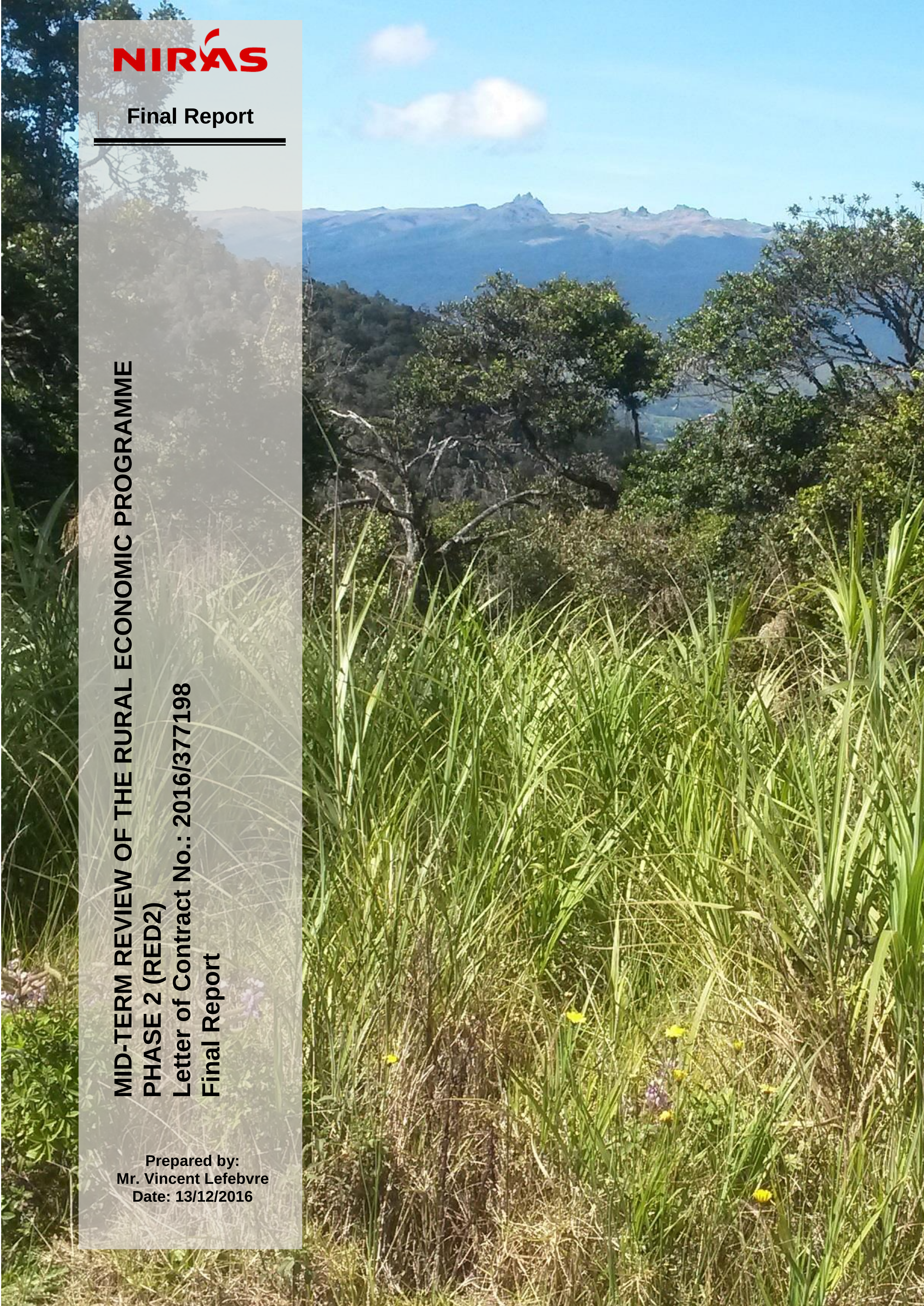

NIRAS

Final Report

MID-TERM REVIEW OF THE RURAL ECONOMIC PROGRAMME PHASE 2 (RED2)

Letter of Contract No.: 2016/377198

Final Report

Prepared by:
Mr. Vincent Lefebvre
Date: 13/12/2016

DELEGATION of the EUROPEAN UNION

Papua New Guinea

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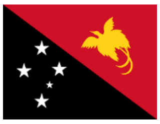

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LIST OF ACRONYMS

ADB	Asian Development Fund
BPNG	Bank of Papua New Guinea
CA	Contribution Agreement
CEFI	Centre for Excellence in Financial Inclusion
CIG	Common Interest Group
DNPM	Department of National Planning and Monitoring
DoT	Department of Transport
DoW	Department of Works (infrastructures)
DPLGA	Department of Provincial & Local Government Affairs
DSIP	District Service Improvement Programme
EDF	European Development Fund
EU	European Union
EUD	European Union Delegation
FA	Financing Agreement
FIDP	Financial Inclusion Development Programme
FRC	Farmers’ Resource Centre
FWC	Framework Contract
GoPNG	Government of Papua New Guinea
HCRN	Highland Core Road Network
HQ	Head Quarter
HR	Human Resources
HRRIIP	Highlands Region Road Improvement Investment Programme
ICB	Institutional Capacity Building of the NAO system
LLG	Local Level Government
LLGSIP	Local Level Government Service Improvement Programme
M&E	Monitoring and Evaluation
MFF	Multi-tranche Financing Facility
MP	Member of Parliament
MTDP	Mid-Term Development Plan
MTR	Mid-Term Review
NAO	National Authorizing Officer
NARI	National Agriculture Research Institute
NRA	National Roads Agency
NRSC	National Roads Safety Council
PE	Programme Estimate
POM	Port Moresby
PSC	Programme Steering Committee
RED	Rural Economic Development
SMART	Specific, Measurable, Accessible, Relevant, Time-bound
TA	Technical Assistance
TAT	Technical Assistance Team
ToR	Terms of Reference
ToT	Training of Trainers
UN	United Nations
UNCDF	United Nations Capital Development Fund

EXECUTIVE SUMMARY

INTRODUCTION AND REVIEW OF MANDATE

The aim of the mid-term evaluation is to review the performance of the RED2 programme in relation to its overall objective and planned achievements per component. Emphasis was put on the integrative aspect of the programme. Therefore, the consultant reviewed both the coordination aspects and the implementation of each programme component. The consultant used the 5 DAC evaluation criteria and provided additional information on EU's coherence and added value as well as visibility. Key recommendations were made to speed up implementation and lessons learned for future programming.

The consultant undertook fieldwork in PNG from the 10th October to the 28th of October, reviewing all 3 main programme components and visited Highlands's provinces.

PROGRAMME DESCRIPTION AND RATIONALE

The RED2 programme objective is to contribute to improving Highlanders livelihoods by raising their income generation base through agricultural production and value addition.

The programme was designed with three components reflecting three different sectors: transport, finance and agriculture / Government capacity building, all of which should contribute to value chain development:

- Under component 1 – road rehabilitation and maintenance to enhance market access implemented by the Asian Development Bank.
- Under component 2 – financial inclusion through improving access to finance for value chain development implemented by UNCDF.
- Under component 3 – capacity building of farmers for value chain development and of local governments to improve their quality of service delivery related to value chain through NARI, a Technical Assistance Team and DPLGA.

ASSESSMENT OF PROGRAMME PROGRESS PER COMPONENT AND IMPLEMENTATION PERFORMANCE

On the standard evaluation elements, each programme component was given the following rating:

<u>Relevance & design:</u>
Overall programme: *relevant* and *moderately satisfactory* respectively; the programme components are in line with GoPNG national strategies and policies regarding transport (roads), finance (financial inclusion) and agriculture (enhanced capacity of farmers through training and information and improving the capacity of local governments to support them). Value chain development as such is not identified as a key (sub-) sector but is more transversal, therefore less visible in policies and strategies.
The programme formulation was based on several key lessons learned about the PNG context, in particular the need for more aid effectiveness, the limited capacity of national stakeholders to implement interventions and on the value chain, the need to link offer and demand through better infrastructures, more inclusiveness of farmers into the economic (and financial) system.
The programme design underlined the integrative approach of the 3 components so that through inter-sectoral connectivity, impact in value chain development could be enhanced. However, this was not enough developed and led to imprecisions or the possibility of interpretations regarding the degree of linkages between the 3 component's objectives and the overall programme objective. The identification of areas and target beneficiaries was left to the judgment of each component formulation process and there was little collaboration at that stage; the result is 3 stand-alone interventions.
Key risks at design stage include (i) the lack / difficulty of coordination by GoPNG, in particular when one agency (UNCDF) is not resident and most of its activities have little interaction with Government agencies, (ii) delays of implementation when an EU contribution is tied to a wider / larger intervention (as for ADB). This latter scenario is a repeat from RED1's one component (with the World Bank).
The log frame is very straightforward with mostly SMART indicators but the lack of some that could assess the overall results of the programme, in particular the effects of the combination of the 3 components in relation to 3 separate components being implemented independently.

Component 1 – Rural roads rehabilitation and maintenance (ADB): *relevant* and *moderately unsatisfactory* respectively; the linkage between an adequate road network and the agriculture sector resulting in improved market access is a key elements of GoPNG's growth strategy. In the Highlands region, the GoPNG is focussing its efforts on the Highlands Core Road Network. However, the RED2 approach of interconnectivity between all

3 components means that the programme would be in line for targeted areas that require HCRN road rehabilitation; however, the development of value chains would require the need to rehabilitate roads that connect agricultural production areas / communities to the main road network. This proposition is not clarified neither in the programme document not the component project document. This led to little convergence in the initial stages of RED2. The EU contribution has been integrated in an existing ADB intervention as a strategy for effectiveness and efficiency. However, there are discrepancies between the RED2 programme Financing Agreement, the actual Contribution Agreement of EU to the ADB and the actual mileage that will be rehabilitated and about the type of road rehabilitation that might be most relevant for the targeted beneficiaries. This could lead to potential ineligibilities and might require readjustment.

Component 2 – Access to financial services for agricultural value chain financing (UNCDF): *relevant* and *moderately satisfactory* respectively; overall, the GoPNG has set-out priorities in the financial sector with enhancing the outreach of financial services to the population through better financial inclusion, in particular for the rural population. These include on a long term basis microfinance access and in particular credit finance at district level. A comprehensive package of activities will enable the targeted population to access better financial services through the support (i) in policy making, (ii) of financial institutions and (ii) in adapted financial products development. The EU contribution is channelled through PFIP, an existing regional UNCDF programme focussing on financial inclusion. The component design makes little reference to the overall RED2 programme or the other RED2 components, hence there is some leeway on how the component can contribute best through (i) national level activities and (ii) Highlands-specific activities.

Component 3 – NARI support Farmers' resource Centres & info/knowledge packages: *relevant* and *moderately satisfactory* respectively (*unable to assess* TAT/DPLGA as these were not initiated); the activities under this component support the farmer through increasing capacity building and support to local governments' to enhance their capacity to provide value chain advice to farmers / entrepreneurs. The GoPNG recognise in its long–term strategy Vision 2050 that the subsistence farming system will become hardly sustainable on a long-term basis and that it is necessary to accompany a transition towards a more commercial approach to farming, with a focus on value chain development – in particular – value addition at farming level. The design calls for 4 sub-components with support to NARI to develop training material, the contracting of technical assistance to deliver those trainings, the capacity building of DPLGA and a support to the DNPM to coordinate the overall programme. The design success of this component was somewhat limited with the need to reduce the number of sub-components and reallocate most of the budget in a different manner due to the refusal of DPLGA to implement its sub-component for risks of ineligibilities as it had experienced in the past. This component is the one that most closely adheres to the approach of RED2 with references to collaborate with the other components.

Implementation modalities: the programme is being implemented through contributions agreements for ADB and UNCDF, a grant for NARI. A service contract for the delivery of farmers' and DPLGA's is due to be initiated in early 2017; there are large offsets in implementation due to the different modes of cooperation of each partner with UNCDF and NARI beginning implementation in late 2014 / mid 2015 and ADB only in October 2016. This has resulted in the need to commit ¾ of the budget within the remaining 16 months.
A coordination mechanism has been setup through the establishment of Programme Steering Committees and Coordination meetings; however, no specific budget for a Coordination Unit was allocated despite available financial resources under RED2.

<u>Effectiveness:</u>
Component 1 – Rural roads rehabilitation and maintenance (ADB): *unable to assess*; the EU contribution has not yet been utilised; the ADB-funded intervention, HRRIIP, under which is integrated the EU contribution is focussing on the HCRN for 85% and using apparently 15% of the budget to directly support relevant ('rural access'); there are indications that ADB could cover more mileage through agreements with local governments' / MPs to allocate DSIP funds to support RED2 rural access roads rehabilitation as per handed-over NARI's list of roads that needs improvement but there is no quantitative commitment. Therefore, at this stage, there still remains discrepancies to be addressed about the actual mileage (highest under the Financing Agreement and lowest under the ADB/GoPNG agreement) and allocation of funds (highest for HCRN and lowest for rural access roads).

Component 2 – Access to financial services for agricultural value chain financing (UNCDF): *moderately satisfactory*; numerous activities have been undertaken so far by PFIP with the successful drafting of the national financial inclusion strategy, raising the number of people that recovered for health and life insurance, initial steps to involve schools in financial education and pilot initiatives to create tangible financial products at community level; however, most of these activities do not directly benefit the targeted population of RED2 – in particular farming communities –. While it is necessary to create an enabling financial environment, there is still insufficient support provided to develop through financial services, value chains at farming level, hence the need to refocus for the remainder of the programme.

Component 3 – NARI support Farmers' resource Centres & info/knowledge packages, Technical Assistance Team training and DPLGA capacity building: *satisfactory* (NARI), *unable to assess* (TAT/DPLGA), *moderately unsatisfactory* (Coordination); the activities under NARI grant are well underway with the identification of priority value chains and of the Farmers' Resource Centres; it is now moving on with the development of training material. The TAT sub-component has not yet started. The Coordination efforts of DNPM are very limited due to a lack of human resources: DNPM is leading Programme Steering Committees and coordination meetings; however, as there is a need to better coordinate at operational level the activities of each component, the setting-up of a fully-fledged coordination unit would be most urgently required.

<u>Efficiency:</u>
Component 1 - Rural roads rehabilitation and maintenance (ADB): unable to assess; however, with the current budget attribution the value for money for transport is highest for the GoPNG as it is in line with the government' strategy; it is however lowest for RED2 as most of the funding would not contribute directly to the targeted beneficiaries of the other 2 components. This issue should somehow be reconciled.

Component 2 – Access to financial services for agricultural value chain financing (UNCDF): *satisfactory*; despite being remotely managed with less than expected staff in PNG, the rate of expenditure is highest for UNCDF, resulting in the possibility to request the next tranche as per Contribution Agreement; the M&E system reports smoothly the implementation level and the issues at stake. It is anticipated that this setup might become an issue, should closer interactions required with the other components and more in-country activities carried out, outside urban areas.

Component 3 – NARI support Farmers' resource Centres & info/knowledge packages: *moderately satisfactory* (NARI), *unable to assess* (TAT/DPLGA), *unable to assess* (Coordination); the rate of expenditure for NARI was less than 30% with another 19 months remaining. It would be most urgent to speed up implementation as the Farmers' Resources Centres still need to be rehabilitated and the TAT should begin shortly in 2017 on FRC's premises.

<u>Potential impact:</u>
RED2's logic is to accelerate income generation by supporting value chain stakeholders – mostly at farm level – through a multi-sectoral approach. The lack of close collaboration between components is a risk that could result in little impact or as little impact as if the 3 components were implemented as stand-alone projects. In addition, RED2's approach cannot be considered as truly holistic as there remains key bottleneck downstream value chains in the Highlands that are not addressed by the programme. Still, there has been some approximation between components recently with the sharing of lists of rural access roads, Farmers' Resource Centres; it remains to be seen if this will result in effective combined actions for enhanced impact of RED2.

Component 1 - Rural roads rehabilitation and maintenance (ADB): *moderate*; the impact would be highest if rural access roads were to connect selected agricultural production areas to the regular road network; there is little evidence (87km out of 400km planned in the Financing Agreement) so far that this will be the case. This might become an issue by programme's end when farmers and other local value chain stakeholders are trained, have the potential to produce more / add more value, are better knowledgeable about access to financial services but remain unable to market their production due to the lack of access. Whatever the option chosen, the economic impact will be high as most of the funding will target HCRN that are prime high priority roads (Economic Corridors, linking urban centres).

Component 2 – Access to financial services for agricultural value chain financing (UNCDF): *unsatisfactory*; the prime target of PFIP remains urban centres in the Highlands which is out of focus with regards to the RED2 objective. Within farming communities, the impact would be higher with support in value addition, access to innovative financial services that could benefit farmers (e.g. Common Interest Groups) but also upstream (input) and downstream (transporter, storage, cooling, small processing, etc.).

Component 3 – NARI support Farmers' resource Centres & info/knowledge packages, Technical Assistance Team training and DPLGA capacity building: *highly satisfactory* (NARI), *unable to assess* (TAT/DPLGA), *moderately unsatisfactory* (Coordination); the combination of NARI's support in the drafting of training material combined with specialised experts in training has the potential to make a decisive impact; this would be the case with Training of Trainers combined with field trainings (either at FCR premises or at lead farmers location). Farmers' capability would also be enhanced by the support of local governments', should these be more knowledgeable about value chain development. The impact of the Coordination as it stands now is quite limited in view of the challenges ahead (e.g. better link components, monitor RED2 enhanced effects if any, etc.) and would require a substantial upgrading through additional funds and human resources.

<u>Elements of sustainability:</u>
Component 1 - Rural roads rehabilitation and maintenance (ADB): *moderate* (for HCRN), *low if no RED2 combined effect / high if RED2 combined effects* (for rural access roads); the sustainability goes through an adequate maintenance system; ADB is supporting the National Roads Authority in charge of maintenance for HCRN; in the case of rural access roads, only community maintenance can be realistically be considered and achieved if there is an community economic incentive for it at community level; the latter would be better access to market because farmers are capable of volume/ quality/ regularity and have access to financial services to sustain it; hence the need for a multi-sectoral approach.

Component 2 – Access to financial services for agricultural value chain financing (UNCDF): *very satisfactory*; most activities achieved so far are well embedded into financial institutions and received by beneficiaries; the main issue remains with a potential expansion of activities into more rural areas where financial inclusion and financial education is least and risks are perceived as greatest by PFIP's partners; nonetheless, the introduction of tangible financial services could prove to be an approach that might be sustainable as would be an approach to combine activities with those of NARI / TAT (targeting the same beneficiaries).

Component 3 – NARI support Farmers' resource Centres & info/knowledge packages, Technical Assistance Team training and DPLGA capacity building: *satisfactory* (NARI), *unable to assess* (TAT/DPLGA); the methodological approach will be critical in the response of farmers to trainings and innovation; there is a need to carefully review the potential methodological approaches (Training of Trainers, Farmers' Field Schools, Lead Farmers, etc.) to ensure that the knowledge is most adapted to the local conditions; in addition, as most new techniques require some additional input, coordination with component 2 would be most welcome to sustain the adoption level and avoid a collapse of adoption by project's end.

<u>Coherence and EU added value:</u>
The RED2 approach under the EU's auspices has enabled the implementation of a multi-sectoral programme with a view to enhance its impact through the creation of linkages between sectors. This has only been possible through favouring an implementation framework that favours both local (NARI) and international institutions (UNCDF and ADB) for which the EU has had a long history of successful cooperation. The approach to complement existing interventions (ADB and UNCDF) however showed its limits with more difficulty for the partner to reorient its activities according to the requirements of the programme.

<u>Communication and visibility:</u>
At component level, extensive visibility activities were carried out by both NARI and UNCDF (radio, TV, workshop launchings, PFIP and NARI's websites).

OVERALL RECOMMENDATIONS

<u>For immediate action</u>: the coordination unit needs immediate strengthening to (i) facilitate linkages between components and (ii) to be able to actually monitor programme-related results (from the combination of the 3 components) through a better defined list of tasks and responsibilities, (iii) 2.500.000 € should be allocated to ADB (to be endorsed at the next PSC) to cover the rehabilitation of rural access roads proposed by NARI, should ADB make a credible proposal and no budget allocation be made under its latest implementation plan (to take into account potential ineligibilities).

For component 1, the issue of most budget allocation to HCRN should be reviewed at it does not directly contribute to RED2's objective – in particular - conforming if there is a risk of ineligibilities or not. If the situation stands as it is, ADB should setup a unit that will directly negotiate with local authorities to ensure the availability of additional funds to cover the remaining mileage not covered by the EU contribution. The quantitative reduction of the component 1 results should be officially acknowledged; NARI and DoW have to review together the list of rural access roads and prioritise according to ADB' current budget.

For component 2, while it might be necessary to pursue financial inclusion activities at national level, PFIP needs to engage resources into targeting better RED2 rural communities; to do so, it should coordinate its efforts with NARI to assess what kind of support / activities is mostly feasible in such an environment.

For component 3, NARI has to (i) finalise entirely the selection of potential FRC (e.g. Hela province still missing), (ii) convene a meeting with DoW to select the rural access roads as per remaining ADB budget.

Recommendations to improve the overall implementation: a strengthened coordination should (i) initiate inter-component dialogue by establishing technical working groups with the objective to review each other's activities on a regular basis and see where there might be added value in establishing closer collaboration and (ii) establish an M&E system that monitors through indicators the effects of the programming approach.

