

Document:	<u>EB 2017/121/R.19/Sup.1</u>
Agenda:	<u>9(b)(iv)</u>
Date:	<u>12 September 2017</u>
Distribution:	<u>Public</u>
Original:	<u>English</u>

E



Investing in rural people

Independent State of Papua New Guinea

Markets for Village Farmers Project  
– Maket Bilong Vilis Fama

Negotiated financing agreement

Executive Board — 121<sup>st</sup> Session  
Rome, 13-14 September 2017

---

For: Information

# Negotiated financing agreement: "Markets for Village Farmers Project – Maket Bilong Vilis Fama"

(Negotiations concluded on 8 September 2017)

Loan No: \_\_\_\_\_

Project Title: Markets for Village Farmers - Maket Bilong Vilis Fama (MVF) ("the Project")

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

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, amended as of April 2014, and as may be amended hereafter 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 Loan to the Borrower (the "Financing"), 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 twenty five million five hundred thousand United States Dollars (USD 25 500 000).
2. The Loan is granted on blend terms, and shall be subject to interest on the principal amount outstanding at a fixed rate of 1.25 per cent and in addition a service charge of 0.75 per cent per annum payable semi-annually in the Loan Service Payment Currency and shall have a maturity period of twenty five (25) years, including a grace period of five (5) years, starting from the date of approval by the Executive Board.
3. The Loan Service Payment Currency shall be USD.
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. There shall be one Designated Account (DA) operated by the Department of Agriculture and Livestock (DAL) for receiving the Loan proceeds from IFAD.
7. The Fresh Produce Development Agency (FPDA) will maintain one project bank account in local currency to implement the project activities.
8. The Borrower shall cover all taxes and duties on all Project expenditure. In addition, the Borrower shall provide counterpart financing for the Project for an amount of approximately of USD 2.85 million to cover Project staff salary costs. The provincial and district governments shall provide counterpart financing to be determined annually on the basis of the Project design. The beneficiaries shall contribute to the Project in cash or in kind for an amount of approximately USD 1.21 million.

#### Section C

1. The Project Executing Agency shall be the DAL.
2. The Project Implementing Agency shall be the FPDA.
3. The following are designated as additional Project Parties: Provincial Governments and District Administrations, the Centre for Financial Inclusion, participating commercial banks and financial institutions.
4. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

#### Section D

The Loan will be administered and the Project supervised by IFAD.

#### Section E

1. The following are designated as additional grounds for suspension of this Agreement:
  - (a) The Project Implementation Manual referred to in paragraph 13 of Schedule 1 hereto, or any provision thereof, has been waived, suspended, terminated, amended or otherwise modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project;
  - (b) Any transfer of key Project staff in the Project Coordination Unit and the Project Management Unit located in the Department of Agriculture and Livestock and the Fresh Produce Development Agency respectively, that has not been communicated to IFAD.
2. The following are designated as additional general conditions precedent to withdrawal:
  - (a) The Project Coordination Unit within the Department of Agriculture and Livestock and the Project Management Unit within the Fresh Produce Development Agency shall have been created and key Project staff, as defined in Schedule 1, shall have been nominated to the satisfaction of IFAD;
  - (b) The Project implementation manual, including the Financial Management section, shall have been prepared in a manner satisfactory to IFAD; and

(c) The AWPB for the first year of Project Implementation and the 18 month Procurement implementation Plan shall have been prepared in a manner satisfactory to IFAD.

3. This Agreement is subject to ratification by the Borrower.

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

For the Borrower:

\_\_\_\_\_  
\_\_\_\_\_

For the Fund:

The 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 two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

INDEPENDENT STATE OF  
PAPUA NEW GUINEA

\_\_\_\_\_  
(Authorized Representative)

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

\_\_\_\_\_  
Gilbert F. Houngbo  
President

## Schedule 1

### Project Description and Implementation Arrangements

#### I. Project Description

1. **Target Population.** The Project shall benefit 23,500 households and approximately 117,500 total direct beneficiaries in six target provinces: four in the Highland region (Western Highlands, Jiwaka, Chimbu and Eastern Highlands) and one in the Momase region (Morobe) for the project fresh produce activities; and East New Britain for the project's galip nut activities (the "Project Area").

