

ASIAN DEVELOPMENT BANK

**COUNTRY ASSISTANCE PLAN
2001 – 2003**

PAPUA NEW GUINEA

December 2000

CURRENCY EQUIVALENTS

(As of 30 November 2000)

Currency Unit	–	Kina (K)
K1.00	=	\$0.342
\$1.00	=	K2.923977

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
BPNG	–	Bank of Papua New Guinea
GDP	–	gross domestic product
HDI	–	human development index
HSDP	–	Health Sector Development Program
IMF	–	International Monetary Fund
OCR	–	ordinary capital resources
PNG	–	Papua New Guinea
SRP	–	Structural Reform Program
TA	–	technical assistance
UNDP	–	United Nations Development Programme

NOTE

In this report, "\$" refers to US dollars.

FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank (ADB) for Papua New Guinea (PNG) covering the three-year period 2001-2003. 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 2000, in close consultation with the Government of PNG and other stakeholders, including non-government organizations. The CAP was discussed with the Board of Directors in October 2000 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 more recent developments.

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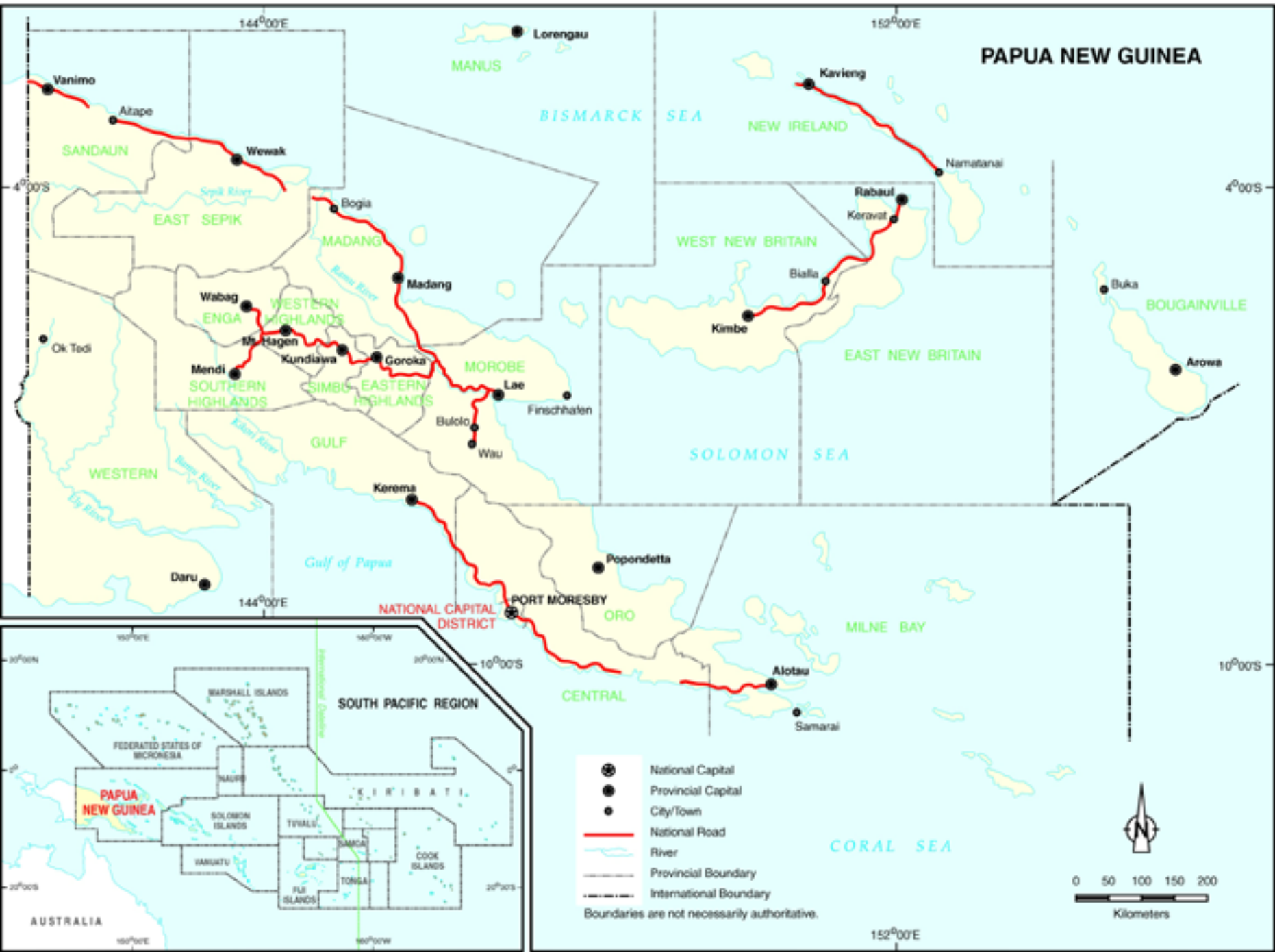
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PAPUA NEW GUINEA

I. Country Performance Assessment

A. Economic Performance Assessment

1. The Papua New Guinea (PNG) economy is extremely dualistic. 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. The 3.4 percent average annual real growth rate of gross domestic product (GDP) recorded during the 20-year period 1978-1998 conceals considerable year-to-year variation, resulting from various combinations of external economic shocks, natural disasters, and economic management problems. There has been little growth in the latter half of the 1990s, with real GDP in 1999 barely 3 percent higher than in 1994, not enough to compensate for population growth.