For component 1 (roads), there should be clarification (i) (especially to NARI) about what types of approaches can be considered for the rehabilitation of rural access roads and what maintenance system would be put in place with the farming communities, (ii) the issue of maintenance mileage and undefined specific budget (is there a potential issue of ineligibility as well? Could the budget be used to maintain roads that are not rehabilitated?).

For component 2 (financial inclusion), UNCDF has to prioritise the recruitment of an international expert in PNG with substantial autonomy in (i) prospecting for new partners, (ii) new activity analysis and (iii) participating in Technical Working Groups. PFIP has to (i) coordinate its activities with NARI in order to penetrate better the rural communities, (ii) be more responsive to their needs, (iii) be more ambitious in its objectives of reaching target beneficiaries, (iv) target both upstream and downstream key value chain stakeholders in close collaboration with NARI and FPDA.

For component 3, NARI needs to (i) design an exit strategy that is not only based on potential support from local governments but on FRC autonomy to engage into income generating activities, (ii) conduct a complementary value chain study to review the constraints down the value chain, (iii) support the TAT in choosing a training approach that would be most effective in the PNG context, (iv) consider closer collaboration with FPDA which is better placed as an extension institution. Finally, there should be a discussion about the relevance of the TAT budget in view of the implementation delays, in particular with a now much reduced implementing timeframe.

LESSONS LEARNED

Programme design:

- Multi-sectoral approach: while the issue of value chain development was tackled from the transport, finance and agriculture angles at farming level, key issues were left behind (like intermediaries, downstream value addition and agro-processing); large scale programmes need to adopt a holistic approach that widely covers the key constraints.
- Programme component's formulation: for integrated programming, it is more relevant and effective to design the components specifically for the programme and avoid the inclusion of the components into an existing external intervention that will have difficulties to respond to the requirements of the programme.

Programme implementation:

- Activities' delivery: the institutions in charge of a component should seek the contribution of key specialised institutions and avoid taking over responsibilities of a specialised institution that would be more relevant.
- Cooperation and dialogue: an integrated programme needs a strong coordination unit: here is little added value in formulating a programme comprising stand-alone components that have little in common, starting with beneficiaries or target areas; human and financial resources have to be allocated through a strong coordination unit to ensure an effective M&E function at programme level and the ability to convene partners for dialogue should there be activities that would require collaboration.

1. INTRODUCTION

1.1 BACKGROUND

With over 85% of the population living in rural areas and accounting for 25% of GDP, agriculture remains the pivot for food security, employment and income generation in Papua New Guinea (PNG). Still, the vast majority of the population still practices subsistence agriculture and remains somewhat excluded from recent PNG's growth progress. The government has advanced significantly in terms of policy making and strategies with an emphasis on inclusiveness and shared prosperity benefitting all PNG citizens including the impoverished rural population. In that context, the Government of Papua New Guinea (GoPNG) and the EUD signed an agreement in 2014 for the Rural Economic Development programme phase II, focussing on improving the livelihoods of people living in rural areas: the programme has three components: (i) rural infrastructures improvements through roads rehabilitation implemented by Asian Development Bank (ADB), (ii) improved access to financial services to finance agricultural value chains implemented by United Nations Capital Development Fund (UNCDF) and (iii) value chain development support services and local government capacity building implemented by National Agriculture Research Institute (NARI) and Department of Provincial & Local Government Affairs (DPLGA); in addition, the third component includes as well a substantial training subcomponent through a service contract focussing on farming communities.

The overall objective of the mid-term evaluation after 30 months of implementation is to provide an overview of the activities carried out so far within the three programme components, assess the performance of the programme both in terms of potential impact for the beneficiaries and assess the degree of implementation of the activities and their relationship with planned results and objectives. The Mid-Term Review (MTR) is also to draw lessons learned and recommendations for the remaining programme implementation timeframe (approximately 18 months) and in relation to the adopted integrated approach for promoting rural economic development.

The five evaluation criteria (relevance, effectiveness, efficiency, impact, sustainability) were used to assess the programme components.

Given the very different levels of implementation of the three components, which Contribution Agreements (CA) were signed at different times, the assessment and recommendations will reflect different time frames (i) of effective implementation, longest (around 2 years) for component 1 - ADB and 2 - UNCDF, and shortest (18 months) for component 3 - NARI and DPLGA and (ii) regarding the actual start-up of activities on the ground, most obvious for component 2 (UNCDF) and component 3 (NARI). No ground activities have been initiated for component 1 (ADB).

The MTR will review the evaluation criteria and try to answer several RED2 issues identified during the documentary review:

- Does each component reflect GoPNG priorities and what has been GoPNG's involvement in the actual programme and components' design process?
- What is the level of integration of the programme components? Do they / are they supposed to combine results directly or indirectly to enhance impact?
- Is the implementation progress for each component consistent with the programme Financing Agreement (FA)?
- Do the programme components have a set of clear and logically coherent objectives (goal, purpose, outputs with SMART indicators) and a set of indicative activities in phase with each programme component objective?
- Are expected results consistent with the available resources?
- Are the performance measurement mechanisms for each component adequate (reporting, monitoring, review and evaluation)?
- What is the level of programme results achievement and the effectiveness as per each component?
- Propose recommendations - where required and relevant - for the improvement of the design of future rural economic development interventions, in particular, related to the integration of the rural farming population into productive agricultural value chains and for potentially upcoming EU interventions.

1.2 THE REPORT

This report has been prepared in accordance with the Terms of Reference (ToR) (see ANNEX 1) of this mid-term review.

It initially presents the *Executive Summary* of the evaluation, giving a brief background of the programme and its components, a summary of the main findings for each component in terms of results, management, and important aspects such as partnership, potential impact and sustainability, and the main recommendations and lessons learned.

It is followed by an *Introduction* (**Chapter 1**) outlining the main elements of the programme and the evaluation, such as problems addressed by the programme's components, overall progress and the methodology adopted. The *Findings and Evaluation Outcomes* section (**Chapter 2**), which is the core of the report, is then presented under seven subheadings related to programme and components for the five evaluation criteria (relevance + design, effectiveness, efficiency, impact and sustainability), coherence/EU added value and visibility/communication.

The main *Recommendations* (**Chapter 3**) and *Lessons Learned* (**Chapter 4**) are finally presented to improve the programme's implementation level and reflect on future similar or complementary interventions, followed by annexes.

1.3 MTR WORK TIMETABLE AND ACTIVITIES UNDERTAKEN

A brief documentary review was undertaken home-based by the consultant defining the critical elements of the programme to be reviewed as well as its components to be assessed. It resulted in a list of issues and questions to be analysed during the actual mission in PNG; these issues were turned into checklists of questions / topics for the main stakeholders and the anticipated RED2 beneficiaries. After a short briefing by the EUD and National Authorizing Officer (NAO) to discuss the programme's status and the field trips in the programme area (Highlands region), the consultant made a first round of interviews with institutional stakeholders in Port Moresby (POM) for each component: (i) the ADB and Department of Works (DoW) in charge of rural roads rehabilitation under the first component, (ii) UNCDF and several associated partners for the financial inclusion component and (iii) Department of Agriculture and Livestock (DAL) and DPLGA for the component on agriculture and local Government capacity building. The schedule of field visits was established and a 12 days' field trip in most Highlands provinces and Lae (NARI's Head Quarter (HQ)) was conducted with Department of National Planning and Monitoring (DNPM). The mission's schedule and the list of stakeholders interviewed are in ANNEX 2 and ANNEX 4. The MTR incorporates the opinions of all stakeholders and indirect / final beneficiaries involved, with on the one hand viewpoints on actual planning, implementation and the current state of results – the present situation - and on the other end, on expected results, potential impact and sustainability for the remainder of the programme - the future -.

Schedule (2016)	Location	Activity
06-07 October	Home	Desk review
08-10 October		Travel to PNG
10 October	POM	Initial briefings (EUD & NAO)
10-12 October	POM	Main stakeholders interviews components 1, 2 and 3
13-15 October	Goroka	Review of roads, interviews UNCDF and NARI stakeholders in Eastern Highland province
15-21 October	Hagen	Interviews UNCDF, ADB and NARI stakeholders in Western and neighbouring Highlands provinces
21-25 October	Lae	NARI HQ and value chain stakeholders
25-26 October	POM	Additional meetings UNCDF and NARI stakeholders
27 October	POM	Debriefing preparation
28 October	POM	Debriefing
01-15 November	Home	MTR report drafting

Table 1 - MTR schedule

1.3.1 Data collection

Initially, relevant documents have been reviewed by the consultant including primary and secondary data as sources of information for the evaluation. The major sources of data collected can be identified as follows:

- Data related to the general background of each programme component including GoPNG key documents;
- Data useful to identify and assess the key issues in relation to each sub-programme component, as well as the actual and potential beneficiaries;
- Data referred to the implementation of the programme including timing and delivery as per component, and the process of resource / budget allocation, and mobilisation.

The data collection focussed on the following issues:

- Describing the situation in terms of actual implementation against planned / anticipated implementation;
- Finding the most significant indicators for programme / components' evaluation with particular reference to the 5 criteria identified by the ToR (Relevance, Efficiency, Effectiveness, Impact & Sustainability);

- The potential added value of an integrated approach through programming instead of individual component implementation, with resulting coordination efforts;
- Checking relevant views expressed by stakeholders on the functioning and performance of the programme components - understanding the programming approach -.

The review of the RED2 achievements in the Highlands region covered 6 out of 7 Highlands provinces: Eastern, Western, Southern provinces as well as Shimbu, Enga and Jiwaka provinces; it focussed mainly on NARI and UNCDF achievements with for the latter one, meetings as well with partners in Port Moresby. As for component 1 - road rehabilitation -, there were no achievements yet by MTR's review; hence the consultant focussed his attention on discussions with GoPNG stakeholders and the potential beneficiaries, farming communities that are likely to benefit from ADB's activities or that already benefitted from similar road rehabilitations.

The consultant conducted individual and group visits for each programme component. The tasks took into account as well a preparatory work including the design of a checklist / questionnaire for conducting the interviews with an emphasis on partners and final beneficiaries (checklist in ANNEX 6).

1.3.2 Consultations and meetings

The consultations were carried out with the following major stakeholders involved in the programme:

- The NAO and EUD;
- On Component 1 - Roads rehabilitation: ADB, DoW (at national and provincial levels), Highlands Region Road Improvement Investment Programme (HRRIIP) team and farming communities members that benefited / are to benefit from ADB's support;
- On component 2 - Financial inclusion: UNCDF and selected partners (Centre for Excellence in Financial Inclusion (CEFI), BIMA, Capital Insurance, MiBank) and non-associated microfinance institution (PNG Microfinance Ltd - PML) and BIMA beneficiaries;
- On component 3 - Farmers' value chain inclusion & local government capacity building: NARI HQ, NARI research stations, planned resources centres, female Common Interest Groups (CIG), male/female farmers, clan chiefs, other downstream value chain stakeholders (cooling facilities, storage, transporters, shipping company).

2. FINDINGS

2.1 PROGRAMME AND COMPONENT'S DESIGN - PROGRAMME AND COMPONENTS' RELEVANCE TO COUNTRY STRATEGY AND GOVERNMENT POLICY

Overall, the programme design is based on several key sectoral and Government strategies that are reflected into the 2008-2013 National Indicative Programme (NIP) with the objective to integrate rural communities into the wider national and possibly regional / international markets.

2.1.1 Programme objective and relevance

The objective of the programme - RED2 - is to contribute to improving the livelihoods of PNG's rural population through income generation from agricultural produce in the Highlands Region.

The programme is focused on broadly four results:

- (i) Rural infrastructures aiming at *preparing and developing an investment programme for market access* through road rehabilitation and maintenance.
- (ii) Financing agricultural value chains by *improving access to finance services* through supporting microfinance institutions, enhancing financial inclusion and building up financial resilience of rural households.
- (iii) *Value chains development* through enhancing farmer' access to knowledge for agricultural production.
- (iv) *Improving service delivery of local governments* and building up the capacity of DPLGA to enhance its capacity to analyse and provide adequate responses related to the above at local level.

The selected components are in line with the Government priorities under VISION 2050 which calls for improving infrastructures networks and service delivery of public goods and services[1], including research, and a shift from a current energy-dominated economy to wealth creation through supporting more human centred sectors like agriculture[2]. Access to finance, in particular, microfinance[3], is a priority for rural farmers to participate in small-scale economic activities.

Under the 2010-15 Medium Term Development Plan (MTDP), emphasis should be put on financial sector development with more efficient and inclusive payment and settlements systems[4] that are reflected under 'access to finance services', in particular, the development of new and riskier products focussing on agriculture, and support to trade.
The MTDP advocates an enhanced access of rural populations to training, which is reflected under component 3 and the establishment of a road network[5] that links the country as poor transport infrastructures are seen as an impediment to competitiveness and access to markets (component 1). The strategy calls for the rehabilitation or construction of national / Economic Corridor roads (such as in the Highlands Region) but does not mention any information on feeder or rural access roads.

Under the Rural Development priority[6], RED2 is fully in line with the goal to achieve rural prosperity through road rehabilitation and maintenance and rural population access to markets as a strategy to increase household income and reducing the proportion of the population under the poverty line.
While RED2 did not define in advance which value chains were to be supported, the MTDP provided indicative information as to which value chains were most promising (including vegetable) under the agriculture sector[7].
Downstream processing and export of agriculture produce[8] are also key priorities under the MTDP but these were not included in RED2: value chain development is not formally identified as a key priority at national level except but for the manufacturing sector (in particular vegetable oil, timber, tuna but no agricultural produce).

All the above elements are summarised under the 2008-2013 Country Strategy Paper CSP[9] with the following areas at the core of EU's development support: improvement of local development planning (component 3), upgrading of infrastructures (component 1), improvement of access to market and economic opportunity information in rural areas (components 2 and 3), and support of income-generating activities in agriculture (amongst other areas) (component 3).

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[1] Vision 2050 – 1.23 & 1.24 pg. 13
[2] Vision 2050 – 12.1 pg. 36
[3] Vision 2050 – 1.22 pg. 13
[4] PNG MTDP 2010-2015, pg. 13
[5] MTDP 2010-5 pg. 46
[6] MTDP 2010-5 3.14 pg. 61
[7] MTDP 2010-5 4.1 pg. 67-69
[8] MTDP 2010-5 pg. 70
[9] EU CSP - focal sector I, pg.25

These results were eventually grouped under three components:

(i) **Component 1** – "*Rural infrastructures improvements in the Highland Region*" with the preparation and development of a rural infrastructures investment programme, namely rural roads rehabilitation and maintenance to be implemented by ADB – in particular, the rehabilitation / improvement of 400km of Highlands Region roads -.

(ii) **Component 2** – *"Access to financial services for agricultural value chains financing in the Highland Region"* by enhancing the capacity of microfinance institutions to provide services to rural households and increasing rural households financial inclusion, to be implemented by UNCDF.

(iii) **Component 3** – *"Value chain development services and service delivery capacity of local government in the Highlands Region"* through supporting NARI by a contribution to increasing access of rural households to agricultural knowledge and information, DPLGA with capacity building activities and enhancing value chain development support services and local Government service delivery capacity through technical assistance.

2.1.2 Programme design

The three components and the intervention approach through programming were selected / adopted based on several key lessons learned from previous interventions and successful implementing strategies:

- The added value of community and local Government partnership as was seen under RED1 and EU's Rural WATSAN previous projects.
- Aid effectiveness through enhancing other donor's existing interventions instead of designing new projects – hence focussing on value for money.
- Limited capacity of key stakeholders at local level – in particular, NSAs and local Governments to implement interventions, requiring a refocus on capacity building activities to support smallholders.
- The need for sustainable infrastructures to link offer and demand.
- Improving the extension services for smallholders in order to enhance offer.
- Increasing financial services access as improving agricultural quality and quantity requires investments.
- Responding to consumer demand through quality improvement.

Further to this, the Financing Agreement programme calls for an integrated approach to which the three selected components are interconnected as a strategy to ensure maximum impact on the selected beneficiaries. This is in stark contrast with the previous RED1 pilot programme which focussed on three separate and unconnected components.

How to achieve this integration is not clearly explained in the Financing Agreement although some elements point out to the following: 4-5 districts covering some 40 communities are being targeted: under component 1, the rural road rehabilitation programme should be focussing on areas of economic interest with clearly identified commodities in order to create a critical economic mass per area (implying that the selection of commodities is to be carried out under component 3); for component 2, indirect support is to be provided to financial service providers and finance support organisations but there no linkage with the other components; under component 3, support is to be provided to selected Farmers' Resources Centres to enhance their capacity to deliver training services to selected rural communities.

Still, there are other programme elements that are somewhat in contradiction with this above mentioned approach: the geographical coverage is not harmonised between the three components: component 1 is covering on 1 or 2 areas, component 2 is country wide and component 3 is focussing on all 7 Highlands provinces including one area (out of two under component 1). This is, therefore, open to wider interpretations as to what the components are supposed to achieve under the Contribution Agreements, grants and Programme Estimate (see components' review below).

Finally, there is no actual mechanism in the Financing Agreement for selecting the programme areas (e.g. through an externalised baseline study, bilateral negotiations between the implementing institutions or at Programme Steering Committee level). This proved to be a major issue as initially, each component had its own priority area / selection criteria as per Contribution Agreements and Programme Estimate/grants, and after some time, a consensus was reached on NARI (component 3) to more clearly identify RED2 core areas. The need for NARI to identify first the RED2 core areas (and value chains) resulted in substantial implementation time (1 year) devoted to that particular activity, hence the inability for the other stakeholders to target these newly identified areas / final beneficiaries at starting-up phase.

Risks and assumptions:

Key risks include the lack of coordination between government departments as well as law and order (including inter-clan rivalry). The issue of coordination is particularly acute in RED2 given that international organisations (UNCDF and ADB) are in charge of two components out of three, one of which is not resident in PNG and not interacting in any case with Government (UNCDF). While a Programme Steering Committee (PSC) was set up to coordinate the three components, the mechanism is proving insufficient because the key documents for all three components are the

Contribution Agreements and Programme Estimates/grants while the Financing Agreement is viewed as an overarching reference document (see Efficiency pg. 17).

A major risk not identified at programme formulation stage (but already present under RED1) are the delays caused by separate contract negotiations between international organisations and GoPNG, which can sometimes last for years because the EU's contributions are blended into an overall interventions, hence (i) jeopardising the actual EU funded activities due to contractual agreements between the EUD and these organisations, and (ii) for this programme the potential offset in implementation between components, risking setting to nought any effect due to the programming approach.

The analysis of the logical framework and related indicators shows a very straightforward log frame with few but effective SMART indicators for all three components. At objective and purpose level, though, the indicators are very indirect and not specific enough to be measured without a programme specific detailed analysis of impact.

There is no indicator for measuring the level of integration of all three components, in particular, the added value of combining the three components under an integrated approach against a parallel approach (three components targeting different areas and beneficiaries in the Highlands Region); this is, however, critical as it is necessary to assess if the added efforts to coordinate are resulting in extra / decisive impact on the final beneficiaries (see illustration under Table 2).

	Integrated programming approach	**Parallel programming approach**		
Component 1	Impact 1X	Impact 1X		
Component 2	Impact 1X		Impact 1X	
Component 3	Impact 1X			Impact 1X
Final beneficiary	***3 X effect?***	1X	1X	1X effect

Table 2 - Effects of integrated / parallel programming approach

In conclusion, the Financing Agreement of RED2 has adopted an integrated approach (albeit not taking into account a value chain approach in its entirety) as a strategy to enhance impact and has made the implementation of all three components in the hands of mainly international organisations and NARI, which the EU has a long history of collaboration with for the sake of effectiveness and value for money (in view of the above-mentioned lessons learned). However, it lacks a clear message on how the components should actually contribute to the overall objective and in particular whether / to what degree they should be integrated in order to enhance impact at beneficiary level.

2.1.3 Component 1 - Rural roads rehabilitation and maintenance (ADB)

The overall objective of this component is to improve accessibility and reduce transport costs in the Highlands Region. This is to be achieved through the rehabilitation of 200km of Highland Core Road Network (HCRN) priority roads and the maintenance of 200km of rehabilitated roads.

Relevance:

Under the MTDP, road transport improvement is seen as a priority for social development and economic growth. With the agricultural sector still remaining at the centre of GoPNG's both growth and social inclusion strategy, income generation of the rural population is highly dependent on market access which is very much constrained by the condition of the rural and feeder roads network.

Under the Mid-Term Transport Plan (MTTP), missing links and district / provincial roads account for over 30% of the projected road network budget[10] and, priority roads and economic corridors for over 40% of the required financial needs.

The GoPNG has focused its efforts in the region on the HCRN (around 2.500km of priority roads - mainly feeder roads -) through ADB loans (Multi-tranche Financing Facility (MFF)) that initially were to cover 1.400km with road improvements, long-term maintenance contracts and capacity development of road agencies.

The review of past and current road network strategies and policies shows that the RED2 approach is not on GoPNG's agenda unless it can be somehow integrated into the HCRN. Hence there is (should be) a need to reconcile RED2 core programme areas with HCRN.

