Executive Board

President's memorandum
Proposed additional financing
Independent State of Papua New Guinea
Markets for Village Farmers Project (MVF) – Maket Bilong Vilis Fama

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Action: The Executive Board is invited to approve the recommendation for the proposed additional financing contained in paragraph 63.

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Financing summary

Initiating institution:	IFAD
Borrower/recipient:	Independent State of Papua New Guinea
Executing agency:	Department of Agriculture and Livestock
Total project cost:	US$52.44 million
Amount of original IFAD loan (performance-based allocation system [PBAS]):	US$25.5 million
Terms of original IFAD loan:	Blend: maturity period of 25 years, including a grace period of five years, with a service charge of 0.75 per cent and an interest rate of 1.25 per cent per annum in SDR (adjustments for single-currency loans)
Amount of additional IFAD loan (PBAS):	US$18.065 million
Terms of additional IFAD loan:	Blend (same as original financing terms)
Cofinanciers:	Financial institutions
Amount of cofinancing:	US$1.484 million
Contribution of borrower/recipient:	US$4.796 million
Contribution of project participants:	US$2.595 million
Amount of original IFAD climate finance:	US$0 million
Amount of additional IFAD climate finance:	US$7.144 million (of which US$0.8 million is a climate top-up)
Cooperating institution:	Directly supervised by IFAD

I. Background and project description

A. Background

1. The Market for Village Farmers Project (MVF) was approved by IFAD's Executive Board in September 2017.[1] The original total amount of financing for the project was US$50.26 million, consisting of an IFAD loan (no. 2000001961) of US$25.5 million, a government contribution estimated at US$2.85 million, contributions from project participants estimated at US$1.21 million, and financing from financial institutions of US$4.22 million. The financing gap of US$3.47 million was expected to be financed by subsequent contributions from IFAD or other partners. The financing agreement entered into force on 27 August 2018, although implementation did not begin until early 2019 owing to delays in the process of obtaining a legal opinion on the financing agreement from the Government of Papua New Guinea. In 2024 the project was extended by two years, moving the completion date to 30 September 2026 and the closing date to 31 March 2027.

2. In 2025, the Government sought additional funding of US$18.065 million from IFAD to cover a US$3.47 million financing gap identified during project design, as noted in the aide-memoire from the June 2025 supervision mission. An official request letter has been submitted. Of this total, US$17.265 million will come from the 2025–2027 cycle of the performance-based allocation system (PBAS) and US$800,000 will be provided as a climate top-up. The Government has asked that this extra financing be provided on the same lending terms and conditions as those of the original loan.

B. Original project description

3. The goal of MVF is to improve the livelihoods of village farming households in target provinces by facilitating their transition from semi-subsistence agriculture to market-oriented production and farming as a business. The development objective is to achieve sustainable increased returns to village farming households from increased marketed production.

4. The project targets six provinces of Papua New Guinea for fresh produce activities: Western Highlands, Jiwaka, Simbu, Eastern Highlands and Morobe. The project's galip nut activities target East New Britain. MVF targets 23,500 farming households, benefiting approximately 117,500 people.

5. The Department of Agriculture and Livestock is the project executing agency, while the Fresh Produce Development Agency (FPDA) is the project implementing agency.

6. The project has three components: component 1 – inclusive business partnerships, supports all the activities required to build and implement business partnerships; component 2 – supportive value chain investment, complements partnership investment through spot improvements on feeder roads and facilitation of access to financial services; and component 3 – collective governance and project management, includes all the activities aimed at promoting a favourable policy and institutional environment to support the development of inclusive fresh produce and galip nut value chains.

II. Rationale for additional financing

A. Rationale

7. The project was Papua New Guinea's first international loan to support its fresh produce sector. IFAD's involvement aligns with its Strategy for Engagement in Small Island Developing States 2022–2027. It recognizes Papua New Guinea as a key small island developing state member and highlights food systems and nutrition support as a strategic investment. The fresh food sector is vital for the

[1] EB 2017/121/R.19/Rev.1.

country’s food security and sustainable agriculture. MVF was launched as a pilot to test scalable approaches and systems.

8. The project initially faced challenges, as it was the first international loan in the fresh produce sector and staff were unfamiliar with IFAD processes. With time, greater understanding has led to improved implementation and better-informed government systems. Now, the project is set to scale up, with the Asian Development Bank (ADB) joining as a cofinancier, contributing US$40 million alongside the IFAD loan for market infrastructure to help MVF farmers and expand the project.

9. The project made notable progress in 2024 and 2025, with 72.29 per cent of the loan funds disbursed by October 2025. Additional IFAD13 funding is essential, as most of the remaining loan funds will be spent in 2026. The number of participating households rose from 3,049 in 2022 to 27,771 by June 2025 and produce sales among participating farmers increased by an estimated 65 per cent in 2023. Matching grants improved access to inputs and technical support, while field-based training boosted farmer knowledge and engagement. Capacity-building within FPDA has advanced but requires ongoing assistance. Further funding is needed to achieve all project targets.

10. The Government of Papua New Guinea is dedicated to working with IFAD and advancing MVF, supported by ADB contribution for infrastructure, as a strategic path to food security and rural growth. Halting MVF now would squander the valuable progress made thus far. The Government aims to build on MVF’s achievements and expand it to more provinces. With the additional funding, early results can be strengthened, supporting future replication.

