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Enabling poor rural people
to overcome poverty

President's report

Proposed grant to Solomon Islands for the

Solomon Islands Rural Development Programme

Note to Executive Board representatives

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For: Approval

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Abbreviations and acronyms

AusAID	Australian Agency for International Development
MDPAC	Ministry of Development Planning and Aid Coordination
MTR	mid-term review
PCU	programme coordination unit
RDP	Solomon Islands Rural Development Programme

Solomon Islands
Solomon Islands Rural Development Programme

Map of the programme area



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

Solomon Islands

Solomon Islands Rural Development Programme

Financing summary

Initiating institution:	World Bank
Recipient:	Solomon Islands
Executing agency:	World Bank
Total programme cost:	US\$30.40 million
Amount of IFAD grant:	SDR 2.55 million (equivalent to approximately US\$4 million)
Cofinanciers:	Australian Agency for International Development (AusAID), European Commission (EC), World Bank
Amount of cofinancing:	AusAID:US\$6.10 million EC: US\$10.17 million World Bank: US\$9.20 million (including US\$3 million Food Crisis Response Program)
Terms of cofinancing:	Grants
Contribution of recipient:	US\$0.93 million
Appraising institution:	World Bank
Cooperating institution:	World Bank

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to Solomon Islands for the Solomon Islands Rural Development Programme, as contained in paragraph 40.

Proposed grant to Solomon Islands for the Solomon Islands Rural Development Programme

I. The programme

A. Main development opportunity addressed by the programme

1. Solomon Islands has a population of approximately 0.56 million, with 83 per cent of the people living in rural areas. Solomon Islands is emerging from a period of civil conflict, known as the Tensions, which had a deep impact on the economy. Law and order were restored in 2003 following interventions by the Regional Assistance Mission to Solomon Islands. Progress has been made in re-establishing the basic functions of government and the country is moving from post-conflict reconstruction to long-term development planning.
2. Solomon Islands has a small rural economy that relies on rich natural resources, yet these resources have failed to enable the majority of the rural population to improve their livelihoods. Rural livelihoods remain largely dependent on semi-subsistence agriculture, fisheries and forestry, in addition to informal, small-scale economic activities. There is a significant rural-urban income gap, which combined with inter-island migration, was a contributing factor to the Tensions.
3. The Rural Development Programme (RDP) is the first phase of a two-phase programme designed to support the Solomon Islands' rural development goals and promote better donor coordination. The RDP is financed by the Australian Agency for International Development (AusAID), the European Commission and the World Bank.
4. Programme implementation began in 2008. In mid-2010, a joint mid-term review (MTR) provided it with a satisfactory performance assessment rating and proposed additional financing for its expansion. On the basis of this review, in October 2010, the World Bank approved additional financing, doubling its contribution to the RDP. IFAD was also requested to contribute to this first phase programme and support its expansion to remote areas, joining as a partner after the MTR.
5. IFAD's contribution to the RDP is strategic on multiple levels by: (i) re-engaging in Solomon Islands after an absence of almost two decades; (ii) influencing the development of the second phase of the programme; and (iii) partnering with key sector actors.

B. Proposed financing

Terms and conditions

6. It is proposed that IFAD provide a grant to Solomon Islands in the amount of SDR 2.55 million (equivalent to approximately US\$4 million), inclusive of taxes, to help finance the Solomon Islands Rural Development Programme.

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

7. The allocation defined for Solomon Islands under the PBAS is US\$4.25 million over the 2010-2012 allocation cycle. The proposed financing of US\$4 million for the RDP falls within the total country allocation. The remaining allocation may be committed under the Food Security and Sustainable Livelihoods Programme, approved by the Executive Board in December 2009.

Country debt burden and absorptive capacity of the State

8. Solomon Islands is classified as being at high risk of debt vulnerability under IFAD's Debt Sustainability Framework. This entitles the country to 100 per cent grant financing from IFAD.

