

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB3839

Project Name	PNG Productive Partnerships in Agriculture
Region	EAST ASIA AND PACIFIC
Sector	General agriculture, fishing and forestry sector (60%); Agricultural marketing and trade (40%)
Project ID	P110959
Borrower(s)	GOVERNMENT OF PAPUA NEW GUINEA
Implementing Agency	
	Department of Agriculture and Livestock Papua New Guinea
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
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1. Key development issues and rationale for Bank involvement

1. The economy of Papua New Guinea (PNG) is highly dependent on the agriculture sector, which contributes approximately 30 percent of GDP and provides the main source of livelihood for 75 percent of the population. However, agricultural growth, averaging only 1.5 percent annually over the past decade, has not kept pace with population growth (2.7 percent) which has contributed to continued low rural incomes. Some 85 percent of the poor live in rural areas and the pattern of growth, based mainly on the extractive industries sector, has not been conducive to rural poverty reduction. As in other agriculture-based economies, improving the performance of the agriculture sector will be critical to the achievement of PNG's poverty reduction objectives.
2. With generally good and diverse agro-ecological conditions, PNG can produce a broad range of tropical and temperate products. About 80 percent of the rural population is engaged in producing food crops and about two-thirds of those who grow food for self-consumption also engage in selling food. The main cash crops include coffee, with close to 50 percent of the rural population engaged in its production, coconut/copra (36 percent of the rural population), cocoa (20 percent) and oil palm (2 percent). These four commodities account for 80 percent of agricultural exports. The overwhelming majority of production comes from smallholders, the result of the land tenure structure, which is unlikely to change in the medium term. However, producers have not been able to seize opportunities for income generation provided by higher commodity prices mainly because of the multiple inefficiencies in agriculture value chains.
3. Agriculture is regionally specialized, with coffee production the backbone of the rural economy in the Highlands (Western Highlands, Simbu, Eastern Highlands and Southern Highlands). The competitiveness of the coffee industry is affected by low productivity, with yields on average 30-50 percent below their potential, mainly because of the lack of support services to promote improved tree husbandry practices and replanting and constraints to market access (quality management and physical access) that reduce farm-gate prices and smallholders' incentives to

invest in coffee plantation. Opportunities therefore exist to increase farm incomes through increased productivity, quality management and improved market access. The diversification of farming systems into fresh produce, fruit and livestock would also be an appropriate response to market demand.

4. The Highlands also produce about 85 percent of commercialized food and fresh produce, and therefore play a vital role in national food security. Similar constraints to growth have been identified through value-chain analysis, with productivity between one-fifth and one-half of potential, a lack of information on good agricultural practices, poor post-handling protocols, and inefficiencies in input and output markets and market access.
5. The situation is similar in the cocoa industry, with three Provinces (East New Britain, Bougainville and Madang) producing over 80 percent of total cocoa output. There are opportunities to improve smallholder yields (which are on average 50-60 percent below their potential) and market access, and an urgent need to address threats to the quality of PNG cocoa (processing practices and the possible spread of the cocoa pod borer) that could affect its price premium. In addition, diversification to cash crops such as Galip nut and spices would minimize risks for smallholders.
6. The Medium-Term Development Strategy (MTDS) places agriculture at the center of the government's growth strategy, recognizing the need to develop the non-mineral economy. Government's renewed commitment to agricultural development has been demonstrated through the National Executive Council (NEC)'s decision to prepare a National Agriculture Development Plan (NADP) for the period 2007-2016, which was completed by the National Department of Agriculture and Livestock (NDAL) and endorsed by NEC in 2007. Another NEC decision in 2007 further committed funding to the NADP over a ten year period.
7. Most stakeholders consider that the NADP provides a viable framework for the development of the sector, despite some weaknesses. The NADP recognizes the need for functional changes in NDAL to enable it to deliver on its current mandate, which is focused on policy, resources mobilization, Monitoring and Evaluation (M&E) and overall leadership of the sector. The Organic Law expects NDAL to support the Provinces and Districts in agricultural development; however, as a result of having given up its front-line extension services to corporatization and decentralization, NDAL has lost its ability to play that role. NDAL has initiated a functional and expenditure review as a first step to address those issues. The NADP also highlights the role of the private sector, and indeed the private sector has stepped in and is providing inputs, marketing and quality control services to smallholders; however, this is currently limited by its own financial capacity and needs to be complemented by public investments to increase outreach and coverage as well as inclusiveness. Access to finance and improved market access infrastructure are key priorities for the private sector. The private sector also sees strengthening NAQIA¹ as a priority to facilitate trade and protect the sector from imported pests and diseases.
8. The challenge for the government is to translate the NADP into results through the development of specific investment programs. Early implementation of the NADP has shown that the "projectized" approach taken so far has further exacerbated the fragmentation in the sector and breeds inefficiencies. The government has requested the assistance of the World Bank Group in developing a more efficient approach to implement the NADP.

