

## **The Republic of Maldives**

---

### **Fisheries and Agricultural Diversification Programme**

#### **Supervision report**

Main report and appendices

Mission Dates: 27 January – 7 February 2016  
Document Date: 4-Apr 2016  
Project No. 1377  
Report No: 4045-MV

Asia and the Pacific Division  
Programme Management Department



## Contents

A.	Introduction	1
B.	Overall assessment of programme implementation	1
C.	Outputs and outcomes	2
D.	Programme implementation progress	5
E.	Fiduciary aspects	8
F.	Sustainability	14
G.	Other	16
H.	Conclusion	16

## Appendices

Appendix 1:	Summary of project status and ratings	19
Appendix 2:	Updated logical framework: Progress against objectives, outcomes and outputs	23
Appendix 3:	Status of recommended actions from the previous supervision mission	27
Appendix 4:	Physical progress measured against AWP&B, including RIMS indicators	29
Appendix 5:	Financial: Actual financial performance by financier; by component and disbursements by category	39
Appendix 6:	Compliance with legal covenants: Status of implementation	41
Appendix 7:	Knowledge management: Learning and Innovation	43
Appendix 8:	Audit Log	45

## Abbreviations and acronyms

AMCS	Addu Meedhoo Cooperative Society
AWPB	Annual Work Plan and Budget
BDC	Business Development Coordinator
BMCS	Bizville Maldives Cooperative Society
BML	Bank of Maldives
CS	Cooperative Society
FADiP	Fisheries and Agriculture Diversification Programme
FDCS	Funadoo Development Cooperative Society
FM	Financial Management
FMAQ	Financial Management Assessment Questionnaire
GAP	Good Agricultural Practices
GfCS	Gemanafushi Cooperative Society
IFAD	International Fund for Agricultural Development
ISA	International Accounting Standards
KM	Knowledge Management
LA	Loan Agreement
M&E	Monitoring and Evaluation
MCS	Magoodhoo Cooperative Society
MED	Ministry of Economic Development
MFDA	Maldives Food and Drug Authority
MFLC	Maldives Finance Leasing Company
MoFA	Ministry of Fisheries and Agriculture
MoFT	Ministry of Finance and Treasury
MoU	Memorandum of Understanding



## **A. Introduction<sup>1</sup>**

1. The Fisheries and Agriculture Diversification Programme (FADiP) was approved by the IFAD Executive Board in April 2008, and became effective on 15 September 2009. The total Programme cost is USD 5.547 million including USD 3.525 million from IFAD, USD 722,598 from co-financers, and USD 1.3 million from the Government. The Programme objective is to develop smallholder agriculture and Maldives Fish processing value chains. The Ministry of Fisheries and Agriculture (MOFA) is the lead agency. FADiP is implemented through three components: value chain development; financial services; and programme management. The completion and loan closing dates are 30 September 2017 and 31 March 2018 respectively.

2. The IFAD supervision mission visited Maldives during 27 January to 07 February 2016 with the objectives of (i) assessing the progress made after the last SIS mission; (ii) identifying emerging and potential issues; and (iii) discuss solutions, corrective measures and provide recommendations in order for FADIP to be able to reach their objectives before the completion date.

3. The mission visited Addu Meedhoo Cooperative Society to assess the marketing, institutional and fiduciary/procurement performance of this cooperative. Two meetings were also held in Male: (i) with all the cooperatives supported by FADIP together in order to better understand their common issues in terms of business development and sustainability (institutional, marketing, technical, fiduciary aspects), (ii) with each of the cooperatives present (5 on the 7) in order to review their business plan, the break-even point, the particular problems met, the exit strategy to set up as well as the new relation to establish between the PMU and these cooperatives.

4. The mission also met with the Honourable Minister of Fisheries and Agriculture (MOFA) and his senior staff, the Minister of State for Finance and Treasury (MOFT) and his Senior staff, the Bank of Maldives and the communities. The mission findings and recommendations were presented at the final wrap-up meeting on the 7<sup>th</sup> February 2016 which was chaired by the Minister of State for Finance and Treasury. The mission wishes to thank staff of the PIU, MOFA and the VCCO executive committees and their members for their warm welcome, candid discussion and full support during this mission. The Mission also wishes to express a special thanks to the Minister of MOFA for the time dedicated to the mission, the recommendations and exchanges as well as the full support provided.

## **B. Overall assessment of programme implementation**

5. Overall implementation progress is moderately satisfactory (4). 18 Months before the achievement date, FADIP has disbursed 75% of the IFAD funding with a remaining amount to engage of SDR 0,58 million. Today, 7 cooperatives (5 in Agriculture production and 2 in fisheries processing) have been effectively supported reaching around 1/3 of the initial quantitative beneficiary target (8400 households). One additional cooperative is ready to sign agreement with FADIP. Despite the fact that these 5 cooperatives have started to commercialise their production, they still need varying degree of further sustained support to make them technically, financially and institutionally sustainable.

6. Realistic business plans with clear break-even point and quality institutional and technical support remains necessary in order to increase the maturity of these cooperatives based on a well-defined FADIP exit strategy. The relationship between FADIP and these cooperatives need to evolve through result based MOUs as well as clear delegation, accountability and reporting. The cooperatives need now to be in the driving seat and assume greater responsibility for their own development. FADIP needs also to consolidate this model of cooperatives that is new in Maldives and should not try now to expand the number of beneficiaries with new cooperatives.

7. As of today, the micro-finance component 2 is still not functional. The banking sector present today in Maldives offers no microfinance products. On other commercial loans, the preferred collateral

---

<sup>1</sup> Mission composition: Hubert Boirard, Country Programme Manager and Mission Leader, Anura Herath, Country Programme Officer and M&E and KM Specialist; Rab Nawaz, Institution Specialist, Shankar Achuthan Kutty, Procurement Specialist, Anta Sow, Financial Management Specialist, Virginia Cameron, Senior Loan Officer.

is 150% of the lent amount which automatically pushes away smallholders and small enterprises with no such collateral to offer. The banks currently have limited understanding, or empathy, for examining small and medium enterprise loan requests on their own business merit or use innovative avenues for collateral guarantees. The present lending conditions do not suit the FADIP target group. In addition to that, despite the fact that the MOFT receive the HC loan at 0.75% service charge with 25-year repayment period and 10 years grace period, MOFT is on-lending this BML through an SLA at 4 % per year interest rate. Because of that, BML cannot offer to the final FADIP group an interest rate below 9%. The Technical Assistance in Micro finance that was planned but not implemented need now to be mobilized in order (i) to support the renegotiation of the SLA between MOFT and BML, (ii) to provide guidance and training on the micro finance industry to BML and (iii) to develop suitable loan products for the credit line to be made operational and successful under FADIP.

8. Apart from the difficulties mentioned above, current capacity and mandate of PIU is also not appropriate for effective and efficient implementation of the project. PIU lacks essential financial and administrative authority for timely and efficient implementation of approved AWPBs. It operates no project account and has dual dependence on MOFA and MOFT for prior approvals of every single step.

9. **Likelihood of achieving the development objectives** is rated as moderately unsatisfactory (3). The development objective is to establish smallholder agriculture and Maldives Fish processing value chains to generate income for the community members. Production and marketing are essential in achieving this. Except AMCS and BMCS, others do not provide credible evidence to conclude that there is a consistent and dependable supply of agricultural or fish products for the sustenance of value chain business and associated income. As such the overall analysis is that unless FADIP improve its mode of operation from March 2016, such setbacks will impede achieving the development objective. The mission proposes the following general recommendations for such operations.

## **C. Outputs and outcomes**

### **Components**

#### **Component 1: Value chain development is moderately satisfactory (4)**

10. The component includes following activities: (i) Establishment of VCCs, (ii) Value Chain Management Support, (iii) Associations and Farmers Training, (iv) Applied Research and (v) Shares of Farmers/Fish Processors.

11. 1.1 Establishment of VCCs and VCCOs. the Programme is expected to support the establishment of at least 6 agriculture VCCOs and at least one Fisheries VCC, the drafting of the respective memorandum and articles of association, the registration thereof and of their respective trademarks and brand names in accordance with local rules and regulations.

12. As of today, FADIP has supported establishing 7 VCCO for value chain development. Five are involved in vegetable value chains while two have opted for fisheries. With the assistance of the programme, all 7 VCCOs have formulated their Article of Associations and are formally registered as business cooperatives and six have their own brand names. VCCOs currently have 2,352 members which is about 1/3 of the total FADIP target (8 400 as per Financing Agreement). One additional VCCO has been identified (compost-making from garbage) and its business plan is under discussion to start operation. All seven VCCOs have developed business plans (BP), and the PIU, through consultants, facilitated the preparation of these BP. In many cases, the management of VCCO has since been changed and the new management/executive bodies have ownership issues with these plans. So, there is a need to update/revamp these plans to reflect the current thinking and preferences. The support and leadership that the PIU has provided in this process is moderately satisfactory.

13. 1.2 Value Chain Management Support. For implementation of Business Plans, the Programme is required to support: (a) Securing domestic and overseas markets; (b) enhancing



production, (c) packaging of fish and food products; (d) handling and quality control; (e) order fulfilment; (f) logistics and transport support; (g) training of farmers and fish processors; (h) supply of production and irrigation facilities, including drip irrigation methods; (i) application of fresh food preservation packaging technologies; and (j) development of farm to market cold chains.

14. This sub-component has three dimensions: technical assistance for production, market linkages and financial support. In this regard, FADiP has completed providing all essential capital and in some cases recurrent inputs to implement the business plans, training and initial market exposures. However, the process of providing such assistance and technical support has been largely supply/inputs driven and top-down with no effort on making VCCOs self-driven, responsible and accountable to their members. All seven VCCOs still appear to be overly dependent on the PIU for not only sourcing their own capital and recurrent items, but also continuously looking for markets and marketing arrangements.

15. All procurements are undertaken by PIU and there are number of complaints about the type and suitability of some of the equipment procured (many again due to change of management in VCCO with new management having different ideas and preferences). At present, none of VCCOs is confident of self-sustenance except one. Annual general meetings of the VCCOs in most cases have not been held for over a 2-year period forcing the general members in a state of distrust and disinterest in the affairs of VCCO. At present, only a small proportion of the members appear to be running the show. PIU capacity building programme is also in need of improved focus wedded to promotion of transparency, accountability and self-reliance as well as a well-defined exit strategy. PIU also lacks in-house social mobilization capacity necessary to support VCCO cohesion and institutional development. Many of the agriculture VCCOs have repeatedly suffered from disease and pest attacks and have been unable to secure any expert help through PIU or on their own.

16. VCCOs market visibility, exposure and linkages remain small and limited. There is a need to further promote their products and visibility in the market and one option worth exploring is to rent, as a pilot, a common sale and display shop for all VCCOs in a prominent place (e.g. main Jetty) to serve as a sale outlet as well as an advertisement for their products and capacities.

17. These weaknesses in approach and process have resulted in sub-optimal quality and performance of VCCOs and financial viability of the business plans of most of them remains weak. They continue to face challenges of maintaining continuous and quality production, commit regular and predictable supply to potential buyers, and understanding market trends and demand. Many of them are quite distant from major markets and solely dependent on nearby resorts for sale of their produce and resorts are reluctant to commit to these VCCOs due to unreliability of regular supply. Regular monitoring of VCCOs and their activities by PIU is also a weak area and needs considerable strengthening.

18. In view of the situation described above, the programme over the coming period needs to change the current approach and processes in a manner to give more active and leading role to VCCOs in running their affairs and PIU should only play the back-stopping, monitoring and facilitation role. The first step in this direction is revision of existing business plans to make them more quantitative with clearly spelled out monthly production and sale targets, clearly identified market channels, anticipated incomes and expenditures and expected breakeven point. The VCCO's contribution as working capital and other contributions should be clearly reflected and the funding gap for the programme finance should be clearly underlined with a realistic and rational timetable. The exit strategy should form integral part of the Plan. VCCO's should take the lead in revising their own business plan and the PIU should only play a facilitating and technical support role so as to ensure complete ownership of the plan by the VCCO. These BPs will then be 1<sup>st</sup> reviewed by the PIU before their endorsement to IFAD for 'No objection'. Instead of PIU procuring capital items, funds for this purpose will be transferred to the VCCO to undertake procurement under effective and regular monitoring by the PIU. Any large and complex procurements (PIU should determine the limits and parameters) could still be handled by the VCCO by payment realized directly by the PIU. The M&E system of the PIU should regularly capture the operational phase as process monitoring and the

production part as outcome monitoring. Wherever possible, monthly information should be collected, analysed and reported.

19. 1.3 Associations and Farmers Training. The Programme is required to support the establishment or strengthening of Associations of farmers and fish processors to enhance their role within the respective VCCs/VCCOs and to receive advisory services for high quality products, internal controls for product certification etc.