Flow of funds

9. IFAD financing will be channelled through a Treasury account held at the central bank of Solomon Islands, specifically for the programme, to a pooled designated account held at a commercial bank, licensed by the central bank, in favour of the Solomon Islands Rural Development Programme and managed by the programme coordination unit (PCU) in the Ministry of Development Planning and Aid Coordination (MDPAC). The Ministry of Finance and Treasury will retain responsibility for disbursement to the designated account.

Supervision arrangements

10. IFAD financing will be administered by the World Bank as the cooperating institution. The World Bank will also be responsible for programme supervision and grant administration. IFAD will actively contribute to all programme supervision and implementation support activities.

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

11. In line with the harmonization principles embodied in the Paris Declaration on Aid Effectiveness, it is proposed that IFAD adopt the World Bank's policies and procedures for procurement and audit. This implies a waiver of the associated sections of IFAD's General Conditions for Agricultural Development Financing in favour of the policies and procedures of the World Bank (International Development Association).

Governance

12. The following planned measures are intended to enhance the governance aspects of the IFAD grant: (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 regard to programme activities and financial transactions; (iv) inclusion of specific governance structures for the approval of infrastructure subprojects; and (v) training and technical assistance in procurement and financial management.

C. Target group and participation

Target group

13. The RDP is a nationwide programme and will eventually cover all provinces. The programme is expected to reach 70 per cent of the rural population or about 60 per cent of the total population. Approximately 300,000 people or 60,000 rural households are expected to benefit from improved access to local infrastructure and services, agricultural support services and rural business development, including financial services.

Targeting approach

14. In accordance with the IFAD Policy on Targeting, the RDP will adopt an inclusive targeting approach in all provinces, paying particular attention to disadvantaged groups and women. Disadvantaged groups will receive priority in the provision of infrastructure and agricultural and financial services. This will be achieved by targeting communities constrained by their remote location or limited livelihood opportunities.

Participation

15. RDP beneficiaries will participate in public consultations to discuss local development priorities, and will be represented on ward development committees, provincial

development councils and subproject implementation committees. Feedback mechanisms and community monitoring of programme implementation have also been included under the RDP.

D. Development objectives

Key programme objectives

16. The development objective of the RDP is to raise the living standards of rural households by establishing improved mechanisms for the delivery of priority economic and social infrastructure and services by the public and private sector.
17. This is being achieved through: (i) increased, cost-effective and sustained provision of local services and basic infrastructure determined through participatory planning and prioritized by the villagers themselves; (ii) increased capacity of agricultural institutions to provide demand-driven agriculture services at the local level; and (iii) support for rural business development.

Policy and institutional objectives

18. The RDP is designed to support the implementation of key priorities identified under the Solomon Islands Agriculture and Rural Development Strategy (ARDS). The RDP incorporates the time needed to rebuild formal institutions and systems as well as their linkages with rural communities. The first phase is expected to test and gradually expand new and participatory approaches for the delivery of local infrastructure and agricultural support services in rural areas. The second phase will focus on the consolidation and institutionalization of those innovative approaches.

IFAD policy and strategy alignment

19. The programme is fully aligned with the objectives of the subregional strategic opportunities paper for the Pacific Islands and the IFAD Strategic Framework 2007-2010, and accordingly will provide: (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

20. The RDP is aligned with the ARDS priorities regarding rural growth and employment generation in terms of: (i) improving local governance and service delivery by making better use of public resources for rural development; (ii) improving rural delivery mechanisms; (iii) assuring linkages, especially between provincial governments and communities; (iv) strengthen the local economy by supporting economic policy reforms; (v) making agricultural support services responsive to local demands; (vi) development of rural financial services; and (vii) managing natural resources.

Harmonization with development partners

21. The RDP responds to the need for improvement in aid effectiveness and donor harmonization in the sector by supporting a shift from fragmented, uncoordinated donor activities to a joint investment programme implemented through government systems.

F. Components and expenditure categories

Main components

22. The programme has four components: (i) provision of local infrastructure and services delivery; (ii) improved agricultural services; (iii) rural business development; and (iv) programme management.

Expenditure categories

23. Following the World Bank procedures, there is one expenditure category which covers goods, works, consultants' services, training, study tours and incremental operating costs.