Special aspects relating to IFAD's corporate mainstreaming priorities

11. In line with IFAD’s mainstreaming commitments, the project has been validated as:

☒ Including climate finance

☒ Building adaptive capacity

B. Description of geographical area and target groups

12. The project initially targeted six Papua New Guinea provinces: Western Highlands, Jiwaka, Simbu, Eastern Highlands, Morobe (for fresh produce), and East New Britain (for galip nuts). In the fourth quarter of 2025, activities were expanded to incorporate the active production areas in Madang Province.

13. MVF priorities upland provinces, important for smallholder vegetable farming, and facing significant poverty, low literacy, and high malnutrition. ADB reported Papua New Guinea’s 2025 poverty rate at 39 per cent.[2] The latest rural household survey by the International Food Policy Research Institute indicates that rural households earn an average of US$2.19 per person daily, just above the global poverty line of US$2.15 (2017 purchasing power parity), with 68 per cent relying entirely on their own agricultural production. Urban demand is strong, but poor transport restricts market access, despite the availability of aggregators.

14. **Indigenous Peoples.** Papua New Guinea is the world’s most culturally and linguistically diverse country, with over 600 cultural groups and more than 840 languages. Around 95 per cent of its population and nearly all project participants are Indigenous Peoples.

15. **Outreach.** The project will expand its outreach from 23,500 to 46,700 households (233,500 people) by strengthening training systems and introducing new activities.

16. To broaden capacity development, the project will integrate the FPDA village extension worker model with its existing lead farmer approach. Village extension

[2] Papua New Guinea: By the Numbers, ADB Data Library, Asian Development Bank.

workers include skilled youth and women from local communities as well as professional extension workers. After receiving tailored training of trainers and performance-based stipends, each village extension worker will train 15–25 additional community members. Retail training materials and provincial coordination mechanisms have also been enhanced to improve quality and monitoring.

17. With the additional financing, the project will introduce climate adaptation measures, including multi-use water networks for irrigation and water, sanitation and hygiene (WASH) systems serving about 4,000 households, and solar-powered refrigerated warehouses benefiting another 4,000 households. These interventions will strengthen water security, reduce women’s workload and support low-carbon agribusiness.

18. Finally, to meet processing demand for galip nuts, 3,000 additional households from Morobe Province will be engaged in new partnerships, expanding supply and participation in value chain activities.

C. Components, outcomes and activities

19. The additional financing will expand MVF activities under all components, prioritizing greater outreach, revised approaches and new climate adaptation efforts.

20. **Component 1. Inclusive business partnerships** aims at building inclusive partnerships between village farmers and buyers in which farmers will gain improved access to markets and support services and buyers will source from farmers to supply remunerative markets.

Subcomponent 1.1 – Fresh produce partnerships

- **Expansion of the matching grant scheme.** The matching grant scheme will keep its 40/60 cost-sharing ratio, with the project covering 40 per cent and lead partners 60 per cent, the latter obtaining funding via bank loans and a credit guarantee fund if needed. Funding will support investments to boost productivity and market access, such as refrigerated trucks, cold storage, packing units and mechanization equipment. Participating farmers (known as contact farmers) can now apply in groups, helping reduce financial barriers and encouraging more participation.

- **Revision of the credit guarantee fund.** The credit guarantee fund (CGF) was initially designed to help smallholder farmers access finance, but direct loan guarantees proved ineffective due to low financial literacy, weak credit histories and high transaction costs. The revised approach for the additional financing will target lead partners and aggregators, who support smallholders by sourcing and marketing produce but struggle with liquidity and collateral for commercial credit.

  Under the additional financing, US$1.04 million will be allocated to the CGF, which will guarantee up to 50 per cent of loans made to lead partners through partner banks for investments in, for example, equipment and working capital, thus encouraging greater financial institution involvement. Smallholder farmers will continue to receive matching grants and capacity-building support to enhance production, market access and financial management.

- **Enhanced climate resilience of fresh produce value chains.** With the additional financing, solar-powered refrigerated warehouses and water supply facilities will be provided to help communities adapt to climate variability.

(i) **Solar-powered refrigerated warehouses**

To address Papua New Guinea's lack of cold chain infrastructure, the project will install ten off-grid, solar-powered cold storage units using the Village Ventures model developed by AgBook Agribusiness Training and Advisory Ltd. These facilities will reduce post-harvest losses, preserve produce quality, support reliable market linkages and foster sustainable, low-carbon agribusiness through pay-per-crate or fee-for-service approaches.

(ii) **Multiple use water networks for irrigation and WASH services delivery**

The additional funding will help build integrated water systems for both irrigation and household use, based on needs found in 2024. Combining drip irrigation with potable water supply via gravity-fed or solar-powered pumps will reduce dry season stress, improve food security, and benefit community health, particularly for women and girls responsible for water collection. Communal fountains will facilitate access, enhance nutrition and strengthen economic participation for women.

Subcomponent 1.2 – Galip nut supply chain

21. Profiled collectors in East New Britain and Madang cannot currently meet processing plant volume needs. The additional financing will expand galip nut partnerships into Morobe Province, aiming to reach 3,000 additional households and boost annual supply. Since Morobe is already part of the project's fresh produce value chain support, this expansion will build on an existing foundation. As all profiled collectors are women and youth involved in cocoa farming, strengthening galip nut collection and market access will help diversify their incomes and increase their participation in the production of high-value commodities.