There is little evidence that this convergence work has been done in the initial stages of RED2, despite coordination meetings at PSC level: indeed, the Financing Agreement did not make clear references to the GoPNG transport strategy in the Highlands and the Contribution agreement did not make explicit references to the requirements expressed in the Financing Agreement.

[10] Implementing Sustainable Development Plans – The transport Sector Perspective, DoT 07/2015.

Design:
The EU contribution has been integrated into an existing ADB intervention: the Highlands Region Road Improvement Investment Programme implemented since 2009; the investment program is focussing efforts on the region's core road network of around 1.400km of major national and provincial roads in five Highlands Region provinces. Two tranches were / are to be completed and the EU contribution is complementing the third tranche due to be implemented in 2017. The logic for EU was to take advantage of an existing facility in order to optimise value for money and avoid duplication of efforts through a similar programme set up.

The review of the binding documents between the relevant stakeholders for the component 1 shows a clear dilution of focus in relation to the original RED2 objective: the Contribution Agreement (200 km of rehabilitated roads + 200 km of maintained roads) is not explicitly contributing to the objectives set in the Financing Agreement (400km of rehabilitated and maintained roads); the recently signed GoPNG / ADB grant Agreement of 10/2016 for the EU grant is no longer making any reference at all to RED2; indeed the EU contribution has been blended within the ADB funded MFF - tranche 3 - which will rehabilitate 4 HCRN roads (Gewa – Gembogl, Nipa – Munihu, Pangia – Wiru Loop, Henganofi – Nupuru; approximately 113km) and cover their maintenance. Under the tranche 3 budget (> 100 million $), about 60% of EU grant (20 million $ in total) has been allocated to complement the ADB loan, apparently for civil works. 20% of the EU grant has been set aside for additional road rehabilitation under 'consulting services'. Interviews showed that it remains unclear for RED2 stakeholders including component 1 partners as to what the 20% funds would be used for and under what implementation modality (works, community rehabilitation, mileage?); there seems to be a tacit agreement (as per 11/2015 ADB mission report) that these funds would cover rural access roads (87km rehabilitated and 200km maintained) as was envisioned under the Contribution Agreement. However, there is no official document that explicitly details how the ADB / DoW would achieve that objective.
This is an issue that can result in EU financial resources ineligibilities or at the very least in allowing a very wide open interpretation as to what purpose and which areas the EU funds should be allocated to, possibly not as was initially endorsed in the Financing Agreement.

A posteriori (meaning at the time of NARI's implementation start-up), it became clear for all RED2 partners that the EU grant under component 1 should be used to rehabilitate roads of economic interest and link RED2 selected agricultural areas to national / feeder roads as a strategy to increase market access of rural populations. However, the current ADB approach, after all, might not be effective if most of the RED2 financial resources are not focussed on targeting the original RED2 objectives.

2.1.4 Component 2 – Access to financial services for agricultural value chain financing (UNCDF)

The objective of the component is to increase the financial inclusion for the low-income segment in the Highlands Region and to foster improved relations between farmers, farmer's groups and traders/processors/transporters through better financing access.

Relevance: Under the Development Strategic Plan 2010–2030 and Vision 2050, the GoPNG has prioritised the need to extend financial services to the general population through financial inclusion (as over 85% of the population is living in a largely non-monetarized economy). PNG is also committed to achieving the Money Pacific Goals by 2020 with all children to receive financial education through core curricula, all adults to have access to financial education, implementing simple and transparent consumer protection and doubling the number of Papua New Guineans who have access to basic financial services.

At sectoral level – agriculture -, long-term objectives under the 2011-2015 MTDP include the establishment of microfinance banking services[11] in all districts by 2030 for the benefit of the rural population and Small-Medium Enterprises development through access to credit finance and with the expansion of microfinance facilities across provinces.

Under RED2, this is to be achieved through facilitating access to financing services like savings, credit, insurance, low-cost remittances, and financial competency building at the national level for financial inclusion policy making and in the Highlands Region to strengthen the capacity of financial institutions to deliver adapted financial services to the rural population.

Design:
RED2 is approaching the financial inclusion component as for component 1: the EU support is integrated into an existing intervention run by UNCDF with additional donor support although the EU resources are earmarked

[11] MTDP 2011-5 3.14 Rural Development pg. 62.

exclusively for PNG: the Financial Inclusion Development Programme (FIDP) is a regional programme targeting Pacific Islanders for increasing access to quality and affordable financial services and education.
The expansion of FIDP in PNG came with RED2 as there was no prior significant FIDP activity in the Highlands Region; this is why UNCDF has been able to tailor its intervention according to the broad recommendations of the Financing Agreement and is, therefore, making clear references to the RED2 master document (FA).
However, while the actual Contribution Agreement is focussing on the original RED2 results for component 2, it contains no reference to the other components of the programme; hence, the programme can be implemented not taking into account the other RED2 components; this is to be expected as several key activities are targeting the national level but without clear mechanisms no ensure coordination with the other components (particularly component 3), the interconnectivity of the RED2 components can be lost and could reduce the added value of the integrated programming approach (as for component 1).
Be that as it may, the more recent work plans of FIDP (e.g. 2016-2017) are to target more the Highlands Region through increased coordination especially with sub-component 3 – NARI.

The log frame analysis confirms that most activities are a mix of national level and local level activities in the Highlands Region but there is no reference again to common RED2 target beneficiaries or to coordination with the other components. The indicators are mostly SMART but the interconnectivity between components is not measured at indicator level (at least to assess whether targeting beneficiaries from the other components are more effective than targeting Highlanders not involved through components 1 and 3).

2.1.5 Component 3 – NARI support Farmers' Resource Centre (FRC) & info/knowledge packages, Technical Assistance Team (TAT) training and DPLGA capacity building

The objective of the component is to provide value chain development support services and local government service delivery capacity for the rural sector.

Relevance:
The logic for the component is to enhance the capacity of Highlands Region farming communities to switch from a subsistence agriculture mode to a more commercial approach that will subsequently improve their livelihoods and to support Local Governments in accompanying this transition.
With a 2.1% yearly population growth and already overpopulated areas, it is unlikely that subsistence farming will remain sustainable on a long term basis in the Highlands Region; compared to more commercial farming methods, the vast majority of rural communities engage in low input / labour / productivity farming that acts more as a social safety net than as an income generation activity, limiting its access to resources and shared prosperity. Under Vision 2050, the GoPNG is committed to developing and expanding PNG's human capital through small-scale manufacturing and value chain addition[12] including in the agriculture / livestock sector with a view to meet domestic and international needs. While value chain development is being supported only for export commodities, value chain development for domestic / local food production in the Highlands remains very challenging with low quality, irregular and low volumes supply and limited storage capacity to increase shelf life or to add value. Most local value chains for agricultural / livestock produce remain disorganised and characterised by difficulties for demand and offer to meet. Finally, despite Provincial Service Improvement Programme (PSIP), District Service Improvement Programme (DSIP) or Local Level Government Service Improvement Programme (LLGSIP), the capacity of local governments to support farming communities still remains limited and requires substantial enhancement to accompany farmers through their transition into commercial and value addition farming.

Design:
Component 3 is a mix of activities that aims at improving local food production by value chain enhancement mainly at farm level. It will support both local governments (DPLGA and Local Level Government (LLGs)) and farmers through 3 different sets of activities (+ a coordination Programme Estimate).
Under the original RED2 programme design, (i) NARI would have supported farming communities through activities to enhance knowledge and introduce new technologies and lessons learned on value chains, (ii) a service contract would have provided technical support to the farming sector through training of trainers on value chain development and (iii) DPLGA capacity would have been enhanced to deliver analysis and policy responses at local level to better link these to rural communities.
However, soon after the discussions and first PSCs, DPLGA communicated its unwillingness to manage a Programme Estimate (PE) due to the high level of ineligibilities that occurred during previous EU interventions and requested a different implementation modality. Hence the PE for DPLGA was not to be implemented. This is a clear evidence of a lack of consultation at programme formulation stage.

[12] Vision 2050 pg. 23.

Component 3 was redesigned with (i) NARI identifying the most relevant value chains, develop Training and Information packages and supply Farmers' Resource Centres with adequate Technology, Training and Information packages, (ii) the delivery of training activities for both farmers and local authorities through Resources Centres to enhance respectively their technical capacity in value chains and their capacity to deliver services related to value chain development (combining the TAT and DPLGA PE through training exclusively); a small programme estimate for coordination was also proposed; at MTR stage, this PE had not yet been signed and the utilisation of the resources was still hotly debated between DNPM and EUD.

Coherence between sub-components: the linkage between NARI and the Service Contract is at this stage still unclear with NARI responsible for the design of training packages but also the TAT in charge of training activities (and possibly their development). It remains to be seen whether both sub-components will be complementary, provide parallel or duplicate material. In any case, a close collaboration between the (sub-) components will remain critical to maximise impact and avoid duplication.

Assumptions and risks: a posteriori, a constraint that was obviously not taken into account was the refusal of DPLGA to manage a PE; the integration of DGPLA's support into the TAT will significantly reduce the available resources to train LLGs and DPLGA.

2.1.6 Programme Implementation modalities

The programme is being implemented through different modalities:

- Component 1: Contribution Agreement with ADB.
- Component 2: Contribution Agreement with UNCDF.
- Component 3: Grant contract with NARI, Service contract to cover the training subcomponent (Technical Assistance Team) and Programme Estimates for (i) DPLGA[13] and (ii) the coordination costs for DNPM (PSCs and related activities).

The chronology of the programme with key milestones is indicated in Table 3.

Chronology	**RED 2 Programme**	**Component 1 –**	**Component 2 –**	**Component 3 -**			
		ADB (roads)	**UNCDF (financial inclusion)**	**NARI (Farmers' Resource Centres)**	**TAT (training)**	**DPLGA (local Gov capacity building**	**DNPM (coordination)**
04/2014	Financing Agreement signature						
09/2014			EU / UNCDF Contribution agreement signature ***Actual start-up***				
12/2014		EU / ADB Contribution Agreement signature				(PE cancelled)	(PE not signed)
01/2016					TORs drafting		
06/2015				Grant signature ***Actual start-up***			
10/2016		ADB / GoPNG Tranche 3 agreement signature ***Actual start-up***					
10/2016 – 12/2016					Bidding process		
11/2016 situation at MTR		***Not yet implemented***	***Under implementation***	***Under implementation***	***Not yet implemented***	***Cancelled***	***No fund allocation / to be determined***

[13] Cancelled and integrated into the TAT during implementation.

Chronology	RED 2 Programme	Component 1 –	Component 2 –	Component 3 -			
		ADB (roads)	UNCDF (financial inclusion)	NARI (Farmers' Resource Centres)	TAT (training)	DPLGA (local Gov capacity building	DNPM (coordination)
04/2018	Planned end of implementation phase	End of implementation phase	End of implementation phase	End of implementation phase	Estimated end of services	?	?
04/2020	Planned end of closure phase						
Implementation timeframe	Original: 48 + 24 months						

Table 3 - Financing Agreement, Contribution Agreements, Grant and Programme Estimates chronology

It evidences great offsets between (sub-) components: component 2 (UNCDF) and subcomponent 3 (NARI) are well under way but the component 1 which covers 2/3 of the budget has yet to begin (2 years behind UNCDF and 1 year behind NARI).

At this stage, another 15 months remain available to commit around ¾ of the available resources. The funding situation is as follows:

Financing Agreement 05/2011	Budget	Released financial resources by EU
Component 1 - Roads rehabilitation (ADB)	18.000.000	5.130.000 (not yet utilised)
Component 2 - Financial inclusion (UNCDF)	6.000.000	1.790.000 (under implementation)
Component 3 - Value chain development - **NARI** - **TAT** - **DPLGA** - **DNPM**	 1.500.000 3.500.000 1.000.000 300.000	 810.000 (under implementation) - - -
Visibility + contingencies + evaluation/audit	1.980.000	-
Total (€)	32.280.000	7.730.000

Table 4 - RED2 level of funding

Because of the integrated nature of the program, a coordination mechanism had to be setup: it consists of (i) PSCs and (ii) a limited Programme Estimate for DNPM to cover the costs of coordination/PSC activities.
It was jointly agreed with DNPM that the mechanism was to be complemented with coordination meetings prior to PSCs and *ad-hoc* working groups (not yet operational); the logic was to discuss inter-component technical issues / common features during working groups, resolve issues related to common beneficiaries / parallel or sequential implementation during coordination meetings and officialise coordination meetings agreements during the PSC. Unfortunately, the offset in component implementation, the lack of common / interconnected activities between components and inability of DNPM to release already available coordination funds or make use of the Coordination PE has so far limited the added value of such a mechanism (although it can be considered as critical for programme success).

2.2 EFFECTIVENESS

The RED2 programme will be effective on the condition that all three components are well coordinated (see efficiency): it is most likely that the increase in income resulting from better value chain development and in particular access to markets for the rural communities will be most discernible if the three components target the same rural communities and geographical areas.

2.2.1 Component 1 Rural road rehabilitation and maintenance (ADB)

EU contribution under the HRRIIP tranche 3

HRRIIP is consisting so far of 3 tranches / projects: project 1 has been completed, project 2 is underway and project 3 had been signed just before the MTR; tranche 3 will be a mix of ADB loan and EU grant (RED2).
At MTR stage, the tranche 3 project had just been signed between ADB and GoPNG; hence DoW had not yet initiated any activity in the Highlands.

Under the programme, the plan is to pursue the rehabilitation of roads as for projects 1 and 2: the negotiation of tranche 3 between ADB and GoPNG has shown[14] that the approach is to ensure the continuity with new HCNR rehabilitations: the main outputs are to:

(i) improve the HCRN;
(ii) ensure sustainable maintenance mechanisms and improve the capacity of National Roads Agency (NRA);
(iii) enhance the capacity of DoW to implement road improvements; and
(iv) improve the road safety of National Roads Safety Council (NRSC).

Although the EU will contribute to about 14% the project 3, the activities under the FA and CA and in particular the necessarily integrated approach requiring the targeting of communities in line with the other components is not mentioned neither in the 2016 ADB/DoW MoU on resources allocation nor in the recently signed GoPNG/ADB contract for project 3.

Indeed, over time, DoW and ADB decided to allocate most of the EU funding for the 4 HCRN roads of tranche 3 and that a small part of the budget would be allocated for RED2 rural access roads (decision reflected in 11/2015 ADB mission report).

The logic for this change is that electoral members could commit part of their annual budget for infrastructures in support of RED2 rural access road rehabilitation.

However, there is no evidence that DoW has any firm commitment from MPs to do so in RED2 programme areas.

			ADB	GoP	EU	Total Cost	% of Total
A.	**Investment Costs**						
	1	Civil Works					
		a. Gewa - Gembogl	30	8	3	31	21
		b. Nipa - Munihu	16	6	3	25	17
		c. Pangia - Wiru Loop	16	6	3	24	17
		d. Henganofi - Nupuru	15	7	3	24	17
		e. Rural roads repairs			<1	<1	<1
		f. Rural roads maintenance			2	2	1
	2	Land Acquisition and Resettlement		1		<1	<1
	3	Consulting Services					
		a. Design review and supervision	2		3	5	3
		b. Rural Roads - Supervision			1	1	<1
	4	Project Administration					
		a. DOW PIU	1		<1	2	1
		b. NRSC - Road Safety Awareness		<1	<1	<1	<1
		c. External Audits		<1		<1	<1
		d. DOW safeguard unit		<1	<1	<1	<1
	5	Taxes and Duties		10		10	7
		Subtotal (A)	**69**	**38**	**19**	**127**	**88**
B.	**Contingencies**						
	1	Physical	7	4	1	12	8
	2	Price	1	4		5	3
		Subtotal (B)	**8**	**8**	**1**	**17**	**12**
C.	**Financing charges during implementation**						
	1	Interest during implementation	2			2	1
		Subtotal (D)	**2**			**2**	**1**
Total Project Cost (A+B+C)			**79**	**46**	**20**	**145**	**100**

Table 5 - Indicative Financing Plan for HRRIIP Project 3 ($ million)

Under the financing plan, around 20% of EU funding (table 5: 3a, 3 million $) would be allocated to cover rural access roads connecting RED2 productive areas or FRCs to the road network.

Indeed as per 11/2015 ADB mission report and confirmed by the interviews conducted in POM and Hagen, some funding under 3.a of Table 5 could be made available to cover part of the list of roads to be rehabilitated that was presented by NARI to the PSC in 07/2016. DoW/ Hagen partly in cooperation with Provincial Administrations performed the scoping and cost estimates for these roads (civil works only). As the funding supposedly available (either budget line 3.a or Member of Parliament/DSIP funding) does not cover the scoping budget, it would be up to DoW and NARI to select the most relevant and feasible road stretches. Another alternative that was discussed was the use of labour only to rehabilitate the rural access roads with funding to come from either 3.a or MPs. In any case, there is no agreement as to what kind of rehabilitation technique should be considered.

[14] MoU of 02/2016 between ADB and DoW/DoT.

There is no information as to who should be in charge of negotiating with MPs / District Administrations the stretches of RED2 rural roads rehabilitation / maintenance.

By mid-2016, with NARI advancing in the identification of potential value chains and related agricultural areas of interest, it was proposed as per initial objective of the Financing Agreement to rehabilitate relevant roads that could connect targeted project areas to the main road network; NARI prepared this list of roads and presented it at the July PSC of 2016 for discussion with ADB.

No.	Road Name	Distance (Km)	Road Type	District
Southern Highlands (3 Roads Selected)				
1	Kirene - Yarena	15	Gravel	
2	Kumbeme - lalibu	12	Earth	
3	Pangia - Molo	28	Earth	
Jiwaka Province (2 Roads Selected)				
4	Kindeng Block Access Road	40 +	Gravel	
5	Avi - Apiamb		Gravel	
6	Karap Koi	39	Gravel	
Western Highlands (3 Roads Selected)				
7	Tambul Station - Tambul H/S		Gravel	
8	Tambul II / S Jngt - Piambel		Gravel	
9	Kotna- Rulna		Gravel	
Eastern Highlands (3 Roads Selected)				
10	Awande - Purosa		Gravel	Okapa
11	Ke'efu - Hengarau		Gravel	Okapa
12	lfiufa-Asaro Loop Road		Gravel	Daulo/ Goroka
Enga Province (2 Roads Selected)				
13	Sirunki - Pumas - Papayuku		Gravel	Laiagarm
14	Yokonda - Kanaik		Gravel	Laiagarm
Hela Province (6 Roads Selected)				
15	Keremu Road	35	Gravel	Koroba
16	Koroba Guala Kakerenroad	25	Gravel	Koroba
17	Alua Kamba Piagoanuda Road	10	Gravel	Koroba
18	Margarima Hamaria Road	15	Gravel	Magarima
19	Maria Awai Road	50	Gravel	Margarima
20	Yabaraga Road	25	Gravel	Magarima
Chimbu Province (10 Road Selected)				
21	Paris-Nogar-Koringle Loop Road	10	Earth/ Gravel	Kundiawa/ Gembog
22	Bandima -Kangor- Womatne Road	8	Earth/ Gravel	Kundiawa/ Gembog
23	Genabona-Yani (Drima)	30	Earth/ Gravel	Gumine
24	Onole-Genabona	9	Earth/ Gravel	Gumine
25	Koge-Ulbanediawa-Segima	20	Earth/ Gravel	Sinasina Yongomul
26	Neagaima-Bi-Muru H/ School	20	Earth/ Gravel	Kerowagi
27	Yombar-Momambuno	10	Earth/ Gravel	Kerowagi
28	Gogo-West Elimbari	5	Earth/ Gravel	Chuave
29	Pila-Nambayaufa-Wangoi	20	Earth/Gravel	Chuave
30	Wara Sua- Kiari	30	Earth/Gravel	Karamui Salt Nomane

Table 6 - List of relevant roads to be rehabilitated under RED2
(Source: NARI, 07/2016)

Therefore, at this stage, a financial envelope from HRRIIP project 3 (around 3 million $) is available but insufficient to rehabilitate those 30 (see Table 6) RED2 stretches of roads through civil engineering (as per DoW's scoping) or possibly even through labour based works (although this should be the main discussion point between NARI and ADB).
Whatever the solution selected, the allocation of most of the EU budget to cover roads that are not necessarily in line with the other RED2 components does not keep up with the spirit of RED2 approach and falls short in any case of the agreed mileage to be rehabilitated under the FA (400km) and Contribution Agreement (CA) (200km rehabilitated + 200km maintained).

In conclusion, ADB and DoW will have to reorient their approach to be more in line with the RED2 objectives and avoid to be subject to ineligibilities should an auditor stand to the requirement of interconnectivity between RED2 components.

2.2.2 Component 2 – Access to financial services for agricultural value chain financing (UNCDF)

PFIP was initiated in late 2014 and is at an advanced stage of implementation; it is focusing on supporting (i) financial service providers, (ii) governmental institutions including regulatory authorities and policy making, (iii) marketing research and (iv) consumer empowerment. PFIP is not directly supporting final beneficiaries but indirectly supporting stakeholders by creating financial channels and supporting the development of potential products and services that will enhance final beneficiaries' financial inclusion. Many PFIP interventions are trying to instil a saving culture amongst the rural population prior to the development of credit instruments. Two results through five activities were expected from the project:

R1: Improved access to financial services for agricultural value chains in the Highlands Region.

