

Document:	<u>EB 2010/99/R.22/Rev.1</u>
Agenda:	<u>10(c)(iii)</u>
Date:	<u>22 April 2010</u>
Distribution:	<u>Public</u>
Original:	<u>English</u>

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Enabling poor rural people
to overcome poverty

President's report

Proposed loan to Papua New Guinea for the

Productive Partnerships in Agriculture Project

Executive Board — Ninety-ninth Session
Rome, 21-22 April 2010

For: **Approval**

Note to Executive Board members

This document is submitted for approval by the Executive Board.

Representatives are invited to contact the following focal point with any technical questions about this document:

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Abbreviations and acronyms

CB	Cocoa Board of Papua New Guinea
CIC	Coffee Industry Corporation Limited
CPB	cocoa pod borer
NDAL	National Department of Agriculture and Livestock
IDA	International Development Association
M&E	monitoring and evaluation

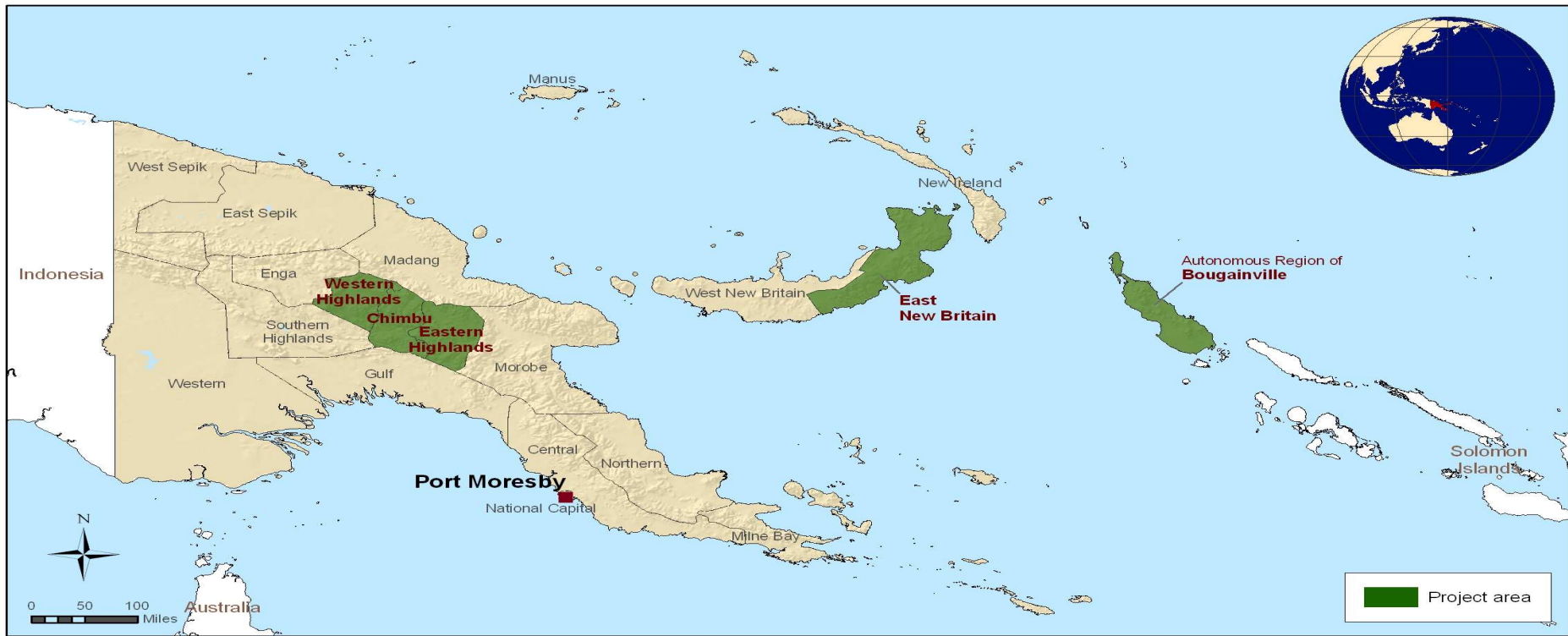
Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to Papua New Guinea for the Productive Partnerships in Agriculture Project, as contained in paragraph 37.