3. During 1997-1998, the economy was hard hit by drought, the effects of the Asian financial crisis, and low commodity prices. In 1999, real GDP is estimated to have grown by 3.8 percent, largely because of mining and petroleum growth of 14.1 percent. Signs of intensified macroeconomic instability became apparent early in the year, when the kina came under pressure at a time of seasonal downturn in export revenue. The pressure arose primarily from 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 Bank of Papua New Guinea (BPNG) that exceeded legal limits. Further deterioration in the already poor governance environment remained a fundamental concern, with Parliament suspended until 13 July and government business conducted in a non-transparent, unpredictable manner. The kina depreciated to an historic low of 0.3480 cents at 1 June, foreign exchange reserves dropped to a dangerously low level of one month of non-mineral imports cover, and inflation accelerated to an annual rate of 16 percent.

4. A new administration gained office on 14 July 1999, promising to restore integrity to state institutions, to stabilize the kina, to restore stability to the national budget, to privatize public enterprises where appropriate, and to ensure ongoing peace on Bougainville. A supplementary budget was introduced on 10 August that gained the endorsement of the IMF. This budget provided for cuts to national government's development expenditure; cessation of lump-sum payments for retrenchments under the poorly planned civil service reforms of the previous administration; and revenue-raising increases in gaming taxes, log export taxes, and excises on petrol, alcoholic beverages, tobacco, and luxury motor vehicles. The aim was to bring the overall fiscal deficit for 1999 down to 1.6 percent of GDP. The Government's policies and actions were endorsed by the international community at a Consultative Group Meeting held in early November 1999.

5. The 2000 budget presented to Parliament on 30 November 1999 elaborated the Government's new Structural Reform Program (SRP) intended to achieve the macroeconomic stabilization and structural adjustments necessary for sustained, broader-based economic growth.

Both the budget and the SRP gained widespread support from the PNG and international communities and, if implemented successfully during 2000–2001, would considerably improve medium-term growth prospects. The IMF support for the Government's economic efforts has been confirmed by the provision of a stand-by agreement. The Government also has successfully concluded negotiations with the World Bank on a structural adjustment loan, focusing on financial sector reforms as well as governance issues. The loan was approved by the World Bank Board in June 2000.

6. With the new Government a new page appears to have turned for PNG. The Government appears committed to wide ranging reforms, and has had considerable success in attracting support. Internationally, the new relationships with IMF and World Bank, and renewed close support from Australia are encouraging. Internally, the Government now commands a substantial majority in Parliament and attracts wide support at grassroots level, despite attempting to introduce necessary, but difficult and often controversial policy changes. Assuming that this commitment and support can be sustained, the prospects for PNG would appear relatively good.

7. A significant development has been the maintenance of peace in Bougainville. Although progress on resolving the complex issues has been slow and difficult, it is encouraging that the talks are continuing.

B. Poverty Assessment

8. After 25 years of independence and notwithstanding some economic and social progress, most of the people of PNG remain poor. During 1978-1998, per capita income grew at an average rate of about 1.1 percent. The Human Development Index (HDI) rose from 0.325 in 1970 to 0.507 in 1995, with life expectancy rising from 40 to 54 years. However, per capita gross national product was \$890 in 1998, compared with \$990 for East Asia and the Pacific, and \$1,710 for middle-income countries. PNG's HDI for 1995 places the country 129th among 174 developing countries, and the HDI score for 1998 places it last in the list of Pacific developing member countries. In the health sector in particular, there is some evidence of regress during the 1990s.

9. The Human Poverty Index for PNG is at the level of Burundi and Mali. On the evidence of a 1996 household survey, 31 percent of the PNG population live below the \$1 per day international poverty line. Using a slightly higher country-specific poverty line, 37.5 percent of the population is living in poverty, with their average consumption level being two-thirds of the poverty line consumption level of 461 kina (1996 prices) per adult equivalent per year. Approximately 17 percent of the PNG population cannot meet the basic requirement of 2,200 calories per day per adult equivalent, even if they spend all their income on food.

10. Poverty in PNG has an important regional dimension. The vast majority of the poor (almost 94 percent) live in rural areas. The Momase/North Coast region exhibits the highest incidence of poverty, with 46 percent of the population living below the poverty line. The Momase/North Coast and Highlands Regions together account for 74 percent of the poor. These two regions also reflect low levels of human development. The urbanized National Capital District has a poverty rate of 26 percent and accounts for only 4 percent of the poor.

11. Poverty and low levels of human development also have an important gender dimension. Although improving over time, the Gender-related Development Index is lower than the overall HDI at the national level and for all provinces, demonstrating that women's life expectancy, income and educational achievements are universally lower than men's. PNG has the distinction of women's life expectancy lower than men's.

12. The poor in PNG exhibit some clear characteristics. The heads of poor households have low educational achievement (52 percent of the poor are in households whose head has never attended school, and a further 23 percent are in households whose heads have not been educated beyond grade 6). The incidence of poverty is also linked to the ability to earn cash incomes. Almost 17 percent of the poor live in households whose heads earn no cash incomes, relying on subsistence production (and perhaps gifts of cash). The poverty rate is also high for households whose main source of cash income is hunting, gathering and fishing. In general, increased provision of opportunities for earning secure cash incomes is needed in order to reduce the incidence and severity of poverty.

13. The fundamental and long-recognized development challenge for PNG is to achieve sustained economic growth with equity. The poorest 40 percent of the population must participate in, and benefit from, the growth process if poverty is to be alleviated. There are severe development constraints, including the rugged terrain of PNG's 462,000km², the complexity of land tenure systems, the dispersal of 4.5 million people collectively speaking well over 700 languages, limited and deteriorating physical infrastructure, a major personal security and crime problem, and the low level of human resource development.

