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Enabling the rural poor
to overcome poverty

President's report

Proposed grant to the Ministry of Finance of Papua New Guinea

for the Project for Local Governance and Community Participation in Oil-Palm-Growing Provinces

Executive Board — Ninety-first Session
Rome, 11-12 September 2007

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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Abbreviations and acronyms

LLG	local-level government
SADP	Smallholder Agriculture Development Project

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed grant to the Ministry of Finance of Papua New Guinea for the Project for Local Governance and Community Participation in Oil-Palm-Growing Provinces, as contained in paragraph 15.

Proposed grant to the Ministry of Finance of Papua New Guinea for the Project for Local Governance and Community Participation in Oil-Palm-Growing Provinces

I. Background

1. In Papua New Guinea, subnational public institutions were established under the reforms of the 1995 Organic Law on Provincial and Local-level Governments and it is a widely held view that there remains scope for enhancing their effectiveness. Improvement is needed in the areas of resource availability and financial management, and capacity also needs to be reinforced. Strengthening regulatory authority and promoting division of responsibility for legislative, judicial and administrative functions would enhance local governance considerably.
2. The Project for Local Governance and Community Participation in Oil-Palm-Growing Provinces is developed as a component of the Smallholder Agriculture Development Project (SADP), financed by the World Bank. The development objective of the SADP is *to improve the living standards of rural communities in selected areas of oil-palm-growing provinces*. This will be achieved through: (a) increasing the productivity of the smallholder oil palm sector by capitalizing on existing infrastructure; and (b) promoting sustainable local governance and community participation mechanisms. The SADP has three components: (i) smallholder productivity enhancement; (ii) local governance and community participation; and (iii) project management and institutional support. It will be implemented over five years in West New Britain Province (Hoskins and Bialla schemes) and Oro Province (Oro scheme).
3. The second component of SADP is being developed as a multidonor-funded grant project, which addresses the needs of oil-palm-growing communities and communities engaged in other activities in the project areas. The World Bank has decided to support a multisectoral component based on the community-driven development approach that would work through the decentralized local governance framework. This will allow the project to use efficient mechanisms to tackle some of the most pressing issues affecting rural areas, particularly those related to weaknesses associated with a centralized, supply-driven approach to local development.

II. Rationale and relevance to IFAD

4. IFAD has had no operations in Papua New Guinea since the closure of the North Simbu Rural Development Project five years ago. In the context of the re-engagement process in the Pacific, the subregional strategic opportunities paper for the Pacific Islands Countries was approved in 2004. The paper identifies Papua New Guinea as one of the countries to form part of the lending programme in the subregion. In 2006, the potential for reactivating interventions in the country was explored. The proposed project is a timely opportunity for IFAD to re-engage immediately with the Government of Papua New Guinea. The Government strongly supports IFAD's participation in this initiative, and the learning and experience gained will provide an important input for the project under discussion with the Government which will be funded by an IFAD loan.
5. The Project for Local Governance and Community Participation in Oil-Palm-Growing Provinces addresses the IFAD strategic objectives of strengthening the capacity of the rural poor and their organizations and the objective of the IFAD Policy for Grant Financing of building the pro-poor capacity of rural institutions. The subregional strategy paper identifies the specific outcome of this objective in the Pacific Islands Countries in terms of the attainment of increased resources for agriculture and rural development at the local level. This could be achieved by building the capacity of

local community groups to strengthen local governance systems, in order to encourage more responsive and responsible local communities.

6. The project also addresses the recommendation made in the country programme evaluation for Papua New Guinea (2002), which highlighted the limited support for effective decentralization to local bodies. It was suggested that a “four-pronged approach” be adopted in future projects to be funded by IFAD loans. The current proposal – which focuses on capacity-building in local government – addresses part of the evaluation’s recommendation and will pilot activities as appropriate.
7. In addition, the project will contribute to the broader strategic agenda of establishing a partnership with the World Bank in the country. The Asia and the Pacific Division compiled a working paper “IFAD experience and issues in community-based and community-driven development” to initiate discussions with the World Bank on knowledge and experience sharing on these approaches.

III. The proposed project

8. The overall goal of the project is to develop and demonstrate sustainable mechanisms for local governance, thereby supplementing grants currently being provided by the national Government to local-level governments (LLGs) in the project areas and promoting participatory planning and local accountability at the community level. Implementation will be phased and the approach will promote self-reliant local development through: (a) community mobilization, facilitated by local motivators; (b) identification and prioritization of activities that provide suitable solutions to local development constraints, through transparent and participatory planning processes at the ward or community level; (c) approval and budgeting of activities at the LLG level to be funded from their own development budget; (d) provision of assured funding to LLGs, with transparent conditions to ensure accountability and effective use of funds by both LLGs and recipient communities; (e) design and implementation of planned activities by the communities themselves, with support from local community-based organizations, NGOs and service providers; and (f) capacity development of community-based organizations, ward development committees, LLGs and province/district administrations.
9. The project will be implemented over five years and will comprise three components:

- **Development grants.** The project will provide development grants to participating LLGs. The grants have been calculated to allow implementation of two to three subprojects per LLG in the first year (amounting to US\$26,000); three to four subprojects in the second year (US\$32,500); and four to five in subsequent years (US\$39,000).

