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Enabling poor rural people
to overcome poverty

President's report

Proposed grant to the Kingdom of Tonga for the

Tonga Rural Innovation Project

Note to Executive Board representatives

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For: Approval

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Abbreviations and acronyms

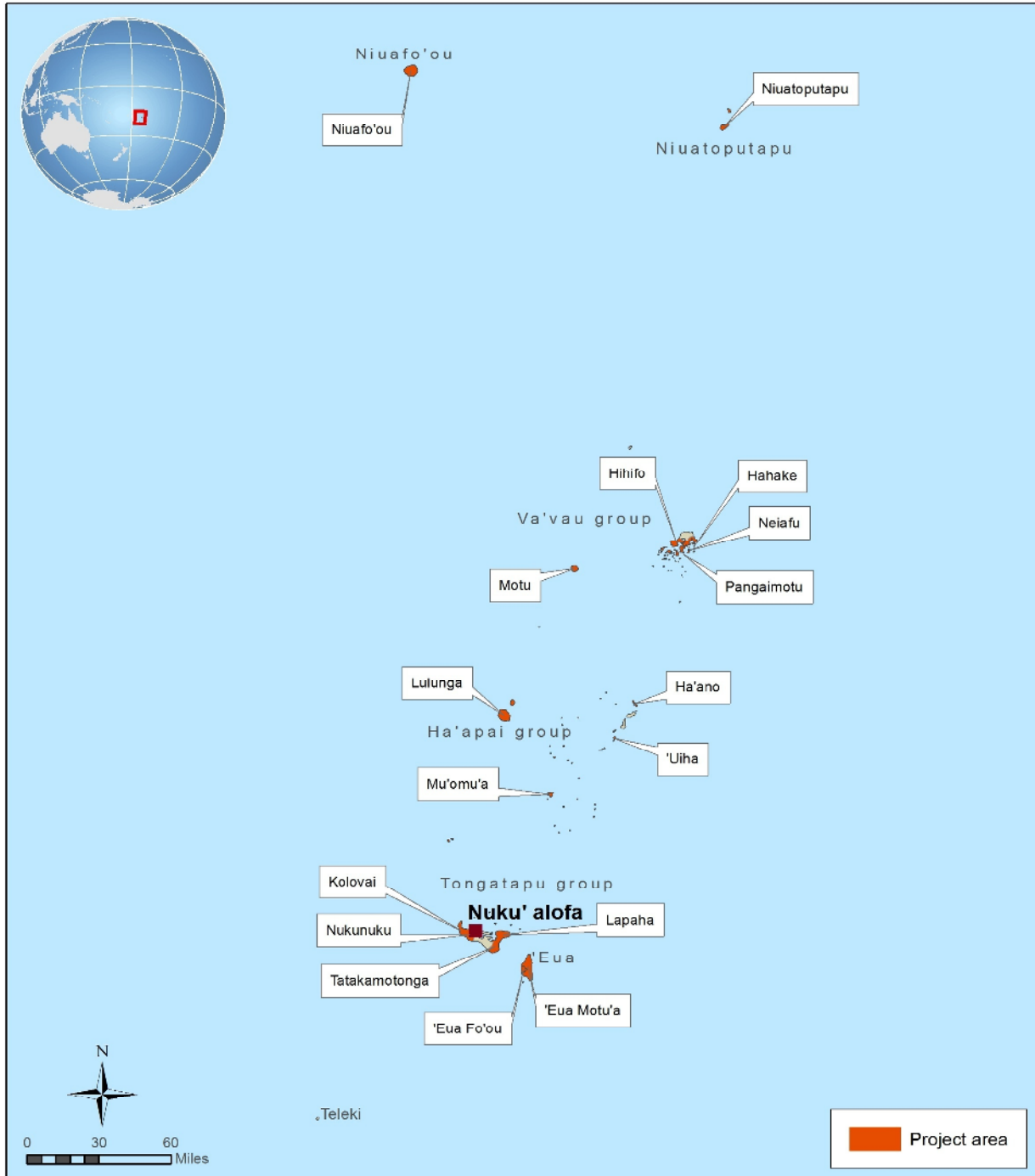
MAFF	Ministry of Agriculture, Food Fisheries and Forestry
MFNP	Ministry of Finance and National Planning
MORDI	Mainstreaming of Rural Development Innovation
PAC	project advisory committee
TSDF	Tonga Strategic Development Framework
TT	Tonga Trust

Map of the project area

The Kingdom of Tonga

Tonga Rural Innovation Project (TRIP)

President's report



26-01-2012



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.