C. Assessment of Socio-Economic Performance

1. Gender Issues

14. 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.

2. Human Development

15. 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 Bank's Pacific developing member countries, as noted earlier. Employment opportunities in the formal private sector outside of the mining and mining-related sectors have stagnated over the last decade.

3. Environment

16. 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. In a welcome move, the new Government announced a complete moratorium on all new forestry licenses, extensions and conversions. 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. Forestry and fisheries surveillance activities are meager, although being improved.

D. Governance: Sound Development Management

17. Governance shortcomings exacerbate PNG's development problems. Development management is a major problem, exacerbated by political instability. 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. Public sector reform has been attempted sporadically since 1990, bursts of significant progress alternating with periods of inaction. The new Government is strongly committed to public sector reforms, and is taking reasoned steps to beginning implementation. The Government also is actively pursuing corporatization and privatization of Government agencies.

18. Constitutional changes in 1995 decentralized responsibility for many government services, including basic health and education, to the provinces. Implementation has been problematic, not least because of capacity constraints at provincial and local level government level, and it is now widely acknowledged that some of the changes will need to be revisited, likely with some reassertion of central controls and responsibilities.

19. 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 personal security and crime 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. With the agreement and assistance of external financiers, the Government is taking steps to improve the situation by increasing law enforcement-related budget appropriations and strengthening legal institutions.

E. Implementation Assessment

1. The Portfolio

20. ADB has approved 50 loans totaling \$729 million to PNG since PNG joined the ADB in 1971. There was virtually no new lending during 1993-1996, resulting in a sharp discontinuity in the overall portfolio. An aggressive spring-cleaning in 1998 yielded cancellations of \$31 million of no-longer-required commitments (including \$16 million from the Asian Development Fund [ADF]). The portfolio now consists of 12 ongoing loans for 11 projects and one sector development program. Three of the loans are new, having been approved in late 1999. In addition, 2 program loans for the Health Sector Development Program have just been closed, after release of the second \$25 million tranche in late 1999; actual implementation of the program, using the kina proceeds, will continue at least into late 2001. Of the 12 active loans, 4 are due to close during 2000, with further cancellation of about \$12.5 million (including \$8.5 million of ADF funds).

21. Loan portfolio performance, which in the past has been relatively poor, has recently improved. Only one loan is now classified as poorly performing. Nevertheless, continued attention to overcoming impediments is crucial. The clear lesson is that sharp focus on sectors for ADB assistance is crucial, as is the need for careful design of individual projects.

22. A total of 18 projects have been post-evaluated since PNG joined ADB in 1971: 5 were "generally successful", 12 were "partly successful", and 1 was "unsuccessful" (in agriculture). Focussing on the more recent results, five projects have been post-evaluated during the past five years: three were generally successful (one ports, two agriculture); two were partly successful. These results indicate improvements, albeit modest. The lessons from the evaluations, which are reflected in newer projects, include the importance of project design, the need for careful evaluation of the capacities of executing agencies (with remedial measures provided as required), and careful study of likely beneficiary response. Older projects in particular suffered from inadequate financial and market analysis, and inadequate attention to sustainability issues. Many projects have been affected by personal security and crime problems; project design can mitigate the potential risks.

23. The net resource transfer turned negative in 1995, because of the 1993-1997 hiatus in lending and because of poor project implementation. HSDP disbursements meant that the net resource transfer was only modestly negative in 1997 and 1998, and positive in 1999. Disbursements have exceeded repayments throughout the period (except 1996). This positive capital transfer is expected to continue over the medium term.

24. To the end of 1999, technical assistance (TA) grants totaling \$32 million have been provided for 106 projects, of which 43 were for project preparation and 63 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

25. Apart from the typical implementation problems, which in PNG include personal security and crime problems, the critical issue in recent years has been inadequate budget allocations and subsequent release of funds. The increased realism shown in the August 1999 Supplementary Budget and the 2000 Budget is commendable. Shortfalls in these Budgets, in the appropriations both for loan-financed expenditures and counterpart funds, were inevitable, given the difficult fiscal position. The Government has minimized the shortfalls in appropriations for loan-financed expenditures and the associated counterpart Government-funded expenditures. The Government has committed itself to reviewing the overall envelope for total project funding, as and when overall conditions permit, and to reallocating funds, within the overall envelope, to allow better performing projects to proceed. Personal security and crime problems have also contributed to poor project performance.

II. Country Operational Strategy

A. The Country Operational Strategy

26. 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.

- Poor governance and inadequate public sector management are the main development problems. The ADB is focusing on supporting the Government to strengthen financial management and to focus public sector management on achieving outputs.
- 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 too 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 cross-cutting concern, to be addressed, to the extent feasible, throughout the program.

27. It is not envisaged that the Country Operational Strategy will be rewritten to reflect the new emphasis on poverty reduction. However, the increased emphasis on poverty reduction will be reflected in actual application of the Strategy.

28. It was decided in November 1998 that PNG should be graduated from Category B2 to Category C, implying the cessation of access to ADF after 2000, and the progressive reduction in the ADB share of project costs, to a maximum of 40 percent by 2002. PNG has formally requested a reassessment of the situation; this review will be finalized in late 2000.

B. Progress in Implementation

29. The thrust articulated in the Country Operational Strategy has been guiding project processing and implementation since 1998 and is reflected in the 2001-2003 program laid out here. Good governance is central, being addressed both in specifically targeted projects and in projects with other prime objectives.

