

**ASIAN DEVELOPMENT BANK**

**COUNTRY ASSISTANCE PLAN  
(2000-2002)**

**PAPUA NEW GUINEA**

**December 1999**

## **CURRENCY EQUIVALENTS**

(as of 30 November 1999)

Currency Unit	–	Kina (K)
K1.00	=	\$0.36
\$1.00	=	K2.78

## **ABBREVIATIONS**

ADB	-	Asian Development Bank
ADF	-	Asian Development Fund
CG	-	Consultative Group
GDP	-	Gross Domestic Product
IMF	-	International Monetary Fund
MFEM	-	Ministry of Finance and Economic Management
NZODA	-	New Zealand Overseas Development Assistance
OCR	-	Ordinary Capital Resource
PIER	-	Pacific Islands Economic Report
PERCA	-	Public Expenditure Review Committee and Audit
POHQ	-	Pacific Operations Division
PNG	-	Papua New Guinea
TA	-	Technical Assistance
UN	-	United Nations
UNDP	-	United Nations Development Programme

## **NOTES**

- (i) In this Report, "\$" refers to US dollars.
- (ii) The fiscal year (FY) of the Government ends on 30 June.

## FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank for Papua New Guinea covering the three-year period 2000-2002. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by the ADB between April and June 1999, in close consultation with the Government of Papua New Guinea, and other stakeholders. The CAP was discussed with the Board of Directors in October 1999 and has been revised by the ADB to incorporate recent developments. The assistance plan described in the CAP is only indicative and may be revised to reflect future developments.

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## PAPUA NEW GUINEA

### I. Country Performance Assessment

#### A. Economic Performance Assessment

1. The extreme dualism of the Papua New Guinea (PNG) economy is well known. An export-oriented, capital-intensive minerals sector is the major engine of economic growth, generating crucial export and taxation revenue, much of which supports a dominant public sector. A semi-subsistence sector provides a livelihood for 85 percent of a population characterized by enormous linguistic and cultural diversity. Utilizing the natural resource rents in a manner that ensures broad-based economic growth involving and benefiting the rural majority remains a difficult challenge for Government.

2. Between 1990 and 1996, real Gross Domestic Product (GDP) grew at an average annual rate of 7.2 percent, largely as a result of rapid expansion in the minerals sector. With population growing at around 2 percent per annum, the per capita growth rate was 5 percent. Per capita GDP was \$1,266 in 1996 (Appendix 1, page 1). During 1997-1998, the PNG economy was hard hit by drought, the effects of the Asian financial crisis, and low commodity prices. During 1998, overall output grew, by 2.5 percent, but only because the mining sector recovered from the effects of the drought which had hampered transport. Non-minerals output fell by 3.7 percent.

3. Signs of intensified macroeconomic instability became apparent in February 1999, when the currency came under pressure because of substantial unbudgeted public expenditure in December 1998 and January 1999 and the Government's failure to secure anticipated external finance from commercial sources and from the International Monetary Fund (IMF) and the World Bank. Government relied instead on borrowing from the central bank that on occasion exceeded legal limits. Deterioration in an already poor governance environment remained a fundamental concern, with Parliament suspended until 13 July 1999 and government business conducted in a non-transparent and unpredictable manner.

4. By mid-1999, the kina had fallen by a quarter since the beginning of the year, foreign exchange reserves had dropped to only one month of non-minerals import cover, and inflation had risen to an annual rate of 16 percent. In a bid to generate external funds, the Government obtained an independent credit rating (of B+ for sovereign debt) and attempted a potentially costly Eurobond issue. This proved unsuccessful, and in early July the Prime Minister reportedly negotiated a money-for-recognition deal with Taipei, China. However, on 13 July, he lost office to a coalition that quickly withdrew recognition.

5. The new administration reviewed the fiscal situation, confirmed its seriousness, and introduced a supplementary budget on 10 August 1999 that gained IMF endorsement. The deficit had blown out during the first half of 1999 to almost 3 percent of GDP, with domestic debt outstanding reaching 26 percent of GDP. The supplementary budget provided for cuts to national government's development expenditure and revenue-raising increases in taxes. These measures were expected to generate a surplus in the second half of 1999, leaving a deficit for 1999 as a whole of 1.6 percent of GDP, funded by external borrowing. The 1999 GDP growth rate is now estimated at 3.9 percent, boosted by improved commodity prices and increased export volumes. The fiscal tightening facilitated a re-focussing of monetary policy on the credible pursuit of the objectives of price and exchange rate stability. The tightened and more stable monetary policy has begun to have benefits and the kina has stabilized. However, interest rates remain high and the external reserves position is still precarious.

## **B. Assessment of Socio-Environmental Performance**

### **1. Poverty Issues**

6. In the past, traditional safety nets were generally adequate to mitigate the most serious consequences of absolute poverty; exceptions included the old, the handicapped and the unemployed with no direct access to land in the home. However, over the past two years, a series of natural disasters, combined with a general economic downturn, have demonstrated that because of deteriorating administrative capacities and a loosening of traditional social ties, the traditional safety nets are no longer adequate.

7. More generally, it is clear that there is growing inequality and increasing poverty. A World Bank poverty assessment conducted in 1996 suggests that about 37 percent of the population live below the poverty line, based on consumption levels. Intakes of energy and protein amongst the population living in isolated, low-income agricultural areas were found to be inadequate (Appendix 1, page 2). A survey of one major urban settlement in Port Moresby revealed that 42 percent of households were in poverty. For Port Moresby as a whole, the figure was 27 percent. Nationally, the poorest 50 percent of the population accounted for just 19 percent of total consumption, while the richest 10 percent accounted for 36 percent. The United Nations Development Programme (UNDP), in its *Pacific Human Development Report 1999*, reports that the Human Poverty index for PNG is at the level of Burundi and Mali, among the most poverty affected nations in the world. Poverty alleviation is a substantial and growing challenge to policymakers, and is yet to be addressed.

8. Isolation, vulnerability and governance are key dimensions to poverty in PNG. In many areas, the deterioration of existing infrastructure, and the worsening security situation, have led to a general impoverishment of the whole community.

### **2. Gender Issues**

9. While women provide most of the subsistence agriculture workforce, their participation in the formal economy is low and they account for only one in five of the paid work force. Females receive much less education and medical care than men. Male children are allocated a far greater share of household income than female children. Female literacy and school enrollment rates lag well behind those of males. Female representation in politics and public service management is negligible. Matrimonial violence against women is common.

### **3. Human Development**

10. The fundamental development problem confronting Papua New Guinea is to ensure that the majority of the population participates in, and shares the benefits of, the economic growth process. Per capita GDP figures are misleading when eighty-five percent of the population of 4.23 million lives in rural areas fragmented by rugged terrain and inadequate physical infrastructure, and relies on a combination of subsistence and cash activities to earn incomes that are approximately one tenth of urban levels. Many of those who leave rural areas in search of jobs end up in urban settlements un- or under-employed. Low life expectancy, a high infant mortality rate, poor adult literacy and low enrolment ratios at all levels of education combine with low per capita income to make PNG's human development level the lowest of the Asian Development Bank's (ADB's) 12 Pacific developing member countries. The 1999 Human Development Index value for PNG was 0.314, which placed the country in 164<sup>th</sup> place among 174 developing

countries. Employment opportunities in the formal private sector outside of the mining and mining-related sectors have stagnated over the last decade.

#### **4. Environment**

11. PNG's environment-related legislation is generally adequate, and lack of pressure has ensured that its environment remains pristine by most standards. However, the environment is in some areas under threat from logging, and the potential destruction of rainforest is a cause of concern. Moreover, recent policy developments under the previous Government threatened the achievements of the recent past. To mitigate the immediate economic effects of the downturn in logging prices, the export tax on logs had been slashed, there were attempts to fast-track some logging site proposals by circumventing recently agreed vetting procedures, and arrangements for independent vetting of log exports were threatened. These unwelcome developments have been reversed by the new Government. At a localized level, mining has caused significant degradation. Conservation management capacity is lacking, especially to protect biodiversity. There are institutional weaknesses in the environment, conservation, forestry, fisheries, mining, and petroleum administrations. All need substantial strengthening; all are subject to untoward political direction. Forestry and fisheries surveillance activities are meager.