20. This is not a purpose and Business Plan driven activity at present. PIU needs to carry out a fresh training needs analysis for each VCCO on the basis of their revised Business Plan, the equipment supplied under that plan and the products produced under that plan along with any particular phytosanitary or other certification involved in marketing of that product. The two component specialist at the MOFA level should oversee the need analysis and training input. Each training session should be followed by an assessment of the training by the VCCO members, and the M&E Officer should compile such assessment.

21. 1.4 Applied Research. The Programme is required to support the promotion of new agricultural products to be identified by the VCCOs, including varietal trials, biological agriculture and processing techniques.

22. There has been no progress under this sub-component and undertaking this activity at this stage would not be feasible as there is not enough time left in the project.

23. 1.5 Shares of Farmers/Fish Processors. Prior to the Programme Completion Date, VCC/VCCO shares held by the Borrower shall be transferred to the Farmers or Fish Processors based on a criteria set by the NSC.

24. MOFA, as the current owner of most of the VCCO capital assets is required to already start planning the necessary steps to transfer all such assets to the VCCOs. This will also facilitate VCCOs to use these assets as collateral for sourcing credit from Banks. Details is provided in the fiduciary sections.

Agreed action	Responsibility	Agreed date
1. Prepare revised business plans for all VCCOs with clearly spelled out break-even points, product pricing and marketing and timeline based plan for completion of all key actions in the plans	PIU/VCCO Support Officer	15 Feb 2016
2. Strengthen the role of COOP's Executive Bodies and ensure conduct of AGM's of all cooperatives regularly to promote responsibility and accountability	PIU	On-going
3. Refresh/update VCCO's requirements of equipment and materials and transfer procurement responsibility to VCCOs for agreed items through pre-agreed processes	PIU	30 Mar 2016
4. Explore possibility of a joint display/sale point for all VCCOs at a suitable place in Male with initial cost/rental from Programme with gradual transfer to VCCO consortium	PIU	30 Apr 2016
5. Engage an agriculture pest/disease control expert for three months to train two VCCO nominees in basic crop disease and pest control	PIU	Immediate
6. Create positions of market development specialist and social mobilization specialist in PIU for ongoing pro-active support to VCCOs in institutional development and market development and linkages	PIU	Immediate
7. Encourage COOPs to open membership to additional, particularly poorer households, to reach the programme target for beneficiary households	PIU	Immediate

## Component 2: Financial services is unsatisfactory (2)

25. This Component is designed to support the provision of financial services to both farmers/fish processors and VCCs, through: (2.1) Loans to Farmers and Fish Processors for participating in the VCCs and for working capital and equipment to be administered by the BML; (2.2) Loans to VCCs/VCCOs where MFLC shall assist each VCC/VCCO obtain necessary equipment on a lease basis, and VCCs' working capital needs shall be covered by loans to be made available by the BML, and; (3.3) Structured Financing. Technical Assistance BML and others to test and refine forms of structured or supply chain finance for small scale farmers or VCCOs, food and fish processors.

26. MOFA has established a value chain fund through a subsidiary loan agreement (SLA) with the Bank of Maldives (BML) since August 2014. It is the only participating financial institution, and MOFT has transferred US \$ 281,000 to BML for this fund. The terms of the SLA stipulate that MOFT will provide the IFAD loan resources to BML in dollars at 4% interest and BML will on-lend these funds plus an equal amount from their own resources at 9% interest for 8 years with 6-month grace period to VCCOs and their members. Loan applications are evaluated by a Loan Committee consisting of representatives of MOFT, BML, and MOFA. The minimum amount of loan available under this program is MVR 25,000 while the maximum amount is MVR 400,000. BML provides maximum of MVR 50,000 as unsecured loans, and 150% coetalar is required for loans exceeding this minimum. Since June 2015, FADiP has not received eligible requests for loans either individually or for VCCOs, thus the total credit funds remain undisbursed.

27. The component currently faces number of institutional, process and approach challenges and would need a complete and holistic rethink to progress Current banking landscape in Maldives is wedded to traditional credit linked to provision of large collateral (around 150% value of lent amount). The BML lacks experience in developing and handling appropriate micro-credit products that are suited to the VCCO members. That is the reason for BML's repeated preference to act as Fund Managers rather than borrowers and on-lenders under a SLA. The demand of collateral equivalent to 150% of loan value is prohibitive for a small farmer. There are currently no products that can be offered as group loan to a VCCO. This automatically leaves out the group based small and medium enterprises from accessing credit. There is a need to develop Bank of Maldives institutional understanding and capacity for servicing micro, small and medium enterprises needs for capital. FADiP and MEDEP are well placed to provide suitable TA to Bank of Maldives for this purpose.

28. On the demand side, the beneficiaries need to be more aware of the opportunity and also be encouraged to avail the facility. The communication about the loan facility needs to be designed in a manner to effectively reach the target clientele consisting of small farmers and fishermen on distant islands. Up to now only 15 applicants applied for the loan facility who were all rejected as they were not members of any Cooperative.

29. Some immediate actions needed to improve the delivery under component 2 include: Revision of SLA whereby MOFT provides the funds to BML at a nominal rate of 0.75% to enable the BML to maintain 6% on-lending interest rate (at par with Government's own credit programme for smallholders); provision of TA to BML to improve its capacity for development and disbursement of suitable loan products for MSME sector (a draft TOR for the TA is annexed to this Aide Memoire); expand the target group by allowing the non-member agriculture and fish producers of the Atolls where the VCCO is located to apply for the loans; to hold aggressive campaigns at island level to create awareness of the benefits of loan as value chain financing and the loan application systems; and to persuade the cooperatives to allow the members to use the cooperative assets as collateral where needed.

Agreed action	Responsibility	Agreed date
1. Engage services of a micro-finance specialist to assist Bank of Maldives in developing necessary capacities and systems to run effective programme for MSMEs financing	PIU, BoM, MOFT	Immediate
2. Amend the SLA – MOFT to pass on micro-finance funds to Bank of Maldives on 0.75% and Bank of Maldives to charge a maximum of 6% from the borrowers.	PIU, MOFT, IFAD	Immediate
3. Revise the eligibility criteria for loans to enable the non-member small farmers and fishermen living in VCCO area to access loans	PIU, MOFT, BML	Immediate

## D. Programme implementation progress

30. **Quality of programme management** is rated as moderately unsatisfactory (3). Programme Loan Agreement for FADiP stipulates that the PIU should enjoy operational autonomy (para 3.1). The joint FADiP and MEDEP PIU however in its current shape is not an autonomous and empowered PIU in administrative and financial aspects. Every administrative and financial decision of PIU is subject to

multiple approvals at MOFA and MOFT levels despite the upfront approvals of AWP/Bs by the Steering Committee. The PIU has no account of its own and actions involving small amounts of funding remain pending till approvals from MOFA and MOFT. This situation has robbed the PIU of any sense of initiative or assumption of full responsibility for the performance and quality.

31. The present staffing and structure is also not adequate and commensurate with the programme activities and skill sets that are required for their effective implementation. There are no in-house capacities to provide support to VCCOs in the critical areas of social mobilization and institution building, financial management, microfinance and business development and marketing.

Agreed action	Responsibility	Agreed date
1. Appoint one empowered Project Director or Project Manager, answerable to Steering Committee, with full financial and administrative powers for implementation of approved AWP/Bs	MOFA, MOFT and IFAD	Immediate
2. Establish an operational account for the PIU to independently manage the project finances as per approved AWP/Bs	MOFA, MOFT and IFAD	Immediate
3. Create additional positions of Social Mobilization Manager, Business Development Manager and Microfinance Manager and divert required funds from TA and/or Unallocated	PIU, MOFA, IFAD	Immediate
4. Evaluate the suitability and qualifications of the existing PIU staff to assess the desirability of their retention/replacement	MOFA, PSC	Immediate

32. **Performance of Monitoring and Evaluation (M&E)** is moderately unsatisfactory (3). M&E has historically been a weak area in terms of monitoring of field activities at VCCO level and follow up. The PIU needs to develop activity based and purpose oriented annual M&E Plan, which should address more than just sales data, with adequate resource provision to ensure regular and effective monitoring of field activities and follow-up of activities that are spread over a large area. FADiP recruited a new M&E officer in January 2016.

33. During the last mission the M&E system had been initiated with updated logical framework, appropriate RIMS indicators and information collection systems. There is a flow of information from the VCCO to the PIU based M&E system that allows capturing some of the programme indicators and RIMS indicators. Important areas for further improvement include the indicator setting and data collection for profitability and financial sustainability analyses of the VCCOs, inclusion of baseline results in the logical framework against appropriate indicators which facilitate assessing attribution to the extent feasible, and undertaking financial viability analysis of the business plans of the VCCO. The M&E system should also include indicators to assess the institutional strength of the VCCO. These could be the availability of a set of rules and standard operation procedures (SOP) of VCCO operations; applicability of such SOPs; regularity of meetings and issues addressed in problem solving framework; and the continuity of the executive committee of the VCCOs. These are not captured at present and the mission recommends that the M&E system should be expanded to cover these indicators.

34. The consistency and the credibility of data required to assess financial viability of business plans varies across the VCCO as well as over the year. A standardization of data and the analysis will improve the results and their usage for management decision making. Such analyses, for instance, are important to rationalise further programme support that is envisaged and included in the expansion plans of some VCCOs. The mission advised the M&E staff to include such analyses for each VCCO in the progress report of FADiP for 2015.

35. It is unlikely that the Programme will have an automated database linked M&E system for the remaining life of the programme. All the analyses were done through excel documents using pivot table facility. There is a slight improvement in the data presentation in excel database over the last six months period. It is recommended that same excel based-methodology would be used with systematic e-file management and report formation through pivot table mode. The mission also recommends that the M&E system should start collecting and analysing outcome related data. For instance the M&E system should have data collection format to regularly collect farmer and VCCO level production information, cost of production, quality information and marketing details which will

reflect business positions of the VCCO and their membership. The Programme has not undertaken any Annual Outcome Survey. With the two years extension, the mission recommends that the PIU should undertake the final outcome study. The 2015 Progress Report should be submitted to IFAD latest by the end of March 2016.

**36. Coherence between AWPB & implementation**

Please refer to paragraph 50 under fiduciary section.

**37. Gender focus** is moderately unsatisfactory (3). The gender mainstreaming strategy/action is limited to encouraging VCCOs to increase women membership and representation of the executive members, and reporting gender-disaggregated data on training and VCCO share membership. It is essential that VCCOs continues strongly encouraging female participation in VCCOs and also continues providing opportunities to them to effectively participate in production and marketing. The current mission strongly recommends, as in the previous mission in June 2015, that each VCCO prepares a gender and social inclusion plan with equal distribution of activities and responsibilities in order to generate equal opportunities in production and marketing interventions. The details of such a plan were indicated in the previous mission report.

**38. Poverty focus** is rated as moderately satisfactory (4). As observed during the previous mission in June 2015, the selected islands have relatively high incidence of poverty. Almost all the community members in the programme islands are given a chance to participate in VCCO activities. Any deliberate selection of beneficiaries using poverty related criteria has not been the practice, neither it was required as almost all the community members are of similar socio-economic standing. According to the household income and expenditure survey of 2010, the share of the population living below US \$ 2 per capita per day is about 17%. As such the VCCO should be adequately viable to provide an income that is attractively above this poverty line. There is no credible information in the monitoring system that could be used to assess whether the business plans of the VCCOs have that viability. It is recommended that this information should be collected in the M&E systems and support the analysis of poverty focus.

**39. Effectiveness of targeting approach** is rated as moderately satisfactory. There is no change in the approach since the last mission in June 2015. Apart from selecting communities in the poorer islands, which is geographic targeting and so far worked well, there is no systematic criteria based selection of VCCO members who are poorer among the communities in the identified islands. As such the effectiveness is limited to the selection of islands.

**40. Innovation and learning** is moderately satisfactory (4). FADIP attempts two innovations in the context of Maldives. These are cooperative based value chains for vegetables and fisheries products and development of micro-finance products for individual members of cooperatives and for cooperatives collectively. Both these innovations are still facing challenges in becoming replicable models for further scaling-up and expansion. The experience this far has produced important lessons and learning which, if responded appropriately, can still produce good results. The key lessons are:

- (a) Participatory institutions like Value Chain Cooperatives should be underpinned by a mutually responsible relationship with the sponsors and should be promoted through a clearly defined strategy that promotes gradual weaning-off and greater assumption of responsibility and self-reliance by the cooperative. Long-term top-down support should be eschewed.
- (b) The sponsors must have qualified in-house expertise to lead the social mobilization, institution-building and business development processes.
- (c) The various inputs and components should be implemented in an integrated manner with beneficiaries being at the centre of implementation strategy.
- (d) The Project Management should have the requisite autonomy and empowerment to manage the resources effectively and efficiently and assume full responsibility for the results and outcomes.

