

Document: EB 2015/LOT/P.6/Rev.1
Date: 17 April 2015
Distribution: Public
Original: English

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Investing in rural people

President's report

Proposed loan to the Republic of Fiji for the Fiji Agricultural Partnerships Project

Note to Executive Board representatives

Focal points:

Technical questions:

Chase Palmeri
Country Programme Manager
Tel.: +39 06 5459 2449
e-mail: ch.palmeri@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Head, Governing Bodies Office
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

For: Approval

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Abbreviations and acronyms

ADU	agribusiness development unit
AWP/B	annual work plan and budget
FAPP	Fiji Agricultural Partnerships Project
FCLC	Fiji Crop and Livestock Council
M&E	monitoring and evaluation
MoA	Ministry of Agriculture
MORDI	Mainstreaming of Rural Development Innovations Programme
PHVA	Partnership in High Value Agriculture
PSC	project steering committee
RIMS	Results and Impact Management System
SMEs	small and medium-sized enterprises

Map of the project area

Fiji
Fiji Agricultural Partnerships Project (FAPP)



 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 | 20-06-2014

The Republic of Fiji

Fiji Agricultural Partnerships Project

Financing summary

Initiating institution:	IFAD
Borrower:	Republic of Fiji
Executing agency:	Ministry of Agriculture
Total project cost:	US\$6.05 million
Amount of IFAD loan:	EUR 3.1 million (equivalent to approximately US\$3.52 million)
Terms of IFAD loan:	Ordinary
Cofinancier(s):	Financing institutions
Amount of cofinancing:	US\$0.93 million
Contribution of borrower:	US\$1.03 million
Contribution of beneficiaries:	US\$0.57 million
Appraising institution:	IFAD
Cooperating institution:	IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to the Republic of Fiji for the Fiji Agricultural Partnerships Project, as contained in paragraph 63.

Proposed loan to the Republic of Fiji for the Fiji Agricultural Partnerships Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. The Republic of Fiji is an archipelago of some 330 islands and more than 500 islets with a total land area of 18,200 square kilometres and a tropical climate. The 2007 census recorded a population of 874,271 people with 51 per cent living in urban areas and 80 per cent on the main island of Viti Levu. Following elections in September 2014, the new Government was recognized as a democratically elected government by the United Nations General Assembly.
2. Economic and social development is driven by the Republic of Fiji Roadmap for Democracy and Sustainable Socio-Economic Development 2010-2014 (RDSSSED). The nation-building agenda of the RDSSSED emphasizes the strengthening of social cohesion among all Fijian citizens. Priorities for economic development include maintaining macroeconomic stability, promoting exports, substituting imports, raising investment levels, and making more land available for productive and social purposes. The RDSSSED emphasizes two strategic objectives related to agriculture and rural development: improving the availability of and access to nutritious, locally produced foods for poor and vulnerable rural households; and increasing rural incomes from farm and non-farm income-generating and employment opportunities.
3. Fiji's main exports of sugar, fish, crude coconut oil, root crops, and horticultural crops face stiff international competition. The country still imports many basic food requirements for the tourism sector and about 90 per cent of the food items in supermarkets.
4. Over the past decade, the agriculture sector contributed an average of 10.6 per cent of Fiji's total annual GDP, declining from 16 per cent in the 1990s to 9.2 per cent in 2012. The sector employs close to two thirds of the labour force. Recent challenges have included the decline in the sugar industry, inability to cope with trade liberalization, natural disasters, pest and disease outbreaks, and trade restrictions in export markets. Agriculture, forestry and marine ecosystems are under threat from increasing population pressure and the adverse effects of climate change.
5. One third of Fiji's population lives in poverty,¹ and the incidence of rural poverty increased between 2003 and 2008. The main factors correlating with poverty have been identified as household size, the presence of elderly people and children in the household, the education level of the head of household, having a woman as sole head of household, and unemployment of the head of household. All five of these factors are more marked in rural areas. While the income of urban households increased by 51 per cent between 2002/03 and 2008/09, that of rural households increased by only 10 per cent.

¹ World Bank, 2011.

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

6. Smallholder farmers in Fiji have good resource potential and a demonstrated willingness to produce marketable surpluses to increase their incomes. There is strong demand for domestically produced agricultural products. However, value chains are underdeveloped and commercial relationships are weak.
7. The highlands of Viti Levu have an advantage in selected horticultural products. This advantage derives from the highlands lower temperatures when it is too hot for horticultural production in coastal areas. The Government of Fiji is committed to improving incomes for highland communities by addressing constraints to production and the higher marketing costs due to their remote location. It is also seeking to promote farming as a business.

II. Project description

A. Project area and target group

8. The project will benefit all small-scale and semi-subsistence farm households in Fiji by improving government policies, procedures and services for agribusiness and expanding the services provided by private traders, processors and transporters that purchase the small-scale farmers' output. It will have a special focus on poorer communities located in the interior of Viti Levu at elevations exceeding 450 metres (1,500 feet), comprising some 2,000 households. The project may also include communities contiguous to these highland communities, to the extent that project resources permit.
9. Households in the target group traditionally have their own food gardens, located on communally owned land. Currently, most households plant less than 0.1 hectares of vegetables as part of cropping rotations that include staple root crops (cassava, sweet potatoes and yams), cash root crops (taro and kava), fruits (bananas, plantains, pineapples and citrus fruits) and staple leafy greens (bele and rourou). They live in traditional villages that are governed by chiefs and village by-laws. Discrimination by gender and age is strong in village and household decision-making.