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

24. The implementing partners will be: (i) AusAID, the European Commission and the World Bank; (ii) national and provincial governments, and local level representative bodies such as ward development committees; (iii) commercial banks; and (iv) NGOs and service providers.

Implementation responsibilities

25. Overall programme coordination and implementation responsibility is with MDPAC, guided by a steering committee. The PCU is headed by the permanent secretary of MDPAC (programme coordinator) and assisted by a programme manager responsible for daily coordination of the programme activities. To ensure consistency of programme activities with sector policies, a technical working group supports the PCU in the implementation of each component. The provincial administration under the provincial secretary is responsible for implementation of provincial activities, while technical support is the responsibility of line agency staff at the provincial level.

Role of technical assistance

26. Technical assistance includes both long-term national specialists and short-term international experts. The focus of the technical assistance programme is to strengthen systems and procedures and transfer skills to local counterparts.

Status of key implementation agreements

27. The programme financing agreements govern programme implementation. As the programme is ongoing, the key implementation agreements are in place and operational.

Key financing partners and amounts committed

28. The total programme cost is US\$30.40 million over six years. The sources of financing are IFAD (13 per cent), European Commission (33 per cent), World Bank (31 per cent), AusAID (20 per cent) and Government (3 per cent).

H. Benefits and economic and financial justification**Main categories of benefits generated**

29. The RDP supports small, low-cost/high-social-benefit investments in infrastructure, agricultural services and capacity-building in rural areas. The main direct expected benefits include: (i) cost-effective rehabilitation and construction of rural public infrastructure through subprojects in all nine provinces, (ii) increased agricultural and livestock productivity and marketing, and (iii) private investments with demonstrated externalities in rural areas such as employment creation, innovation or demonstration effects and improvement in the financial literacy of local small and medium-sized enterprises.

Economic and financial viability

30. The economic rate of return (ERR) is estimated at 27 per cent, using only direct costs and benefits. These results are sensitive to the number of beneficiaries, however the results remain robust and a 20 per cent reduction in the number of beneficiaries still results in an ERR of 18 per cent. At MTR the ERRs calculated for a sample of actual subprojects approved in the first annual planning cycle ranged between 24 per cent and 57 per cent.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

31. As the RDP is a pioneering effort for donor and government programmes in Solomon Islands and offers a potential model for future development efforts in rural areas, its findings have to be effectively monitored. The programme support to information generation, analysis and dissemination will benefit both households and policymakers. Key research areas will include socio-economic impact, technical quality and cost-effectiveness of infrastructure subprojects, institutional strengthening, local governance, agricultural extension, community empowerment, and gender and youth.

Development innovations that the programme will promote

32. Some of the institutional innovations introduced by the RDP include: (i) working with government systems with a focus on linkages between government and rural communities; (ii) decision-making processes at ward and provincial levels that link elected representatives with community representatives; (iii) accountability processes, including through increased control by communities on resource allocation and subproject implementation; and (iv) demand-driven provision of rural services and infrastructure.

Scaling-up approach

33. The RDP is the first phase of a longer-term programme to support national rural development goals. The first phase is establishing new and improved mechanisms to increase the delivery of priority economic and social infrastructure and services in rural areas by the public and private sectors while building capacity at all administrative levels. The second phase will fine-tune and consolidate the new mechanisms and institutional innovations at the national level with a focus on long-term sustainability.

J. Main risks

Main risks and mitigation measures

34. The overall risk level is substantial. RDP faces three main risks: (i) political instability; (ii) weak capacity; and (iii) cost/expenditure management. The planned mitigation measures include frequent and coordinated policy dialogue with the Government, engagement with communities to mitigate community-level tensions, substantial investment in capacity- and institution-building, and additional emphasis on capacity-building on fiduciary aspects, cost monitoring and cost-efficiency.

Environmental classification

35. Pursuant to the World Bank's environmental assessment procedures, the programme 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

36. The RDP incorporates lessons learned from immediate post-conflict donor assistance, including: (i) working through government systems and strengthening them, rather than building parallel systems which may not be sustainable; (ii) rebuilding the linkages between rural communities and Government to address rural communities' isolation and distrust for public institutions; and (iii) clarifying the roles of the public and private sectors and facilitating public-private partnerships to leverage capacity and resources in both sectors.