41. **Climate and environment focus** is rated moderately unsatisfactory (4). The agricultural and fisheries related enterprises of VCCOs have no significant climate change-related vulnerability; enterprises are not overly susceptible and/or overly unable to cope with adverse effects of climate change. Some of the larger greenhouse structures have been damaged due to environmental factors such as wind and heavy rains. This is a factor that needs to be taken into account in designing the scale of structures for high tech agriculture.

## **E. Fiduciary aspects**

42. **Quality of financial management** is rated as moderately satisfactory (4). MEDeP and FADiP are both managed by the same PIU, with a Program Accountant responsible for the accounting and financial management of the projects, and a Program Assistant in charge of administrative matters. Based on its review of the financial management system and procedures in place at the PIU, the mission has made the following observations and issues recommendations accordingly.

43. **Disbursements.** The disbursement system is inefficient as all payments are approved/processed at three levels: PIU (3 signatories), MOFA (2 signatories if above MVR 10,000 or USD 650) and MOFT where instruction is given to the Maldives Monetary Authority (MMA, holder of the Special Account) to process the payment. This cumbersome cash disbursement procedure may hinder smooth project implementation and lead the PIU to hold large amounts of cash (for travel and training – see Special Account reconciliation below). Additionally, the PIU only holds a MVR 2,500 (USD 160) petty cash from GoM funds, which has to be frequently replenished due to the small amount. Consequently, the mission strongly recommend that:

- The opening of a Project Account in local currency (as required per the loan agreement), operated under double signature by the PIU, in order to streamline payment procedures
- The establishment of a petty cash fund of at least USD 1,000 from IFAD funds, and use of a petty cash request form.

44. **Internal controls.** The PIU's Project Implementation Manual, which contains sections on financial, procurement and administrative procedures, is yet to be finalized. The mission has also noted that the PIU does not verify inclusion in the AWPB prior to authorizing expenditures; this should be done systematically, when funds availability is being verified. Finally, in order to reduce the risk of errors and omissions being undetected, the mission recommends that the following internal control procedures be put in place immediately:

- Monthly bank reconciliations (reviewed and approved by the Program Manager)
- Reconciliations of MOFT accounting records for FADIP with PIU accounting records (this is currently only done once a year, at closing)
- Reconciliations of PIU accounts with IFAD status of funds.

45. **Accounting and financial management.** The QuickBooks accounting software installed by the PIU for MEDEP - as recommended by IFAD - was not installed for FADIP. FADIP accounts are exclusively maintained on Excel, from which all accounting and financial reports and statements are generated. The use of Excel as a single-entry accounting system without any basic accounting controls and security features obviously presents a high risk of errors and omissions and, consequently, inaccurate accounting and financial data. However, given the time and effort required for the installation of an accounting software, and the fact that project completion is in about 18 months, the mission believes that the project may maintain its current system provided the following risk mitigation measures are adopted:

- a) Use of payment vouchers indicating the funding source, expense category, component and AWPB activity as a basis for inputting transactions in Excel; all vouchers must be approved by the Program Manager prior to input.
- b) Maintenance of separate ledgers for each funding source and for each type of transaction (bank, petty cash, adjustments).

- c) Production of monthly expenditure reports by funding source, schedule II expenditure category and component
- d) Verification of all monthly reconciliations listed above by the Program Manager and MoFA Financial Controller.

46. The mission has also noted that no financial analysis (such as budget monitoring, treasury management, monitoring and analysis of disbursement rates, etc.) are carried out, and that financial reporting is minimal. It is recommended that a monthly financial report be prepared, including analyses of disbursement rates by expense category, AWPB execution, treasury situation/forecast, implementing partners' financial situation, procurement plan execution and administrative matters.

47. Administrative management. The PIU is staffed with 5 common staff working on both MEDEP and FADIP (Program Manager, M&E Officer, Program Accountant, Program Assistant and Office Assistant) and paid from GoM funds, as well as 2 technical staff working specifically on FADIP2 and paid from IFAD loan funds. Based on the review of personnel files, the mission recommends (i) the standardization of the content of personnel files, (ii) the introduction of a leave request form to better monitor staff leave and (iii) the completion of 2015 performance evaluations for all staff. The Program Assistant maintains two assets registers (one for the PIU assets and one for the assets provided to the Cooperatives). These registers must be reviewed as some information is missing for certain items (acquisition date, value, location). The Program Assistant is also responsible for tagging all assets and conducting the annual physical inventory at the PIU (while the M&E Officer does it at the Cooperatives<sup>2</sup>). The mission recommends that physical inventories be conducted in the last week of December by staff other than the Program Assistant and Office Assistant, for segregation of duties purposes. In addition, the physical verification should be carried out using blank inventory sheets, which must then be reconciled to the assets register(s). The mission further recommends that all assets be insured, as foreseen by IFAD's General Conditions.

48. With regard to the cooperatives assets register, the mission noted that it includes small tools and supplies (with purchase prices as low as MVR 52 or USD 3) that should not be classified as fixed assets. It is anticipated that additional equipment will be purchased for the cooperatives during the current year, based on their new business plans. The mission recommends that a valuation of all FADIP assets held by the cooperatives be established at year-end as part of the annual FADIP audit, so as to serve as the basis for the official transfer of all assets from FADIP to each cooperative.

49. Travel authorization forms approved by the Program Manager are mandatory for all official travel; travellers are required to submit expenditure reports and mission reports after each travel. In the case of international travel, an approval is also required from MOFA. Due to the delay necessary to obtain cash advances for travel, missions have to be planned long in advance and modifications in itinerary or mission composition are difficult to accommodate.

50. AWPB. The level of financial execution of the AWPB has been on the low side since project start, as illustrated in the table below (amounts in USD):

	Value chain development	Financial services	Project Management	TOTAL
<b>2011 Budget</b>	793 208	27 172	148 475	<b>968 855</b>
<b>2011 Actual</b>	101 014	0	90 802	<b>191 816</b>
<b>% execution</b>	13%	0%	61%	<b>20%</b>
<b>2012 Budget</b>	1 234 386	450 000	279 635	<b>1 964 021</b>
<b>2012 Actual</b>	197 234	0	89 673	<b>286 907</b>
<b>% execution</b>	16%	0%	32%	<b>15%</b>
<b>2013 Budget</b>	1 580 048	450 000	296 177	<b>2 326 225</b>
<b>2013 Actual</b>	210 664	0	108 076	<b>318 740</b>
<b>% execution</b>	13%	0%	36%	<b>14%</b>
<b>2014 Budget</b>	1 634 522	0	422 427	<b>2 056 949</b>

<sup>2</sup> Fisheries Post-Harvest Business Expert and a Project Implementation Officer. The contracts of all PIOs previously posted at cooperatives' level were terminated on 31/12/15.

<b>2014 Actual</b>	771 369	281 000	128 298	<b>1 180 667</b>
<b>% execution</b>	47%	-	30%	<b>57%</b>
<b>2015 Budget</b>	1 309 500	281 000	487 000	<b>2 077 500</b>
<b>2015 Actual</b>	581 909	0	186 927	<b>768 835</b>
<b>% execution</b>	44%	0%	38%	<b>37%</b>

51. As detailed in sections B and C, the PIU has faced many difficulties in implementation and in reaching project objectives. In addition, as shown in this table, annual budgets have systematically been over-ambitious, with the IFAD portion reaching as much as 50% of the total loan amount in some years.

52. The PIU has been asked to revise the draft 2016 AWPB in order to take into account the new orientations recommended by the mission. The revised AWPB will have to be sufficiently detailed and structured by activity (rather than outputs) with specific coding for each activity in order to facilitate verification of funds availability, monitoring against actual expenditure and inclusion of AWPB references in both the procurement plans and the withdrawal applications. As good practice, the AWPB should include a table summarizing cumulative disbursements at 31/12/15, 2016 budget and expected cumulative disbursement at 31/12/16 by expense category, and by component.

53. The mission recommends that the PIU implement a reliable budget monitoring system consisting of (i) the recording of actual expenditure by AWPB activity code in Excel, (ii) the generation of a budget-to-actual statement by activity on a monthly basis, and (iii) an analysis of budget variances during a monthly budget review meeting with the Program Manager, Accountant, and technical implementation staff.

54. Treasury management. The project operates under the imprest modality with an initial advance of USD 500,000. The PIU has only submitted 14 withdrawal applications so far (an average of 3.5 per year), and the project has not experienced any cash tensions. The mission recommends that the PIU prepare a 6-month cash forecast based on the revised 2016 AWPB and update it twice a month, taking into account both financial commitments and forecasted expenditure.

55. The trigger for IFAD to start recovering the initial advance will be reached with WA #153. The PIU should therefore prepare a recovery plan and submit it to IFAD for approval. The percentage of recovery from each WA is determined on the basis of the project's cash needs, as established from the cash forecast. It should be highlighted, however, that since FADIP is still 18 months to completion, the recovery rate may be adjusted to ensure the efficient implementation of project activities in the coming year. The PIU is reminded that the Direct Payment disbursement methodology may be used for any expenditure above USD 100,000.

56. As mentioned above, bank reconciliations are not prepared for the PIU's account. The mission urges the PIU to implement this basic internal control immediately, with a monthly reconciliation of the PIU bank balance (from Excel) against the bank statement balance from the Maldives Monetary Authority. The reconciliations should be signed by the Program Manager and verified by the Financial Controller, MoFA.

57. Cooperatives. The following table shows the funds invested in the VCCOs to date (in MVR).

Cooperative	Contract amount (3 years) (a)	Amount spent by FADIP to date (b)	% of contract spent to date	Amount spent by cooperatives (c)	% of coop. share spent to date	Comments
BMCS – Bizville	4 000 000	4 082 170	102%	477 615	27%	-
FMCS – Magudhoo	2 306 682	1 570 264	68%	429 455	64%	Delays due to initial pledge by a resort to finance part of the investments (did not materialize)
GAGCS	2 300 000	2 461 660	107%	47 499	5%	-

<sup>3</sup> Once WA #15 is reimbursed by IFAD, the available balance in the loan funds will be less than twice the initial advance amount.



FDCS – Funadu	1 500 000	1 574 332	105%	349 156	52%	-
AMCS	1 810 915	1 188 756	66%	7 515 577	1475%	Investment is completed (amount was overestimated); coop. has its own operations outside of FADIP
VFCS	3 201 776	2 153 771	67%	0	-	Contract to be cancelled
SFCS	1 448 700	1 242 423	86%	0	-	Contract terminated 06/04/15
NCS	1 265 552	597 139	47%	0	-	New VCCO (contract signed 14/05/15)

(a) All contracts have been extended 1 year to 31/12/16, except for VFCS, SFCS and NCS.

(b) Should represent 70% of total needs for duration of contract IC and WC).

(c) Should represent 30% of total needs for duration of contract (operating costs).

58. The mission was not able to review the contracts signed with the VCCOs as they are all in Dhivehi; they will need to be translated and submitted to IFAD, along with any amendment. Although for the most part the VCCOs do send a financial report, it is not always done in a timely manner or in the proper format. Only 2 have submitted audited financial statements to the PIU. The mission recommends that the scope of the 2015 FADIP audit be extended to include a review of the VCCOs. In addition, should the new/amended contracts signed with the VCCOs for the remainder of the project involve cash advances to the VCCOs, the mission recommends that (i) dedicated bank accounts be opened and separate books of accounts be kept to account for FADIP funds, (ii) a monthly financial return including account reconciliation and full justification of expenditure be submitted promptly to the PIU and (iii) these funds be audited as part of the FADIP annual audit.

59. **Acceptable disbursement rate** is rated as moderately satisfactory, 4. Loan disbursements.

The following table shows disbursements from the FADIP loan as of 06/02/15 (amounts in SDR):

Cat	DESCRIPTION	Allocated	Disbursed WA #1-14	WA #15 in process	% Disbursed	Available balance
IA	VCCO Investment capital	270 000	107 740	59 880	56%	102 380
IB	VCCO Working capital	1 140 000	633 047	63 553	62%	443 400
III	Training and studies	230 000	156 778	14 122	74%	59 100
IV	Incremental credit	300 000	196 691	0	66%	103 309
V	Recurrent expenditure	230 000	201 201	9 260	96%	19 539
	Unallocated	180 000	0	0	0%	180 000
	Initial advance	0	324 301	0	-	-324 301
<b>TOTAL</b>		<b>2 350 000</b>	<b>1 619 758</b>	<b>146 815</b>	<b>75%</b>	<b>583 427</b>

60. The overall disbursement rate per the IFAD status of funds as at 6/02/16 is 75% including the initial advance, taking into account WA #15 (covering expenses up to 31/12/15) - 61% discounting the advance. According to PIU records, commitments are all in Category IA and amount to USD 52,766 (approx. SDR 37 690). Despite its poor implementation performance, particularly in the early years, the project is now approaching the expected disbursement rate thanks to the 3-year extension (original closing date was 31/03/15 and is now 31/03/18). It should be pointed out, however, that the 66% disbursement in Category IV (Incremental Credit) only represents the transfer of funds to the BML, as no on-lending to beneficiaries has occurred. As funds under Category V are almost depleted, the PIU will need to closely monitor expenses in order to avoid overspending.