Map of the project area

Papua New Guinea

Productive Partnerships in Agriculture Project - PPAP



11.2.2010



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD

Papua New Guinea

Productive Partnerships in Agriculture Project

Financing summary

Initiating institution:	World Bank
Borrower:	Papua New Guinea
Executing agency:	Department of Agriculture and Livestock
Total project cost:	US\$46.3 million
Amount of IFAD loan:	SDR 9.22 million (equivalent to approximately US\$14.0 million)
Terms of IFAD loan:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinancier(s):	World Bank
Amount of cofinancing:	World Bank: US\$25.0 million
Contribution of borrower:	US\$1.5 million
Contribution of beneficiaries:	US\$5.8 million
Appraising institution:	World Bank and IFAD
Cooperating institution:	World Bank

Proposed loan to Papua New Guinea for the Productive Partnerships in Agriculture Project

I. The project

A. Main development opportunity addressed by the project

1. Despite strong recent economic growth, half the population of Papua New Guinea is now living below the national poverty line, mostly in rural areas. The majority of the population (86 per cent) is rural and is largely dependent on semi-subsistence agriculture. Agriculture accounts for approximately a third of GDP and the sector is dominated by smallholder farming systems.
2. Coffee and cocoa are the main cash crops, with about 30 per cent and 20 per cent of the total labour force, respectively, involved in their production, processing and sale. A high proportion (up to 70 per cent) of their f.o.b. (free-on-board) value is captured by smallholder farmers. Despite the obvious socio-economic importance of these crops, Papua New Guinea faces a crisis of overall deterioration in the productivity of coffee, and of the risk to the productivity and quality of cocoa from the cocoa pod borer (CPB),¹ which threatens to devastate rural economies. The project will provide the predictable and continued support needed, over several years, to implement some of the structural changes necessary to improve the performance and sustainability of the coffee and cocoa value chains – and their contribution to rural livelihoods.

B. Proposed financing

Terms and conditions

3. It is proposed that IFAD provide a loan to Papua New Guinea in the amount of SDR 9.22 million (equivalent to approximately US\$14.0 million) on highly concessional terms to help finance the Productive Partnerships in Agriculture Project. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum.

Relationship to the IFAD performance-based allocation system (PBAS)

4. The allocation defined for Papua New Guinea under the PBAS is US\$15.5 million over the 2010-2012 allocation cycle. The proposed financing of US\$14.0 million for the project falls within the total country allocation for Papua New Guinea.

Country debt burden and absorptive capacity of the State

5. The capacity of Papua New Guinea to service its external debt is good. Its repayment of IFAD loans has been exemplary.

Flow of funds

6. IFAD financing will be channelled to three designated accounts operated respectively by the project coordination unit in the National Department of Agriculture and Livestock (NDAL) and two project management units located in the industry coordination bodies: the Coffee Industry Corporation Limited (CIC) and the Cocoa Board of Papua New Guinea (CB). Withdrawal applications will be received through the Department of Treasury of the borrower.

Supervision arrangements

7. The IFAD financing will be administered by the World Bank as the cooperating institution, which will also be responsible for supervising the implementation of the project. IFAD will directly contribute to all project supervision and implementation support activities.

¹ *Conopomorpha cramerella*.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

8. In line with the harmonization principles embodied in the Paris Declaration on Aid Effectiveness, it is proposed that the arrangements for procurement, disbursement, implementation and financial reporting under the International Development Association (IDA) financing agreement be applied to the IFAD financing agreement. This implies the non-application of the associated sections of IFAD's General Conditions for Agricultural Development Financing in favour of the policies and procedures of the World Bank/IDA.

Governance

9. The following planned measures are intended to enhance the governance aspects of the IFAD loan: (i) full compliance with the anticorruption policies of the World Bank and IFAD; (ii) stringent financial management, with independent audit oversight combined with monitoring and review processes; (iii) open and transparent public communication to all stakeholders, with high visibility of project activities and financial transactions; (iv) inclusion of specific governance structures for the approval of partnerships; and (v) training and technical assistance in procurement and financial management.