II. Legal instruments and authority

37. A programme financing agreement between Solomon Islands and IFAD will constitute the legal instrument for extending the proposed financing to the recipient. A copy of the negotiated financing agreement is attached as an annex.
38. Solomon Islands is empowered under its laws to receive financing from IFAD.

39. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

III. Recommendation

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

RESOLVED: that the Fund shall provide a grant to Solomon Islands in an amount equivalent to two million five hundred and fifty thousand special drawing rights (SDR 2,550,000) 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: "Solomon Islands Rural Development Programme"

(Negotiations concluded on 23 November 2010)

Grant Number:

Programme Title: Solomon Islands Rural Development Programme (the "Programme")

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

and

The Solomon Islands (the "Recipient")

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

WHEREAS

WHEREAS, by Financing Agreement (Grant Number H332-SOL) dated 24 September, 2007 (the "IDA Financing Agreement") executed by and between the Solomon Islands and the International Development Association (the "Association"), the Association agreed to extend to the Recipient, on the terms and conditions set forth in the Financing Agreement, a grant in an amount equivalent to two million two hundred thousand Special Drawing Rights (SDR 2 200 000) (the "IDA Financing") to assist in financing the Programme;

WHEREAS, an Additional Financing in the amount of two million Special Drawing Rights (SDR 2 000 000) has been approved on 21 October 2010 by the Association for the Programme;

WHEREAS, a Grant in the amount of three million United States Dollars (USD 3 000 000) has been extended from the Food Price Crisis Response (FPCR) Trust Fund, administered by the Association as trustee of the Fund, for the Programme;

NOW THEREFORE the Parties agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Programme 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 3 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 Grant to the Recipient (the "Financing"), which the Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Grant is two million five hundred and fifty thousand Special Drawing Rights (SDR 2 550 000).
2. The first day of the applicable Fiscal Year shall be 1 January.
3. The Recipient shall provide counterpart financing for the Programme in the amount of nine hundred thirty thousand United States Dollars (USD 930 000).

Section C

1. The Lead Programme Agency shall be the Ministry of Development Planning and Aid Coordination (MDPAC) of the Recipient.
2. The following are designated as additional Programme Parties:
 - (a) Ministry of Agriculture and Livestock (MAL) of the Recipient;
 - (b) Participating Provinces (Choiseul, Western, Malaita, Temotu, Isabel and Makira/Ulawa as well as any additional eligible Province agreed with the Fund);
 - (c) Participating Commercial Banks, designated by the Recipient under Component 3 of the Programme;
 - (d) Participating Service Providers, including non-governmental organizations, community based organizations, farmers associations or small or medium enterprises or private individuals designated to implement an Annual Agriculture Service Allocation under Component 2 of the Programme;
 - (e) Participating small or medium rural enterprises (SMEs) selected to receive supplemental financing under Component 3 of the Programme;
 - (f) Other Ministries of the Recipient who may also contribute to the implementation of the Programme, as appropriate.
3. The Programme Completion Date shall be 30 November 2013.

Section D

The Grant will be administered and the Programme supervised by IDA as the Cooperating Institution.

Section E

1. The following is designated as an additional ground for suspension of this Agreement: The IDA Financing Agreement, as may be amended from time to time, shall have been suspended;
2. The following is designated as an additional ground for cancellation of this Agreement: The IDA Financing Agreement, as may be amended from time to time, shall have been cancelled;
3. The following provisions of the General Conditions shall not apply to this Agreement and shall read as follows:

- (a) Section 2.01, General Definitions. "The Financing Closing Date". For the purposes of this Agreement the Financing Closing Date shall be 4 months after the Programme Completion Date or such later date as it may be designated by notice to the Recipient.
- (b) Section 7.01 (b) (ii). The Recipient shall prepare or cause to be prepared Annual Workplans and Budgets (AWPBs), including Procurement Plans, within the timeframe foreseen in Schedule 2, Section I B, paragraph 2 of the IDA Financing Agreement, as may be amended from time to time.
- (c) Section 7.05 (a) (Procurement): all goods, works and consultants services required for the Programme and to be financed out of the proceeds of the financing shall be procured in accordance with: (i) the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" of May 2004 as revised in October 2006 and May 2010; (ii) the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" of May 2004, and; (iii) Schedule 2, Section III of the IDA Financing Agreement, as may be amended from time to time.
- (d) Article IX (Financial Reporting and Information). The Financial Reporting System of the Recipient shall be in accordance with Schedule 2, Section II B of the IDA Financing Agreement, as may be amended from time to time.

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

For the Fund:

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

For the Recipient:

The Minister for Finance and
Treasury
Ministry of Finance and
Treasury
P.O. Box 26
Honiara, Solomon Islands

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 Recipient.

For the Fund

For the Recipient

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. *Target Population.* The Programme shall benefit rural households in the Provinces of Choiseul, Western, Malaita, Temotu, Isabel, Makira/Ulawa and in any additional eligible Province agreed with the Fund (the "Programme Area").
2. *Objective.* The objective of the Programme is to assist the Recipient to raise the living standards of rural households by establishing improved mechanisms for the delivery of priority economic and social infrastructure and services through: (i) increased, cost-effective and sustained provision of local services and basic infrastructure determined through participatory planning prioritized by villagers; (ii) increased capacity of agriculture institutions to provide demand-driven agriculture services at the local level; and (iii) support for rural business development.
3. *Components.* The Programme shall consist of the following four Components:

Component 1: Local Infrastructure and Services

- (a) Community Development Grants
Provision of periodic allocations to Participating Provinces to finance Community Development Grants to fund subprojects for public infrastructure and services.
- (b) Capacity Building:
 - (i) Support for capacity building activities, including information and communication campaigns, training, domestic and international study tours and peer learning; and
 - (ii) Funding of operating costs and small rehabilitation of provincial facilities to support: provincial government staff and line ministry staff at provincial level; facilitators, ward councillors and other community representatives at ward level; Subproject Implementation Committee members and contractors, to plan, budget, implement and monitor and evaluate Community Development Subprojects.

Component 2: Agricultural Services

- (a) Annual Agriculture Service Allocations
Provision of Annual Agriculture Service Allocations to Participating Provinces to engage Participating Service Providers to develop and deliver agricultural services at the provincial level, included in Annual Agriculture Service Programmes.
- (b) Capacity Building
Support for capacity building for: (i) MAL at the national level to facilitate and supervise provincial service delivery; (ii) other Participating Service Providers; and (iii) rural households, through the provision of: (i) technical assistance; (ii) training, including on integrated pest management and (iii) targeted rehabilitation or replacement of offices or other infrastructure and (iv) the financing of operating costs.

Component 3: Rural Business Development

- (a) Supplemental Equity Facility (SEF)
Provision of grant financing to Participating SMEs to supplement loans received by Participating SMEs from Participating Commercial Banks.
- (b) Capacity Building
Provision of: (i) technical assistance to business training and counselling institutions; (ii) training for staff in Participating Commercial Banks related to handling small and medium enterprise loan and supplemental financing applications; (iii) technical assistance to small and medium enterprises, including Participating SMEs, in the preparation of business plans; and (iv) technical assistance to the Recipient and Participating Commercial Banks to develop and implement a SEF communications strategy.

Component 4: Programme Management

Provision of support to the Recipient for management at central and provincial levels, including the preparation and consolidation of annual workplans and budgets, supervision of Programme activities, preparation of progress reports, financial management and procurement functions, communication activities, monitoring and evaluation, training and domestic and international study tours.