#### **C. Governance: Sound Development Management**

12. Governance shortcomings exacerbate PNG's development problems. Development management is a major problem. PNG witnesses frequent changes in policies and inconsistent implementation of programs. It has an expensive and inefficient public service, whose performance is further hampered by frequent changes in senior civil servants and ministers; politicization of the civil service is acknowledged as a growing problem. A major improvement has been the progress in resolving the Bougainville troubles. Public sector reform has been attempted sporadically since 1990, bursts of significant progress alternating with periods of inaction. A hastily designed public sector retrenchment exercise was introduced in the original 1999 Budget, but could not be implemented because of fiscal constraints. The new Government has committed itself to a developing and implementing a carefully focused reform of the public sector. The Government also is actively pursuing corporatization and privatization of Government agencies.

13. The rule of law and the enforcement of well-defined rights are essential for economic activity to flourish. Poorly defined rights or inadequately enforced laws, discourage risk-taking, growth, and development. Most land is under customary ownership. Individuals' rights to land are not well defined and disputes are common. The difficulty of acquiring (and retaining) title is a significant constraint to economic development in PNG. Likewise, the pervasive law-and-order problem is a serious concern; the incidence and direct costs of crime are growing rapidly, and, perhaps even more serious, the perceived risks of crime greatly hamper investments and economic activity.

#### **D. Implementation Assessment**

##### **1. The Portfolio**

14. Through end-1998, the ADB has approved 47 loans totaling \$619.8 million to PNG for 36 projects since PNG joined the ADB in 1971. At the end of 1998, debts outstanding amounted to about \$394 million. There was virtually no new lending during 1993-1997, resulting in a sharp discontinuity in the overall portfolio.

15. At the end of 1998, nine loans for seven projects (four health and population, one higher education, one water supply, one transport infrastructure) were ongoing; of these, six loans for five projects were 'older', approved before the lending hiatus. Only the Health Sector Development Program, and its associated investment project (three loans) was ongoing approved after the hiatus. In addition two loans for two projects (one agriculture, one fisheries) were approved in December 1998; one of these became effective in June 1999 and the other is expected to become effective by August 1999. With improved performance recorded during 1999 for two of the projects all but one of the ongoing projects are rated "S"; the remaining one has suffered delays mainly due to shortages of counterpart funds.

16. An aggressive spring cleaning effort was undertaken in early 1998 (with cancellations totaling US\$31 million of no-longer-required commitments); the undisbursed balances on the ongoing loan commitments at end-1998 totaled US\$72 million (46 percent of ongoing commitments). Of the seven ongoing projects, four will be closed by end 1999. In addition to the four projects closing during 1999, the Higher Education project will close by September 2000, which will be the last of the projects approved before the 1993-1997 hiatus in lending. All of these older projects have suffered from considerable delays, and all have required extension of closing dates. Once these older projects are closed, the maturity of the loan portfolio will be quite young; of the presently existing loans, only the Health Sector Development Program, with the associated investment project, and the new fisheries and smallholder services projects will remain.

17. Because lending essentially stopped during 1993-1997, the overall net resource transfer has been negative since 1995, meaning that disbursements to PNG have been below payments of principal and interest combined. Because of some improvement in general project implementation and mainly because of the disbursement of the first tranche of the *Health Sector Development Program (HSDP)*, since 1997 disbursements have exceeded principal payments by a sufficient margin that the negative overall transfer remained relatively modest at about US\$1 million. Appendix 2 provides details. The outturns for 1999 and 2000 will depend on whether and when the second tranche of HSDP is released. Generally, the ADB would seek to maintain a positive capital transfer, which will require building up a portfolio of healthy projects.

18. Of 18 projects post-evaluated, five (two port, two road and one water supply) were "generally successful" (Appendix 2). Twelve were "partly successful", and one was "unsuccessful". Projects in ports, highways and water supply subsectors were more successful as the project concepts were simple and the executing agencies were able to handle external aid. Less successful were projects in agriculture and development finance, which suffered long delays and cost overruns. Project design was a key factor affecting project performance. The ADB has tended to overestimate implementation capacity and to misinterpret the socio-cultural milieu of projects. Projects formulated in response to pressures from special interest groups have often lacked a viable development strategy as a basis for design. This has resulted in inadequate study of likely beneficiary response, particularly to the technology transferred. Inadequate financial and market analysis during project preparation has been a feature of some projects, as has insufficient attention to project sustainability. Significantly, law-and-order problems have also contributed to poor project performance.

19. To the end of 1998, technical assistance (TA) grants totaling US\$26 million have been provided for 95 projects, of which 37 were for project preparation and 58 for advisory purposes. The TA portfolio has been both extensive and varied, covering many aspects of many sectors. Although the TAs have generally been valuable, it is clear that a sharper sectoral focus would better suit the absorptive capacity of the Government.

## **2. Issues in Project Implementation**

20. Apart from the typical implementation problems, the critical issue in recent years has been inadequate budget allocations and subsequent release of funds. However, in a welcome development, the 1999 Budget allocations are generally adequate to cover anticipated activities (before loan closing, where relevant), assuming that releases are made on a timely basis. Indications are that releases this year to date also have been adequate, notwithstanding the overall fiscal difficulties.

## **II. Country Operational Strategy**

21. The current Country Operational Strategy for PNG, which was discussed by the Board in October 1998, focuses on improved governance, private sector development and improved social indicators.

- Governance and ineffective public sector management are the main development problems. The ADB is focusing on supporting the Government to strengthen financial management and to enhance the efficiencies and effectiveness of public sector management.
- Private sector development is key to achieving long-term income earning opportunities. Improved governance is an important part of the solution. In addition to helping improve performance of the central agencies, the ADB will help improve sector policy and institutional frameworks (especially in agriculture and fisheries), enhance factor productivity (skills development and financial services), and improve market access by selected infrastructure investments (transport) especially in rural areas. Constraints to 'informal' market activity are a clear concern.
- PNG's social indicators remain appallingly low, especially for women. The emphasis must be on rural areas. Again, better governance is key to improved performance. The ADB should continue to lead policy development in the health and urban water supply sectors and to assist infrastructure investments and social service delivery, especially in rural areas.
- The appallingly poor status of women is a central crosscutting concern, to be addressed, to the extent feasible, throughout the program.

## **III. Sector Strategies**

### **A. Agriculture**

#### **1. Agriculture and Rural Development**

22. Agriculture provides a livelihood for 85 percent of the population, accounts for a quarter of GDP, but has been growing at less than 2 percent per year. Subsistence activities predominate. Income generating opportunities are mostly in tree crops (coffee, cocoa, oil palm, coconut) suited to the climate. Smallholders account for 96 percent of agricultural output and two thirds of agricultural exports, and have proved remarkably resilient in the face of variable export prices. Thus, the informal agriculture sector is a mainstay of the economy. The ADB has been assisting in

strengthening support services for smallholders (1998 loan). Further support for the informal sector activities is programmed for 2001.

## **2. Forestry and Natural Resources**

23. Until the recent collapse of demand due to the Southeast Asia financial crisis, forestry was a major economic activity (in 1996 contributing 5 percent of GDP). Commercial logging is a major industry, but there is little domestic processing of forest products. Logging practices and the rate of depletion have been a major concern; with World Bank assistance, the Government has developed a new logging code, amended the royalties system and introduced proper surveillance of logging activities and exports. In July 1998 the previous Government reduced the export tax, and during the first half of 1999 had been wavering in its arrangements for surveillance and has been attempting to fast-track various logging proposals, without full compliance with review procedures. The new Government has reversed these unwelcome developments.

24. Fisheries is an underexploited resource in terms of the benefits flowing to national interests. PNG's waters are rich with marine resources, but the sector accounts for only 1 percent of GDP. Subsistence/artisanal fishing is commonplace, largely for subsistence. Rent from fisheries is derived mostly as distant-water license fees, averaging about \$20 million annually, in relation to the estimated \$300 million worth of tuna taken from PNG waters annually by foreign fleets. However, the domestically based fleet has been growing rapidly, and there are promising signs of future potential. It is vital that the resource is properly managed. The National Fisheries Authority has been set up in recent years, with ADB encouragement, to address issues of licensing, management, surveillance and monitoring. The ADB has been the lead external agency in the sector. The ADB is assisting the Authority to develop into a strong, independent regulatory agency and is helping with infrastructure development in support of private sector involvement on competitive terms. Further support for provincial waters fisheries development is envisaged for the later years of the program.

25. Mining (mainly gold and copper) and petroleum and gas extraction are major revenue sources. Mining exports accounted for about 34 percent of exports in 1997. A number of major mine projects are in advanced stages of development. However, these are based on fairly old discoveries. The industry and the Government are concerned that the rate of exploration has been fairly modest in recent years. A contributing factor may be the taxation regime. The ADB is providing assistance for an independent study of the fiscal regime for mining but is otherwise not involved in the sector. Petroleum production began in 1991; unless further discoveries are made, exports are expected to continue to decline. Substantial reserves of gas have been found and a pipeline to Australia is in advanced stages of negotiation; the Government is expected to request Private Sector Group participation in a catalyzing role. No other role for the ADB is envisaged.