¹ The National Agriculture and Quarantine and Inspection Authority

9. The Bank and the IFC have extensive experience working on value-chains and developing public-private partnerships in the agriculture sector, and are uniquely placed to guide the process and bring in lessons learned in other countries and regions. In PNG, the Bank's long-term involvement in supporting the oil palm industry has demonstrated the potential role of the private sector in delivering services and infrastructure, in partnership with the public sector, in a context where public sector institutions are relatively weak. The IFC has also been involved in the provision of finance services to the private sector, including through PNG Microfinance.
10. In contrast, donor assistance to the sector has focused on public agricultural research (AusAID, EU) and, to some extent, publicly-financed extension services. Some support has been given to commodity boards/agencies, for example NZAID is supporting institutional strengthening of the Fresh Produce Development Agency (FPDA). The experience of the ADB-financed SSSPP² has shown that given resources and training, NDAL and the Provinces working closely with the Districts and the private sector are able to deliver high quality, demand-driven services to smallholders.
11. The overarching goal of the World Bank Country Assistance Strategy (CAS) for the period 2008-2011 is to support poverty reduction in PNG. The proposed project would directly contribute to the second pillar of the CAS that focuses on improving livelihoods and service delivery especially for the rural poor by putting in place the conditions for a more diversified, sustainable growth path in the future. The proposed program would also build on the two platforms of the CAS – supporting policy and institutional development at the national level while working on improving planning and service delivery at the local level in the sector.
12. The CAS emphasizes close coordination with development partners and the need for a long-term partnership with PNG. The proposed project would be designed as the first phase of a longer-term program promoting a shift towards a more programmatic approach in the sector, in collaboration with other donors. Several development partners have expressed interest in co-financing the proposed project. The proposed project would be prepared jointly by the Bank and the IFC recognizing the substantial scope for collaboration in agricultural development in PNG.

2. Proposed objective(s)

13. The project development objective (PDO) would be to improve smallholders' access to markets through the establishment of partnerships between the public and the private sector for improved provision of support services (technical and financial) as well as investments in market access infrastructure.
14. The project indicators could include: the volumes of additional produce reaching markets through the established partnerships compared to baseline; the quantified infrastructure achievements (km of roads, jetties, storehouses, container systems, etc); and the numbers of successful (relative to stated contractual outcome objectives) public-private partnerships in terms of both IFC lending and Bank/government funded service contracts.
15. Key outcomes of the proposed project could include:
 - (a) Governance outcomes: a restructured, focused NDAL with increased capacity for policy development and sector coordination at the national and local level; an efficient NAQIA capable of facilitating exports and protecting the agriculture sector from major threats;

² Smallholder Support Services Pilot Program (2000-2007)

- efficient platforms for dialogue and investment in selected industries (coffee and cocoa, initially).
- (b) Economic outcomes: (i) increased productivity, increased quality of products and diversification of smallholder farming systems in project areas, leading to increased incomes and reduced risks for smallholders; and (ii) improved market infrastructure in project area.
 - (c) Social outcomes: increased capacity of smallholder farmers, including women and young farmers, to act collectively to improve their access to input and output markets through commercial partnerships (e.g., farmer organizations, contractual relations with traders and supermarkets).

16. The project is expected to target the following potential beneficiaries:

- (a) Smallholder producers in participating Provinces, through better access to inputs, finance, information, technologies and market outlets.
- (b) Agribusiness enterprises, through better access to finance and more reliable supplies in terms of quality and quantity from smallholder producers.
- (c) Government agencies, through capacity building and institutional strengthening.
- (d) Providers of services in the private sector, including finance institutions and private extension agents.