B. Project development objective

10. The overall goal of the Fiji Agricultural Partnerships Project (FAPP) is to reduce hardship in remote rural communities. The key indicator of achievement of this objective will be a substantial increase in the household asset ownership index.
11. The project's development objective is to engage small-scale producers in sustainable farming as a business in remote areas, particularly the highlands. The principal measure of progress towards this objective will be 50 per cent of households in the highlands regularly market agricultural outputs to trading or processing enterprises.

C. Components/outcomes

12. Component 1: Public-sector capacity to support agribusiness. The FAPP will support the Government in strengthening the private agribusiness sector, improving the public environment for agribusiness and promoting agricultural value chains, thereby expanding income-earning opportunities for poor farmers. It will assist the Ministry of Agriculture (MoA) in promoting effective policies, working effectively with the private sector, advising farmers on agribusiness matters and ensuring an appropriate regulatory environment for agribusiness. In the process, the FAPP will create the capacity to carry out such work in the future through the establishment and initial operation of an agribusiness development unit (ADU) within MoA.

13. Skills development of ADU staff will be provided on the job by an internationally recruited senior agribusiness development adviser and through staff training. The ADU will arrange courses to develop the capacity of extension staff to advise on farming as a business. The ADU will carry out value chain studies to prepare evidence-based policy recommendations. It will promote consultation among stakeholders in value chains and support development of value chain associations, in partnership with organizations such as the Fiji Crop and Livestock Council (FCLC) and the Fiji Chamber of Commerce and Industry.
14. The overall outcome of this component will be enhanced MoA capacity to promote private-sector agribusiness.
15. Component 2: Assistance to small and medium-sized enterprises (SMEs) working with smallholders will improve the businesses of operators that buy agricultural outputs from or sell farm inputs to small-scale farmers. Value chain intermediaries are often reluctant to take the risks involved in developing new linkages to small farmers. The FAPP will provide access to mentoring on request to SMEs seeking to expand operations with small-scale farmers, and matching grants to SMEs with access to financial services from private banks.
16. Provision has been made for mentoring approximately 45 SMEs over the first three years of the FAPP. In addition, grants of up to US\$25,000 will be given to match owner equity contributions of up to 25 per cent of a planned investment. Examples of investments for expanding operations might include the purchase of a vehicle to enable the SME to reach remote farming areas, infrastructure for upgrading marketing facilities, or operating capital to address cash-flow constraints for contract farming ventures.
17. The overall outcome of the component will be strong linkages between SMEs and rural agricultural producers.
18. Component 3: Farming as a business for highland communities. In the highlands, organized communities are central to mobilizing the human and land resources necessary for a successful transition from semi-subsistence to commercial agriculture. Community members require an understanding of leadership skills and good governance, resource management and planning, addressing gender disparity and related justice issues, and environmental sustainability.
19. Through training, the FAPP will transfer skills covering all aspects of farm enterprise management. The project will facilitate relationships between producers and value chain operators, combining training with meetings between farmers and potential buyers. Special support will be given to women who have to travel to reach retail markets.
20. The FAPP will promote the adoption of environmentally sound climate change-resilient technologies and effective farm management, enabling farmers to benefit from the comparative advantage of their location. The project will support the enhancement of traditional farming skills using a peer-to-peer knowledge-sharing approach. Technology transfer may include use of vegetable seedlings, improved germplasm, group development of planting material enterprises, and training in post-harvest handling.
21. The FAPP will provide technical assistance and internal controls for participatory certification and sustainable commercialization of selected highland products, replicating experiences of the Pacific Organic and Ethical Trade Community (supported by IFAD), under which farmers in other parts of Fiji are expanding the production of organically certified virgin coconut oil and papaya.
22. The overall outcome of this component will be reoriented highland farmers with skills and capacity to do farming as a business.

III. Project implementation

A. Approach

23. The project will be implemented from 2015 to 2019, with the first six months devoted to planning and preparatory activities, then three years of investment and follow-up activities, and the final six months for winding down and assisting in the design of project replication for other parts of Fiji.
24. The project approach will be based on scaling up features of successful interventions under two recent IFAD initiatives: a regional grant to the Mainstreaming of Rural Development Innovations Programme (MORDI), and a national grant to the Partnership in High Value Agriculture Project (PHVA), which is a two-year programme with a Fijian NGO building on the MORDI model. The FAPP will use the MORDI model of community empowerment through investment planning. From PHVA, it will draw on pilot interventions in community development and the commercialization of high-value fruits and vegetables. PHVA has been extended to the end of 2015 to provide continuity and overlap with the FAPP. Under component 3, the FAPP will expand PHVA activities to all highland communities on Viti Levu, and possibly to additional contiguous areas.
25. The project approach will address gender issues systematically. Measures will include gender mainstreaming in project implementation and management; targeted capacity-building for women and youth; emphasis on women's participation in community decision-making; where possible, the use of women as community facilitators in the highlands; and measurable monitoring and evaluation (M&E) indicators to ensure that women's participation in FAPP activities is monitored closely and indicators are disaggregated by gender.
26. Under component 1 on public-sector capacity to support agribusiness, the ADU will be established as the main vehicle for augmenting the capacity to support agribusiness. It will be created prior to project start up and will host the project staff. The ADU will be supported by a senior agribusiness development adviser, recruited internationally in consultation with IFAD. The project will be flexible in using its allocated resources to secure technical advisory services for agribusiness, and may secure additional resources and services for the ADU to enable its staff to operate at the highest possible level.
27. Service providers will be selected by MoA according to agreed procurement procedures. All implementing partners will be monitored closely by managers, supervision missions and the FAPP management information system. Coordination will be through the ADU within MoA, where staff will be learning by doing, with leadership and on-the-job advice from the full-time senior agribusiness development adviser. The FAPP will also provide short international training courses. Training of extension officers in agricultural marketing, agribusiness and value chains will be conducted by the senior agribusiness development adviser, members of the ADU and contracted experts. Studies will be commissioned to support policy development and the promotion of agribusiness. The FAPP will join MoA initiatives to strengthen MoA's commodity councils, and will work with FCLC on strengthening FCLC's constituent associations, eventually merging its council/association activities with those of MoA.
28. Component 2 on assistance to SMEs working with smallholders will be overseen by the ADU, but mentoring will be contracted to external companies and individuals with business-mentoring skills. Participating banks will evaluate the viability of business plans presented by SMEs and the degree to which SMEs satisfy the banks' criteria for lending. The ADU will verify the eligibility of proposed recipients of matching grants – with respect to the purpose of the investment – and will provide SMEs with grants through the banks.

