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Investing in rural people

President's Report

Proposed Loan and Grant to the Republic of Liberia for the Tree Crops Extension Project II

Note to Executive Board representatives

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Abbreviations and acronyms

4P	public-private-producer partnerships
AWP/B	annual workplan and budget
CARI	Central Agricultural Research Institute
FMO	farm-to-market operator
M&E	monitoring and evaluation
PAPD	Pro-Poor Agenda for Prosperity and Development
PBAS	performance-based allocation system
PIU	project implementation unit
STCRSP	Smallholder Tree Crop Revitalization Support Project
TCEP II	Tree Crops Extension Project
WFP	World Food Programme

Map of the project area

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.

Map compiled by IFAD | 10-10-2018

Republic of Liberia

Tree Crops Extension Project II (TCEP II)

Financing summary

Initiating institution:	IFAD
Borrower:	Republic of Liberia
Executing agency:	Ministry of Agriculture
Total Project cost:	US$47.6 million
Amount of IFAD loan:	US$11.9 million
Amount of IFAD grant:	US$11.9 million
Terms of IFAD loan:	Highly concessional: 40 years, including a grace period of 10 years, with a service charge of 0.75 per cent per annum
Financing gap:	US$16.2 million
Contribution of borrower:	US$2.5 million
Contribution of beneficiaries:	US$1.8 million
Contribution of private sector	US$3.4 million
Appraising institution:	IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of Liberia for the Tree Crops Extension Project II (TCEP II) as contained in paragraph 44.

Proposed Loan and Grant to the Republic of Liberia for the Tree Crops Extension Project II (TCEP II)

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Despite positive socioeconomic developments since the end of the civil war in 2003, Liberia remains a low-income, food-deficit country with an undiversified economy. The country saw initial post-war economic growth in real GDP of 8.9 per cent in 2012; this fell slightly to 8.1 per cent in 2013. In 2014 and 2015, the Ebola virus disease crisis crippled economic growth and the GDP growth rate fell drastically, only starting to recover in 2017 with 2.5 per cent growth. The growth forecast for 2018 is 3 per cent.[1]

2. As of 2016, Liberia's population was estimated at 4.6 million with an annual growth rate of 2.6 per cent. In 2015, the United Nations Development Programme ranked Liberia 177th out of 188 countries on the Human Development Index with a score of 0.427. In 2016, approximately 54 per cent of the population lived below the poverty line (46 per cent live in rural areas). Liberia has an extremely young population: approximately 90 per cent of its people are under 35 years.

3. A 2015 emergency food security assessment by the World Food Programme (WFP)[2] found that food insecurity affects 16 per cent of households, including 2 per cent that are severely food insecure. Food insecurity is not distributed evenly across the country. In Lofa County, where the project will be implemented, 11.3 per cent of households reported moderate to severe food insecurity.

4. Agriculture is the primary livelihood source for more than 60 per cent of Liberia's population. Traditionally, tree crops have constituted one of the country's largest sources of employment and an integral part of its social fabric and economy. However during the country's civil wars, the tree crop sector was devastated and many farmers were displaced. Abandoned farms and plantations degenerated into forests and their associated support structures were damaged or destroyed. Market linkages vanished while exports dropped to near zero. In recent years, there has been increased investment in rehabilitating smallholder cocoa farms and strengthening cooperatives. Cocoa production is still small scale, undertaken by approximately 38,000 farmers in the country, of which 30 per cent are in Lofa County with cocoa farm sizes averaging 1 to 3 ha.[3] The sector is expected to grow as farmers continue to reclaim and rehabilitate farms, and youth are attracted to the cocoa sub-sector with the emergence of cocoa as a profitable cash crop.

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[1] http://country.eiu.com/liberia (2018).
[2] WFP, *Emergency Food Security Assessment*: *Liberia* (2015).
[3] Platform for Agricultural Risk Management, *Agricultural Risk Assessment Report: Liberia* (2017).

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

5. The project is aligned with the Government's Pro-Poor Agenda for Prosperity and Development (PAPD), which has prioritized the agricultural sector for diversifying the economy, and has identified seven priority value chains, including cocoa. The PAPD outlines the need to strengthen policy coordination, agricultural research and the extension system in order to support smallholders and out-grower farmers; these are the areas to be addressed by TCEP II.

6. The current country strategy note for Liberia (2017-2019) has two strategic objectives: (i) smallholder farmers' access to finance, inputs, skills and markets is improved; and (ii) smallholders' organizational capacities and access to Ministry of Agriculture extension services are improved. The project is aligned with the country strategy note since it aims to support smallholder farmers' access to inputs, capacity building, markets and extension services.

II. Project description

A. Project area and target group

7. While TCEP II will target Lofa County, it will be closely connected with activities in Nimba County given the: (i) importance of cocoa farming there; (ii) project's complementarity with others implemented in Nimba County, including its sister TCEP I project; and (iii) potential gains from road and track improvement. Other areas may be targeted during implementation if productive potential is demonstrated and targeting criteria are met.

8. The project will benefit both producers and other players within the cocoa value chain such as input suppliers and farm-to-market operators (FMOs).[4] It aims to benefit 10,000 cocoa smallholder producers using a self-targeting approach complemented by tools to ensure that beneficiaries meet project targeting criteria. These beneficiaries will include members of kuu groups (traditional community-based labour groups), youth and women. TCEP II will also target cooperatives strengthened through the recently completed IFAD-financed STCRSP, other cocoa producer groups and potential FMOs.

