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Investing in rural people

President's report

Proposed loan and grant to Solomon Islands for the Rural Development Programme – Phase II

Note to Executive Board representatives

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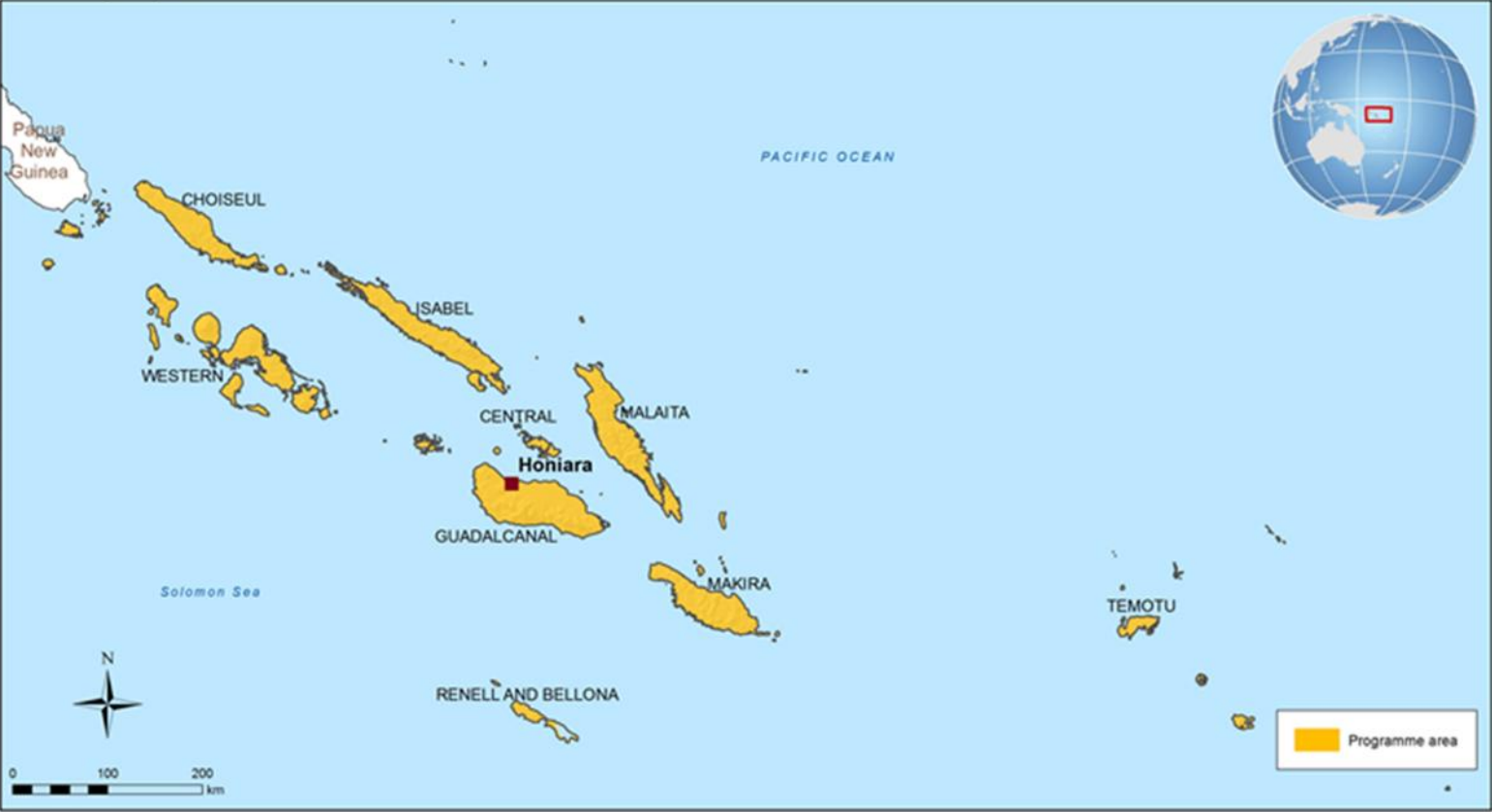
Logical framework

Abbreviations and acronyms

ARDS	Agriculture and Rural Development Strategy
ASEF	Agricultural Supplemental Equity Facility
C2MU	component 2 management unit
DFAT	Department of Foreign Affairs and Trade (Australia)
EDF 11	European Development Fund 11
IDA	International Development Association
M&E	monitoring and evaluation
MAL	Ministry of Agriculture and Livestock
MDPAC	Ministry of Development Planning and Aid Coordination
MIS	management information system
MTDP	Medium-Term Development Plan
NDS	National Development Strategy
PCU	programme coordination unit
PSC	programme steering committee
PSU	provincial support unit
RDP I/II	Rural Development Programme – Phase I and Rural Development Programme – Phase II