61. Withdrawal applications. The mission reviewed the two WAs submitted to IFAD by the PIU since the last supervision mission, and verified the statement of expenditure (SOE) supporting documents on a sample basis. The main findings include:

- Categorization errors (particularly expenses charged to IB instead of IA and to V instead of IB)

- Absence of contract monitoring forms, which are not in use at the PIU
- It is not possible to verify the inclusion of expenditure in the approved AWPB, as they are not identified by activity code
- Disbursements claimed include the GST tax of 6% (refunded to the Special account bi-annually)
- Proof of completion is not consistently counter-signed
- Monthly payroll statements are not reviewed/approved prior to processing of salary payments
- Boarding passes or other evidence of travel having been completed are not always available<sup>4</sup>.

62. The PIU must ensure that investment capital items are not charged to category IB, and that category V is used only for PIU staff travel. The issue of the coding of expenditures is addressed in the AWPB section above. With regard to the GST, the mission recommends that disbursements be claimed net of tax in the WAs; the reconciling items thus generated in the Special Account reconciliation would then be cleared once the GST amounts are refunded from counterpart funds to the Special Account.

63. The mission introduced the PIU to the new IFAD enhanced SOE model, which will improve the presentation and content of the WAs<sup>5</sup>. The mission stressed the importance of contract monitoring forms as a tool to monitor contract execution, payments and commitments; the PIU is requested to prepare a CMF for each new contract or MOU and to attach copies to Payment Vouchers.

64. Special Account reconciliation. The following table shows the Special Account reconciliation at 31/12/15 (amounts in USD):

<b>Initial advance (A)</b>	<b>500 000</b>	
Balance of the Special Account at 31/12/15		279 403
Cash in hand (refunds on travel advances not yet deposited into bank account)		39 494
Amount claimed in current WA #15		203 227
<b>Total advance accounted for (B)</b>		<b>522 124</b>
Difference (A) – (B)		(22 124)
Explanation: Deposit in transit (refund on travel advance) - 14 439		
GST refund (counterpart to special account) - (37 299)		
Exchange rate difference - 736		

65. The USD 14,439 deposit in transit represents refunds on travel advances deposited by the PIU into the Public Bank Account as early as October 15, and still not transferred by MOFT from the PBA to the Special Account; this issue would be solved by the opening of a Project Account managed by the PIU. The GST refund represents the refund from the counterpart funds to the Special Account for GST 'pre-financed' from IFAD funds. Since the GST is claimed on WAs and reimbursed by IFAD, the bi-annual refunds create a reconciling item in the Special Account; it is preferable that amounts claimed in the WAs are net of taxes, as prescribed in the loan agreement. The USD 736 the exchange rate difference was not justified by the PIU; the mission recommends that exchange rate differences be monitored on a separate schedule and fully justified each month.

66. **Counterpart funds** is rated as moderately satisfactory, 4. Government contribution to FADIP is in the form of direct funding (to cover salaries, operating costs, and 45% of VCCOs investment capital), duties and tax exemption and in kind contribution (office space and utilities). As of 31/12/15, cumulative counterpart funding is evaluated at USD 910,624, i.e. a disbursement rate of 69% of the appraisal amount of USD 1.32 million, in line with the overall project disbursement rate. The GoM contribution to date is allocated as follows:

- Direct funding based on the approved annual budget - USD 708,855.
- Duty exemptions on equipment procured for the VCCOs (only obtained in 2014) - USD 34,377.
- GST exemption - USD 41,711.
- In kind contribution – USD 125,681 (based on the Accountant's estimate of the office rental value and the monthly utilities charges).

<sup>4</sup> The PIU has started requiring submission of boarding passes for all travel since September 2015.

<sup>5</sup> The PIU was also requested to include more detailed descriptions of expenditures claimed in the WAs.

67. The mission recommends that the PIU record all counterpart contributions (including duties & tax exemptions and in kind contributions) in the project accounts, so as to accurately reflect GoM's funding share of project funding.

68. To date, the GoM contributions have been made available to the PIU as requested and on a timely basis. However, the mission was informed that the GoM has decided to put a ban on duty exemptions, including on items procured from IFAD funds. The mission points out that this is in violation of the loan agreement, reminds the GoM that IFAD financing must be exempted from all taxes, and requests for the PIU to calculate the duties claimed to IFAD and for the concerned amount to be refunded, after verification by the auditor.

69. **Compliance with loan covenants** is rated as moderately satisfactory, (4). Most of the loan agreement covenants have been complied with, except for the operation of a Program Account in local currency, the insurance of assets, exemption of tax and duties on 2015 procurements, payment and the completion of the Project Implementation Manual.

70. **Quality and timeliness of audits** is rated as moderately satisfactory, (4). The audit of the FADIP 2014 accounts was conducted by a private auditor (Price Waterhouse Coopers) and was rated as mostly satisfactory by IFAD, as there was no follow-up on the inconsistencies in financial reports raised in the previous year's audit report. The issues raised in the management letter related to the lack of transparency in the procurement process (splitting of contracts to avoid competitive bidding; contract awarded to a higher bidder by mistake) and the low budget execution rate. The mission recommends that the scope of FADIP's 2015 audit be extended to include (i) a full review of 2015 procurement, (ii) a review of the cooperatives (valuation of assets, assessment of fund management capacity, examination of accounts) and (iii) verification of PIU calculation of un-exempted taxes and duties claimed to IFAD. The mission was informed that the concerned amounts in the auditor's observation in the FY 2014 ML on the inappropriate selection of service providers are in local currency and not in USD as indicated. The PIU should draw the audit firm's attention to this reporting error.

Agreed action	Responsibility	Agreed date
1. Opening of a Project Account in local currency, to be operated by the PIU under dual signature; MoFT letter confirming project account details and signatories sent to IFAD	MOFT	29/02/2016
2. Establishment of a petty cash from IFAD grant funds	Program Manager Accountant	01/03/2016
3. Finalization of the PIM including financial, procurement and administrative procedures	Program Manager Accountant	15/03/2016
4. Monthly bank reconciliations; monthly reconciliations of MOFT and PIU accounting records; reconciliations of PIU and IFAD status of funds	Program Manager Accountant	Continuous
5. Use of payment vouchers with analytical coding; Production of monthly expenditure reports by funding source, expense category and component	Accountant	Continuous
6. Preparation of a monthly financial report	Accountant	Continuous
7. Structure of revised 2016 AWPB by detailed activity and inclusion of a schedule of expected disbursement rate by expense category and by component at 31/12/16	Program Manager Accountant	29/02/2016
8. Implementation of a reliable budget monitoring system	Accountant	29/02/2016
9. Preparation of a 6-month cash forecast updated twice a month	Accountant	Continuous
10. Preparation of initial advance recovery plan and submission to IFAD for approval	Accountant	15/03/2016
11. Translation of VCCO contracts into English and submission to IFAD	Program Manager	15/02/2016
12. Close monitoring of recurrent costs to avoid overspending category V	Accountant	Continuous
13. Claiming of disbursements net of tax in withdrawal applications; use correct expense categories; use of the IFAD enhanced SOE forms	Accountant	Continuous
14. Prepare contract monitoring forms for on-going and new contracts	Accountant	Continuous
15. Ensure items purchased with IFAD financing are exempt from all duties and taxes	MOFA / MOFT	Continuous
16. Calculate tax and duties on any procurements for which exemption has not been applied	Accountant/MOFA / MOFT	31/03/2016
17. Recording of all counterpart contributions in the project accounts	Accountant	Continuous
18. Submission of signed unaudited financial statements and submission to IFAD within three months of FY year end in line with FA	Accountant Program Manager	31/03/2016
19. Inclusion in scope of 2015 audit of: (i) full procurement audit, (ii) review of VCCOs and (iii) calculation of tax and duties not exempted in the 2015 audit scope; submission of audit TOR to IFAD for clearance	Accountant	15/03/2016
20. Submission of final audit report before 30/06/16	Accountant	15/03/2016
21. Refund of tax and duties paid by IFAD due to non-exemption (as audited)	MOFT	30/06/2016
22. Clean-up VCCOs assets register, and transfer of assets to VCCOs following year-end valuation	Program Assistant	15/02/16

exercise	Accountant	31/12/16
23. Standardization of personnel files content; use of leave request forms; completion of 2015 performance evaluations for all staff	Program Manager	
	Accountant	15/02/2016

71. **Compliance with procurement** is rated as moderately satisfactory, (4). The Procurement plans are not updated, monitored and revised during the course of implementation identifying variances between the approved procurement plan and actual procurement undertaken as identified by the project. The mission has discussion with the project manager and the M& E officer to improve the 2016 procurement plan so that a revised PP is submitted to IFAD. The Project is requested to consistently review, revise, monitor and update the procurement plan during the course of implementation and submit the revised PP's for IFAD approval periodically.

72. The mission was unable to access the soundness of the procurement processes given that documentation is maintained in local language. Noting the observations of the Auditors in the 2014 Audit Management Letter, there were some lapses in the procedures and processes of procurement. The mission seeks a detailed response to be submitted to IFAD and the clearance or settlement of these audit observations with the Auditors during the course of the 2016 audit. IFAD has also discussed with the auditors, an expansion of the scope of work of the auditors during the audit of Project for the fiscal period 2015 to cover 100% sample size of the project procurement. As a risk mitigation measure IFAD would also establish through the approval of the 2016 PP, a relative sample size of procurement which would be subject to IFAD's prior review. The rating on procurement would thus be adjusted based on improvement demonstrated. No significant issue has been identified in the area of contract management and contract/payments monitoring logs have been consistently, periodically and adequately updated and used as a tool to monitor contracts.

73. The mission has requested the Project to submit to IFAD an official translated version of the VCCO Agreements it has signed with cooperatives which includes the amendments. The mission has observed that the Project has not maintained records nor tracked the corporative's governance (annual general meetings, disclosure of its audits etc.) which is vital for the release of additional resources to these cooperatives as it has already identified some inconsistencies and lapses in its visit to one corporative AMCS in S Meedhoo which has not held its Annual General Meeting since 2014 and disclosed its audited financial statements and its audit report which identifies that the auditors have issued an adverse opinion on the AMCS financial statements due to significant discrepancies noted during the 2013 audit.

<i>Agreed action</i>	<i>Responsibility</i>	<i>Agreed date</i>
5. Update, monitor and revise the 2016 procurement plan and submit revision to IFAD for approval.	PMU	Periodically
6. Send TOR for Audit for 2015 Audit to IFAD for clearance in which scope of audit should cover 100% of procurement undertaken by FADIP in 2015.	PMU	26/02/2016
7. Submits a detail report and explanation responding to the auditors observation on procurement in the 2014 audit report.	PMU and MOFA	31/03/2016
8. Submits detailed report and explanations to the auditors responding to the observations on procurement in the 2014 and seek settlement of these issue's	PMU	30/06/2016
9. Submits an officially translated VVCO Agreement and Amendment in English	PMU	26/02/2016
10. Follow ups and maintain records of VVCO Governance information for purposes of due diligence	PMU	Periodically

## F. Sustainability

74. **Institution building** is rated as moderately unsatisfactory (3). FADIP invests resources in building institutions for community based agriculture and fisheries value chains and promotion of microfinance in support of agriculture medium, small and micro enterprises (MSMEs). Twelve value

chain cooperatives is the means for community based value chain institutions and financial resources and capacity building of Bank of Maldives is the means for supporting agriculture MSME sector.

75. Seven cooperatives have been established so far and an additional one is in its preparatory phase. Five of the existing seven are active and two are facing various operational and institutional issues. The active ones are still institutionally weak and passive in their operations and hugely reliant on PIU in all respects. Internal decision-making, transparency and accountability to members need considerable improvement. Post project sustainability at the moment is suspect unless their current business models and governance arrangements are drastically revamped with strong monitoring by PIU.