2. **Goal.** The goal of the Project is to improve the livelihoods of village farming households in target provinces by facilitating their transition from semi-subsistence agriculture to market-oriented production and farming as a business.

3. **Objectives.** The development objective of the Project is to achieve sustainable, increased returns to village farming households from marketed production. In support of the development objective, the Project would have three outcomes, each linked to one of the Project's investment components: Village farming households have access to markets and services in the target value chains. Improved value chain environment to facilitate small farmers' inclusion. Organised industry players contribute to policy development and sector coordination for inclusive industry growth.

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

Component 1. Inclusive Business Partnerships aims at building inclusive partnerships between village farmers and buyers, whereby: (i) farmers will gain improved access to markets and support services; and (ii) buyers will source from farmers to supply remunerative markets. The expected outcome is that village farming households have access to markets, technologies and services in the target value chains. The main outputs are: (i) different types of business partnerships linking fresh produce and galip nut producing households to buyers; (ii) at least 20,000 farming households (20,000 men and 20,000 women) trained in and using good agricultural and post-harvest practices for fresh produce; (iii) around 23,000 farming households trained for family engagement in decision-making on production and marketing. The component 1 has two sub-components: (i) Fresh Produce Partnerships; and (ii) Galip Nut Supply Chain.

Component 2. Supportive value chain investment complements investment in inclusive business partnerships through support seeking to impact the whole value chain by: (i) improving access to production areas through spot improvements to feeder roads; and (ii) facilitating access of farming households and other players in the value chain to affordable and diversified financial services. Three main strategic thrusts guide the component: (i) linking road improvement to partnerships; (ii) improving the outreach of financial institutions and financial products in rural areas; and (iii) developing innovative financial instruments to meet the needs of farming households and value chain stakeholders. The expected outcomes are: at least 15,000 farming households have easier access to main roads to market their production; and at least 18,000 farming households have access to credit. The component 2 has two sub-components: (i) Spot improvements of feeder roads; and (ii) Financial inclusion.

Component 3. Collective governance and project management aims to promote a favourable policy and institutional environment to support the development of inclusive fresh produce and galip nut sectors. The main strategic thrusts of the component are: (i) organizing value chain governance and coordination; and (ii) improving access to knowledge and market information. The expected outcome is that organized industry players contribute to policy development and sector coordination for inclusive industry growth. Component 3 is organized in two sub-components: (i) collective governance; and (ii) project management.

## II. Implementation Arrangements

5. The Department of Agriculture and Livestock (DAL) will be the Project executing agency. The Fresh Produce Development Agency will be the main project implementing agency.

6. Department of Agriculture and Livestock As the Project executing agency it will be responsible for the overall accountability, oversight and coordination of the project, under the direct authority of the Secretary of the DAL. This would include the chairing of the Project Steering Committee; the approval of Annual Work Plans and Budgets and Annual Procurement Plans; the approval of technical and financial reports; the endorsement of Withdrawal Applications and Statements of Expenditure, prepared by the Project Management Unit and submitted by Fresh Produce Development Agency's General Manager, for subsequent approval by the Department of Treasury; project technical and financial reports prepared by Fresh Produce Development Agency with Project Management Unit support; the facilitation of policy dialogue; and coordination with other relevant initiatives in the agriculture sector. A small Project Coordination Unit will be established within DAL to support it executing its functions. The Project Coordination Unit will consist of a Project Coordinator and an IFAD Liaison Officer.

7. Fresh Produce Development Agency will be responsible for Project management and coordination of government and non-government agencies participating in the Project. It will also be responsible for day to day financial management activities, including accounting, reporting and coordinating audit processes. The Fresh Produce Development Agency's General Manager will have overall responsibility for project implementation. However, line responsibility for day-to-day project implementation will be delegated to a Project Manager within a Project Management Unit to be established within Fresh Produce Development Agency.