IFAD Map compiled by IFAD

Kingdom of Tonga

Tonga Rural Innovation Project

Financing summary

Initiating institution:	IFAD
Recipient:	Kingdom of Tonga
Executing agency:	Mainstreaming of Rural Development Innovation Tonga Trust
Total project cost:	US\$4.03 million
Amount of IFAD grant:	SDR 2.6 million (equivalent to approximately US\$3.0 million)
Contribution of recipient:	US\$0.41 million
Contribution of beneficiaries:	US\$0.62 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed grant financing to the Kingdom of Tonga for the Tonga Rural Innovation Project, as contained in paragraph 45.

Proposed grant to the Kingdom of Tonga for the Tonga Rural Innovation Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Despite solid performance on human development, the incidence of hardship in Tonga has worsened over the past decade: 23 per cent of households were living below the basic needs poverty line in 2009, compared with 16 per cent of the population in 2001. The severity and depth of poverty have also increased significantly. The outer islands experienced the sharpest increase in hardship, with almost twice as many people living below the basic needs poverty line in 2009 as was the case in 2001. Overall, about half of the population living in conditions of hardship are located in Tongatapu (excluding Nuku'alofa).
2. There is insufficient data on poverty in Tonga for a comparison of the characteristics of poverty between subnational, administrative or geographic locations, or for a comprehensive analysis of the correlates of poverty. Available data show that the poorest households tend to be landless, have many children, or have household members who are disabled or unemployed. In general, poverty in Tonga does not mean destitution or hunger, but rather a lack of access to basic services, few opportunities to participate in the socio-economic life of the community and inadequate resources to meet daily living expenses and obligations.

B. Rationale and alignment with government priorities and the results-based country strategic opportunities programme (RB-COSOP)

3. The premise of the Tonga Rural Innovation Project (TRIP) is that enhanced community capacity for sustainable planning and action linked to greater business capability for sustainable financing and investment will contribute to improved sustainable livelihoods for vulnerable rural households. The project has been designed with the following features: (i) reduced complexity by focusing on core constraints; (ii) component complementarity by concentrating on income-generating activities common to both communities and businesses, combined with targeting mechanisms; (iii) engagement with government planning processes and private-sector financing facilities that are supportive of sustained community and business development activities; (iv) incorporation of lessons learned from implementing similar projects in the Pacific Region; and (v) minimized risk by adopting proven approaches and scaling-up activities under the existing Mainstreaming of Rural Development Innovations (MORDI) Programme and the Solomon Islands Rural Development Programme.
4. The project is aligned with the priorities of two key strategy and policy documents of the Government of Tonga: the Tonga Strategic Development Framework (TSDF) and the Ministry of Agriculture Food, Forests and Fisheries (MAFFF) Sector Plan and with IFAD's 2004 subregional strategic opportunities paper for the Pacific Islands. The TSDF focuses on good governance, equitable and environmentally sustainable private-sector-led economic growth, improved education and health standards, and

cultural development. It also identifies the need to strengthen the traditional drivers of the economy – agriculture, fisheries and tourism – through pro-active and pro-poor government policy. The MAFFF Sector Plan adheres to the relevant TSDF development objectives. The Ministry also has a mandate to review how it collaborates with the private sector, farmers, community service providers and external agencies to enable them to make best use of their resources and a relevant contribution to agricultural development in Tonga.

5. The project is broadly consistent with the approach taken by other international development agencies in Tonga and in other Pacific Island countries. IFAD's unique contribution will be to link community and business development activities aimed at achieving improved sustainable livelihoods for vulnerable rural communities. Lessons learned, both positive and negative, from the similar IFAD-supported Solomon Islands Rural Development Project (SIRDP) have been integrated into project design. THE SIDRP supports communities in developing small-scale infrastructure through a community-driven selection process and assists agricultural and rural businesses with project grant funds matched by business equity and commercial bank credit.

II. Project description

A. Project area and target group

6. Given the fairly even distribution of poverty across rural Tonga, the project will be implemented nationwide. Community development activities will be implemented in selected communities in all regions of Tonga. This includes 29 communities in the "outer islands" (outside the main islands of Tongatapu, Vava'u and Ha'apai) which were covered by the MORDI programme and 31 new communities in the "main islands" of Tongatapu, Vava'u, Ha'apai the Niuas and 'Eau. Based on the 2006 Population Census, the target population in the 60 communities is an estimated 16,901 people (i.e. 16 per cent of the total population will benefit from the project). Business development activities will not be community-specific but rather national in focus, with an emphasis on supporting businesses already operating in the target communities or with the potential to do so.
7. The project targets extremely poor and poor households and marginal households (23 per cent of the total population). Such households lack access to basic services, opportunities to participate in the socio-economic life and adequate resources to meet daily living expenses and customary obligations, leading them to adopt a range of livelihood strategies. Extreme poor and poor households depend mainly on a combination of community and family support, coastal fishing and subsistence agriculture, while the livelihood strategies of marginal households tend towards small investments in agriculture, livestock and fishing. Women, particularly women-headed households and youth, will be a key target group.

