

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

Report No.: 83309

Project Name	ADDITIONAL FINANCING FOR PRODUCTIVE PARTNERSHIPS IN AGRICULTURE
Region	EAST ASIA AND PACIFIC
Country	Papua New Guinea
Sector	Crops (50%); Rural and Inter-Urban Roads and Highways (25%); Agricultural extension and research (15%); General agriculture, fishing and forestry sector (10%)
Project ID	P146003
Parent Project ID	P110959
Borrower(s)	INDEPENDENT STATE OF PAPUA NEW GUINEA
Implementing Agency	
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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)
Date PID Prepared	November 14, 2013
Date of Appraisal Authorization	November 26, 2013
Date of Board Approval	February 28, 2014

1. Country and Sector Background

1. The country and sector context remains largely unchanged since the Project was approved in 2010. PNG is a resource-rich, lower middle income country of approximately 7.2 million people, with a dual economy. The modern extractive sector draws on substantial reserves of metal ores and hydrocarbons and accounts for more than a third of GDP, but generates only a

small fraction of employment. The majority of the population (86 percent) resides in rural areas and is largely dependent on semi-subsistence agriculture. Agriculture accounts for approximately a third of GDP and the sector is dominated by smallholder farming systems. Coffee and cocoa are the main cash crops, with respectively over 30 percent and 20 percent of the total labor force at national level involved in their production, processing and sale.

2. The Productive Partnership in Agriculture Project (PPAP) supports the development of the cocoa and coffee value chains. For *cocoa*, approximately 20 percent of PNG's rural population is engaged in cocoa production, processing and sale. About 85 percent of Papua New Guinea's cocoa is produced on small holdings by an estimated 150,000 families. Cocoa is the largest single source of income in East New Britain Province and the Autonomous Region of Bougainville. The cocoa sector itself has been devastated by the emergence of cocoa pod borer (CPB). CPB-tolerant clones of cocoa and these could be used to scale and accelerate the industry cocoa response to CPB. For *coffee*, approximately 2.5 million people in the country, over one third of the population, are dependent on coffee production, processing and sale for their livelihood. However, productivity is low, with yields on average 30-50 percent of their potential, and quality has also been deteriorating.

3. Both for coffee and cocoa production, smallholder farmers are faced with similar constraints and significant market failures that impede their performance and their ability to respond to market signals. They are disadvantaged by significant diseconomies of scale resulting in high transaction costs and limited market access. Without appropriate intervention to control the rapid spread of the cocoa pod borer (CPB), the CPB threatens to devastate the economies of provinces highly reliant on cocoa. Similarly, reversing the long-term decline in coffee production would boost incomes and improve livelihoods among some of the most disadvantaged and remotely located households of the country.

4. Agribusiness enterprises and traders are critical for communicating market demand to producers and establishing value chains that effectively link them to the market. Fostering a scaling-up of those market-oriented interventions is expected to partly offset the limited outreach of public institutions in improving the productivity and quality of smallholder cocoa and coffee and in addressing the dire threat of the CPB.

5. The provision of additional finance would also enable the Project to focus on the gender, literacy/numeracy and nutrition-related activities and to ensure that women and other disadvantaged groups fully share in benefits from the Project.

2. Project Development Objective

6. Project Development Objective. The Project Development Objective (PDO) of PPAP is to *improve the livelihoods of smallholder cocoa and coffee producers through the improvement of the performance and the sustainability of value chains in cocoa- and coffee-producing areas.* The AF would not affect the scope of the original PDO. However, the PDO is too broad compared to the limited geographical scope of the project.

7. In order to better align the PDO with the scale and coverage of the Project, the reformulated PDO is *to improve the livelihoods of smallholder cocoa and coffee producers supported by the Project*.

8. Project Outcome Indicators. Compared to the parent Project, the Results Framework of the AF have been simplified to better align the PDO with the scale and coverage of the Project.