76. MSME financial services development through Bank of Maldives is also not moving despite signing of SLA and transfer of funds to Bank of Maldives. Bank appears to be reluctant to assume the responsibility and attendant risks of loan request evaluations, disbursements and recoveries and prefers a change in arrangement whereby risk is assumed by MOFT/MOFA and bank acts only as Fund Manager. This is not in line with IFAD philosophy and also not conducive for developing microfinance services in Maldives. There is strong need to first develop the understanding and empathy within Bank of Maldives management for the microfinance sector and subsequently the capacity, tools and processes to effectively undertake this activity with programme supported VCCOs and others. The TA resources available in programme can be used for this purpose and appropriate TORs for this purpose have been developed and handed over to BoM during the current Mission.

77. **Empowerment** is rated as moderately unsatisfactory (3). FADIP is expected to cover 8,400 relatively poorer agriculture and fishermen households/members. The programme interventions are designed to financially and socially empower these households, women and youth in particular, in the outlying islands and atolls. The main means for this empowerment is participatory value chain cooperatives and through them access to improved incomes and services. Programme thus far has very input based and supply driven approach and has yet to place the outcomes and beneficiaries into centre of programme strategy and programme decision-making. The beneficiaries do not get sufficient attention and mentions in any of the programme reports and discussions. The expected empowerment of beneficiaries will start once the management thinking within PIU and Steering Committee is reoriented to recognition of centrality of beneficiaries and their financial and social empowerment as the core objective and all programme inputs to be deployed with that objective in mind.

78. **Quality of beneficiary participation** is rated as moderately satisfactory (4). The additional information available to the current mission which indicates that there is some level of increase in the beneficiary participation in the cooperatives is that the community of the Lamu VCCO have contacted the PIU and requested for support to commence business activities in compost production. Further all seven VCCOs who are currently in operation have requested further support for expanding their business plans. These observations support the continuous level of beneficiary participation.

79. **Responsiveness of service providers** is moderately satisfactory (4). The mission has no new information in addition to those that were observed during June 2015 mission. There are no new service providers contracted by the project and all previous contracts have been completed. The damaged two green houses in Wadu are under repair with the involvement of the Island council. The mission has no information on the progress of these to comment on the service provider.

80. **Exit strategy** is rated as moderately unsatisfactory (3). The slow initial implementation has meant that the VCCOs are still in their early stage of development and would require time and considerable effort to reach the stage of self-sustaining existence. The micro-finance activities have yet to start. The programme has only about 22 months left and PIU's preoccupation with speeding up and strengthening VCCOs and microfinance activities has not allowed it to start seriously thinking about the exit strategy as yet.

81. Given the limited time left in programme completion, PIU has to start formulating an exit strategy immediately and furnish it to IFAD for review. The exit strategy will revolve around two key

anticipated results/outcomes. First, sustainable existence and operations of VCCOs for enhanced incomes for its members (project target 3,000 hhs) beyond the project life and, second, effective and sustainable provision of microfinance services to IFAD target group/VCCOs by Bank of Maldives. As a first step, PIU needs to pay immediate attention to the weaknesses identified in the two areas of activity during the current mission and actions agreed to overcome them. And, building on that, formulate a detailed exit strategy for IFAD review by 30 June 2016.

82. Potential for scaling-up and replication is rated as moderately unsatisfactory (3). FADiPs models for agriculture and fisheries VCCOs and provision of financial services to smallholder agriculture and fisheries are still at a nascent stage and yet to be perfected. Their potential for scaling up and replication cannot be assessed at this early stage of their evolution and development. Considerable effort is needed to address the weaknesses identified by the current Mission in terms of institutions and institutional support, governance, approach and empowerment.

## **G. Other**

83. **Physical/financial asset** is moderately satisfactory (4). The Programme is still to handover the physical assets to VCCOs. The financial assets are still a constraint in the form of limited share capital. No VCCOs during the last six months reported having increased share capital. The current mission strongly recommends that all physical assets should be handed over to the VCCO without further delay. The Programme also encourage the VCCO members to seek the possibility of using some of the physical assets of the VCCO to meet the collateral need if the members are willing to take loans from the BML under the credit facility of FADiP.

84. **Food security** is moderately unsatisfactory (3). The food security status remains the same as in the previous mission since production and income generation, attaining food security that is attributable to FADiP is still taking place only in two VCCOs. The dividends of the VCCO profits have not been shared so far to ensure any contribution to food security. Thus the additional income is limited to direct selling of individual products in the open market.

85. **Quality of natural asset improvement and climate resilience** is rated as satisfactory (5). Natural asset management deals with how VCCOs manage the natural resources (land, water, soil, plants) in undertaking their BPs while safeguarding them for present and future generations. This is exceedingly important in Maldivian context having a fragile environmental balance. None of the BPs, as previously seen, adversely disrupts the surrounding natural resources. The enterprises are climate-smart as they are resilient to climate change and do not contribute to climate change. The current mission also observed that the Lamu VCCO is keen to manage island solid waste which will contribute to improving the costal environment to some extent.

## **H. Conclusion**

86. FADiP had a slow start and, despite an extension, has now limited period of around 20 months to complete the remaining activities and ensure that all its activities and investments are sustainable beyond the project life. That's a challenging prospect and requires a well-planned exit strategy that helps the project sponsored VCCOs to become commercially viable entities over the remaining project period and project's dormant Financial Services component becomes fully operational and productive.

87. Keeping these challenges in view, the present Mission has formulated a comprehensive set of agreed actions covering all facets of implementation and post project sustainability. This includes: revision of VCCOs business plans with clear identification of break-even points; a fresh approach to VCCO institutional development based on promoting VCCOs self-reliance and responsibility underpinned by a focused business approach; a comprehensive rethink and overhaul of financial services component covering interest rate charged by MOFT and BML, institutional capacity building of BML for microfinance business and development of appropriate micro-finance products, and;

financial and administrative capacity building and empowerment of PIU for effective and efficient delivery.

88. The next three months would be critical in determining ultimate results, outcomes and impact of FADiP. An early and effective follow-up on agreed actions by PIU, MOFA and MOFT over next three months would put the project on the right path with great chances of realising its development objectives.





## Appendix 1: Summary of project status and ratings

### Basic Facts

Country	Maldives	Project ID	1377	Loan/DSF Grant No.	726
Project	Fisheries and Agricultural Diversification Programme			Top-up Loan/DSF Grant	
Date of Update	24-Mar-2015				
Supervising Inst.	IFAD/IFAD				
No. of Supervisions	4	No. of Implementation Support/Follow-up missions	7		
Last Supervision	28-May-2014	Last Implementation Support/Follow-up mission	19-Jun-2014		

USD million    Disb. rate  
%

Approval	12-Sep-2007			Total financing	6.87	
Agreement	02-Apr-2008	Effectiveness lag	24.5	IFAD Total	3.50	
Entry into force	15-Sep-2009	PAR value	Not at risk	IFAD loan	3.50	58.5
First disbursement	11-Feb-2010			DSF grant		
MTR	23-Sep-2012	Last amendment	15-Dec-2011	IFAD grant		
Original completion	30-Sep-2014	Last audit	25-Jun-2014	Domestic Total	3.37	
Current completion	31-Dec-2015			Government (National)	1.32	15
Original closing	31-Mar-2015			Domes. Fin. Inst.	0.55	8
Current closing	30-Jun-2016			Private Sector Local	1.50	0
No. of extensions	1			External Cofinancing Total		

### Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project implementation progress	Last	Current
1. Quality of financial management	4	4	1. Quality of project management	3	3
2. Acceptable disbursement rate	2	4	2. Performance of M&E	4	3
3. Counterpart funds	4	4	3. Coherence between AWPB & implementation	4	?
4. Compliance with financing covenants	5	4	4. Gender focus	4	3
5. Compliance with procurement	5	4	5. Poverty focus	4	4
6. Quality and timeliness of audits	4	4	6. Effectiveness of targeting approach	4	4
			7. Innovation and learning	4	4
			8. Climate and environment focus	5	4
B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. VCC Development	4	4	1. Institution building (organizations, etc.)	3	3
2. Financial Services	3	2	2. Empowerment	3	3
			3. Quality of beneficiary participation	3	4
			4. Responsiveness of service providers	4	4
			5. Exit strategy (readiness and quality)	3	3
			6. Potential for scaling up and replication	3	3

### B.5 Justification of ratings

## Overall Assessment and Risk Profile

		Last	Current
C.1	Physical/financial assets	4	4
C.2	Food security	3	3
C.3	Quality of natural asset improvement and climate resilience	5	5
C.4	Overall <b>implementation progress</b> (Sections B1 and B2)	4	4

### Rationale for implementation progress rating

The programme has established most of the required initial capital items and the foundation for the VCCO to start functioning. However in order to take the full benefit of the foundation the programme needs to advise the VCCO to improve the business plans, provide technical advice and close supervision on high-tech agriculture and also market linkages. The programme has been working on these but results are to be seen. This makes the performance indicator to be at 4.

C.5	Likelihood of achieving the development objectives (section B3 and B4)	3	3
-----	------------------------------------------------------------------------	---	---

Rationale for development objectives rating: The development objective is to establish smallholder agriculture and Maldives Fish processing value chains to generate income for the community members. Production and marketing are essential in achieving this. Two out of six VCCOs have established the production systems with acceptable level of supply base, while others are still in the process. Others have issues such as working capital, markets and potential technical constraints to ensure production. Except one VCCO, the rest is still in the process of establishing markets. As such the overall analysis is that unless FADIP intervenes quickly and effectively with proposed interventions, such setbacks will impede achieving the development objective.

### C.6 Risks Short description of major risks for each section and their impact on achievement of development objectives and sustainability

Fiduciary aspects	The main fiduciary risks which have a potential impact on achieving the development objectives are: • The current slow disbursement rate • project accounts being not available.
Project implementation progress	The main perceived risks for implementation progress are: • PIU autonomy; PIU staff motivation and skilled staff spending sufficient time in the field • Failure to provide high quality marketing service providers for each VCCO to address VCCO-specific marketing challenges • A failure to provide appropriate technical / agronomic service providers – critical in mitigating the risks associated with PIU capacity • Lack of M&E support so that management interventions at the correct time and required degree could be provided.; BP quality in terms of financial viability.
Outputs and outcomes	Key risks associated with the Programme outputs and outcomes are: Lack of autonomy in the PIU so that quick response to issue is not efficient • still no workable arrangement, except for fish processing VCCO, to provide working capital which limit the production of VCCOs/VCCs to expand business activities at a scale which is financially viable and sustainable • PIU staff not sufficiently engaging with the VCCOs on the need basis perhaps due to the low capacity of them being able to provide high level technical and marketing guidance • Weak institutional, technical, financial and organisational capacity within VCCOs and still not having a mechanism which is adequate to support capacity developments in these areas, which would increase the risk of a lack of sustainability of VCCO operations systems • A failure to adequately understand the market requirements of the value chain i.e. a focus just on the production-end of the value chain without sufficiently engaging in research and analysis to understand the market and appropriate market promotion and penetration strategies and viability of the BPs • A failure to ensure high quality and reliable supply of products by VCCOs to markets • No system in place to address agronomic emergencies on time and in-situ.
Sustainability	The key risk to sustainability is the ability of the Programme to adequately build and maintain VCCO capacity and market linkages. Failure to do so would critically endanger the achievement of the development objectives.

## Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
Component 1: Value chain development	Prepare revised business plans for all VCCOs with clearly spelled out break-even points, product pricing and marketing and timeline based plan for completion of all key actions in the plans. Strengthen the role of COOP's Executive Bodies and ensure conduct of AGM's of all cooperatives regularly to promote responsibility and accountability. Refresh/update VCCO's requirements of equipment and materials and transfer procurement responsibility to VCCOs for agreed items through pre-agreed processes. Explore possibility of a joint display/sale point for all VCCOs at a suitable place in Male with initial cost/rental from Programme with gradual transfer to VCCO consortium, Engage an agriculture pest/disease control expert for three months to train two VCCO nominees in basic crop disease and pest control, Create positions of market development specialist and social mobilization specialist in PIU for ongoing pro-active support to VCCOs in institutional development and market development and linkages, Encourage COOPs to open membership to additional, particularly poorer households, to reach the programme target for beneficiary households	Between February 2016 and May 2016	Have started but needs enhanced attention
Component 2: Financial services	Engage services of a micro-finance specialist to assist Bank of Maldives in developing necessary capacities and systems to run effective programme for MSMEs financing, amend the SLA – MOFT to pass on micro-finance funds to	Between June and August 2016	Need to consider all these

	Bank of Maldives on 0.75% and Bank of Maldives to charge a maximum of 6% from the borrowers, revise the eligibility criteria for loans to enable the non-member small farmers and fishermen living in VCCO area to access loans.		activities
Component 3: Programme management	The exit strategy of FADiP needs emphatic reference to sustainable market arrangement and technical advice on high-tech production practices. With the help of the marketing firm and a technical expert in agriculture, PIU with the close involvement of MOFA should develop the exit strategy. The recommended improvements to the PIU will help this process. Once it is develop IFAD will help to review it, electronically if requested; As part of the exit strategy, use Ex-co members of promising VCCO to help the less promising ones in their development process	Between July and December 2016	To be started

---

**Additional observations**

---



## Appendix 2: Updated logical framework: Progress against objectives, outcomes and outputs

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions and Risks
<b>OVERALL GOAL</b>			
Reduce the smallholder agriculture and fish processing sectors' vulnerability by sustainably improving food and income security thereby reducing rural poverty <sup>6</sup>	<p>Increase in asset ownership of actual target beneficiaries in the island communities by ...% based on the baseline information</p> <p>Reduction in the prevalence of underweight children under 5 years old of actual target beneficiaries in the island communities by ...% based on the baseline information</p>	<p>Project/RIMS Baseline and Impact surveys in the target groups/beneficiaries</p> <p>Secondary data from Ministry of Health, UNICEF, Department of National Planning</p>	Stable economic environment and no threat from natural disasters
<b>PROJECT PURPOSE</b>			
Develop smallholder agriculture/fish processing value chains that would improve and sustain the incomes of the smallholder farmers/fish processors	<p>Number of farmers, fishers /fish processors (by gender) involved in the value chain reporting production or yield increase</p> <p>Number of farmers, fishers /fish processors (by gender) involved in the value chain having higher (a) value of agricultural/fisheries products (sales) and (b) net earnings</p>	<p>Baseline Survey and Outcome Studies</p> <p>Project Reports</p>	Favourable market conditions
<b>COMPONENT OUTCOMES and OUTPUTS</b>			
<b><u>Component 1: Value Chain Development</u></b>			
<b><u>Outcome 1.1 – Value chain cooperatives (VCCO) and value chain companies (VCC) strengthened as business entities</u></b>	<p>Number of VCCOs/VCCs operating as business entities functional by the end of project<sup>7</sup></p> <p>Increased number of shares sold</p>	<p>Baseline Survey and Outcome Studies</p> <p>Project Reports</p> <p>VCCOs/VCC financial reports</p>	Farmers & fish processors are willing to work as a group

<sup>6</sup> Narrative summary for goal and project purpose is based on the restated financing agreement as of 30<sup>th</sup> November 2011

<sup>7</sup> Key elements of a business entity and functional VCCO/VCC will be defined by the project

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions and Risks
<p><b>Output 1.1.1-</b> VCCOs/VCCs established</p> <p><b>Output 1.1.2_</b> VCCOs/VCCs implemented viable business plan that have action plans and marketing strategies.</p> <p><b>Output 1.1.3 –</b> VCCOs/VCCs established their market</p> <p><b>Output 1.1.4 –</b> VCCOs/VCCs members/farmers/fish processors and individuals trained on business and operational management.</p> <p><b>Output 1.1.5 –</b> Qualified VCCOs/VCCs accessed to value adding facilities to expand their businesses</p>	<p>Number of VCCOs/VCCs organised</p> <p>Number of farmers/fish processors as members of VCCOs and VCCs</p> <p>Number of VCCOs/VCCs developed business plan</p> <p>Number of VCCOs/VCCs implementing the business plans eg: achievement of planned targets</p> <p>Number of VCCOs/VCCs having contracts with established market</p> <p>Number of supply and forward contracts signed by each VCCOs/VCCs</p> <p>Number of VCCOs/VCCs members/farmers/fish processors and individuals trained in business and operational management</p> <p>Number of VCCOs/VCCs with operational manuals</p> <p>Number of VCCOs/VCCs having functional value adding facilities</p> <p>Number and type of value added products produced through value adding facilities by each VCCOs/VCCs</p>	<p>Project Reports VCCOs/VCC members registry</p> <p>Project Reports VCCOs/VCCs annual reports</p> <p>Project Reports VCCOs/VCCs contract documents</p> <p>Training Reports Project Reports</p> <p>Project Reports</p> <p>Project Reports VCCOs/VCCs financial and annual reports</p>	<p>MOFA has sufficient technical expertise</p> <p>Farmers/fish processors are willing to adopt new technologies.</p>

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions and Risks
<p><b>Outcome 1.2- Improved productivity and quality of VCCOs/VCCs, farmers'/fish processors produce/products</b></p> <p><b>Output 1.2.1-</b> VCCO members/farmers/fish processors trained on good farming/fish processing practices, quality standards and other technical needs.</p> <p>Output 1.2.2 – VCCO members/farmers have access to updated agricultural information from Agricultural Information Desk</p>	<p>Number of VCCOs/VCCs, farmers'/fish processors with increase in sales due to volume and/or value</p> <p>Number of VCCO/VCC products certified by MFDA and other relevant certifying agencies</p> <p>Number of VCCOs members/farmers/fish processors trained (a) good farming/fish processing practices, (b) quality standards and (c) other technical needs.</p> <p>Number of AID with updated agricultural information</p> <p>Number of VCCO members and farmers using AID</p>	<p>Training Reports Project Reports</p> <p>VCCOs records Project Reports</p>	
<p><b><u>COMPONENT 2: Financial Services</u></b></p> <p><b><u>Outcome 2- Small farmer producers, fishers and VCCOs invest in expanding their farm or fishing enterprise</u></b></p>	<p>% of VCC/VCCO members have accessed to credits provided by implementing bank # of VCCs and VCCOs having accessed credits provided by implementing bank # of VCCOs/VCCs benefiting from the leasing corporations # of VCCO/VCC members benefiting from</p>	<p>- Value Chain Companies records, Programme records, M&amp;E reports, VCC/VCCO reports, Bank reports</p>	<p>-No political interference in loan repayment No misuse of fund (VCC), Clear and favorable financing terms</p>

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions and Risks
Output 2.1- Appropriate financing are available to farmers/ fishers/ cooperatives/ VCCs/VCCOs	the equipment from VCCOs/VCCs  # of SLA signed # of loan portfolio developed for specific client (e.g. small farmer producers/ agri-workers/VCCOs/VCCs	Financing institutions records - Audit report	- Timely availability of loan resources and lease equipment - Misuse of Loans - Clear and favorable terms in financing - No political interference in giving loans
Output 2.2- Leased facilities are available to farmers/fishers/ VCCOs/VCCs	# of SLA signed # of lease agreements per year # of leased facilities with VCCOs/ VCCS	- M&E Reports - VCC/VCCOs sales report / Annual report / monitoring report / Work plan - MFLC loan records - Audit report	- Timely availability of loan resources and lease equipment - Misuse of Loans - Clear and favorable terms in financing - No political interference in giving loans



### Appendix 3: Status of recommended actions from the previous supervision mission

Action Area	Action Agreed	Whom	Date
Fiduciary aspects	1. Opening of a Program Account in local currency, to be operated by the PIU under dual signature	MOFT, MOFA, PIU	29/02/2016
	2. Petty cash: a) Establishment of a petty cash from IFAD grant funds; b) Use of petty cash request forms indicating AWPB activity code; c) 'Surprise' cash counts to be carried out by Accountant each month on different dates	Program Manager Program Assistant Accountant	01/03/2016 and Continuous
	3. Finalization of the PIM including financial, procurement and administrative procedures	Program Manager	15/03/2016
	4. Verification that item is included in the AWPB before authorizing the expenditure	Accountant	Continuous
	5. Monthly bank reconciliations (reconciling the PIU bank balance from Excel against the bank statement balance from the Maldives Monetary Authority); monthly reconciliations of MOFT and PIU accounting records; monthly reconciliations of PIU and IFAD status of funds (all to be prepared by Accountant, and reviewed/approved by Program Manager and MOFA Financial Controller); preparation of the special account reconciliation each month. Investigation/clearance of differences	Program Manager Accountant MOFA FC	Continuous
	6. Excel accounts: a) Maintenance of separate ledgers for each funding source and for each type of transaction (bank, petty cash, adjustments). b) Production of monthly expenditure reports by funding source, schedule II expenditure category and component.	Accountant	29/02/2016 and continuous
	7. Use of payment vouchers with analytical coding indicating the funding source, expense category (from loan agreement schedule 2), component and AWPB activity as a basis for inputting transactions in Excel; approval of all vouchers by the Program Manager prior to input.	Accountant Program Manager	Immediate and continuous
	8. Preparation of a monthly financial report including analyses of disbursement rates by expense category, AWPB execution, treasury situation/forecast, implementing partners' financial situation, procurement plan execution and administrative matters.	Accountant	Continuous
	9. Structure of revised 2016 AWPB by detailed activity with specific coding for each activity; full documentation of unit cost assumptions in the AWPB; inclusion in the AWPB of a schedule of expected disbursement rate by expense category and by component at 31/12/16	Program Manager Accountant	29/02/2016
	10. Implementation of a reliable budget monitoring system including: (i) the recording of actual expenditure by AWPB activity code in Excel, (ii) the generation of a budget-to-actual statement by activity on a monthly basis, and (iii) an analysis of budget variances during a monthly budget review meeting with the Program Manager, Accountant, and technical implementation staff	Accountant	29/02/2016 and continuous
	11. Preparation of a 6-month cash forecast (based on the approved revised 2016 AWPB) and update twice a month taking into account financial commitments and forecasted expenditure	Accountant	Continuous
	12. Preparation of initial advance recovery plan and submission to IFAD for approval	Accountant	15/03/2016
	13. Withdrawal applications: a) Use of the IFAD enhanced SOE forms; b) inclusion of full payment date and more detailed descriptions of expenditures claimed in the WAs, avoiding the use of 'cash advance' in the description; c) Use of correct expense categories in accordance with schedule II of FA; d) inclusion of signed proofs of completion in support of expenditures; e) Claiming of disbursements net of tax in WAs; f) Use of Direct Payment methodology for all expenditure above USD 100,000	Accountant	Continuous
	14. Preparation of contract monitoring forms (C11) for each new contract/MOU and update with each payment; attach to the corresponding payment voucher, and to withdrawal applications as required	Accountant	Continuous
	15. Ensure items purchased with IFAD financing are exempt from all duties and taxes	MOFA / MOFT	Continuous

Action Area	Action Agreed	Whom	Date
	16. Review and approval of monthly payroll statements by Program Manager prior to processing of salary payments	Program Manager	Continuous
	17. Official translation of VCCO contracts into English and submission to IFAD	Program Manager	15/02/2016
	18. Ensure timely and complete financial reporting from all VCCOs, using the standard PIU reporting format	Accountant	Continuous
	19. In case of cash advances to VCCOs: a) dedicated bank accounts should be opened and separate books of accounts be kept to account for FADIP funds, (b) a monthly financial return including account reconciliation and full justification of expenditure must be submitted promptly to the PIU and (c) these funds must be audited as part of the FADIP annual audit.	Program Manager Accountant	As part of any new/amended VCCO contract
	20. Monitoring of exchange rate differences and full justification as part of the monthly special account reconciliation	Accountant	Continuous
	21. Close monitoring of recurrent costs to avoid overspending category V	Accountant	Continuous
	22. Recording of all counterpart contributions in the project accounts including duties & tax exemptions and in kind contributions	Accountant	Continuous
	23. Human Resources: a) Standardization of personnel files content (including CVs, ID cards, and leave records); b) Use of leave request forms, with regular monitoring; c) Completion of 2015 performance evaluations for all staff	Program Manager Program Assistant	15/02/2016 Continuous
	24. Fixed Assets: a) Review and correction of assets register (ensure they contain acquisition date, value and location); b) Physical inventories to be carried out annually in last week of December by Accountant and M&E Officer and using blank inventory sheets, followed by a reconciliation with assets register; c) Set a threshold for inclusion of items in the fixed assets register (e.g. USD 1,000) d) Valuation of cooperatives' assets at year-end and official transfer from FADIP to each cooperative c) Contracting of insurance policy for project assets	   Program Assistant Accountant/M&E Off. Program Manager	15/03/2016 Annually 15/03/2016 31/12/2016 15/03/2016
	25. Update contract register (C10) using IFAD format and ensuring sequential order and inclusion of all required data	Program Assistant	Continuous
	26. Revision of the 2016 procurement plan based on revised AWPB and submit revision to IFAD for approval; inclusion of AWPB activity references in the PP. Monitoring and updating of PP on a real-time basis	PMU	Continuous
	27. Detailed response to auditors; settlement of issues raised; and submission to IFAD of a detailed report and explanation responding to the auditors' observations on procurement in the 2014 audit report.	MOFA and PIU	31/03/2016
	28. Follow up and maintenance of records of VCCO Governance information for purposes of due diligence	PIU	Continuous
	29. Submission of signed, unaudited, financial statements to IFAD within three months of FY end	Accountant Program Manager	31/03/2016 and annually
	30. Inclusion of procurement audit and review of VCCOs in the 2015 audit scope; submission of audit TORs for IFAD clearance; submission of final report before 30/06/16	Accountant	15/03/2016
Fiduciary aspects	31. Notification to auditors of reporting error in Management Letter (amounts relating to inappropriate selection of service providers disclosed in USD instead of local currency)	Program Manager Accountant	29/02/2016