B. Project development objective

8. The goal is to contribute to improved sustainable livelihoods for vulnerable rural communities. The **development objective** is to strengthen the capacity of target communities and businesses to plan, finance and manage their development priorities in order to achieve improved sustainable livelihoods.

C. Components/outcomes

9. **Component 1: Community development.** The outcome of this component will be enhanced community capacity for sustainable planning and action. Communities will be supported in developing community development plans. Grant funds will be provided to rehabilitate or construct community infrastructure and to maintain and oversee its operation.
10. **Component 2: Business development.** The outcome of this component will be enhanced business capabilities for sustainable financing and investment. The focus

will be on assisting commercial banks in publicizing and promoting financial services and providing supplemental equity grant funds to agricultural and rural businesses through commercial banks.

11. **Component 3: Project management.** This component will ensure the effective implementation and monitoring of project activities. The MORDI Tonga Trust (TT)¹ will be appointed as the implementing agency by the Ministry of Finance and National Planning on a sole source basis to implement the project. MORDI TT will establish a project office in Nuka'alofa and recruit the following staff: a project manager, an operations manager, a finance and administration officer, three project officers and one senior project officer. The operations manager, senior project officer and project officers will have additional regional responsibilities. The operations manager will be responsible for the main and outer islands of Tongatapu, the senior project officer for the island of 'Eau, and the project officers for the main and outer islands of Ha'apai, the main and outer islands of Vava'u and Niuas. Government Town officers will provide regional support to project staff in the field and will facilitate policy level linkages with the Government through the Prime Minister's Office. The project manager will also have overall responsibility for monitoring and evaluation including collecting baseline data at project start-up and at the end of the implementation period.

III. Project implementation

A. Approach

12. The project will scale up and build on the MORDI programme, which has a record of sound performance in community development in Tonga. It will minimize risk and ensure sustainability by adopting proven approaches and by working with reliable local implementation partners. The targeting approach will be inclusive, with particular attention paid to poor rural women and youth. The focus on women and youth is motivated more by their vulnerability and traditional exclusion from decision-making than their relative poverty.
13. Implementation arrangements will be based on mechanisms already used by MORDI TT to implement the MORDI programme, with scaling up promoted through changes aimed at boosting overall government participation, particularly in the community development activities (component 1) and at engaging the private sector in the business development activities (component 2).

B. Organizational framework

14. MORDI TT, a locally registered NGO, will be appointed as the Lead Project Agency and the Ministry of Finance and National Planning (MFNP) will be the recipient. MORDI TT will report to MFNP. A project advisory committee will be established to provide guidance and oversight to both MORDI TT and MFNP on governance, policy, networking with other organizations and will ensure strategic overview of the project.
15. The advisory committee will be made up of a representative from MFNP, MAFFF, the National Reserve Bank of Tonga, the Chamber of Commerce and civil society. The committee will be responsible for reviewing annual workplans and budgets (AWPBs), overseeing six-monthly reviews in cooperation with IFAD supervision missions, promoting coordination between regional and national governmental and non-governmental agencies, identifying evidence-based policy issues for dialogue and ensuring transparency and accountability in project management.
16. MORDI TT was selected based on its implementation capacity and performance in implementing the MORDI programme.

¹ A Tongan registered NGO established in late 2009 to implement the MORDI programme following the recommendation of an IFAD implementation support mission.

C. Planning, monitoring and evaluation, and learning and knowledge management

17. MORDI TT will be responsible for monitoring and evaluation (M&E) activities and will use a range of instruments to gather information. Financial inputs will be monitored through AWPBs, the financial management system, procurement reports and the proposal processes for community economic infrastructure grants and supplemental equity grants, while outputs will be captured through monthly reports by senior/project officers (S/POs) and town officers (TOs) on community economic infrastructure and through commercial bank loan performance reports. Processes and outcomes will be monitored through TO and S/PO reports, which will systematically detail progress with community plans, follow-up actions, issues and the achievements of different village committees, and through two annual participatory surveys for component 1 and 2 activities. A budget will be provided for selected special studies on issues requiring more in-depth examination. MORDI TT will collect baseline data in each of the 60 communities both before project-supported activities are implemented and at the end of the project to allow for before and after comparisons.
18. **Knowledge management.** Knowledge management will entail: (i) ensuring full engagement with target communities and businesses; (ii) establishing a framework that provides information and analysis to manage decision-making on progress achieved against the logical framework and AWPBs; and (iii) ensuring that knowledge and results generated are shared with key stakeholders. The project will empower communities and improve their capacity to influence policy. It will also achieve evidence-based policy influence through its management of knowledge and learning.