Map of the programme area

Solomon Islands
Rural Development Programme
Design report



 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 | 23-04-2014

Solomon Islands

Rural Development Programme – Phase II

Financing summary

Initiating institution:	World Bank (International Development Association [IDA])
Borrower:	Solomon Islands
Executing agency:	Ministry of Development Planning and Aid Coordination
Total programme cost:	US\$62.6 million
Amount of IFAD loan:	SDR 1.57 million (equivalent to approximately US\$2.27 million)
Amount of IFAD grant:	SDR 1.57 million (equivalent to approximately US\$2.27 million)
Terms of IFAD loan:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinancier(s):	IDA, Department of Foreign Affairs and Trade (DFAT) (Australia), European Union/European Development Fund 11 (EDF 11)
Amount of cofinancing:	IDA: US\$5.0 million IDA Crisis Response Window: US\$4.0 million DFAT: US\$13.3 million European Union/EDF 11: US\$13.0 million (to be confirmed)
Terms of cofinancing:	IDA: US\$5.0 million highly concessional loan; US\$4.0 million grant from Crisis Response Window DFAT: grant European Union/EDF 11: grant
Contribution of borrower:	US\$6.8 million
Contribution of beneficiaries:	US\$4.8 million
Contribution of private sector:	US\$11.1 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 Rural Development Programme – Phase II, as contained in paragraph 54.

Proposed loan and grant to Solomon Islands for the Rural Development Programme – Phase II

I. Strategic context and rationale

A. Country and rural development and poverty context

1. An archipelago of 997 islands, Solomon Islands has a total land area of 29,900 km² spread over 1.34 million km² of ocean. It is located in the “Pacific Ring of Fire” and within the cyclone belt, making it highly prone to natural hazards. The population of approximately 550,000 is dispersed across 90 inhabited islands. About 80 per cent of the population lives in rural areas.
2. Solomon Islands is moving into its second decade of a more stable situation since the end of conflict in 2003, although significant challenges remain. The conflict, known locally as the “tensions”, involved violent clashes between rival militant groups, which led to death, displacement and widespread destruction of property. The conflict had multiple political and economic causes, including concentration of economic development in and around Honiara, erosion of customary authority, disenchantment among young people and loss of social cohesion. These situations persist, highlighting the importance of improving infrastructure, services and economic opportunities in rural areas.
3. Approximately 23 per cent of Solomon Islanders suffer poverty involving basic needs. Most people in extreme poverty and extreme food poverty are found in rural areas, where access to services is very limited.

B. Rationale and alignment with government priorities and RB-COSOP

4. Recognizing the need to increase alignment of government and donor rural development programmes and to improve aid effectiveness, the Ministry of Development Planning and Aid Coordination (MDPAC) launched the Agriculture and Rural Development Strategy (ARDS) in 2007. The first phase of Rural Development Programme (RDP I) supported implementation of key ARDS priorities.
5. The main policy document covering the period of the Rural Development Programme – Phase II (RDP II) is the National Development Strategy (NDS), 2011-2020. The NDS outlines several objectives that RDP II will support, but the most relevant are objectives 1 and 4.¹ The strategy aims to improve market access, rural infrastructure, participation in community development and disaster resilience. In particular, RDP II will help develop measures to support communities in reducing risk and managing disasters.
6. The main document guiding implementation of the NDS is the Medium-Term Development Plan (MTDP), 2014-2018, which also responds to the priorities of the National Coalition for Reform and Advancement for 2013. The first priority of the

¹ Objective 1: To alleviate poverty and provide social and economic opportunities and benefits to improve and enhance the lives of Solomon Islanders; and objective 4: To effectively manage and protect the environment and ecosystems and protect Solomon Islanders from natural disasters.

MTDP is “sustainable economic and rural development”. RDP II will support the MTDP aim to establish “appropriate infrastructure to facilitate the implementation of the development targets in our rural and remote communities”, including “maintenance of infrastructure in a fully usable condition”. The agricultural component of RDP II will support the MTDP aim to increase economic opportunities, including value-adding and diversification of sources of economic growth and livelihoods.

7. IFAD’s approach in the Pacific Islands, based on extensive consultations in late 2012, focuses on isolated areas that face hardship, such as atolls, outer islands and upland and marginal areas prone to natural disaster, where natural resources are overexploited and inhabitants lack access to basic services. The main instrument will be direct community engagement and empowerment, with a focus on the special needs of youth and women. Improved livelihoods will be largely based on natural resources. Sustainable intensification is a key tenet of this approach, based on the use of technologies that nurture and protect the environment. The approach calls for IFAD engagement through partnerships with the multilateral and bilateral agencies active in the region.