29. Component 3 on farming as a business for highland communities will be overseen by ADU but carried out through a service agreement with a selected lead implementing partner. This partner will be responsible for overall day-to-day coordination and implementation of the entire component. Other specialized service providers will be subcontracted for specific deliverables such as training on basic business skills and financial literacy, support to traditional marketing practices by women, technology transfer and organic certification. A plan for procuring specialized services under subcontracts with the lead implementing partner will be cleared by the project manager at the same time as the overall procurement plan and the annual workplan and budget (AWP/B).

B. Organizational framework

30. MoA will be the lead project agency for the FAPP. Oversight and guidance will be provided by a project steering committee (PSC) led by the Permanent Secretary of MoA and fully representative of all stakeholders.
31. Project management and implementation support staff will be fully integrated into relevant MoA operational structures according to their functions for the duration of the project and will be supported by the ADU.
32. Full-time professional staff with responsibility for management and implementation support will include a project manager and an administrative assistant located in the ADU, a finance officer and an assistant in MoA's finance section, and an M&E person in MoA's M&E office. These staff members will be recruited competitively on fixed-term contracts. Selection of these and other key staff will be in consultation with IFAD.

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

33. An integrated system of planning, M&E and knowledge management will be established to meet the need for timely and accurate information on implementation progress, to provide constant feedback for decision-making, and to facilitate continuous knowledge sharing.
34. The FAPP will prepare an AWP/B for review and approval by the PSC each year. The AWP/B will provide a detailed description of activities to be carried out during the following year, and the sources and use of funds. To ensure that adequate counterpart funds are budgeted, AWP/Bs will be submitted well in advance of the Government's annual budgeting process.
35. An integrated management information system focusing on continuous analysis of information from different sources will be used to ensure that subsequent project activities are more responsive to client needs and project objectives. All activities will be monitored, with twice-yearly reports submitted to the PSC and IFAD. Monitoring reports will highlight other MoA initiatives that may negatively affect the marketing of agricultural products by small-scale producers.
36. The M&E function will be guided by the project's logical framework. Where possible, all M&E data will be disaggregated by gender. A number of key indicators will form the basis of the monitoring system, with emphasis on outcomes and outputs. The indicators selected for assessing performance include standard first-level, second-level and supporting indicators from IFAD's Results and Impact Management System (RIMS). These indicators relate to policy and community programming, rural enterprise development and employment, agricultural technologies and production, and markets.
37. The FAPP will carry out or commission: (i) baseline and end-of-project impact surveys; (ii) annual project planning and implementation reviews; (iii) participatory impact assessment studies; (iv) a midterm review; and (v) a project completion report. The midterm review will give special attention to the question of expanding

the project area. It will also draw the Government's attention to any MoA marketing programmes that may be having a negative impact on agribusiness development and small-scale producers.

38. The project's knowledge management strategy will focus on fostering linkages and sharing information, knowledge and experiences among actors within communities, value chains and institutions. Knowledge management will be rooted in the planning and M&E system to enable continuous improvement. The FAPP will seek to facilitate the collection, sharing and dissemination of information, lessons learned and best practices amongst stakeholders in Fiji. A collaborative website will be created in the IFAD Asia and the Pacific portal for online sharing.

D. Financial management, procurement and governance

39. Financial management. Financial management arrangements for the FAPP will be fully integrated with those in place at MoA. The project manager will have the overall fiduciary responsibility for the project, and will be supported by a financial management and procurement officer and a financial management and procurement assistant integrated in MoA's Finance and Accounts Division. The FAPP will prepare its AWP/Bs, including procurement plans, in consultation with implementing partners and service providers. Each year's AWP/B will be subject to the approval of the PSC. The FAPP will use the accounting software of MoA's Finance and Accounts Division – the Financial Management and Information System. The Accounts Division will open a dedicated business unit or cost centre in this system for recording all project-related transactions. These records will provide the basis for preparing financial reports. The FAPP will use cash-based accounting, in line with MoA and national requirements. The FAPP financial statements will be prepared annually from the general ledger of MoA. The statements will contain specific information and disclosure as required by IFAD. The FAPP's internal controls will rely on the Government's accounting and internal control guidelines as documented in local legislation. These organizational arrangements will ensure adequate segregation of duties and the correct set-up for internal control mechanisms.
40. Flow of funds. Through the Ministry of Finance's Debt and Cash Flow Management Unit, the Borrower will open and maintain a designated account in Fijian dollars with the Reserve Bank of Fiji. IFAD will disburse funds into the designated account following the imprest account mechanism. There will also be a project account in Fijian dollars maintained by MoA, held in a commercial bank acceptable to IFAD. The FAPP will request the Debt and Cash Flow Management Unit for release of funds to the project account in Fijian dollars.
41. Audit. Ministry of Finance staff deployed to the internal audit unit of MoA are responsible for all internal audit activities under MoA. The unit will include the FAPP in its annual internal audit plans, subjecting the FAPP to audit at least once a year. In line with its mandate under relevant national legislation, the Auditor General is the sole entity responsible for auditing all public funds received by government ministries, agencies and departments. The Office of the Auditor General (OAG) will audit the FAPP's financial statements in accordance with International Standards on Auditing. Should OAG delegate audit work to external firms, the firms would be selected through a competitive bidding process. In any case, the formal and final audit reports will be issued from OAG.
42. Public procurement in Fiji is governed by the Procurement Regulations 2010. These match the expectations of IFAD's procurement guidelines. The FAPP will liaise with the Fiji Procurement Office to effect all project procurement. As stipulated in IFAD guidelines, the project should provide IFAD with an 18-month procurement plan, together with the initial AWP/B. Thereafter, the FAPP will prepare an annual procurement plan, approved by the PSC on a no objection basis.

