

INVESTMENT CONCEPT

Pacific Horticulture and Agriculture Market Access Plus (PHAMA Plus) Program

A: Problem/Issue definition and rationale for investment (Why)

The Pacific region supports abundant biodiversity and a substantial base of natural resources, which provides immense potential for productive development. The economic importance of the agriculture and forestry sectors varies greatly across the region. These sectors remain the mainstay of the economy and employment in Fiji, Papua New Guinea, Solomon Islands, Vanuatu and Tonga, contribute significantly to household income, and increasingly export earnings. Up to 80 per cent of Pacific Island people depend on the agricultural sector for livelihoods and food security. Many of the poorest and most vulnerable groups in the Pacific live in rural areas where agriculture is produced. This mean that government policies in the agricultural sector are likely to affect more people and the economic growth than in any other sector.

While there have been some niche successes, generally difficult geography, weak supply chains, and increased competition from Asia means that Pacific agriculture exports struggle to compete in international markets. Many countries continue to rely heavily on a narrow range of traditional export commodities with limited diversification and value add. This leaves them exposed to volatile global commodity markets, and unstable export earnings. Many Pacific businesses face significant, ongoing challenges to increase export revenue across supply chains. Suppliers often struggle to maintain a consistent supply chains. There are often gaps in knowledge on production, compliance, post-harvest and voluntary standards. Enterprises frequently lack adequate processing infrastructure and lack access to finance, and encounter difficulties in meeting the technical requirements for market access, such as sanitary and phytosanitary (SPS) standards. Many exporters or potential exporters have limited business planning, market research and risk management skills. Furthermore, regular and consistent market access and trade related information is not available, and national trade infrastructure is poorly developed. These challenges mean that many Pacific businesses with export potential fail to grow.

The Australian Government's aid program aims to promote Australia's national interests by contributing to sustainable economic growth and poverty reduction. Supporting Agriculture, Water and Fisheries is one of six priority areas under the aid policy. DFAT's Aid for Trade Strategy emphasises Australia's commitment to helping Pacific farmers improve the quality of their produce and meet the biosecurity requirements of importing countries. The Pacific Regional Aid Investment Plan emphasises the need to extract greater income streams from fisheries and agriculture by improving market access and supply chain development. In July 2017, Pacific countries signed the PACER Plus Trade Agreement to increase intraregional trade.

Since 2009, DFAT's PHAMA program (valued at \$41million) has assisted selected Pacific countries to increase the value of agricultural and horticultural exports. A 2016 Independent review found that PHAMA was relevant to the priorities and needs of the Pacific and that market access and export development were important strategies for reducing poverty through supporting smallholder farmers and by generating employment opportunities. There was unanimous feedback that the PHAMA program is still very relevant to the priorities and needs of the six Pacific Island countries (PICs) in which the program operates **and that** market access and export development continue to be key strategies for reducing poverty through supporting smallholder farmers and by generating employment opportunities. This investment would support DFAT's commitment to aid-for-trade - to achieve at least 20 percent of all investments being counted as aid-for-trade.



B: Proposed outcomes and investment options (What)

The purpose of the proposed program (*PHAMA Plus*) is to contribute to improved economic growth and improved rural livelihoods for Pacific peoples. While options to attaining this goal include investment in trade infrastructure, small and medium business development, and budget support for service delivery, *PHAMA Plus* builds on the successes of the previous *PHAMA* program to support PICs to increase the export of high quality primary products and ensure an equitable return on their investments. Providing technical assistance and capacity building to the private sector and government in the agriculture sector is seen as value for money.

With *PHAMA* ending in June 2018, the proposed *PHAMA Plus* would ensure the focus on market access, and support to addressing technical issues related to biosecurity, SPS and regulatory requirements is maintained. We also propose to extend *PHAMA Plus*'s flexibility to address supply chain issues of production and product quality.

