



**COFFEE INDUSTRY CORPORATION**  
**Productive Partnerships in Agriculture Project**  
**Coffee Component**



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**CF.07 : REVIEW OF EFFICIENCY OF PUBLIC EXPENDITURE IN COFFEE**  
**TERMS OF REFERENCE**

**1. BACKGROUND OF THE PROJECT**

***Introduction***

The Productive Partnerships in Agriculture Project (PPAP) is an agriculture sector development project designed to improve the livelihoods of smallholder cocoa and coffee producers supported by the project. The focus is on the improvement of the performance and the sustainability of value chains in cocoa- and coffee-producing areas. The Implementing agencies of the PPAP are the Department of Agriculture and Livestock, (DAL), the Cocoa Board of Papua New Guinea (CB) and the Coffee Industry Corporation (CIC).

The Coffee Industry Corporation (CIC) was established in 1991 to regulate, promote and service the coffee industry. With its' headquarters and administration centre in Goroka, Eastern Highlands, CIC has research stations at Aiyura and Kagamuga in Eastern and Western Highlands respectively. CIC also has an export monitoring office in Lae, adjacent to the main port for export of PNG coffee.

The project consists of the following components.

**Component 1 (US\$9.6 million).** This component aims to: (a) improve the performance of sector institutions and enhance industry coordination in the cocoa and coffee sectors; (b) improve transparency and support policy development in these sectors; (c) strengthen quality and promote, where appropriate, the adoption of certified sustainability practices in the two industries; and (d) provide technical advisory services, operational support and training to support project management and monitoring and evaluation. Overall progress under this component is moderately satisfactory. Project Coordination and Management Units have been established and are almost fully staffed. A Project Steering Committee has been established to provide policy guidance for project implementation. Industry Coordinating Committees (comprising representatives of provincial governments, private sector, civil society, the respective industry bodies and support organizations) have been established for both coffee and cocoa and are functioning well. After some delays caused by slow procurement processes, the management information system to support the project's information needs is now being developed. This component is also supporting activities to strengthen quality promotion, and support where appropriate, the adoption of sustainability practices in the coffee and the cocoa industries. Significant emphasis is being placed on training in best management practices in the two industries. However, the overall support provided under the component has not yet been fully utilized by the Cocoa Board and the Coffee Industry Corporation (CIC).

**Component 2 (US\$20.1 million).** This component supports the development and implementation of public-private alliances in project areas, with the goals of improving productivity and market linkages. Implementation of this component is satisfactory. To date, partnerships involving 11,589

farmers have been approved for coffee and 12 partnerships involving 5,915 farmers have been approved for cocoa accounting for nearly all the funds available under this component. These 25 partnerships represent half the end of project target of 50; however, the current number of partnership beneficiaries represents over three-quarters of the final target. Given the demand-driven nature of these partnerships, the numbers for both partnerships and beneficiaries are the maximum that could be achieved with available resources. Consequently, it was agreed during the project Midterm Review to align the targets to reflect that reality.

**Component 3 (US\$16.6 million).** This component aims to improve market access for smallholder cocoa and coffee growers in the areas targeted under Component 2. It finances the identification and selection of priority investments in support of Component 2 partnerships, and the related investments in infrastructure rehabilitation and maintenance. Performance of this component has been moderately satisfactory. Component 3 investments were delayed because this component is designed to start only after two rounds of partnerships have been approved under Component 2. Conditions for the commencement of Component 3 activities are now in place and proposals from cocoa and from coffee partnerships will be invited from all current partnerships in early 2014. Competition among cocoa and among coffee partnerships has been introduced into the prioritization process for infrastructure investments. The goal is to ensure that, notwithstanding the disparity of grower numbers and infrastructure needs in each sector, both cocoa and coffee partnerships will benefit from this component.

**Geographical coverage.** The project was initially implemented in East New Britain Province, the Autonomous Region of Bougainville, Eastern Highlands Province, Jiwaka Province, Western Highlands Province and Simbu Province. Most producers and the major stakeholders in the public and the private sectors are all located in those Provinces. Rural household dependency on coffee and cocoa income for their livelihoods is also high in those Provinces. The coffee component of the project will expand to all coffee growing provinces following the allocation of additional finance from the World Bank.

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## **2. OBJECTIVE(S) OF THE ASSIGNMENT**

This Terms of References (TOR) refer to the review of efficiency of public expenditure in coffee sector.

The objective of public expenditure review in coffee industry is to provide an independent assessment of the adequacy, appropriateness and effectiveness of spending in order to inform refinement of the sector strategy, and to identify expenditure priorities and adjustments required to translate this into reality through the budget process.

The review will require an historical analysis of CIC Revenue and expenditure trends and the collection and detailed analyses of all information and data related to the financing, financial sustainability, management, performance and governance of the coffee sector in PNG between 2009 and 2013 and presenting the results and recommendations. More precisely, the review report will assess the current situation in the coffee sector public financial management and will suggest recommendations to improve efficiency of expenditure.

## **3. SCOPE OF WORK**

The detailed public expenditure review should cover expenditure of all public funds available to the coffee sector on an annual basis for the period 2009-2013. However, it is expected the review will also present a historical analysis of the CIC expenditure and revenue trends, its major determinants, and major changes since the creation of CIC.

Public expenditure for the coffee sector includes all spending by Coffee Industry Corporation plus all public funds made available to the coffee industry by way of government grants (national and/or provincial), including the National Agricultural development Plan (NADP).