E. Supervision

43. IFAD will supervise the project directly, including loan administration and the provision of project implementation support. This will be a continuous process. Implementation support will include collaboration in the project start-up workshop, and support to reporting processes at project completion. Annual supervision and support activities during implementation will be determined in the light of joint IFAD and Government requirements, but will consist of at least one annual supervision mission.

IV. Project costs, financing, benefits

A. Project costs

44. Total estimated project costs are US\$6.05 million over a four-year implementation period. They include US\$0.25 million of physical and price contingencies. Indicative programme costs by component and financier are detailed in table 1.

Table 1
Indicative programme costs by component and financier
(Euros)

<i>Component</i>	<i>Government</i>		<i>IFAD loan</i>		<i>Financing institutions</i>		<i>Beneficiaries</i>		<i>Total</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
1. Public-sector capacity to support agribusiness	529 973	34.4	1 009 282	65.6	-	-	-	-	1 539 255	25.4
2. Assistance to SMEs working with smallholders	4 120	0.2	612 585	30.2	932 642	46.0	479 979	23.7	2 029 327	33.5
3. Farming as a business for highland communities	50 288	3.2	1 429 368	91.3	-	-	86 176	5.5	1 565 833	25.9
4. Project implementation support	449 329	48.9	469 072	51.1	-	-	-	-	918 401	15.2
Total	1 033 709	17.1	3 520 308	58.2	932 642	15.4	566 155	9.4	6 052 815	100.0

B. Project financing

45. IFAD loan resources available amount to EUR 3.1 million (equivalent to approximately US\$3.52 million). These funds will be complemented by about US\$1 million from the Government of Fiji. Participating banks will implement the matching grant scheme. Overall contributions from beneficiaries, primarily in terms of equity capital in association with matching grants, are estimated at US\$0.56 million of total project costs. The project will also seek partnerships with other donors.

Table 2
Indicative programme costs by expenditure category and financier
 (Euros)

Expenditure category	<i>Government</i>	<i>IFAD loan</i>	<i>Financing institutions</i>	<i>Beneficiaries</i>	<i>Total</i>
	Amount	Amount	Amount	Amount	Amount
Goods, services and inputs ^a	71 816	1 551 358	-	86 176	1 709 350
Consultancies	-	633 112	-	13 658	646 770
Workshops and meetings ^b	33 672	190 806	-	-	224 478
Grants and subsidies	-	466 321	932 642	466 321	1 865 284
Salaries and allowances ^c	928 222	678 712	-	-	1 606 934
Total project costs	1 033 710	3 520 309	932 642	566 155	6 052 816

^a Includes equipment, materials and vehicles.

^b Includes training.

^c Includes operating costs.

C. Summary benefit and economic analysis

46. The FAPP should generate benefits for all actors involved in the production, trade, processing and export of high-value agricultural products, and for consumers and the country as a whole. Among the projected benefits are: (i) increased sales and reduced transaction costs for fruit and vegetable traders, wholesalers, processors and retailers; (ii) increased export earnings; (iii) foreign exchange savings resulting from import substitution; and (iv) revenue inflows for the Government from additional income tax. The project is also expected to bring about unquantifiable nutritional and environmental benefits, while the agribusiness sector will benefit from more supportive policies, and stronger value chains will bring access to better-quality domestic produce.
47. Measurable outcomes will include mentoring support for approximately 45 SMEs, at least 30 of which will also receive matching grants. Other direct beneficiaries will be the residents of 41 villages in 7 highland districts of Viti Levu. Representative farm and enterprise models have been constructed and have proved financially viable under realistic assumptions.
48. An economic analysis was undertaken to calculate the project's overall benefits to Fiji. The base-case scenario for a 15-year period of analysis shows an economic internal rate of return (EIRR) of 23 per cent and a net present value of US\$2.4 million, discounted at 12 per cent. This estimated EIRR can be considered conservative, as only a few examples of project interventions were accounted for in the benefit stream. Sensitivity analyses yielded EIRRs ranging from 16 to 27 per cent.

D. Sustainability

49. The public-sector capacity to support agribusiness that the project will achieve will constitute one of the most important means of sustaining benefits after project closure. MoA staff will have the analytical and operational skills to work with private-sector players in the agriculture sector, especially on promoting the interests of small-scale producers. Another feature designed to ensure the sustainability of benefits is the project's reliance on commercial banks and the screening of investment proposals for expanding operations with small-scale producers. This type of partnering of private-sector banks will lead to the selection of well-designed investments by experienced entrepreneurs. Institution building at the community level and improvement of skills in planning and production are the grass-roots investments that will ensure sustainability of benefits for families by enabling them to adapt, even in the face of changing market conditions. The project will achieve environmental sustainability by introducing environmentally friendly agronomic practices to halt the current deterioration of the agricultural landscape.