Rather than advocate for a specific level of funding, the project will concentrate on improving the relationship between the communities and the LLGs and establishing the transparent and participatory processes necessary for ensuring that development funds are not misspent at the local level.

- **Capacity-building.** Training aimed at building the capacity of local governance institutions will be tailored appropriately. The goal will be to complete basic training in each LLG and participating ward prior to the commencement of the participatory planning process. Local service providers will be subcontracted to carry out training activities at the LLG and ward levels.

Training will provide a comprehensive overview of contextual issues – such as the governance framework envisaged under the Organic Law on Provincial Governments and Local-level Governments 1995 (and subsequent enabling laws) – and of the rights, obligations, and

responsibilities of various institutions and the communities covered by the Organic Law. The principles of community-driven development will be reviewed and provision made for improving planning and budgeting skills. The various steps, requirements, benefits and obligations associated with participation in the project activities will also be addressed.

Subsequently, peer learning activities, participatory monitoring and evaluation, and annual progress reviews will inform and strengthen the capacity-building process.

- **Capital support for participating LLGs and districts.** The project will provide some capital support to upgrade district and LLG facilities. Such support will focus on areas that promote public participation and access to information, such as meeting facilities and notice boards.

IV. Expected outputs and benefits

10. The following results are expected:

- Subprojects implemented utilizing grants to LLGs through a participatory process;
- Capacity developed among all stakeholders to plan, budget, implement, monitor and evaluate LLG development grants; and
- Upgraded districts and LLG facilities.

V. Implementation arrangements

11. The proposed project will follow the implementation arrangements established for the SADP, of which it forms part. SADP is under the responsibility of the Department of National Planning and Monitoring, Ministry of National Planning and Rural Development. The Oil Palm Industry Corporation – which has its headquarters in Port Moresby – will assume overall responsibility for project management and coordination and for the performance of project components.

12. A management agency will be contracted by the Government through the Oil Palm Industry Corporation to provide management services for project implementation. This agency will be expected to support the Government and its development partners in advancing the dialogue on local governance. Specifically, the management agency will: set up local coordination teams in each of the target provinces; select and contract consultants; engage service providers to carry out all capacity-building activities; carry out monitoring and evaluation activities; transfer grants and manage grant accounts at the LLG level; and, at the request of the LLGs and in accordance with the guidelines set out in the project implementation manual, transfer funds for subproject activities to the accounts of the subproject implementation teams. In addition, this agency is expected to coordinate project activities and liaise with national authorities and the World Bank.

VI. Risks

13. The weak financial management capacity of the stakeholders presents a risk. Project design has built in a number of measures to enhance governance and reduce the risk of misuse of public funds. Financial management issues will be closely monitored throughout implementation.

VII. Indicative project costs and financing

14. IFAD will cofinance technical assistance, training, workshops, domestic travel and grants to communities up to US\$500,000. The World Bank contribution will be US\$2.5 million, while contributions from the Government will be in-kind (in the form of the services of the project coordinator and the project director).

VIII. Recommendation

15. I recommend that the Executive Board approve the proposed grant in terms of the following resolution:

RESOLVED: that the Fund, in order to finance in part, the Project for Local Governance and Community Participation in Oil-Palm-Growing Provinces, shall make a grant not exceeding five hundred thousand United States dollars (US\$500,000) to the Ministry of Finance of Papua New Guinea for a five-year project upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Lennart Båge
President

Logical framework

Goal	Results indicators	Data Collection/Means of verification
Develop and demonstrate sustainable mechanisms for local governance.	% of people in targeted villages satisfied with their level of participation in local decision-making processes at the ward and LLG level	Surveys, interviews and reports
Objective		
Improved community participation and local governance in the project areas.	Increase in the level of funds and resources invested by local communities in their local development	Surveys, interviews and reports
Outputs		
<p>1. Subprojects were implemented utilizing grant to LLG through a participatory process.</p> <p>2. Capacity developed among all the stakeholders to be able to plan, budget, implement, and monitor and evaluate LLG development grants.</p>	<p>No. of subproject commenced, successfully completed and maintained</p> <p>Level of contributions to subprojects mobilized from local sources</p>	<p>Progress reports</p> <p>Progress reports</p>
Activities		
<p>(a) community mobilization, facilitated by local motivators</p> <p>(b) identification and prioritization of activities that would provide suitable solutions to local development constraints, through transparent and participatory planning processes at ward or community level</p> <p>(c) approval and budgeting at LLG level of activities to be funded from the LLG's development budget</p> <p>(d) provision of assured funding to LLGs, with transparent conditions to ensure accountability and effective use of funds by both LLGs and recipient communities</p> <p>(e) design and implementation of planned activities by the communities themselves, with support from local CBOs, NGOs and service providers and</p> <p>(f) capacity development of CBOs, ward development committees, LLGs and province/district administration.</p>		