22. **Component 2. Supportive value chain investment** enhances farmers' access to markets through road improvements and supports financial inclusion by facilitating access to suitable financial services.

Subcomponent 2.1 – Full rehabilitation of feeder roads

23. The additional financing will facilitate the rehabilitation of critical feeder roads that connect agricultural production zones with market destinations. Field assessments have revealed that the condition of these roads was significantly worse than initially identified during project design, necessitating full rehabilitation. This will entail substantially higher costs compared to the originally planned spot improvements, leading to a reduction of the original target from 100 kilometres to 26 kilometres, with rehabilitation of 10 kilometres financed through the initial loan and rehabilitation of 16 kilometres supported by the new funding.

24. Upgrades will incorporate climate-resilient features in accordance with Social, Environmental and Climate Assessment Procedures (SECAP) requirements, ensuring that rehabilitated roads are resilient to extreme weather events and thereby providing reliable infrastructure that will support sustainable agricultural production and robust market linkages across the project areas.

Subcomponent 2.2 – Financial inclusion

25. **Introduction of the savings and loan association (SLA) model.** The additional financing will be used to introduce a community-based SLA model to improve financial inclusion for project participants, with a focus on women and youth. Unlike previous loan-based services, this approach prioritizes savings to build financial resilience and sustainable access to financial services.

26. Specialized partners such as CARE International, TISA Bank and other service providers will be contracted to deliver targeted sessions to foster a savings culture within participating communities.

27. SLAs will be formed at the community level, where members will be able to save collectively in group accounts with recognized institutions. When they reach a set savings target, the project will provide matching funds, enabling community members to reinvest in productive activities and encouraging group responsibility.

28. SLAs will work closely with business partnerships, enabling farmers to participate more actively in supply chains and reduce their reliance on external loans. Successful SLAs may eventually become independent financial entities.

29. **Component 3. Collective governance and project management** is designed to create policies and institutions that foster the development of inclusive fresh produce and galip nut value chains (subcomponent 3.1) and ensure efficient management of the project (subcomponent 3.2).

30. The additional finance will boost FPDA's capacity to manage the expansion of activities by improving provincial operations and overseeing new investments. Operating costs will remain below 20 per cent of the loan amount.

31. The table below summarizes the expected outcomes of the three components of MVF.

Component	*Outcome*
1. Inclusive business partnerships	● Village farming households have access to markets and services in the target value chains
2. Supportive value chain investment	● Improved value chain environment facilitates small farmers' inclusion
3. Collective governance and project management	● Organized sector players contribute to policy development and sector coordination for inclusive growth of the fresh produce and galip nut sectors

D. Costs, benefits and financing

Project costs

32. The total MVF incremental investment and recurrent costs, for both the original project and the additional financing, are estimated at US$52.44 million, comprising: (i) the original approved IFAD loan of US$25.5 million; (ii) the additional financing of US$18.065 million; (iii) the expected government contribution of US$4.796 million; (iv) cofinancing/contributions of US$1.483 million from financing institutions; and (v) the expected project participant contribution of US$2.595 million.

33. With the additional financing, the IFAD loan amounts to US$43.565 million, or 83.07 per cent of the total project financing. The COSTAB data have been updated as a result of the changes in additional financing and counterpart funding.

34. Project **subcomponent 1.1 (fresh produce partnerships) and subcomponent 2.1 (full rehabilitation of feeder roads)** are partially classified as climate finance. As per the multilateral development banks' methodologies for tracking climate change adaptation and mitigation finance, the total amount of IFAD climate finance for this additional funding is estimated as US$7.144 million.

Table 1
Original and additional financing summary
(Thousands of United States dollars)

	Original financing	*Changes in original financing*	*Additional financing*	*Total*
IFAD loan	25 500	-	18 065	43 565
Other cofinanciers	4 223	(3 779)	1 040	1 483
Project participants	1 214	1 381	-	2 595
Borrower/recipient (central)	2 851	439	1 506	4 796
Provinces and districts	13 000	(13 000)	-	-
Financing gap	3 472	-	-	-
Total	**50 260**	**(14 959)**	**20 611**	**52 440**

Table 2
Additional financing: Project costs by component (and subcomponent) and financier
(Thousands of United States dollars)

	Additional							
	Additional IFAD loan		*Financial institutions*		*Borrower/recipient*			*Total*
Component/subcomponent	*Amount*	*%*	*Amount*	*%*	*Cash*	*In kind*	*%*	*Amount*
1. Inclusive business partnerships								
1.1. Fresh produce partnerships	4 710	100.0						4 710
1.2. Galip nut supply chain	260	100.0						260
Subtotal	4 969	100.0						4 969
2. Supportive value chain investments								
2.1. Full rehabilitation of feeder roads	6 482	100.0						6 482
2.2. Financial inclusion	2 100	66.9	1 040	33.1				3 140
Subtotal	8 582	89.2	1 040	10.8				9 622
3. Collective governance and project management								
3.1. Collective governance	278	100.0						278
3.2. Project management	4 236	73.8			1 506		26.2	5 742
Subtotal	4 513	75.0			1 506		25.0	6 020
Total	**18 065**	**87.6**	**1 040**	**5.0**	**1 506**		**7.4**	**20 611**