D. Financial management, procurement and governance

19. The IFAD grant financing will be channelled to a designated account in United States dollars to be opened in a bank acceptable to IFAD and maintained by MORDI Tonga Trust as Lead Project Agency.
20. Provision will be made for start-up costs of up to US\$30,000 to cover start-up expenditures incurred after Executive Board approval.
21. The updated Public Procurement Regulations of Tonga (2010) will be used followed to the extent that such regulations are consistent with IFAD's guidelines.
22. In accordance with section 9.03, article 9 of the General Conditions for Agricultural Development Financing and the IFAD project audit guidelines, the auditor will audit the project account and to provide consolidated financial statements. The auditor will provide a separate opinion on statements of expenditures and on the operation of the designated account and counterpart financing, and a management letter addressing the adequacy of accounting and internal controls.
23. The Government has taken important steps to improve governance and address corruption, as reflected in the TSDF. Continuous reform efforts are made under the Economic Public Sector Reform Programme (EPSRP) to improve the provision of government services by focusing on three areas of public-sector management: public administration, public financial management and public enterprise reform.
24. To ensure effective governance, the project will incorporate the following measures: (i) transparency of information, including enhanced disclosure measures, (ii) participation and consultation, including enhanced community and public involvement; (iii) monitoring and oversight, including enhanced supervision and monitoring.

E. Supervision

25. Direct supervision by IFAD will be undertaken on a biannual basis, with missions scheduled to coincide with preparation of the AWPBs and approval by MORDI TT and MFNP of withdrawal applications. IFAD has recently strengthened its presence in the Pacific Islands with the appointment of a subregional coordinator based in the United Nations Development Programme (UNDP) office in Suva, Fiji. In addition, IFAD will soon establish an office in Indonesia with an outposted country programme manager responsible for the Pacific Islands.

IV. Project costs, financing, benefits

A. Project costs

26. The total project cost over five years is an estimated US\$4.03 million, including physical and price contingencies. The foreign exchange element is estimated at US\$0.92 million or 23 per cent of total costs. Approximately 69 per cent of total costs relate to community development activities (27 per cent for community development plans and 41 per cent for community economic infrastructure) and 15 per cent to business development activities (less than 1 per cent for finance publications and promotion, and around 15 per cent for agricultural and rural businesses). Project management will account for the remaining 16 per cent.

B. Project financing

27. The proposed financiers are the Government of Tonga, community beneficiaries, agricultural and rural businesses and IFAD. The Government will finance the tax and duty elements of all project expenditures. For component 1, communities will be required to make a contribution of 25 per cent towards community economic infrastructure costs either in kind or in cash and for component 2, businesses will be required to contribute their own equity to the value of 20 per cent of the respective investment. The participating commercial banks will provide the remaining 60 per cent in loan financing to the participating business. IFAD will provide grant financing for all remaining project cost elements.

Contribution to project component by cofinancier

	Government		IFAD		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)
	Amount	%	Amount	%	Amount	%	Amount	%		
A. Community Development										
1. Community development plans	135 505	12.5	944 270	87.5	-	-	1 079 775	26.8	56 748	887 522
2. Community economic infrastructure	222 305	13.2	1 142 731	67.9	318 935	18.9	1 683 970	41.8	769	692 400
Subtotal	357 810	12.9	2 087 001	75.5	318 935	11.5	2 763 745	68.6	826	1 579
B. Business Development										
1. Finance publications and promotions	2 279	15.0	12 913	85.0	-	-	15 192	0.4	-	12 913
2. Agricultural and rural businesses	-	-	300 082	50.0	300 082	50.0	600 164	14.9	-	600 164
Subtotal	2 279	0.4	312 995	50.9	300 082	48.8	615 356	15.3	-	613 077
C. Project management	50 440	7.7	600 679	92.3	-	-	651 119	16.2	94 539	506 140
	410 529	10.2	3 000 675	74.5	619 017	15.4	4 030 221	100.0	920	2 699
									553	139

C. Summary benefit and economic analysis

28. The main measurable benefits will be: (i) increased household income from agriculture and other productive activities such as tourism, fishing, handicrafts; (ii) reduced transport and communication costs through improved infrastructure; (ii) increased number of profitable investments in agricultural and rural businesses.
29. The economic internal rate of return (EIRR) is 16.8 per cent and net present value at the discount rate of 12 per cent is US\$737,160. A sensitivity analysis of the

impact of the benefits from each investment category on the EIRR revealed that an increase or decrease of 10 per cent in benefits from each category produces changes in the EIRR of less than 10 per cent and it remains above the discount rate in all cases; while an increase or reduction in costs has a more proportionate impact on the EIRR. A 20 per cent increase in costs results in an EIRR equal to the discount rate.