## **B. Infrastructure**

### **1. Transport**

26. Given its critical importance to economic growth and to poverty alleviation, the transport sector will remain a leading priority for the ADB. For roads, the highest priority is to redress the deterioration of the current road network. The ADB is helping rehabilitate and establish systems to maintain roads, implementing programs developed under the ongoing assistance for establishing a Road Asset Management System, as a key management tool. The ADB will also participate, in parallel with other donors, in rehabilitating the road network, possibly including the Highlands

Highway, which is one of the most valuable economic assets of the country. The ADB will endeavor to catalyze private sector participation in infrastructure financing and in sector management. Programs to complement the planned international gas pipeline investment will target such hybrid private-public sector collaboration. To complement the physical infrastructure investment, the ADB will assist in restructuring and strengthening institutional structures, based on studies of road cost recovery options and road maintenance management systems.

27. Given the importance of sea transport for the PNG economy, infrastructure and institutional investments yield good economic returns. The ADB will help in restoring the system of maritime navigation aids, including developing a sustainable maintenance system, with suitable long-term financing mechanisms. This will help satisfy PNG's obligations under extant maritime shipping treaties and provide invaluable assistance to local shipping and other maritime activities. Deficient provincial ports will be established/upgraded, based on careful evaluation of economic and social criteria, together with the development of an appropriate policy and management environment. To complement these investments, the ADB will provide assistance in developing the options for management of the broad maritime sector, possibly through the establishment of a consolidated maritime authority.

## **2. Finance**

28. New initiatives during the 2000-2002 program period in the finance sector are focused on employment creation and include principally a microfinance project. A complementary effort in the rural informal sector seeks to lower the constraints to informal sector activities in the rural areas, tying in with the key obstacles to development identified by the Consultative Monitoring and Implementation Council. The microfinance project, which is likely to embrace small-scale activities as well as traditional 'micro' activities, is programmed for 2000 and will include focus on constraints to urban informal market developments. These will complement the study of constraints to urban informal sector activities. Given the still rapidly evolving institutional framework, the project's institutional focus will be refined but is likely to embrace the reemerging Savings and Loan Societies, the microfinance activities of the PNG Banking Corporation, and possibly the Rural Development Bank in its new self financing position. The latter will depend on Government decisions on the structure of the financial sector.

## **C. Social Infrastructure and Environment**

### **1. Health**

29. Health indicators are very poor. The health sector has suffered from uneven and reduced recurrent budgets; continuing budget stringency has reemphasized the need for effective use of resources. The outreach and quality of services must improve, with priority given to rural rather than urban health care, preventive rather than curative services, and basic rather than advanced treatment. The Government's health policy and health plan, developed with ADB assistance, focus on these considerations. The ADB is assisting implementation through the HSDP, implementation of which started in 1998. The ADB will provide assistance in reviewing progress in implementing the Health Program. Depending on progress, further loan assistance is envisaged in 2001, focusing on health promotion and protection as a broad theme, within which advocacy, control of infectious diseases, and improvement in management all play a role.

## 2. Education

30. A quarter of the primary school-age population is not enrolled. While the numbers of students continuing to lower secondary education are increasing, enrolment in upper secondary school is static. Tertiary education consumes a disproportionately high percentage of the education budget. Non-formal education programs have been constrained by a lack of a clear policy and well-defined institutional roles as well as by insufficient funds and staff. The Government has recently approved major education reforms designed to restructure the system, extend the period of basic education and relate pre-primary education more closely to local culture and language through expansion of the innovative village local language schools. Despite these developments, lack of skilled staff particularly in technical and vocational fields continues to constrain development. Complementing the efforts of other donors (notably Australia at primary level), the ADB has been providing effective sector support for technical and vocational education, through TA for labor market analysis and for skills policy development, and a loan project in 1999 for skills development for employment. Further assistance for non-formal education is envisaged, with TA for feasibility studies during the program period, focusing on strengthened delivery of livelihood and literacy programs for urban youths and rural women.

## 3. Urban Development

31. Water supplies and sanitation systems in urban areas are generally inadequate. Port Moresby's system is expensive and inefficient; however the corporatization of the city's system is enabling promising investment and service efficiency improvements, with Japanese Government assistance. The Waterboard, which handles water supply for towns outside Port Moresby, is effective and generally capable, but is hampered by diseconomies of scale; only Port Moresby and Lae have populations large enough to enable marginally profitable operations at presently socially acceptable rates, and Port Moresby has now been separated from the Waterboard. There will be continuing need for financial support. Moreover, growing urbanization throughout the country requires provision of adequate systems to more towns. The ADB has traditionally taken a lead role in water supply. The 1995 sector study, financed by the ADB, provides guidance for the future. A provincial towns water supply project is programmed for 2000.

## 4. Environment

32. Environmental issues and the conservation of PNG's biodiversity are critical. The ADB will maintain its strategic focus by helping address environmental issues arising from maritime exploitation, an area where no assistance is being proffered (outside assistance is concentrated in Forestry) and which corresponds with other ADB interventions. A project is tentatively programmed for 2001 but will require further elaboration of sectoral policy priorities. It is likely that assistance for strengthening the environmental protection institutional framework, with a view to placing it on a largely self-financing basis, will be warranted. In addition, two programmed projects, *Provincial Towns Water Supply* and *Provincial Ports* have environment as a secondary objective.

## D. Governance Dimensions of Asian Development Bank Operations

33. Improving governance and development administration has become the centerpiece of ADB assistance efforts. The first priority will be to improve public sector financial management. At Government request, the ADB has taken the lead role in helping refine the Government's planning in this area and will take primary responsibility for requirements at national level, under the 1999 *Financial Management Improvement Project*; the assistance will be closely coordinated with that

of other donors, notably the Australian Agency for International Development (AusAID), UNDP and the World Bank.

34. During the 2000-2002 program period, the ADB will assist in refocusing public sector management on performance, concentrating on key service delivery units in selected vital agencies. An important sub-component will be to assist in strengthening the capacities of the Auditor General's Office, working in parallel with other interested donors (notably the World Bank). Another sub-component will be assistance to build up selected capacities of the planning system, working in parallel with UNDP, World Bank and AusAID. Building on the groundwork provided under the Financial Management Improvement Program, the ADB also will assist in building up provincial and local level government management capacities, through a project programmed for 2002.

#### **E. Gender Dimensions of Asian Development Bank Operations**

35. Gender issues and the need to redress the appalling status of women are a central focus of the ADB's operations, and gender issues are addressed throughout the ongoing portfolio and the proposed program. In the health sector the ongoing loans, and in particular the Health Sector Development Program, specifically target gender beneficiary indicators. Similarly, the recently approved *Smallholder Support Services Pilot Project* is expected to address the needs of women smallholders, as will the proposed *Rural Informal Sector Project*. The 1999 *Skills Development Project* will have an explicit gender orientation, as will the proposed work on informal sector constraints and on microfinance issues. The proposed *Health Program Review*, and associated project preparation will focus in large part on gender issues in the delivery of health benefits.

#### **F. Private Sector Operations**

36. A core concern of the ADB is to establish an enabling environment for private sector development, as the only means of generating sustainable growth of widespread income earning opportunities. The ADB will provide direct investment assistance through continuing participation in the Kula Fund (which is headquartered in Port Moresby while covering the Pacific) and the South Pacific Project Facility. It is also likely that the Private Sector Group will be asked to play a catalytic role in the development of gas pipeline operations. More generally, much of the ADB's activities are focused directly on encouraging and assisting private sector development. Thus the transport investments are designed to improve market access; the skills development, microfinance effort and, perhaps most significant, the efforts to alleviate barriers to informal sectors are all designed to foster private sector activities.

### **IV. Regional Economic Cooperation**

37. The following are priorities for regional cooperation, and PNG has expressed interest in participating in related ADB initiatives: (i) building trading relationships within and with blocs outside the region, (ii) cooperative arrangements in aviation and shipping, and (iii) coordinated policies and approaches to the management of fisheries.