- Activity 1.1: Support to micro-finance and micro-leasing (and insurance).
  - Support to regulatory authorities:
    - Bank of Papua New Guinea (BPNG) / CEFI:
      UNCDF provided support to CEFI to (i) draft the first Financial Inclusion Strategy - the 2nd version is currently being drafted -, and (ii) enhance the CEFI data analysis capability.
  - Support to financial institutions:
    - MiBank:
      A grant was provided to test micro-leasing for access to electricity at community level in 4 villages (2.150 HH); MiBank is providing the microfinance platform, DiLight the hardware (solar panels and electricity meters) and Empawa taking care of the distribution.
      Results: the 4 villages have been identified (Popon, Gabina, Egen and Yakamul) and initial awareness sessions were conducted for women groups (future managers of the system); the objective is to integrate the rural population into the banking system through a service that will enable them to access banking services through Mobile Wallets.
      While the initiative is an efficient tool to increase financial inclusion of rural populations through tangible products (supply of electricity for lighting and hardware ownership), it is not located in the RED2 target areas. This is an issue if RED2 results are to be interconnected to enhance the impact of the programme.
    - Capital Insurance:
      Consulting services were requested to review the potential to insure assets benefitting low-income households (property, communal / social infrastructures).
      Results: the study does not target in priority the Highlands but the urban settlements where the potential for insurance is deemed the highest; the initial findings show that community-based assets for basic services are possibly based on the replacement cost of infrastructure material; in order to enhance the stewardship of these assets, the insurance costs could be integrated into the maintenance costs supported by the community. As for productive assets (e.g. community agricultural machinery, rural infrastructure, storage / processing facilities), the issue needs more investigation as it is unclear under which conditions these could be insured as there are always uncertainties regarding the actual ownership of these productive assets (who takes care, maintenance conditions, who is responsible?). Crop insurance has not been investigated either (although this might a response to the July / August cold / freezing spells occurring in the Highlands).
    - BIMA:
      UNCDF is providing support to BIMA to scale up its outreach in the Highlands Region for two of its products: Life insurance and Health insurance; BIMA is actively seeking beneficiary subscriptions by phone (in collaboration with Digicel) and through its network of sales agents. BIMA is collaborating with Capital Insurance for the payment of the claims.

Results: UNCDF's support has enabled the increase of its number of agents from 21 to 31 (in the Highlands Region); the number of policies increased 325.000 to 525.000. Agents are paid on a commission basis with minimum subscription targets and a commission per subscription.
Interviews showed that BIMA remains confined to the urban centres in the Highlands where the potential is highest; agents will not go into rural communities because the perspectives of subscriptions are very low unless they are compensated.
Healthcare and life insurances are relevant tools to create awareness on the advantage of household saving, as a first step to creating a conducive environment for rural populations' financial inclusion. Life insurance is of particular interest (for creating a savings culture at HH level) as funerals (including in rural areas) results in families / clans being heavily indebted.

- Activity 1.2: Develop mobile banking services.
  - Support to financial institutions:
    - MiBank (under way) / Westpac (to be initiated)
      Support was provided to deepen market penetration through the use of MiCash (mobile wallet) in order to speed up monetary movements between value chain stakeholders; support is being provided to further develop an agent network system at village level and develop financial products (credit, money transfer); one of the objectives would be to reduce also the payment timeframe (from weeks to days) between goods delivery and actual payment (e.g. decrease the use of checks)
      Results: support under way with IT system improvement, user interface design, agents' trainings; there is little evidence that the support is targeting the rural population in particular (blanketing support instead).

- Activity 1.3: Enhance basic financial education, awareness and protection.
    - Support to Schools and VET Centres on financial education:
      UNCDF is considering the support of schools through the establishment of financial education courses / curriculum.
      Results: the identification of potential institutions was conducted and 2 institutions (Kamaliki Technical Vocational Education Training Centre and Goroka Technical College near Goroka) were approached. Interviews within one of the institutions showed a great interest in pursuing the potential collaboration.

- Activity 1.4: Community engagement and coordination.
    - No information

R2: Operational financial inclusion team supporting rural microfinance institutions.
- Activity 2.1: Programme coordination, implementation, management and evaluation.
  Underway (see the efficiency of component 2).

In conclusion, all the activities so far conducted are focussing on increasing the financial inclusion of the population into the formal banking system; this is the first (and necessary) step before the rural population could benefit from agriculture-specific products that would enhance their capacity to expand their rural-based activities through credit whether for increased input supply or value addition through processing or quality insurance.

2.2.3 Component 3 – NARI support Farmers' Resource Centre (FRC) & info/knowledge packages, Technical Assistance Team (TAT) training and DPLGA capacity building

The Component comprises 3 sub-components plus an additional activity for programme coordination by DNPM. At programme formulation stage, the 3 sub-components were to be complementary in order to enhance the capacity of stakeholders to deliver services to farmers and to support the development of value chains.
At the time of the MTR, only the NARI grant was at an advanced stage of implementation; the direct support for DPLGA had been cancelled altogether and the funds redirected to the TAT that would provide in return support to DPLGA.
The funding for coordination had not been engaged as other sources of funding for that particular activity are supposed to be available through the NAO / DNPM (unused funding from Institutional Capacity Building II (ICB-II)).

<u>Component 3.1 - NARI grant:</u>
The objective is to improve the access to appropriate information and training packages and other required technical support for selected value chains and agriculture-driven production opportunities in target communities in participating Highland Provinces and districts. Three results through fourteen activities were expected from the project:

R1: Constraints, opportunities and baseline of farmer-preferred value chain and agriculture-driven production opportunities in target communities identified.

- Activity 1.1 Constraints, opportunities and baseline of farmer-preferred value chain and agriculture-driven production opportunities in target communities identified.
  Results: an extensive in-house study resulted in the selection of three potential value chains: sweet potato, Irish potato and bulb onion amongst over 10 different value chains; a SWOT analysis was carried out evidencing a relatively similar pattern in terms of both production constraints (seed, pest, training, agri-business) and marketing constraints (post-harvest losses, market, transport) for the three selected crops but marked differences in terms of opportunities.

- Activity 1.2 Design, pilot-test, conduct and analyse baseline needs assessment survey (should include learning needs assessment) of target communities and potential value chains and agriculture-driven production opportunities.
  Results: the selection of the three value chains was confirmed through a participatory survey that also identified the production areas and the targeted rural communities.

- Activity 1.3 Conduct a reporting back workshop with target communities and stakeholders for selection of preferred value chains.
  Results: conducted.

- Activity 1.4 Organise project planning and inception workshops with key partners and stakeholders.
  Results: conducted.

R2: Appropriate Training and Information packages developed for Highland farmers as per value chains chosen.

- Activity 2.1 Produce relevant information materials.
  Results: this is currently under way; there remains some confusion as to whether these Training and Information packages will not become redundant, should the TAT develop its own training material or will it adopt the Training and Information packages for the Training of Trainers (ToTs).

- Activity 2.2 Develop and pre-test information packages on specific agricultural technologies that respond to community-specific farmers' needs.
  Results: not yet implemented.

- Activity 2.3 Develop and pre-test training packages on new and emerging farming, post-harvest and processing technologies.
  Results: not yet implemented.

R3: Resource Centres support value chains and agricultural production opportunities in target communities with supply of required Technology, Training and Information packages and other technical support.

- Activity 3.1 Select a modus operandi suitable for RC supporting different selected value chains and agricultural production opportunities.
  Results: the criteria were selected (road access, location within a substantial production area for the selected crops, lack of inter/intra-clan conflicts, etc.).

- Activity 3.2 Identify key locations and establish RCs.
  Results: ten Farmers' Resource Centres were selected based on the above criteria as were measured agricultural areas and identified potentially participating farmers; those include decentralised NARI premises, DPAs, women groups associations (that received previous donor support), churches premises. The MoUs and rehabilitation costings are yet to be finalised.
  The selected sites are the following: (i) Enga province: DPI Station, Laiagam, (ii) Jiwaka province: Old DPI Station, Banz, (iii) Western Highlands province: Haiti, and NARI Tambul, (iv) Southern Highlands province: Imbongo, (v) Simbu province: Gumini, and Gambogyl, (vi) Eastern Highlands province: Ifiyufa and Okapa. No selection has been operated for Hela province yet. It is unclear as to whether this selection of FRCs is definitive and the other RED2 components could adjust their work plans accordingly or not (yet).

- Activity 3.3 Facilitate development of action plans, business or corporate partnerships, etc. and provide support for efficient management and sustainability of the RCs.
  Results: not yet implemented.

- Activity 3.4 Supply RCs with appropriate information and training packages and relevant technologies (including crops, planting material and livestock, tools and equipment) and improving competencies of RC operators in relevant areas of technical support provided by the RC.
  Results: not yet implemented.

- Activity 3.5 Facilitate transfer of relevant information, skills and new technologies to rural communities through assistance of community development partners.
  Results: not yet implemented.

- Activity 3.6 Facilitate other forms of technical support such as Communication Infrastructure, consolidation, storage or processing areas based on identified needs of selected agricultural production opportunities and value chains.
  Results: not yet implemented.

- Activity 3.7 Analysis and development of second generation problems and emerging research issues.
  Results: not yet implemented.

NARI's degree of implementation seems to be well in line with the programme timeframe; it remains to be seen whether the TAT will be able to take advantage of the information already processed into training and information packages.

<u>Component 3.2 - TAT service contract:</u>

The initial objective was to manage and support the activities under the value chain development support service and DPLGA Programme Estimate through delivering trainings to the target populations, in particular, ToTs with trainers to transmit knowledge and follow-up knowledge adoption at community level.

Results: at MTR stage, the ToRs had been drafted and the bidding process was under way.

The selected activities include: (i) local farmers' trainings in FRCs, (ii) ToT in FRCs, both based on NARI's T&I Packages, (iii) trainings in agricultural skills and business capacity, (iv) trainings of DDA, LLG and DPLGA in agro-rural knowledge and (v) establish Technical Working Groups to coordinate NARI, DPLGA, district and local authorities.

Interviews within NARI emphasised the need to clarify the roles of NARI and the TAT in term of management, delivering the trainings and above all in selecting the training methodology/approach, the subjects and the relationship between the TAT and NARI in relation to the actual sourcing and use of the training material.

<u>Component 3.3 – DPLGA Programme Estimate:</u>

This sub-component has been cancelled altogether and the financial resources redirected to the TAT.

The TAT will deliver trainings to Provincial, Districts governments and LLGs to enhance their capacity to support value chain development at district and provincial levels; however, the review of the TAT ToRs reveals that there is little information as to what type of support would be most beneficial for DPLGA, hence additional discussions would probably be necessary at TAT's inception.

<u>Coordination Programme Estimate:</u>

The funding has not yet been allocated despite the need to strengthen DNPM: so far, only one staff is in charge of the RED2 coordination as part of his portfolio; hence he is in charge of other interventions as well.

Results: the assigned Human Resources (HR) for RED2 coordination are deemed largely insufficient and urgent attention is needed: this is especially critical at this moment; so far, there have been few interactions between the three components and there is an urgent need to coordinate better the activities of each component now that the specific geographical areas and targeted rural populations are better refined.

The typical activities of a coordination unit would be the following: (i) lead the PSC and coordination meetings (already done so far), (ii) call vigorously for the establishment of regular/*ad-hoc* working groups between components' stakeholders to better coordinate in time and space the targeting of the rural populations that would benefit from RED2 support and (iii) avoid a dispersion of efforts by centralising each component's achievements through an M&E mechanism that would measure the degree of collaboration between the components (see recommendations). As a similar mechanism seems to be under the responsibility of the TAT (for selected stakeholders though), DNPM as representative of the GoPNG should facilitate the establishment of these working groups and ensure that the relevant stakeholders from component 1 and 2 have an active role as required.

2.3 EFFICIENCY

Under the programming approach, good value for money for RED2 programme should be assessed in relation to the implementation of 3 different stand-alone projects. Are there some savings to be made because of the integrative nature of RED2?

As there are no indicators for such integration in the FA logical framework and while the design of each component is more oriented towards a stand-alone intervention than an integrated programme, some elements to measure the efficiency should be sought at coordination level: in particular, what added value would a coordination unit bring to the programme or what coordinated actions would be most relevant? So far, there is no such effective coordination unit (only one staff) at NAO / DNPM levels.

If adequate means are not assigned to such a structure that would proactively bring the components' stakeholders together to seek for common grounds / target beneficiaries / implementation approaches / adjusting activities' timetables, there is at this stage no need from the components stakeholders' viewpoints to seek active inter-component partnerships; hence, RED2 will remain a collection of three separate interventions without much common ground; possibly with measurable impact at component but not at programme level.

2.3.1 Component 1 - Rural roads rehabilitation and maintenance (ADB)

Project planning, Management and Monitoring and Evaluation:

The project component has not yet been initiated despite the CA's signature 22 months ago (12/2014). This is due to the inclusion of the EU contribution within the ADB HRRIIP as per FA; its project 3 has been under negotiation between the GoPNG and ADB ever since.

Nonetheless, ADB has launched in 2016 in anticipation the bidding process for project 3 and at MTR stage, the GoPNG was evaluating the bids. Since the project 3 was eventually signed in 10/2016, the implementation should be initiated shortly.

The EU contribution would be managed by the HRRIIP team, probably without much distinction between the activities and sources of funding as the contribution would be fully integrated into project 3.

Under ADB's project 3, the value for money of EU contribution would be highest, as it would be contributing nearly in full to the rehabilitation of HCRN priority roads as per GoPNG sectoral policy.

However, the added value of EU contribution for RED2 would be minimum as little mileage of rural access road would be rehabilitated and the RED2 target populations would remain mostly landlocked, compromising the overall objective of RED2 despite support under components 2 and 3.

As per EU rules, the contribution has to be committed by 04/2018 (18 months remaining). Given that the allocation of funds remains open to interpretation as to whether it will actually contribute to RED2 objectives, there is urgency for ADB / GoPNG to clarify in detail the use of funds and the rehabilitation approaches for rural access roads as swiftly as possible before engaging the EU contribution.

Project's costs:

The project budget is as follows:

Key activities	Planned (MoU of 02/2016) (000€)	Expenditure (000€)	Tranche 1 (000€)
Road rehabilitation (4 HCRN roads)	11.300	-	
Programme support and capacity investments costs[15]	3.600	-	
Project administration and other costs	1.300	-	
Contingencies	900	-	
Financing charges during implementation	900	-	
TOTAL	**18.000**	**-**	**5.130**

Table 7 - ADB road rehabilitation budget and expenditure

The proportion of HR allocated in the project amount up to 20% of the budget (programme support costs) although it is highly likely to be much lower as other non-HR related costs are also included in that budget line; in any case, HR implementing costs below 20% are deemed reasonable.

[15] Part of this budget line would be used for RED2 rural access road rehabilitations and maintenance; however, there is no information as how this would be achieved.

2.3.2 Component 2 – Access to financial services for agricultural value chain financing (UNCDF)

Planning:
The project was designed in early 2014 and the agreement signed in 09/2014 with immediate effective implementation. Many activities are targeting either at the national level or the entire Highlands Region without creating much interconnectivity with the other components; this is expected as the interventions were initiated before component 1 or 3, the latter one which defined in more detail the actual RED2 target areas and populations. However, by 2015 and above all later in 2016, the main orientations for both component 1 and 3 were better defined but still, little interaction developed as if the UNCDF project was a stand-alone intervention while many interactions could result in refocussing its core activities according to the requirements of the other 2 components (e.g. targeting HCRN or FRC areas), should there be a dialogue platform for exchanging ideas to enhance the results of the programme.

Project Management:
The overall management of the project is carried out remotely from Fiji (UNCDF HQ for the Pacific region).
The core implementation team consists of:
- the PFIP Manager (in Fiji);
- a National Coordinator in POM; and
- an International Specialist in POM.

PFIP implementation has been hampered in 2015/6 with the lack of a Programme Manager for several months, after which the current one was contracted.
At MTR stage, the post of International Specialist had been vacant for over a year and all decision taking processes were occurring in Fiji while the day-to-day activities were performed by the Coordinator.
This setup is somewhat constraining the project implementation because the analysis of new activities, adjustment of existing ones and resolution of outstanding (strategic or not) issues will require prior approval and possible ground checking from the PFIP Manager.

In that context, the PFIP component in PNG is well implemented according to plan but there is little margin for adaptation to changing conditions; this would become however important with more anticipated involvement of UNCDF's partners in the rural areas of the Highlands Region in closer collaboration with the other RED2 components (in particular NARI sub-component), should UNCDF deepen its support (i) towards rural communities and (ii) to value chains development in addition to most activities carried out so far that were more to create a conducive environment for financial inclusion than actually benefitting selected value chain stakeholders.

Monitoring and Evaluation:
The M&E function is typically carried out by the National Coordinator.
So far, the information feeds in an informative programme-wide and periodic report ('PFIP Quarterly Dashboard') more oriented towards the donors and the general public.
A more comprehensive report has been drafted recently: '2014-2016 PFIP PNG progress report'; it documents very well the project situation including its weaknesses and challenges as per planned activities; there is however little information as to how PFIP is contributing to the overall RED2 objectives and what is its added value within RED2 in relation to a stand-alone intervention.

Project's costs:
The project budget and expenditure are as follows:

Key activities	Year 1		Year 2		% contribution to cumulative budget
	Planned (000€)	Expenditure (000€)	Planned (000€)	Expenditure & committed (000€)	
Staff and other personnel costs	198	140	363	157	64
Supplies, commodities and material	96	-	58	-	-
Equipment, vehicle and furniture	115	-	35	-	-
Contractual services	192	96	150	37	39
Travel	173	18	104	3	8
Transfers and grants to counterparts	192	4	690	687	44
General operating and other direct costs	2.118	376	115	6	3
Indirect costs (7%)	140	26	99	62	36
Total	**2.266**	**402**	**1.511**	**951**	**36**

Table 8 - UNCDF project budget and consumption rate

The rate of expenditure by 06/2016 was just over 36% for 22 months. This is very low but understandable given the HR issues that the project experienced since start-up and the centralisation of decision taking processes in Fiji which slows down the effective project implementation. The proportion of HR allocated in the project is over 20% of the expenditure; again this is somewhat high but expected given the management structure of PFIP; it will probably come down if the decision taking processes are more decentralised with the arrival of an International Specialist.

UNCDF has still another 22 months (out of 44) to spend / commit 77% of the budget. This is still achievable unless there are substantial changes of approach resulting in a reallocation of funds, the case for which an extension of the FA might be justified.

At this stage of implementation, it is very difficult to estimate the value for money of the intervention in relation to the initial RED2 objective: most activities are impacting the national level or the entire population of the Highlands Region. The interviews nonetheless confirmed that the rural population is so far ill-targeted directly through financial institutions that are very reluctant to engage any resource without a full-proof risks protection. Most if not all (e.g. exception MiBank with solar panels) UNCDF supported activities eventually target populations (i) less exposed to financial risks and (ii) that are integrated into the economic system but not necessarily into the financial system.
Typically, rural (subsistence) farmers are the last option for financial organisations and this is reflected so far within the UNCDF intervention that consciously or not eventually targets more easily urban populations through its support package.

2.3.3 Component 3 – NARI support Farmers' Resource Centre (FRC) & info/knowledge packages, Technical Assistance Team (TAT) training and DPLGA capacity building

<u>Sub-component NARI:</u>
The NARI intervention has been critical as it delineated the main areas / targeted populations of intervention for RED2; as these were not explicitly defined at FA stage or through a subsequent baseline study, most activities so far carried out were to do just that. This created a significant implementation offset, with the other components going ahead with their planning processes and activities' implementation without common consultation on how to circumscribe the programme areas.
This (expected) offset due to the nature of the actions defined within the RED2 FA has created significant inefficiencies that will affect the overall implementation of the programme; in particular, the need to reorient key activities of component 1 and 2 if the integrated approach is to be maintained.

Project management:
The project is being supervised from NARI HQ in Lae; however, most in not all research stations in the Highlands are involved in the project.
The implementation team consists of the following:

- Action Leader: overseeing the project implementation from NARI HQ in Lae (NARI's Deputy DG for half time) and coordinating the project with the other (sub-)components of RED2.
- Team Leader based in NARI Tambul Research Station (full time) in charge of the project implementation.
- Project team providing administrative and technical support, networking capability and project planning assistance; in particular, one technical staff was assigned to the project in Aiyura NARI Research Centre so as to cover the Highlands from East to West.

A Technical Working Group was to be created to coordinate the subcomponents (TAT and DPLGA). However, due to the cancellation of the DPLGA Programme Estimate and the TAT not yet contracted, this working group is not yet operational. Consequently, it was decided that the setting-up of this working group would come under the responsibility of the TAT.

Monitoring and Evaluation:
Close monitoring of results is being performed by the project team from NARI Tambul with regular monitoring visits from both the Team Leader and action Leader.
In particular, extensive data was collected for the baseline survey (review of areas of potential economic interest) and to assess the potential sites of the FRCs.
6-months reports are supposed to be being prepared although those received are actually quarterly reports, and contain relevant information on activities / results status. As for the other components, there is no information on how the project is actually contributing to the other programme components.