D. Sustainability

30. The project will contribute to the improved sustainable livelihoods of vulnerable rural communities by involving beneficiaries in the planning and prioritization process, having them contribute to the development, operation and maintenance of community economic infrastructure, linking them to agricultural and rural businesses, and providing the Government with tools such as participatory and learning assessment methods, community development plans (CDPs) and district development plans (DDP) for incorporation into its own processes and structures.
31. The two main components have been designed to establish ownership and ensure the sustainability of interventions. In the planning and prioritization of community development, a key feature will be the village councils. Their role will be to oversee the development of plans to address the community's needs, priorities and interests. A key feature of the development of community economic infrastructure will be in-cash or in-kind contributions by communities and long-term operation and maintenance. Under agricultural and rural business development, equity contributions by businesses will be matched with credit from commercial banks.

E. Risk identification and mitigation

32. The project is not considered high risk, given that the design is based on the MORDI programme's record of sound performance in community development in Tonga. Risks include: (i) remoteness, and transport and communication obstacles, (ii) lack of finance for community economic infrastructure; (iii) declining population and migration of youth and able-bodied people; (iv) land tenure systems of Tonga whereby land and tax allotments are allocated to the elder male heir; and (v) geographic dispersion and market linkages. Some of these risks have been dealt with by project design. Those remaining will be addressed during implementation.

V. Corporate considerations

A. Compliance with IFAD policies

33. The project is aligned with IFAD's overarching goal that rural women and men in developing countries are empowered to achieve higher incomes and improved food security at the household level. It also complies with the IFAD Strategic Framework 2011–2015 and its principles of engagement, and the relevant IFAD policies and procedures (the Results and Impact Management System [RIMS] and the IFAD Policy on Targeting).

Gender

34. Gender considerations are adequately addressed by the project. An inclusive targeting approach will be used, with particular attention to poor rural women and youth, who merit special focus because of their vulnerability and traditional exclusion from decision-making. The project will apply the MORDI approach to community mobilization, which targets women and youth directly and supports the prioritization of their concerns in community development plans. This incremental and practice-oriented approach to the empowerment of vulnerable groups has demonstrated concrete results and is suited to the social and cultural context of Tonga. Financial support for the development of agricultural and rural businesses will be provided using targeting mechanisms such as eligibility criteria for business selection that ensure benefits for poor communities and disadvantaged groups such as women.

Findings of IFAD's environmental assessment process

35. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

B. Alignment and harmonization

36. MORDI TT will build a strategic partnership with a number of agencies and initiatives in Tonga. It will forge links with the Aid Management Division of the Ministry of Finance and National Planning responsible for government alignment and harmonization initiatives under the Paris Declaration on Aid Effectiveness. Annual one-day "lessons-learned" workshops will be held, involving representatives of relevant government agencies, NGOs, donor agencies and private-sector representatives involved in rural development in Tonga. At an operational level, MORDI TT will partner with the Pacific Horticultural and Agricultural Market Access Programme (PHAMA) which is a new trade facilitation initiative supported by the Australian Agency for International Development (AusAID) to assist Pacific Island countries and territories in addressing market access issues. Similarly, it will partner with the Tonga Business Enterprise Centre, supported by the New Zealand Aid Programme (NZAID). This is a relatively new initiative aimed at advancing Tonga's private sector businesses by providing business advisory and mentoring resources supported by an annual calendar of training.

C. Innovations and scaling up

37. **Scaling-up.** Scaling-up will be based on the MORDI programme, given its experience of community development in Tonga. MORDI was a six-year programme, implemented in two three-year phases. It covered Fiji, Kiribati and Tonga and was executed by the Fiji-based Foundation of the Peoples of the South Pacific, with a regional grant of US\$2.0 million from IFAD. In Tonga, NZAP provides an additional grant to the MORDI programme of approximately US\$0.30 million (NZ\$0.34 million). IFAD support to the MORDI programme ended in December 2011 although NZAP will continue funding the programme until mid-2012. The MORDI programme is being implemented by the MORDI TT.
38. **Innovation.** The project includes a number of innovative features. Under component 1, the community development best practices and processes established under the MORDI programme will be scaled up. These include the participatory and learning assessment (PLA) approach, involvement of town officers and community facilitators to help communities develop their own initiatives. An innovative feature of component 2 relates to the scale and scope of the financing arrangements for agricultural and rural businesses: MORDI TT will have overall responsibility for implementing the component activities, although funds will be disbursed and monitored through commercial banks to reduce the demand on staff time and the project budget. Project funds will leverage substantial business and commercial bank funds. Rather than treating the components as stand-alone activities, the focus will be on linking components 1 and 2 through common support for direct and indirect income-generating activities and concentrating on businesses already operating in the target communities or with the potential to do so. The project management arrangements are also very innovative in the Tongan context, i.e. mutual agreement by the Government of Tonga and civil society to work in partnership in delivering the proposed project.