II. Programme description

A. Programme area and target group

8. RDP II is a national programme that will operate in all nine provinces and 171 rural wards of Solomon Islands. Under the community infrastructure and services component, each rural ward will be entitled to two community development grants, with some adjustments for large and very remote wards. While there are significant differences in the prevalence and severity of poverty and vulnerability among provinces and wards, equal access to funding for rural development is a key element of government policy. This seeks to avoid risk of a resurgence of the tensions that were based partly on feelings of inequitable treatment among the different provinces and ethnic groups. While all or most people in the community will benefit from community development grants, this component also includes enabling measures to facilitate the participation of disadvantaged groups in the priority-setting process.
9. The agricultural partnerships and support component offers other opportunities to target poorer, isolated and vulnerable communities and households. While commercial partners will select the communities and households with whom they wish to do business, the criteria for selecting partnerships to be funded will favour those promoting activities consistent with the interests and capacities of poor people. To ensure that benefits are not captured by one or two provinces or commercial partners, no more than 30 per cent of the funds may go to any one province and no more than 15 per cent to any one partnership.
10. The programme’s agricultural commercialization initiative, designed to focus on more-established, commercially active farmers, nonetheless requires that subsistence and semi-subsistence farmers are not excluded.
11. Programme design takes into account that specific household targeting is not always useful in Solomon Islands, where traditional social security systems achieve community cohesion through sharing of food and income among extended families and clans. In this situation, it is counterproductive and potentially divisive to target only selected households on the assumption that not all community members will share benefits with members of the village or clan.
12. RDP II is expected to provide benefits to about 68,600 households. The majority will benefit from improved rural infrastructure and services. Some 20,500 smallholder households, agribusiness owners and other value-chain actors will also benefit from improved agricultural productivity, marketing and value addition. Since most beneficiaries of the agricultural partnerships and support component are likely

to be living in the same communities that benefit from the community infrastructure and services component, many households are likely to receive two types of complementary benefits.

B. Programme development objective

13. The development objective of RDP II is to improve infrastructure and services in rural areas and to strengthen the linkages between smallholder farming households and markets. The four main indicators that will measure achievement of that objective are: (i) number of men and women beneficiaries with improved quality of and/or access to rural infrastructure or services; (ii) number of men and women farm household members engaged in productive partnerships with commercial enterprises; (iii) percentage increases in sales for farmers engaged in partnerships; and (iv) number of men and women beneficiaries receiving agricultural and livestock support for recovering income lost in the April 2014 flooding.

C. Components/outcomes

14. **Component 1: Community infrastructure and services** (US\$21.52 million) aims to retain the community-driven development mechanisms developed during RDP I, with a number of modifications based on lessons learned and evaluation findings. The subcomponents are:
- (a) **Community development grants** will be delivered in two cycles covering the country's 172 rural wards. Grants will normally be disbursed in one tranche to communities for priority subproject(s). The menu of eligible and ineligible subproject types will remain that of RDP I, but an effort will be made to ensure that communities understand the range of options for economic infrastructure (roads, bridges, jetties, storage facilities, etc.), capacity-building and training activities that complement agricultural commercialization.
 - (b) **Community facilitation and capacity development** will be provided by "community helpers", and half will be trained to provide engineering and technical services. A pilot social accountability activity that draws on the facilitation skills of these helpers will also be carried out.
 - (c) **Rural infrastructure disaster recovery and resilience** support will be provided to communities in Guadalcanal affected by the April 2014 flash floods. The worst-affected communities will receive special grants to repair or rebuild community infrastructure.
 - (d) **Support** will be provided by provincial support units (PSUs) and by leveraging the resources of provincial governments, constituency development offices and line ministry staff at the provincial level. Planning systems will be enhanced to ensure complementarity of RDP and other funding sources.
15. Results of component 1 will be measured by: (i) number of community subprojects completed; (ii) number of participants in community prioritization/consultation meetings; (iii) percentage of subprojects having plans for operation and maintenance; (iv) value of community contributions to subproject costs; (v) number of women members of ward development committees; and (vi) percentage of subprojects with cofinancing from other sources.
16. **Component 2: Agricultural partnerships and support.** This component aims to: (i) assist farming households in engaging in productive partnerships with commercial enterprises; (ii) build the capacity of the Ministry of Agriculture and Livestock (MAL) to deliver its core functions of regulation, research and sector coordination; and (iii) restore the productive assets of households critically affected by the April 2014 floods. The subcomponents are:
- (a) **Agribusiness partnerships** will promote the development of productive alliances between agribusinesses and smallholder farmers. Such partnerships

will involve financing, business development services, market linkages, capacity-building and policy/institutional support. Partnerships must include smallholders and measures to assist them in improving their productivity and connection to markets. In the allocation of agribusiness partnership grants, selection criteria will give preference to partnerships that: (i) offer equitable opportunities for participation by men, women and youth; (ii) incorporate measures to facilitate the inclusion of disadvantaged and vulnerable groups; and (iii) address the need to adapt to climate variability, climate change and natural disasters.

