



DEVELOPMENT EFFECTIVENESS COUNTRY BRIEF

# Papua New Guinea

## Selected Country Indicators

Country Indicators	Comparison Year	Most recent year
Gross domestic product per capita (constant year 1998 in US\$)	1241.0 (1995)	472.0 (2006)
Population below \$1 a day (%)	24.6 (1996)	39.6 (2002)
Primary completion rate, total (% of relevant age group)	52.0 (1998)	58.0 (2004)
Ratio of girls to boys in primary and secondary education (%)	93.0 (1998)	99.0 (2004)
Under-5 child mortality (per 1,000 live births)	98.0 (1995)	74.0 (2005)
Births attended by skilled health staff (% of total)	53.0 (1996)	41.0 (2000)
Maternal mortality ratio (per 100,000 live births)	390.0 (1995)	300.0 (2000)
Prevalence of HIV/AIDS (% adult population aged 15–49)	–	1.8 (2005)
Access to an improved water source (% of population)	31.0 (1995)	39.0 (2002)
Fixed line and mobile phone subscribers (per 1,000 people)	1.0 (1995)	1.4 (2003)
Internet users (per 100 population)	0.0 (1996)	2.4 (2004)
Cost required for business start-up (% of GNI per capita)	–	31.4 (2006)
Time required for business start-up (days)	–	56.0 (2006)

GNI = gross national income.

# COUNTRY DEVELOPMENT SETTING

## Overview of Country Achievements and Development Challenges

- Poverty and Human Development.** While rich in natural resources (renewable and nonrenewable), Papua New Guinea (PNG) faces a range of development challenges. These include its imposing geography, frequent natural disasters, ethnic diversity (including over 800 languages), a rapidly growing population of six million, high crime rates, and ongoing governance difficulties. It has very poor social indicators and is facing a serious HIV/AIDS epidemic. There remain significant weaknesses in the delivery of, and access to, basic services and in public sector capacity in key sectors of governance. Service delivery also remains poor.
- The proportion of PNG's population living in poverty is estimated at 40%. Although some progress has been made towards achieving the Millennium Development Goals (MDGs), the country is not on track to achieve most of them. Progress is particularly poor in maternal health, infant mortality, education, and access to water and sanitation, particularly in rural areas. High population growth, coupled with the failure of the Government to sustain broad-based economic growth, has contributed to rising unemployment.
- Economic Growth.** PNG's economic growth is mixed. Supported by favorable external conditions, national income has been rising since 2003, but at a rate only barely faster than population growth (which is high at about 2.3% per annum).
- During 2006, rising global prices for export commodities in agricultural and mineral sectors lifted economic growth to 3.7%. Since 2002, there has been solid progress in economic management and policy development, helped by a supportive external environment and relative political stability. This contrasts with the previous decade, which featured significant instability, a contracting economy, and a decline in the Government's ability to provide services and access to markets.
- The Government has developed a Medium Term Development Strategy (MTDS), which has widespread internal and donor support, clear expenditure priorities, and a sound governance agenda. The MTDS is supported by medium term fiscal and debt strategies. Priorities for expenditure and effort are transport infrastructure, income-earning opportunities, basic education and informal adult education, primary healthcare and HIV/AIDS, and law and justice.
- The Government is developing a performance management framework to guide MTDS implementation, which development partners, including ADB, are committed to adopting to guide their own efforts. External assistance is very important in PNG, both in financial terms and in helping to address institutional and capacity weaknesses. The Government of Australia remains, by far, PNG's largest development partner.

6. **Development Challenges** The main development challenges are (i) to convert natural resource revenues into sustainable development outcomes, (ii) to broaden the base of the economy and the basis for economic growth and job creation, (iii) and to tackle very low (and deteriorating) health and education standards. The poor and declining quality of governance heightens each of these challenges.
7. Increasing living standards will require making economic growth more sustainable by diversifying and strengthening the economy.