C. Poverty Partnership Agreement

30. The Government has agreed in principle to work with ADB and the other external agencies to refine the analysis of poverty in PNG, with a view to developing a poverty strategy for PNG. The intent is ultimately to reach a poverty partnership agreement between the Government and the external agencies. Progress to date towards an actual agreement has been limited. However, dialogue is continuing, stimulated not least by the quite recent emergence of visible poverty. The World Bank's publication in late 1999 of a report on poverty, based on 1996 studies, helped to stimulate further debate. It has been agreed that further analysis is warranted, in part to judge the effects of the intervening financial crisis.

III. Sector Strategies

A. Agriculture

1. Agriculture and Rural Development

31. Agriculture is the key sector in terms of improving living standards since about 85 percent of the population is engaged in production of food crops for own-consumption and cash crops for sale. 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. Unfortunately, food and tree crop output was hit hard by the 1997-1998 drought; life threatening shortages of food in 1997 required an international food relief effort. Subsistence production recovered in 1998, with tree crop production increasing in 1999 (except for coffee). Utilization of land and (male) labor surpluses would permit an increase in agricultural production and rural living standards; However, limited access to markets acts as a major constraint. About one quarter of the non-urban roads in PNG either are impassable or cannot be used throughout the year; the poor quality of the rest adds significantly to transport costs. Road rehabilitation is a priority area for rural development.

32. The ADB has been assisting in strengthening support services for smallholders (1998 loan). Further support for smallholder sector activities is programmed for 2001 and 2002. This includes a rural linkages project to lower the constraints to informal sector activities in the rural areas and another project to exploit the potential of innovative agro-industry interventions to reduce poverty in a sustainable manner through partnerships with the private sector. Regional development efforts in later years aim directly at poverty reduction. Road and maritime infrastructure rehabilitation is a key focus.

2. Forestry and Natural Resources

33. Exploitation of PNG's accessible hardwood forest of about 15 million hectares almost entirely takes the form of harvesting by foreign companies for log export, with some logs sold locally for building and processing into sawn timber. The rate of extraction accelerated in the early 1990s. As a result of the Asian economic crisis, the export volume dropped to 1.07 million cubic meters in 1998; but it increased to 1.30 million cubic meters in 1999 as log export prices recovered. In the latter year, log exports accounted for just over 5 percent of total domestic exports by value. Relatively little revenue from logging has reached local communities. The 1991 Forestry Act provides the legislative framework for the management of forest resources as a renewable asset, and for genuine landowners to acquire a greater share of revenue. However, harvesting at unsustainable rates and inequitable distribution of benefits from logging remain major concerns. The SRP provides for an immediate moratorium on all new forestry licenses, extensions, and conversions as the first step in improving governance in this sector.

34. 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. 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 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 coastal waters fisheries development is envisaged for the earlier years of the program.

35. Mining (mainly gold and copper) and petroleum and gas extraction are major revenue sources. In 1999, mining and petroleum accounted for 24 percent of GDP and 72 percent of exports. The most notable recent developments include the significant Ramu nickel project, which is in an advanced state of development, and the PNG-Queensland gas project, which would involve collection and processing of the Highlands gas and transporting by pipeline to Queensland. The gas project would require investments of about \$3 billion and is targeted to begin in 2002. Prospects of further mineral discoveries are good, but exploration activity has declined dramatically over the 1990s because PNG has been seen as an increasingly risky country to invest in. This perception in turn reflects the growing personal security and crime problem, political instability, the Bougainville civil war and repeated Government policy changes on equity participation in projects and the fiscal treatment of mineral projects. The ADB has been assisting in a study of the fiscal regime for mining and hydrocarbons, but no other role for the ADB is envisaged.

B. Infrastructure

1. Transport

36. 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, which has greatly reduced rural incomes (e.g., in the Highlands where coffee sales have plummeted; an on-going ADB study is helping to quantify the linkages between road transport and rural incomes). The ADB has helped establish a Road Asset Management system, as a key management tool. This is guiding ADB assistance for rehabilitating and maintaining roads, both in the recently approved project for the Highlands Region and a similar effort envisaged for the Southern Region. The ADB is endeavoring to catalyze private sector participation in infrastructure financing and in sector management. 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.

37. Given the importance of sea and inland waterways transport for the PNG economy and social services, especially for the poor, infrastructure and institutional investments yield suitable economic returns. The ADB is helping to restore 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. In addition, deficient maritime (and inland waterways) infrastructure systems (provincial ports, wharves/jetties/landing facilities, route markings) will be established or upgraded, based on careful evaluation of economic and social criteria, together with the development of 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

38. The financial system in PNG is relatively sophisticated, but it is focused entirely on the larger formal sector. Small enterprises, semi-subsistence farmers and the poor have virtually no access to financial services. The inadequacy of microfinance services clearly hampers development of small enterprises and semi-subsistence activities, while the dearth of savings services is an obstacle to personal wealth accumulation, particularly given personal security and crime problems. The ADB has been assisting to study the sector and, through a loan programmed for 2000 approval, will be assisting to provide sustainable microfinance services to viable enterprises and savings services to the population at large, providing institutional strengthening and a revolving refinance facility. The Government is reforming the structure of the traditional financial system, with World Bank and IMF assistance; no direct ADB involvement is envisaged.

C. Social Infrastructure and Environment

1. Health

39. Human development remains one of the most important priorities of the ADB program in PNG. Health (including population) indicators are very poor, especially for women. 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, which started in 1998 and is expected to continue through 2001. The ADB will provide assistance in reviewing progress in implementing the Health Program. The main priority in the health and population sector will be to consolidate past achievements. Family planning issues will be prominent. Dialogue will focus on health promotion and protection as a broad theme, within which advocacy, control of infectious diseases, and improvement of management all play a role. The program provides for a possible successor to HSDP in the later years, to allow support for broader policy reform, complementing the investment project assistance; the specific thrust will be developed on the basis of the sector review, but is expected to focus on improving effectiveness of service delivery.