3. Preliminary description

17. By improving the functioning of key value chains and the ability of smallholders to access new market opportunities, the proposed project would contribute to addressing the two core issues in the agriculture sector – stagnating growth and low incomes. Improving vertical integration would improve smallholders’ access to input and output markets and to finance, and, where it is emerging, support would also be provided for horizontal integration (farmers groups or associations). The proposed project would build on the successful models already developed by the private sector that have demonstrated their efficiency in service provision, processing and marketing of smallholder produce.

18. The following project components are proposed:

- (a) *Component 1* would aim at strengthening the capacity of NDAL and NAQIA to support productive partnerships in selected industries (sub-sectors) under *Component 2*. It would support: (i) functional changes and capacity building in NDAL, focusing on its core functions of policy development, planning, sector coordination and support to service delivery in the Provinces and Districts; (ii) NAQIA strengthening, including a risk assessment and prioritization, and a functional review of NAQIA and implementation of required changes (capacity building for quarantine and trade facilitation, facilities up-grades); and (iii) Program management and M&E. Program management functions could be based within the Policy and Monitoring Unit of NDAL (or its successor). The Unit would be equipped to take on the role of national PCU.

- (b) *Component 2* would aim at developing and implementing demand-driven industry-based partnerships with the private sector to improve market access in selected sub-sectors (e.g., coffee, cocoa and selected diversification products such as fresh produce, spices or nuts). This component would cover: (i) assistance to the government in its program to establish and reform industry platforms for dialogue, and the identification and implementation of partnerships in selected sub-sectors (joint investment programs in coffee, cocoa, and selected diversification products); and (ii) public funding to match private sector funding (agribusiness and farmers) of the agreed investment programs targeting the provision of training, technical and managerial advice, improvement in input markets and, in the case of tree crops, replanting programs.
- (c) *Component 3* would aim at addressing the critical physical market access constraints identified under *Component 2* by piloting joint investments by the industry in collaboration with the Provinces and Districts. The component would support: (i) the preparation of a rural transport strategy in selected Provinces to build consensus among the industry, the Provinces and Districts on strategic investments and financing options; (ii) the implementation of the critical priority investments identified jointly by the industry, the Provinces and the Districts.
- (d) *Component 4* would aim at improving access to finance services in the project areas by building on the partnerships established under the project. This could include: (i) TA to support the expansion and outreach of commercial finance institutions in the project area, including to the growing smallholder estate sub-sector; and (ii) a rural finance fund.

19. The geographical coverage would be limited to a few Provinces and Districts jointly identified by the public and the private sector. Key selection criteria would include: (i) a strong private sector presence and interest in the proposed partnerships; (ii) the level of interest and commitment of the Province/District; (iii) the presence of research and education institutions; and (iv) location is being representative of a production area. It is expected that the PPAP investments would, however, have an impact over a wider area through their capacity building initiatives. In a subsequent phase, the PPAP could gradually expand to new Provinces and Districts.

20. To ensure that project activities are inclusive, outreach and communication activities would be an important part of the development of partnerships under Component 2 of the proposed PPAP. Specific attention would be given to women who are responsible for the majority of agricultural production activities, and opportunities would be provided for young farmers to benefit from training, education and leadership opportunities under the PPAP.

4. Safeguard policies that might apply

The project is proposed to be rated as category B for environmental purposes. An Environmental Assessment would be conducted as per OP/BP 4.01 of the World Bank. The project is not expected to have any adverse impact on Natural Habitats, Forests or Cultural Property, as activities would be limited to existing production areas; the project would not support the expansion of production into forest or natural habitat areas. A Pest Management Plan would be prepared as per OP 4.09 and IPM activities would be promoted under the proposed project. It is expected that there would be no involuntary land acquisition or resettlement under the project; this would be confirmed during preparation, and should project activities involve minor land acquisition, a policy framework would be prepared.

5. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	5
International Development Association (IDA)	17
Co-financing	3-18
Total	25-40

6. Contact point

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