The Government's recent sound macroeconomic and fiscal management must continue, accompanied by policies and structural reforms to encourage greater entrepreneurship and private sector-led development. These microeconomic reforms have yet to take place, notwithstanding Government intentions and efforts. Creating income-earning opportunities and improving service delivery are priorities for poverty reduction. This will require investing in rural infrastructure and improving the environment for private sector development.

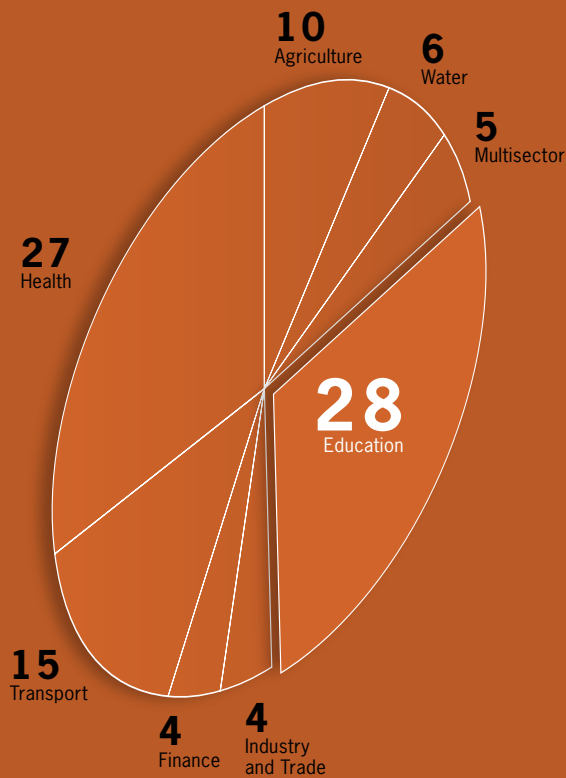
## ADB'S CONTRIBUTION TO DEVELOPMENT RESULTS

### Volume and Performance of ADB Operations

8. In the period 1990–2006, ADB approved \$250.1 million in Asian Development Fund (ADF) loans and grants, and \$49.3 million in technical assistance (TA). Key sectors for ADF assistance included education, health, agriculture, and transport (figures 1 and 2). ADB assistance to PNG during the 1990s was affected by a period of economic decline, and there was no new ADB lending from 1993 to 1997. A new strategy was prepared in 1999, which focused on governance and public sector management; support for agriculture and fisheries; improving transport infrastructure; promoting social development; and attention to gender and population. However, PNG continued to suffer from poor economic performance, deteriorating law and order, institutional weaknesses and problems with devolving powers to provisional and local administration.
9. Against this backdrop, ADB's portfolio performance was generally poor, as reflected in project completion ratings (figure 3). A 2003 Country Assistance Program Evaluation concluded that ADB had supported the right development areas in PNG, but generally failed to effectively contribute to development outcomes at the sector level because of fragmented programs. Where target outcomes were achieved, their sustainability was affected by a lack of counterpart funding for recurrent operations.
10. Since then, ADB efforts have focused on consolidating the program, narrowing ADB sector focus, and addressing portfolio performance problems. This included addressing issues such as delays in implementation and procurement, lack of counterpart staff and funding, and poor performance by executing agency personnel in meeting project administration requirements. The 2004 Country Portfolio Review Mission (CPRM) initiated, and agreed with the Government on, an action plan to