### **V. Donor Activities and Aid Coordination**

38. Official development assistance has been a major source of financing for PNG. In the 1980s, budget support from Australia accounted for more than a third of public expenditure. Although external assistance is falling, in recent years it has still accounted for about 7 percent of GNP. Aid administration by the Government traditionally has been weak, leading to a series of

organizational changes introduced to improve matters. Since 1995, aid coordination has been handled by the Foreign Aid Management Division, within the planning bureaucracy. The World Bank chairs the Consultative Group; the last meeting was held in November 1999. Given AusAID's dominant position, in practice much coordination is done by its Port Moresby office.

39. Australia is the main development partner, currently providing about A\$320 million per year. There has been a dramatic shift in the composition of Australian assistance, away from budget support to 'jointly programmed aid', with budget support to be phased out by mid-2000. Under the recently concluded new treaty, Australia will provide up to A\$300 million per year of project assistance. The shift to project assistance requires careful donor coordination to ensure sound use of donor funds. Japan is the second largest bilateral donor, and has recently financed projects in education and transport (airports and roads). Japan also was a major contributor to the Structural Adjustment Program. Smaller bilateral donors include Germany, New Zealand, and Taipei,China. The overall external assistance is shown in Appendix 3.

40. The World Bank's strategy in PNG stresses improving delivery and effectiveness of public services; promoting economic development and employment creation through macroeconomic stability, liberalizing trade and investment regimes, and improving capital markets; and improving governance in the use of public funds. The United Nations agencies, notably UNDP, play a significant coordinating role; their primary focus is on sustainable human development. The International Monetary Fund provides extensive technical assistance support on monetary, fiscal and banking matters, and was and remains central to the macro stabilization efforts.

## **VI. Cofinancing and Catalyzing External Resources**

41. Co-financing will play an increasing role in ADB operations in PNG. Because PNG is being graduated from eligibility for Asian Development Fund (ADF) funds and because of the lower limit on ADB funding of projects, the lowering of the overall cost of financing a project that can be achieved by bringing in other financiers becomes more attractive. Secondly, it has become clear that there can be distinct economies of administrative efforts in combined interventions (compared to multiple standalone projects). Even when co-financing is not involved, coordination of efforts is vital, partly to avoid duplication and partly to exploit opportunities for synergy. There is considerable scope for cofinancing, notably with AusAID and with the Japanese agencies; the intention is to enhance coordination of efforts rather than to increase the availability of resources.

## **VII. Asian Development Bank's Operational Program**

42. On an indicative basis, the three year lending program comprises three loans each year (four in 2000) totaling \$80 million- \$100 million each year. The program total is larger than has been achieved in recent years, but is in line with earlier performance, and expected achievement in 1999. More importantly, the program total is designed to maintain policy leverage with Government.

43. PNG is now classified as having graduated to Group C of countries, with access only to ordinary capital resource (OCR) loans, with the graduation taking place progressively over the period 1999-2000. The graduation is being kept under review, because per capita income has fallen below the cut-off level and is likely to remain below the cut-off level for the next three to five years. Some ADF lending may be feasible during 2001-2002.

**Table 1: Lending and Technical Assistance Program, 2000-2002**

## A. Public Sector Lending Program

	1998 (Actual)		1999		2000		2001		2002	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending Program <sup>a</sup>	<b>2</b>	<b>14.1</b>	<b>3</b>	<b>104.0</b>	<b>3</b>	<b>75.0</b>	-	-	-	-
ADF	-	-	1	20.0	1	20.0	-	-	-	-
OCR	2	14.1	2	83.0	2	55.0	-	-	-	-
Lending Pipeline <sup>b</sup>	-	-	-	-	<b>1</b>	<b>25.0</b>	<b>4</b>	<b>75.0</b>	<b>3</b>	<b>75.0</b>
ADF	-	-	-	-	1	25.0	-	-	-	-
OCR	-	-	-	-	-	-	4	75.0	3	75.0

## B. Technical Assistance Program

	1998 (Actual)		1999		2000		2001		2002	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program <sup>a</sup>	7	2,637.5	8	4,008.0	9	4,400.0	-	-	-	-
TA Pipeline <sup>b</sup>	-	-	-	-	-	-	5	3,250.0	4	2,750.0

<sup>a</sup> The Program is comprised of the firm projects.

<sup>b</sup> The Pipeline consists of the Program (firm projects) and standby projects. In 2001 and 2002, there is no distinction between firm and standby.

**VIII. Economic and Sector Work Program**

44. During the 2000-2002 programming period, capacity building will concentrate on (i) improving public sector financial and services management at national and lower levels, (ii) strengthening urban water supply management institutions, and (iii) reforming the management structures for road and sea transport. Policy dialogue is expected to cover (i) resources mobilization, especially for road and sea transport; (ii) maintenance allocations generally; and the need for improving economic efficiency. Gender issues, and the need to redress the appalling status of women will be a particular focus of dialogue.

45. Economic sector work will include investigation of the fiscal regimes for mining, road sector cost recovery options, constraints to informal sector activity, road sector policy studies, and policy frameworks and institutional options for road and sea transport. The new transport sector work complements the ongoing ADB assistance to develop a road asset management system to prioritize maintenance efforts. In the social sectors, the skills development policy agenda, developed by the ADB in 1997-1998, is guiding reform efforts, and the ADB is continuing to help develop health sector human resources and management; the ADB also will undertake a health sector program review in 2000. Financial sector work is proposed to take place through PNG participation in the proposed regional TA to develop a financial sector strategy for Pacific DMCs.

**IX. Local Cost Financing**

46. Local cost financing will continue to be an issue in view of the substantial external financing gap and continuing budgetary constraints. In line with ADB policy, a higher percentage of local cost financing may be provided, especially for projects which address poverty or environmental concerns or which are located in rural areas.

**PAPUA NEW GUINEA**  
**COUNTRY PERFORMANCE INDICATORS**

Item	1994	1995	1996	1997	1998	1999 <sup>a</sup>
<b>A. Income and Growth</b>						
1. GDP per Capita (dollars, current)	1,346	1,214	1,266	1,138	950	896
2. GDP Growth (% in constant prices)	5.2	-2.9	3.9	-4.6	2.5	2.9
Agriculture	4.5	2.2	6.1	-4.2	-6.4	4.6
Industry	1.3	-9.7	3.3	-14.2	18.9	7.7
Services	9.8	-1.5	1.2	6.1	-4.9	-5.2
<b>B. Saving and Investment (current market prices, % of GDP)</b>						
1. Gross Domestic Investment	16.3	19.4	27.9	27.1	30.3	...
2. Gross Domestic Saving	27.0	31.7	...	...	...	...
<b>C. Money and Inflation</b>						
1. Consumer Prices (annual average %)	2.9	17.3	11.6	3.9	13.6	...
2. Broad Money (M2, %)	-1.3	13.7	30.7	7.7	1.9	...
<b>D. Government Finance (% of GDP)</b>						
1. Total Revenue	26.8	27.3	27.4	32.3	30.3	29.3
2. Total Expenditure and Net Lending	29.7	27.9	27.0	32.2	32.0	30.2
3. Overall Surplus/Deficit (-)	-2.9	-0.5	0.5	0.1	-1.6	-0.9
<b>E. Balance of Payments</b>						
1. Merchandise Trade Balance (% of GDP)	24.9	28.5	19.3	13.9	22.9	...
2. Current Account Balance (% of D)	10.6	13.6	5.9	-2.4	-1.1	...
3. Export (\$) growth (annual percent change)	2.5	0.4	-5.6	-15.1	7.6	...
4. Import (\$) growth (annual percent change)	17.2	-4.5	19.3	-2.0	-6.2	...
<b>F. External Payments Indicators</b>						
1. International Reserves (kina, end of period)	96.0	269.7	649.7	354.0	331.5	...
- months of imports	1.0	2.6	4.7	3.8	3.3	...
2. External Debt Service (% of exports of goods & services)	30.8	22.4	13.3	16.6	13.4	...
3. External Debt (% of GDP)	49.0	48.6	44.7	60.1	66.0	...
<b>Memorandum Items:</b>						
GDP (current prices, Kina million)	411.0	6,308.6	6,914.0	6,824.3	7,713.6	8,505.1
Exchange Rate (local currency per dollar, annual average)	1.0090	1.2763	1.3179	1.4337	1.9219	2.2222