D. Policy engagement

39. The project design is consistent with the key strategy and policy documents of the Government: the Tonga Strategic Development Framework and the Ministry of Agriculture, Food, Forests and Fisheries Sector Plan.
40. The TSDF focuses on good governance, equitable and environmentally sustainable private-sector-led economic growth, improved education and health standards and

cultural development. The framework recognizes that the traditional drivers of the economy - agriculture, fisheries and tourism - need to be invigorated through pro-active and pro-poor policy targeting by the Government. The TSDF objectives relevant to the project are: (i) "strong inclusive communities" which will be achieved by engaging districts, villages and communities in meeting their prioritized service needs and ensuring equitable distribution of benefits; (ii) "dynamic public- and private-sector partnerships as the engine of growth" by promoting better collaboration between government and business, providing appropriate incentives and streamlining of rules and regulations; (iii) "appropriate, well-planned and maintained infrastructure that improves the everyday lives of the people and lowers the cost of business" by the adequate funding and implementation of the National Infrastructure Investment Plan (NIIP); and (iv) "better governance" by adopting the principles of good governance, accountability, transparency, anti-corruption and the rule of law.

41. The MAFFF Sector Plan adheres to the relevant TSDF development objectives. The Government, through the TSDF, has signalled that changes will be required in the way MAFFF and the public sector function as a whole. MAFFF has a mandate responsibility to review and refocus the ways it collaborates with the private sector, farmers, community service providers and external agencies, in order for them to make best use of their resources and a relevant contribution to agricultural development in Tonga.

VI. Legal instruments and authority

42. A project financing agreement between the Kingdom of Tonga 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.
43. The Kingdom of Tonga is empowered under its laws to receive financing from IFAD.
44. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

VII. Recommendation

45. 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 the Kingdom of Tonga in an amount equivalent to two million six hundred thousand special drawing rights (SDR 2,600,000) 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: "Tonga Rural Innovation Project"

(Negotiations concluded on 19 March 2012)

Grant Number: _____

Project Title: Tonga Rural Innovation Project (the "Project")

The Kingdom of Tonga (the "Recipient")

and

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

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

hereby agree as follows:

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. 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 Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Grant is two million six hundred Special Drawing Rights (2 600 000 SDR).
2. There shall be a designated account for the benefit of the Mainstreaming of Rural Development Innovation Tonga Trust (the "MORDI TT") in a Bank acceptable to the Fund.
3. The Recipient shall provide counterpart financing for the Project in the amount of United States dollars 410 000.

Section C

1. The Lead Project Agency shall be the MORDI TT.
2. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

The Project will be directly supervised by IFAD.

Section E

1. The following is designated as an additional ground for suspension of this Agreement:

- a) The MORDI TT is not appointed; and
- b) The MORDI TT is wound up.

2. The following are designated as additional specific conditions precedent to withdrawal:

- a) The Ministry of Finance and National Planning (MFNP) shall appoint MORDI TT to implement the Project under an MOU between the MFNP and MORDI TT to be developed to the satisfaction of IFAD and signed by both parties;
- b) MORDI TT shall appoint core staff with IFAD's prior "no objection";
- c) MORDI TT shall prepared the first Annual Work Plan and Budget (AWPB) and related 18-month Procurement Implementation Plan to IFAD's satisfaction;
- d) MFNP shall ensure a consumption tax exemption is granted, in accordance with the Consumption Tax Act 2003, providing the Project with tax-exempt status; and
- e) An MOU shall be developed to the satisfaction of IFAD between MORDI TT and each participating commercial bank as described in paragraph 4 of Schedule 1.

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

For the Recipient:

Hon. Sunia Manu Fili
Minister for Finance and National Planning
Ministry of Finance and National Planning
Vuna Road, Nuku'alofa
Tonga

For the Fund:

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

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.

KINGDOM OF TONGA

Authorized Representative

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall benefit approximately 60 communities in Tongatapu, Vava'u, Ha'apai, 'Eua and the Niua (the "Project Area"). Women, particularly women-headed households and youth will be a key target group in the Project.

2. *Goal.* The goal of the Project is: to contribute to improved sustainable livelihoods for vulnerable rural communities.

3. *Objectives.* The Project development objective is to strengthen the capacity of target communities and businesses to plan, finance and manage their development priorities in order to achieve improved sustainable livelihoods.

4. *Components.* The Project shall consist of the following Components:

Component 1: Community development. This component will focus on supporting communities to develop Community Development Plans (CDPs), providing community economic infrastructure grant funds through the Project for rehabilitation or construction and overseeing the operations and maintenance of infrastructure. The outcome of this component will be enhanced community capacity for sustainable planning and action. This will be achieved through the following two outputs: (i) prepared community development plans; and (ii) operational community economic infrastructure.