- (b) **Agricultural Supplemental Equity Facility (ASEF).** This facility will reactivate the Supplemental Equity Facility created under RDP I. It will be accessed through commercial banks for subprojects in which the borrower contributes 20 per cent of the cost, and the bank is prepared to lend 60 per cent. The remaining 20 per cent will be financed by an ASEF grant. Eligibility will be limited to enterprises engaged in the agriculture sector and will favour those offering the best prospects for generating employment.
 - (c) **Agricultural commercialization** will strengthen the enabling environment of the agriculture sector through support to the MAL capacity-building process, direct support to farmer groups, improved industry coordination and adaptive research.
 - (d) **Agriculture and livestock disaster recovery and resilience** will help repair or replace productive assets in Guadalcanal communities most affected by the recent floods. This activity will also deliver training in climate and disaster risk management and climate-resilient farming in all provinces.
 - (e) **Agribusiness support** will include a component 2 management unit (C2MU), to be based in MAL, with a mandate to coordinate and manage the implementation of that component.
17. Results of component 2 will be measured by: (i) number of agribusiness partnerships established; (ii) increase in area of crops with improved farming practices under partnerships; (iii) total value of ASEF grants disbursed; (iv) number of men and women farmers who are members of formal associations and participate in partnerships; and (v) client-days of agricultural training provided.
18. **Component 3: Programme management.** Most component-specific management activities will be undertaken within components 1 and 2 themselves. Only core, cross-component management functions will remain under component 3, including: overall programme management, finance, procurement, monitoring and evaluation (M&E), the management information system (MIS) and environmental/social safeguards.
19. Components 1 and 2 complement each other in several ways: (i) economic infrastructure will improve market access for agricultural products; (ii) many rural communities will receive a double benefit of improvements in social services, such as water, health or education, and economic investments in their farms; (iii) both components will empower rural communities by managing subprojects and by linking communities with companies that can help them commercialize their activities. Both will also enhance disaster preparedness and climate resilience.

III. Programme implementation

A. Approach

20. The approach to implementation of RDP II will be similar to RDP I, with overall coordination remaining the responsibility of MDPAC, but with delegation of component 2 management to the C2MU in MAL.

B. Organizational framework

21. Implementation responsibility will remain with MDPAC, as in RDP I. A programme steering committee (PSC) will provide oversight, guidance and monitoring, and will be comprised of the permanent secretaries, or their delegates, from key ministries.²
22. The permanent secretary, MDPAC (programme coordinator), will be assisted by a programme coordination unit (PCU), comprising a national programme manager and an international programme advisor, and, in addition: (i) for fiduciary aspects, finance and procurement specialists; (ii) for components 1 and 2, coordinators and other support staff (based in MAL); and (iii) for additional cross-component implementation support, an M&E/MIS officer and an environment officer. The programme manager (reporting to the permanent secretary, MDPAC) will coordinate implementation of activities managed by the provincial governments and MAL.
23. Component 1 management at the provincial level will be the responsibility of the provincial secretary, assisted by a provincial team leader, finance officer and community helpers operating at ward and village levels. Central province activities will be managed from Guadalcanal. The provincial governments will be responsible for activities in each province through memorandums of understanding with MDPAC. Technical support will be provided by line agency staff at the provincial level.
24. Management of component 2 will be the responsibility of the C2MU. A component 2 manager will be responsible for all component activities and will report to the Technical Undersecretary, MAL. The manager will work with the RDP programme manager and programme advisor as an overall programme management team. Two national consultants will support the partnership and training aspects of component 2; two staff members will provide M&E support; and MAL will assign a programme assistant to support the C2MU team.

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

25. The PSC will meet semi-annually to monitor progress and provide guidance. MDPAC, in coordination with MAL, will submit semi-annual reports to the PSC, the World Bank and other donors. A multi-stakeholder consultative committee will also be convened by MAL to provide guidance on component 2.
26. PSUs will supervise subproject implementation and will ensure timely quarterly reporting by subproject implementation committees. Community helpers will monitor subprojects, provide technical assistance, and collect and validate reports. The PCU will consolidate subproject reports for component 1, as well as reports on component 2 activities, into the semi-annual report.
27. For component 1 activities, a web-based MIS will be used to monitor subprojects. This will allow real-time subproject updates to be uploaded from the field. Subproject progress will be monitored to assist communities that may be facing difficulties.
28. The main monitoring instrument for component 2 will be comparisons against baselines established for each partnership. Impact on participating farmers will be monitored. ASEF-financed subprojects will also be monitored, together with participating commercial banks, to ascertain loan performance, business improvements and job creation.

² Finance and Treasury; Agriculture and Livestock; Infrastructure Development; Provincial Government and Institutional Strengthening; Education and Human Resource Development; Health; Rural Development; Development Planning and Aid Coordination, and the provincial secretaries.