B. Project development objective

9. The goal of TCEP II will be to increase incomes and improve the livelihoods of poor rural smallholder cocoa farming households in Lofa County. The project's development objective is to improve the incomes and climate resilience of smallholder cocoa producers in Lofa County.

C. Components

10. The project will have the following components:

11. Component 1: Revitalization of cocoa plantations. The expected outcome of component 1 will be increased quantity and quality of cocoa sold by smallholders. This component comprises five subcomponents: 1.1 – Basic rehabilitation and new cocoa plantations; 1.2 – Improving post-harvest handling and quality; 1.3 – Germplasm garden support; 1.4 – Alternative livelihood activities (crop diversification through intercropping on existing plantations for food and nutrition security, shade management and income generation, and on new plantations before newly planted cocoa trees mature); and 1.5 – Transformation of cocoa waste as an alternative income source.

12. Component 2: Rehabilitation and maintenance of roads. The expected outcome of component 2 will be improved and climate-proof access to markets. It contains two subcomponents: 2.1 – Road construction, rehabilitation and climate proofing; and 2.2 – Maintenance of roads.

[4] FMOs are value chain actors who buy products from producers and take them to market or for value addition through processing, sorting, grading and bagging. They include buying agents, cooperatives and companies.

13. Component 3: Service provision for value chain development. The outcome of component 3 will be improved value chain organization and performance. This will be achieved through a set of concurrent activities in subcomponents: 3.1 – Support to farmer organizations (including the establishment of business platforms for value chain players); 3.2 – Improved market linkages through the construction of humidity-controlled warehouses to store cocoa beans during the wet season when roads are not passable; 3.3 – Support to extension service development and outreach; 3.4 – Dry storage; and 3.5 – Implementation support to the Government's strategy on reducing emissions from deforestation and forest degradation, and foster conservation, sustainable management of forests, and enhancement of forest carbon stocks.

14. Component 4: Project coordination, management, monitoring and evaluation (M&E), and policy. Using the country programme approach, TCEP II will adopt a similar strategy to that of TCEP I. This will ensure efficient and effective planning, implementation, M&E and knowledge management while considering environmental and climate change resilience. In addition, component 4 will involve policy engagement and will drive gender and social inclusion activities along with dialogue for establishing a functional road maintenance fund.

III. Project implementation

A. Approach

15. Similar to TCEP I, the Ministry of Agriculture will be responsible for implementing TCEP II. The same national steering committee will orient the project strategy, oversee planning, review progress and ensure linkages among stakeholders. Under the supervision of the project management unit within the ministry, which was established to coordinate donor-funded projects, the implementation, management and M&E of TCEP II will be the delegated responsibility of the project implementation unit (PIU). Staffing requirements for TCEP II will be harmonized with those of TCEP I using the country programme approach. A county-level PIU will be established in Lofa County with similar functions to that of STCRSP, but with increased human and physical resources to coordinate the mobilization of kuu groups, farmer field schools and other farmer groups, and facilitate the participation of community members and FMOs. Through the efforts of a value chain specialist and a multi-stakeholder platform, memoranda of agreement will be signed with private-sector entities and cooperatives in order to ensure access to markets and services. The Central Agricultural Research Institute (CARI) will be responsible for increasing the supply of improved planting material.

B. Organizational framework.

16. A project steering committee will be established to drive the project's strategy, oversee planning, measure progress and assess impact. It will also facilitate linkages with related projects, government services and value chain stakeholders. The Monrovia-based project management unit will be the secretariat of the project steering committee, with administration and overall management responsibilities. The appropriately staffed and equipped country-level PIU at the Ministry of Agriculture office in Voinjama will facilitate local linkages, provide technical and monitoring support, and liaise with TCEP I counterparts in Nimba County.

17. The Monrovia-based PIU will coordinate activities in Lofa County with those in Nimba County so that both can access similar services and jointly acquire seeds, equipment and other inputs, creating economies of scale through bulk buying or staggering buying arrangements in order to avoid over-burdening suppliers.

18. TCEP II is aligned with the Government's PAPD, in which the Government recognizes the agricultural sector's potential for job creation and sustainable livelihoods, particularly though value chain development.

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

19. M&E will be undertaken by a team of qualified officers and implemented in line with guidance developed for TCEP I. The targets included in the logical framework will guide the project's pace of implementation.

20. The preparation of the annual workplan and budget (AWP/B) will be a participatory exercise involving the county-level PIU along with colleagues from the central PIU in Monrovia, the decentralized local government, other stakeholders and implementing partners. The central PIU will play a key role in consolidating the AWP/B and will ensure that project indicators are properly integrated with clear targets.

21. TCEP II will establish a knowledge management plan, including a communication strategy and plan, which will determine the types of knowledge management products to be developed based on the intended audience. The knowledge management focus of TCEP II will be on learning lessons and accumulating best practices through the collection, sharing and dissemination of information on targeted cocoa value chains, organizational development and cocoa commercialization.