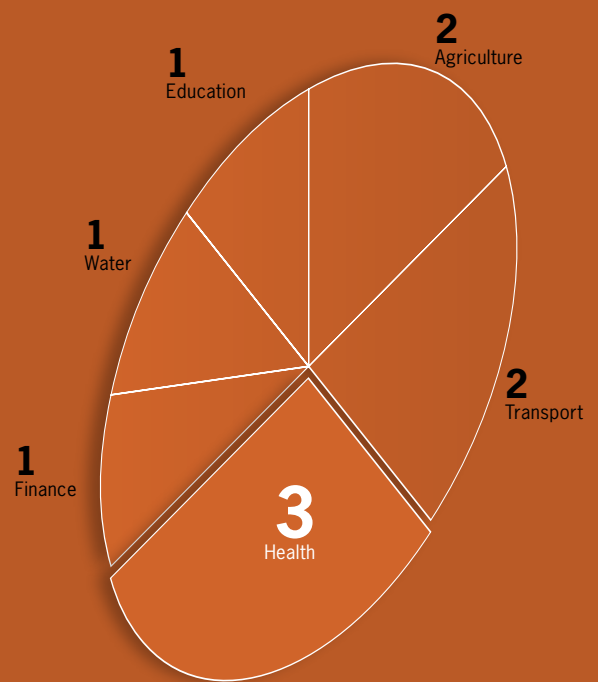
**Figure 1**

Asian Development Fund Disbursements, 1995–2006 (\$ million)



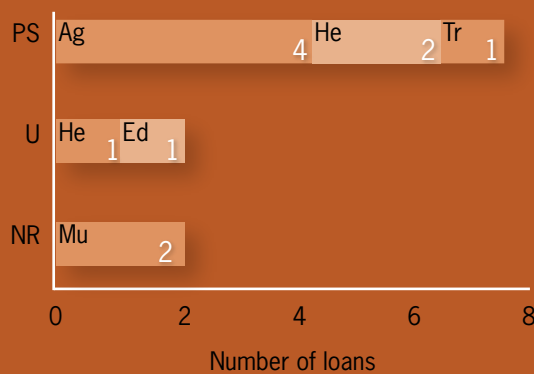
**Figure 2**

Asian Development Fund Loans and Grants Approved, 1995–2006 (number of projects)



**Figure 3**

Project Completion Report Ratings, 1995–2006



Mu Multisector  
 Ag Agriculture  
 He Health  
 Ed Education  
 Tr Transport

U = unsuccessful, PS = partly successful, NR = not rated.

address portfolio issues. At the same time, the mandate and resources of the ADB resident mission were expanded. As a result, the 2006 CPRM found that portfolio performance has improved, including in project implementation

and counterpart financing, and poorly performing projects have been closed. Improving the quality of PNG administration, including project administration, has been, and remains to be, a focus of ADB support.

## HIV Prevention and Control in Rural Development Enclaves

More than 80% of PNG citizens live in rural areas, but are neglected by current HIV programs due to the inaccessibility of remote villages, the collapse of rural health services, and an inability to address deeply ingrained cultural practices. The areas around industries in rural areas, in particular, create an environment conducive to high-risk behavior.

An ADF grant for HIV/AIDS prevention and control approved in 2006 (\$25 million, inclusive of \$7 million in cofinancing) is helping HIV prevention interventions reach rural populations in PNG by integrating the management capabilities of the private sector, the outreach of churches/nongovernment organizations, and the infrastructure of public services. The project is drawing on the relative strengths of other development partners, and is fostering an environment of cooperation and collaboration.

Economic operators at the center of six large scale rural development enclaves in the mining sector, oil/gas extraction industry, and plantations have signed memorandums of agreement with the Government detailing their management input to rehabilitate and support surrounding rural health services, and to introduce and support HIV testing (VCT), treatment, and care. Renovation of rural health infrastructure, such as aid posts and health centers, has begun.

Broad-based research into preferred characteristics of condoms have led to the development of a new product, which will be launched nationally before the end of 2007. In the meantime, national distribution networks are being established. Behavior change programs are also being organized in communities surrounding the rural development enclaves. A national surveillance plan has been finalized, and resources are now being mobilized to improve HIV surveillance nationwide.

11. These lessons contributed to the development of the 2006 Country Strategy and Program (CSP) for PNG. The CSP focuses ADB efforts on (i) public financial management, (ii) private sector development, (iii) the transport sector, and (iv) health and HIV/AIDS. These priorities are closely aligned with PNG's MTDS.