<sup>a</sup> Estimates

Source: OPO Staff Estimate

**PAPUA NEW GUINEA**  
**COUNTRY PERFORMANCE INDICATORS**

	1985	1990	1998	
<b>POPULATION INDICATORS</b>				
Total Population (millions)	3.4	3.7	4.4	
Annual Population Growth Rate (% change)	1.80	2.10	2.50	(1990- 98)
<b>SOCIAL INDICATORS</b>				
Total Fertility Rate (births per woman)	5.4	5.4	5.2	
Maternal Mortality Rate (per hundred thousand live births)	900	900	370	
Infant Mortality Rate (below 1 year; per '000 live births)	86	73	77	
Life Expectancy at Birth (years)				
Female	54	57	54	
Male	51	55	55	
Adult Literacy (%)			28	
Primary School Enrollment (% of school age population)				
Total/Female			31/30	
Secondary School Enrollment (% of school age population)				
Total/Female			23/19	
Child Malnutrition (% of under age 5 underweight)			29	
Population Below Poverty Line (%)	15.7	...	37	
Income Ratio of Highest 20% to Lowest 20%			9.5	
Population with Access to Safe Water (%)	20	22	24	
Population with Access to Sanitation (%)	56	57	25	
Public Education Expenditure as % of GDP	...	...	5.2	
Public Health Expenditure as % of GDP	...	...	2.0	
Human Development Index	...	...	0.314	
Human Development Global Ranking			164	
Human Poverty Index			52.2	
<b>ENVIRONMENTAL INDICATORS</b>				
Forestry (% of total land area)	85	85	84	...
Deforestation	...	...	...	...
Total Area	...	...	...	...
Annual deforestation	...	...	...	...
Biodiversity				
Nationally protected area	...	...	...	...
Area	...	...	...	...
Number	...	...	...	...
As % of land area	...	...	...	...
Biosphere reserves	...	...	...	...
Area	...	...	...	...
Number	...	...	...	...
World Heritage sites (number)	...	...	...	...
Wetlands of international importance	...	...	...	...
Area	...	...	...	...
Number	...	...	...	...
Land Use				
Cropland; permanent pasture (ha.)	...	0.13	0.13	(1992)
Air Pollution (Ambient concentrations)				
Particulates	...	...	...	...
SO2	...	...	...	...
Water Pollution (concentration of pollutants in water bodies)				
Biochemical Oxygen Demand (BOD)	...	...	...	...
Chemical Oxygen Demand (COD)	...	...	...	...
Global Environmental Problems				
CO2 emissions (total and per capita) (metric tons)	...	...	...	...

**PAPUA NEW GUINEA**  
**PORTFOLIO PERFORMANCE**

**Table 1 : Implementation, Disbursement Performance and Postevaluation Results**  
**Public Sector Projects only**  
(as of 31 December 1998)

A. Project Portfolio <sup>b</sup>	Net Loan Amount \$ million    %		Total No.    %		Rating (No.) <sup>a</sup>							
					Implementation Progress				Development Objectives			
					HS	S	PS	U	HS	S	PS	U
Agriculture and Natural Resources	14.11	8.2	2	18.2	-	2	-	-	-	2	-	-
Energy	-	-	-	-	-	-	-	-	-	-	-	-
Finance and Industry	-	-	-	-	-	-	-	-	-	-	-	-
Social Infrastructure	117.37	68.3	7	63.6	-	5	-	2	-	6	-	1
Transport and Communications	40.24	23.4	2	18.2	-	-	-	2	-	2	-	-
Others/Multisector	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>171.72</b>	<b>100.0</b>	<b>11</b>	<b>100.0</b>	<b>0</b>	<b>7</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>10</b>	<b>0</b>	<b>1</b>

  

B. Disbursements <sup>c</sup>	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)	80.30	77.30	157.60
(2) Disbursed amount (\$ mn, cumulative, active loans only)	40.24	45.29	85.53
(3) Percentage disbursed [(2)/(1)] (%)	50.11	50.11	54.27
(4) Disbursements (\$mn, active loans only, latest year)	17.99	5.98	23.97
(5) Disbursement ratio (%) <sup>d</sup>	30.99	16.32	25.31

  

C. Net Transfer of Resources <sup>e</sup> (\$ million)	OCR	ADF	Total
Net transfer in 1995	-23.63	8.96	-14.67
Net transfer in 1996	-15.25	0.36	-14.89
Net transfer in 1997	-6.33	5.15	-1.18
Net transfer in 1998	-1.33	0.28	-1.05

  

D. Post-Evaluated Projects	1968 - 1977		1978 - 1987		1988 - 1998		1968 - 1998			
	No.	%	No.	%	No.	%	No.	%		
<b>1. Postevaluation Rating</b> (as of 31 December 1998)										
Rated Generally Successful (GS)	-	-	2	25.0	3	30.0	5	27.8		
Rated Partly Successful (PS)	-	-	6	75.0	6	60.0	12	66.7		
Rated Unsuccessful (US)	-	-	-	-	1	10.0	1	5.6		
No Rating (NR)	-	-	-	-	-	-	-	-		
<b>Total</b>	<b>0</b>	<b>0.0</b>	<b>8</b>	<b>100.0</b>	<b>10</b>	<b>100.0</b>	<b>18</b>	<b>100.0</b>		
<b>2. Postevaluation Rating by Sector</b> 1968-88 (as of 31 December 1998)	<b>GS</b>		<b>PS</b>		<b>US</b>		<b>NR</b>		<b>Total</b>	
	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	-	-	2	16.7	1	100.0	-	-	3	16.7
Energy	-	-	1	8.3	-	-	-	-	1	5.6
Finance and Industry	-	-	3	25.0	-	-	-	-	3	16.7
Social Infrastructure	1	20.0	4	33.3	-	-	-	-	5	27.8
Transport and Communications	4	80.0	2	16.7	-	-	-	-	6	33.3
Others/Multisector	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>5</b>	<b>100.0</b>	<b>12</b>	<b>100.0</b>	<b>1</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>	<b>18</b>	<b>100.0</b>

<sup>a</sup> HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

<sup>b</sup> Excludes loans closed during the year.

<sup>c</sup> Excludes loans closed during the year without disbursement.

<sup>d</sup> Ratio of total disbursement in a given year over the net loan amount available at the beginning of the year plus the net loan amount of newly approved loans which have become effective "Net loan amount at the beginning of the year" includes all effective loans at the beginning of the year. "Loan amounts of newly approved loans which have become effective" includes loans approved before and after the beginning of the year that have become effective after the beginning of the year.

<sup>e</sup> Includes private sector projects for countries with private sector operations.

Source : OPO (A), CTD (B & C), OEO (D)

**PAPUA NEW GUINEA  
PORTFOLIO PERFORMANCE**

**Table 2: Status of Project Implementation  
Public Sector Projects Only  
(As of 31 December 1998)**

Sector <sup>a</sup>	Project Title	Net Loan Amount		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Physical Progress (% complete)	Cum Contract Awards (\$ million)	Cummulative Disbursement (\$ million)	Project Performance Rating <sup>b</sup>	
		OCR (\$ million)	ADF			Original (mm/yy)	Revised (mm/yy)				Implementation Progress	Development Objective
AGR	Loan No. 1652-PNG Smallholder Support Services	7.60	-	Dec-98	-	Dec-04	-	0%	0.00	0.00	S	S
AGR	Loan No. 1656-PNG Fisheries Development Loan No. 1097-PNG (SF)	6.50	-	Dec-98	-	Dec-03	-	0%	0.00	0.00	S	S
SOC	Third Rural Health Loan No. 1211-PNG	-	22.30	Sep-91	Jul-92	May-97	May-99	55%	12.19	11.85	U	U
SOC	Third Urban Water Supply Loan No. 1224-PNG (SF)	11.30	-	Dec-92	Dec-94	Nov-96	Dec-99	30%	2.13	2.53	U <sup>c</sup>	S
SOC	Higher Education Loan No. 1225-PNG (SF)	-	16.80	Apr-93	Mar-94	Jun-99	Sep-00	71%	14.34	12.80	S	S
SOC	Population and Family Planning Loan No. 1516/1517-PNG (SF)	-	7.20	Apr-93	Mar-94	Dec-98	Dec-99	70%	3.30	3.38	S	S
SOC	Health Sector Development Loan No. 1518-PNG	45.00	4.90	Mar-97	Oct-97	Jun-00	-	-	26.07	24.88	S	S
SOC	Health Sector Investment Project Loan No. 1153/1154-PNG (SF)	-	9.90	Mar-97	Oct-97	Dec-01	-	-	0.15	1.02	S	S
T&C	Transport Infrastructure Dev.	24.00	16.20	Jan-92	Jun-92	Jun-97	Jun-99	35%	24.75	29.06	U <sup>c</sup>	S
<b>Total</b>		<b>94.40</b>	<b>77.30</b>						<b>82.94</b>	<b>85.53</b>		

<sup>a</sup> Sector:  
 AGR: Agriculture & Natural Resources  
 I&F: Industry and Finance  
 SOC: Social Infrastructure  
 T&C: Transport and Communications  
 OTH: Multisector/Others

<sup>b</sup> HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

<sup>c</sup> Upgraded to S in June 1999

Note: Excludes loan(s) closed during the year.