22. These knowledge services will be tailored to the needs of beneficiaries. The content will be aimed at women and youth, and all services will target these users. To this end, the project's learning and knowledge management strategy will capture and disseminate knowledge at various levels focused on: (i) generating trust and fostering linkages between partners; (ii) managing and sharing information, knowledge and experiences; (iii) improving the private sector's effectiveness and efficiency in adding value and innovating; (iv) conducting analyses that can provide an evidence base for policy dialogue; and (v) creating conditions for replication, scaling up and sustainability.

D. Financial management, procurement and governance

23. The inherent risk is assessed as high. As a result, the project will largely follow the same stand-alone financial management arrangements established for ongoing IFAD projects, which will reduce the risk to medium. The financial management arrangements will include: (i) the appointment of a qualified financial controller and accountant; (ii) the tracking of all programme transactions using customized accounting software in line with the International Public Sector Accounting Standards cash basis of accounting; (iii) a designated account in United States dollars for IFAD financing in the central bank of Liberia (IFAD funds will not be mingled with other funds); (iv) the disbursement of IFAD financing against duly certified withdrawal applications in accordance with IFAD disbursement procedures; and (v) periodic financial reports prepared by the PIU in formats agreed upon with IFAD. In addition, consolidated financial statements will be audited annually by an independent auditor in accordance with the International Standards on Auditing and IFAD audit requirements. The audit report, together with a management letter, will be submitted to IFAD within six months of the end of each fiscal year. Daily financial operations will be detailed in the relevant section of the programme implementation manual.

24. IFAD applies a zero-tolerance policy towards fraudulent, corrupt, collusive or coercive actions in all projects financed through its loans and grants. IFAD's anticorruption policy and whistleblowing procedures will be included in the project implementation manual.

E. Supervision

25. The project will be directly supervised by IFAD. Supervision will not be conducted as a general inspection or evaluation, but as an opportunity to assess achievements and lessons jointly with the implementation team, and reflect on ways to improve implementation and impact. A financial management specialist will participate in supervision missions at least once per year, to providing implementation support and monitoring fiduciary risks.

IV. Project costs, financing and benefits

A. Project costs

26. The project is composed of four components, including project coordination and management, totalling US$42.6 million in base costs and US$47.6 million including contingencies and taxes over a six-year period. Component 2 (rehabilitation and maintenance of roads) has the highest budget (at US$22.3 million), representing 47 per cent of total costs, followed by component 1 (revitalization of cocoa plantations) at a cost of US$14.4 million (30 per cent of total costs). Service provision for value chain development (component 3) has the lowest budget at US$2.6 million. Project coordination, management, M&E and policy are estimated at US$8.4 million, representing 18 per cent of total costs.

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

	IFAD loan		*IFAD grant*		*Private sector*		*Beneficiaries*		*Borrower/ counterpart*		*Financing gap, including climate*		*Total*	
Component	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
1. Revitalization of cocoa plantations	3 558	24.7	3 558	24.7	3 252	22.6	1 660	11.5	741	5.1	1 628	11.3	14 396	30.2
2. Rehabilitation and maintenance of roads	4 206	18.9	4 206	18.9	-	-	123	0.6	1 333	6.0	12 395	55.7	22 263	46.7
3. Service provision for value chain development	140	5.4	140	5.4	129	5.0	-	-	21	0.8	2 144	83.2	2 575	5.4
4. Project coordination, management, M&E and policy	4 009	47.7	4 009	47.7	-	-	-	-	392	4.7	-	-	8 410	17.7
Total	**11 913**	**25.0**	**11 913**	**25.0**	**3 381**	**7.1**	**1 783**	**3.7**	**2 487**	**5.2**	**16 167**	**33.9**	**47 644**	**100**

B. Project financing

27. TCEP II will be financed by IFAD, the Government of Liberia, private-sector partners, participating farmers and cofinanciers. As the main financier, IFAD will contribute US$23.8 million, covering 50 per cent of the total costs of all components. Private-sector partners will contribute approximately US$3.4 million. The Government will finance taxes and duties on imported goods, and value-added tax for a total of US$2.5 million (5.2 per cent of the total cost). Beneficiary contributions are estimated at 1.8 million (3.8 per cent of the total cost). The financing gap of US$16.2 million includes US$7 million for climate adaptation and mitigation. It should be noted that TCEP II will absorb the entire US$ 23.8 million allocation for Liberia in IFAD10 through the performance-based allocation system (PBAS) as a 50 per cent grant and 50 per cent highly concessional loan. Cofinancing opportunities will be explored in order to fill the US$16.2 million financing gap. In the event that cofinancing to cover this gap is not secured, funding will be provided through the country's next PBAS allocation.