Project's costs:
The project budget and expenditure are as follows:

Trust Fund	Total Budget (000€)	Expenditure (as per 09/2016 since start-up) (000€)	Tranche 1 pre-financing
Human resources	824	279	
Travel	19	2	
Equipment and supplies	346	116	
Local office	80	21	
Other costs, services	165	31	
Admin costs	100	-	
Contingency	65	-	
Total	**1.600**	**449**	**761**

Table 9 - NARI project budget and consumption rate

The rate of expenditure by 09/2016 was just over 28% for 24 months. NARI will need to accelerate implementation to spend/commit 72% of the budget within 19 months. Nearly 60% of the tranche 1 has been so far spent which is still short (70% minimum) for requesting tranche 2. As NARI's intervention is well on track and in line with the overall FA, there is a high probability of completing the project within the timeframe.
It should be highlighted that few HR have been committed so far because most of the intervention was focussing on the identification of FRC and of the most promising value chains; more HR have to be committed, especially for the development of the Information and Training Packages.
The field visits also showed that some selected FRC are either non-existent (need for construction) or in very poor shape (need for complete overhauling); should the budget for 'equipment / supplies' be a limiting factor, an assessment should be quickly made to prioritise the FRC and avoid dispersion of resources (concentrate on well-equipped FRC instead of numerous FRCs in poor condition).

<u>Sub-component TAT (and Coordination PE):</u>
The component has not yet been initiated; hence its efficiency cannot be assessed.
Nonetheless, the review of the ToRs shows that the TAT will be in charge of a wide variety of technical activities targeting different audiences (farmers, farmer's trainers, DPI and Provincial/District Authorities) and managerial responsibilities (Component 3 Technical Working Group, development of communication and visibility plan), requiring different expertise's and most probably the support of / a close collaboration with NARI in order to maximise value for money of activities and avoid duplication of efforts.

TAT's projected budget:
The initial budget was 3.500.000€ but as the ToRs were launched only recently, the budget was reduced to 2.000.000€, including the training activities benefiting DPLGA. The situation of the DNPM Coordination PE is still being assessed and could be cancelled[16], should the GoPNG decide to coordinate the programme through other sources of funding; the TAT budget (+ Coordination PE) is now as follows:

TAT	Initial Budget (000€)	Current estimated budget (000€)
TAT	3.500	2.000
DPLGA	1.000	-
DNPM Coordination	300?	300?
Total	**4.500 – 4.800**	**2.000 - 2.300**

Table 10 - TAT projected budget

This is resulting in 2.500.000€[17] budget unallocated.

2.4 POTENTIAL IMPACT

RED2's objective is to accelerate income generation in the Highlands Region from agricultural produce through a multi-sectoral approach but with a focus on value chain development at farming level. The logic behind RED2 was that the impact of individual sector interventions is limited by the constraints of other sectors. By addressing the main constraints from different relevant sectors, RED2 hopes to create a momentum for change.

[16] The logic is that the transaction costs are too high for such a small value Programme Estimate (300.000€).
[17] 4.500.000€ – 2.000.000€ = 2.500.000€

In term of impact, RED2 will create impact for each of its components with more or less success but it is hoped that its true impact will be revealed by effects combination so that the sum of activities will decisively result in livelihoods' changes.

So far, the level of implementation is too little to make any prospecting remark about the potential impact of RED2.

Furthermore, as the TAT and integrated support to DPGLA have not been initiated, it is not possible to assess their impact either.

Some worrying elements point out towards a lack of coordination and of common sharing of information between component's partners. These include:

- Component 1: the blending of EU contribution into HRRIIP for the construction of 4 roads is somewhat ineffective in terms of impact for RED2 (the EU contribution could support an entire rural access roads rehabilitation programme under the right modality / approach). Rural access road rehabilitation is minimum and there is little information as to what are the techniques that could be chosen for rehabilitation (mix of civil works / community labour, all participatory community labour, etc.); further road rehabilitation under RED2 is left at the discretion of MPs and District Authorities, hence outside the control of the donor (EU).

- Component 2: the focus has been put at national level and in/around urban centres in the Highlands Region, which is not RED2's objective; there is a risk that UNCDF might miss the focus of RED2 by implementing activities where it is most easy (urban centres) but not necessarily relevant for the programme (rural areas where it is most difficult to enhance financial inclusion).

- Component 3: the cancellation of DPLGA programme estimate is a blow for component 3 because the targeted farming communities are relying on local governments to steer them towards the most appropriate channels of development (through appropriate information sharing, planning and economic development options), including through value chain development and agricultural produce value addition. In the present circumstances, it can be contemplated that less support would be provided by the local level governments that would be exposed to TAT capacity building activities as all the funding would be made available for the TAT.

In addition, the overall integrated approach of RED2 might still be not holistic enough to produce decisive positive results, in particular because key downstream value chain issues are not addressed by RED2 (national roads network condition, inability to bring together in an orderly fashion demand and offer from wholesale dealers - including lack of transparency -, difficulty to create volume because of the unconducive clan environment in PNG for common interest groups and cooperatives, in-adapted transport and storage systems for large quantities of agricultural produce, etc.).

There are nonetheless encouraging elements supporting an added impact, should these initiatives be multiplied and speeded-up:

- NARI is sharing the list of FRC and potential rural areas of economic interest for the 3 selected value chains to the other two RED2 components.
- UNCDF is committed to engaging resources into NARI's targeted areas, especially through the development of innovative micro-credit and micro-loan products by supported financial institutions.
- DoW has completed the scoping and financial analysis of the list of rural access roads (30) to be rehabilitated, that was provided by NARI and is willing to review with NARI the best options for rehabilitation / maintenance, including taking into account the various rehabilitation techniques (e.g. participatory, civil works, labour only, etc.); however, there is still some way for discussion to resolve the (now) issue of lack of finance.

2.4.1 Component 1 - Rural roads rehabilitation and maintenance (ADB)

The potential impact of component 1 is very high on the condition that the activities contribute to enhancing the effects of the other two components.

Road rehabilitation does not create wealth by itself but it can unlock the economic potential of a region. This is the effect that RED2 is seeking to achieve.

2.4.1.1 Social impact

The evaluation interviews targeted populations that are yet to benefit from rehabilitated roads and that also benefitted from rehabilitated roads under HRRIIP's projects 1 and 2.
Overall, the upgrading of the road network is having very positive social effects through the improvement of inter-clan relationships.

The interviews also evidenced the lack of community ownership of the rural road infrastructures when these were not actively involved in the rehabilitation through labour. Ownership and empowerment to initiate maintenance seem to be directly related to (i) the remoteness of the village / clan areas in relation to the national road network and (ii) the proactivity of clan leaders to steer their community members.
The method of rehabilitation can also have a social impact at community level: labour-based rehabilitation is more socially accepted for small roads/tracks as there will be fewer issues related to land acquisition. However maintenance remains an issue that needs community leaders' stewardship: roads are still not necessarily viewed by rural communities as an asset that has more value while properly maintained than left to decay until GoPNG decides to rehabilitate it; in the same vein, this is what Capital Insurance is actually investigating for public / community assets (churches, community / social infrastructures).

2.4.1.2 Economic impact

Road rehabilitation through the ADB HRRIIP programme is likely to generate economic activity and diversification as the selected HCRN are the prioritised roads stretches that are either Economic Corridors or that are linking secondary urban centres to the National Highway Network.

The economic impact of component 1 will likely be very limited for RED2 if barely 87km of rural access road rehabilitation are indeed secured within the selected production areas.

Interviews showed that market access is drastically improved through simple road rehabilitation activities (culverts, basic bridges, grass removal or potholes filling): local agricultural transport becomes more efficient with all-year round access to pickup trucks instead of hiring product carriers to transport produce to better condition roadsides; agricultural production can also be increased at village level: more villagers start growing produce for commercial purpose instead of just for own consumption.

2.4.1.3 Institutional impact

With HRRIIP providing support to DoW and Department of Transport (DoT), it will result in enhancing their capacity to follow-up maintenance plans contracts. However, ADB and DoW favour civil engineering under HRRIIP's 4 selected HCRN roads as was carried out for previous HRRIIP tranches. For the sake of simplicity, this might be a reason why the EU contribution is mostly allocated for regular HCRN road rehabilitations. With the potential involvement of GoPNG funds (MPs or DSIP) to replace the EU contribution, there will be more leeway to select the most appropriate approaches to rehabilitation and reorient the focus to RED2 priority roads.

2.4.1.4 Technical impact

At this stage, the potential technical impact of component 1 is unclear: although it is likely that the EU contribution will be utilised for civil works, DoW is open to discussions for the rehabilitation of a series of rural access roads as per already completed scoping and pending financial resources availability, but most certainly through participatory labour-based roadside rehabilitations. Interviews also showed that maintenance (even for tarred roads) remains an issue unless long-term maintenance contracts are being agreed upon with either the donor or more often with the District / LLG authorities.

2.4.1.5 Environmental impact

The impact is likely to be very limited for rural access roads: labour-based rehabilitation is less likely to generate issues during the assessment of environmental safeguards; civil works for rural access roads will probably result in extensive delays due to population resettlement (e.g. because of track widening and larger-scale infrastructures).

2.4.2 Component 2 – Access to financial services for agricultural value chain financing (UNCDF)

2.4.2.1 Social impact

Activities that focus on financial inclusion are directly impacting the populations through mindset changes by generating a culture of savings, which is the first and necessary step before the rural population can have access to (micro-)loans and other financial products; this is mostly the case for insurance products and tangible micro-leasing products like the solar panels for electricity access; however, these activities are not responding to the primary needs of the population: access to loans for value addition (e.g. improved transport, transformation, increased production because of inputs, etc.).

2.4.2.2 Economic impact

Interviews of farmers showed that access to finance (despite other issues identified by NARI, just as important) is the N°1 preoccupation of farming communities.

If UNCDF applies a two-step approach for selected RED2 farming communities, (i) Financial Inclusion followed by (ii) Access to Finance, farmers will be in a better position to generate income through diversification and increased volume production (through input and improved seed supply access, value addition for the selected value chains (e.g. quality preservation through storage, drying, transformation. In addition, access to micro-finance for value chain stakeholders (input supply shops, transporters, wholesalers, etc.) is likely to generate benefits through multiplication effects.

2.4.2.3 Institutional impact

Whether UNCDF succeeds or not in empowering farmers and value chain stakeholders through accessing finance, its intervention will transform the micro-finance / insurance institutions by enhancing their capacity to reach out to more customers (MiBank, BIMA, etc.) and their capacity for creativity to design, promote and market innovative rural-specific market products e.g. power supply through solar panels, life / health insurance products, etc.).
The support to CEFI and BPNG in drafting the first Financial Inclusion strategy has resulted in substantial increases of population enrolments although it is not directly impacting the direct beneficiaries.

2.4.2.4 Gender impact

Under component 2, mixed results appear towards women financial inclusion: while some activities benefit women primarily (e.g. MiBank and rural solar energy loans), others are typically targeting men (e.g. BIMA health and life insurance products [⅓♀/⅔♂] although for the latter, women are actually the beneficiaries in case of death).
With more approximation towards the final beneficiaries in future implementation, it is more likely that UNCDF will support financial institutions in developing gender-based financial products: female-headed Common Interest Groups regularly form and are more stable than men's, hence they are likely to gain access to more gender-tailored financial products; men are more individualistic and require small-scale individual loans.

2.4.3 Component 3 – NARI support Farmers' Resource Centre (FRC) & info/knowledge packages, Technical Assistance Team (TAT) training and DPLGA capacity building

The potential impact of the component is very high as support to farmers through improved land husbandry, agribusiness techniques exposure and in general 'farming as a business' is the first step for incorporate farmers into the wider economy, shifting from a subsistence farming system to a more inclusive commercial farming system.
The approach through ToT is also potentially having a decisive impact at farming community level (through a multiplication effect) although (i) field trainings of trainers and following-up of trainers' activities remain necessary requirements through adapted field techniques like FFS.
The approach proposed by the TAT will need careful assessment and need to be in line with the specific Highlands social specificities and ethnic landscape.

2.4.3.1 Social impact

The interviews of farmers and common interest group leaders show that there is at first during donor / GoPNG support a strong knock-on effect with initial adoption of practices by proactive farmers and that later on this effect is substantially reduced because of accumulation of management and technical issues, and ultimately limited by the lack of access to inputs and markets that are necessary for any agricultural improvement to be viable.
There is still little information on how the transition from subsistence to commercial approach will be operated within the selected rural communities. Interviews showed that farmers benefiting from previous donor/GoPNG support, copy from lead / key farmers. This does not lead either to more conflict nor cooperation but to more individual unchecked opportunistic businesses.

2.4.3.2 Gender impact

The potential impact on gender is very high for component 3: RED2 is focussing its efforts on creating IGA for women organised into Common Interest Groups (still falling very short of associations or cooperatives). Several FRC are led by women Common Interest Groups that will undoubtedly benefit from component 3's activities.
Interviews also showed that the support to women groups through successful agriculture-based IGA is literally lifting up the condition of women[18] within their communities.

2.4.3.3 Economic impact

The potential impact on small-holders income generation is significant if they adopt a commercial approach to farming; however, RED2 is not inclusive enough to support all upstream and downstream value chain members. Should support to farmers be successful and resulting in agricultural diversification and increased volume, value chains remain at this stage disorganised and the absorption capacity limited; hence there is a risk of overproduction that ultimately would result in price collapse unless value chains are reorganised to accommodate the increased offer of agricultural produce

[18] Although the effects (e.g. domestic violence, wealth management, etc.) of these supports at HH level are widely unknown.

directly resulting from RED2 support; hence the importance of FCR: while it was contemplated under RED2 that they would become the actual means to reach farmers through training, their role should be more overarching and explicit as a transformational platform (e.g. as an agricultural hub / service delivery structure).

2.4.3.4 Institutional impact

Component 3 will support local administrations through conventional capacity building trainings (TAT) in enhancing their capacity to provide better advice and guidance to the rural sector: indeed, interviews of farmers showed that information on market access, prices, value chains gaps remain very poorly understood and biased towards the view to try to control the entire value chain (individualistic approach): e.g. whenever possible, farmers are systematically opting for direct selling to wholesalers despite the fact that they are ill-equipped and not specialised in storage, quality control, transport and bulk sales.

If TAT supports effectively local administrations through a better understanding of value chains development, these would be in a better position at least at local and district levels to identify value chain gaps and direct strategic investments from both public and private investment sources.

2.4.3.5 Technical impact

Interviews of both individual farmers and Common Interests Groups leaders showed that most agricultural techniques that enhance value, increase production and productivity remain limited by the lack of access to finance.

Value addition through transformation, quality enhancement, agro-processing or volume aggregation can be tried but is soon abandoned because of a lack of profitability: this is because most of these interventions focus on the technical aspects and neglect the agribusiness and financial education sides; RED2 is strengthening these aspects through the integrated approach.

In terms of implementation, NARI has yet to take advantage of FPDA expertise as they have a network of existing lead farmers, distribute seeds to multiplication farmers and are well versed in the value chain issues for fresh produces. Their contribution would be most relevant for assessing / reviewing the Information and Training Packages, leading the design of key training modules on agribusiness or value chain development - fresh produce specific -.

2.4.3.6 Environmental impact

Agricultural intensification and the adoption of ‘farming as a business’ approach from a previous low-input subsistence farming system will inevitably lead to an increase in the use of chemicals and pesticides, even more so should microfinance be more readily available.

Therefore, it is up to the responsibility of both NARI and TAT to transmit knowledge and information that will enable the farmers to take informed decisions over the use of traditional and modern land husbandry techniques and also propose both techniques in a context of agricultural intensification.

Interviews showed that at this stage, farmers are still favouring chemicals and pesticides if they can have access to it without any cost / effectiveness analysis.

2.5 ELEMENTS OF SUSTAINABILITY

At programme level, sustainability will be ensured for RED2 if it succeeds in developing simple commercial channels that will become self-sustaining as a consequence of key results of the programme: farmers are somewhat knowledgeable about financial management and the banking sector, and have access to small loans in order to produce according to wholesalers’ requests; there are key strategic depots for quality assurance control, storage and volume building-up; roads from production areas to the main national (Highway) road network are inadequate state and maintained so that produce deterioration is limited and products meet the minimum quality criteria of the intermediaries / wholesalers in Lae / POM.

While the impact is linked to the actual coordination of RED2 actions, the sustainability of RED2 results will be largely dependent of the level of ownership and empowerment of beneficiaries’ to pursue and enhance the original RED2 results.

2.5.1 Component 1 - Rural roads rehabilitation and maintenance (ADB)

The GoPNG is heavily investing into the modernisation of the national road network of own resources or loans; under the Transport Strategy, national priority roads are identified and maintenance budgets allocated. However, these roads do not correspond exactly with rural access roads targeted under RED2.

In order to maintain the road conditions, a road user charges mechanism has to be in place to ensure adequate funding of maintenance activities; this function is ensured by the NRA and under HRRIIP, the team is working in close collaboration with the NRA to enhance its capability to fulfil its organic functions. This is mostly relevant for priority roads.

As for RED2, the prioritisation of roads for rehabilitation and maintenance does not necessarily fall under national priorities but under the need to ensure connectivity between RED2 selected production areas and the main road network system. So far, maintenance of roads under HRRIIP has been carried out by the NRA and will continue for HRRIIP Project 3.

If rural access roads were to be rehabilitated, it is unlikely that maintenance costs would be made available by the NRA; it would be up to the programme or the actual communities / local governments to maintain adequate road conditions.

2.5.1.1 Social and cultural sustainability

In a semi-open economic system with most of the population still living in subsistence farming systems, the rehabilitation of rural access roads is not necessarily owned as a community asset because as it does not bring direct benefits at local level for subsistence farmers that are in any case not connected to the economic and financial systems.

In that context, road maintenance is seen as a community burden as was confirmed during interviews. Farming communities can only be empowered to maintain roads if these are seen as an asset worth maintaining because they allow more economic exchanges; by proposing value chains development at farming level, RED2's integrated approach is proposing to enhance and develop further economic exchanges with the outside world (mainly urban markets).

It is, therefore, critical to raising awareness in targeted communities on the integrated approach and on the advantages that combining value chain development, access to finance and road maintenance can bring to the communities. At this stage of implementation, there is little evidence of dialogue to engage the RED2 targeted populations by adopting a common approach between components. This needs to be strengthened for the reminder of the programme implementation.

In the case of HCRN road rehabilitation, though, communities will be little involved in any maintenance scheme but possibly paid labour.

2.5.1.2 Technical sustainability

The technical sustainability of road rehabilitation will require different mechanisms whether the roads are HCRN or rural access roads:

- For HCRN roads, the NRA will cover the expenses as per allocated budget; the field trips along rehabilitated roads from HRRIIP project 1 showed that maintenance is not applied as soon as deterioration is visible with large portions of roads eroded; hence the need to apply more rigorously maintenance programs by NRA / DoW.
- For rural access roads, communities would be involved through manual labour (mainly grass cutting and removal of debris under bridges and within culverts, potholes filling). A long-term contract with local authorities would ensure proper maintenance.

2.5.1.3 Institutional strengthening

The EU contribution as part of HRRIIP project 3 will indirectly support institutional strengthening of DoW and NRA under the HCRN road rehabilitation scenario as has been conducted for projects 1 and 2.

Under the rural access road rehabilitation scenario, the establishment of maintenance contracts with LLG (that could be trained beforehand through TAT and using FRC premises) and financed by the EU contribution or DSIP would enhance the capacity of local governments to organise road maintenance in close collaboration with communities.

2.5.2 Component 2 – Access to financial services for agricultural value chain financing (UNCDF)

Component 2 results related to financial inclusion and policy making are now probably well rooted into the relevant institutions (e.g. BIMA, MiBank). It is most likely that UNCDF's support, once it is terminated will be pursued through other means / own resources in the Highlands Region. The main issues are whether (i) these institutions will remain around urban centres, (ii) are they willing to expand their activities into rural areas - in particular proposing adapted financial products that would benefit farmers exposed to RED2 - and finally (iii) will they institutionalise support into rural areas through a suitable offer of financial products?

2.5.2.1 Social and cultural sustainability

As the financial inclusion of populations is still very low in rural areas, awareness raising needs to be a key priority; in addition, as MiBank clearly identified, preference should be given to the development of tangible financial products instead of conventional intangible services wherever possible as the former is more easily accepted by rural communities.

In order to facilitate access of rural communities to finance, there needs to be a change of attitude towards a savings-oriented mindset as credit and savings are the 2 pillars in microfinance. A culture of savings is necessary before credit access can be facilitated although this can be a long-term endeavour (beyond the estimated duration of the programme). Actions to change the mindset of farmers and enable them to access at a later stage agricultural finance services have to be combined with farmers adopting a commercial farming approach (component 3) so that these changes of mindset are also seen as tangible steps to access microfinance. To achieve these results, it is necessary to closely combine component 2 and 3.

2.5.2.2 Economic and financial sustainability

Interviews showed that enhancing the financial inclusion in rural areas is viewed as an expensive process due to the dispersion of the population and above all the lack of awareness; this negative perception reflects also the lack of adapted products and possibly misconceptions of the financial sector; this is particularly the case for Health / Life Insurance for which BIMA is experiencing difficulties in engaging its agents in rural areas; in the meantime, MiBank has adopted an innovative approach by proposing tangible financial products instead of conventional credit products while Capital Insurance is investigating community assets insurances (but so far restricted to urban areas). This might be a way forward to design relevant financial products for the rural population. Under these conditions, microfinance products could become sustainable economically and attract finance institutions in rural areas.