C. Target group and participation

Target group

10. The target group will comprise small farmers, producers, women and youth. The proposed project will initially cover two distinct geographical areas. For cocoa, the areas are coastal, comprising the province of East New Britain and the Autonomous Region of Bougainville, which together represent about 70 per cent of the total cocoa area. For coffee, the project will initially cover the provinces of the Eastern Highlands, Jiwaka and Simbu, which together produce over 90 per cent of the coffee.

Targeting approach

11. In accordance with IFAD policies, the project will adopt an inclusive targeting approach to reach cocoa and coffee smallholders within the project areas. The targeting of disadvantaged groups will be prioritized, with specific consideration given to partnerships with smallholder farmers in less-favoured areas and to mobilizing women and young farmers.

Participation

12. A beneficiaries participation framework details the community consultation and participation strategies under the project. This includes a series of information sessions for potential partners and beneficiaries in order to increase awareness of the project. Partnership agreements will include provisions for monitoring by beneficiaries and feedback procedures.

D. Development objectives

Key project objective

13. The main objective of the project is to improve the livelihoods of smallholder cocoa and coffee producers through improvement of the performance and sustainability of value chains in cocoa- and coffee-producing areas.

Policy and institutional objectives

14. A key outcome for the project is strengthening the institutional capacity and coordination of the key industry bodies contributing to improved sector policies. The project will strengthen public/private partnerships in line with IFAD's private-sector development and partnership strategy.

IFAD policy and strategy alignment

15. The project is fully aligned with the objectives of the IFAD subregional strategic opportunities programme (SRESOP) and the IFAD Strategic Framework 2007-2010, particularly in terms of: (i) support for vulnerable groups; (ii) development of market opportunities; (iii) income generation in rural areas; and (iv) participation in multistakeholder partnerships.

E. Harmonization and alignment**Alignment with national priorities**

16. The project is closely aligned with the Medium-Term Development Strategy 2005-2010 and the National Agriculture Development Plan, which place agriculture at the centre of the central Government's growth strategy and emphasize the role of the private sector in agricultural development.

Harmonization with development partners

17. The project complements efforts of other development partners involved in the agriculture sector, including the Australian Agency for International Development, the Australian Centre for International Agricultural Research, the European Union, and New Zealand's International Aid & Development Agency.

F. Components and expenditure categories**Main components**

18. The project has three components: (i) institutional strengthening and industry coordination; (ii) productive partnerships; and (iii) market access infrastructure.

Expenditure categories

19. There are five main expenditure categories: (i) consultant services (20 per cent); (ii) goods and works (33 per cent); (iii) training and incremental operating costs (3 per cent); (iv) productive partnership grants (33 per cent); (v) unallocated (10 per cent).

G. Management, implementation responsibilities and partnerships**Key implementing partners**

20. Public/private partnerships in the coffee and cocoa sectors are a core element of the project. In both sectors, industry coordination committees will bring together all relevant representatives of the public and private sectors, including the CB and CIC. The various public agencies responsible for transport infrastructure rehabilitation and maintenance in the project provinces will be involved in the third component.

Implementation responsibilities

21. NDAL will be the executing agency for the project. A key principle of project design is decentralized project management at the industry level. A small project coordination unit (PCU) will be established within NDAL, with primary responsibility for monitoring and evaluation (M&E) and as the liaison with the project steering committee, central government departments and financiers (IDA and IFAD).
22. Project management functions will be entrusted to the CIC and CB, respectively, for the coffee and the cocoa industries. Project management units will be established under both institutions to support project implementation (including daily management of project activities, financial management, procurement, M&E and reporting). Local service providers will ensure that smaller entities and disadvantaged groups are able to engage in project activities.

Role of technical assistance

23. The project will provide technical assistance at national and industry levels to enhance capacity in the areas of management, procurement and finance, policy development and environmental aspects.

Status of key implementation agreements

24. The project financing agreement will govern project implementation. Subsidiary agreements will be entered into by the Government of Papua New Guinea and the CIC and CB. IFAD cofinancing will be administered by the World Bank/IDA under a letter of appointment signed by the two agencies.

Key financing partners and amounts committed

25. The total project cost is US\$46.3 million over six years. The sources of financing are IFAD (US\$14.0 million, 30 per cent), World Bank (US\$25.0 million, 54 per cent), central Government (US\$1.5 million, 3 per cent), private sector, including smallholder farmers (US\$5.8 million, 13 per cent).