PHAMA Plus is proposed to primarily focus on the six countries of the current *PHAMA* program – Fiji, PNG, Samoa, Solomon Islands, Tonga and Vanuatu, but could also support feasible opportunities in other countries that sign the PACER Plus Trade Agreement. The Pacific Regional program has allocated \$16 million over 4 years for *PHAMA Plus*. Bilateral programs and New Zealand have indicated that they will also contribute to the new program. If bilateral contributions are maintained, as per the current program, the estimated total investment will be \$32 million over 4 years.

PHAMA Plus would help offer innovative solutions to market access issues given the resource and capacity constraints. It would also allow flexibility to adapt and evolve as an export development program, while maintaining efficiencies and effectiveness to ensure value for money. The main financial beneficiaries would be producers, agribusinesses, and exporters – some agribusinesses such as processing plants employ mostly women. Governments and industry groups would benefit from increased capacity and influence to navigate market access challenges. Pacific Island Countries (PICs) would also receive the benefit of better balance of trade figures, economic growth and employment. Receiving countries would also benefit from the supply of high quality products.

Sitting beneath the program purpose are the following end-of program goals:

- Improved market access of Pacific commodities into overseas markets;
- Improved quality of Pacific exports through building capacity of Pacific exporters and producers, including Pacific women in trade;
- Improved capacity of Pacific biosecurity authorities in facilitating market access activities.

In achieving the program key strategic end goals, the following sets out proposed areas of program focus:

Improved market access of Pacific export produce into overseas markets: Gaining new markets for agricultural and horticultural products has proven difficult, due to robust biosecurity requirements in Australia and New Zealand, and domestic interests. This has been a source of contention among PICs. The proposed program would continue to look at maintaining current markets as well as opening new pathways in Australia and New Zealand. However, it will also facilitate accessing other international markets such as Asia and market access within the Pacific region – to help address food security concerns.

Improved quality of Pacific exports through building the capacity of Pacific exporters and producers including Pacific women in trade: The current *PHAMA* has experienced a shift from primarily focusing on bio-security and new market access to addressing issues along the supply chain and maintaining market access – this reflects the changing needs to clients. Addressing the latter two are vital to improving the quality of agricultural exports and helping to support fledgling industries with potential. Pacific exporters and producers, (particularly Pacific-women in trade) also need to participate in market exploration visits and promotional expeditions, to improve their understanding of the requirements of international markets. Opportunities for collaboration should be explored.

Improved capacity of Pacific biosecurity authorities in facilitating market access activities: This includes providing the necessary technical assistance to enable biosecurity authorities to help facilitate market access

requests. Consideration should be given to engaging support from Australian and New Zealand Government agencies

The following are other considerations for the design of PHAMA Plus:

- It is imperative that the program selects key commodities based on their commercial potential. Bearing in mind that given the small market size, a good proportion of program support would be used for 'maintaining' market access support.
- The proactive public private dialogue through the Market Access Working Groups (MAWG) and Industry Working Groups (IWG) has also been hailed as a success and should continue.
- The design will need to identify opportunities for strategic partnerships and coordinate with other partners in the delivery of solutions along the supply chain.
- A multi-country approach with a regional Program Management Office (PMO) supporting the country programs has proven to be effective with the current PHAMA program. The PMO provide resources, technical skills, results-based monitoring and evaluation, coordination, strategy and facilitate exchange of information among the six countries.
- The PMO will need to include staff with private sector marketing, gender and monitoring and evaluation skills.
- The program would need to include the ability to support feasible requests from non-primary PHAMA PICs who sign the PACER Plus trade agreement.
- Integral to a new program design will be a robust theory of change and results-based monitoring system. This should not be overly complex, but would provide a management tool for decision-making.
- Additionally, gender, disability, social inclusion and climate change mitigation/adaptation activities would need to be mainstreamed into the program so that it meets Australian Aid-funded policies.

C: Implementation/delivery approach (How and with whom?)