E. Risk identification and mitigation

50. The main external risks are changes to macroeconomic conditions; reduced government emphasis on pro-poor policies; scaling back of the Government's agriculture sector development programme; a policy environment that hinders the private sector; and reluctance of private investors to commit to business partnerships with smallholders. None of these risks appear likely to materialize in the near term.
51. At the farmer level, there is a low to medium risk that social norms will conflict with the farming-as-business approach. The risk will be mitigated through awareness-raising that emphasizes sustainable additional incomes. There is a risk that farmers will fail to produce the quantities or qualities required by crop buyers. The project will increase extension provision and work on enhancing relationships between farmers and traders. At the opposite extreme, if production expands rapidly there is a risk that entrenched gender inequalities will be exacerbated if women's access to land for home gardens is restricted by men seeking land for additional crop production. The project is designed to ensure the involvement of women, strengthen women's organizations, provide literacy and entrepreneurship skills and monitor the impact of these and other project investments from a gender and youth perspective.
52. Within MoA, particularly the ADU, there is a risk of staff turnover jeopardizing the benefits of the training provided. Close dialogue will be maintained with MoA to ensure that internal staff transfers are kept to a minimum. The delayed recruitment of the senior agribusiness development adviser would have a negative impact on the project. A proactive recruitment process (outlined in the project implementation manual) should be followed, and attractive terms and conditions have been budgeted.
53. During design of the FAPP, a financial management risk assessment was completed, following guidelines of IFAD's Controller's and Financial Services Division. Overall internal controls in MoA are reasonably robust, but there is limited experience of managing externally funded projects and no experience of IFAD requirements. Among the steps to be taken to mitigate possible complications arising from this are the establishment of close contact and access to the IFAD subregional coordinator in Suva.

V. Corporate considerations

A. Compliance with IFAD policies

54. The design of the FAPP is aligned with the Strategic Framework 2011-2015 and all relevant IFAD strategies and policies. These include the policies for targeting; environment and natural resource management; supervision and implementation support; the strategies for gender and climate change; and the Environmental and Social Assessment Procedures. Lessons learned from IFAD's Sub-Regional Strategic Opportunities Paper for the Pacific Islands 2013-2017 were fully taken into account during project design and will be incorporated into project implementation.
55. Assessments of IFAD community development interventions confirm that empowering the poor and disenfranchised brings about concrete social and economic returns and increases household incomes. It is important to place the community at the centre of development initiatives. The mobilization of group enterprises is most appropriate when groups scale up production to meet increasing market demand and individual farmers are rewarded for their individual efforts.
56. To ensure that project benefits reach the poor and food-insecure, target groups have been defined, a targeting strategy has been developed, and means of operationalizing this strategy have been integrated into design and

implementation. The project approach is geared to Fijian conditions and cultural norms, including prevailing gender roles.

B. Alignment and harmonization

57. The FAPP is aligned with and will be closely guided by MoA's new policy, Fiji 2020 Agriculture Sector Policy Agenda, which aims to "build sustainable community livelihood through competitive exports and food security". The agenda emphasizes the need for a farming-as-business approach and outlines ways of achieving this end, which will be complemented by activities under the FAPP.

C. Innovations and scaling up

58. A characteristic of recent successful operations funded by IFAD in Fiji has been the inclusion of innovative pilot interventions with potential for scaling up. Through these interventions, IFAD has sought to accumulate expertise and experience to minimize risks of future project failure. Although it is too early to be certain of sustainability, initial indications are that innovations with highland farmers have been very successful and merit scaling up. Support to SMEs under component 2 of the FAPP draws on the positive experiences in Fiji of allying the mentoring of SMEs with grant financing from the Market Development Facility funded by the Australian Agency for International Development, and on IFAD's experience under the Solomon Islands Rural Development Programme with matching grants for SMEs.

D. Policy engagement

59. An important aspect of project work is to ensure a greater voice in policy formulation for value chain stakeholders. In association with the FCLC, this will be achieved by supporting meetings on different commodities involving all value chain actors. These meetings will promote networking and the formation of value chain associations that can help identify constraints and solutions, thereby making an input into policy development. By bringing together all stakeholders, including farmer representatives, the meetings are expected to provide value chain actors with the opportunity to develop common positions for discussion with the Government.

VI. Legal instruments and authority

60. A project financing agreement between the Republic of Fiji and IFAD will constitute the legal instrument for extending the proposed financing to the borrower.
61. The laws of the Republic of Fiji empower it to receive financing from IFAD. A copy of the negotiated financing agreement is attached as an annex.
62. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

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

RESOLVED: that the Fund shall provide a loan on ordinary terms to the Republic of Fiji in an amount equivalent to three million and one hundred thousand euros (EUR 3,100,000), 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:

"Fiji Agricultural Partnership Project (FAPP)"

(Negotiations concluded on 19 February 2015)

Loan Number: [___]

Project Title: Fiji Agricultural Partnership Project ("the Project")

The Republic of Fiji (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) and the Allocation Table (Schedule 2).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as 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 three million one hundred thousand euros (EUR 3 100 000).

2. The Loan is granted on ordinary terms, and shall have a maturity period of 15 years, including a grace period of three (3) years starting from the date that the Fund has determined that all general conditions precedent to withdrawal have been fulfilled in accordance with Section 4.02(b) of the General Conditions.