H. Benefits and economic and financial justification

Main categories of benefits generated

26. The main project benefits include strong returns to investment and labour at farm levels, as well as significant increases in smallholder incomes for project activities. The increased incomes at farm level derive from increased yields and higher farmgate prices for better quality products, contractual relationships with the private sector and improved market access infrastructure. In the case of cocoa, the reduction in losses from CPB infestation will also contribute to increased cash incomes for smallholders.

Economic and financial viability

27. The economic rate of return of the project is estimated at 14 per cent. The internal rate of return at project level is estimated at 28 per cent. Sensitivity analysis confirms the project's viability.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

28. Coffee and cocoa smallholder producers are faced with similar constraints and market failures that impede their performance and their ability to respond to market signals. The project aims to improve information asymmetries and transparency in the sector and to support policy development through targeted communication campaigns on key policy and farming practice changes and through support to the development of effective information management systems.

Development innovations that the project will promote

29. The main project innovation is its approach to partnerships, which leverages an expansion of services and market linkages in coffee and cocoa and improves the competitive and organizational capacity of farmers, as well as the transparency of sector information and supply chain links. Innovation in the partnership arrangements for maintaining infrastructure will ensure complementary investments in market access and will improve the livelihoods of rural households.

Scaling-up approach

30. The project will support improvement in rural livelihoods through strengthening industry coordination and institutions, facilitating linkages between smallholder farmers and agribusiness for the provision of market access, technologies and services, and through the provision of critical market access infrastructure. Based on the success of the demand-driven partnerships, project activities may be scaled up by expanding the coverage of existing partnerships and by engaging additional partners. The geographical focus may be expanded following an assessment in project year two.

J. Main risks

Main risks and mitigation measures

31. The project faces four main risks: partnerships fail to lead to sustainable improvements in the livelihoods of small cocoa and coffee growers; the magnitude

of the cocoa crisis due to CPB infestation weakens the capacities of farmers to transform their production systems towards greater intensification; efforts to improve the quality of coffee and cocoa exports do not yield the expected results; road rehabilitation does not result in significant impact on market access for small and isolated cocoa and coffee producers. Planned mitigation measures include: the approach to supporting partnerships between producers and private-sector operators aims to ensure that all actors are fully mobilized in the achievement of results. The approach builds on what operators are already doing successfully and will extend their outreach to new groups farmers. Local and national authorities in the cocoa-producing regions, as well as major stakeholders in the cocoa industry, have already mobilized resources and taken action to respond to the CPB crisis, which the project will expand. Maintaining cocoa quality depends on effective control of the CPB infestation, for which there is currently an important mobilization at both industry and government levels. For coffee, the project will improve the quality and increase the share of differentiated coffees exported, resulting in higher prices for smallholder farmers and better incentives to invest in the management of their farms. The prioritization process for infrastructure investments has been designed to ensure that the project yields the highest possible returns in terms of facilitating physical access to markets for farmers.

Environmental classification

32. Pursuant to the World Bank's environmental assessment procedures, the project has been classified as a Category B operation, in that its impacts are expected to be local and can be acceptably managed through widely available mitigation measures.

K. Sustainability

33. The project approach of strengthening and expanding productive commercial alliances between coffee and cocoa smallholders and the private sector will enhance opportunities for sustainability. Through the partnerships arrangements, support will be mobilized for smallholders to improve their livelihoods through more productive and remunerative farm management practices and market linkages.

II. Legal instruments and authority

34. A project financing agreement between Papua New Guinea and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as an annex.
35. Papua New Guinea is empowered under its laws to receive financing from IFAD.
36. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

III. Recommendation

37. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall make a loan on highly concessional terms to Papua New Guinea in an amount equivalent to nine million two hundred and twenty thousand special drawing rights (SDR 9,220,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement: "Productive Partnerships in Agriculture Project"

(Negotiations concluded on 16 April 2010)

Loan Number:

Project Title: Productive Partnerships in Agriculture Project (the "Project")

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

The Independent State of Papua New Guinea (the "Borrower")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

WHEREAS, the Borrower has requested financing from the Fund for the purposes of partially financing the Productive Partnerships in Agriculture Project described in Schedule 1 to this Agreement.