The current PHAMA program is delivered through three different implementing partners including: a managing contractor (market access and trade promotion), a pacific regional organisation (market access and biosecurity), and an Australian Government agency (market access and biosecurity). This means that DFAT has to manage three separate agreements making transaction cost to DFAT high. Also at times, there has been tensions between these entities meaning further engagement than planned from DFAT has been necessary.

We propose to improve the efficiency in the delivery of *PHAMA Plus* while increasing whole of government coordination among Australian agencies at the same time. Accordingly, as part of the design process, three major implementation approaches would be considered:

Option 1 – managing contractor

A Managing Contractor (MC) would deliver all outputs of the program. The MC would directly engage with Pacific governments, the private sector and civil society and would sub-contract technical expertise from the most cost effective service provider - this could include pacific regional organisations. We would also propose the MC facilitate a grants fund to improve the role and sustainability of Market Access Working Groups (MAWGs) and Industry Working Groups (IWGs). This option would reduce transactions and provide a clear line of authority but may not best use Australian and New Zealand Government agencies expertise and lead to duplication of activities between DFAT and other whole of Government partners. A pacific regional organisation could also tender for the MC role.

Option 2 – DFAT contract individual technical expertise

DFAT would engage support to national biosecurity agencies and relevant agencies (Ministry of Agriculture) directly through bilateral posts. Post would either contract in technical assistance or provide grants to support

market access and improve biosecurity. This is on the assumption that national authorities will assume the roles of market access facilitation and support their export industries once the program ends. This approach will require further exploration by the design team to understand the role of current national program partners - MAWGs and IWGs - to determine whether this approach is feasible.

Option 3: Hybrid approach (MC and WoG agencies)

We would expect that the proposed PHAMA Plus program be devolved into two-key parts each managed separately: a) market access and supply chain development implemented by a MC; and b) capacity support to the biosecurity authorities and regional organisations implemented by a WoG partner. A governing committee would oversee the strategic direction and implementation of the program. This option plays to the strengths of the two implementing partners – MCs in working with the private sector, leveraging off relations in industry groups, and identifying markets; and Australia government agencies on biosecurity improvements. The priorities of the WoG would need to be clarified and governance arrangements would need to be tighter. While support needs to align with the strategic direction of these organisations, input from private sector exporters would be necessary to ensure that any capacity development supports their market access pathway requirements.

When considering the hybrid approach, we also deliberated the option of a WOG partner (such as DAWR or ACIAR) to manage program implementation. Preliminary discussions highlighted that the program may not be considered as a priority for the WOG partner furthermore, the program implementation in terms of innovative approaches and focus could also be constrained.

The hybrid-approach appears to be our preferred option; however, the design would test this assumption.

New Zealand has been a key contributor to PHAMA and we would expect this to continue. The Ministry of Foreign Affairs and Trade has provided financial contributions while the Ministry of Primary Industries has collaborated closely with PHAMA particular in accessing NZ markets. We would expect NZ to play a larger role in PHAMA Plus, in its contributions, and collaboration, but also with strategic and programmatic engagement (such as on a governing board). Albeit Australia and New Zealand's role in the development package of PACER Plus, we would also propose to seek contributions from other donors such as Canada, EU, Korea or Japan.

It is important that the new program builds on the successes from the current phase of PHAMA. Building effective and collaborative relationships with programs such as the International Finance Corporation (IFC), the Pacific Business Investment Facility (BIF), the Pacific Private Sector Development Initiative (PSDI), PacificRISE, PACER Plus, Pacific Trade and Invest (PT&I) and the Market Development Facility (MDF) will be a priority for the new phase of PHAMA. We intend to explore "shared value" partnerships with private sector entities, such as Carnival Australia, where we identify shared interests.

D: Risk assessment approach (What might go wrong?)

The attached Risk Matrix has been completed which graded the proposed program as Low Risk.