29. An evaluation of disaster recovery activities will be conducted as part of the midterm review.

D. Financial management, procurement and governance

30. **Financial management.** Financial management arrangements will rely on those designed by the World Bank for the implementation of RDP. The current RDP team, which has budgeting experience from the RDP I programme, will prepare an overall budget for the life of RDP II, including a detailed budget for the first two years. The budget will be consistent with the procurement plan. In addition to its responsibility as an implementing entity for a component of the programme, MDPAC will be responsible for overall programme management and coordination, including the establishment and maintenance of an adequate internal control system. The programme manager, through the finance manager, will be responsible for preparing programme financial statements. Finance team members will continue to receive training in financial management and any other relevant areas as needed. MDPAC will maintain books of accounts specifically for the programme. The chart of accounts will allow costs to be directly related to specific activities and outputs. The programme will continue using the Mind Your Own Books (MYOB) accounting package, but the World Bank will advise on improving the functionality of the system so that it is more responsive to programme needs. The PCU will monitor and provide quarterly interim and annual financial reports to the World Bank and IFAD within 45 days of the end of the period. The information in these reports will be similar in structure to RDP I reporting.
31. **Flow of funds.** MDPAC will create a new designated account for RDP II, in Solomon Islands dollars, to which IFAD funds will be transferred, as distinct from the designated account used for RDP I. In addition to the main PCU designated account, provincial sub-accounts will provide funds to support activities of the PSUs. Funds will also flow from the main PCU account to subproject accounts established for each community subproject. A subproject agreement will be signed between the MDPAC and each recipient community that defines the terms and conditions under which the funds are provided.
32. **Procurement.** A procurement assessment was carried out during programme design. Arrangements developed under RDP I will be continued and will be carried out in accordance with World Bank guidelines and the financing agreement. A procurement plan will be prepared specifying methods, estimated costs, prior review requirements and time frame.
33. **External audit arrangements.** MDPAC will hire a private audit firm to conduct annual audit of the programme financial statements, which shall be separate from MDPAC accounts.

E. Supervision

34. The World Bank will serve as the cooperating institution for IFAD. Programme implementation will be supported by the World Bank country office, including fiduciary compliance and operational support, technical aspects and safeguards. Country-based administrative and fiduciary staff will provide operational support and liaison with the Government. Supervision missions will be conducted at least three times during the first year and semi-annually thereafter. In addition to periodic reviews by the World Bank and inputs from procurement, financial management and safeguards specialists, the supervision plan identifies appropriate technical expertise to be provided by IFAD.

IV. Programme costs, financing, benefits

A. Programme costs

35. RDP II will be implemented over five years at a cost of US\$62.8 million, allocated as follows:

Table 1
Indicative programme costs by component and financier
 (Thousands of United States dollars)

<i>Component</i>	<i>IFIs*</i>	<i>Borrower</i>	<i>Private partners and beneficiaries</i>	<i>Total</i>
	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>
Component 1 – Community infrastructure and services	18 324	2 859	7 452	28 635
Component 2 – Agricultural partnerships and support	15 202	2 202	8 448	25 852
Component 3 – Programme management	6 374	1 739	-	8 113
Total	39 900	6 800	15 900	62 600

* International financial institutions (IFIs) include the International Development Association (IDA), DFAT, European Union/EDF 11 and IFAD.

B. Programme financing

36. RDP II will be jointly financed by IFAD, the World Bank, DFAT, the European Union, the Government, beneficiaries and the private sector. Donor and government contributions, amounting to US\$46.9 million, will be pooled, and there will be no earmarking of specific components. The European Union contribution is indicative at this stage and subject to further assessment by the European Union delegation and member states. The contributions of financing partners are estimated as:

Table 2
Indicative programme costs by expenditure category and financier
 (Thousands of United States dollars)

<i>Category</i>	<i>IFIs*</i>	<i>Borrower</i>	<i>Private partners and beneficiaries</i>	<i>Total</i>
	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>
Goods, services and input	39 900	6 800	15 900	62 600
Total	39 900	6 800	15 900	62 600

* IFIs include IDA, DFAT, European Union/EDF 11 and IFAD.

C. Summary benefit and economic analysis

37. Investment in cost-effective and sustainable social infrastructure under component 1 will have positive impacts on communal access to and use of services, especially in health, education and drinking water, and hence will address national objectives of access to quality health care and education. Under component 2, rural livelihoods will be enhanced through diversification and commercialization of agricultural production and improved access to finance, which will address national objectives of poverty reduction and inclusive economic growth.
38. RDP II investments are expected to have a strong impact on productive capacity and to contribute to employment and innovation. Main economic benefits are: (i) improved service delivery and greater private investment in rural areas; (ii) increased agricultural productivity and value addition; and (iii) restoration of assets destroyed during the recent floods. Other benefits include: (i) social benefits (time savings, potable water, sanitation, health and education); and (ii) improved governance/social capital at local and provincial levels and empowerment of women in decision-making.
39. Economic analysis indicates that the programme can be expected to generate an economic rate of return of about 17 per cent, comprising 10 per cent for component 1 and about 22 per cent for component 2. These estimates include only readily quantifiable benefits. Significant non-quantifiable benefits can also be expected to accrue over time. Sensitivity tests demonstrate that the economic results are reasonably robust to variations in commodity prices, costs and changes in the pace of implementation.

D. Sustainability

40. RDP II will work towards institutionalizing ward grants and subprojects – and possibly full financing by government by the conclusion of phase II. Additional financing by government – covering the entire fourth cycle of community grants under RDP I – and the decision to provide significant financing under RDP II are important indicators of the political commitment to sustainability.
41. At the community level, sustainability will focus on operation and maintenance and capacity-building. Subprojects will be supported in ensuring that appropriate operation and maintenance plans are in place, mostly relying on community financing. Support for sustaining public services such as health and education will also be enhanced through deeper engagement in subproject planning.
42. The matching grant instruments used in component 2 will provide seed capital to catalyse business ventures that will be sustained on a commercial basis. Sustainability thus depends on the success of the investments and the ability of companies to maintain their commercial relationships with farmers.