2.5.2.3 Institutional strengthening

The component is contributing to strengthening PNG financial institutions with capacity building activities and support into the design of new (innovative) financial products. Institutions are likely to take full advantage of support and extend / expand it for successful / relevant activities.

2.5.3 Component 3 – NARI support Farmers' Resource Centre (FRC) & info/knowledge packages, Technical Assistance Team (TAT) training and DPLGA capacity building

2.5.3.1 Social and cultural sustainability

The methodological approach is critical for farmer's to adopt new farming techniques: they should be evidenced-based and easily replicable by farmers only exposed to other lead farmers and trainers; while NARI is providing the technical material (*Information and Training Packages*), the TAT will be responsible for the methodological approach and actual training's delivery.

It should be made clear that the approach by TAT should be well adapted to the socio-cultural conditions of PNG; previous experiences showed that it is necessary to work with lead farmers and that these should be carefully selected so as to become model farmers.

2.5.3.2 Technical sustainability

By handling over the formulation of the Information and Training Packages to NARI under component 3, it is highly likely that the packages will be well adapted to PNG conditions; in that context, the TAT added value in technical terms should be limited so as to avoid redesign of training material. The TAT ToRs call for ToTs; this is well in line with previous interventions.

Agribusiness courses are also considered in order to enhance the understanding of farmer's (and local Administrations) in marketing and value chain development. These types of courses are to enhance the entrepreneurial spirit of farmers and should be very well developed - possibly even further reinforced through a specific set of training materials; the lack of knowledge in marketing and in basic financial management is the no. 1 cause for dropping out improved land husbandry techniques.

2.5.3.3 Financial sustainability

Interviews showed that improved farming techniques are not necessarily adopted by farmers; this is mostly the case because they were shown under ideal conditions (e.g. demo plot next to an FRC but not managed in real conditions by actual farmers) and/or require inputs that farmers have no access to (lack of credit to buy enhanced input, etc.) or the farmers lack the knowledge to market the added value agricultural produce. If they have no access to credit and lack the knowledge to market agricultural products produced under enhanced farming conditions, the produce does not sell with profit and farmers soon abandon the new farming techniques and go back to conventional ones. Therefore, it is necessary that TAT and NARI can rely on component 2, should new farming techniques require extra resources (pesticides, input, processing, storage, transport, etc.) that can only be acquired through microfinance.

2.6 COHERENCE AND EU ADDED VALUE

Based on the lessons learned from RED1, the EU strategy has been to promote rural economic development through an integrated approach and avoid stand-alone interventions; the weak implementation capacity of institutional and NSAs in PNG is resulting in the EU still (as for RED1) favouring international institutions (ADB, UN) or local institutions with solid credentials acquired through previous EU cooperation (NARI); this is all obvious with the backing-down of DPLGA to embark on managing a Programme Estimate that might lead to series of ineligibilities. This approach is, by all means, a safe and (a priori) efficient strategy to support the GoPNG through a multi-sectoral approach.

However, the RED2 setup also has inconsistencies: it is rather incoherent to fund an integrated programme by injecting financial resources into pre-existing interventions with their own procedures and methodological approaches, and that these should somewhat adapt themselves to the needs of a programming approach. Indeed, there has been a tendency for both ADB and UNCDF to implement EU-funded activities as per their larger programme approaches (HRRIIP and PFIP) and an inability to reach beyond their own implementation frameworks. While this an efficient strategy not to multiply intervention approaches according to the donor's requirements, they are both experiencing difficulties to adjust to the specific requirement of an integrated approach and in particular the need to coordinate their activities with the objective of added impact.

In the same vein, NARI's project that was formulated explicitly for RED2 is more fully in line with the needs and requirements of a programming approach: NARI needs to share information (FRC, selected areas of economic production) so that the other components can indeed adjust their work plan; on the contrary, UNCDF has not shared with the other components what are the most promising areas / targets for the development of value chain financial services so that component 1 & 3 could also adjust their intervention. For the sake of efficiency, ADB blended all the EU contribution into its own programme but has provided little evidence how it will contribute to enhancing the results of the other 2 components and tackle the issue of landlocked production areas that would receive support from component 2 and 3.

2.7 VISIBILITY AND COMMUNICATION

Visibility and communications activities play a vital role in the field of development cooperation in particular in PNG for encouraging ownership and empowerment by relevant stakeholders.

Overall, there is little evidence of communication and visibility activities for the RED2 programme except for the usual intervention launchings.

At component level, the situation is positive for both component 2 and 3: while visibility activities are yet to be developed for the ADB Tranche 3 launching, UNCDF has engaged substantial resources for visibility and communication; these include numerous press releases for virtually all PFIP activities and the PFIP website that informs the public on the programme results.

For NARI, extensive communication activities were carried out as well during the identification of the FRC and through launching workshops and life events, and the distribution of visibility material (including donor information).

3. RECOMMENDATIONS

The chapter was structured in (i) critical recommendations for immediate action and (ii) recommendations for implementation improvement, facilitating activities' delivery (as per level of implementation for each component).

3.1 FOR IMMEDIATE ACTION

3.1.1 Coordination

Issue 1: It is unclear what will be the contribution of component 1 to RED2 and to what degree it will enhance the overall results of the programme in relation to the other 2 components; it seems that there will be very little interconnectivity with the other 2 components as per October 2016 agreement signed between ADB and GoPNG and the 11/2015 ADB mission report. Therefore, there is a risk of component 1 partly being ineligible if it does not keep up with the original logic of RED2 - inter-sectoral integrated programme approach -. This is not to mention that the October agreement is neither in line with the Financing Agreement nor the Contribution Agreement.

Recommendation:
DoW and ADB (including the HRRIIP project team) have to clarify as soon as possible how the EU contribution of HRRIIP project 3 will contribute to the objectives of RED2.
At the express request of DNPM, it would be wise:

- To call for a meeting (EUD, DNPM/NAO, ADB, DoW) to discuss the implications of the October 2016 agreement that apparently formalizes a much reduced commitment of ADB / DoW under RED2 in relation to the RED2 contractual agreements and agree on a course of action (no Agreement change, full modification, amendment / adaptation / cancellation...); given that whatever decision is taken, will likely impact RED2, there should be representatives of components 2 and 3.
- For ADB/DoW to make a formal proposal in writing based on informal agreement made during the previous meeting.
- Officialise the decision at PSC.
- Review (or not) the component / implement the (possibly new) agreement accordingly by DoW/ADB.

The objective is to remove any doubt of component 1's ineligibility scenario through component 1 amendments or official clarification on how it will achieve the RED2 objectives.

Issue 2: The capacity of DNPM is very limited (1 part-time staff) as to what type of action beyond facilitating coordination meetings and PSC meetings and recording / following-up decisions taken. As the 3 components have so far been implemented nearly as stand-alone projects without much interaction beyond PSCs, there is a risk that the lack of dialogue and of common interest will result in no added value and no catalytic effect of the 3 sectors on the targeted beneficiaries. Since 2016, the population and operational areas of RED2 have been better delineated by NARI and there should be numerous opportunities for collaboration and coordination between the components for setting up the conditions for an enhanced impact.

Recommendation:
The Coordination structure of the programme has to be substantially overhauled and its overall mission and tasks expanded to the following:

- Oversee the implementation of RED2 with an M&E mechanism (making sure that at least an indicator for interconnectivity is defined in the matrix).
- Establish a calendar for regular (monthly or bi-monthly) exchange / brainstorming sessions (technical working groups) with representatives of each component to assess the value addition of each other's activities to achieve RED2 objectives; the intent is to increase dialogue between components so that partners can take advantage of each other's results during the implementation of their activities and define the potential collaborations / define formalise the collaborations.
- Oversee the potential bilateral discussions and decisions taken between component's partners based on results of the brainstorming sessions.
- Oversee the Coordination meetings that should define the operationalisation conditions of the collaborations.
- Oversee the PSC that would endorse the proposals.

In that context, there is a need to allocate substantial financial and above all human resources (additional staff[19]) either through the initial RED2 PE, through DNPM in-house resources (e.g. unallocated funds from ICBII) or any other relevant option for the entire remainder of RED2 duration. While the TAT might contribute to support DNPM for some

[19] Current situation: 1 part-time staff~~-~~; ideal situation: 1 Head of Coordination + 1 or 2 staff for M&E and data collection / analysis.

activities (e.g. inter-component working groups as they are already responsible for component 3 coordination), it is essential that GoPNG (DNPM) remains in control of the entire RED2 coordination process.
If the Coordination team could effectively create a dynamics for dialogue and initiate proactive discussions on RED2's effects between UNCDF, ADB and NARI resulting in more collaborative targeted and impacting initiatives, there would be good prospects for maximising the effects of the programme through a truly integrated approach.

Issue 3: The late ToRs drafting for the TAT in 2016 that incorporated the support to DGPGA and reduced budget are resulting in an unallocated funds for over 2.500.000€.
The next PSC has to decide on the allocation of these funds: broad alternatives are the following:

- The funds are not used: the RED2 programme is well funded and/or there is not enough time to reallocate funds between components before commitment deadline; this will deprive PNG of valuable financial resources in a context of little GoPNG support to value chain development.
- The funds are split between the 3 components with a method of apportionment based on a quick assessment of financing needs by each institution (ADB, UNCDF, NARI), possibly with some funds added to raise the support to a potential Coordination Unit; this exercise might take too long (at least 2 PSCs, one for approving the method and one for actually endorsing the sharing of financial resources).
- The funds are sent to ADB for additional resources to rehabilitate the roads as per NARI's proposal that cannot be covered under the latest ADB's plan for implementation of tranche 3's HRRII. This solution might solve the issue of lack of funding to rehabilitate priority roads identified by NARI under RED2.

Recommendation:
Unless, ADB reallocates the existing EU grant to cover actually the roads selected by NARI (if ineligibility is considered a real threat), the 2.500.000€ unallocated budget should be transferred to ADB on the condition of a clear proposal discussed with UNCDF and NARI to finance rural access roads that will benefit the targeted beneficiaries of RED2 (both farmers and downstream value chain stakeholders).

3.1.2 Component 1 - Rural roads rehabilitation and maintenance (ADB)

Issue 1: The interviews and the last October grant agreement for HRRIIP - project 3 apparently evidenced that the EU contribution is nearly entirely allocated to selected HCRN roads for rehabilitation; therefore, the financial resources that are to be allocated in connection with component 2 and 3 targeted beneficiaries and areas are by no means what was to be expected from RDE2. The agreement nonetheless implies that GoPNG funds would be made available (MP / DSIP) to actually cover the rural access roads that should be rehabilitated as per component 3 needs. However, no partner seems to be in charge to assess the degree of commitment of decentralised financing Administrations for RED2 rural access roads.
While the option of most HCRN resource allocation clearly favours simplicity in implementation and avoids the setting up of different implementation mechanisms under HRRIIP, there are also conceptual issues in relation to the RED2 objectives, in particular, the lack of interconnectivity between components and the integrated character of RED2 that is somewhat lost in this scenario.
As mentioned under 3.1.1 above, there needs to be clarity to potentially avoid ineligibilities, should an audit take place.

Recommendation:
The current ADB/DoW approach to RED2 is not in line with the spirit of the programme: clarity through formal discussions with DNPM and EU must be sought to:

- Assess the risk of ineligibilities in relation to the lack of interconnectivity with the other components; and
- Explain how component 1 will (indirectly?) contribute RED2 objective - in particular in relation to the support provided by component 2 and 3 to the targeted rural communities -.

In case of ineligibility risk, the options are the following:

- Cancellation of component 1 ineligible activities and reallocation of funds to rural.
- Reorientation of (part of) the budget to remove the ineligibility risk and to cover the proposed roads for rehabilitation by NARI as per scoping limits, and with an emphasis on community / participatory labour-based rehabilitation and local community maintenance contracts through LLGs / district authorities.

In case of no risk of ineligibility, ADB / DoW should make all efforts to commit financial resources (i) directly through the EU contribution (hence reorienting some financial resources of project 3 even if it requires selected contractor's contract change) or (ii) indirectly through negotiations with MPs, LLGs, District Authorities to ensure that relevant rural access roads are rehabilitated as per NARI list, whether with civil works or not.

Issue 2: The current DoW / ADB agreement of 10/2016 falls very short of the FA and CA agreements in terms of overall road rehabilitation objectives (mileage).

Financing Agreement (EU/GoPNG)	400km rehabilitated
Contribution Agreement (EU/ADB)	200km rehabilitated + 200km maintained
HRRIIP project 3 Agreement (ADB/GoPNG)	113km rehabilitated under HCRN + 87km rural access road rehabilitated linked directly to components 2 & 3 + 200km maintained

Table 11 - Changes in component 1's rehabilitation mileage objectives

Recommendation:
The change of results should be officially acknowledged by ADB / DoW so that component 2 and 3 make the necessary arrangements (e.g. refocus activities when all 3 components are active).

Issue 3: At MTR stage, the selection of rural access roads had not yet been performed as DoW was finalising the roads' scoping as per received list of RED2 rural access roads by NARI. Hence the selection roads for rehabilitation and the method of rehabilitation have yet to be made.

Recommendation:
NARI and DoW should sit together with the list of roads and scoping information to prioritise the roads for rehabilitation as per selected RED2 production areas.
Should there be additional financial resources made available for rural access roads due to (i) late budget reallocation to avoid potential ineligibilities from HCRN selected roads, (ii) firm commitments of MPs/District/Local Administrations, subsequent meetings should be held to select further rural access roads.

3.1.3 Component 2 – Access to financial services for agricultural value chain financing (UNCDF)

Issue: Several key activities linked to financial inclusion at national level are necessary steps so that financial institutions can make operations within a strong institutional framework; at this stage, UNCDF has engaged resources to test and pilot new financial inclusion initiatives (insurance, BIMA, MiBank, etc.); these remain for the most part limited to the urban centres in the Highlands and there is little evidence at this stage that they will actually impact value chain stakeholders.

Recommendation:
Now that the geographical areas and targeted populations have been well defined by NARI, it might be time for UNCDF to start expanding into RED2 core programme areas and implement financial inclusion activities that would facilitate rural population's transition into accessing financial services. These would include the development and testing of innovative financial products like micro-credit, micro-lease, rural-adapted insurances products but also blanket activities like the inclusion in the financial system through mobile banking. The logic would be that these activities would somehow be successful in a rural environment because RED2 is supporting other sectors as well that will facilitate the inclusion of targeted rural populations into the wider economy.
In operational terms/on a very short term basis, UNCDF should:

- Discuss with NARI the specific issues related to financial inclusion and value chain development in RED2 targeted area.
- Review *in situ* possibly jointly with NARI the actual conditions and limitations experienced by farmers, value chain stakeholders and Governmental institutions resulting in the design of a plan of intervention.
- Conduct a workshop / briefing with all current and potentially interested future UNCDF partners on the targeting of rural populations, related value chains and involved Administrations in RED2 areas.
- Engage bilateral discussions with its own partners on the most relevant course of action for the remainder of the programme.

3.1.4 Component 3 – NARI support Farmers' Resource Centre (FRC) & info/knowledge packages, Technical Assistance Team (TAT) training and DPLGA capacity building

Issue: Although NARI is already working on the design of Information and Training Packages, the list of FRCs and associated value chain areas of economic interest are yet to be finalised and handed over to component 1 & 3 representatives. NARI's input is required in the selection of rural access roads for rehabilitation by DoW.
At this stage of implementation, only NARI is present on the ground and it is necessary to facilitate the engagement of UNCDF in the targeted RED2 areas through setting up a road map with UNCDF for closer coordination and collaboration.

Recommendation:
NARI should (i) finalise the selection of RED2 core areas of interventions and FRCs (identify Hela province programme areas if relevant) and (ii) hand over the final list to component 1 & 2 representatives.

NARI should convene a meeting with HRRIIP team as soon as possible to prioritise the selection of roads for rehabilitation. Due to the severe RED2 budget limitations for rural access roads, NARI will have to work in very close collaboration with HRRIIP to select the most promising roads for rehabilitation taking into account the availability of labour, the need for civil works and length of road stretches in order to maximise the mileage and population coverage. NARI should convene a meeting with UNCDF to discuss the potentialities of developing rural finance support into RED2 targeted areas.

3.2 RECOMMENDATIONS TO IMPROVE THE OVERALL IMPLEMENTATION

3.2.1 Coordination

Issue: The coordination function is defective with limited outreach beyond Coordination meetings and PSCs. The causes are two-fold: (i) DNPM has insufficient human and financial resources allocated to coordinate RED2[20] beyond mandatory meetings and (ii) the programme design still formulated with a stand-alone project approach does not facilitate the interactions between components to seek combined activities and common targets, all the more so due to ADB and UNCDF components that were not designed specifically for the programme but were parts of larger older programmes that were not tailored with a view to embrace the RED2 integrated approach; therefore that is little incentive for components to meet to discuss issues / activities of common interest.

Recommendation:
A strengthened programme coordination (see recommendation under 3.1.1 for Coordination) should engage resources in initiating dialogue between components through:

- The direct establishment Technical Working Groups that meet regularly (at least on a bi-monthly basis) and exchange ideas on how best to combine efforts to target the selected value chains and their relevant beneficiaries (farmers, up/downstream value chain stakeholders, local/ district/ provincial Administration).
- An overhauled Monitoring and Evaluation system (e.g. M&E chart) that includes on the one hand indicators for interconnectivity of components (for potentially enhanced impact) and on the other one a feedback mechanism that can stimulate the discussions at Technical Working Group level.

3.2.2 Component 1 - Rural roads rehabilitation and maintenance (ADB)

Issue 1: Interviews showed different stakeholder viewpoints as to how the EU contribution for rural access roads (around 20% of the contribution) would be utilised: part/all/no civil works, little or heavy community involvement, partly or fully labour-based). In addition, as rural access roads would be also financed through DSIP or other local financial mechanisms, there was little information available as to what institution (DoW / DoT / provincial Governments?) would be in charge of canvassing new supports from Governmental Administrations or MPs.
At this stage, there is one firm (non-quantified) MP commitment to allocate funding for rural access roads through DSIP.
This approach seems to be a step backwards while a full EU contribution was initially contemplated under the Contribution Agreement without the need for tiresome case by case fundraising activities in the middle of an intervention.

Recommendation:
Under this scenario, ADB has to set up a unit that will actively secure funding for all preselected rural access roads and inform NARI/UNCDF accordingly.

Issue 2: NARI has provided a list of roads for rehabilitation to DoW; however, under the Contribution Agreement, up to 200km (113+87km) could be maintained in addition to the rehabilitation of 87km of rural access roads (and 113km under HCRN). There is no ADB information on the conditions (community leadership, community/LLG contract, NRA?) for getting access to maintenance funds; in addition, the mileage for maintenance is higher than the one for rural roads rehabilitation; hence there is also a potential issue of ineligibility for maintenance activities if these are targeting HCRN priority roads, should these be considered as not relevant for RED2 overall objectives.

[20] The level of support of RED2 is apparently similar to what was allocated under RED1; however, RED1 and RED2 are fundamentally different interventions in the sense that RED1 was designed as three unrelated stand-alone projects and RED2 as an integrated programme under which the combination of all three components is supposed to have an enhanced impact and would require extensive coordination efforts in order to create a dynamic of change benefiting the targeted populations.

Recommendation:
This potential issue of maintenance ineligibilities should also be addressed (as part of the re-discussions on the support to HCRN).
NARI should also be informed how it could produce a list of rural access roads for maintenance in case it is different from the same selection of roads for rehabilitation.

3.2.3 Component 2 – Access to financial services for agricultural value chain financing (UNCDF)

Issue 1: Due to the centralisation of PFIP operations in Fiji, decision taking has been a lengthy process; this has been offset by careful annual planning and a prime selection of partners with implementation capability. In addition, activity monitoring is easier when implemented at national level and in urban centres. However, this setup is likely to show its weaknesses if PFIP activities are been pursued and further intensified in rural areas with poorer communication facilities and more expensive monitoring capacities.

Recommendation:
It is recommended to accelerate the recruitment of the PFIP international expert and make the necessary amendments in his description of duties to enable him more decision taking autonomy for (i) prospecting for new partnerships, (ii) new activities analysis (e.g. strategy for new finance products in RED2 core target areas), (iii) participation at Technical Working Groups and Coordination meetings.

Issue 2: Current financial inclusion activities in the Highlands remain mostly confined so far to urban areas; now that UNCDF will coordinate its activities with NARI in relation to relevant value chain stakeholders, it is necessary to engage new types of activities more focussed on the rural sector (farmers and value chain stakeholders).

Recommendation:
UNCDF has to analyse the potential of support to all involved value chain stakeholders through activities that enhance their financial inclusion (expanding mobile banking in rural areas) and through the offer of diversified and adapted financial products (crop insurance, FRC insurance, input supply, service delivery, conditional group grants [land clearing], BDS loans, cash flow issues, etc.). These stakeholders including final beneficiaries (prime target: farmers with an entrepreneurial spirit, female-led Common Interest Groups, entrepreneurs interested in value addition [processing, quality, volume aggregation, etc.], Administrations) have to be carefully identified, possibly in coordination with future trainings conducted by the TAT and supported by NARI.
Finally, the current finance products and support to finance institutions have to be adapted to the specific rural working conditions that will probably require additional financial resources to conduct activities in more remote RED2 targeted areas.
This strategic realignment might require an updating of the results framework and should this refocussing result in a prolonged reassessment and redeployment, it might be necessary to consider an extension of activities (e.g. 6-12 months).