WHEREAS, the International Development Association (herein referred to as "IDA") has agreed to extend financing (the "IDA Financing") to the Borrower in the amount of sixteen million four hundred thousand Special Drawing Rights (SDR 16 400 000) to assist in co-financing the Project on terms and conditions to be set forth in an Agreement (the "IDA Financing Agreement") between the Borrower and IDA.

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions"), are annexed to this Agreement, and all provisions thereof shall apply to this Agreement, except for the provisions identified in Section E paragraph 4 below. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a Loan (the "Financing" or the "Loan") to the Borrower, which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1 The amount of the Loan is nine million two hundred and twenty thousand Special Drawing Rights (SDR 9 220 000).

2 The Loan is granted on highly concessional terms.

3. The Loan Service Payment Currency shall be the US dollar.

4. The first day of the applicable Fiscal Year shall be 1 January.
5. Payments of principal and service charge shall be payable on each 15 October and 15 April.
6. Upon authorisation from the Borrower, the National Department of Agriculture and Livestock (NDAL), the Coffee Industry Corporation Limited (CIC) and the Cocoa Board of Papua New Guinea (CB) shall each open and maintain in a bank or banks acceptable to the Fund and the IDA a designated account denominated in Papua New Guinea Kina for the purpose of receiving the Loan proceeds as well as the IDA Financing proceeds.
7. The Borrower shall provide counterpart financing for the Project in the approximate amount of one million five hundred thousand US dollars (USD 1 500 000).

Section C

1. The Lead Project Agency shall be the Borrower's National Department of Agriculture and Livestock.
2. The following are designated as additional Project Parties:
 - (a) The Coffee Industry Corporation Limited; and
 - (b) The Cocoa Board of Papua New Guinea.
3. The Project Completion Date shall be 30 June 2016.

Section D

The Loan shall be administered and the Project supervised by the IDA as the Cooperating Institution.

Section E

1. The following are designated as additional grounds for suspension of this Agreement:
 - (a) The IDA Financing Agreement shall have been suspended;
 - (b) Either the CIC Subsidiary Agreement or the CB Subsidiary Agreement shall have ceased to be in force or shall have been amended without the prior approval of the Fund and IDA.
2. The following is designated as an additional ground for cancellation of this Agreement: the IDA Financing Agreement shall have been cancelled.
3. The following are designated as additional conditions precedent to withdrawal:
 - (a) The Project Implementation Manual has been adopted by NDAL, CIC and the CB;
 - (b) The CIC Subsidiary Agreement has been entered into by the parties thereto in the form and substance satisfactory to the Fund and IDA;
 - (c) The CB Subsidiary Agreement has been entered into by the parties thereto in the form and substance satisfactory to the Fund and IDA;

(d) The IDA Financing Agreement has become effective.

4. The following provisions of the General Conditions shall not apply to this Agreement:

- (a) Section 2.01 (Financing Closing Date): Financing Closing Date means the date on which the right of the Borrower to request withdrawals from the Loan Account ends, which is four (4) months after the Project Completion Date or such later date as the Fund may designate by notice to the Borrower.
- (b) Sections 7.05 (Procurement): all goods, works and consultants services required for the Project and to be financed out of the proceeds of the financing shall be procured in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" (May 2004, revised in October 2006), the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" (May 2004) and the provisions stipulated in Section III, Schedule 2 of the IDA Financing Agreement.
- (c) Section 7.01 (b) (ii) and Article 8 (Implementation Reporting and Information): the Borrower, shall monitor and evaluate the progress of the Project and prepare Reports, as well as Annual Workplans and Budgets (AWPBs), in accordance with Section II (A), Schedule 2 of the IDA Financing Agreement.
- (d) Article 9 (Financial Reporting and Information): the financial reporting system of the Borrower shall be in accordance with Section II (B), Schedule 2 of the IDA Financing Agreement.

5. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

For the Borrower:

Minister for Treasury and Finance
Department of Treasury
Vulupindi Haus 4th floor
P.O. Box 542
Waigani, 131 NCD
Papua New Guinea

This agreement, dated _____, has been prepared in the (English) language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

For the Fund

For the Borrower

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall benefit small farmers, producers, women and youth. The project would initially be implemented in East New Britain Province, the Autonomous Region of Bougainville, Eastern Highlands Province, Western Highlands Province, Jiwaka Province and Simbu Province (the "Project Area").
2. *Goal.* The goal of the Project shall be to improve the livelihoods of smallholder cocoa and coffee producers through the improvement of the performance and sustainability of value chains in the Cocoa-growing Areas and the Coffee-growing Areas of the Project.
3. *Outcomes.* The key outcomes of the Project shall be: smallholder farmers adopt efficient, market responsive and sustainable production practices leading to an improvement in their income; demand-driven productive partnerships are scaled-up and sustained; and key infrastructure bottlenecks in the targeted value chains are addressed.
4. *Components.* The Project shall consist of three Components: Institutional Strengthening and Industry Coordination; Productive Partnerships; and Market Access Infrastructure.

4.1 Component 1: Institutional Strengthening and Industry Coordination

The specific objectives of this component shall be:

- (a) Improving the performance of cocoa and coffee sub-sector institutions and enhancing industry coordination by building the capacity of the Industry Coordination Committees to support dialogue and policy development through, *inter alia*: (i) the carrying out of policy studies on priority topics proposed by the Industry Coordination Committees and approved by the Fund and aimed to enable the structural changes required in the sectors; and (ii) the provision of training, technical assistance and operational support to such Committees, and CIC's and the CB's staff.
- (b) Improving transparency in the cocoa and coffee sub-sectors and supporting policy development through, *inter alia*: (i) the carrying out of targeted communication campaigns on key policy and farming practices needed changes; (ii) the development of effective information management systems for the CIC and the CB to address the current gaps in the collection, generation and dissemination of technical and market information to stakeholders; and (iii) the provision of related technical assistance, training, data collection, surveys and information dissemination.
- (c) Strengthening quality promotion in the cocoa and coffee industries and promoting, where appropriate, the adoption of certified sustainability practices through, *inter alia*: (i) retraining of cocoa fermentery owners, traders and inspectors working with exporters in view of the Cocoa Pod Borer (CPB) impact on cocoa quality; (ii) carrying out of studies on export standards and licensing regulations in response to the impact of the CPB; (iii) a survey of fermenteries status, and improvements in the capacity of the CB inspections; (iv) an analysis of options and benefits for farmers of differentiated coffees; (v) training of trainers to reduce the costs of certification in the Borrower's territory and other assistance for certification; and (vi) the promotion of the Borrower's products origin.

- (d) Provision of technical advisory services, operational support and training to support: (i) the Project management and monitoring and evaluation functions of the CB Project Management Unit and the CIC Project Management Unit; (ii) the Project coordination and monitoring and evaluation functions of the Project Coordinating Unit; and (iii) the operations of the Technical Appraisal Committee.

4.2 **Component 2: Productive Partnerships**

This component shall include:

- (a) Provision of grants to Partnerships to support Activities in Cocoa-growing Areas aimed to increase smallholder cocoa productivity, quality and sustainability and improve cocoa-farming systems such as training in good farming practices, production of improved planting material, improvement of business skills and farm management, building capacity of extension agents and farmer groups and cooperatives, certification systems and post-harvest and processing.
- (b) Provision of grants to Partnerships to support Activities such as those set forth in para(a) above in Coffee growing Areas aimed to increase smallholder coffee productivity, quality and sustainability and improve coffee-farming systems.
- (c) Provision of technical assistance for the preparation of Partnership proposals for financing by the abovementioned Productive Partnership Grants.

4.3 **Component 3: Market Access Infrastructure**

The objective of this Component is improving the access to markets for the Partnerships supported by Productive Partnership Grants through:

- (a) the identification and selection of the rehabilitation and maintenance needed to feeder roads, access tracks and other transport infrastructure linking farmers to markets; and
- (b) carrying out of Priority Investments, as defined in the Appendix to the IDA Financing Agreement, and training of communities in the maintenance of the Priority Investments.

4.4 The Borrower shall, under the overall guidance of the Project Steering Committee and the overall coordination and monitoring of NDAL:

- (a) carry out through NDAL Component 1 (d) (ii) and (iii) of the Project;
- (b) cause the CIC to carry out Component 1 (a), (b), (c) and (d) (i), Component 2 (b) and (c) and Component 3 of the Project, related to the coffee sector.
- (c) cause the CB to carry out Component 1 (a), (b), (c) and (d) (i), Component 2 (a) and (c) and Component 3 of the Project, related to the cocoa sector.