II. Implementation Arrangements

In accordance with Schedule 2 of the IDA Financing Agreement, as may be amended from time to time, the Recipient shall:

- (i) carry out or cause the Programme to be carried out in accordance with the Programme Implementation Manual and not waive, amend or abrogate, or allow to be amended, waived or abrogated, any provision of the Programme Implementation Manual or any component thereof, without the prior consent of the Fund.
- (ii) ensure that MDPAC shall be responsible for the overall Programme coordination and that the work of MDPAC shall be guided by a Programme Steering Committee, comprising Permanent Secretaries from the Ministry of Development Planning and Aid Coordination (MDPAC), Ministry of Finance and Treasury (MOFT), Ministry of Agriculture and Livestock (MAL), Ministry of Infrastructure Development (MID), Ministry of Provincial Government and Institutional Strengthening (MPGIS) and the Provincial Secretaries of the Participating Provinces.
- (iii) ensure that the Permanent Secretary in MDPAC shall be the Programme Coordinator who shall be assisted by: (i) a full time programme manager; (ii) a senior finance specialist; (iii) a senior procurement specialist; (iv) a communications specialist; (v) a coordinator for Component 1 of the Programme; (vi) a coordinator for Component 2 of the Programme; and (vii) a senior planning, monitoring and evaluation officer.
- (iv) maintain until completion of the Programme, a Programme Coordination Unit under MDPAC at the national level and ensure that such Unit is provided at all times with adequate funds and other resources, and is staffed by qualified and experienced personnel in adequate numbers, as shall be necessary to accomplish its functions, responsibilities and objectives under the Programme,

and in each case as shall be acceptable to the Fund. The Programme Coordination Unit shall coordinate activities implemented by the Participating Provinces.

- (v) maintain until completion of the Programme the following technical working groups to support the Programme Coordination Unit in ensuring consistency of Programme activities with the Recipient's sector policies. (i) For Component 1 of the Programme, the technical working group shall include representatives of MDPAC, MPGIS, and MID; (ii) for Component 2, the technical working group shall include representatives of MDPAC, MAL and Participating Provinces; and (iii) for Component 3, the technical working group shall include representatives of MDPAC, Central Bank of the Solomon Islands (CBSI) and MOFT.
- (vi) maintain until completion of the Programme, a management team at the provincial level in each Participating Province, and shall ensure that such management team is provided at all times with adequate funds and other resources, and is staffed by qualified and experience personnel in adequate number, as shall be necessary to accomplish its functions, responsibilities and objectives, in each case acceptable to the Fund.
- (vii) ensure that the Provincial Secretary of each Participating Province shall be responsible for Programme management at the provincial level, assisted by:
 - (i) a provincial team leader;
 - (ii) specialists in finance and engineering; and
 - (iii) line agency staff, in each case acceptable to the Fund.
- (viii) make the proceeds of the Financing allocated to Component 1 (a) of the Programme available to Participating Provinces as Community Development Grants for Community Development Subprojects in accordance with the Programme Implementation Manual and the implementation arrangements set out below, except as the Fund shall otherwise agree:
 - (a) Participating Provinces. The Recipient, through MDPAC, shall enter into an agreement with each Participating Province which shall set out the terms and conditions under which such Participating Province shall implement its respective activities under Component 1 (a) of the Programme.
 - (b) Community Development Grant Selection. The Recipient, through each Participating Province shall ensure that: (i) each Community Development Subproject meets the eligibility criteria set out in the Programme Implementation Manual; and (ii) each Community Development Subproject has been approved by the respective Development Council and endorsed by the respective Provincial Assembly for inclusion in the annual budget of the Participating Province.
 - (c) Community Development Grant Implementation. The Recipient, through each Participating Province, shall ensure that, with respect to each Community Development Subproject: (i) a Subproject Implementation Committee, acceptable to the Fund, shall appraise the Community Development Subproject; (ii) the Participating Province and the Subproject Implementation Committee shall enter into an agreement