3. The Loan Service Payment Currency shall be EUR.

4. The first day of the applicable Fiscal Year shall be 1 January.

5. Payments of principal and interest shall be payable on each 15 June and 15 December.

6. There shall be a Designated Account denominated in Fijian Dollars and maintained by the Borrower in the Reserve Bank of Fiji through which the Loan proceeds shall be channeled. The Designated Account shall be protected against set-off, seizure or

attachment on terms and conditions proposed by the Borrower and accepted by the Fund.

7. The Borrower shall provide counterpart financing for the Project in the amount of approximately USD 1.03 million. Project beneficiaries shall provide a contribution in cash or kind of approximately USD 0.57 million and participating banks shall contribute approximately USD 0.93 million. The counterpart funds shall be made available for the Project.

8. The Ministry of Agriculture ("MoA") shall maintain a Project Account in local currency in a Bank acceptable to the Fund to receive the proceeds of the Financing and counterpart funding.

Section C

1. The Lead Project Agency ("LPA") shall be the MoA, responsible for the overall coordination and implementation of the Project activities.

2. The following are designated as additional Project Parties: participating banks, private sector partners, non-governmental organizations and civil society groups.

3. The Project Completion Date shall be the fourth anniversary of the date of entry into force of this Agreement.

Section D

The Loan will be administered and the Project supervised by the Fund. In addition to supervision missions, which shall normally be carried out each six (6) months, the Fund shall conduct a mid-term review out towards the second year of Project implementation.

Section E

1. The following are designated as additional grounds for suspension:

The Project Implementation Manual ("PIM"), or any provision thereof, has been waived, suspended, terminated, amended or 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.

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

- (a) The Borrower shall have established within MoA the Agribusiness Development Unit ("ADU");
- (b) The Borrower shall have selected the relevant Project staff to be responsible for overall Project implementation, in accordance with Schedule 1, Section II to this Agreement;
- (c) The Borrower, through the LPA, shall have submitted, and the Fund shall have received, an official document confirming the availability of the adequate counterpart funds for the first Project Year;
- (d) The Designated Account shall have been duly opened, the authorized signatories shall have been submitted to the Fund and a dedicated cost centre has been created in the Financial Management Information System ("FMIS") to record the Project's related transactions; and

(e) The Borrower has prepared a draft PIM in form and substance satisfactory to the Fund.

3. The following is designated as an additional specific condition precedent to withdrawal, namely that no withdrawals shall be made in respect of expenditures under Category IV (Grants and Subsidies) until the Borrower, through MoA, has entered into a memorandum of understanding ("MOU") with at least one participating bank for the implementation of the matching grants under Component 2, in accordance with the terms and conditions of the MOU model defined in the PIM.

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

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

For the Borrower:

Minister for Finance
Ministry of Finance
Ro Lalabalavu House
370 Victoria Parade
P.O. Box 2212
Suva, Republic of Fiji

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 Borrower.

REPUBLIC OF FIJI

Authorized Representative
[Title]

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 all small-scale and semi-subsistence farm households in the Borrower's territory, with emphasis on the poor communities located in the interior of Viti Levu in selected districts, including the seven districts of the provinces of Ba, Nadroga/Navosa and Naitasiri (the "Project Area").
2. **Goal.** The Project goal is to reduce hardship in remote rural communities.
3. **Objective.** The objective of the Project is that small-scale producers are engaged in sustainable farming and business partnerships in remote areas, particularly the highlands.
4. **Components.** The Project shall consist of the following three components, which support and complement each other to achieve the anticipated impact in the Project Area:

Component 1 – Public sector capacity to support agribusiness

The objective of this component is to facilitate the private agribusiness sector, address the public environment for agribusiness, and widen and deepen agricultural value chains, thereby expanding income-earning opportunities for small-scale farmers, through (i) the enhancement of MoA's institutional capacity to promote private sector agribusiness, including, inter alia, the provision of technical assistance to consolidate and extend the technical and managerial capacity of public sector cadres and the establishment and initial operation of the ADU, to support the private sector and to facilitate supply chains and the conduct of business; (ii) the upgrading through training of extension of MoA's staff and of selected professionals in skills in agribusiness; (iii) the refinement of the agribusiness public sector framework, including carrying out of studies and review of the relevant agribusiness regulation and procedures related to agricultural value chain and foreign trade; (iv) carrying out of a value chain mapping of products grown by smallholders; (v) the creation and operation of technical working groups to stimulate the creation of an agribusiness network and of trade associations; and (vi) the promotion of private sector information exchange, to promote the exchange of agribusiness know-how and practical experiences.

Component 2 – Assistance to SMEs working with smallholders

The objective of this component is to improve the conditions of doing business with small-scale farmers, with focus on operators buying from highland communities, through (i) the provision of training and advisory services in business planning and management mentoring support for the expansion of individual Small- and Medium-sized Enterprises ("SMEs"); and (ii) provision of matching grants to SMEs, in accordance with the eligibility criteria and procedures set forth in the PIM, to expand business operations of small-scale farmers.

Component 3 – Farming as a business for highland communities

The objective of this component is to support selected communities in the transition from semi-commercial agriculture to commercial agriculture, through, inter alia, the provision of training and technical assistance on all aspects of farm enterprise management, the enhancement of traditional farming skills, technology transfer, post-harvest handling, participatory certification and sustainable commercialisation of selected products.

II. Implementation Arrangements

A. Organization and Management

1. Lead Project Agency ("LPA")

1.1. The LPA shall be the Ministry of Agriculture ("MoA"), who shall have the overall responsibility for the execution of the Project.

2. Project Steering Committee ("PSC")

2.1. Establishment and Composition. The Borrower, through MoA, shall establish a PSC. The PSC shall be chaired by MoA's Permanent Secretary and comprise representatives as indicated in the PIM. The PSC shall meet at least once a year and as often as required and the ADU Project Manager shall act as secretary of the PSC.