Table 3
Additional financing: Project costs by expenditure category and financier
(Thousands of United States dollars)

									Additional				
	Additional IFAD loan		*Additional IFAD grant*		*Financial institution*		*Project participants*			*Borrower/recipient*			*Total*
Expenditure category	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Cash*	*In kind*	*%*	*Cash*	*In kind*	*%*	*Amount*
I. Investment costs													
A. Works	6 151	100.0											6 151
B. Equipment and materials	1 360	100.0											1 360
C. Consulting services and training	4 925	100.0											4 925
D. Credit, guarantee funds	1 040	50.0			1 040	50.0							2 081
E. Grants	1 647	100.0											1 647
Total investment costs	15 123	93.6			1 040	6.4							16 163
II. Recurrent costs													
A. Recurrent costs	2 942	66.1								1 506		33.9	4 448
Total recurrent costs	2 942	66.1								1 506		33.9	4 448
Total	**18 065**	**87.6**			**1 040**	**5.0**				**1 506**		**7.4**	**20 611**

Table 4
Project costs by component and project year
(Thousands of United States dollars)

	2018		2019		2020		2021		2022		2023		2024		2025		2026		2027		2028		2029		2030		Total
Component/subcomponent	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	
1. Inclusive business partnerships																											
1.1. Fresh produce partnerships					409	2.7	408	2.7	583	3.8	1 877	12.4	2 679	17.7	2 179	14.4	2 114	13.9	199	1.3	1 967	13.0	1 770	11.7	973	6.4	15 157
1.2. Galip nut supply chain					91	8.1	87	7.7	57	5.1	57	5.1	136	12.1	210	18.7	207	18.4	21	1.9	182	16.1	57	5.1	21	1.9	1 126
Subtotal					500	3.1	495	3.0	640	3.9	1 934	11.9	2 815	17.3	2 389	14.7	2 321	14.3	220	1.4	2 148	13.2	1 827	11.2	994	6.1	16 283
2. Supportive value chain investments																											
2.1. Full rehabilitation of feeder roads					-	-	-	-	-	-	48	0.5	88	0.9	328	3.2	3 133	31.0	15	0.2	2 621	26.0	2 615	25.9	1 246	12.3	10 094
2.2. Financial inclusion			374	5.8	638	9.8	555	8.5	-	-	178	2.7	1 040	16.0	78	1.2	486	7.5	20	0.3	1 497	23.0	1 179	18.1	464	7.1	6 509
Subtotal			374	2.3	638	3.8	555	3.3	-	-	226	1.4	1 128	6.8	406	2.4	3 619	21.8	35	0.2	4 118	24.8	3 795	22.9	1 709	10.3	16 604
3. Collective governance and project management																											
3.1. Collective governance			-	-	-	-	-	-	15	1.6	49	5.3	76	8.2	76	8.2	361	38.8	78	8.3	100	10.7	100	10.7	78	8.3	932
3.2. Project management	102	0.5	1 014	5.4	1 564	8.4	1 059	5.7	942	5.1	1 538	8.3	1 910	10.3	1 911	10.3	1 875	10.1	962	5.2	2 336	12.5	2 336	12.5	1 070	5.7	18 621
Subtotal	102	0.5	1 014	5.2	1 564	8.0	1 059	5.4	957	4.9	1 587	8.1	1 986	10.2	1 987	10.2	2 236	11.4	1 040	5.3	2 436	12.5	2 436	12.5	1 147	5.9	19 553
Total	**102**	**0.5**	**1 389**	**2.6**	**2 702**	**5.2**	**2 109**	**4.0**	**1 597**	**3.0**	**3 747**	**7.1**	**5 929**	**11.3**	**4 782**	**9.1**	**8 175**	**15.6**	**1 295**	**2.5**	**8 703**	**16.6**	**8 058**	**15.4**	**3 851**	**7.3**	**52 440**

Summary of benefits and economic analysis

35. The project objective is to achieve sustainable increased returns to village farming households through improved market linkages. The goal and objective will not change as a result of the additional financing. The overall economic internal rate of return of the programme is estimated at 42 per cent for the base case. The net present value of the net benefit stream, discounted at 7 per cent, is US$76.4 million. The sensitivity analysis confirms that the economic viability of the programme remains attractive, as a positive net present value and economic internal rate of return above 7 per cent are preserved when testing a 50 per cent decrease in project benefits or a 50 per cent increase in project costs. Nonetheless, the project is more sensitive to a decline in benefits than to an increase in costs. A decrease in benefits may be brought about by market/price fluctuations, unexpected climatic changes, low crop yields, delays in trainings or problems with the partnerships.

Exit strategy and sustainability

36. The project aims to ensure sustainable commercial farming in the fresh food and galip nut sectors for target households. Business partnerships receive up to three years of technical and financial aid, after which they are expected to operate independently, with continued farmer access to markets and services. Investments focus on strengthening partners' and farmers' capacity for greater resilience to market changes.

37. Additional sustainability measures include building economies of scale, increasing bargaining power and establishing demonstration farms as ongoing community-based support hubs. The project is also working to equip FPDA with the skills needed to continue assisting farmers. Planned policy studies and scaling strategies are intended to share project lessons regionally and reinforce the national food system, helping reduce reliance on food imports.