2. Education

40. 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 high percentage of the education budget, with inadequate results. 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. However, over the last few years, there appear to have been positive developments arising from 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. 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, especially aimed at the vast majority who have not had access to formal education.

3. Urban Development

41. 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 will continue its traditional leading role in water supply. A provincial towns water supply and sanitation project is being prepared with approval programmed for 2000. A rural water supply and sanitation project is envisaged for the later years of the program, focusing on smaller population sites. No other urban development efforts are envisaged.

4. Environment

42. 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 little external assistance is being proffered (outside assistance is concentrated in Forestry) and which corresponds with other ADB interventions. A loan project is tentatively programmed for 2002 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.

D. Governance Dimensions of Asian Development Bank Operations

43. Improving governance and development administration is the focus of ADB assistance efforts. A first priority has been 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 is taking primary responsibility for requirements at national level, under the 1999 *Financial Management Improvement Project*; the assistance is being closely coordinated with that of other donors, notably the Australian Agency for International Development (AusAID) and UNDP.

44. The ADB also is assisting with program support scheduled for 2001 in the Government's efforts to improve performance, which focus initially on public service reforms and will concentrate on public sector management on performance, starting with key service delivery units in selected vital agencies, working in parallel with other interested external agencies, notably the World Bank, UNDP and AusAID. An important complement will be to assist in strengthening the capacities of the key good governance institutions (including the Auditor General's Office), working in parallel with other interested donors (notably AusAID and the World Bank). This will include support for improved law enforcement and legislative drafting. Another 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, through a project programmed for 2002, in building up provincial and local level government management capacities, as required to implement the decision to decentralize Government operations.

E. Gender Dimensions of Asian Development Bank Operations

45. 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, ongoing activities specifically target gender beneficiary indicators as will the proposed population and health promotion and protection project. The ongoing *Smallholder Support Services Pilot Project* is addressing needs of women smallholders, as will the proposed smallholder rural sector linkages project. The proposed 2000 microfinance and employment project will have an explicit gender orientation, as will the proposed work on informal sector constraints. 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 Development

46. 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. 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. A key concern is to foster public-private partnerships; in the road sector for example, ADB is assisting in reviewing the options for road sector maintenance.

G. Private Sector Operations

47. The ADB will provide direct investment assistance to the private sector through continuing participation in the Kula Fund (which is headquartered in Port Moresby while covering the Pacific) and the South Pacific Project Facility. The Private Sector Group is actively investigating the possibility of PNG activities, primarily in the infrastructure development and financial sectors.

IV. Regional Cooperation

48. 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

49. 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 gross national product. 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 for PNG; the last meeting was held in November 1999; another meeting is scheduled for late 2000.

50. Australia is the main development partner, currently providing A\$300 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 phased out from 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 is a major contributor to the 2000 structural adjustment effort. Smaller bilateral donors include Germany, New Zealand, and Taipei, China. The overall external assistance is shown in Appendix 3.

51. 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 remains central to the macro stabilization efforts.

VI. Cofinancing and Catalyzing External Resources

52. Cofinancing will need to play an increasing role in ADB operations in PNG. Notwithstanding the results of the envisaged review of PNG's graduation to Group C, it is clear that the terms of PNG's access to ADB funds will harden. Therefore 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 cofinancing 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 in PNG, 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. ADB's Operational Program

A. The Proposed Program

53. Based on the current ADF graduation position, the proposed loan program for 2001-2003 comprises only OCR lending (following limited ADF lending in 2000). Following current policy, the proposed program envisages 3-4 loans per year, totaling on average about US\$60 million per year, is programmed for the period (in 2003 the total is boosted by an envisaged second health sector development program). The declining limit on the ADB share of project financing then implies a rising total project cost. The program total is ambitious, and will require concerted effort. A flexible approach will be adopted, reacting rapidly to changing circumstances.

54. The review of the factors underlying PNG's graduation from access to ADF to be undertaken in late 2000 may result in reconsideration of the graduation decision. In that case the lending program would be reviewed.

55. At this stage, the TA program envisaged for 2001-2003 amounts to about \$3.0 million per year in 2001 and 2002, rising to \$3.4 million in 2003. Although the proposed TA program has generally been agreed to by Management, ADB financing may be subject to further

reprioritization to fit in with the ADB-wide annual resource envelope. The proposed lending and TA programs are summarized in Table 1.

Table 1: Lending and Technical Assistance Program, 2000-2003

A. Public Sector Lending Program

	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending Program ^a	3	108.8	3	45.5	2	68.0	-	-	-	-
ADF	1	20.0	2	24.9	-	-	-	-	-	-
OCR	2	88.8	1	20.6	2	68.0	-	-	-	-
Lending Pipeline ^b	-	-	-	-	2	40.0	5	95.0	4	80.0
ADF	-	-	-	-	-	-	-	-	-	-
OCR	-	-	-	-	2	40.0	5	95.0	4	80.0

B. Technical Assistance Program

	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program ^a	7	3,589.0	8	8,555.0	7	3,000.0	6	3,000.0	7	3,400.0
TA Pipeline ^b	-	-	-	-	-	-	-	-	-	-

^a The Program comprises the firm projects.

^b The Pipeline consists of the Program (firm projects) and standby projects. In 2002 and 2003, there is no distinction between firm and standby.