E. Risk identification and mitigation

43. The capacity for programme implementation improved substantially during RDP I. Implementation risk is thus classified as moderate. Significant capacity has been built to deliver community grants, and these systems continue to improve. However, the challenge of supporting every rural ward in the country will require an adaptive approach and continual capacity-building. Fiduciary risks have been well managed, as have environmental and social ones. The agriculture component poses the most significant risks as the main activity, partnership grants, will be offered for the first time. The process of managing the grants is transaction intensive and spread over a broad geographical area. MAL will need to leverage its institutional resources, in particular extension services, to provide proactive support. Given the limited size of the private sector, there may be limited uptake of partnerships early on, so efforts will be needed to build the capacity of the private sector as well. Agricultural partnerships are also subject to the usual risks of fluctuating commodity prices, climatic variability and natural disasters.

V. Corporate considerations

A. Compliance with IFAD policies

44. RDP II design is fully aligned with the IFAD Strategic Framework 2011-2015 and with IFAD policies on community development, environment and climate change, gender mainstreaming, targeting, matching grants and knowledge management. The programme also complies with IFAD's rural enterprise and private-sector strategies through the development of productive alliances between farmers and agribusiness and the provision of supplemental equity, in combination with business development services, institutional capacity-building and training.
45. RDP II recognizes the current reality and future threat posed by climate change and incorporates adaptation and mitigation measures. Under component 1, these measures concern the planning of infrastructure to ensure that it is not adversely affected by climate change and/or natural disasters, and that the environmental footprint is minimized. Component 2 will incorporate adaptation and mitigation measures to strengthen the resilience of agricultural systems to climate change.
46. The roles of women and men are clearly demarcated in Solomon Islands customs. Women are mainly engaged in staple food crops, while men focus on cash crops and fishing. This calls for innovative, but carefully crafted, approaches to encourage equitable inclusion of women and men, while respecting deeply rooted beliefs and customs governing gender-specific roles. RDP II aims to facilitate equitable participation of women and men in the context of the customarily defined roles of the two genders in community affairs and agriculture. Component 1 will build on

RDP I achievements in the participation of women in community infrastructure though enabling measures for women's participation in decision-making. The challenge of component 2 is to facilitate the participation of women in commercial agricultural activities that have traditionally been largely the domain of men, while supporting their ongoing role in subsistence crops. Preference in the allocation of partnership grants will be given to applicants that: (i) offer equitable opportunities for participation by men, women and youth; and (ii) incorporate measures to facilitate the inclusion of disadvantaged and vulnerable groups.

B. Alignment and harmonization

47. RDP II is fully aligned with the Agriculture and Rural Development Strategy, the NDS (which incorporates the national poverty reduction strategy) and the MTDP. National systems developed under RDP I will continue to be used for RDP II. RDP is Solomon Island's only significant rural/agricultural development programme and is supported by most major development partners on a pooled funding basis. All these development partners have worked in partnership with the Government and other stakeholders during RDP II design, and will continue to be involved in joint supervision activities.

C. Innovations and scaling up

48. Component 1 involves scaling up of RDP I community development activities that were refined over a seven-year period. The key driver of the scaling up process is the desire of the Government and rural communities to extend the benefits of RDP I to the country as a whole and to build on the social capital developed during that phase. There is abundant space for scaling up to occur, given the rudimentary state of rural infrastructure and services and the capacity of communities to become engaged in design and implementation. RDP II will address barriers to successful scaling up such as provincial and community capacity, technical design, supervision, and operation and maintenance.
49. Component 2 represents a new approach to agricultural development in Solomon Islands. It is based on success stories of the use of matching grants to facilitate partnerships between agribusiness enterprises and smallholder farmer groups in Papua New Guinea and elsewhere. The concept of productive alliances has been well accepted by Solomon Islands agribusiness companies, and a number have indicated their interest in participating.

D. Policy engagement

50. The financing of rural development is a complex policy area, and one in which RDP II has the potential to make a significant contribution to the policy process. The politicization of rural development financing, in particular the use of Constituency Development Funds, lacks basic accountability and transparency. The RDP approach has demonstrated an effective and highly accountable way of addressing rural development needs that should inform the ongoing debate on rural development financing. Closer engagement with the private sector also represents a new policy area that is consistent with MAL's institutional development strategy.