**PAPUA NEW GUINEA**  
**OVERALL EXTERNAL ASSISTANCE**

External Source (\$ million)	Past 3-5 Years (Cum. 1994-1998)		1998 Approvals	
	Loan/Credit	TA	Loan/Credit	TA
<b>A. Multilateral Assistance</b>				
Bank	29.6	4.1	14.1	0.3
JSF	...	4.3	...	2.3
UNDP	...	8.0	...	...
World Bank	40.0	...	...	...
Subtotal	69.6	16.4	14.1	2.6
<b>B. Bilateral Assistance</b>				
Australia	...	232.0	...	...
Canada	...	...	...	...
France	...	...	...	...
Germany	...	10.0	...	...
Italy	...	...	...	...
Japan	...	37.0	...	...
New Zealand	...	4.0	...	...
United Kingdom	...	1.0	...	...
United States	...	...	...	...
Others	...	4.0	...	...
Subtotal		284.0		
<b>Total</b>	<b>69.6</b>	<b>300.4</b>	<b>14.1</b>	<b>2.6</b>
Memo Items:				
External Assistance as % of Current Expenditures		...		
External Assistance as % of Capital Expenditures		...		

Sources: OPO Staff Estimate

**PAPUA NEW GUINEA**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002**  
(Amounts in \$ million)

Sector/Project Name	Strategic Dev't Objectives <sup>a</sup>		Responsible Division	Year of PPTA	PROJECT COST					
	Primary	Secondary			TOTAL	Bank			Gov't	Cofinancing (Others)
						OCR	ADF	Total		
<b>2000 FIRM LOANS</b>										
<b>Finance and Industry</b>										
1. Microfinance and Employment	POV	WID/ECO	POHQ	1999	15.0	0.0	15.0	15.0	0.0	0.0
<b>Subtotal</b>					15.0	0.0	15.0	15.0	0.0	0.0
<b>Transport and Communications</b>										
1. Maritime Navigation Aids	ECO	-	POHQ	1998	20.0	20.0	0.0	20.0	0.0	0.0
<b>Subtotal</b>					20.0	20.0	0.0	20.0	0.0	0.0
<b>Governance</b>										
1. Public Sector Services Management	ECO	-	POHQ	1999	40.0	35.0	5.0	40.0	0.0	0.0
<b>Subtotal</b>					40.0	35.0	5.0	40.0	0.0	0.0
<b>Total</b>					<b>75.0</b>	<b>55.0</b>	<b>20.0</b>	<b>75.0</b>	<b>0.0</b>	<b>0.0</b>
<b>2000 STANDBY LOAN</b>										
<b>Social Infrastructure</b>										
1. Provincial Towns Water Supply & Sanitation	HD	ENV	POHQ	1999	25.0	25.0	0.0	25.0	0.0	0.0
<b>Subtotal</b>					25.0	25.0	-	25.0	0.0	0.0
<b>Total</b>					<b>25.0</b>	<b>25.0</b>	<b>0.0</b>	<b>25.0</b>	<b>0.0</b>	<b>0.0</b>
<b>2001 LOAN PIPELINE</b>										
<b>Agriculture/Rural Development/Natural Resources</b>										
1. Rural/Agriculture Informal Sector	ECO	POV	POHQ	2000	10.0	10.0	0.0	10.0	0.0	0.0
<b>Subtotal</b>					10.0	10.0	0.0	10.0		
<b>Transport and Communications</b>										
1. Highlands Highway	ECO	-	POHQ	1999	30.0	30.0	0.0	30.0	0.0	0.0
<b>Subtotal</b>					30.0	30.0	0.0	30.0	0.0	0.0
<b>Social Infrastructure</b>										
1. Provincial Towns Water Supply	HD	ENV	POHQ	1999	25.0	25.0	0.0	25.0	0.0	0.0
2. Health Promotion and Protection	HD	WID	POHQ	2000	10.0	10.0	0.0	10.0	0.0	0.0
<b>Subtotal</b>					35.0	35.0	0.0	35.0	0.0	0.0
<b>Total</b>					<b>75.0</b>	<b>75.0</b>	<b>0.0</b>	<b>75.0</b>	<b>0.0</b>	<b>0.0</b>
<b>2002 LOAN PIPELINE</b>										
<b>Agriculture/Rural Development/Natural Resources</b>										
1. Coastal Environment	ENV	POV	POHQ	2000	20.0	20.0	0.0	20.0	0.0	0.0
<b>Subtotal</b>					20.0	20.0	0.0	20.0	0.0	0.0
<b>Transport and Communications</b>										
1. Provincial Ports	ECO	ENV	POHQ	2000	35.0	35.0	0.0	35.0	0.0	0.0
<b>Subtotal</b>					35.0	35.0	0.0	35.0	0.0	0.0
<b>Governance</b>										
1. Public Sector Management (Prov./Local Level)	ECO	-	POHQ	2001	20.0	20.0	0.0	20.0	0.0	0.0
<b>Subtotal</b>					20.0	20.0	0.0	20.0	0.0	0.0
<b>Total</b>					<b>75.0</b>	<b>75.0</b>	<b>0.0</b>	<b>75.0</b>	<b>0.0</b>	<b>0.0</b>

<sup>a</sup> ECO = Economic Growth; HD = Human Development; POV = Poverty Reduction; WID = Women in Development; and ENV = Environmental Protection.

**PAPUA NEW GUINEA**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002**

Sector/Project Name	Responsible Division	Type of TA	Amount (\$'000)		
			Bank	Others	Total
<b>2000 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Agriculture/Rural Development/Natural Resources</b>					
1 . Rural/Agriculture Informal Sector	POHQ	PP	750.0	-	750.0
2 . Coastal Environment	POHQ	PP	750.0	-	750.0
	<b>Subtotal</b>		<u>1,500.0</u>		<u>1,500.0</u>
<b>Transport and Communications</b>					
1 . Highlands Highway	POHQ	PP	500.0	-	500.0
2 . Road Sector Policy Studies	POHQ	AD	300.0	-	300.0
3 . Provincial Ports	POHQ	PP	750.0	-	750.0
	<b>Subtotal</b>		<u>1,550.0</u>		<u>1,550.0</u>
<b>Social Infrastructure</b>					
1 . Health Promotion and Protection	POHQ	PP	650.0	-	650.0
2 . Health Program Review	POHQ	AD	300.0	-	300.0
	<b>Subtotal</b>		<u>950.0</u>		<u>950.0</u>
<b>Others</b>					
1 . Informal Sector Constraints	POHQ	AD	250.0	-	250.0
2 . Mining Sector Fiscal Regime	POHQ	AD	150.0	-	150.0
	<b>Subtotal</b>		<u>400.0</u>		<u>400.0</u>
<b>Total</b>			<u><b>4,400.0</b></u>		<u><b>4,400.0</b></u>
<b>2001 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Agriculture/Rural Development/Natural Resources</b>					
1 . Provincial Waters Fisheries Development	POHQ	PP	750.0	-	750.0
	<b>Subtotal</b>		<u>750.0</u>		<u>750.0</u>
<b>Transport and Communications</b>					
1 . Highlands Highway Management	POHQ	AD	750.0	-	750.0
2 . Maritime Administration	POHQ	AD	750.0	-	750.0
	<b>Subtotal</b>		<u>1,500.0</u>		<u>1,500.0</u>
<b>Social Infrastructure</b>					
1 . Adult Education	POHQ	PP	500.0	-	500.0
	<b>Subtotal</b>		<u>500.0</u>		<u>500.0</u>
<b>Governance</b>					
1 . Public Sector Management (Prov./Local Level)	POHQ	PP	500.0	-	500.0
	<b>Subtotal</b>		<u>500.0</u>		<u>500.0</u>
<b>Total</b>			<u><b>3,250.0</b></u>		<u><b>3,250.0</b></u>
<b>2002 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Agriculture/Rural Development/Natural Resources</b>					
1 . Ramu and Markham Area Development	POHQ	PP	750.0	-	750.0
2 . Sandaun Province Sustainable Development	POHQ	PP	750.0	-	750.0
	<b>Subtotal</b>		<u>1,500.0</u>		<u>1,500.0</u>
<b>Social Infrastructure</b>					
1 . Health Sector	POHQ	PP	500.0	-	500.0
	<b>Subtotal</b>		<u>500.0</u>		<u>500.0</u>
<b>Governance</b>					
1 . Public Sector Management (Prov./Local Level)	POHQ	AD	750.0	-	750.0
	<b>Subtotal</b>		<u>750.0</u>		<u>750.0</u>
<b>Total</b>			<u><b>2,750.0</b></u>		<u><b>2,750.0</b></u>