Operational environment -It is important that the political economy of this space is clearly understood. Being able to balance stakes of individual businesses and the broader development aspirations of the industries concerned, partner government and contributing donors is important. The design of the new program will need to ensure that the roles of industry/government coordination and dialogue bodies (such as Market Access Working Groups and Industry Working Groups) is more explicitly articulated as well as that of our regional national biosecurity bodies. Strategies for ensuring the sustainability of these crucial bodies beyond the life of the program will be given significant attention during design.

Program Objectives - Opening new market access pathways requires a lot of work and time, and with the increasingly stringent biosecurity standards and evolving regulatory requirements, a sustained commitment from all stakeholders is vital. The MAWGs and IWGs play an important role in this regard and support to their capacity development is imperative. Measuring and attributing impact has been difficult for the current PHAMA. The design will need to develop a robust Theory of Change and results based monitoring system to better manage implementation and measure the impact of the program.

Safeguards – given the proposed program is likely to support market access and supply-chains in the agriculture, forestry, fisheries and (potentially) tourism sectors, adherence to DFAT safeguards policies and guidelines is important to mitigate risk. We have assessed the environmental risk of the proposed investment as medium (after consultation with the Environment Safeguards, Multilateral Performance and Aid Risk Management Section), an environmental assessment would need to be undertaken and an environmental management plan developed during design. Furthermore, child protection will need to be reinforced and monitored. Further analysis will be required during the design of the program.

Fraud - There is always a greater risk of fraudulent activities given the use of funds and resources by program implementers and stakeholders especially with the disbursement of grants by the program implementers. Necessary checks and balances will need to be employed to ensure that these risks are managed.

Investment Concept Risk Assessment

	Likelihood	Consequence	Rating
1. Operating environment: What factors in the operational or physical environment (political instability, security, poor governance, lack of essential infrastructure etc.) that might impact directly on achieving the objectives?	Rare	Moderate	Moderate
<p>Event/s (what can happen):</p> <ul style="list-style-type: none"> a. Political instability; b. Essential infrastructure (e.g. HTFA) closed; c. MAWGs and IWGs discontinued <p>Source (what can cause the event to occur):</p> <ul style="list-style-type: none"> a. Political upheavals/tensions in the countries; b. Infrastructure is not managed well, that could lead to non-compliance; c. Disagreement within the MAWGs and IWGs and the PMO. <p>Impact (what is the impact on the objective if the event occurs):</p> <ul style="list-style-type: none"> a. Political instability could affect trade relations b. Incompliant infrastructure such as HTFA facilities could lead to temporary closure of market access pathways c. MAWGs and IWGs form the basis of the governance systems for the implementation of the program in the countries, by destabilising these working groups it could affect program implementation. <p>Mitigation – The issues around the political tensions are outside our sphere of control. The program will however work with key stakeholders that support essential infrastructure to ensure that their commitment to compliance is intact. This commitment is important to guaranteeing that market access pathways remain open. We have had similar experiences in Tonga recently and have recognised the importance of building collaboration and cohesion among stakeholders and implementers so that they understand the processes and its significance. Regarding the continuity of the MAWGs and the IWGs, the current program is working with these to develop Sustainability Roadmaps. The new program would provide ample time to ensure that the necessary conditions are in place to guarantee continuity of these bodies.</p>			
2. Results: How realistic are the objectives and can they be achieved within the timeframe? Are the objectives/results sustainable? Would the failure to achieve the results in the proposed timeframe, or at all, affect the targeted beneficiaries directly?	Unlikely	Moderate	Moderate
<p>Event/s:</p> <ul style="list-style-type: none"> a. Unable to keep a market pathway open b. No new pathways created; c. Capacity developed in the industry is lost as expertise moves to greener pastures; d. Project incomplete as program comes to an end. <p>Source:</p> <p>Opening a market access pathway takes a number of years and requires a persistent commitment from stakeholders. Opening new pathways or maintaining existing ones has placed a high demand on PICs. This has required them undertake scientific research; meet increasingly stringent biosecurity standards and evolving regulatory requirements; and address increasingly demanding product quality and presentation preferences. These demands have fallen on PIC exporters and regulatory authorities.</p> <p>Impact:</p> <p>Because of the lack of capacity and expertise our countries are unable to meet these requirements and standards and this can result in the closure of market access pathways that are currently open and makes it more difficult to gain access for new products.</p>			