- setting out the terms and conditions for the Community Development Grant prior to commencement of the Community Development Subproject; and (iii) the Subproject Implementation Committee, shall implement, and the Participating Province shall monitor and evaluate, the Community Development Subproject;
- (d) Capacity Building Implementation. The Recipient shall ensure that capacity building activities and training programmes under Component 1(b) of the Programme are implemented in accordance with the Programme Implementation Manual.
- (ix) The Recipient shall make the proceeds of the Financing allocated to Component 2 (a) of the Programme available to Participating Provinces as Annual Agriculture Service Allocations in accordance with the Programme Implementation Manual and the implementation arrangements set out below, except as the Fund shall otherwise agree:
- (a) Annual Agriculture Service Programme Formation. The Recipient, through MAL, shall ensure that each Participating Province shall develop an Annual Agriculture Service Programme, acceptable to the Fund, for each subsequent calendar year, by no later than 30 September each year, for Annual Agriculture Service Allocations to be made in the upcoming year in the Participating Province.
- (b) Annual Agriculture Service Programme Implementation. The Recipient, through each Participating Province, shall ensure that: (i) upon approval of each Annual Agriculture Service Programme, each Participating Province shall enter into an agreement with each Participating Service Provider identified under the Annual Agriculture Service Programme; and (ii) the Participating Service Providers shall implement, and MAL shall monitor and evaluate, the activities undertaken under each Annual Agriculture Service Programme.
- (c) Capacity Building Implementation. The Recipient shall ensure that capacity building activities and training programmes under Component 2 (b) of the Programme are implemented in accordance with the Programme Implementation Manual.
- (x) The Recipient shall make the proceeds of the Financing allocated to Component 3 (a) of the Programme available as SEF Grants to Participating SMEs to provide supplemental equity financing in conjunction with a loan made to the Participating SME for an investment project by a Participating Commercial Bank in accordance with the Programme Implementation Manual, and the implementation arrangements set out below, except as the Fund shall otherwise agree:
- (a) Participating Commercial Banks. (i) The Recipient shall ensure that only commercial banks which have been approved by the Fund shall be Participating Commercial Banks for the purposes of the Programme. (ii) The Recipient, through MDPAC, shall enter into an agreement with each Participating Commercial Bank prior to making any proceeds of the Financing available to a Participating SME through such Participating Commercial Bank. Each such agreement shall set out the terms and conditions under which such Participating Commercial Bank shall implement its respective activities under Component 3(a) of the

Programme in accordance with the Programme Implementation Manual. Each Participating Commercial Bank shall ensure that each Participating SME and SEF Grant meets the eligibility criteria set out in the Programme Implementation Manual.

- (b) Provision of SEF Grants. The Recipient, through MDPAC, shall: (i) prior to making a SEF Grant to a Participating SME, enter into an agreement with such Participating SME setting out the terms and conditions of the SEF Grant including the amount of equity contribution to be made by the Participating SME; and (ii) with respect to each SEF Grant, transfer the proceeds of such SEF Grant to the account of the Participating SME held at the corresponding Participating Commercial Bank upon authorisation of the corresponding Participating Commercial Bank.
- (c) SEF Grant Monitoring. The Recipient shall ensure that (i) the Programme Coordination Unit shall perform bi-annual reviews of all SEF Grant transactions during the preceding six (6) months and provide the results of such reviews to the Fund in each Programme Report; and (ii) publish, at least every six (6) months a list, certified by the Programme Coordination Unit and CBSI, of all SEF Grant transactions in the preceding period.
- (d) Capacity Building. The Recipient shall ensure that capacity building activities under Component 3 (b) of the Programme are implemented in accordance with the Programme Implementation Manual.

Schedule 2

Allocation Table

1. *Allocation of Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Grant Amount Allocated (expressed in SDR)	Percentage of expenditures to be financed (inclusive of reasonable taxes)
I. Goods, works, consultants' services, training, study tours and Incremental Operating Costs	2 550 000	100%
TOTAL	2 550 000	

(b) The terms used in the Table above are defined as follows:

"Community Development Grant" means a portion of the proceeds of the Financing to be made available to each Participating Province out of which Community Development Subprojects will be funded each year, as described in paragraph (viii) of Section II of Schedule 1 to this Agreement: and "Community Development Grants" means more than one Community Development Grant.

"SEF Grant" means a grant to a Participating SME, and "SEF Grants" means more than one SEF Grant.