**PAPUA NEW GUINEA**  
**LENDING PROGRAM BY TYPE AND SECTOR, 2000-2002**

Classification	2000 (Firm)		2001-2002	
	No.	% <sup>a</sup>	No.	% <sup>a</sup>
<b>By Type</b>				
A. Economic Growth	2	66.7	2	28.6
B. Projects Directly Aimed at Social Concerns	1	33.3	2	28.6
C. Projects Directly Aimed at Environmental Concerns		0.0	1	14.3
D. Economic Growth-oriented Projects with Social and/or Environmental Concerns		0.0	2	28.6
<b>Total</b>	<b>3</b>	<b>100.0</b>	<b>7</b>	<b>100.0</b>
<b>By Sector</b>				
A. Agriculture and Natural Resources		0.0	2	28.6
B. Energy		0.0		0.0
C. Finance	1	33.3		0.0
D. Transport and Communications	1	33.3	2	28.6
E. Social Infrastructure		0.0	2	28.6
F. Others/Multisector	1	33.3	1	14.3
<b>Total</b>	<b>3</b>	<b>100.0</b>	<b>7</b>	<b>100.0</b>

<sup>a</sup> rounded off.

**PAPUA NEW GUINEA**

<b>PROJECT PROFILE</b>				
<b>1. Project Name:</b> Microfinance and Employment			<b>2. Sector/Subsector:</b>  Finance/Microfinance	
<b>3. Dev. Objective:</b> Primary: POV      Secondary: WID/ECO				
<b>4. Rationale:</b>  Eighty per cent of the population of PNG lives in the rural areas. They have grave difficulty in accessing capital for any entrepreneurial activity due to the very limited presence of the formal financial sector in rural areas. The project will support and strengthen the informal financial sector.			<b>5. Beneficiary Participation in Formulation:</b>  Consultations have been held with community groups in three provinces as well as with NGOs operating in rural finance.	
<b>6. Objectives and Scope:</b>  The objectives of the project are to enhance the rural economy, and increase employment and incomes in areas where levels of unemployment and underemployment range from 30 to 40 per cent. The project will promote access to microfinance, encourage savings and provide training in basic business management skills.				
<b>7. Estimated Cost &amp; Financing Plan (\$):</b>				<b>Remarks</b>
Loan Project Cost (\$m)				
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>	<b>Total</b>	
Bank	15.0	-	15.0	
Cofinancing	-	-	-	
Borrower	-	-	-	
<b>Total</b>	15.0	-	<b>15.0</b>	
<b>8. Estimated Benefits and Beneficiary Groups:</b>  Rural unemployed, particularly women				
<b>9. Executing Agency:</b>  TBD			<b>10. Project Implementation Period:</b>  Start: 2000 End: 2004	
<b>11. Environment Category:</b> C			<b>12. Processing Year:</b> 2000	

**PAPUA NEW GUINEA**

<b>PROJECT PROFILE</b>				
<b>1. Project Name:</b> Maritime Navigation Aids			<b>2. Sector/Subsector:</b>  Transport and Communications/Transport and Shipping	
<b>3. Dev. Objective:</b> Primary: ECO Secondary:			<b>5. Beneficiary Participation in Formulation:</b>  Direct and indirect beneficiaries will be contacted during preparation of the feasibility study, loan fact finding and appraisal missions.	
<b>4. Rationale:</b>  The Project will prepare an investment program to establish a reliable and credible system of navigation aids for safer and more efficient access to PNG ports and passage through PNG coastal waters.				
<b>6. Objectives and Scope:</b>  The project will restore, rehabilitate and install maritime navigation aids and establish a sustainable maintenance system for the aids.				
<b>7. Estimated Cost &amp; Financing Plan (\$):</b>				<b>Remarks</b>
Loan Project Cost (\$m)				
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>	<b>Total</b>	
Bank	20.0	-	20.0	
Cofinancing	-	-	-	
Borrower	-	-	-	
<b>Total</b>	<b>20.0</b>	<b>-</b>	<b>20.0</b>	
<b>8. Estimated Benefits and Beneficiary Groups:</b>  Shippers, importers, exporters, coastal vessel traffic, fishing industry, consumers of imports and shipped goods.				
<b>9. Executing Agency:</b>  Department of Transport and Civil Aviation			<b>10. Project Implementation Period:</b>  Start: March 2000 End: March 2004	
<b>11. Environment Category:</b> C			<b>12. Processing Year:</b> 2000	

**PAPUA NEW GUINEA**

<b>PROJECT PROFILE</b>				
<b>1. Project Name:</b> Public Sector Services Management			<b>2. Sector/Subsector:</b>  Public Sector Management	
<b>3. Dev. Objective:</b> Primary: ECO      Secondary: HD				
<b>4. Rationale:</b>  The efficiency and effectiveness of public sector delivery agencies is weak. The quality and quantity of critical services such as road maintenance, health and education services and extension services leaves much to be desired. There is need for introducing a results orientation and greater accountability in public service.			<b>5. Beneficiary Participation in Formulation:</b>  The PPTA will involve segments of the public to establish baseline evaluative data on the quality and efficiency of basic public services.	
<b>6. Objectives and Scope:</b>  The objective of the program is to enhance the efficiency and effectiveness of the public service, in particular in the delivery of critical services such as road maintenance, education and health services, and extension. The program will facilitate downsizing and rationalizing the public service, streamlining and strengthening management and establishing clear accountability.				
<b>7. Estimated Cost &amp; Financing Plan (\$):</b>				<b>Remarks</b>
Loan Project Cost (\$m)				
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>	<b>Total</b>	
Bank	40.0	-	40.0	
Cofinancing	-	-	-	
Borrower	-	-	-	
<b>Total</b>	<b>40.0</b>	<b>-</b>	<b>40.0</b>	
<b>8. Estimated Benefits and Beneficiary Groups:</b>  The beneficiaries will be the general public; they will obtain improved quality of public services.				
<b>9. Executing Agency:</b>  Office of National Planning and Implementation			<b>10. Project Implementation Period:</b>  Start: 2000 End: 2003	
<b>11. Environment Category:</b> C			<b>12. Processing Year:</b> 2000	

### PAPUA NEW GUINEA

<b>PROJECT PROFILE</b>				
<b>1. Project Name:</b> Provincial Towns Water Supply and Sanitation			<b>2. Sector/Subsector:</b>  Social Infrastructure/Water Supply and Sanitation	
<b>3. Dev. Objective:</b> Primary: HD      Secondary: ENV			<b>5. Beneficiary Participation in Formulation:</b>  The project will be implemented through the Waterboard, which was established in 1986 as a commercially oriented authority primarily responsible for development, operation and maintenance of the urban water supplies. The National Planning and Finance departments will also be involved in the process.	
<b>4. Rationale:</b>  Upon request from the Government of PNG, the Bank has progressively assisted in the development of the country's water supply system. There have been three urban water supply projects that have improved the water supply and sanitation in main provincial urban centers. The Bank is also assisting the development of rural water supply through the Third Rural Health project in an attempt to improve community health and hygiene. This project hopes to extend the access to safe water supply by addressing the needs of some provincial capitals and towns with no water treatment facilities and dependent mainly on rain water supply and/or shallow wells.				
<b>6. Objectives and Scope:</b>  The project will develop the water supply or sanitation systems in selected provincial capitals by either improving or rehabilitating the existing system or introducing a new system altogether. An initial list of ten provincial capitals including Bougainville have been identified. The final scope of coverage will be determined upon completion of the ongoing PPTA.				
<b>7. Estimated Cost &amp; Financing Plan (\$):</b>				<b>Remarks</b>
Loan Project Cost (\$m)				OPEC Fund has expressed interest in co-financing the Provincial Towns Water Supply Project. The funds will be untied with 2 percent interest plus 1% service Charge, 17 years maturity and 5 years grace period.
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>	<b>Total</b>	
Bank	25.0	-	25	
Cofinancing	-	-	-	
Borrower	-	-	-	
<b>Total</b>	<b>25.0</b>	<b>-</b>	<b>25.0</b>	
<b>8. Estimated Benefits and Beneficiary Groups:</b> People of the selected provincial capitals.				
<b>9. Executing Agency:</b>  The Waterboard of PNG			<b>10. Project Implementation Period:</b>  Start: End 2000 or early 2001 End: 3 years after the start date	
<b>11. Environment Category:</b> B			<b>12. Processing Year:</b> 2000	