## Appendix 4: Physical progress measured against AWP&B, including RIMS indicators

Results #	Objectives/Expected Results	Indicators							
			Unit	Revised (Total)	Planned (Annual)	Achieved (Cumulative)	%	Achieved (Annual)	%
Component 1 - Value Chain Development									
OC1.1	Outcome 1.1 – Value chain cooperatives (VCCO) and value chain companies (VCC) strengthened as business entities								
1.1.1	Output 1.1.1- VCCOs/VCCs established		VCCO	12	12	7	58%	7	58%
	A1- Recruit & station Business Development Coordinators	# of BDCs Recruited		7	7	7	100%	7	100%-discontinued
	A1- Recruit & Station Project Implementing Officers ( Activity revised activity after follow-up Mission)	# of PIOs Recruited		7	7	7	100%	7	100%
	A2- Call for EOIs (New activity after IFAD granting for an extension for the Project)	# of EOIs		5	5	3	60%	3	100%
	A3 –Review the VCCO Business Plans (BP) (for the new 5 VCCOs and the existing 7 VCCOs)	# of business plans		12	7	8	67%	8	114%
	A4 - Prepare and approve sustainable exit strategy plan	# of sustainable exit strategy plans		12	7	7	58%	7	100%

	A5 - Conduct regular meeting between PIU, Executive Committee(ExCo) members and General members of VCCO to implement and evaluate business activity	# of meetings held between PIU and the VCCO Executive members		72	72	66	92%	51	71%
1.1.2	Output 1.1.2 – VCCOs/VCCs implemented viable business plan that have action plans and marketing strategies		VCCO	12	7	7	58%	7	100% - advised to update all the BPs
	A6 – Develop / Review and Implement operational manuals (OM) for VCCOs and conduct awareness programme on OM	# of OM developed		12	6	7	58%	6	100% - Recommended to improved
	A7 – Assist the VCCOs to improve the financial management by computerization	# of VCCOs with financial management system		12	7	5	42%	4	57%
	A8 - Develop and register "brand" for VCCOs products	# of brands developed		12	7	5	42%	3	100%
1.1.3	Output 1.1.3 – VCCOs/VCCs established their market		VCCO	12	7	2	17%	1	50%
	A9 - Identify and consult with potential markets for VCCOs products	# of markets identified		12	7	11	92%	9	129%
	A10 – Facilitate the signing of Supply Contracts (SC) and Forward Contracts (FC) between VCCO's and markets	# FC and # Supply Contracts signed		24	14	17	71%	16	114%
	A11- Facilitate meetings to ensure continuous information exchange between the market and the VCCO	% of meetings		12	7	8	67%	8	114%
1.1.4	Output 1.1.4 – VCCOs/VCCs members/farmers/fish processors and individuals trained on business and operational management.		Tools	12	7	7	58%	4	57%

	A12 - Conduct training needs analysis (TNA) on VCCOa established in the islands	# of TNA prepared		12	4	7	58%	4	100%
	A13 - Conduct trainings based on TNA result	# of trainings conducted		24	14	23	96%	23	164%
1.1.5	Output 1.1.5 – Qualified VCCOs/VCCs accessed to value adding facilities to expand their businesses		VCCO	12	7	7	58%	7	100%
	A14– Hire service providers (SP) to construct/procure/install value adding facilities/machineries for VCCOs	# of service providers hired		12	7	7	58%	19	271% - not in the field currently
	A15- Procure and supply equipments for VCCO office establishment	# of office established		12	7	7	58%	7	100%
OC1.2	<b>Outcome 1.2- Improved productivity and quality of VCCOs/VCCs, farmers'/fish processors produce/products</b>								
1.2.1	Output 1.2.1- VCCO members/farmers/fish processors trained on good farming/fish processing practices, quality standards and other technical needs.		farmers	2000	1200	0	0%	0	0%
	A16 - Develop training materials on Good Farming Practices and Food Safety	# of training materials developed		1	1	0	0%	0	0%
	A17- conduct technical trainings for VCCOs	# of trainings conducted		12	7	4	33%	4	57%

1.2.2	Output 1.2.2 – VCCO members/farmers have access to updated agricultural information from Agricultural Information Desk			12	12	0	0%	5	42%
	A18 – Provide agriculture information material for VCCOs	% of VCCOs supplied with materials		12	7	5	42%	5	71%
<b>Component 2 - Financial Services</b>									
OC2	<b>Outcome 2 - Small farmer producers, fishers and VCCOs invest in expanding their farm or fishing enterprise</b>								
2.1	Output 2.1: Appropriate financing are available to farmers/ fishers/ cooperatives/ VCCs/VCCOs		USD	450000	450000	0	0%	0	0%
	2.1 Draft and Finalize SLA	# of SLA signed		1	1	1	100%	1	100% - recommended to revise
	2.2 Call for EOIs	# of EOIs		actual	actual	11	#VALUE!	11	0
	2.3 Evaluate and process the EOIs	# of EOIs		actual	actual	6	#VALUE!	6	0
	2.2 Provide financing to VCC/VCCOs and other farmers and fishers through BML	No. of beneficiaries Amount received		actual	actual	0	#VALUE!	0	0!
	2.2.2 - Financing provided to VCC/VCCOs through lease agreements (e.g. cold chain and processing equipment)	# of lease agreements per year				0	0%	0	0%

2.2	Output 2.2: Leased facilities are available to farmers/fishers/ VCCOs/VCCs		Agreement			0	0%	0	0%
<b>Component 3 - Programme Management</b>									
OC3	<b>Outcome 3 - Effective and efficient programme management to support the development of agriculture and fishery value chain</b>								
3.1	Output 3.1: Adequately staffed programme with improved competence and Functioning project structures (national to island)		PMU	1	1	1	100%	1	100%
	3.1 - Provide salaries to PIU staff			36	12	29	81%	17	142%
	3.2 - Provide salaries to experts			36	12	29	81%	17	142%
	3.3.- Capacity Building for MOFA staff in project related areas	# of staff trained		42	9	12	29%	10	111%
	3.4 -Organize NSC and TRC meetings	# of meetings		40	11	28	70%	6	55%
	3.5- Hire a service provider to prepare KM products	# of SP		1	1	0	0%	0	0%
	3.6 - Conduct regular monitoring of physical and financial progress incorporating the agreed actions of the previous mission			actual	13	13	0%	13	100%

	3.7: Conduct a new Baseline Survey + RIMS in the 7 islands	1 survey		1	1	1	100%	1	100%
	3.8 - Hire the PTAFREP/FADIP M&E consultant to revise and update the FADIP database and to train the M&E officer on the use of the database program			1	1	0	0%	0	0%
	3.9. Conduct an outcome survey to the 7 islands			1	1	0	100%	0	100%
	3.10 - Hire a PCR consultant to prepare the project completion report			1	1	0	0%	0	0%
	3.11 - Provide Office recurrent costs/expenditures			actual	actual				
	3.12 - Audit			6	1	4	67%	1	100%



FIRST LEVEL RESULTS								
Results		Unit	Period ending: AWP&B	31-Dec Actual % of AWP	Cumulative Appraisal Actual % of Appraisal			Sum of actuals of previous years
<b>Total Outreach</b>								
	Households receiving project services	Number	184	405 220%	1 200	1 421	118%	
	People receiving project services	Number						
		Female	3 207	408 13%	4 200	1 443	34%	
		Male	3 207	215 7%	4 200	1 166	28%	
Component	Sub Component							
<b>Value Chain Development</b>	<b>Sub Component</b>							
	Community groups formed/strengthened	Number	12	0 0%	12	7	58%	
	Community groups with women in leadership position	Number	12	6 50%	12	6	50%	
		Male	30	41 137%	30	41	137%	
		Female	30	19 63%	30	19	63%	
	People in community groups formed/strengthened	Number	4 014	223 6%	6 000	2 209	37%	
		Male	2 007	86 4%	3 000	1 037	35%	
		Female	2 007	137 7%	3 000	1 172	39%	
	People trained in crop production and technologies	Number	1 200	94 8%	1 200	94	8%	
		Male	600	39 7%	600	39	7%	
		Female	600	55 9%	600	55	9%	
	People trained in post-production, processing and marketing	Number	600	0 0%	600	124	21%	
		Male	300	0 0%	300	0	0%	
		Female	300	0 0%	300	0	0%	
	Marketing groups formed/strengthened	Number	12	7 58%	12	7	58%	
	Marketing groups with women in leadership position	Number	12	6 50%	12	6	50%	
		Male						
		Female						

<b>Financial Services</b>	People in marketing groups formed/strengthened	Number							
	Male	2 007	86	4%	3 000	1 117	37%		
	Female	2 007	137	7%	3 000	1 292	43%		
	People trained in business and entrepreneurship skills	Number							
	Male	561	216	39%	600	254	42%		
	Female	561	461	82%	600	501	84%		
	Financial institutions participating in the project	Number	1	1	100%	1	1	100%	
	Value of gross loan portfolio	USD	281 000	0	0%	281 000	0	0%	
	Enterprises accessing non-financial services facilitated by the project	Number	actual	0	#VALUE!	actual	0	#VALUE!	
	Active borrowers (disaggregated by gender)	Number	actual	0	0%	actual	0	0%	
		Male	actual	0	0%	actual	0	0%	
		Female	actual	0	0%	actual	0	0%	
	Staff of financial institutions trained	Number	actual	0	0%	actual	0	0%	
		Male	actual	0	0%	actual	0	0%	
		Female	actual	0	0%	actual	0	0%	
<b>Program Management</b>	Government officials and staff trained	Number							
	Male	7	4	57%	25	5	20%		
	Female	2	0	0%	25	1	4%		

TRAINING BENEFICIARIES-2014													
Name of the Training	Name of Cooperative Society	No. of Participants	No. of new HH	No. of Beneficiaries		Existing Households		Existing Beneficiaries				Total Participants	
				New Beneficiaries				Members		Non Members			
				Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Business Management	VFCS	19	5	1	4	4	8	1	1	0	0	6	13
Marketing, Creativity and Innovation	VFCS	29	3	0	3	1	11	0	2	5	7	6	23
Office Administration	VFCS	25	0	0	0	1	4	1	0	4	15	6	19
Business Management	SFCS	24	23	12	11	0	1	0	0	0	0	12	12
Office Administration	SFCS	23	23	6	17	0	0	0	0	0	0	6	17
Business Management	AMCS	24	9	2	7	2	7	0	6	0	0	4	20
Office Administration	AMCS	24	13	4	9	1	5	0	2	1	2	6	18
Basic Computer Skills	AMCS	20	6	1	6	1	2	0	1	2	7	4	16
Marketing, Creativity and Innovation	AMCS	18	3	2	1	3	0	0	1	0	11	5	13
Office Administration	FMCS	45	4	0	4	8	15	7	11	0	0	15	30
Business Management	FMCS	23	0	0	0	3	4	2	7	1	6	6	17
Office Administration	FDCS	28	13	4	9	4	7	1	2	0	1	9	19
Business Management	FDCS	25	11	1	10	0	3	0	11	0	0	1	24
Marketing, Creativity and Innovation	FDCS	16	3	0	3	1	2	0	8	0	2	1	15
Leadership Training	FDCS	16	3	2	1	0	1	0	2	0	10	2	14
Basic Agriculture	FDCS	15	3	1	2	2	1	2	6	0	1	5	10
Communication Skills	FDCS	20	13	6	7	0	0	0	2	0	5	6	14
Office Administration	GAGCS	33	4	2	2	13	13	1	2	0	0	16	17
Marketing, Creativity and Innovation	GAGCS	41	7	5	2	5	4	1	1	9	14	20	21
Business Management	GAGCS	28	6	1	5	3	2	2	2	7	6	13	15
Leadership Training	GAGCS	9	1	0	1	0	1	0	0	4	3	4	5
Basic Computer Skills	GAGCS	28	4	6	1	6	14	0	1	6	5	12	16
Office Administration	BMCS	68	26	8	20	4	12	6	18	0	0	18	50
Business Management	BMCS	34	10	4	10	0	1	3	6	4	6	11	23
Marketing, Creativity and Innovation	BMCS	16	4	1	4	0	0	3	7	1	0	5	11
Basic Computer Skills	BMCS	29	5	3	2	0	0	1	5	8	10	12	17
Leadership Training	BMCS	26	4	0	4	0	2	1	7	6	6	7	19
Business Start-Up	BMCS	36	3	0	1	0	3	3	9	7	13	10	26
Basic Agriculture	BMCS	16	5	0	2	0	5	2	2	2	3	4	12
Communication Skills	BMCS	16	2	0	2	4	0	0	10	0	0	4	12
Hydroponics	BMCS	63	43	17	12	5	6	8	10	0	5	30	33
Integrated Farming		26	5	5	0	0	0	9	12	0	0	14	12
<b>Total</b>		<b>863</b>	<b>264</b>	<b>94</b>	<b>162</b>	<b>71</b>	<b>134</b>	<b>54</b>	<b>154</b>	<b>67</b>	<b>138</b>	<b>280</b>	<b>583</b>