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

	IFAD loan		*IFAD grant*		*Financing gap, including climate*		*Private sector*		*Beneficiaries*		*Borrower/ counterpart*		*Total*
Expenditure category	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*
I. Investment cost													
A. Works	4 206	19.2	4 206	19.2	12 020	54.9	-	-	123	0.6	1 333	6.1	21 888
B. Equipment and material	416	46.5	416	46.5	-	-	-	-	-	-	63	7.0	895
C. Consultancies	582	46.5	582	46.5	-	-	-	-	-	-	88	7.0	1 252
D. Training	1 680	18.0	1 680	18.0	2 750	29.3	1 146	12.2	1 660	17.7	454	4.8	9 370
E. Workshops	1 422	31.9	1 422	31.9	1 397	31.4	-	-	-	-	214	4.8	4 455
F. Services	1 235	25.2	1 235	25.2	-	-	2 235	45.5	-	-	202	4.1	4 907
TOTAL INVESTMENT COSTS	9 541	22.3	9 541	22.3	16 167	21.4	3 381	7.9	1 783	4.2	2 354	5.5	42 767
II. Recurrent costs													
Salaries and allowances	1 490	50.0	1 490	50.0	-	-	-	-	-	-	-	-	2 980
Operational costs	882	46.5	882	46.5	-	-	-	-	-	-	133	7.0	1 897
TOTAL RECURRENT COSTS	2 372	48.7	2 372	48.7	-	-	-	-	-	-	133	2.7	4 877
Total	**11 913**	**25.0**	**11 913**	**25.0**	**16 167**	**33.9**	**3 381**	**7.1**	**1 783**	**3.7**	**2 487**	**5.2**	**47 644**

C. Summary benefit and economic analysis

28. TCEP II will benefit 10,000 smallholder cocoa farmers and 5,000 other beneficiaries through improved roads and value chain services. Considering the average household size of 4.289 in the project area, this totals 64,200 household members. An additional 5,000 people will benefit from better roads, stronger cooperatives and market linkages, the availability of improved planting material and better input-supply systems.

29. Component 1 is expected to lead to an increase in cocoa production, marketing and exports as a result of: (i) the revitalization of abandoned plantations; (ii) replanting of new trees; (iii) higher yields for smallholder farmers; (iv) higher farm-gate prices; and (e) higher-quality cocoa as a result of improved post-harvest handling and marketing.

30. Benefits from component 2 (rehabilitation and maintenance of roads) will include greater access to markets, reduced time and cost of reaching local markets, and limited post-harvest losses due to poor transportation conditions. Component 3 (service provision for value chain development) will enhance the delivery of quality services to cocoa farmers and guarantee sustainability through improved extension services and greater access to inputs and markets.

31. The economic results of the project are positive and significant, with an economic internal rate of return of 17 per cent and a net present value of additional benefits totalling US$15.2 million over 20 years against a social discount rate of 10 per cent. The sensitivity analysis indicates that the results are robust to a reduction in the rate of adoption, but sensitive to an overall reduction in benefits, increased costs and delays in implementation.

D. Sustainability

32. In view of the project's targeting of existing and new plantations, rehabilitation of existing roads, safeguards against indirect deforestation, measures to mitigate environmental risks posed by the application of agrochemicals and careful monitoring of negative social impacts, it has been proposed to classify this project as category B – posing moderate socio-environmental risks. A Social, Environmental and Climate Assessment Procedures note has been prepared classifying the climate risk as moderate.

E. Risk identification and mitigation

33. The project's main risks include start-up delays, weak governance and institutional capacities, and vulnerability cocoa price variations. With a 14-month delay between signature and ratification of the financing agreement for TCEP I under the previous administration, continuous and results-driven dialogue with the Government on all critical dimensions of the project will be undertaken to accelerate the start up. In addition, start-up funds of US$200,000 have been included in the financing agreement. To mitigate the risk of weak governance and capacities, TCEP II will competitively recruit staff, harmonize staffing with the country programme staffing arrangements, use IFAD procurement guidelines and strengthen training and control systems related to financial management. To mitigate the risk of price variations, the project will support investments in other food crops for food security, climate resilience and smooth cash flow.

V. Corporate considerations

A. Compliance with IFAD policies

34. The design of TCEP II complies with IFAD's Strategic Framework (2016-2025), with a clear focus on enabling poor rural women and men to overcome poverty. Specifically, TCEP II is aligned with Strategic Objective 1: Increase poor rural people's productive capacities; Strategic Objective 2: Increase poor rural people's benefits from market participation; and Strategic Objective 3: Strengthen the environmental sustainability and climate resilience of poor rural people's economic activities.

35. In addition, the project is aligned with the IFAD Policy on Gender Equality and Women's Empowerment by promoting economic empowerment that provides rural women with equal opportunities to participate in – and benefit from – profitable economic activities in the cocoa value chain.

36. TCEP II is compliant with IFAD's Private Sector Development and Partnership Strategy through promoting public-sector facilitation of mutually beneficial 4P involving smallholder farmers and private market operators in response to clear market opportunities.

B. Alignment and harmonization

37. The proposed project is in line with the new administration's five-year PAPD, which recognizes the importance of: (i) inclusive and sustainable economic diversification to achieve structural transformation and growth; (ii) enabling the private sector to play a leadership role; and (iii) agriculture as an engine of growth. In order to diversify the economy, the Government has prioritized the agricultural sector and has identified seven priority value chains for support through the PAPD (2018-2022). These include, rice, oil palm, horticulture, cocoa, rubber, cassava, and poultry and pig husbandry.

C. Innovations and scaling up

38. TCEP II scales up the recently completed STCRSP and is complementary to TCEP I. There are additional opportunities for scaling up within the cocoa belt and the proposed project is closely aligned with government priorities and the interventions of other donors such as the World Bank. Prospects for scaling up this project include the use of kuu groups and farmer field schools, youth engagement, tree crop revitalization and capacity building of partner cooperatives. The benefits of a strengthened cocoa value chain could be transferred to other commodity value chains.