II. Implementation Arrangements

1. *Institutional Arrangements.* In accordance with the IDA Financing Agreement, the Borrower shall:

- (a) maintain throughout the Project Implementation Period the Project Steering Committee to provide overall policy guidance and strategic direction for Project implementation, with the composition and powers described in the Project Implementation Manual;
- (b) establish and maintain throughout the Project Implementation Period a Project Coordination Unit within NDAL for the monitoring and evaluation of the Project with the powers and staffing set forth in the Project Implementation Manual;
- (c) cause the CIC and the CB to establish and thereafter maintain throughout the Project Implementation Period a CIC Project Management Unit and a CB Project Management Unit with the powers set forth in the Project Implementation Manual and with staffing satisfactory to the Fund;
- (d) through NDAL cause CIC and the CB to establish and thereafter maintain throughout the Project Implementation Period, a Technical Appraisal Committee and train its members as required for Project implementation; and
- (e) establish and maintain throughout the Project Implementation Period an Industry Coordination Committee each for cocoa and coffee matters, with the powers and composition set forth in the Project Implementation Manual;
- (f) carry out a baseline survey as indicated in the Project Implementation Manual;
- (g) implement an information management system satisfactory to the Fund;
- (h) carry out the financial management plan included in the Project Implementation Manual in accordance with its terms; and
- (i) inform the Fund, of the progress made in the implementation of the Environmental and Social Management Framework and Compensatory Framework and of any issues that may arise.

2. *Subsidiary Agreements.* The Borrower shall make part of the proceeds of the Financing available to each Project Party under a Subsidiary Agreement between the Borrower and the Project Party, under terms and conditions approved by IDA and the Fund. Except as IDA and the Fund shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any Subsidiary Agreement or any of their provisions.

3. *Project Implementation Manual.* The Borrower shall carry out the Project in accordance with a Project Implementation Manual, satisfactory to the Fund and IDA. The Borrower shall not amend or waive any provision of the Project Implementation Manual without the prior written agreement of the Fund. In case of any discrepancies between the provisions of the Project Implementation Manual and those of this Agreement, the provisions of this Agreement shall prevail.

4. *Productive Partnership Grants.* The Borrower shall cause the CIC and the CB to provide Productive Partnership Grants to Partnerships in accordance with eligibility criteria and procedure acceptable to the Fund and set out in the Project Implementation Manual.

Schedule 2

Allocation Table

1. *Allocation of Loan Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Financing and the allocation of the amounts of the Financing to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Percentage of Eligible Expenditures to be financed
I. Consultant's services	1 900 000	100% net of taxes
II. Goods and works	3 100 000	100% net of taxes
III. Training and Incremental Operating costs	300 000	100% net of taxes
IV. Productive Partnership Grants	3 000 000	100% net of taxes
Unallocated	920 000	
TOTAL	9 220 000	

(b) The terms used in the Table above shall have the following meaning:

"Incremental Operating Costs" means the reasonable and necessary incremental expenses including communications, utilities, stationary, and transportation costs, and accommodation and travel allowances of Project staff, but excluding salaries of the Borrower's civil servants;

"Productive Partnership Grant" means a grant made or to be made by CIC or the CB to a Partnership under a Partnership Agreement for the implementation of an Activity under Component 2 (a) and (b) of the Project.

Schedule 3*Special Covenants*

1. **Fraud and Corruption.** The Borrower shall ensure that the Project is carried out in accordance with the provisions of the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15 2006 ("Anti-Corruption Guidelines"). For the purposes of this Agreement, a finding of corruption pursuant to the provisions of the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants" shall be deemed a finding of corruption under the "IFAD Policy on Preventing Fraud and Corruption in its activities and operations".
2. **Environmental and Social Safeguards.** The Borrower shall carry out the Project in accordance with its Environmental and Social Management Framework.
3. **Tax exemption.** The Borrower shall exempt the proceeds of the Loan from taxes.