Mitigation

To be able to build a sustainable model of support that continues beyond the life of the project, PHAMA Plus works closely with local authorities and private sector to develop their capacities to be able to pursue market access requests. Recognition needs to also be given to opportunities for capacity supplementation vs. capacity development. Additionally given the difficulties in gaining access into our closer markets (ANZ), the program will look to support market access opportunities to other markets in Asia, USA as well as within the Pacific.

3. Safeguards (see the checklist below): Do any of the activities involved in this investment have the potential to cause harm relative to safeguard issues (child protection, displacement and resettlement and environmental protection)?

Rare

Minor

Low

Event/s:

We answered yes to question 1.2 (child protection) and questions 3.1 and 3.2 (environment) in safeguards screening checklist.

Child protection: There is the potential for certain safeguards such as 'child protection' to be contravened with the work that the program will begin to undertake in the communities.

Environment: A future phase of PHAMA will in all likelihood be supporting improved market access and value-chains development in the forestry, fisheries and (potentially) tourism sectors. PHAMA success in maintaining or increasing timber and fisheries exports in particular, will impact on the environment in these sectors. How well managed these sectors are, to varying degrees outside PHAMA's direct sphere of influence, will influence the nature of the environmental impact of PHAMA's work in these spaces. We have assessed the environmental risk of a new phase of PHAMA as medium (as an activity might have a significant impact on the environment – direct or indirect) when we conducted our environmental risk categorisation assessment (results of which are referenced in our investment concept note).

Source:

Child protection: The new program is looking to expand its focus further down the supply chain to support the development of exportable commodities.

Environment: Maintenance of existing or increased extraction rates (fisheries and forestry) in potentially poorly managed and environmentally important sectors.

Impact:

Child protection: This could have an impact on the relationship that the program has with the communities which could affect the attainment of program objectives and goals.

Environment: Specific fish stocks could be degraded, threatening the sustainability of the industry and damaging marine eco-systems. Timber resources could be unsustainably exploited, threatening long-term industry sustainability, reducing the availability of non-timber forest products for local communities, and increasing soil erosion (damaging water supplies and river and reef eco-systems).

Mitigation – what (if known) can DFAT do to decrease the likelihood and/or consequence of the risk?

An environmental assessment as well as review of the possibility of the engagement with/around children to be undertaken and an environmental management plan developed during design. Furthermore, working with a partner that has a strong Environmental and Child Protection Policy is also important as the onus will be on them to ensure that this risk is minimised.

4. Fraud/Fiduciary: Are there any significant weaknesses which mean funds may not be used for intended purposes, not properly accounted for or do not achieve value for money? (Fraud Control and Anti-Corruption Strategies and Assessments of National Systems will assist in identifying significant risks.)

Rare

Moderate

Moderate

Event/s: Fraudulent use of funds and resources by program implementers and stakeholders.

Source: Through a grant facility, the PHAMA Plus program will also be looking to work closely with private sector exporters and provide them with funds and resources to facilitate their export development activities.

Impact: Misuse of funds will need to be strictly dealt with. While given its potentially modest scale, it should not have a strong direct impact on the attainment of program objectives, the engagement modalities utilised by PHAMA may need to be reconsidered.

Mitigation – The current program provides some form of support through grants in certain countries, and they have set up mechanisms to minimise the opportunities for such fraud to be committed, e.g. paying suppliers directly rather than providing funds to the beneficiary to manage. Working with a MC that has a strong Fraud and Risk Policy is also important as the onus will be on them to ensure that this risk is minimised.

5. Reputation: Could any of the risks, if they eventuated, cause damage to DFAT's reputation? Could any aspect of implementation damage bilateral relations?