39. Key innovations in TCEP II as compared to past projects include: (i) the integration of climate change resilience and institutional capacity building into the approach; (ii) a focus on the supply chain for new cocoa genetic resources along with post-harvest activities and cocoa quality; (iii) an emphasis on service delivery by cooperatives to their members; (iv) the combination of plantation revitalization with the replanting of cocoa; (v) specific measures to include women and promote their access to benefits;

and (vi) the use of a long-term capacity-building strategy for cooperatives along with systematic institutional capacity building and institutional auditing.

D. Policy engagement

40. The proposed project is aligned with government policies including the: (i) PAPD (2018-2023); (ii) Revised Draft National Aid Policy of Liberia; (iii) National Cocoa Export Strategy (2014-2018); (iv) Land Rights Act; (v) Agriculture Commodity Regulatory Authority Act; and (vi) National Adaptation Programme of Action for Climate Change Resilience. Through its M&E system, the project will provide important feedback to the Government on project implementation and lessons learned, informing policies for the sector.

VI. Legal instruments and authority

41. A Project financing agreement between the Republic of Liberia and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement will be tabled at the session.

42. The Republic of Liberia is empowered under its laws to receive financing from IFAD.

43. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

44. 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 highly concessional terms to the Republic of Liberia in an amount of eleven million nine hundred and thirteen thousand United States dollars (US$11,913,000) 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 Debt Sustainability Framework grant to the Republic of Liberia in an amount of eleven million nine hundred and thirteen thousand United States dollars (US$11,913,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Houngbo
President

Negotiated financing agreement

Negotiated financing agreement: "Tree Crops Extension Project II (TCEP II)" (Negotiations concluded on 2 October 2018)

Loan Number: ___________________

Grant Number: _________________

Project Title: Tree Crops Extension Project II (TCEP II) (“the Project”)

The Republic of Liberia (“the Borrower/Recipient”)

and

The International Fund for Agricultural Development (“the Fund” or “IFAD”)

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

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2) and the Special Covenants (Schedule 3).

2. The Fund’s General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of April 2014, and as may be amended hereafter from time to time (“the General Conditions”) are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a Loan (“the Loan”) and a Grant (“the Grant”) to the Borrower/Recipient (collectively the “Financing”) which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. A. The amount of the Loan is eleven million nine hundred and thirteen thousand United States dollars (US$ 11 913 000).

   B. The amount of the Grant is eleven million nine hundred and thirteen thousand United States dollars (US$ 11 913 000).

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 1 July.

5. Payments of principal and service charge shall be payable on each 15 February and 15 August.

6. The Borrower/Recipient shall provide counterpart financing for the Project in the amount of two million four hundred and eighty six thousand United States dollars (US$ 2 486 000) in the form of payment of taxes and duties and provision of office facilities.

7. There shall be one account designated to receive IFAD financing in advance (Designated Account) denominated in USD to be maintained in the Central Bank of Liberia. The funds in the Designated Account shall not be mingled with other funds.

8. There shall be one Project Account denominated in USD to receive financing from the Designated Account and maintained by the Borrower/Recipient in a bank administered by the Project Implementation Unit (PIU).

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture (MoA).

2. Other Project Implementing Parties include Cooperative Development Agency (CDA) as well as the Liberia Agriculture Commodity Regulatory Authority (LACRA), under their respective mandates, and the identified Private Sector Partners.

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

Section D

The Financing will be administered and the Project directly supervised by the Fund.

Section E

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

(a) any institutional changes have been made by the Borrower/Recipient to the Project Steering Committee or the Project Implementation Unit, including the transfer, suspension, or termination of key PIU staff without cause and without the Fund's no-objection, and the Fund has determined that such changes are likely to have a material adverse effect on the Project; and

(b) the Project Implementation Manual, or any provision thereof, has been abrogated, waived, suspended, or amended without the consent of the Fund and the Fund has determined that this 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 Project Coordinator, Finance Manager, and Procurement Specialist shall have been duly appointed in agreement with IFAD; and

(b) The Project Implementation Manual shall have been approved by IFAD.

(c) All pending refunds up to the amount of USD 37 791 under the IFAD funded Agriculture Sector Rehabilitation Project (IFAD Grant DSF-8047-LR – and IFAD loan 898-A) as well as the IFAD Grant Support to the Farmers Union Network of Liberia (IFAD Grant IT-67-LR), as communicated by IFAD have been duly settled.

3. This Agreement is subject to ratification by the Borrower/Recipient, which shall be the date of entry into force of this Agreement.

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

For the Borrower/Recipient:

Minister for Finance and Development Planning
Ministry of Finance and Development Planning
Broad Street
P.O. Box 10-9013
Monrovia, Liberia

For the Fund:

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

This Agreement, dated __________, has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower/Recipient.

THE REPUBLIC OF LIBERIA

____
Authorized Representative

THE INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

____
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. Goal. The goal of TCEP II is to increase income and improve the livelihoods of poor smallholders cocoa producers and their households

2. Objective. The Project Development Objective is to improve incomes and climate resilience of smallholder cocoa producers.