B. Strengthened Role of ADB's Mission

56. In August 1999, the ADB opened a special mission in PNG, staffed by a specially recruited Project Implementation Officer. The mission already has had some success in assisting in improving portfolio performance; it is anticipated that the mission will result in a significant benefit. However, in keeping with the ADB's new general policy on resident missions, it has been agreed that a higher profile mission would generate even greater benefits, in terms of sustained policy dialogue. Therefore the ADB is considering upgrading the mission to full Resident Mission status. It is envisaged that the upgrade will be proposed to the Board in late 2000, with a view to the upgrade being effected during 2001.

VIII. Economic and Sector Work Program

57. A key focus of policy dialogue will be poverty reduction. Assistance will be provided through regional TA as well as thorough PNG-specific modalities. ADB envisages assisting in updating and refining the analysis of poverty in PNG, and working with Government and other parties to develop a poverty reduction strategy.

58. During the 2001-2003 programming period, capacity building will concentrate on (i) improving public sector financial and services management at national and lower levels, with special emphasis on the planning function; (ii) strengthening urban water supply management institutions; (iii) reforming the management structures for road and sea transport; and (iv) strengthening training infrastructures. Rebuilding information systems will be a significant priority, where ADB assistance will be closely coordinated with other interventions. As well as poverty reduction, policy dialogue is expected to cover (i) resources mobilization, especially for road and sea transport; (ii) maintenance allocations generally; and (iii) 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.

59. Poverty analyses will form a central part of ADB's economic sector work. Economic sector work will include continuing investigation of road sector cost recovery and management

options, examination of constraints to informal sector activity, road sector policy studies, and policy frameworks and institutional options for road and sea transport. Financial sector work is taking place through PNG participation in the regional TA to develop a financial sector strategy for Pacific Developing Member Countries.

IX. Local Cost Financing

60. 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	1995	1996	1997	1998	1999	2000 ^a
ECONOMIC INDICATORS						
A. Income and Growth						
1. GDP per Capita (dollars, current)	1,276.0	1,282.0	1,233.0	1,072.0	1,094.0	988.0
2. GDP Growth (% in constant prices)	-2.6	2.9	-2.4	1.4	3.8	4.7
Agriculture	-4.0	14.4	-2.8	-6.1	-2.0	8.2
Mining	-6.1	-11.8	-21.0	19.1	14.1	1.0
Industry	-19.9	10.5	8.7	-5.0	-1.2	15.7
Services	7.7	3.4	6.5	0.4	3.5	1.8
B. Saving and Investment (current market prices)						
	(percent of GDP)					
1. Gross Domestic Investment	19.4	27.8	27.1	30.3	29.3	...
2. Gross Domestic Saving	28.9	32.1	23.0	28.3	...	...
C. Money and Inflation						
	(annual percent change)					
1. Consumer Prices (annual average)	17.3	11.6	3.9	13.6	14.9	12.9
2. Broad Money (M2)	13.7	31.3	6.8	1.8	8.9	8.8
D. Government Finance						
	(percent of GDP)					
1. Total Revenue	27.3	26.1	29.4	25.8	24.6	25.1
2. Total Expenditure and Net Lending	27.9	26.5	29.2	27.9	25.8	26.6
3. Overall Surplus/Deficit (-)	-0.5	-0.3	0.1	-2.1	-2.4 ^b	-1.5
E. Balance of Payments						
1. Merchandise Trade Balance (% of GDP)	28.5	11.6	2.8	4.8	4.6	0.05
2. Current Account Balance (% of GDP)	13.6	5.4	-5.0	0.5	1.4	-0.4
3. Export (\$) growth (annual percent change)	0.4	-5.6	-16.0	-15.6	8.2	11.8
4. Import (\$) growth (annual percent change)	-4.5	19.3	10.1	-27.7	5.6	11.9
F. External Payments Indicators						
1. International Reserves (\$ million, end of period)	268.0	586.0	380.0	187.0	204.0	379.0
- months of non-mineral imports	2.6	5.4	3.3	2.0	2.1	3.6
2. External Debt Service (% of exports of goods & services)	22.4	17.7	17.0	22.5	27.3	16.9
3. External Debt (% of GDP)	48.6	35.5	40.8	45.8	43.8	39.1
Memorandum Items:						
GDP (current prices, Kina million)	6,641.4	7,033.1	7,496.1	8,901.2	10,601.3	11,468.4
GNP (current prices, Kina million)						
Exchange Rate (Kina per dollar, annual average)	1.2763	1.3179	1.4337	1.9219	2.2222	2.6315

GDP = gross domestic product; GNP = gross national product

^a Estimates

^b Includes residual deficit of 1.2 percent.

Source: staff estimate

**PAPUA NEW GUINEA
COUNTRY PERFORMANCE INDICATORS**

	1985	1990	Latest Year	
POPULATION INDICATORS				
Total Population (millions)	3.4	3.7	4.4	
Annual Population Growth Rate (% change)	1.80	2.10	2.50	(1990-98)
SOCIAL INDICATORS				
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)				
Female			31/30	
Secondary School Enrollment (% of school age population)				
Female			23/19	
Child Malnutrition (% of under age 5)			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 GNP	...	...	5.2	
Public Health Expenditure as % of GDP	...	...	2.0	
Human Development Index	...	...	0.314	
Human Development Ranking			164	
Human Poverty Index			52.2	
ENVIRONMENTAL INDICATORS				
Forestry	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		0.13	0.13	(1992)
Air Pollution (Ambient concentrations)				
Particulates	...	...	...	...
SO ₂	...	...	...	...
Water Pollution (concentration of pollutants in water bodies)				
Biochemical Oxygen Demand (BOD)	...	...	...	...
Chemical Oxygen Demand (COD)	...	...	...	...
Global Environmental Problems				
CO ₂ emissions (total and per capita)	...	...	...	...