## Highlights of ADB Results

12. **Sector-Wide Approach in Health.** An established success for ADB in PNG has been its support for a sector-wide health program. ADB has long played a lead role in the health sector, and initiated under the Health Sector Development Program what has evolved into a sector-wide approach led by the Government, with active development partner support (including from Australia, New Zealand, and the United Nations system). This coordinated approach, one of the first sector-wide approaches to be developed in the Pacific, has also been adopted to address the HIV/AIDS problem. On the ground results for both health and HIV/AIDS programs, however, show a lag in real improvements, despite the volume of assistance to date. A greater emphasis on coordination and performance, with Government leadership, promises to deliver more acceptable results (see box).
13. **Transport Sector Harmonization.** ADB has been an important development partner in the transport area, focusing especially on the road and maritime transport subsectors. There have been significant on the ground results from road rehabilitation projects over the years (see box on next page). Donor coordination in the road sector has improved over time, with ADB playing a key role. Development partners have made harmonization in

the transport sector an explicit goal under the ADB–Australian Agency for International Development (AusAID)–World Bank Cooperation Agenda for PNG and the Pacific. This has resulted in a transport sector coordination mechanism and a National Transport Development Plan.

14. **Public Sector Reform and Public Financial Management.** ADB has played a leading role in helping the Government to develop and implement its Financial Management Improvement Program. Although the program initially suffered delays, in part because of the Government’s setting of overly ambitious objectives and modalities, there has been solid progress in refining the underlying systems, which now are being implemented through an integrated financial management system, combined with capacity development support. The financial management sector provides an example of strong donor partnership; AusAID, the United Nations Development Programme, and ADB have been working closely together to prepare coordinated programs, and may be joined by the European Union and the World Bank.
15. ADB assistance is being implemented as part of a broader public expenditure review and rationalization process. In early 2007, the Government enacted and began implementing a Fiscal Responsibility Act, and took positive steps to open up the budget preparation process, including by inviting individuals, businesses, and civil society to express their views on budget priorities. The Medium Term Financial Management Strategy (MTFMS), which is being developed, through public expenditure review and rationalization, will further advance these initiatives. Specifically, the MTFMS scope will

## Feeder Road Rehabilitation: Overcoming the Gender Divide

The Country Gender Assessment and Strategy conducted in preparation for the *Country Strategy and Program 2006–2010* found that PNG experience is similar to those elsewhere, in that the causality between road rehabilitation and increased access to basic social services and income generation opportunities are maximized when the rehabilitation of national roads is combined with the rehabilitation of adjacent feeder roads.

Poor access to roads seemingly places a greater burden on women than on men, especially with regard to access to basic services and rural markets. Indications are that women compose the majority of the sellers of produce in markets and are also the major users of basic services, such as health services. Women in rural areas often have to walk long distances to reach the nearest road in order to access transport to services and markets.

A key lesson learned from the Road Maintenance and Upgrading Sector Project (Loan 1709-PNG) is the necessity of including gender-specific indicators and targets in the project design, so that these could be monitored during project implementation and included in developing gender-sensitive monitoring and evaluation systems for the project. This has been done for subsequent road sector loans. Performance indicators have been set to monitor progress in areas such as reduction in travel time and changes in livelihoods patterns, and initial results from completed subprojects show a reduction of about 50% in travel time and an increase of about 15% in income from agriculture.

cover (i) budget preparation; (ii) budget execution; (iii) accounting for all national and subnational agencies; (iv) cash and bank management; (v) debt management; (vi) financial and performance reporting and monitoring, including for statutory authorities and state-owned enterprises; (vii) internal controls and audit; and (viii) external scrutiny, that includes the Auditor General's Office, Parliament, and civil society. Likewise, project capacity building initiatives are part of wider efforts to develop public financial management capacity, including extensive scholarship, training, and secondment programs.

16. Still in support of good governance in the public sector, ADB is helping reform public enterprises and utilities, focusing initially on financial management. ADB plans to support, as appropriate, the development of the PNG Gas Project, though the nature of this project has yet to be finalized.