Rare

Minor

Low

Event/s: A reduction in the number of program activities in country

Source: With the reducing Australian Aid Fund, there could be a need to cut back on the number of funded activities in our program countries.

Impact: This is a reality of Aid Program now, and is an issue that will need to be deliberated on with the Managing Contractor so that there is that understanding that while Economic Growth and Private Sector development initiative are taking priority at the moment, the likelihood of aid funds being cutback also exists. We recognise that there is only as much as we can do as a program and therefore collaboration with other programs and partners in the beginning is very important.

Mitigation – Collaboration and transparency with the implementing partners is important given the realities of the Aid program today. DFAT has maintained that there needs to be a level of transparency in the decision making process to ensure that stakeholders understand how decisions are reached. The role of the PMO is imperative in ensuring that due diligence is followed when project support is approved. Given the sensitivities, it is important to ensure that the Managing Contractor selected is familiar with the Pacific and the context within which it will be expected to work. A political economic analysis is important to be able to build this understanding.

6. Partner relations: Could a relationship breakdown occur with key partners or stakeholders and would this prevent the objectives/results from being achieved? Does the intended partner (if known) have the capacity to manage the risks involved with this investment? Could differing risk appetites affect the relationship?

Unlikely

Major

Moderate

Event/s:

Program control: Stakeholders are unhappy with the implementation of the activities in the program countries and demand more control over the implementation and management of activities.

Program geographic focus: PACER Plus countries outside the original PHAMA six, who have been told will have access to the new phase of PHAMA, will have expectations that PHAMA will support market access priorities in their countries. We assess that opportunities to provide support to agricultural value chains will be limited in the smaller Pacific island economies.

Source:

Program control: Central to the success of the program has been its Public-private sector dialogue (PPD) processes. The Market Access Working Groups (MAWGs) and Industry Working Groups (IWGs) provide direction on the implementation of the program in the countries. These include key stakeholders such as exporters and wholesalers (private sector) and representatives from Ministries of Agriculture, Trade and Biosecurity Authorities (Public sector). The issue around the autonomy of these bodies to control and direct the use of funds has been raised on occasion.

Program geographic focus: A lack of viable market development opportunities means that PHAMA continues to focus on the larger original six countries. This may lead to unhappiness in the smaller PACER Plus countries.

Impact:

Program control: This is a very sensitive issue and requires a careful approach. MAWGs and IWGs recognise the significant role that they play in the implementation of the program and should the relationship with the established bodies disintegrate it could

affect the progress of activities in the program countries, more so given the credibility of the stakeholders currently involved in these bodies.

Program geographic focus: A feeling that PHAMA is not helping them, could lead to a deterioration in relations between Australia/DFAT/PHAMA and smaller PICs. As a result, potential damage to PHAMA's agenda to support increased intra-Pacific trade could occur, as smaller PICs who feel that PHAMA hasn't supported them react adversely to PHAMA's efforts to open trade pathways to them for products from "the PHAMA-favoured" countries. A deterioration in relations, induced by PHAMA's focus, could also impinge adversely on other elements of Australia's trade agenda in the Pacific.

Mitigation – Program control: While this is a very sensitive issue, we've managed this issue of stakeholder expectations for the current life of the program. It is important that DFAT collaborates with the implementing Managing Contractor in the decisions it takes in addressing this issue. DFAT has maintained that there needs to be a level of transparency in the decision making process to ensure that stakeholders understand how decisions are reached. The role of the PMO is imperative in ensuring that due diligence is followed when project support is approved.

Given the sensitivities, it is important to ensure that the Managing Contractor selected is familiar with the Pacific and the context within which it will be expected to work. A political economic analysis is important to be able to build this understanding.

Program geographic scope: While we assess that opportunities to provide support to agricultural value chains will be limited in the smaller Pacific island economies, initial assessments will need to be considered to confirm this view and to help maintain effective relationships between Australia/DFAT/PHAMA and the smaller PICs.

7. Overall Risk Rating:

Low-risk