3. Project Description

9. Proposed Components. The AF would finance and help scale up the original Project's components, as described below:

10. Component 1: Institutional Strengthening and Industry Coordination (US\$ 15.4 million total; US\$ 8 million IDA; US\$ 5.8 million IFAD; US\$ 0.4 million EU; US\$1.2 million GoPNG/Beneficiaries). The specific objective of this component would remain the same as under the original project: it would be to improve the performance of sector institutions and to enhance industry coordination in the cocoa and coffee sectors. The AF would extend the support to sector institutions until 2019, which would further reinforce the capacity of these institutions in coordinating industry activities and help to facilitate the sustainability of their operations. Specifically, this component would retain the same four subcomponents as the original Project:

- a. *Subcomponent A*: Industry coordination and policy development:
- b. *Subcomponent B*: Communication and information management systems:
- c. *Subcomponent C*: Quality and sustainability management:.
- d. *Subcomponent D*: Project management and monitoring and evaluation (M&E). Technical Assistance (TA) and the operations of the Technical Appraisal Committee (TAC) under Component 2.

11. Component 2: Productive Partnerships (US\$ 35.7 million total; of which US\$ 11.9 million IDA; US\$ 8.8 million IFAD; US\$ 3.6 million EU; and US\$11.4 million GoPNG/Beneficiaries). The specific objective of this component, as in the original Project, would be to increase the integration of smallholder producers into performing and remunerative value chains. The component would have the same two subcomponents as in the original Project.

- a. *Subcomponent A: Productive Partnerships in Cocoa Growing Areas (US\$4.7 million IDA; US\$3.4 million IFAD; and US\$ 3.6 million EU)*: This subcomponent would continue to finance result-oriented partnerships in cocoa growing areas to increase smallholder productivity, quality and sustainability and improve farming systems.
- b. *Subcomponent B: Productive Partnerships in Coffee Growing Areas (US\$ 7.2 million IDA and US\$5.3 million IFAD)*: This subcomponent would continue to finance result-oriented partnerships in coffee-growing areas to increase smallholder coffee productivity, quality and sustainability and improve coffee-farming systems

12. The partnerships would be demand-driven and consistent with the specific priorities identified in each subsector, as is currently done under the original Project.

13. Component 3: Market Access Infrastructure (US\$ 21.9 million total; 10.1 million IDA; US\$ 7.4 million IFAD; US\$ 2.4 million EU; and US\$ 2 million GoPNG/Beneficiaries). As in the original Project, the specific objective of this component would be to improve market access for smallholder cocoa growers in the areas targeted under Component 2 of the Project. The two subcomponents would remain unchanged:

- a. *Subcomponent A:* Preparation of market access infrastructure investments.
- b. *Subcomponent B:* Market access infrastructure development.

14. The expansion of the Project into new areas would increase the demand for additional infrastructure to facilitate access to markets. The AF would finance activities related to the identification and selection of infrastructure rehabilitation and maintenance needs (Subcomponent A) and to the actual investments in infrastructure rehabilitation and maintenance (Subcomponent B).

15. Project Cost and Financing Arrangements. The overall project cost is estimated at US\$ 73.0 million, and includes a US\$ 30 million IDA Credit, US\$ 6.4 million equivalent (EUR 5 million) in EU Grant, US\$ 4.5 million in minimum GoPNG counterpart funding, US\$10.1 million from the private sector (including farmers' contribution), and an estimated US\$22 million in IFAD funds. Table 1 shows a revised financing plan and Table 2 provides revised costs by component for PPAP and the additional financing. IFAD funding is to be confirmed before appraisal and the minimum GoPNG counterpart funding will be confirming during Project appraisal.

4. Financing

Source:	(\$m.)
BORROWER/RECIPIENT	4.5
Private Sector	10.1
European Union (Cocoa component)	6.4
International Fund for Agricultural Development (IFAD)	22.0
International Development Association (IDA)	30.0
Total	73.0

5. Implementation

16. Implementation will be carried out by the National Department of Agriculture and Livestock, the Coffee Industry Corporation Ltd (CIC), and the Cocoa Board of Papua New Guinea

6. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04		X
Forests OP/BP 4.36		X

Pest Management OP 4.09	X	
Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10	X	
Involuntary Resettlement OP/BP 4.12	X	
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X

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