3. Target group. The Project will target Lofa and other counties[5] and is expected to benefit around about 15,000 households of which 10,000 households will be cocoa smallholder farmers and the remaining 5,000 rural households will benefit from improved roads, input supplies, market linkages and spillover effects along the value chain. The Project will target former beneficiaries of the Smallholder Tree Crop Revitalization Support Project (STCRSP) as well as other farmers not receiving external support for the development of their cocoa farms. Smallholders who already own cocoa farms are eligible for support in the rehabilitation of their farms. People who do not own cocoa farms already will be eligible for Project support in the establishment of new farms. The 10,000 cocoa smallholders households will be targeted using a self-targeting approach combined with tools to ensure they meet the targeting criteria set by the Project, are members of kuu groups and Farmer Field Schools and are inclusive of youth and women.

4. Activities. The Project will adopt a value chain approach to link cocoa farmers, organized at grassroots level in kuu groups and Farmer Field Schools (FFS), to markets and services through cooperatives and Private Sector Partners (PSPs). Building on the achievements and lessons learnt from the IFAD co-financed STCRSP, key features of the project include: (a) the organization of farmers at the grassroots level in order to enhance their bargaining power, (b) the integration of climate change resilience and related institutional capacity building in the approach; (c) focus on the supply chain for new genetic material of cocoa; (d) focus on post-harvest aspects and quality of cocoa; (e) focus on services delivery by the cooperatives to their members; (f) the combination of basic revitalization of plantations with enhanced revitalization and replanting, (g) focus on measures to include women and promote their access to benefits; and (h) the use of a long-term growth path for institutional capacity building of the cooperatives, combined with more systematic institutional capacity building of cooperatives and institutional auditing. TCEP II interventions are designed to enhance the performance of the supplier/producer and buyer terms so that transformational relationships become embedded in sector improvements. Specifically, the three main outcomes of the Project are: (i) Increased quantity and quality of cocoa sold by smallholders; (ii) Improved and climate proofed access to markets; and (iii) improved service provision to cocoa smallholder.

5. Components. The Project will consist of the following four components: (i) Revitalisation of Cocoa Plantations; (ii) Rehabilitation and Maintenance of Roads; (iii) Service provision for value chain development; and (iv) Project Coordination, Management and M&E and Policy.

II. Implementation Arrangements

1. Lead Project Agency. The Lead Project Agency shall be the Ministry of Agriculture (MoA) of the Borrower/Recipient, with overall responsibility for the implementation of the Project.

2. Project Management. The Programme Management Unit (PMU) of MoA shall supervise the coordination responsibilities and day-to-day implementation of the Project Implementation Unit (PIU), responsible for the implementation of IFAD-financed projects in Liberia.

3. The main institutional parameters shall be as follows. The IFAD-PIU will ensure day-to-day management of the Project. In addition, the Project will also establish a County PIU in Lofa County. Implementation arrangements of the Project will be coordinated with those of the TCEP-I to be implemented in Nimba county. For the revitalization and replanting of plantations, the County PIU will coordinate the mobilization of kuu groups and FFS. In addition, Memoranda of Agreement will be signed with PSPs and cooperatives in order to

[5] The Parties may agree, following a technical assessment, to target areas outside Lofa County in accordance with the Project Description.

ensure access to markets and services. The Central Agricultural Research Institute (CARI) will be responsible for enhancing the supply chain of improved planting material.

4. National Steering Committee. The National Steering Committee (NSC) of TCEP-I and other IFAD-funded projects will also serve as NSC for the Project. The NSC shall orient the strategy of the Project, oversee planning, review progress and impact and ensure linkages with related projects, government services and relevant value chain stakeholders. The PMU will be the secretariat of the NSC. The draft AWPB will be submitted to the NSC for clearance and then submitted to IFAD for comments and final non-objection.

5. Component Implementation. The main implementing partners (IP) of the Project will be: (a) the selected cooperatives who will engage in business agreements with the kuu groups and FFS; (b) Private Sector Partners who will engage in Public-Private Partnerships with the Project and the cooperatives; (c) the CARI; (d) other specialized service providers, including consulting firms and NGOs, commercial financial institutions and others.
Under Component 1, revitalisation of Cocoa Plantations will mainly take place in Project Years (PY) 1 – 4. For Component 2, the construction, rehabilitation and climate proofing of roads will be prioritized according to the needs of targeted farmers and FMOs as well as priorities from Local Government and guided by the eligibility criteria in the Project Implementation Manual (PIM). The Environmental Protection Agency (EPA) will be responsible for assessing the possible environmental impact. The Project will also promote road maintenance and will engage with Government and the relevant development partners towards reaching an agreement for putting in place a National Road Maintenance Fund. Under Component 3, the approach to enhance the institutional capacity of cooperatives will be demand-driven. Extension and outreach services will be provided through a combination of public and private sector service providers. Service providers shall be taxed according to national legislation.

6. The coordination, management and M&E of Project activities will be under the responsibility of the PIU responsible for IFAD-financed projects, reporting to the MoA and the MFDP through the PMU. At the County level, the Project will liaise with the decentralized establishment of the MoA and the Cooperative Development Agency. An MOU will be signed between these parties and the Project in order to define roles and responsibilities. Project staff shall be subject to the applicable tax domestic legislation of the Borrower/Recipient including income tax and social security. The PIU will consolidate an Annual Work Plan and Budget (AWPB) for each Project Year, on the basis of proposals from the County Team. The AWPB will include: (i) a detailed description of planned Project activities during the coming Project year, and the sources and uses of funds thereof; (ii) an 18-months procurement plan for items to be procured through IFAD financing, and; (iii) indicators and associated targets extracted from the logical framework.