**ASIAN DEVELOPMENT BANK**

**COUNTRY ASSISTANCE PLAN  
(2000-2002)  
PIPELINE UPDATE**

**PAPUA NEW GUINEA**

**June 2000**

**PAPUA NEW GUINEA**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002**  
(Amounts in \$ million)

Sector/Project Name	Strategic Dev't Objectives <sup>a</sup>		Responsible Division	Year of PPTA	PROJECT COST					
	Primary	Secondary			TOTAL	Bank			Gov't	Cofinancing (Others)
						OCR	ADF	Total		
<b>2000 FIRM LOANS</b>										
<b>Finance and Industry</b>										
1. Microfinance and Employment	POV	WID/ECO	POHQ	1999	9.6	0.0	9.6	9.6	0.0	0.0
<b>Subtotal</b>					9.6	0.0	9.6	9.6	0.0	0.0
<b>Transport and Communications</b>										
1. Rehabilitation of the Maritime Navigation Aids Sy	ECO	-	POHQ	1998	20.6	20.6	0.0	20.6	0.0	0.0
<b>Subtotal</b>					20.6	20.6	0.0	20.6	0.0	0.0
<b>Social Infrastructure</b>										
1. Provincial Towns Water Supply & Sanitation	HD	ENV	POHQ	1999	13.5	0.0	13.5	13.5	0.0	0.0
<b>Subtotal</b>					13.5	0.0	13.5	13.5	0.0	0.0
<b>Total</b>					<b>43.7</b>	<b>20.6</b>	<b>23.1</b>	<b>43.7</b>	<b>0.0</b>	<b>0.0</b>
<b>2001 LOAN PIPELINE</b>										
<b>Agriculture and Agro-Industry</b>										
1. Smallholder Agro-Industry	ECO	POV	POHQ	2000	15.0	15.0	0.0	15.0	0.0	0.0
<b>Subtotal</b>					15.0	15.0	0.0	15.0		
<b>Transport and Communications</b>										
1. Maritime Infrastructure	ECO	-	POHQ	2000	25.0	25.0	0.0	25.0	0.0	0.0
<b>Subtotal</b>					25.0	25.0	0.0	25.0	0.0	0.0
<b>Social Infrastructure</b>										
2. Population/Health Promotion and Protection	HD	WID	POHQ	2000	20.0	20.0	0.0	20.0	0.0	0.0
<b>Subtotal</b>					20.0	20.0	0.0	20.0	0.0	0.0
<b>Total</b>					<b>60.0</b>	<b>60.0</b>	<b>0.0</b>	<b>60.0</b>	<b>0.0</b>	<b>0.0</b>
<b>2002 LOAN PIPELINE</b>										
<b>Agriculture and Agro-Industry</b>										
1. Coastal Water Fisheries	ENV	POV	POHQ	2000	5.0	0.0	5.0	5.0	0.0	0.0
2. Rural Sector Linkages	POV	WID	POHQ	2000	10.0	10.0	0.0	10.0		
<b>Subtotal</b>					15.0	10.0	5.0	15.0	0.0	0.0
<b>Transport and Communications</b>										
1. Road Sector (Rd. Mgt/Reg. Maintenance)	ECO	ENV	POHQ	2001	30.0	30.0	0.0	30.0	0.0	0.0
<b>Subtotal</b>					30.0	30.0	0.0	30.0	0.0	0.0
<b>Others</b>										
1. Provincial/Local Level Services Management	ECO	-	POHQ	2001	15.0	15.0	0.0	15.0	0.0	0.0
<b>Subtotal</b>					15.0	15.0	0.0	15.0	0.0	0.0
<b>Total</b>					<b>60.0</b>	<b>55.0</b>	<b>5.0</b>	<b>60.0</b>	<b>0.0</b>	<b>0.0</b>

<sup>a</sup> ECO = Economic Growth; HD = Human Development; POV = Poverty Reduction; WID = Women in Development; and ENV = Environmental Protection.

**PAPUA NEW GUINEA**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002**

Sector/Project Name	Responsible Division	Type of TA	Amount (\$'000)		
			Bank	Others	Total
<b>2000 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Agriculture and Agro-Industry</b>					
1 . Smallholder Agro Industry	POHQ	PP	250.0	0.0	250.0
2 . Coastal Waters Fisheries Development	POHQ	PP	500.0	0.0	500.0
<b>Subtotal</b>			<u>750.0</u>	<u>0.0</u>	<u>750.0</u>
<b>Finance and Industry</b>					
1 . Strengthening Financial Management of the Health Sector (Suppl)*	POHQ	AD	186.0	0.0	186.0
<b>Subtotal</b>			<u>186.0</u>	<u>0.0</u>	<u>186.0</u>
<b>Transport and Communications</b>					
1 . Road Sector Institution Development	POHQ	AD	500.0	0.0	500.0
2 . Maritime Small Infrastructure	POHQ	PP	700.0	0.0	700.0
<b>Subtotal</b>			<u>1,200.0</u>	<u>0.0</u>	<u>1,200.0</u>
<b>Social Infrastructure</b>					
1 . Health Sector Review and Investment	POHQ	PP	750.0	0.0	750.0
<b>Subtotal</b>			<u>750.0</u>	<u>0.0</u>	<u>750.0</u>
<b>Others</b>					
1 . Informal Rural Sector Activities	POHQ	PP	250.0	0.0	250.0
2 . Review of Mining and Hydrocarbons Tax Regimes*	POHQ	AD	325.0	0.0	325.0
3 . Informal Sector Constraints	POHQ	AD	225.0	0.0	225.0
<b>Subtotal</b>			<u>800.0</u>	<u>0.0</u>	<u>800.0</u>
<b>Total</b>			<u><b>3,686.0</b></u>	<u><b>0.0</b></u>	<u><b>3,686.0</b></u>
<b>2001 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Agriculture and Agro-Industry</b>					
1 . Coastal Waters Environment	POHQ	PP	400.0	0.0	400.0
<b>Subtotal</b>			<u>400.0</u>	<u>0.0</u>	<u>400.0</u>
<b>Transport and Communications</b>					
1 . Road Sector (Road Management & South Region Maintenance)	POHQ	AD	400.0	0.0	400.0
2 . Maritime Administration	POHQ	AD	350.0	0.0	350.0
<b>Subtotal</b>			<u>750.0</u>	<u>0.0</u>	<u>750.0</u>
<b>Social Infrastructure</b>					
1 . Adult Informal Education	POHQ	PP	400.0	0.0	400.0
<b>Subtotal</b>			<u>400.0</u>	<u>0.0</u>	<u>400.0</u>
<b>Others</b>					
1 . Public Sector Reform Cluster TA	POHQ	PP	750.0	0.0	750.0
2 . Provincial/Local Level Public Services Reform	POHQ	PP	300.0	0.0	300.0
3 . Poverty Analyses	POHQ	AD	400.0	0.0	400.0
<b>Subtotal</b>			<u>1,450.0</u>	<u>0.0</u>	<u>1,450.0</u>
<b>Total</b>			<u><b>3,000.0</b></u>	<u><b>0.0</b></u>	<u><b>3,000.0</b></u>
<b>2002 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Agriculture and Agro-Industry</b>					
1 . Sandaun/E. Sepik Sustainable Development	POHQ	PP	500.0	0.0	500.0
<b>Subtotal</b>			<u>500.0</u>	<u>0.0</u>	<u>500.0</u>
<b>Social Infrastructure</b>					
1 . Health Sector	POHQ	PP	400.0	0.0	400.0
2 . Technical and Vocational Education and Training	POHQ	PP	500.0	0.0	500.0
<b>Subtotal</b>			<u>900.0</u>	<u>0.0</u>	<u>900.0</u>
<b>Others</b>					
1 . Provincial/Local Level Public Services Management	POHQ	AD	500.0	0.0	500.0
2 . Statistical Systems	POHQ	AD	600.0	0.0	600.0
3 . Urban Sector Development	POHQ	PP	500.0	0.0	500.0
<b>Subtotal</b>			<u>1,600.0</u>	<u>0.0</u>	<u>1,600.0</u>
<b>Total</b>			<u><b>3,000.0</b></u>	<u><b>0.0</b></u>	<u><b>3,000.0</b></u>

\*Approved