Issue 3: Several activities, although of a pilot nature, are not adequately focussed to create enough momentum in RED2 targeted areas and value chain beneficiaries: financial literacy courses in 2 schools (Goroka and Hagen) is not ambitious enough to make any impact as is the Solar Panel initiative with MiBank or Capital Insurance studies on urban property assets that are out of focus.

Recommendation:
UNCDF needs to reassess the effectiveness of these initiatives in relation to the targeted RED2 beneficiaries and possibly refocus these activities to more relevant areas / beneficiaries. Other activities have to be tested on RED2 more direct beneficiaries (e.g. MiBank Mobile Wallet, Westpac support, assessing the potential for insurance of rural / community infrastructures, etc.).

Issue 4: RED2 has not adopted a holistic approach in the sense that it focusses mainly on farmers for agricultural value chain development but not on downstream stakeholders (transporters, wholesalers, agro-processing, storage or even shipping, etc.); this is a severe limitation: if RED2 is somewhat successful in enhancing the capacity of farming communities to produce more and better, there is a risk of overproduction with price collapse if the (already disorganised) commercial channels do not follow-up with offer; hence, the downstream value chain stakeholders need to be accompanied for anticipation of increased volumes and better quality.

Recommendation:
UNCDF needs to assess the requirements in financial services of downstream stakeholders like financing value addition, agro-processing, storage requirements, etc. in close collaboration with NARI and possibly FPDA.

3.2.4 Component 3 – NARI support Farmers' Resource Centre (FRC) & info/knowledge packages, Technical Assistance Team (TAT) training and DPLGA capacity building

Issue 1: Interviews of FRC managers (e.g. women headed Common Interest Groups) showed that viability of these structures remain the greatest challenge even after long-term donor support that upgraded facilities and supported group members; the discussion showed that these are very weakly institutionalised which is why several FRC were selected with close ties with District Administrations or NARI.

Recommendation:
The strengthening of the FRC with a view to increasing sustainability, needs to be considered in a different way, not only focussing on materials and infrastructure rehabilitation that will enable the centre to be operational during the remainder of RED2 but also on enabling these structures to continue (training, commercial, etc.) operations after programme completion. Interviews showed that FRCs would sign a MoU with District Administrations so that these could access the premises against possible remuneration. This is however very insufficient to ensure sustainability of the FRC.
NARI has to develop a comprehensive exit strategy that will focus on FRC institutionalisation and autonomy in addition to regular support to enable RED2 trainings; activities could include agriculture produce value addition through volume aggregation, hubs for storage / input supply, quality improvement / grading. The support in FRC institutionalisation should be conducted either through NARI/TAT or UNCDF (trainings on entrepreneurship, business development); support to enhance the FRC with new functions has to be supported by both NARI/TAT (technical support) and UNCDF (financial support).

Issue 2: NARI has focussed most of its efforts on the farmers as per programme approach; however, value chain development is not limited to farmers only; the NARI SWOT analysis and farmers' survey results showed that post-harvesting amongst others is a major constraint for farmers; there are also other serious bottlenecks down the value chains in the Highlands like adequate storage capacity at local level, transport facilities, unconducive environment for letting demand and offer meet. All these aspects are not taken into account under RED2 and are significant barriers that have to be overcome as well for the establishment of fair and effective agricultural produce value chains.

Recommendation:
A complementary study on value chain weaknesses and on analyzing the lack of downstream linkages (transport, shipping, lack of wholesale market where high volume demand and offer meet, etc.) has to be conducted so as to inform relevant stakeholders - in particular the GoPNG - on the critical additional weaknesses that need to be addressed for opening up the Highlands to increased economic development through agriculture development.

Issue 3: Trainings' delivery by the TAT will be based on a ToT approach and using NARI's technical material as per proposed ToRs. This gives a lot of leeway to the TAT on how to effectively conduct the trainings. The approach can be very efficient but monitoring remains paramount to measure an acceptable rate of adoption of the new agricultural techniques. In addition, business and entrepreneur-related trainings are due to be delivered as well. The suggested approach is not clearly mentioned in the ToRs and could also result the delivery of very basic courses.

Recommendation:
NARI has to support the TAT in proposing technical trainings that use ToT and possibly lead farmers to divulge technical information. The trainings should be field-based through lead farmers and FFS instead of being confined within the FRC premises.
With regards to business development skills and entrepreneurship, it would be wise to endorse a 'farming as a business' approach' based on a graduation system under which selective trainings are being delivered to the most proactive farmers and BDS stakeholders.

Issue 4: NARI is a research institution that is specialised in transmitting research information to extension institutions that in turn divulge knowledge to farmers; still, it is in charge of a typical extension project; in the cases for Irish and sweet potato, and bulb onion, - the three selected value chains -, there is a specialised institution in charge of vegetable: Fresh Produce Development Agency (FPDA); its mandate is to support fresh produce value chains through policy advice, market research and information on marketing systems and new technologies, which NARI is not specialised into. It is therefore in a good position to support NARI in the development of Information and Training Packages related to marketing and value addition.

Recommendation:
NARI should request the support of FPDA for the development of relevant Information and Training Packages as per expertise and mandate of FPDA, through internal financial resources or should there be a reallocation of financial resources from ADB or TAT.

4. LESSONS LEARNED

4.1 PROGRAMME DESIGN

- Multi-sectoral integrated approach:

The RED2 programme formulation is characterised by the adoption of an integrated approach; the logic is that the identified problems will be better addressed through multi-sectoral support; this is particularly the case for RED2: the issue of value chain development has been addressed from different angles: transport, finance and production; the focus has been on the farming sector but value chain development should support all involved stakeholders; this is not the case for RED2; interviews showed that while there are severe constraints at production level, the lack of value chain development in the Highlands is the results of a lack of connectivity between all value chain members, from the production side (farmer) to the consumer. It requires a more holistic approach taking into account all value chain stakeholders.

- Components' formulation:

Integrated programming through the sum of already pre-existent interventions is not an effective strategy: the partners have implementation methods that are not readily adaptable to the programme and the implementing partner may have a different agenda that might not be fully in line with the donor requirements.
Under RED2, NARI's proposal is best contributing to RED2's integrated approach because it is RED2-specific (designed for RED2); both components 1 and 2 are less suited to contribute to the programme objectives because the components have slightly different objectives.
Future programmes that adopt a (integrated) holistic approach to development are best relevant when all their components are designed specifically for the programme and not integrated into another existing intervention.
Under RED2, there has been discrepancies between the Financing Agreement and the partners contractual documents; this is most obvious for ADB; the formulation of grants, contribution agreements or even service contracts needs to be scrutinised in detail so as to avoid ambiguities and misinterpretation of objectives, results or activities.

4.2 PROGRAMME IMPLEMENTATION

- Activities' delivery:

Partners in charge of components must engage with the most relevant technical institutions (e.g. FPDA supporting NARI) so as not to take advantage of GoPNG resources and avoid becoming isolated.

- Cooperation and dialogue:

The added value of an integrated programme is that the impact of one component will have positive effects on other components; there is a lot of potential for enhanced impact under RED2 if only channels for dialogue and sharing of ideas could be operationalised.
Future programmes will need mechanisms that allow components to establish channels of communication with other partners as a strategy to increase impact through better coordinated activities.
Integrated interventions also need strong coordination capability: there is no purpose in formulating 3 stand-alone components if the objective of the programme is to address an issue by supporting different sectors. For RED2, there is little evidence that emphasis was put on Coordination with only one part-time staff assigned to that function ; while there is ample leeway to correct this under RED2 with additional funding, future programmes that comprise components run by different organisations needs a strong overseeing coordination unit.

ANNEX 1: TERMS OF REFERENCE

SPECIFIC TERMS OF REFERENCE

Mid-Term Review - FED/2013/024-320 (EC) Rural Economic Development Programme Phase II (RED2)

RfS: FED/2016/377198

1. BACKGROUND

Papua New Guinea (PNG) is a low middle income country and the biggest economy in the Pacific region, with a landmass of 462,820sq km and a population over 7.4 million people (as per 2014 population estimate) PNG represents respectively around 90% of the landmass and between 75% and 80% of the population and of the economy of the whole Pacific region. PNG per capita income is US$2,399 (PPP basis) (2014) and is the biggest and fastest growing economy in the Pacific region with an annual GDP of over US$ 16 billion forecast in 2015 supported by the growth in the non-renewable mineral sector (mining, oil & gas). However, in spite of continuous economic growth in the past 10 years, with an average GDP growth of 6% per year until 2015 driven by commodity prices and attractive conditions for foreign investors in the mining industries, GDP growth was revised downwards to 8.3% (from the previous estimate of 11%) in 2015, as a result of lower oil and gas and key commodity prices, as well as the impact of the drought caused by El Niño leading to the closure of mining projects and to loss of agricultural produce. With the protraction of the current trend of low energy prices, forecast GDP growth for 2016 is 4.3% according to government or 3% according to economic analysts. In this context, PNG is in the top 10 of the most resource dependent economies with 29% of GDP coming from resource rents, which makes it vulnerable to external economic shocks. Moreover, PNG is one of the poorest countries in Asia-Pacific and in the world. The number of people living with less than 1 US$/day is about 40% and more than one third of Papua New Guineans are living in poverty with an overwhelming share of the country's rural communities characterised by deprived access to clean water, sanitation, health care, education, electricity, communication and transport. In addition, PNG is ranked at 158 out of 188 countries on the UN Human Development Index (HDI 2015) and the country did not meet any of the MDGs set for 2015.

In this framework, Agriculture is the predominant source of livelihood in PNG, accounting for more than 65% of the total labour force and approximately 25% of GDP in 2015. About 40% of the population is under the age of 15 and 85% of the population lives in rural areas. Agriculture produces all the food for subsistence and provides the basis for employment and income generation for over 82% of the population who live in rural areas and practice mainly subsistence agriculture. However, modest sector growth has been compounded since mid-2015 due to severe drought conditions triggered by the effects of El Niño.

For most Papua New Guineans, agriculture fills their lives, physically, culturally, economically, socially and nutritionally. Most important staple food crops include sweet potato, sago, banana and various types of taro and yam. Important cash export crops are oil palm, coffee, cocoa, coconuts (copra and oil) and to a lesser extent rubber and tea.

There are still large disparities between urban and rural areas and between provinces. In this sense, growing wealth has mainly benefited small urban-based segments of the population, leaving many communities marginalized from recent macroeconomic successes, particularly in remote rural areas. 94% of poor people live in rural areas that are also very sensitive to food prices fluctuations due to their strong subsistence base.

Impacted by poor governance and management, development of the agricultural sector has been driven on an ad-hoc basis without proper coordination and control, and has faced many difficulties with estimated growth well below expectations. PNG's current main challenge is therefore to ensure that growth and wealth opportunities are inclusive and benefit to the majority of the population.

In order to mitigate these constraints as well as to pursue growth in the primary sector, the Government of Papua New Guinea (GoPNG) signed on 29 April 2014 a Financing Agreement with the European Commission for the Rural Economic Development Programme Phase II, aimed at improving the livelihood of the rural people in Papua New Guinea and specifically to accelerate income generation from agricultural produce in the Highlands region. This programme fully reflects the government's policy priorities laid down in the Papua New Guinea 'Vision 2050', that describes the government's priorities and policies for development and shared prosperity. This strategy includes greater attention to sustainable agriculture, fisheries and tourism.

Programme objectives

The **overall objective** of this second phase of the Rural Economic Development programme is to contribute to improving livelihoods of people living in rural areas.

The **purpose** of the second phase is to accelerate income generation from agricultural produce in the Highlands Region.

The results to be achieved are:

1. Component 1 - Rural infrastructures are improved in the Highlands Region with focus on road rehabilitation and maintenance to increase rural income generation.

2. Component 2 - Improving access to financial services for agricultural value chain financing, will support the development of rural microfinance institutions as well as financial inclusion.

3. Component 3 – Value chain development support services and service delivery capacity of local government in the Highlands Region, will help to accelerate income generation from the Highlands region and will provide support to national institutions.

The amount allocated from EDF under the FA is 32,280,000 EUR.

Implementation

This second phase of the RED is divided into three components, each of which having specific objectives and implementation modalities.

1. Under component 1 - “Rural infrastructures are improved in the Highlands Region”, the action will contribute to support the Government road development programmes, specifically to the Highlands Region Road Improvement Investment Programme (HRIIP) The HRIIP is a Multi- tranche Financing facility implemented by ADB. The overall objective is to restore and maintain roads along the Highlands Highway as well as to build the capacity of the Government on road management. EU contribution is included under HRIIP component 3, to support access and feeder roads with the ultimate objective of increasing farmers' income generation in the Highlands region.

2. Under component 2 - "Improving access to financial services for agricultural value chain financing", the action is supporting, through UNCDF, the development of rural microfinance institutions to increase the financial security as well as to build the financial resilience of low income and rural households, especially women.

3. Under component 3 - "Value chain development support services and service delivery capacity of local government in the Highlands Region", 2 actions are foreseen. The first one is intended to develop appropriate information and training packages on new and emerging agricultural technologies for farmers from the Highlands region in order to accelerate their income generation. It is currently under implementation with NARI.

The second action is a Service Contract[1] that will provide a Technical Assistance team to ensure that beneficiaries have access to appropriate information and training tailored to their needs through Farmers Resource Centres in the Highlands region. Local authorities will also benefiting from an improved capacity in the agro-rural sector[2].

The contracts constituting the decision to be evaluated are the following:

Contract	Title / Contracting party	Contractor' signature date	End date of activities	Amount (EUR)	Paid (EUR)	Balance (EUR)
Contribution Agreement FED/2014/346-441	Improving access to financial services for agricultural value chain financing UNITED NATIONS CAPITAL DEVELOPMENTFUND (UNCDF)	03/10/2014	02/06/2018	6,000,000.00	1,790,211.53	4,209,788.47
Contribution Agreement FED/2014/351-744	Rural Infrastructure Improvement in the Highlands Region ASIAN DEVELOPMENT BANK (ADB)	12/12/2014	11/04/2018	18,000,000.00	5,130,000.00	12,870,000.00
Grant	Agricultural Innovations for Improved Livelihoods in the Highlands region	01/06/2015	01/02/2018	1,500,000.00	760,584.42	739,415.58

This Service Contract is currently under a tender process. Intended start of the action is January 2017.

A Programme Estimate was originally foreseen for this action but it was removed due to implementation difficulties that this modality has created in the past.

FED/2015/350- 670	NATIONAL AGRICULTURAL (NARI) RESEARCH INSTITUTE					

The total financial commitments of the programme in July 2016 amounted to 25,500,000 EUR (78,9% of commitments)

2. DESCRIPTION OF THE ASSIGNMENT

2.1 Global and specific objectives

2.1.1. Global objective

The overall objective of the mid-term review is to assess the performance of the programme to date in relation to delivering the intended impact, both for the beneficiaries and the national economy, and whether the targets/outputs envisaged at the beginning of the assignment are being realised as planned.

2.1.2. Specific objective(s)

The specific objectives are:

A mid-term review study, which has been foreseen in the Technical and Administrative Provisions of the programme's Financing Agreement, will provide the decision-makers in the Government of Papua New Guinea and the European Union with sufficient information to make an informed judgement about the performance of the project (relevance, effectiveness, efficiency, impact and sustainability) to date and take decisions about any required changes to project (such as objectives, duration, budget reallocation etc.) for the remaining period of the programme in order to achieve the objectives of the Financing Agreement.

2.2. REQUESTED SERVICES

This is a global price contract where specified outputs are set out. The service will be paid on the basis of the delivery of the specified outputs. The consultant shall verify, analyse and assess in detail the issues referring to the five evaluation criteria: relevance, effectiveness, efficiency, impact and sustainability, in accordance with the DEVCO Evaluation methodology for projects/programmes as set out on the website http://ec.europa.eu/europeaid/evaluation-approach-and-methodology_es

The consultant is required to use his professional judgement and experience to review all relevant factors and to bring these to the attention of the Government and the European Union.

The main objective under which this assignment is made is to draw strategic lessons and recommendations for the current programme implementation for the remaining implementation period.

2.3 REQUIRED OUTPUTS

The required outputs of the mid-term review exercise will be:

-A de-briefing session will be conducted with the representatives of the EU Delegation, the National Authorizing Support Office (NAOSU) the Department of Agriculture and Livestock (DAL) the Department of Works (DoW) the Bank of Papua New Guinea (BPNG), the Asian Development Bank (ADB) and the National Agriculture Research Institute (NARI) and other stakeholders in Port Moresby, Papua New Guinea at the end of the mission in PNG.

-A **mid-term review report** (plus annexes). This final report will be preceded by a draft report, which is to be submitted to the EU Delegation, within 3 working days from the date of departure of the mission from PNG.

2.4 LANGUAGE OF THE SPECIFIC CONTRACT

The language of the specific contract will be English.

2.5 SUBCONTRACTING

No subcontracting is foreseen.

3. EXPERT PROFILE

3.1 Number of requested experts per category and number of man-days per expert or per category

One CAT 1 Expert, with the profile described in the following section will be recruited to carry out this assignment with a total input of 24 working days. This includes 2 working days in the home country for planning and preparation prior to the mission and 5 additional working days in the home country to consolidate reporting.

3.1. Profile per expert or expertise required:

The expert should have the following qualifications and skills:

- At least a Master Degree Academic Level in a discipline directly relevant to the task: Agronomy, Agribusiness, Agro-economy or related field. Alternatively equivalent professional experience of three (3) years in a relevant sector can be considered in addition to the below general work experience requirements.
- A minimum of twelve (12) years of general work experience in the field of Agriculture and Rural development. This should include:
    - At least six (6) evaluation missions of large scale development projects carried out applying standard international methodology
    - At least three (3) years of professional experience in project agriculture/social impact analysis, infrastructure and financial inclusion in developing countries
- Professional experience with EU funded programmes will be considered an advantage.
- Professional experience with gender, environment and climate change programmes will be considered an advantage.

4. LOCATION AND DURATION

4.1. Starting period

The assignment is expected to start on 3/10/2016.

4.2. Foreseen finishing period of duration

The total duration of the assignment is expected not to exceed ten weeks from the starting day in Papua New Guinea.

4.3. Planning including the period for notification for placement of the staff as per art 16.4 a)

The Framework Contractor must propose an indicative timetable in the offer. Upon signature of the contract, the Expert must be available for mobilisation to PNG to be able to start the fieldwork in PNG as soon as possible. The assignment will consist of: desk review, field visit, consultations with stakeholders, debriefings and reporting.

Before arriving in PNG, the Expert will present a work plan for the completion of the assignment, indicating proposed consultations and final report outline. The work plan will be agreed by the NAOSU and the EU Delegation before the kick-off and inception meeting. Should any delay or difficulty arise during the implementation of any of the activities described under 2.3, the expert will timely inform the EU Delegation in written detailing the issue and measures proposed to overcome it.

Tentative schedule and number of days for the assignment

Location	Activities/Deliverables	Time
Home-based	Planning and preparation prior to the mission, desk phase, review of project documentation provided by task manager, work plan.	2 days
1. PNG	**Week 1, 2 and 3.** Kick-off and inception meeting with EU/NAOSU. in Port Moresby Sites visit (Lae, Highlands) Monitoring meetings with NAOSU, NARI, ADB, UNCDF, DoW, BPNG, DAL and other stakeholders and beneficiaries.	16 days
2. PNG	**Week 4.** Debriefing with EU, NAOSU, NARI, ADB, UNCDF DoW, BPNG, DAL and other stakeholders and beneficiaries.	1 day
	Travel to home base	
3. Home-based	**Week 5.** Preparation draft final report**.** EU/GoPNG feed-back and approval	3 days
4. Home-based	**Week 9.** Integration of comments in final report	2 days
	Total	24 days

Airfares POM-Lae-POM and POM-Mt.Hagen-POM will need to be budgeted for under Incidental Expenditures.

4.4. Location(s) of assignment

Papua New Guinea: Port Moresby (National Capital District) the Highlands region and Morobe region.

5. REPORTING

5.1. Content

The **report** will contain sufficient information to make an informed judgement about the performance of the project (relevance, effectiveness, efficiency, impact and sustainability) as well as to provide recommendations on any required changes to the project (such as objectives, duration, budget reallocation etc.) for the remaining period of the programme in order to achieve the objectives of the Financing Agreement.

The following annexes will be attached to the final report:

- Terms of reference
- Timetable of the mission
- Report and briefings of presentations prepared for the required activities as described under section 2.3
- List of person met
- List of acronyms
- Documents consulted as references

The report will be submitted in soft copy by e-mail and 2 hard copies (1 for the NAOSU, 1 for the EUD) will be submitted upon completion of the assignment and final approval of the report.

6. INCIDENTAL EXPENDITURES

Not applicable.

7. MONITORING AND EVALUATION

7.1 Definition of indicators

There are no specific performance measures apart from an accepted final report. The Expert is expected to follow the criteria listed under section 2 'Requested Services' and can in addition propose other measures that he/she consider relevant for evaluating progress towards achieving expected results. The offer does not need to include a separate 'Organisation and Methodology'.