Source: Pacific Human Development Report 1999

PAPUA NEW GUINEA
PORTFOLIO PERFORMANCE

Table 1 : Implementation, Disbursement Performance and Postevaluation Results
Public Sector Projects only
(as of 31 December 1999)

A. Project Portfolio	Net Loan Amount \$ million %		Rating (No.) ^a										
			Total		Implementation Progress				Development Objectives				
			No.	%	HS	S	PS	U	HS	S	PS	U	
Agriculture and Natural Resources	14.11	5.0	2	14.3	0	2	0	0	0	0	2	0	0
Energy	0.00	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0
Finance and Industry	25.80	9.2	1	7.1	0	1	0	0	0	0	1	0	0
Social Infrastructure	136.66	48.9	8	57.1	0	8	0	0	0	0	7	1	0
Transport and Communications	103.18	36.9	3	21.4	0	3	0	0	0	0	3	0	0
Others/Multisector	0.00	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0
Total	279.76	100.0	14	100.0	0	14	0	0	0	0	13	1	0

B. Disbursements	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)	112.3	42.4	154.7
(2) Disbursed amount (\$ mn, cumulative, active loans only)	25.9	48.5	74.4
(3) Percentage disbursed [(2)/(1)] (%)	0.23	1.14	0.48
(4) Disbursements (\$mn, active loans only, latest year)	18.0	6.0	24.0
(5) Disbursement ratio (%) ^b	53.64	29.02	82.7

C. Net Transfer of Resources ^c (\$ million)	OCR	ADF	Total
Net transfer in 1995	-23.6	9.0	-14.6
Net transfer in 1996	-15.3	0.4	-14.9
Net transfer in 1997	-6.3	5.2	-1.1
Net transfer in 1998	-1.3	0.3	-1.0
Net transfer in 1999	4.8	0.8	5.6

D. Post-Evaluated Projects (By Year of Approval)	1968 - 1977		1978 - 1987		1988 - 1999		1968 - 1999			
	No.	%	No.	%	No.	%	No.	%		
1. Postevaluation Rating (as of 31 December 1999)										
Rated Generally Successful (GS)	0	-	2	25.0	3	30.0	5	27.8		
Rated Partly Successful (PS)	0	-	6	75.0	6	60.0	12	66.7		
Rated Unsuccessful (US)	0	-	0	-	1	10.0	1	5.6		
No Rating	0	-	0	-	0	-	0	-		
Total	0	0.0	8	100.0	10	100.0	18	100.0		
2. Postevaluation Rating by Sector 1968-99 (as of 31 December 1999)	GS		PS		US		NR		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	0	-	2	16.7	1	100.0	0	-	0	-
Energy	0	-	1	8.3	0	-	0	-	0	-
Finance and Industry	0	-	3	25.0	0	-	0	-	0	-
Social Infrastructure	1	20.0	4	33.3	0	-	0	-	0	-
Transport and Communications	4	80.0	2	16.7	0	-	0	-	0	-
Others/Multisector	0	-	0	-	0	-	0	-	0	-
Total	5	100.0	12	100.0	1	100.0	0	0	0	0

^a HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

^b Ratio of disbursement during the year over the undisbursed net loan balance less cancellations at the beginning of the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

^c Includes private sector projects for countries with private sector operations.

Source : Office of Pacific Operations (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 1999)

Sector ^a	Project Title	Net Loan Amount		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Project Progress (% complete)	Cum Contract Awards (\$ million)	Cummulative Disbursement (\$ million)	Project Performance Rating ^o	
		OCR (\$ million)	ADF			Original (mm/yy)	Revised (mm/yy)				Implementation Progress	Development Objective
AGR	Loan No. 1652-PNG Smallholder Support Services	7.6	-	Dec-04	Dec-99	Dec-04	-	0	0.0	0.0	S	S
AGR	Loan No. 1656-PNG Fisheries Development	6.5	-	Jun-06	Jun-99	Jun-06	-	12	2.0	0.6	S	S
SOC	Loan No. 1097-PNG(SF) Third Rural Health	-	22.1	May-97	Jul-92	May-97	Dec-99	80	15.4	13.8	PS	S
SOC	Loan No. 1211-PNG Third Urban Water Supply	11.3	-	Nov-96	Dec-94	Nov-96	Oct-01	65	2.1	2.7	S	S
SOC	Loan No. 1224-PNG(SF) Higher Education	-	-	Jun-99	Mar-94	Jun-99	Sep-00	90	14.4	13.3	S	S
SOC	Loan No. 1225-PNG(SF) Population and Family Planning	-	7.1	Dec-98	Mar-94	Dec-98	Dec-99	80	4.8	4.0	S	S
SOC	Loan No. 1516/1517-PNG(SF) Health Sector Development	45.0	4.8	Jun-00	Oct-97	Jun-00	-	0	49.8	49.8	S	S
SOC	Loan No. 1518-PNG Health Sector Investment	-	9.6	Dec-01	Oct-97	Dec-01	-	20	0.6	1.5	S	S
SOC	Loan No. 1706-PNG(SF) Employment Oriented Skills	-	20.0	Jun-06	-	Jun-06	-	0	0.0	0.0	S	S
T&C	Loan No. 1153/1154-PNG(SF) Transport Infrastructure	24.0	16.2	Jun-97	Jun-92	Jun-97	Jun-00	75	27.0	31.5	S	S
T&C	Loan No. 1709-PNG Road Maintenance and Upgrading	63.0	-	Jun-06	Feb-00	Jun-06	-	0	0.0	0.0	S	S
F&I	Loan No. 1703-PNG Financial Management	25.8	-	Jun-05	Oct-99	Jun-05	-	0	0.9	3.4	S	S
Total		183.2	79.8						117.1	120.6		