Key reference documents

Country reference documents

Medium-Term Development Strategy (2005-2010)

National Agriculture Development Plan (2007-2016)

IFAD reference documents

Project design document (PDD) and key files

Sub regional Strategic Opportunities Paper for Pacific Island Countries

Results framework

PDO	Project Outcome Indicators	Use of Project Outcome Information
To improve the livelihoods of smallholder cocoa and coffee growers through the improvement of the performance and sustainability of value chains in cocoa- and coffee-growing areas.	<ul style="list-style-type: none"> the net income of smallholder cocoa and coffee growers in the project area the number of farm households adopting improved farming practices the number and coverage of partnerships implemented and/or scaled up and likely to be sustained the percentage of the export price and quality premiums, received by farmers 	These indicators will help assess the extent to which the activities of the project resulted in improved livelihoods for small producers engaged in coffee and cocoa production in project areas.
Intermediate Outcomes	Intermediate Outcome Indicators	Use of Intermediate Outcome Monitoring
Result 1: Establishment of effective, relevant, and representative industry coordination committees, contributing to improved sector policy	<ul style="list-style-type: none"> the number of policy and regulatory measures adopted and implemented the percentage of buying points with access to price and quality information Percentage of smallholders reporting increased access to industry information 	Assess the implementation progress of component 1
Result 2: CIC and CB establish sustainable information systems and produce high quality M&E data and reports	<ul style="list-style-type: none"> the availability and dissemination of quality M&E data and reports 	Ensure that adequate M&E is performed and available and, if not, take corrective measures
Result 3: Project Management Unit has adequate capacity to efficiently procure goods and services and ensure financial reporting and controls	<ul style="list-style-type: none"> Timely implementation of procurement activities and satisfactory financial management reports. 	Ensure that adequate procurement and financial management are applied and, if not, take corrective measures
Result 4: Smallholders have adopted improved cocoa management practices in project areas which results in good control of CPB infestation and improved yields	<ul style="list-style-type: none"> CPB control plan has been developed and is in place Losses due to CPB infestation are reduced to sustainable levels Cocoa yields have increased for smallholders 	Assess the implementation progress of component 2, particularly in terms of (i) Effectiveness of the control of the CPB infestation; (ii) Effectiveness of the adoption of the improved production management practices and their ability to deliver the outcome in terms of increased cocoa yields
Result 5: Smallholder cocoa plantations have been rejuvenated and diversification crops have been introduced and disseminated	<ul style="list-style-type: none"> Number of hectares of cocoa replanted or rejuvenated with improved planting material Number of hectares of shade and diversification crops planted 	Assess the implementation progress of component 2, particularly in terms of the effectiveness of the technical package and support measures to deliver the acreage to be replanted, and , if necessary, revise and amend the partnership agreements
Result 6: The quality of cocoa delivered by farmers in targeted areas has been maintained or improved	<ul style="list-style-type: none"> Percentage of production rejected Average dried cocoa moisture content in the Autonomous Region of Bougainville reported by buyers 	Assess the implementation progress of component 2
Result 7: Smallholders have adopted improved coffee garden/block management practices in project areas resulting in improved yields and quality of coffee delivered	<ul style="list-style-type: none"> Coffee yields have increased for smallholders 	Assess the implementation progress in terms of the effectiveness of the adoption of the improved production management practices and their ability of to deliver the outcome in terms of increased coffee yields
Result 8: Smallholder coffee gardens/blocks have been rejuvenated and diversification crops have been introduced	<ul style="list-style-type: none"> Number of hectares of coffee rejuvenated Additional volume of diversified products sold 	Assess the implementation progress of component 2
Result 9: The quality and marketability of coffee along the value chain has been improved	<ul style="list-style-type: none"> Percentage of differentiated coffee exported from PNG by value Percentage of coffee with sustainability certification exported from PNG by volume and value Percentage increase in price received by farmers in project areas over the standard quality (Y1) price 	Assess the implementation progress of component 2
Result 10: Women contribute to increases in household income through involvement in improved farming practices, processing and marketing	<ul style="list-style-type: none"> Number of women in farming households reporting increased access to, and use of, information on improved farming practices, processing and marketing 	Assess effective benefits of project activities to women under Component 2 and 3
Result 11: Critical transport infrastructure has been improved and is more likely to be maintained	<ul style="list-style-type: none"> Number of Km of roads rehabilitated and maintained as per Maintenance Agreements Amount of investment in alternative transport facilities 	Ensure that the objective of component 3 is achieved