2.2. Responsibilities. The PSC is responsible for Project oversight and strategic guidance, as detailed in the PIM, including: (i) approval of the AWPB and of the initial Procurement Plan; (ii) approval of the PIM and its subsequent revisions; (iii) vigilance over full transparency and accountability in Project management; (iv) review and follow-up of supervision and audit recommendations; (v) promotion of cooperation with all development partners; and (vi) identification of policy issues for attention by the Borrower.

3. Agribusiness Development Unit ("ADU")

3.1. Establishment and Composition. An ADU shall be established within MoA, with structure, functions and responsibilities acceptable to the Fund and in accordance with the PIM. The ADU shall include the Head of the ADU and it shall host one Project Manager and one administrative assistant. Qualified staff shall be selected according to the Borrower's applicable procedures acceptable to the Fund. Termination of the contract of the Project Manager and his/her replacement shall be subject to the Fund's no-objection.

3.2. Responsibilities. The Project Manager is responsible for overall Project implementation and coordination, including, inter alia: (i) preparation of the AWPB; (ii) financial management; (iii) procurement; (iv) Project monitoring and evaluation (M&E); (v) knowledge management; (vi) preparation and consolidation of SOEs, financial statements and withdrawal applications; (vii) Project reporting; and (viii) coordination of all Project implementing partners. The Head of the ADU is responsible for the technical and operational day-to-day implementation of the Project, in consultation with the Project Manager.

4. Project Management and Implementation Staff

4.1. Composition. MoA shall recruit and/or appoint Project management and implementation support staff within the relevant MoA departments, including a Financial Management and Procurement Officer, a Knowledge Management/M&E Officer and an Assistant to the Financial Management and Procurement Officer. Qualified staff shall be selected according to the Borrower's applicable procedures acceptable to the Fund.

4.2. Responsibilities. The Project management and implementation support staff is responsible for management and implementation of the Project under the direction of the PSC and of the ADU.

5. MOUs with Participating Banks

5.1. To collaborate with and facilitate the award of matching grants under Component 2, MoA shall enter into a MOU, in form and substance as set forth in the PIM, with each participating bank selected in accordance with eligibility and selection criteria defined in the PIM. The MOU shall provide, amongst other things, the obligation of the participating banks to (i) inform the LPA of loans approved in accordance with their own lending criteria that also qualify for matching grants, in accordance with the eligibility criteria for matching grants defined in the PIM; and (ii) provide the required support to channel the matching grants to the matching grant beneficiaries, in accordance with the procedures defined in the PIM and the terms and conditions of the MOU. Payment of matching grants shall be made by the Project through the participating banks.

B. Implementation of Components

6. Component 1: Public sector capacity to support agribusiness

6.1. Capacity building of MoA staff and the ADU shall be through the staff learning-by-doing, with on-the-job advice from a full-time Senior Agribusiness Development Advisor ("SADA"), to be selected and contracted in accordance with this Agreement and increased by participation in suitable training provided by other institutions. Training of extension officers in agricultural marketing, agribusiness and value chains shall be conducted by the SADA, ADU staff and specialist trainers contracted in accordance with this Agreement. The ADU will be responsible for strengthening MoA's commodity councils and work with the Fiji Crop and Livestock Council ("FCLC") to strengthen its constituent associations.

7. Component 2: Assistance to SMEs working with smallholders

7.1. Project activities under this component will be implemented by the ADU and service providers with business mentoring skills, contracted in accordance with this Agreement. The ADU shall carry out a widespread promotion campaign of the mentoring scheme to SMEs and establish a small committee to review all applications for mentoring support. Selected participating banks shall receive loan applications, evaluate and deliver loans to approved beneficiaries in accordance with the procedures defined in the PIM and the terms and conditions of the relevant MOU.

8. Component 3: Farming as a business for highland communities

8.1. The activities under this component shall be carried out through service agreements with a competent Lead Implementing Partner ("LIP") to be selected in accordance with the criteria specified in the PIM and, for specific deliverables, with other specialized service providers. All under the technical supervision of the SADA and with field coordination by the LIP, MoA field staff, to be contracted in accordance with this Agreement, and the community facilitators. The LIP shall be responsible for overall coordination of the implementation of the entire component. Consultants and specialists shall be contracted to provide training on basic business skills and financial literacy, support to traditional marketing practices by women, technology transfer and organic certification.

C. Project Implementation Manual ("PIM")

9. Preparation. The MoA shall prepare a draft PIM which shall include, among other things:

- (a) Terms of reference and implementation responsibilities of Project staff, consultants and likely service providers;
- (b) Criteria for the performance appraisal of the Project and of Project professional staff;
- (c) Eligibility criteria for the matching grants;
- (d) Operational procedures to be followed in the matching grants scheme;
- (e) A model of the MOU to be entered into by the selected participating banks for the implementation of the matching grants;
- (f) M&E system and procedures including the Results and Impact Management System ("RIMS"); and
- (g) Project operational, financial and procurement procedures.

10. Approval and Adoption. The LPA, shall forward the draft PIM to the Fund for comments and approval. The LPA shall adopt the PIM, substantially in the form approved by the Fund, and the LPA shall promptly provide copies thereof to the Fund. If the Fund does not comment on the draft PIM within thirty (30) days after receipt, it shall be deemed approved.