8. List of Documents to be consulted

- Financing Agreement FED/2013/24320
- Monitoring reports
- Contribution Agreement with ADB FED/2014/351-744
  - Narrative reports
  - Financial reports
- Contribution Agreement with UNCDF FED/2014/346-441

-Narrative reports

-Financial reports

- Grant Agreement with NARI FED/2015/350-670

  -Narrative reports

  -Financial reports

- Project Steering Committee (PSC) minutes
- Coordination project meeting minutes

ANNEX 3: DEBRIEFING PPT PRESENTATION

Mid Term Review of the Rural Economic development Programme – RED2

Port Moresby, 27/10/2015

Mid Term Review of the Rural Economic Development Programme – RED2

FA 04/2014 **Est. timing: operations by 04/2018**	**Planned Budget** **€32.280.000**	**Tranche 1**	**Consumed**
Component 1 - ADB (DoW) - Road rehabilitation (works + commu) - Road maintenance (communities)	18.000.000	5.130.000	0
Component 2 - UNCDF (BPNG + private institutions) - Macro support: policies / enabling environment - Meso-support: institutions - Micro-support: products	6.000.000	1.790.000	1.090.000 (at 06/2016) 2nd tranche to be requested by MTR
Component 3 – value chains			
- NARI	1.500.000	810.000	427.000 (at 06/2016)
- TA service contract	3.500.000	not initiated	0
- PE DPLGA	1.000.000	cancelled	
+ PE DNPM	300.000	in balance	0
+ Communication (EU)	430.000	---	
+ contingencies + eval / audit (EU)	1.550.000	---	

Mid Term Review of the Rural Economic Development Programme – RED2

Relevance & Design

FA: Objective: improve livelihoods through income generation from agricultural produce from the Highlands

Programme logic: Integrated approach:

Agric. VC approach + infrastructures + finance improvements + local Gov services

→ Decisive impact on income generation / livelihoods

Main FA issue: no clear definition of expected linkages between components / why it is critical to create linkage // only broad directions on programme area / locations

→ CAs designed for integration into existing interventions with no linkage with other components (difficult to change existing intervention logic) // no coordination / harmonization of design of all 3 CAs design during formulation ("be on the same page") → linkages to be created during implementation / on an ad-hoc basis → linkages not clear / difficult to establish for IPs

Mid Term Review of the Rural Economic Development Programme – RED2

Relevance and Design

Component 1 - ADB

FA: 400 km of rural road in 1-2 areas improved & 40 maintenance agreements; NARI to be consulted

CA: civil works 200km of HCRN rural road + 200 km maintenance + capacity building → no clear reference to other components

Component 2 – UNCDF

FA: country-wide & measurements in the Highlands (capacity building of microfin instit to enhance fin resilience / fin security of beneficiaries)

CA: grant facility, fin resilience, capacity building of fin instit → no clear reference to other components

Mid Term Review of the Rural Economic Development Programme – RED2

Relevance and Design

Component 3 – NARI / TaT / DPLGA

FA: make accessible new technologies & best practices; all Highlands provinces incl. 1 priority area; improve Gov service delivery

CA: as above + linkage between NARI/TaT & reference to component 2 (micro-fin & micro-lease)

CONCLUSION → need for stronger Coordination process to harmonize interventions (e.g. periodic working groups meetings)

Inherent design constraint: RED2 integrated YES but holistic NO

- VC approach focusing on what benefits the farmer
- In the Highlands, other issues / stakeholders are as critical (or even more): Highway status, farmers' associativism, transporters' competition, lack of storage facilities (& cooling after VC selection), lack of FP market → disorganized sector → everyone for himself → *major impact limitation of RED2* → 11th EDF? Rural Entrepreneurship?

Mid Term Review of the Rural Economic Development Programme – RED2

Approach of component 1 - ADB

Approach: blend most (all ?) funds with ADB loan to increase mileage (→ ADB loan + EU grant) in tranche 3:

ADB mission 11/2015 & Tranche 3 MoU of 05/2016 (ADB / DoW):

EU grant to be added to loan to cover 4 roads of 113km of priority roads HCRN (civil works) (80% budget)

+ 87km of rural access road (civil works and/or community rehab depending on budget) (20% budget)

ADB Logic? Respect CA but avoid rural access roads that are not national priority roads

<>

RED2 logic: make all year round rural access roads passable for (at least) light 4X4 vehicles from production areas / RC to national priority roads

→ ADB / HRRIIP supersedes RED2 for EU resources utilization (against FA spirit)

Mid Term Review of the Rural Economic Development Programme – RED2

Achievements of component 1 - ADB

- Bids evaluation for the rehabilitation of selected 4 HRIIP roads

- Potential list of roads provided by NARI (30 stretches of road – 400km as per FA)

- Scoping of rural access roads as per list carried out by DoW for civil works

→ 20% allocated budget overshot by X times --> 'need to select 87km'

Need to reconcile RED2 and ADB approach

→ Need for FA/CA? addendum in any case after final selection of rural access roads

Mid Term Review of the Rural Economic Development Programme – RED2

Constraints / issues of component 1 - ADB

Insufficient budget as per FA to cover 400km as per ADB standards (civil works)

Issue of safeguards for small rural access roads

→ too cumbersome / time-consuming for non-HRIIP priority roads

ADB flawed solution to respect CA:

→ 87km rural access road (RED2 direct benefit) + 113km HRIIP (RED2 indirect benefit)

Mid Term Review of the Rural Economic Development Programme – RED2

Approach of component 2 - UNCDF

Current approach:

1st : direct support is inefficient if population is not included in fin sector

→ 'savings' culture + fin literacy to be established first though fin inclusion

Macro level: enabling environment & fin inclusion standards

BPNG - CEFI

Meso level: direct support to fin. institutions to enhance fin inclusion

MiBank, CI/BIMA

Micro level: specific products design testing

MiBank

Mid Term Review of the Rural Economic Development Programme – RED2

Achievements of component 2 - UNCDF

Macro:

BPNG / CEFI: 1st fin inclusion strategy ; 2nd initiated ; results: 1.2 → 2 Million customers country-wide

Meso:

Increase access:

(i) MiBank: expand Mobilebanking in Highlands;

Instill savings culture:

(i) Capital Insurance: studies on property/infrastructure insurance;

(ii) BIMA: from 325.000 → >500.000 beneficiaries;

(iii) fin literacy in schools: initial contact stage – 2 schools near urban centres

Micro:

MiBanks: energy access & Mobilebanking as a new TANGIBLE product for rural communities

Mid Term Review of the Rural Economic Development Programme – RED2

Constraints / issues of component 2 - UNCDF

(i) **UNCDF non-resident** UN organization → local decision taking & analysis more difficult / lack of coordination

(ii) **UNCDF dependent** of NARI locations → delays to implement UNCDF activities

→ lack of coordination in area selection: most relevant for agriculture & micro-finance

(iii) Meso:

UNCDF supports stakeholders where it is easy to show impact (urban centres) : value4money approach <> development approach

All stakeholders reluctant to enter rural areas (less commercial viability)

→ UNCDF not targeting RED2 beneficiaries because of lack of coordination with other components and / high risk perception

fin literacy in schools: not targeting RED2 beneficiaries

(iv) Micro:

Beneficiaries are not in line with component 1: lack of coordination

Mid Term Review of the Rural Economic Development Programme – RED2

Approach of component 3 – NARI / TaT / DPLGA

Establish RC to improve access of farmers to agric services & funding

→ Selection of limited value chains based on constraints, opportunities, potential… (SWOT) (NARI)

→ Select priority areas as per VC (NARI)

→ Deliver trainings (ToT) through TaT

→ Enhance local Gov capacity to analyze the agricultural sector (policies, studies…) (DPLGA)

Mid Term Review of the Rural Economic Development Programme – RED2

Achievements of component 3 – NARI / TaT / DPLGA

NARI:

- VC selection (sweet & Irish potato, bulb onion)

Key production constraints addressed by RED2 (component 1 & 2)

Key marketing/post-harvest constraints partially addressed (issue for post-harvest, transport, market : NOT down the VC)

- Comprehensive baseline study → identify production areas & RC location

10 sites in all 7 Highlands provinces

- NARI currently developing training material // plan to involve FPDA for some training material

TaT:

ToR under development ; trainers to deliver ToT using NARI's material

DPGLA: cancelled: lack of capacity to manage PE (issue of ineligibilities at district / provincial level); Provincial & District Gov NOT involved in RED2 currently → might negatively affect impact: lack of ownership to develop VC strategy / vision

Mid Term Review of the Rural Economic Development Programme – RED2

Constraints / issues of component 3 – NARI / TaT / DPLGA

Individualistic approach in farming:

- Key issue not taken into account: volume consolidation (associativism, cooperatives, CIG)

- Role of TaT to be clarified for NARI: use NARI training material or develop new material ?

- ToT effective if field-based; issue of demo land around RC; trainers' follow-up by whom? FPDA agents?

Alternatively: TaT to adopt 'farming as a business approach' and farmers graduation system with subsequent component 2 support

Mid Term Review of the Rural Economic Development Programme – RED2

Potential impact

Component 1 – ADB

- Very high locally if deteriorated tracks become all-season pickup-passable → "game changer" for rural pop
- Limited if most production areas access roads are not rehabilitated

Component 2 – UNCDF

- Very Limited if UNCDF does not engage decisive resources in RED2 locations & addresses financial limitations of farming sector
- "In the balance" if most activities remain limited to 'fin inclusion / enabling environment and no delivery of adapted fin products targeting RED2 beneficiaries

Mid Term Review of the Rural Economic Development Programme – RED2

Potential impact

Component 3

NARI:

- High for all production related activities (land husbandry, planting material…)
- High for RC if more than training centre (input supply, volume consolidation, association…)
- Downstream stakeholders not taken into account in RED2 : key elements not addressed by RED2: no volume creation & regular supply system (storage, cooling facilities), transporters, main Highway, Lae/POM FP market where demand & offer meet; if successful, risk of over-production combined with limited absorption capacity & price crash in Highlands

TaT:

- High if trainings are adapted to PNG conditions // avoid inadapted imported knowledge // need for local trainers

DPLGA: cancelled

Mid Term Review of the Rural Economic Development Programme – RED2

Sustainability

Component 1 – ADB

- Road maintenance unclear (a priori not covered by ADB)

Component 2 – UNCDF

- Very limited if financial inclusion remains marginal; services might remain uneconomical until holistic approach results in better linkages between all VC stakeholders → large-scale demand of products
- Very dependent of success of commercialization (→ business approach of farmers and intermediaries → volume, regularity, value addition (agro-processing), packaging…)

Mid Term Review of the Rural Economic Development Programme – RED2

Sustainability

Component 3

NARI:

- Unclear for RC:

Plan to sign MoU with local authorities: insufficient

Need to transform RC as training centre into "service centre": NARI, DPI support, fin agents, input supply, storage, basic value addition…

TaT:

- No plan for taking-over of trainings by DPI (information), FPDA (extension)?

DPLGA: cancelled

Mid Term Review of the Rural Economic Development Programme – RED2

Recommendations

Coordination: logic is to institutionalize coordination (as for PSC):

(i) technical activities (working group), (ii). agree on solutions found (coordination meeting), (iii) formalize agreement (PSC)

- Engage PE for DNPM: WHY? Capacity to engage ADB, NARI, UNCDF on a regular basis

Periodic (bi/trilateral) working groups meetings in Highlands led by DNPA :

DNPM/NAO and UNCDF to sign a MoU for close collaboration / active coordination with other partners (issue of Gov lack of leverage)

→ direct interactions between UNCDF partners & NARI (RC)

Ex. Comp 2 & 3: fin institutions & NARI for RC use

Ex. Comp 2 involvement in supporting peripheral stakeholders (input providers, cooling, storage, associations…) around / at RC

Ex. Comp 2 to assess potential for fin access of trained farmers under comp 3

Ex. Coordinate comp 1 activities (participatory community rehab/ maintenance with comp 3 trainings)

Mid Term Review of the Rural Economic Development Programme – RED2

Recommendations

To be confirmed before next PSC

Component 1 - ADB

DoW: *clarify with NARI roads selection*

- to adopt a mixed approach of civil works (EU 80% budget) and **participatory community rehabilitation** (EU 20% budget) covering most relevant roads as required by RED2 → use EU grant mainly for rural access roads to RED2 production areas; ADB loan exclusively for priority road HCRN

→ sign contract amendment with selected construction companies to account for different road rehabilitation locations

- to clarify requests of NARI re. rural road access scoping and finalize road selection with them (working group)

- DoW and NARI to select preferably community rehab roads so as to avoid complex ADB safeguarding procedures IF
- LT maintenance mechanisms with communities under DSIP or LLGs
- Amend the CA / FA to reflect mileage limitations / reductions

Mid Term Review of the Rural Economic Development Programme – RED2

Recommendations

Component 2 – UNCDF

Divert efforts / activities to focus on RED2 beneficiaries / locations

Move from enabling envir activities → effective interventions benef stakeholders

- permanent staff in PNG for FDIP // FIDP to be coordinated from PNG (highest pop potential in the Pacific)

- Assess fin inclusion & fin products potential in RED2 locations (farmers, relevant SMEs and other VC stakeholders)

- Identify most promising stakeholders 'HH farming enterprises' (e.g. based on NARI/TaT trainings results)
- Expose existing RC CIG, associations… to fin inclusion
- Adapt existing products and develop new products (e.g. insurance crop, RC insurance, input supply, service delivery, conditional group grants [land clearing], BDS loans, cash flow issues…) in RED2 production areas and down along the VC if required

Prime target: 'new' commercial farmers, ♀ CIG & local VC stakeholders

Mid Term Review of the Rural Economic Development Programme – RED2

Recommendations

Component 2 – UNCDF

- Expand fin literacy to all RED2 locations through subcontracting instit → local NGOs, faith-based organizations…

- Shorten the payment cycle (MiBank) along the VC with mobilebanking → 'near' immediate payment of farmers depositing production in collection point

- Support in (i) expanding / reinforcing agents' network(BSP) creating agent's network (Westpack) into RED2 locations, (ii) design adapted fin products for beneficiaries (producers, SMEs, BDS) → competition BSP/Westpack?

- Make an assessment of UNCDF's capacity to move into RED2 locations and grant a CA/FA extension (6/12 months) if necessary to ensure decisive impact of microfin

Mid Term Review of the Rural Economic Development Programme – RED2

Recommendations

Component 3

NARI

- Select most relevant roads for civil works / community rehab with DoW (basis is DoW scoping for civil works and fixed rate/km (e.g. 100.000kn/km?) for community-based road rehabilitation

- Secure RC land for demo (FFS) + potential new services ('hub' for storage, input supply)
- Develop a RC exit strategy to avoid collapse at RED2 closure (to be self-sustained)

- Support capacity building of existing CIG and associations (management / governance, volume, regularity, QC, prospection)

Mid Term Review of the Rural Economic Development Programme – RED2

Recommendations

Component 3 (cont')

NARI (Cont')

- Complementary study on VC weaknesses / lack of linkages downstream (transport, shipping, lack of wholesale market, lack of quality…) // VC economic analysis (cost of value addition) → DAL, FPDA, NAQUIA, MoTI

- Collaborate with FPDA (seed potato growers' system, bulb onion expertise, marketing, specific trainings)

- Test < scale value addition (e.g. solar powered bulb onion curing)

- Develop an M&E system to assess adoption / impact of trainings

- Link farmers with potential regional customers (2 Israeli agro-processing plants under construction)

Mid Term Review of the Rural Economic Development Programme – RED2

Recommendations

Component 3 (cont')

TaT

- Clarify TaT's role: deliver NARI's trainings or support NARI in training module development + deliver trainings?
- Bidders to develop an approach based on 'farming as a business' approach through ToT and/or graduation system (entrepreneurial skills) // FFS methodology for good land husbandry knowledge

  (alternatively NARI to identify most potential entrepreneurial farmers → UNCDF)

DPLGA

- Reallocate budget towards (i) ADB to > rural access roads mileage (ii) preferably NARI or UNCDF to support potential ♀ CIG / associations (capacity building strengthening & small scale cool rooms, curing facilities, storage facilities)

- Clarify role of DPI in RED2 (monitoring role ? → fin resources ; technical role? → discuss with NARI

Mid Term Review of the Rural Economic Development Programme – RED2

Recommendations

Long term potential → 11th EDF

EU to assess potential for 'RED3' under 11th EDF 'rural entrepreneurship, investment & trade' with a holistic approach; emphasis on:

- ~~Production / farmers RED2~~
- ~~Road access RED2~~
- (Micro)finance services **upscaling** (RED2)
- Cooperatives / Associations → farmers' groupings / 'Hausman' groups clustering
- Central point collection / volume consolidation
- Conservation & QC (cool rooms, storage facilities)
- Packaging / grading
- Transport infrastructures
- FP wholesale market mechanism (demand & offer meet / PPP)
- Research needed for commercialization (potato, bulb onion seeds/ seedlings)
- Value addition (e.g. agro-processing SMEs + credit facilities → sweet potatoes flour, French fries / potato chips) / PPP pilot-testing
- Export

THANK YOU

ANNEX 6: CHECKLISTS FOR INTERVIEWS

NARI Checklist

LOGFRAME:
R1: constraints, opportunities baseline identified (SWOT, assessment survey, workshops for preferred value chains).
R2: appropriate technology package developed (information material & package).
R3: RC operational (approach to supporting farmers, identify RC locations, design/operationalise RC [business plan, management structure, etc.], effective info transfer to farmers, assess new issues, etc.).

Value chain
- Selection criteria for value chains
- Baseline survey status

Production
- Production constraints – how to address (pest, planting material, input supply, cultivation practices); what should be addressed by other stakeholders?
  Approach: contact farmers / farming as a business approach

Marketing
- Value chain constraints – how to address (transport, market, processing, post-harvest losses / quality issues); what should be addressed by other stakeholders? (from farm-gate → wholesaler dealer)
  (Support to intermediaries to reduce postharvest losses / storage strategy / transporter's support / market information system [price]).

Resource centres
- Identification criteria → relevance
- Stakeholders & role in Resource Centre → effectiveness
- Functions/ services offered (training, planting material, input supply, marketing support, market price info) → effectiveness
- Monitoring system of RC effects → impact
- Costing status of infrastructure, running costs → sustainability

Farmer beneficiary
- Land area in sweet / Irish potato & onion last year; > or < than the year before
- Inputs used (price / quantity)
- Varieties used; advantage/disadvantage
- Pest / soil / climatic issue
- Production / productivity
- % consumed / sold
- Limitations for increasing production
- Any measure to reduce postharvest loss before selling
- Production sold to whom? Farm gate Price/bag
- GoPNG support received: in-kind, training, advice
- Plans for the future: 3 main priorities to get more benefits from sweet/ Irish potato & onion (production, marketing, etc.)
- What are the 3 main village priorities?

Agro-processing
- Since when operational
- What kind of products: since when
- Product selling to whom (wholesale or retailed?)
  National market / export; %?

- Sourcing of input / supply?
    - What are the input?
    - Local / imported?

- Barriers to local procurement (quality, quantity, supply regularity, insecurity, Government, etc.)
- What actions / policies are necessary to unlock local sourcing
    - by farmers
    - transporters
    - Provincial / National Government
- 3 value chains: what products are made / have financial potential
- Requirements for testing / piloting new agro-processing (Government, donor, credit support), what are the minimum criteria?

Cooperatives / CIG

- What types of cooperatives / CIGs are most / least successful?
- Criteria for setting –up cooperatives / CIG / knowledge of saving & credit schemes (SACCOS) / female IGAs credit
- Social / ethnic issues
- Management and financial literacy issues
- Factors for success
- Key areas support required

UNCDF Checklist

Non-beneficiary micro-finance organisation

- Micro-finance beneficiaries in PNG
- Target group profile? Selection criteria
- Borrowers and savers male / female; individual /group (solidarity?) loans / repayment issues
- Credit / saving products? Loan destination / size in relation to poverty level?
- Agricultural sector structure / access to µfinance – issues / challenges
- Value chain / processing microfinance products
- Competitors – added value of µfin organisation
- Governance & management: General assembly, board (gender), HR, staff productivity (no savers/ borrowers/ staff)
- Main challenges to target population not included in financial sector / expansion plans
- Specific challenges to target agricultural sector
- Knowledge of UNCDF programme?

UNCDF beneficiary

Effectiveness:

- Support received from UNCDF
- Existing products before UNCDF
- New/upgraded products & services after UNCDF
- Support of Saving & Credit Societies / cooperatives?

Potential impact:

- Visible changes since UNCDF support
- Portfolio in the Highlands before / after UNCDF:
    - Portfolio growth / outreach (borrowers, savers, loan accounts, individuals/group loans)
    - Borrowers (agricultural production, production, services, other): gender %
    - Asset quality ratios: PAR30, NPL, NPA
    - Savers: gender %

What added support is required to focus on agricultural sector / value chains / processors?

Final beneficiary

- Use of mobile banking / Digicel – BIMA products
- Logic / why?
- Advantages/ limitations
- New products?

ADB Checklist

Final beneficiary

When was the road rehabilitated / when will the road be rehabilitated?

Current issues without road rehabilitation

Main (potential) advantages/disadvantages of road rehabilitation

Road rehabilitation:

- Participatory approach?
- Conflict resolution
- Compensation schemes for enlargement / assets removal
- Issues of land access

Maintenance system (cleaning, potholes filling):

- Who?
- How much?
- How long?

Relationship marketing and road rehabilitation

- Effects on production (quality & quantity), transport, processing,

Other advantages (health access, policing conflicts)