VI. Legal instruments and authority

51. A programme financing agreement between Solomon Islands and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.
52. Solomon Islands is empowered under its laws to receive financing from IFAD.
53. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

54. I recommend that the Executive Board approve the proposed financing in terms of the following resolutions:

RESOLVED: that the Fund shall provide a loan on highly concessional terms to Solomon Islands in an amount equivalent to one million five hundred and seventy thousand special drawing rights (SDR 1,570,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to Solomon Islands in an amount equivalent to one million five hundred and seventy thousand special drawing rights (SDR 1,570,000), 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: "Rural Development Programme, Phase II"

(Negotiations concluded on 19 January 2015)

Loan Number:
Grant Number:

Programme Title: Rural Development Programme, Phase II (the "Programme")

Solomon Islands (the "Borrower/Recipient")

and

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

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

WHEREAS, the Borrower/Recipient and the International Development Association ("IDA") have negotiated a draft Financing Agreement dated 16 September 2014 for the financing of the Programme (the "IDA Agreement"), and the Borrower/Recipient has requested an additional Loan and Grant from IFAD to provide additional financing for the Programme; and

WHEREAS, additional financing for the Programme will be obtained from other sources, including the Commonwealth of Australia.

NOW, THEREFORE, the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).
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 provision identified in Section E paragraph 4 below. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan and a Debt Sustainability Framework (DSF) Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1. A. The amount of the Loan is one million five hundred seventy thousand Special Drawing Rights (SDR 1 570 000).
B. The amount of the DSF Grant is one million five hundred seventy thousand Special Drawing Rights (SDR 1 570 000).

2. The Loan shall be free of interest but bear a service charge of three fourths of one per cent (0.75%) per annum payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of forty (40) years, including a grace period of ten (10) years starting from the date of approval of the Loan by the Fund's Executive Board.
3. The Loan Service Payment Currency shall be the United States Dollar.
4. The first day of the applicable Fiscal Year shall be January 1.
5. Payments of principal and service charge shall be payable on each 15 May and 15 November.
6. The Borrower/Recipient shall provide counterpart financing for the Programme in the amount of approximately USD 6.8 million.

Section C

1. The Lead Programme Agency shall be the Ministry of Development Planning and Aid Coordination.
2. The following are designated as additional Programme Parties:
 - (a) Ministry of Agriculture and Livestock;
 - (b) Participating provinces
3. The Programme Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

The Financing shall be administered and the Programme supervised by IDA as the Cooperating Institution.

Section E

1. The following is designated as an additional condition precedent to withdrawal: the IDA Agreement shall have become effective.
2. The following is designated as an additional ground for suspension: the IDA Agreement has been suspended.
3. The following is designated as an additional ground for cancellation: the IDA Agreement has been cancelled.
4. As an exception to section 7.05 of the General Conditions, procurement shall be carried out in accordance with the procedures set out in the IDA Agreement.
5. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower/Recipient:

The Minister
Ministry of Finance and Treasury
P O BOX 26
Honiara, Solomon Islands

For the Fund:

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

This agreement, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower/Recipient, and shall enter into force on the date of countersignature.

SOLOMON ISLANDS

Authorized Representative

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

The Programme Description is set out in Schedule 1 to the IDA Agreement

II. Implementation Arrangements

The Programme shall be implemented in accordance with Schedule 2 to the IDA Agreement.

Schedule 2*Allocation Table*

1. *Allocation of Financing Proceeds.* (a) The Financing proceeds shall be used to finance expenses related to goods, works, non-consulting and consultant services, sub grants, training and incremental operating costs in the same way IDA financing proceeds will be used, including the tax element. All these expenses shall be classified under the unique cost category "Goods, services and input" for management and system related purposes.

(b) The Cooperating Institution shall allocate each withdrawal application it receives from the Borrower/Recipient proportionately among the various sources of financing that it is responsible for managing, and shall request from the Fund its share thereof. The Fund shall make withdrawals proportionately from the Loan Account and the Grant Account and transfer such amounts to the Borrower/Recipient in accordance with section 4.05 of the General Conditions.