Schedule 2

Allocation Table

1. Allocation of Loan 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 EUR)	Percentage
I- Goods, Services and Inputs	1 240 000	100% net of taxes and contribution from beneficiaries
II- Consultancies	500 000	100% net of taxes and contribution from beneficiaries
III- Workshops	150 000	100% net of taxes
IV- Grants and Subsidies	370 000	100% net of taxes, contribution from Financing Institutions and contribution from beneficiaries
V- Salaries and allowances	540 000	100% net of taxes and contribution from Borrower
Unallocated	300 000	
TOTAL	3 100 000	

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

“Goods, Services and Inputs” under Category I shall include eligible expenditures incurred for equipment, materials and vehicles, net of taxes, under all components.

“Consultancies” under Category II shall include 90% of eligible expenditures of Component 2 and 100% of eligible expenditures under other components.

“Workshops” under Category III shall include 100% of eligible expenditures incurred for workshops and training, net of taxes, under Component 1 and others listed under ‘project implementation support’.

“Grants and Subsidies” under Category IV shall include 25% of eligible expenditures under Component 2.

“Salaries and allowances” under Category V shall include 100% of eligible expenditures under Component 1 only.

2. Start-up Costs. Withdrawals in respect of expenditures for start-up costs for Categories I, II, III and V incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of EUR 100 000.

Logical framework

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions (A) / Risks (R)
Goal: Reduced hardship in remote rural communities.	Improvement of at least 20% in Household assets ownership.	Impact Survey at completion.	Continued GoF commitment to poverty reduction. (A)
Project Development Objective: Small-scale producers are engaged in sustainable farming and business partnerships in remote areas, particularly the highlands.	920 households in the highlands regularly marketing agricultural outputs to trading or processing enterprises.	Impact Survey at completion.	
Outcome 1: Public sector capacity to support agribusiness. Enhanced MoA capacity to promote private sector agribusiness.	Traders, processors, exporters and farmers rate Ministry of Agriculture highly as a partner that enables growth of agriculture as a business.	Progress reports. Baseline, mid-term and completion surveys.	GoF policies support private sector-led economic growth. (A)
Outputs: <ul style="list-style-type: none"> Agribusiness Development Unit (ADU) in Ministry of Agriculture Five well-trained agribusiness staff promoting private sector agricultural development 150 trained extension staff better able to advise small farmers and small enterprises on agribusiness and related issues. Working partnerships between ADU, MOA the Fiji Chamber of Commerce and the Fiji Crop and Livestock Council 	<ul style="list-style-type: none"> Agribusiness Unit is created and fully staffed with provisions for operating budget that are routinely included in annual MOA budget submission On-the-job training delivered by Senior Agribusiness Development Officer to at least 5 qualified MoA for more than 2 years. Training delivered to 150 extension workers on staff in MOA on promoting agribusiness partnerships and farming as a business. Monthly meetings between partners to raise issues and exchange ideas on farming and agricultural business 	<ul style="list-style-type: none"> MOA budget and organigram Presence of trained staff in unit Progress report Circulated minutes of meetings 	<ul style="list-style-type: none"> Delayed recruitment of Senior Agribusiness Development Adviser. (R) GoF remains committed to creating a conducive environment for agribusiness. (A)
Outcome 2: Assistance to SMEs working with smallholders. Strengthened linkages between SMEs and rural agricultural producers.	<ul style="list-style-type: none"> 30 viable enterprises are procuring agricultural products from 3 000 domestic producers presently not well served by private sector. 45 enterprises accessing non-financial services facilitated by the project. 	RIMS surveys. Case studies.	Private investors interested in business partnerships with smallholders. (A)

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions (A) / Risks (R)
<p>Outputs:</p> <ul style="list-style-type: none"> • Mentoring programme for SMEs established. • Grants and loans being awarded to SMEs. 	<ul style="list-style-type: none"> • 45 enterprises have completed the SME mentoring programme. • 30 matching grants awarded to SMEs. 	<ul style="list-style-type: none"> • Progress reports from service providers. • Project MIS. • Reports from banks. • Project MIS 	<ul style="list-style-type: none"> • Private investors interested in business partnerships with smallholders. (A) • Private investors interested in business partnerships with smallholders. (A)
<p>Outcome 3: Farming as a business for highland communities. Reorientation of highland farmers from subsistence to production for profit.</p>	<ul style="list-style-type: none"> • 920 highland farm households are newly engaged in profitable marketing of agricultural products. 	<ul style="list-style-type: none"> • Progress reports. • Case studies. • RIMS surveys. 	<ul style="list-style-type: none"> • Economic and social stability in target area. (A) • GoF prepared to partner specialist service providers. (A) • Continued maintenance of roads in highland areas to present standards. (A)
<p>Outputs:</p> <ul style="list-style-type: none"> • Highland communities preparing annual plans for Environmental & Natural Resource Management. • Farm household members reporting increased income from commercial farming activities. • Farm household members that have adopted environmentally sound and sustainable production practices and technologies. • 920 people using crates or adopting new post-production practices in processing and marketing. • Facilitated grower-buyer meetings to identify success factors and make deals. • Planting material supply enterprises (including organic) in the highlands. • Participatory Guarantee Systems (PGSs) established for three crop groups. 	<ul style="list-style-type: none"> • 26 highland communities trained by the project in the preparation of annual Community Development Plans. • 500 men and 300 women market vendors report have received training in agribusiness and entrepreneurship for "farming as a business" . • 920 farm household members trained in environmentally sound and sustainable crop production practices and technologies. • 920 farm households trained in use of crates and/or other new post-production practices. • At least 920 farm households or farmers' groups having a stable business relationship with a trader. • At least 11 commercial nurseries established in the highlands. • 400 farmers benefit from organic and wild harvest certification. 	<ul style="list-style-type: none"> • Progress reports. • Reports from service providers. • Preparatory studies. • Project MIS. 	