Component 2: Business development. This component will focus on assisting commercial banks to publicise and promote financing so that these will be able to extend supplementary equity grant (SEG) funds to agriculture and rural businesses through commercial banks. The outcome of this component will be enhanced business capabilities for sustainable financing and investment. This outcome will be achieved through the following two outputs: (i) finance publications and promotions prepared; and (ii) operational agriculture and rural businesses.

Component 3: Project management. This component will support project management by MORDI TT. MORDI TT will be appointed by the MFNP on a sole source basis to implement the Project. MORDI TT will establish a Project office in Nuku'alofa and recruit staff positions including a Project Manager, an Operations Manager, a Finance and Administration Officer, a Senior Project Officer and three Project Officers. In addition to their general tasks the Operations Manager and Senior Project Officer and Project Officer will have specific regional responsibilities. The Operations Manager will be responsible for the main and outer islands of Tongatapu, the Senior Project Officer will be responsible for the Island of 'Eua, and the Project Officers will be responsible for the main and outer islands of Ha'apai, the main and outer islands of Vava'u or the Niua. Town Officers will provide regional support to the Project staff in the field. The Project Manager will also have overall responsibility for monitoring and evaluation including collecting baseline data at the time of Project commencement and at the end of the Project period.

II. Implementation Arrangements

MORDI TT will be appointed by the MNFP on a sole source basis to implement the Project under a Memorandum of Understanding (MOU) to be signed between MNFP and the MORDI TT Board of Trustees. In the Project the MFNP will be the Recipient and MORDI TT will be the Lead Project Agency.

A Project Advisory Committee (PAC) shall be established under the project and shall perform an advisory role to MFNP and MORDI TT in areas of governance, policy, networking with other organizations and strategic overview of the Project. Membership of the PAC will include a representative each from MFNP, Ministry of Agriculture, Food Forestry and Fisheries (MAFFF), National Reserve Bank of Tonga (NRBT), Tonga Chamber of Commerce and Industry, and Civil Society Forum of Tonga. Responsibilities of the PAC will include reviewing the AWPBs, overseeing 6-monthly reviews in cooperation with IFAD supervision missions, promoting cooperation and coordination between regional and national governmental and non-governmental agencies, identifying evidence based policy issues for dialogue and ensuring transparency and accountability in management of the Project.

MORDI TT will be responsible for interfacing with the Project Review and Appraisal Committee (PRAC). The overall purpose of the PRAC will be to provide an executive management function for the Community Economic Infrastructure Grant proposals (CEIG) and the Supplemental Equity Grants (SEG). Membership of the PRAC will include a representative each from the Tonga Community Development Trust, the New Zealand Aid Programme (NZAP), Ministry of Works, MFNP (Procurement Division) and the Aid Management Division (AMD). Pacific Horticultural and Agricultural Market Access Programme (PHAMA) and Tonga Business Enterprise Centre (TBEC) will be given reciprocal observer status, in the case of the Project, on the PRAC. Once operational MORDI TT will be responsible for preparing CEIG and SEG proposals for the Committee for screening, discussing and reporting results to the Project Manager.

Other than overall implementation responsibilities, MORDI TT will have specific tasks:

- (i) Train, mentor and supervise Town Officers in the use of participatory learning and action methods and in Project implementation practices for the purpose of developing CDPs.
- (ii) Consolidate CDPs into District Development Plans (DDPs) and lodge these with District Officers (DO), the Governor's Office or Government's Representative and the relevant Ministry responsible for district and town affairs. These will be made available to donors and other agencies that have an expressed interest in providing financial support for the development and management of actions identified in the DDPs.
- (iii) Supervise the due diligence of commercial banks and cooperate with commercial banks to prepare publication and promotion material on the SEG funds. The due diligence of commercial banks will be conducted in cooperation with the NRBT.
- (iv) Arrange for the three monthly PRAC reviews of the CEIG proposals under Component 1 and the SEG proposals under Component 2 and informing communities and commercial banks of the outcome of PRAC reviews respectively.
- (v) Disburse approved CEIGs and SEGs.
- (vi) Engage with the broader stakeholder community to mainstream the Project approach. Upon completion, CDPs from each district will be consolidated into DDPs by MORDI TT. MORDI TT will develop a strategic partnership with Aid Management Division (AMD) of the MFNP, which is responsible for Government of Tonga alignment and harmonization initiatives under the Paris Declaration of Aid Effectiveness, similarly, to encourage financial support by donors for the development and management of actions identified in the DDPs.
- (vii) Monitor and evaluate Project performance including collecting baseline data. Also MORDI TT will be responsible for hosting an annual one-day "lessons-learned" workshop involving relevant government agencies, representatives of non-governmental agencies, donor agencies and representatives of the private sector who are working with and have a particular interest in rural development in Tonga.