III. Risk management

A. Risks and mitigation measures

38. The project's main risks and mitigation strategies remain the same as those identified during project preparation. A major risk is limited agribusiness capacity, which is being addressed by collaborating with partners to develop feasible incentives to engage small farmers, a practice that will continue. Persistent challenges in rural financial service access limit farmer participation in value chains; the project will therefore emphasize the development of local savings and financing options. FPDA's management capacity has posed early challenges, but technical support and knowledge transfer have helped. Ongoing support is needed to ensure long-term sustainability.

39. **Financial risks.** In June 2025, the latest supervision mission rated the inherent risk of the project's financial management as substantial. Key financial management challenges include a need for capacity-building for local staff to improve their accounting skills and ensure compliance with IFAD's financial reporting requirements. The project currently faces a material tax liability of 3.94 million Papua New Guinea kina, which is owed to the Internal Revenue Commission. In addition, monthly incentive allowances totalling 818,442 kina, paid to FPDA staff, have been classified as ineligible expenditures due to insufficient supporting documentation. A formal letter from the national Department of the Treasury is needed to request an adjustment or set-off from IFAD loan funds, as outlined in the financial management action plan. If this is not secured, the project must refund FPDA allowances to either the designated or the operating account. A special investigation audit, agreed during the 2023 midterm review, is ongoing and must be completed by November 2025. The project staff will submit the report by the new deadline established in the action plan during the June 2025 supervision mission. Key priority actions include:

- Strengthening financial management capacity through staff training;
- Enhancing budget planning and performance monitoring; and
- Finalizing and updating the project implementation manual to reflect current financial management procedures.

B. Environment and social category

40. MVF's environmental and social risk rating is **moderate**. These risks are expected to have minimal impact on field activities, and effective mitigation measures are available.

41. The project area is located within regions inhabited by Indigenous Peoples, with both tangible and intangible cultural heritage. The project's infrastructure improvements are minor in scale, and it aims to prevent negative impacts such as population displacement, large-scale infrastructure development or the use of hazardous materials. The project will not negatively impact Indigenous Peoples or any historical, religious or cultural sites.

42. The relevant SECAP have been followed to ensure adequate management of potential environmental and social risks associated with the project activities, including developing an environmental, social and climate management plan and a stakeholder engagement plan; putting in place a grievance redress mechanism; and developing a free, prior and informed consent instrument and an Indigenous Peoples plan.

C. Climate risk classification

43. Project implementation in the highlands is subject to climate challenges such as frequent extreme weather. The overall climate risk is considered **moderate**, assuming that production systems, value chains and infrastructure are sufficiently climate resilient. Current feeder roads are not climate resilient, so rehabilitation will follow SECAP Standard 9, on climate change, to ensure that rural infrastructure can withstand severe weather.

44. Value chains will be reviewed for climate resilience, and mitigation measures will be integrated at all stages, 0from production to marketing. Strengthening producer groups and improving financial access will boost adaptive capacity. Enhanced information-sharing, predictive technologies and cooperation will also support supply chain resilience.

45. Provided that risks are managed and strategies are implemented, the project's climate risk remains moderate.

D. SECAP implementation budget

46. The original design allocates about US$494,190 for SECAP-related costs, covering staff, the focal person, technical assistance and capacity-building. This budget supports both ongoing and some new activities under the additional financing.

IV. Implementation

A. Compliance with IFAD policies

47. MVF is fully aligned with the goals and objectives of the IFAD Strategic Framework 2016–2025 and relevant IFAD policies and strategies, including: (i) the IFAD Poverty Targeting Policy 2023; (ii) the IFAD Rural Youth Action Plan 2026–2031; (iii) the IFAD Private Sector Engagement Strategy 2019–2024; (iv) the IFAD Policy on Gender Equality and Women's Empowerment (2012); and (v) IFAD's SECAP.

48. MVF activities align with the 2025–2027 country strategy note aim of promoting inclusive growth by increasing income, food security and resilience among rural communities through innovative agrifood value chain partnerships. For 2025–2027, three strategic objectives will guide efforts: immediate support for strengthening

the fresh produce sector via MVF implementation, medium-term improvements in sector sustainability, and future scaling up of the MVF approach to other regions.

B. Organizational framework

Management and coordination

49. The original high-level management and coordination framework will remain unchanged, with the Department of Agriculture and Livestock as the executing agency and the Fresh Produce Development Agency (FPDA) as the implementing agency. The project implementation structure was reviewed and revised during the June 2025 supervision mission to strengthen implementation and embed the structure within FPDA for institutional sustainability.

50. The organizational structure is as follows:

    (i) A national steering committee provides overall guidance and oversight and approves annual workplans and budgets, progress reports and financial reports;

    (ii) The Department of Agriculture and Livestock is the executing agency and is responsible for overall leadership, coordination and oversight of the project;

    (iii) FPDA is responsible for overall project management and works through a project management unit (PMU) for day-to-day project management and implementation; and

    (iv) Provincial teams in the provincial office of FPDA in every target province work under the supervision of FPDA and with the guidance of the PMU.

Financial management, procurement and governance

51. **Financial management.** The quality of MVF financial management was rated as moderately satisfactory, based on the findings of latest supervision mission, conducted in June 2025. The financial management arrangements are properly organized in terms of staffing and systems. The project finance team is equipped to manage the additional financing, with segregation of duties for major functions. The approved annual workplan and budget and procurement plan will guide the project activities. The current financial management arrangements will be maintained for this additional financing.