## Appendix 5: Financial: Actual financial performance by financier; by component and disbursements by category

**Table 5A: Financial performance by financier<sup>8</sup> as at 31/12/15**

Financier	Appraisal (USD)	Disbursements (USD)	Per cent disbursed
IFAD loan	3 505	2 413	69%
Private Sector	1 497	572	38%
BML / Bank	547	0	-
Government	1 322	911	69%
<b>Total</b>	<b>6 871</b>	<b>3 896</b>	<b>57%</b>

**Table 5B: Financial performance by financier by component (USD) as at 31/12/15**

Component	IFAD loan			Private Sector			BML / Bank			Government			Total		
	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%
1. Value Chain development	2 663	1 354	51	1 497	572	38	-	-	-	330	170	52	4 490	2 096	47
2. Financial Services	450	281	62	-	-	-	547	0	0	-	-	0	997	281	28
3. Program management	392	278	71	-	-	-	-	-	-	992	741	75	1 384	1 019	74
Initial advance	-	500	-	-	-	-	-	-	-	-	-	-	-	500	-
<b>Total</b>	<b>3 505</b>	<b>2 413</b>	<b>69</b>	<b>1 497</b>	<b>572</b>	<b>38</b>	<b>547</b>	<b>0</b>	<b>0</b>	<b>1 322</b>	<b>911</b>	<b>69</b>	<b>6 871</b>	<b>3 896</b>	<b>57</b>

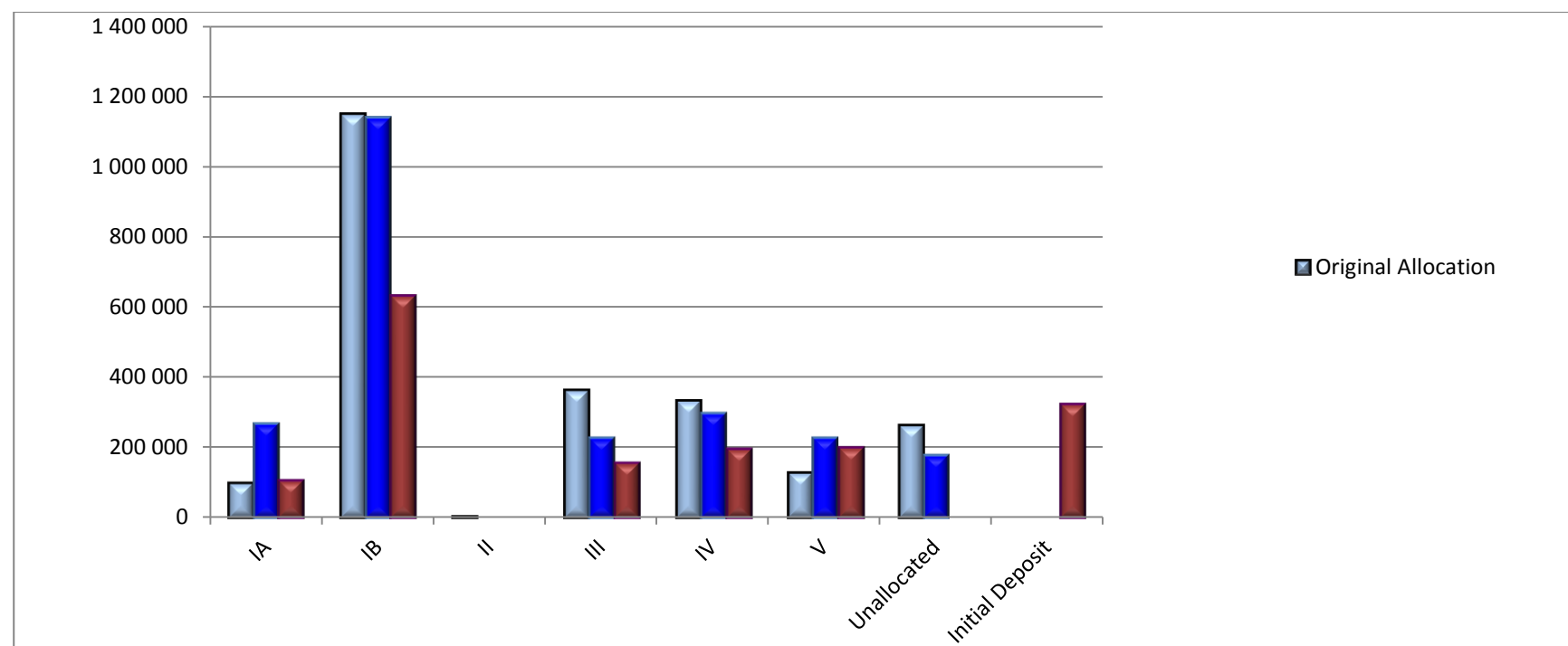
**NOTE:** The disbursement figures above (except for total IFAD disbursements in Table 5A) were provided by the PIU. They are mostly generated from the PIU's Excel accounts and could not be verified, as transactions are not recorded in the accounts by component. Private sector contributions are not recorded in the PIU accounts and were not verifiable.

<sup>8</sup> Source of appraisal data: Final project design report (April 2008). The tables were prepared using the final PDR data, as no reliable data could be found on the 'revised' approval figures by financier and by component (different figures were found in the IFAD MTR mission report, IFAD supervision missions reports and PIU records).

**Table 5C: IFAD loan disbursements as per status of funds (SDR, as at 22/01/16)**

Category	Category description	Original Allocation	Revised Allocation	Disbursement	Balance	Per cent disbursed
IA	VCC/VCCO Investment capital	100 000	270 000	107 740	162 260	40%
IB	VCC/VCCO Working capital	1 150 000	1 140 000	633 048	506 952	56%
II	Equipment & materials	5 000	0	0	0	-
III	Training and studies	365 000	230 000	156 778	73 222	68%
IV	Incremental credit	335 000	300 000	196 691	103 309	66%
V	Recurrent expenditures, salary & allowances	130 000	230 000	201 201	28 799	87%
VI	Unallocated	265 000	180 000	0	180 000	0%
	Initial deposit	-	-	324 300	-324 300	-
	<b>Total</b>	<b>2 350 000</b>	<b>2 350 000</b>	<b>1 619 758</b>	<b>730 242</b>	<b>69%</b>

**Figure 1: IFAD loan disbursement, comparisons between original allocation and actual disbursement**



## Appendix 6: Compliance with legal covenants: Status of implementation

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
<b>Loan Agreement</b>				
<b>Section 2.03</b>	Opening & maintenance of a Special account in USD	Effectiveness condition	Complied	
<b>Section 3.02</b>	Submission of AWPB to IFAD for approval	Annually by 31 October	Complied	2016 AWPB under revision
<b>Section 3.03</b>	Opening & maintenance of a Program account in MVR, jointly operated by PC and PIU accountant	Effectiveness condition	Not complied due to provisions of Public Finance Act	Opening of a Program Account is recommended in aide-memoire (AM)
<b>Section 3.04 and Section 3.05</b>	Provision of counterpart financing for the Project of approximately USD 1,322,000 and facilities, services and other resources	Throughout project implementation	Complied on an on-going basis	Cumulative disbursement at 31/12/15 amounts to USD 910,624
<b>Section 3.06</b>	Procurement to be carried out in accordance with Schedule 4 of the loan agreement	Throughout project implementation	Partially complied	Weaknesses noted and reservations made by mission (see aide-memoire)
<b>Section 4.01</b>	Establishment of MIS and monitoring system	Latest 12 months after effective date	Partially complied	Excel-based system in place, requiring improvements (see aide-memoire)
<b>Section 4.02</b>	Submission of half-yearly and year-end progress reports to IFAD	3 months after each 6-month period	Complied	Quality of reports require improvement
<b>Section 4.03</b>	Midterm review to be carried out jointly by Lead Project Agency, co-investors and IFAD	36 months after effective date	Complied	
<b>Section 4.04</b>	Submission of Project Completion Report before Financing Closing Date to the Fund.	31 March 2018	Not yet due	
<b>Section 5.01</b>	Submission of half-yearly and annual financial statements to IFAD	3 months after each 6-month period	Complied	
<b>Section 5.02</b>	Submission of final audit report to IFAD each year	30 June each year	Complied	Scope to be extended for 2015 audit
<b>Section 7.01</b>	Establishment of PIU, NSC and appointment of Project Coordinator; ratification of agreement and legal opinion	Effectiveness condition	Complied	
<b>Schedule 2 6.</b>	Establishment of VCC/VCCOs; signature of SLA and SLFA; approval of 1 <sup>st</sup> AWPB by IFAD	Withdrawal conditions	Complied	SLFA could not be established
<b>Schedule 3 II 1</b>	Mainstreaming of gender concerns in project activities	Continuous	Complied	
<b>Schedule 3 II 2</b>	Due consideration to indigenous people's concerns	Continuous	Complied	No ethnic minorities; all are indigenous
<b>Schedule 3 II 9</b>	Health and accident insurance for project staff; insurance of	Continuous	Partially complied	All staff covered by national insurance

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
	vehicles and equipment			scheme. Project assets are not insured
<b>GC Section 11.01</b>	Loan funds to be exempted from all taxes and duties	Continuous process	Partially complied	GoM ban on duty exemptions (see AM)



## Appendix 7: Knowledge management: Learning and Innovation

### Learning

---

Improvements and re-vamping of the logframe, have worked well to clarify for the PIU what needs to be done to achieve the programme outcomes.

Since the last SIS mission in 2013 the PIU technical staff have spent more time in the field and PIU has improved its visibility in the communities by participating in various media events that have helped profile the work of FADiP and generate interest in forming VCCOs. PIU needs to strengthen the interest of the islanders to participate more actively in the work of the cooperative societies and to sponsor more the engagement. Moreover, PIU should place an IFAD sign in each of the site where cooperative societies are working and producing their business.

VCCOs should learn from cooperatives already well implemented and producing their business and understand what are the elements for the functioning marketing cooperative model. For this, PIU should play a role a connecting role and act as a bridge in terms of transferring the knowledge from one community to the other.

Another good example that can be taken as a model for the modus operandi from the other cooperative societies is Bizville. This cooperative has produced good samples of leaflets to sponsor the activities of the communities and also to attract more islanders to become members of the cooperative. This cooperative is well structured and well working and this may be attributed to trainings received before establishing the cooperative and based on the model adopted taking lessons learned from a previously existing society supported by ADB.

---

### Innovation: Describe any interesting innovation noted during supervision

---

A group of women have started adding value to their traditional products through the cooperative.

Innovation is still limited but some innovative products and processes have been developed. At Hoarafushi, members have constructed small makeshift net-houses in backyards; '*domestic semi-controlled-environment cultivation*', to plant capsicum and melons in bag-pots or discarded oil cans, getting a fair crop. If encouraged, VCCOs can organize a *shared cropping pattern* among them to obtain an aggregated commercial level production. The 'Golden Honeydew Melon' cultivation at Hoarafushi is *cripplingly* infected with 'Fusarium Wilt' (pathogen, *Fusarium oxysporum*) with no known post-infected single cost effective treatment. The current situation is almost irrevocable. Hanimaadhoo Agriculture Training Centre officers visited the site in January 2015 and advised spread prevention methods, but the gravity of the situation has not been comprehended, probably due to inexperience and lack of exposure of ex-co members. These limit innovations that have potential.

---



## Appendix 8: Audit log

Ref.	Class (serious/general)	Audit Ref.	Audit observations	Amount (USD)	PMO action	Status
1	General	101-104	Budget vs. actual variance (low budget execution rate)	N/A	Responded	Pending: action to be taken based on mission recommendations
2	General	105-107	Avoidance of bidding process (several purchase orders issued to the same supplier on the same date)	14 400	Responded: PIU has followed national procurement procedures	Not settled: PIU's rationale was that different POs had to be issued as these were orders for different cooperatives, with different delivery dates
3	General	108-110	Inappropriate selection of service provider in bidding process (contract not awarded to lowest bidder)	13 472	Responded: contract mistakenly award to a higher bidder by the MOFA Procurement Unit	Partly settled: Complaint filed by lowest bidder is still under review by Anti-Corruption Commission (ACC); however, the ACC has now authorized the PIU to proceed with payment to the selected supplier after completion of contract.