(viii) Identify evidence based policy issues for dialogue through the PAC.

Schedule 2

Allocation Table

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

Category	Grant Amount Allocated (expressed in SDR)	Percentage
I. Vehicles, equipment and materials and transport	150 000	100% net of taxes
II. Training, Capacity Building and Community Planning	540 000	100% net of taxes
III. Technical Assistance, Studies and M&E	60 000	100% net of taxes
IV. Community grants	750 000	100% net of taxes and net of beneficiaries contribution
V. Supplementary equity grants	240 000	100% net of taxes and beneficiary contributions
VI. VI. Recurrent Costs		
a) Salaries	400 000	100% net of taxes
b) Operating Costs	200 000	
VII. VI. Unallocated	260 000	
TOTAL	2 600 000	

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

“Transport” means: the costs of transporting equipment and supplies from Nuku’alofa to the Project.

“Community Grants” means: a portion of the proceeds of the financing to be made available for small scale infrastructure and services (such as wharves , roads and water sanitary facilities).

“Supplemental Equity Grants” means: a grant to participating rural businesses.

2. “Start-up Costs”. Withdrawals in respect of expenditures for start-up costs (in Categories I, II, III and V) incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of USD 30 000 for the performance of a baseline study.

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 Project:

The Recipient shall ensure a consumption tax exemption is granted, in accordance with the Consumption Tax Act 2003, providing the Project with tax-exempt status.

Logical framework

Results hierarchy	Indicators	Means of verification	Assumptions
Goal The goal is to contribute to improved sustainable livelihoods for vulnerable rural communities	<ul style="list-style-type: none"> * Number of households with improved food security * Number of households showing improvement in IFAD's household asset ownership index *No of households receiving Project services 	<ul style="list-style-type: none"> RIMS Impact surveys at baseline and completion 	<ul style="list-style-type: none"> No major changes in Government of Tonga's Tonga National Development Strategy
Development objective Strengthen the capacity of target communities and businesses to plan, finance and manage their development priorities in order to achieve improved sustainable livelihoods	<ul style="list-style-type: none"> 60 communities with sustainable community economic infrastructure 10 sustainable agriculture and rural businesses 	<ul style="list-style-type: none"> Annual Work Plan and Budgets (AWPBs) Household Income and Expenditure Survey (2009 and 2014) 	<ul style="list-style-type: none"> Communities and agriculture and rural businesses are willing to participate in innovative forms of support
Component 1 Outcome Enhanced community capacity for sustainable planning and action	<ul style="list-style-type: none"> 31 new community development plans developed 	<ul style="list-style-type: none"> AWPBs Monthly Programme Officer reports 	<ul style="list-style-type: none"> Government officials are willing to support plan preparation. Communities prepared to participate in planning and in-kind and or cash contributions to economic infrastructure
<i>Component 1.1 Output</i> Community development plans prepared	<ul style="list-style-type: none"> 6,901 beneficiaries (disaggregated by gender) of community development plan 10% of community development plans activities funded through a community economic infrastructure grant and or from another source 	<ul style="list-style-type: none"> Annual participatory survey of operational effectiveness of community groups Community economic infrastructure proposals and reports Technical and operational audits of community economic infrastructure 	
<i>Component 1.2 Output</i> Operational community economic infrastructure	<ul style="list-style-type: none"> 16,901 beneficiaries (disaggregated by gender) of community economic infrastructure 80% of community economic infrastructure funded by the community economic infrastructure grant operational and sustainable *No of women on management committees 		
Component 2 Outcome Enhanced business capability for sustainable financing and investment	<ul style="list-style-type: none"> 8 agriculture and rural businesses financed and operational 	<ul style="list-style-type: none"> AWPBs Monthly Project Officers reports 	<ul style="list-style-type: none"> Commercial banks willing to make loans to agriculture and rural businesses. Businesses willing to contribute equity and take loans
<i>Component 2.1 Output</i> Investment publications and promotions prepared	<ul style="list-style-type: none"> 50 publications available and used by commercial banks and agricultural and rural businesses 	<ul style="list-style-type: none"> Loan performance assessments by commercial banks National Reserve Bank of Tonga annual audit of commercial banks Annual case studies of agricultural rural businesses financed by supplemental equity funds 	
<i>Component 2.2. Output</i> Operational agriculture and rural businesses	<ul style="list-style-type: none"> 1000 beneficiaries of agricultural and rural businesses funded by the supplemental equity grant 80% of agricultural and rural businesses funded by the supplemental equity grant operational and sustainable 		