7. Project Implementation Manual. The Ministry of Agriculture shall prepare a draft PIM and forward this to the Fund for its non-objection. If the Fund does not comment on the draft PIM within thirty (30) days after receipt, it shall be deemed to have no objection. The PIM, or any provision thereof, may not be waived, suspended, terminated, amended or modified without the prior agreement of the Fund.

Schedule 2

Allocation Table

1. Allocation of Loan and Grant Proceeds. The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the Grant and the allocation of the amounts of the Loan and the Grant to each Category. All amounts are 100 % net of taxes, Government contribution and beneficiary contribution. All eligible expenditures belonging to the categories above will be apportioned on a 50:50 pari passu basis between the Loan Financing and the Grant Financing.

Category	Loan Amount Allocated in USD	Grant Amount Allocated in USD
I. Works	3 790 000	3 790 000
II. Goods, services and inputs (including Equipment and Materials and vehicles)	370 000	370 000
III. Consultancies, (including Services, Training and Workshops	4 430 000	4 430 000
IV. Salaries and allowances	1 340 000	1 340 000
V. Operating costs	793 000	793 000
Unallocated	1 190 000	1 190 000
Total	11 913 000	11 913 000

2. Start-up Costs. To facilitate a prompt start-up, withdrawals of up to USD 200 000 may be made to incur expenditures related to the Project start-up before the satisfaction of the additional general conditions precedent to withdrawal. The start-up activities may include, inter alia: (i) Updating of the Project implementation manual including the Financial management , accounting and procurement manual; (ii) Preparation of the first AWPB & procurement plan; (iii) organization of a Start-up workshop; (iv) Fine tune the accounting software as necessary, and (v) finalization of the Agreement/MoU templates to be used with the implementing partners, as well as other activities as agreed with the Fund.

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower/Recipient to request withdrawals from the Loan Account if the Borrower/Recipient has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Programme:

1. Recruitment of staff. The Borrower/Recipient shall ensure that PIU staff are recruited in conformity with the PIM or at start-up under procedures otherwise acceptable to the Fund. The recruitment procedures shall follow an open, transparent and competitive process and have qualifications and experience commensurate with their duties. The recruitment process and the appointment of the staff shall be subject to no-objection of the Fund. Whenever IFAD observers participate in the recruitment process, these shall provide their feedback in a timely manner in order to contribute to the recruitment panel decision.

2. Accounting software. The Borrower/Recipient shall ensure that the PIU will record Project expenditures in an accounting software acceptable to the Fund throughout the project life.

3. Transfer of the funds to implementing partners. The Borrower/Recipient shall ensure that the proceeds of the IFAD financing are not transferred to an implementing partner before i) a proper due diligence on the implementing partner's capacity has been conducted by the PIU and ii) a Memorandum of Agreement between the respective implementing

partner and the Project, on behalf of the Borrower/Recipient, has received the Fund’s No objection and has duly entered into effect.

4. Annual independent audit. The Borrower/Recipient, through the Ministry of Agriculture, will appoint the General Auditing Commission or other independent auditor acceptable to IFAD, under the terms of reference cleared by IFAD, and in line with the IFAD Guidelines for Project Audits. A consolidated audited annual financial statement for the project, together with a management letter on audit observations on internal controls, shall be submitted to the Fund within six (6) months of the fiscal year end. Moreover, the Borrower/Recipient shall ensure that the IFAD funds transferred an implementing partners are part of the annual audit and that the auditors are granted full access to all documentation as may be required.

Logical framework

Narrative Summary	Key Performance Indicators				Means of Verification			Assumptions
	Name (core indicator [CI])	**Baseline (Y0)**	**Mid-Term (Y3)**	**End Target (Y6)**	**Source**	**Frequency**	**Responsibility**	
Outreach								
	Number of persons receiving services promoted or supported by the project [6][CI 1]			64,200	Monitoring report	Quarterly	County-PIU	No major crisis such as Ebola epidemic or external shocks such as hyperinflation, stability within MoA and MF**P**D
	Corresponding number of Households reached [CI 1.a][7]			15,000	Monitoring report	Quarterly	County-PIU	
Goal:								
Increase income and improve the livelihoods of poor rural households farming cocoa on a smallholder basis in Lofa country	% of population below the international poverty line in the North Central region[8]	72%	67%	62%	Midterm Review Study or Secondary data (LISGIS)	PY3, PY6	IFAD-PIU	• Institutions are strengthened • Government policy supports land acquisition, feeder roads, and private sector inclusion
	Household Food security level [9]	11.3% moderate and severe food insecurity[10]:	TBD	TBD	Baseline/ Completion Survey or secondary data i.e. CFSNS, WFP VAM	PY3, PY6	IFAD-PIU	
Project Development Objective:								
Improve incomes and climate change resilience of smallholder cocoa producers in Lofa	# of smallholder farmers who increased the <u>quantity</u> of cocoa sold[CI 1.2.4]	0	5,500	10,000	Baseline/Completion survey	PY1, PY3, PY6	IFAD-PIU (LISGIS)	Commitment of all stakeholders (government, donors, private sector) to

