameworks and Strategies | 6.10 | Revised | Component 1: Mainstreaming Climate Change and REDD+ into Sectoral Frameworks and Strategies | 3.00 |
| Component 2: Participatory Planning and Management of Forests and Woodlands | 17.10 | Revised | Component 2: Participatory Planning and Management of Forests and Woodlands | 17.00 |
| Component 3: Coordination and Information and Knowledge Sharing | 3.10 | Revised | Component 3: Coordination and Information and Knowledge Sharing | 6.26 |
| TOTAL | 26.30 | | | 26.26 |

LOAN CLOSING DATE(S)

| Ln/Cr/Tf | Status | Original Closing | Revised Closing(s) | Proposed Closing | Proposed Deadline for Withdrawal Applications |
|----------|-----------|------------------|--------------------|------------------|---|
| TF-15339 | Effective | 31-Dec-2019 | | | |
| TF-16915 | Effective | 30-Jun-2018 | | 31-Aug-2018 | 31-Dec-2018 |

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES



| Current Allocation | | Actuals + Committed | Proposed Allocation | Financing % (Type Total) | |
|------------------------------|---------------|--|---------------------|-----------------------------|----------|
| | | | | Current | Proposed |
| TF-15339-001 | Currency: USD | | | | |
| iLap Category Sequence No: 1 | | Current Expenditure Category: GDS WRK NON-CN CONS OP & TRN | | | |
| | 12,780,000.00 | 1,618,324.63 | 9,500,000.00 | 38.00 | 100 |
| iLap Category Sequence No: 2 | | Current Expenditure Category: SUB-GRANTS | | | |
| | 3,720,000.00 | 20,872.44 | 7,000,000.00 | 38.00 | 100.00 |
| Total | 16,500,000.00 | 1,639,197.07 | 16,500,000.00 | | |

| | | | | |
|------------------------------|--|---------------------|---------------------|--------|
| TF-16915-001 Currency: EUR | | | | |
| iLap Category Sequence No: 1 | Current Expenditure Category: GDS WRK NON-CN CONS OP & TRN | | | |
| 2,749,000.00 | 2,337,093.71 | 3,500,000.00 | 62.00 | 100.00 |
| iLap Category Sequence No: 2 | Current Expenditure Category: SUB-GRANTS | | | |
| 800,000.00 | 29,722.23 | 49,000.00 | 62.00 | 100.00 |
| Total | 3,549,000.00 | 2,366,815.94 | 3,549,000.00 | |

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates

Yes

| Year | Current | Proposed |
|------|--------------|--------------|
| 2014 | 0.00 | 0.00 |
| 2015 | 1,500,000.00 | 250,000.00 |
| 2016 | 2,500,000.00 | 1,500,000.00 |
| 2017 | 5,000,000.00 | 1,750,000.00 |



| | | |
|------|--------------|--------------|
| 2018 | 7,000,000.00 | 4,000,000.00 |
| 2019 | 4,000,000.00 | 8,000,000.00 |
| 2020 | 321,740.65 | 8,321,740.65 |

LEGAL COVENANTS

| Loan/Credit/TF | Description | Status | Action |
|----------------|--|-------------------|---------------------|
| TF-15339 | Project FM staff trained on disbursement procedures and IFR elaboration Description :Project FM staff will be trained on report-based disbursement procedures and IFR elaboration (postponed due to political situation) Due Date :January 31, 2015. | Complied with | No Change |
| TF-15339 | Purchase and operationalize an accounting software Description :An accounting software acceptable to the Bank will be purchased, installed and configured in order to record and manage efficiently disbursements under the project (postponed due to political situation) Due Date : January 31, 2015 | Complied with | No Change |
| TF-15339 | Endorsement of TOR for external auditor by supreme audit institution Description :The supreme audit institution in Burkina Faso will have to review and endorse the ToRs for the external auditor to ensure consistency with national practices and rules. (postponed due to political situation) Due Date :January 31, 2015 | Not complied with | Marked for Deletion |