Logical framework

Results Hierarchy	Objectively Verifiable Indicators	Means of Verification	Assumptions/Risks
Overall Goal			
Reduced hardship and vulnerability in rural communities	<ul style="list-style-type: none"> Percent rural population below basic needs poverty line Rate of rural/urban population movement 	<ul style="list-style-type: none"> Household income and expenditure survey Population census 	<ul style="list-style-type: none"> Government maintains favourable policy settings for rural development
Development Objective			
Improve infrastructure and services in rural areas and strengthen linkages between smallholder farming households and markets	<ul style="list-style-type: none"> Number of beneficiaries with improved quality of, and/or access to rural infrastructure and services (including from disaster recovery) (262,850 of which 131,425 female) Number of male and female farming household members engaged in productive partnerships with commercial enterprises (68,200) Percentage increase in sales for farmers engaged in partnerships (30%) Number of beneficiaries supported to recover incomes lost from flooding (5,400) 	<ul style="list-style-type: none"> Annual progress reports recording number of beneficiaries Annual progress reports recording number of beneficiaries Impact assessment studies MTR to assess impact of flood recovery assistance 	<ul style="list-style-type: none"> RDP II participatory planning approach coordinated with other rural infrastructure and services Line ministries support RDP II approach Agribusinesses prepared to engaged in partnerships with smallholder farmers
Component 1: Community Infrastructure and Services			
Outcome 1: Community development grants used to finance improved rural infrastructure and services			
Output 1: Rural communities identify sub-projects which meet their needs	<ul style="list-style-type: none"> Number of participants in community prioritization/consultation meetings (180,000 of which 90,000 female) 	<ul style="list-style-type: none"> Minutes and attendance records of meetings 	<ul style="list-style-type: none"> Selected sub-projects provide benefits to the greatest No. of people
Output 2: Sub-projects designed, financed, constructed	<ul style="list-style-type: none"> Community sub-projects completed (374) 	<ul style="list-style-type: none"> Sub-project files and records compiled by PSUs and PCU 	<ul style="list-style-type: none"> Adequate capacity for design, procurement and construction
Output 3: Communities contribute at least 30% of cost of sub-projects	<ul style="list-style-type: none"> Value of community contributions to sub-project costs (approximately US \$ 4.2 million) 	<ul style="list-style-type: none"> Sub-project files and records compiled by PSUs and PCU 	<ul style="list-style-type: none"> Communities willing and able to mobilise resources
Output 4: Operation and maintenance regimes for infrastructure established	<ul style="list-style-type: none"> Percentage of sub-projects with plans for operation and maintenance (100%) 	<ul style="list-style-type: none"> Documented and approved O&M plans 	<ul style="list-style-type: none"> O&M plans adequately implemented
Output 5: Women and men participate equally in identification of priority sub-projects	<ul style="list-style-type: none"> Number of female Ward Development Committee members (50) 	<ul style="list-style-type: none"> Membership records of Ward Development Committees 	<ul style="list-style-type: none"> WDCs encourage participation of women
Output 6: RDP funding for sub-projects leverages additional finance from other sources	<ul style="list-style-type: none"> Percentage of sub-projects with co-financing from other sources (20%) 	<ul style="list-style-type: none"> Sub-project budgets and reports showing financial contributions 	<ul style="list-style-type: none"> Other sources of funding (e.g. Constituency Development Funds)

Results Hierarchy	Objectively Verifiable Indicators	Means of Verification	Assumptions/Risks
			collaborate with RDP II
Component 2: Agricultural Partnerships and Support			
Outcome 2: Farming households engaged in productive partnerships with commercial enterprises			
Output 1: Productive and profitable partnerships created and sustained	<ul style="list-style-type: none"> Number of agribusiness partnerships established and sustained (79) Number of smallholder farmers engaged in partnerships (12,400) 	<ul style="list-style-type: none"> PCU records showing number of partnerships approved and sustained Reports submitted by partners and independently verified 	<ul style="list-style-type: none"> Adequate number of acceptable partnership proposals Farmer groups prepared to engage in partnerships
Output 2: Farmers in partnerships increase production and sales	<ul style="list-style-type: none"> Increase in area of crops with improved farming practices under partnerships (25%) 	<ul style="list-style-type: none"> Independently verified Reports submitted by partners 	<ul style="list-style-type: none"> Partnerships develop marketing pathways to increase volume and prices
Output 3: Commercial banks increase lending to agribusiness clients through use of ASEF	<ul style="list-style-type: none"> Total value of grants disbursed, SBD 16,000,000 Repayment rates for ASEF-supported loans (high; nearly 100%) 	<ul style="list-style-type: none"> Records of participating commercial banks 	<ul style="list-style-type: none"> Sufficient agribusiness enterprises meet ASEF qualification criteria
Output 4: Agribusiness partners and ASEF recipients increase employment in rural areas	<ul style="list-style-type: none"> Number of employees of SMEs (ASEF recipients) and agricultural partnerships (10% increase or 1179) 	<ul style="list-style-type: none"> Sample survey of ASEF recipients Independently verified Reports submitted by partners 	<ul style="list-style-type: none"> Jobs will be created in rural rather than urban areas
Output 5: Farmer groups and industry organizations strengthened	<ul style="list-style-type: none"> Client days of agricultural training provided to farmer groups (20,000) Number of industry councils established and sustained (2) 	<ul style="list-style-type: none"> Training records maintained by C2MU (MAL) Annual reports submitted by industry councils 	<ul style="list-style-type: none"> Capable farmer groups identified Industry councils will raise funds to be sustainable
Output 6: Flood damaged assets repaired or replaced and disaster preparedness strengthened	<ul style="list-style-type: none"> Number of flood-affected households receiving support (670) Number of households participating in disaster risk and climate resilience training (farmers in Guadalcanal and all other provinces); 670-900 	<ul style="list-style-type: none"> C2MU (MAL) records and sample survey of households during MTR 	<ul style="list-style-type: none"> Livestock and materials procured and delivered within two years
Component 3: Programme Management			
Output 1: Programme efficiently and effectively managed	<ul style="list-style-type: none"> Programme implemented on schedule, reports submitted on time and audits unqualified Spot checks of sub-projects and agribusiness partnership records produce satisfactory reports 	<ul style="list-style-type: none"> Programme reports Joint donor supervision mission reports Programme audit reports 	<ul style="list-style-type: none"> PCU and C2PMU are adequately funded and staffed Government counterpart funding provided