[6]Disaggregated by sex
[7]Disaggregated by Lead (head of household, small enterprise or group)
[8] Household Income and Expenditure Survey, LISGIS 2016
[9]The food insecure people are those that spend more than 60% of their resources on food and have poor or borderline food consumption on combined with those that spend 40-60% of their resources on food and have poor food consumption. The moderately food insecure are the sum of those that have acceptable FCS but spend a very high share (>60%) of their income on food plus those that have borderline consumption and spend 40-60% of their income on food plus those with poor FC but a lower share of expenditure on food (<40%).
[10]World Food Program, VAM Report, 2015

Narrative Summary	Key Performance Indicators				Means of Verification			Assumptions
	Name (core indicator [CI])	**Baseline (Y0)**	**Mid-Term (Y3)**	**End Target (Y6)**	**Source**	**Frequency**	**Responsibility**	
	# of smallholder farmers who increased their resilience[11] to climate change	0	• 550 • 550	• 4,000***** • 4,000******	Baseline/Completion survey	PY1, PY3, PY6	IFAD-PIU (LISGIS)	
	Average gross <u>sales</u> of cocoa per farm	69US$	361 US$	998US$	Baseline/Completion survey, monitoring data	PY1, PY3, PY6	LISGIS, Coop reports, PSP	
	Farm gates <u>prices</u> as % of ICCO reference price for grade 1	56%	76%	86%	Monitoring reports	Quarterly	County-PIU	
	% of farmers engaged in alternative livelihood activities (plantain, potatoes, groundnut)		75%	100%	Monitoring reports	Quarterly	County-PIU	
Component 1 – Revitalization of cocoa plantations								
Outcome 1: Increased quantity and quality of cocoa sold by smallholders	# of productive trees per farmer (yielding >25 pods of cocoa per tree)	0	550	1,100	Baseline/Completion survey	PY1, PY3, PY6	IFAD-PIU (LISGIS)	Land tenure system in project counties does not pose any limitations to project activities Targeted communities are involved and responsive to interventions made
	Percentage of grade 1 cocoa sold		47%	90%	Reports of PSP and cooperatives	Annually	CAC, DAO	
Outputs: Plantation revitalized and climate resilient practices and processing introduced	Ha of cocoa rehabilitated or replanted	2,000 ha	4,134	7,500 ha	Reports from DAO, PSP and Cooperatives	Quarterly	CAC, DAO	
	# groups (FFS) trained in production practices or technologies[CI 1.1.4]	0	220 FFS	400 FFS	FFS officer	Quarterly	County-PIU	
Component 2 – Rehabilitation and maintenance of roads								

[11] A household will be considered as more resilient to climate change if it is at least: a) using climate resilient practices (adequate shade, diversification, pest and disease control) and cocoa germplasm promoted by the TCEP II; and b) is engaged in a zero deforestation agreement which is monitored. It is estimated that at least 50% of the farmers would reach this level in year 6.
*****These farmers will meet all the criteria listed in the above footnote.
******Besides being engaged in a zero-deforestation agreement, these farmers will satisfy at least two of the criteria on the use of climate resilience practices.

Narrative Summary	Key Performance Indicators				Means of Verification			Assumptions
	Name (core indicator [CI])	**Baseline (Y0)**	**Mid-Term (Y3)**	**End Target (Y6)**	**Source**	**Frequency**	**Responsibility**	
Outcome 2: Improved and climate proofed access to markets	Km of roads passable all year (*including climate-proofing*) round after three years	133.1 [12]km	413 km	513 km	Reports of CRE	PY1, PY3, PY6	County-PIU, CRE	Targeted communities are involved and responsive to interventions made
Outputs: Rehabilitation and maintenance of roads	# of kilometres of roads constructed, rehabilitated or upgraded, [CI 2.1.6]	0	280km	380km				
	# Number of Road Management Plans (RMP) developed[13]	0	7	7				
	# of Road Management Committees established and functioning[14]	0	1	1	Reports from DAO, PSP and Cooperatives	Quarterly	CAC, DAO	
Component 3 – Service provision for value chain development								
Outcome 3: Improved service provision to cocoa smallholder	Tonnes of cocoa sold by farmers through their cooperatives and/or PSP	1,000	2,775 tonnes	9,800 tonnes	Reports from Coops and PSP	Quarterly	CAC, DAO	Responsive and interested private sector partners in the cocoa sector
	Average increase of business potential[15] (improving service delivery to farmers) for supported cooperatives	2.95 (current average business potential of coops in Lofa)	3.8 for 80% and 4.5 for 20% of selected coops	4.5 for 70% and 5 for 30% of selected coops	Reports of PSP and cooperatives	Annually	CAC, DAO	
Outputs: Sustainable cooperatives for marketing of cocoa and provision of inputs	# of rural producers accessing production inputs and/or technological packages [CI 1.1.3]	0	5,500	10,000	Reports from Coops and PSP	Quarterly	CAC, DAO	

[12]STCRSP achievement.
[13]Levelling/grading, heaping with maroon and compacting, Opening waterways / construction of culverts, patching potholes, sweeping, slashing, clearing excess vegetation.
[14]Based on an average road extension of 7 km (from STCRSP: 133 km for 19 roads) and given that each road will be provided with a RMC, a total of 56 RMCs will be established.
[15]Business potential is a composite index to assess the level of development of cooperatives (developed by SCOPEinsight).