52. **Accounting and reporting.** The existing management information system of MVF needs to be strengthened through the continued presence of an international financial specialist with a focus on mentoring national staff. Interim financial reports will be prepared and submitted through the IFAD Client Portal within 30 days of the end of each quarter, together with the related withdrawal applications for justification and advances when required. The reporting currency will be the United States dollar and the transaction currency, the Papua New Guinea kina.

53. **Disbursement and funding flow arrangements.** The designated account in United States dollars in the Treasury will receive the additional financing. The designated account will follow the revolving fund arrangement, informed by the quarterly interim financial reports and cash forecasts. A project account will be maintained in Papua New Guinea kina for transaction purposes and will be replenished as needed from the designated account. In the event that a separate designated account is opened for the additional financing, its utilization will commence after the original loan has been fully utilized, unless there is strong justification from the Government to use the additional funds in parallel with the original financing.

54. **Internal control.** The current approved project implementation manual will be maintained for this additional financing, as will the financial management manual for MVF, including a number of updates.

55. **External audit.** Annual financial statements will be prepared on a cash basis in accordance with International Public Sector Accounting Standards. The additional financing will be incorporated into the project financial statements and will be subject to an annual external audit by a supreme audit institution approved by IFAD. An annual audit report and management letter will be submitted to IFAD within six months of year-end. The audit report will be disclosed in accordance with the IFAD disclosure policy.

56. **Procurement.** Procurement of goods, works and services financed from resources provided or administered by IFAD will be undertaken in accordance with government regulations and consistent with the provisions of IFAD's procurement guidelines and handbook. Goods and services (non-consulting) procured through international or national competitive bidding, national shopping and direct contracting will follow the procedures and processes defined in the project implementation manual approved by the project steering committee and IFAD. Procedures for the selection of individual consultants and individual service providers will also be set out in the project implementation manual.

57. **Anticorruption.** IFAD will not fund goods, works or consulting services that are not procured according to its project procurement guidelines and the financing agreement for the project. If procurement is not compliant, IFAD may also take additional actions under the financing agreement, such as cancelling the relevant loan amount by marking it as ineligible. Even if a contract was approved after IFAD issued a no objection statement, IFAD may still declare that a failure to comply with procurement procedures has occurred if it finds that the approval was based on incomplete, incorrect or misleading information provided by the borrower or recipient.

C. Monitoring and evaluation, learning, knowledge management and strategic communication

58. The current monitoring and evaluation (M&E) and knowledge management systems will be maintained for the additional financing. The PMU coordinates the M&E system, which includes a logical framework, an M&E framework, a management information system and a web-based dashboard. IFAD will continue to conduct regular monitoring and supervision missions to guide implementation. In each targeted province, MVF lead partners and village extension workers will collect M&E data while supporting project participants. Knowledge will continue to be shared through learning events, workshops and various media channels.

D. Proposed amendments to the financing agreement

59. The financing agreement will be amended to reflect the following: (i) the additional financing of US$18.065 million, maintaining the same terms and conditions as stipulated for IFAD blend loans, with the corresponding amendments to schedule 2 of the financing agreement; (ii) the adjustments in the amounts of counterpart funding, including the government contribution of US$4.23 million, the project participants' contribution of US$1.314 million, and the waiving of province and district resources of US$13.0 million; (iii) the reallocation among categories, as requested by the Government; and (iv) the extension of the project completion and financing closing dates for an additional three years.

V. Legal instruments and authority

60. A financing agreement between the Government of Papua New Guinea and IFAD constitutes the legal instrument for extending the proposed financing to the borrower/recipient. The signed financing agreement will be amended following the approval of the additional financing.

61. The Government of Papua New Guinea is empowered under its laws to receive financing from IFAD.

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

VI. Recommendation

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

> RESOLVED: that the Fund shall provide a loan on blend terms to the Government of Papua New Guinea in an amount of eighteen million sixty-five thousand United States dollars (US$18,065,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Alvaro Lario
President

Updated logical framework incorporating the additional financing

Results Hierarchy	*Indicators*			*Means of Verification*			*Assumptions*
	Name	*Original Loan Target*	*End target (with AF)*	*Source*	*Frequency*	*Responsibility*	
Outreach	1.a Corresponding number of households reached			Project survey	Interim review 2 and Project end	PMU + FPDA	GoPNG commitment to improve returns to farmers in agriculture value chains
	Households - Households	23500	46700				
	1. Persons reached by Project-supported activities						
	Males - Males	23500	46700				
	Females - Females	23500	46700				
	Young - Young people						
	Indigenous people - Indigenous people	47000	93400				
	Total number of persons receiving services - Number of people	47000	93400				
	1.b Estimated corresponding total number of households members						
	Household members - Number of people	117500	233500				
Project Goal Improved livelihoods of village farmers' households (HH) in target provinces	Increase in HH asset ownership index			Project survey	Interim review 2 and Project end	PMU + FPDA	GoPNG commitment to improve returns to farmers in agriculture value chains
	Households - Percentage (%)	30	30				
Development Objective Increased returns to village farming households from increased marketed production	Percentage of total farmer fresh produce production sold to market increased			Partnership reports	Quarterly reports	Lead Partners	GoPNG commitment to improve returns to farmers in agriculture value chains
	Increase in production sold - Percentage (%)	65	65				
	Percentage of total galip nut collection per farmer sold to galip plant						
	Galip nut sold per farmer - Percentage (%)	90	90				
Outcome Village farming households have access to markets and services in the target value chains	Yield in selected fresh produce crops increased			Partnership reports	Quarterly reports	Lead Partners	
	Average yield increase - Percentage (%)	40	40				
	Annual volume of galip nut sold to plant						
	Galip nut - Tons	500	1000				
	1.2.4 Households reporting an increase in production						
	Households - Percentage (%)	75	75				
	Households - Households	17625	35000				