## ADB'S AGENDA FOR ENHANCING PARTNERSHIPS AND AID EFFECTIVENESS

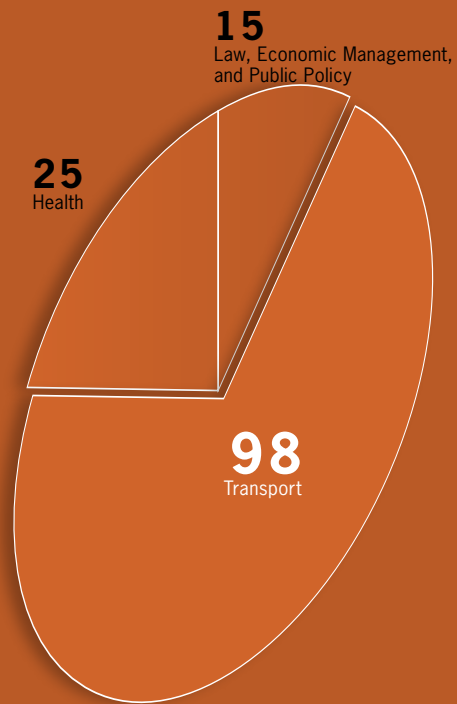
### Current ADB Portfolio and Assistance Pipeline

17. Highlights in 2006 include the approval of the new results-based CSP, a grant of \$25 million for the HIV/AIDS Prevention and Control in Rural Enclaves Project (the first ADF grant project approved for PNG), and the approval of a \$53 million supplementary loan (\$18 million from the ADF) for the PNG Road Maintenance and Upgrading Project. Consistent with the priorities outlined in the CSP, pipeline activities for 2007 and 2008 include support for financial management, upgrading of Lae Port, and road infrastructure (figures 4 and 5). The ADF lending pipeline includes \$55 million for 2007 and \$117.5 million for 2008–2010.

18. As of the end of 2006, 13 loans and grants (totaling \$272.23 million, of which \$121.03 million is ADF) and 11 TA projects (totaling \$9.34 million) were active. The ongoing portfolio shows satisfactory or partly satisfactory implementation ratings for all but one project (figure 6). Total contracts awarded in 2006 amounted to \$23.1 million and disbursements amounted to \$29.3 million.

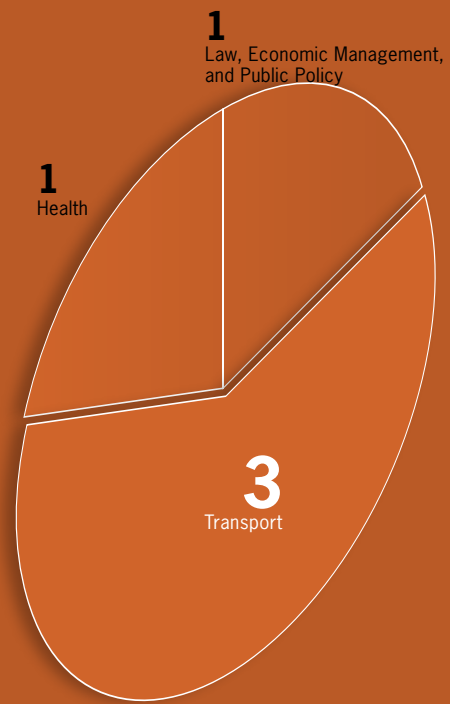
**Figure 4**

Projected ADF Approvals, 2005–2008 (\$ million)