8. Provincial Teams in each of the target provinces will be responsible for implementing Component 1 in their respective provinces. Each Provincial Team will be headed by an FPDA middle manager and staffed with two seconded district extension staff, to be selected based on a competitive basis. Provincial Teams will be under the direct supervision of the Project Manager, and overall supervision of the Fresh Produce Development Agency General Manager. Fresh Produce Development Agency will open provincial offices in Chimbu and Jiwaka to accommodate the Provincial Teams.

9. Project Steering Committee will be established at the national level to provide overall guidance and oversight, to ensure alignment with national sector priorities, to share good practices and promote policy dialogue. It will approve annual work plan and budgets, annual progress and financial reports, prepared by Fresh Produce Development Agency and the Project Management Unit, endorsed by Department of Agriculture and Livestock. It will be chaired by Secretary of the Department of Agriculture and Livestock and will include representatives from relevant public and private stakeholders. The Project Management Unit Liaison Officer based in Department of Agriculture and Livestock will provide the Secretariat to the Project Steering Committee.

10. Technical Appraisal Committee (TAC) will be established to appraise partnership proposals submitted by the Project Management Unit, rate them and provide a recommendation for their financing, prior to their approval by Fresh Produce Development Agency Board. All TAC members will be individuals with an established reputation for their knowledge of the sector and integrity.

11. Project Coordination Unit will be established within DAL to assist with implementing its responsibilities as an executing agency. The Project Coordination Unit will consist of a Project Coordinator and an IFAD Liaison Officer.

12. Project Management Unit (PMU) will be embedded within Fresh Produce Development Agency, with responsibility for daily implementation of the Project. The Project Management Unit will be accountable for the performance of project implementation and the use of funds. This will include: (i) providing strategic guidance to ensure that all project implementation partners develop activities along a common, coherent approach in line with the Project Design Report; (ii) ensuring the financial and administrative management of project resources in line with the Loan Agreement and IFAD policies; (iii) planning project activities in consultation with project stakeholders; (iv) procuring project-related services and supplies; (iv) coordinating project activities with the various project partners; (v) securing Monitoring and Evaluation and Knowledge Management in relation to all activities; and (vi) promoting inclusive approaches and the mainstreaming of targeting and gender requirements in all of the project activities. The Project Management Unit will include key project staff: Project Manager, PMU Manager, Production and Value Chain System Manager, Infrastructure Engineer, Policy Development Officer, Senior, Monitoring & Evaluation/Knowledge Management (ME/KM) Officer, Management Information System (MIS) Content Manager, Gender and Social Inclusion Officer, Financial and Administration Manager, Procurement Officer, and an Accountant.

13. Project Implementation Manual. The Project Implementing Agency (PIA) shall prepare a consolidated draft Project Implementation Manual (PIM) and submit to the Fund for its comments and no objection. The PIM may be amended or otherwise modified from time to time only with the prior consent of the Fund.

## Schedule 2

## Allocation Table

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

Category	Loan Amount Allocated (expressed in USD)	Percentage (net of tax, co-financiers and beneficiary contributions)
I. Works	2 320 000	100%
II. Equipment & materials	1 860 000	100%
III. Consulting services & Training	10 700 000	100%
IV. Credit, guarantee funds	410 000	100%
V. Grants	2 700 000	100%
VI. Recurrent costs	4 960 000	100%
Unallocated	2 550 000	
<b>TOTAL</b>	<b>25 500 000</b>	

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

"Works" under Category I, shall mean eligible expenditures incurred related to improvements of feeder roads under Component 2.

"Recurrent costs" under Category VI, shall mean eligible expenditures for operating costs, salaries and allowances.



### 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 Borrower to request withdrawals from the Loan Account if the Borrower 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 project will procure, install and customize an accounting software to satisfy IFAD's requirements and International Accounting Standards, within 6 months of entry into force of the Financing Agreement.