The consultants will review the Management Letters resulting from the CIC Audits for 2008, 2009, 2010, 2011 and 2012, analyse CIC responses and any action taken to implement recommendations made by the AGO.

The study is expected to cover in the review the following issues:

### **3.1 Historical analysis of CIC revenue and expenditure trends**

- Analyse the long-term trend in CIC revenues and expenditures since creation
- Analyse composition of revenues and expenditures over the period
- Distinguish major phases in CIC revenues and expenditures and the key determinants
- Analyse overall performance of the coffee industry (production, exports and yields) during each of the phases
- Draw conclusions to inform the rest of the review, and ensure recommendations are made in light of the key lessons learned from CIC public expenditure history.

### **3.2 Analysis of past trends 2009-2013**

- Analyse allocations and trends in funding provision to CIC from all sources (internal revenue, industry levies, government allocations and donor funds);
- Analyse the budget allocations, disbursement and execution;
- Outline reasons for any differences between approved budget vs. actual disbursements and expenditures;
- Analyse Input mix: operational vs. capital expenditure, salary vs. non-salary, balance between management overheads and service delivery expenditure;
- Critically analyse the institutional framework – suitability and efficiency;
- Implications for public expenditure and capacity building needs;
- Consistency of recurrent and development budgets (possible overlap between different donor projects and between donor projects and recurrent spending);

### **3.3 Forward looking analysis and recommendations:**

- Highlight areas for efficiency savings and improving the impact of public expenditures on coffee;
- Provide projection for future spending based on likely resource allocations;
- Provide recommendations for adapting policy and/or financial allocations in order to ensure consistency;
- Based on the review, identify and make key recommendations for improving public financial management; this should be provided in the form of matrix of issues and suggested responsibilities.

The methodology will be subject to a proposal by the Consulting Firm, but should provide for adequate consultation with the different stakeholders, Coffee Industry Corporation, coffee

associations, coffee farmers, coffee exporters, etc. The proposed methodology should include making clear recommendations based on evidence and objective analysis.

The Final Report should include the following:

- Section I: Introduction and Coffee sector overview (institutional structure of coffee sector, and responsibilities for expenditure allocation and management, current sector priorities, trends in policy in the sector, sector strategy, etc);
- Section II: Analysis of Public Expenditure (resource allocation, resource disbursement, budget execution, impact of expenditure);
- Section III: Finding and recommendations (prioritised list of recommendations and responsibilities and provide recommended action plan);

The Consultants will present draft report conclusions to a Seminar to be organised in Goroka at the end of the field work. The participants estimated to be 25 - 30 will include representatives of CIC, PPAP-PMU, the Industry Coordination Committee (ICC), Department of Agriculture (DAL), Coffee Associations, traders and exporters.

The Coffee PMU will take responsibility for the logistics and costs of organising the Seminar, including equipment, venue hire, etc. The Consultant will provide a copy of the draft report for each participant.

#### 4. ACTIVITY DURATION & ESTIMATED BUDGET

The Consultant will start the activity within 14 days after contract signing and is expected to perform the services within 41 working days (2 months).

It is estimated that the study will cost around PGK 240,000.

#### 5 REPORTING OBLIGATIONS

The Consultant shall prepare the Public Expenditures Review report. The implementing agency's comments will be incorporated in the final Report. The Consultant's conclusions after the seminar will be summarised in the Seminar Report.

Activity	Time (working days)
1. Inception Report including Work Plan	3 days
2. Preparation and Submission of the <b>Draft Report</b> (including the conclusions of discussion with all stakeholders)	30 days
3. Review of draft documents by the Client and provide the comments to the Consultant - <u>5 days break</u>	0
4. Submission of the <b>Final Review Report</b> with all the comments from CIC and stakeholders included	2 days
5. <b>Seminar</b> to disseminate the Financial Review Report and submission of the <b>Seminar Report</b> .	1 day

## **6. REQUIRED RESOURCES**

### **6.1 Personnel**

The Consulting Firm is required to provide Expertise having minimum skills and qualification as follows:

*Key Expert 1- Economist / Public Finance Specialist (36 working days)*

- Advanced degree in public finance, economics or related discipline;
- Extensive experience in undertaking public expenditure reviews;
- Direct experience in financing issues related to Statutory Bodies would be an advantage;
- At least 3 years' experience in similar assignments;
- Excellent written and spoken English and report writing skills;

*Key Expert 2 – Accountant / Financial Management Specialist (16 working days)*

- Advanced qualification in accountancy, financial management or related discipline;
- Extensive experience in reviewing financial management of public institutions;
- At least 3 years' experience in similar assignments;
- Excellent written and spoken English and report writing skills;

Competencies and skills for both experts:

- Strong interpersonal skills with ability to work under pressure and to establish and maintain effective work relationships with people of different backgrounds;
- Proven capacity to organise and facilitate workshops and meetings;

### **6.2. Equipment, transport, communications, office space**

The Consultant firm shall be responsible for the following:

- Computers and software and any other equipment required to carry out the review;
- Communications;
- Accommodation for the Key staff in Goroka / Mt Hagen;
- Local transportation;

The Coffee PMU will make office space available for the consultants.

## **7. DATA, SERVICES, PERSONNEL AND FACILITIES TO BE PROVIDED BY THE BENEFICIARY**

The Coffee Industry Corporation will provide to the Consultant the required documents related to the financing and financial management system. The Audit Reports for 2008, 2009, 2010, 2011 and 2012 will be made available to the consultant upon request.

The Coffee PMU will facilitate liaison between the Consultant and the Coffee Industry stakeholders.