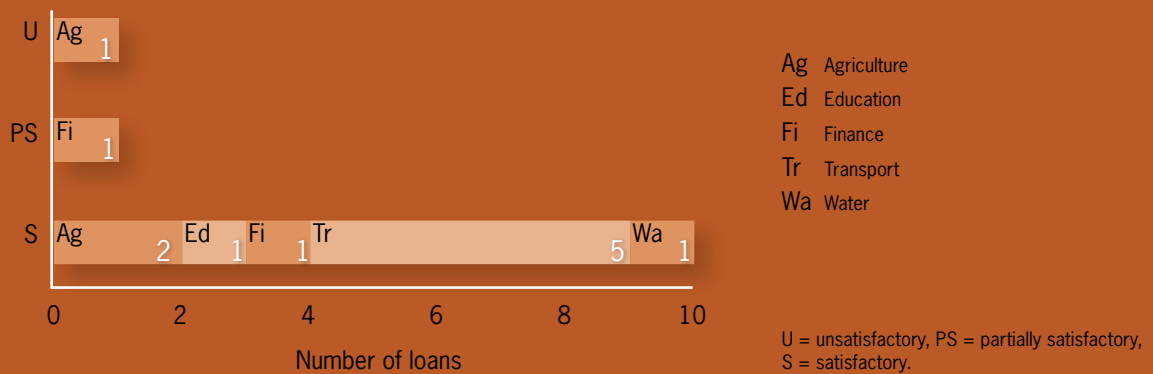
**Figure 5**

Projected ADF Approvals, 2005–2008 (number of projects)



**Figure 6**

Project Performance Report Ratings (current)



## Ownership, Alignment, and Managing for Results in ADB Operations

19. The 2003 Country Assistance Program Evaluation highlighted the need for ADB to maintain a tight operational focus in PNG, concentrating on performance and delivering results, and acknowledging that ADB is not the largest of PNG's development partners. The 2006 CSP embodies these lessons by focusing on a relatively narrow set of sectors based on ADB's comparative advantages in the country.
20. The Government's MTDS is based explicitly on its earlier Poverty Reduction Strategy, which was developed with ADB support. The MTDS has strong ownership by the Government and serves as the framework for all of its development efforts. The MTDS has also been endorsed by all the development partners as the guide for programming their operations. Since the MTDS was finalized, ADB, together with AusAID and the World Bank, have developed new operational strategies based on it. ADB and other donors are assisting PNG to develop a performance management framework for the MTDS, and are committed to using this framework to manage their respective programs.
21. Availability of baseline data to guide operational planning remains an issue. ADB is currently helping strengthen country statistical capacity through capacity building support for the National Statistical Office and for the Demographic and Health Survey. At an operational level, ADB is committed to using government systems as much as possible, and already uses government procurement systems for its lending operations. A procurement engagement group, which has recently been reinvigorated with the appointment of a

new head of procurement, is operating to enable donor assistance in efforts to improve governance in this area. As regards financial systems, ADB also is taking a lead role in strengthening the Government's financial management capacities by implementing the Financial Management Improvement Program.

## ADB Role in Donor Coordination and Harmonization Initiatives

22. Donor coordination efforts have long existed in PNG both at the global and sector levels, although the effectiveness of such efforts has been varied. At present, donor coordination is particularly significant for health and HIV/AIDS, for transport, and for financial management, with regular meetings of groups of donor representatives. The composition of these groups varies across sectors. Together with AusAID, ADB has a leading role in transport sector harmonization and in the efforts to improve financial management. In the latter, the Government's Public Expenditure Review and Rationalization program has had a notable impact on the ground, helping to mobilize Government support for important reforms. It is an excellent example of donor coordination, in this case involving Australia and ADB, and led by the World Bank.
23. AusAID, the World Bank, and ADB have devoted significant efforts to develop a joint strategy for PNG operations. Although this effort foundered in 2004, due to resistance from the Government at the time, joint analytical work has continued at sectoral levels, informing not only the strategy development of each of the partners, but also the Government's own MTDS.

24. The Government is committed to implementing the Paris Declaration principles and is leading efforts to localize the declaration and monitor its implementation. However, progress towards establishing the intended monitoring and review processes to track donor and government performance against commitments, though encouraging, has been somewhat slower than targeted. For instance, donor questionnaires on monitoring progress under the Paris Declaration have not yet been aggregated.

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