Results Hierarchy	*Indicators*			*Means of Verification*			*Assumptions*
	Name	*Original Loan Target*	*End target (with AF)*	*Source*	*Frequency*	*Responsibility*	
Output 1.1 Different types of business partnerships involving FP/GN are implemented	Farming households (men and women) involved in Project-supported partnerships			Partnership reports	Quarterly reports	Lead Partners	Private investors interested in partnering with men and women village farmers
	Households (Fresh produce) - Number	18700	18700				
	Households - Number (total) - Number	23200	23200				
	Households (galip) - Number	4300	7300				
Output 1.2 Farming households in partnerships are trained to use improved technologies	1.1.4 Persons trained in production practices and/or technologies			Partnership reports	Quarterly reports	Lead Partners	Private investors interested in partnering with men and women village farmers
	Men trained in crop - Males	10000	22200				
	Women trained in crop - Females	10000	22200				
	Young people trained in crop - Young people	6000	13320				
	Indigenous people trained in crop - Indigenous people	20000	44400				
	Total persons trained in crop - Number of people	20000	44400				
Outcome Improved value chain environment to facilitate small farmers' inclusion	1.2.5 Households reporting using rural financial services			SLA reports, CEFI reports, PMU reports	Biannual reports	CARE, CEFI, PMU	
	Total number of household members - Number of people	18000	18000				
	2.2.6 Households reporting improved physical access to markets, processing and storage facilities						
	Persons - Number	10000	33700				
	Households reporting improved physical access to markets - Households	10000	6740				
	Households reporting improved physical access to storage facilities - Households		4000				
	Supported rural enterprises reporting and increase in sales						
	Enterprises - Number	30	30				

Results Hierarchy	*Indicators*			*Means of Verification*			*Assumptions*
	Name	*Original Loan Target*	*End target (with AF)*	*Source*	*Frequency*	*Responsibility*	
Output 2.1 Financial institutions (FIs) with improved capacities to serve target value chains players	1.1.7 Persons in rural areas trained in financial literacy and/or use of financial products and services						
	Males - Males	9000	18200				
	Females - Females	9000	16000				
	Young - Young people	2700	6840				
	Indigenous people - Indigenous people	18000	34200				
	Persons in rural areas trained in financial literacy and/or use of financial products and Services (total) - Number of people	18000	34200				
Output 2.2 Improved, climate resilient feeder roads from main production areas to main road	2.1.5 Roads constructed, rehabilitated or upgraded			PMU reports	Biannual reports	PMU	
	Length of roads - Km	100	26				
	Districts have maintenance arrangements in place to sustain feeder road practicability after spot improvements						
	Districts - Number	20	6				
Outcome 3.2.3 Households reporting a significant reduction in the time spent for collecting water	Households – Number		3400	PMU reports	Biannual reports	PMU	
	Households - %		85%				
	Households members		20000				
Outcome Organised industry players contribute to policy development and sector coordination for inclusive industry growth	Policy 3 Existing/new laws, regulations, policies or strategies proposed to policy makers for approval, ratification or amendment			PMU reports	Biannual reports	PMU	
	Number - Number	3	4				
	FPDA MIS operational						
	FPDA - Number	1	1				
Output 3.1 Multi-stakeholders' platforms created and trained	National, provincial and district-based multi-stakeholders' platforms supported			PMU reports	Biannual reports	PMU	
	National - Number	2	2				
	Provincial - Number	3	3				
	District - Number	10	10				
Output 3.2 Policy and regulatory instruments prepared	Policy 1 Policy-relevant knowledge products completed			PMU reports	Biannual reports	PMU	
	Number - Knowledge Products	3	3				

Results Hierarchy	*Indicators*			*Means of Verification*			*Assumptions*
	Name	*Original Loan Target*	*End target (with AF)*	*Source*	*Frequency*	*Responsibility*	
Output 3.3 MIS system in place at FPDA and FPDA staff trained	MIS in place and number of staff trained			PMU reports	Biannual reports	PMU	
	MIS - Number	1	1				
	Staff - Number of people	35	35				
	Annual set of evidence-based knowledge products posted on FPDA website as of year 3						
	Knowledge products - Number	1	1				

Updated summary of the economic and financial analysis

Table A
Financial cash flow models

Farm and Business Models	Income after labour cost (PKG)		NPV @ 10% (PGK)	B/C ratio	Return to family labour per day (PGK)
	WOP	WP (5th year)			
FARM 1	2,475	4,799	11,706	1.31	98.80
FARM 2	2,475	6,159	19,134	1.55	128.55
Galip Nut	3,809	3,921	329	1.08	91.03
Micro	92,470	120,902	114,098	1.19	
Small	128,529	263,139	739,123	1.40	
Medium	209,071	450,040	627,517	1.07	