"Incremental Operating Costs" means expenditures under the Programme for field and domestic international travel, staff allowances, office lease and administrative expenditures, small goods and services for field and laboratory activities, expenditures related to building and vehicle maintenance, vehicle rental and fuel, and housing allowance and benefits required for positions taken in the Participating Provinces; but excludes government staff salaries.

(c) The use of the proceeds of the Financing to pay taxes should be in accordance with the IDA Financing Agreement, as may be amended from time to time.

Schedule 3

Special Covenants

In accordance with Section 12.01(a) (xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Recipient to request withdrawals from the Grant Account if the Recipient has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Programme:

- 1. Anti-Corruption.** For the purposes of this Agreement, a finding of corruption pursuant to the provisions of the IDA "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants" dated 15 October 2006, amended on 10 May 2010 and as may be amended from time to time, 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 provisions of Schedule 2, Section I, C of the IDA Financing Agreement, as may be amended from time to time, are incorporated herein by reference and apply to the Programme.

Key reference documents

Country reference documents

Government's Policy Framework Document May 2006

Agriculture and Rural Development Strategy (2007)

IFAD reference documents

World Bank Project Appraisal Document (PAD) and key files

World Bank Project paper on a Additional Financing Grant

IFAD Sub regional Strategic Opportunities Paper for Pacific Island Countries

Logical framework

PDO	Outcome Indicators	Use of Outcome Information
<p>To raise the living standards of rural households by establishing improved mechanisms for the delivery of priority economic and social infrastructure and services by the public and private sectors</p>	<p>Percentage of villages with <u>satisfactory access to functioning infrastructure and/or services</u></p> <p>Percentage of villages with improved access to <u>effective agricultural services</u></p>	<p>Indicates the increased availability and usefulness of infrastructure and services resulting from the programme</p> <p>Indicates that agricultural services are responsive and appropriate to farmers' needs</p>
Intermediate Results One per Component	Results Indicators for Each Component	Use of Results Monitoring
<p>Component One: Local Infrastructure and Services</p> <p>Increased access to small public infrastructure and local services in rural areas that respond to expressed needs through a participatory planning process</p>	<p>Component One:</p> <p>Number of infrastructure Community Development Subprojects completed and maintained</p> <p>Number of beneficiaries of completed Community Development Subprojects</p> <p>Percentage of people in target planning units participating in Community Development Subproject decision making</p>	<p>Component One:</p> <p>Indicates increased capacity and responsiveness of local governments to deliver services</p> <p>Indicates creation of effective infrastructure</p> <p>Determines if participation mechanisms are effective and inclusive</p>
<p>Component Two: Improved Agricultural Services</p> <p>Increased capacity of agricultural service providers to respond to local needs</p>	<p>Component Two:</p> <p>Percentage of villages in Participating Provinces to whom agricultural services have been provided</p> <p>Percentage of people in Participating Provinces who have received and are satisfied with advice or services</p> <p>Percentage of households in Participating Provinces who have changed agricultural practices, including varieties, as a result of advice from Participating Service Providers</p>	<p>Component Two:</p> <p>Indicates increased capacity of agricultural services to deliver services at local level</p> <p>Measures responsiveness of the services provided to local needs</p> <p>Demonstrates the effectiveness of agricultural services provision</p>
<p>Component Three: Rural Business Development</p> <p>Increased number of sustainable businesses that contribute to improved rural living standards</p>	<p>Component Three:</p> <p>Number of SEF-supported businesses established or expanding in rural areas</p> <p>Percentage increase in turnover of businesses established</p>	<p>Component Three:</p> <p>Indicates that programme is stimulating the private sector in rural areas</p> <p>Indicates that new or expanded businesses supported are sustainable</p>
<p>Component Four: Programme Management</p> <p>Programme components effectively coordinated and monitored.</p>	<p>Annual work plan and budget approved and delivered on time</p> <p>Audits completed & submitted on time</p> <p>Procurement Plan implementation on target</p>	<p>Component Four:</p> <p>Demonstrates effective administration and team management</p> <p>Indicates robust accounting processes and fiduciary compliance</p> <p>Measures effectiveness of procurement planning and implementation</p>