Table B
Project costs and logframe targets

PROGRAMME COSTS AND INDICATORS FOR LOGFRAME				
TOTAL PROGRAMME COSTS (in million US$)			**52,439.88**	
Beneficiaries	**233,500**	people	**46,700**	households
Cost per Beneficiaries	**224,581.92**	US$/person	**1,122,909.61**	US$/HH
Components and Costs	**US$ million**			
A. Inclusive business partnerships	16,283.38	**Average increase income per HH**		**US$**
B. Supportive Value Chain Investments	16,603.53	• without Project		73,138.17
C. Collective Governance and Project Management	19,552.97	• with Project		141,493.40
Total	**52,439.88**			

Table C
Main assumptions and shadow prices

Financial	
Variable	**Assumptions**
Exchange Rate	The exchange rate used in the analysis is fixed at US$ 1 = PGK 4.1 and is an average of the exchange rate prevailing between January 2025 and September 2025.
Prices	The financial prices for Project inputs and products collected during the design phase were updated to 2025 prices using PNG's consumer price index. Prices used represent estimates of the average seasonal prices and the analysis is carried out using constant prices.
Labour	Family labour has been valued both in the financial and economic analysis. Family labour and hired unskilled labour are priced at PGK 52 per day, which is the prevailing market rate.
Opportunity Cost of Capital	A discount rate of 10% has been used in this analysis to assess the viability and robustness of the proposed investments. The selected value is calculated by considering actual market interest rates on loans.
Economic	
Variable	**Assumptions**
Project Life	Project life has been assumed at 20 years.
Project Inputs and Outputs	Project inputs and outputs traded are valued at their respective economic prices, and goods are expected to move freely within the Project area in response to market demand.
Standard Conversion Factor (SCF)	0.969
Shadow Exchange Rate Factor (SERF)	1.03
Social Discount Rate	The average between the deposit interest rate in Papua New Guinea[3] (0.5%), the market interest rate (10%) and the Wall Street Journal interest rate (3.5%) is 5%. However, to conservatively calculate the economic benefits generated by the Project, the social discount rate adopted for this analysis will be 7%.

Table D
Beneficiary adoption rates and phasing

Households' phasing in by activity															
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total HHs
Phasing in %	0.00%	0.19%	2.61%	5.09%	3.97%	3.01%	8.38%	13.03%	10.25%	16.14%	1.76%	15.20%	13.99%	6.38%	100%
*Full benefits rate 70%	0%	0%	2%	4%	3%	2%	6%	9%	7%	11%	1%	11%	10%	4%	70%
Farm 1	0	28	388	755	589	446	1,244	1,934	1,521	2,396	261	2,256	2,075	947	14,840
Farm 2	0	28	388	755	589	446	1,244	1,934	1,521	2,396	261	2,256	2,075	947	14,840
Galip Nut	0	0	0	0	0	0	0	500	700	500	500	500	400	0	3,100
Total	0	57	776	1,510	1,178	892	2,487	4,367	3,742	5,291	1,022	5,011	4,551	1,895	32,780
Partnerships consolidators' phasing in															
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	20230	Total HHs
Phasing in %	0.00%	0.19%	2.61%	5.09%	3.97%	3.01%	8.38%	13.03%	10.25%	16.14%	1.76%	15.20%	13.99%	6.38%	100%
Adoption rate 90%	0%	0%	2%	5%	4%	3%	8%	12%	9%	15%	2%	14%	13%	6%	90%
Micro	0	0	0	0	1	1	1	2	1	0	0	0	0	0	6
Small	0	0	0	0	1	1	2	2	4	0	0	0	0	0	10
Medium	0	0	0	0	1	1	2	6	4	0	0	0	0	0	14
Total	0	0	0	0	3	3	5	10	9	0	0	0	0	0	30

3 Average deposit rate, between 2011 and 2015, is 0.5%. Source: WBI - Deposit interest rate (%) http://data.worldbank.org/indicator/FR.INR.DPST

Table E
Economic cash flow

Farm and Business Models	Income after labour cost (PKG)		NPV @ 7% (PGK)	B/C ratio	Return to family labour per day (PGK)
	WOP	WP			
FARM 1	2,987	6,019	18,618	1.39	125.59
FARM 2	2,987	6,717	22,446	1.44	141.12
Galip Nut	11,367	11,504	657	5.37	208.09
Micro	95,638	125,162	141,677	1.23	
Small	133,037	272,179	928,471	1.22	
Medium	242,259	500,385	901,639	1.09	

Table F
Sensitivity analysis

	Assumptions	Related Risk	ERR	NPV $ Million
Project base case			42%	76,383,150
Decrease in Project benefits	-20%	Market/price fluctuations (changes in market demands). Unexpected climatic changes. Low crop yields. Delays in Trainings. Problems with the partnerships	35%	55,671,133
	-30%		31%	45,315,125
	-50%		22%	24,603,108
Increase in Project Costs	20%	Market/price fluctuations (changes in market demands). Procurement risks. Problems with the partnerships	36%	70,947,763
	30%		33%	68,230,070
	50%		29%	62,794,683
Delays in Project implementation	1 year	Delays in having the Project approved by all parties. Any other unforeseeable event.	32%	49,208,586
	3 years		19%	26,378,735