^a Sector:

AGR: Agriculture & Natural Resources

ENE: Energy

F&I: Finance and Industry

SOC: Social Infrastructure

T&C: Transport and Communications

OTH: Others/Multisector

^o HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

PAPUA NEW GUINEA
OVERALL EXTERNAL ASSISTANCE
(in \$ million)

External Source	Past 3-5 Years (annual average)		1999 Approvals	
	Loan/Credit ^a	TA ^b	Loan/Credit	TA
A. Multilateral Assistance				
ADB	27.8	2.4	108.8	3.6
UNDP	...	8.0	...	...
World Bank	40.0	...	...	...
Subtotal	67.8	10.4	108.8	3.6
B. Bilateral Assistance				
Australia	...	232.0	...	...
Canada	...	...	...	...
France	...	...	...	...
Germany	...	10.0	...	...
Italy	...	...	...	...
Japan	...	37.0	...	...
United Kingdom	...	1.0	...	...
United States	...	...	...	...
Subtotal	0.0	280.0	0.0	0.0
Total	67.8	290.4	108.8	3.6
Memo Items: External Assistance as % of Current Expenditures External Assistance as % of Capital Expenditures				

^a Disbursements

^b Approvals

Source: staff estimate

PAPUA NEW GUINEA
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003

Sector/Project Name	Poverty Classification ^{a*}	Crosscutting Operational Priority ^b	Responsible Division	Year of PPTA	PROJECT COST (in \$ million)					
					TOTAL	Bank			Gov't	Cofinancing (Others)
						OCR	ADF	Total		
2001 FIRM LOANS										
Agriculture and Natural Resources										
1 Coastal Waters Fisheries Mgmt&Devt	PI	PSD	POHQ	2000	18.0	8.0	0.0	8.0	10.0	0.0
Subtotal					18.0	8.0	0.0	8.0	10.0	0.0
Others/Multisector										
1 Public Sector Reform Program	ODI	PSD	POHQ	2000	60.0	60.0	0.0	60.0	0.0	0.0
Subtotal					60.0	60.0	0.0	60.0	0.0	0.0
Total					78.0	68.0	0.0	68.0	10.0	0.0
2001 STANDBY LOANS										
Agriculture and Natural Resources										
1 Smallholder Agro-Industry	ODI	PSD	POHQ	2000	35.0	15.0	0.0	15.0	20.0	0.0
Subtotal					35.0	15.0	0.0	15.0	20.0	0.0
Transport and Communications										
1 Community Water Transport	ODI	PSD	POHQ	2000	55.0	25.0	0.0	25.0	30.0	0.0
Subtotal					55.0	25.0	0.0	25.0	30.0	0.0
Total					90.0	40.0	0.0	40.0	50.0	0.0
2002 LOAN PIPELINE										
Agriculture and Natural Resources										
1 Smallholder Agro-Industry	ODI	PSD	POHQ	2000	35.0	15.0	0.0	15.0	20.0	0.0
2 Rural Sector Linkages	PI	GAD	POHQ	2000	25.0	10.0	0.0	10.0	15.0	0.0
Subtotal					60.0	25.0	0.0	25.0	35.0	0.0
Transport and Communications										
1 Community Water Transport	ODI	PSD	POHQ	2000	55.0	25.0	0.0	25.0	30.0	0.0
2 Road Sector (Rd Mgmt/S Reg Maint)	ODI	PSD	POHQ	2001	75.0	30.0	0.0	30.0	45.0	0.0
Subtotal					130.0	55.0	0.0	55.0	75.0	0.0
Others/Multisector										
1 Provincial/Local Level Management	ODI	GG	POHQ	2001	37.5	15.0	0.0	15.0	22.5	0.0
Subtotal					37.5	15.0	0.0	15.0	22.5	0.0
Total					227.5	95.0	0.0	95.0	132.5	0.0
2003 LOAN PIPELINE										
Agriculture and Natural Resources										
1 Coastal Environment	PI	ENV	POHQ	2001	25.0	10.0	0.0	10.0	15.0	0.0
2 Sandaun/E. Sepik Sustainable Devt.	PI	PSD	POHQ	2000	35.0	14.0	0.0	14.0	21.0	0.0
Subtotal					60.0	24.0	0.0	24.0	36.0	0.0
Social Infrastructure										
1 Adult/Informal Education	CPI	HD	POHQ	2001	40.0	16.0	0.0	16.0	24.0	0.0
2 Health Sector Devt. Program II	ODI	GAD	POHQ	2002	50.0	40.0	0.0	40.0	10.0	0.0
Subtotal					90.0	56.0	0.0	56.0	34.0	0.0
Total					150.0	80.0	0.0	80.0	70.0	0.0

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development and RC = Regional Cooperation

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which was applied from January 2001.

PAPUA NEW GUINEA
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003

Sector/Project Name	Responsible Division	Type of TA	Amount (\$ '000)		
			ADB	Others	Total
2001 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 Coastal Waters Environment	POHQ	PP	400.0		400.0
	Subtotal		<u>400.0</u>	<u>0.0</u>	<u>400.0</u>
Social Infrastructure					
1 Adult/Informal Education	POHQ	PP	400.0		400.0
	Subtotal		<u>400.0</u>	<u>0.0</u>	<u>400.0</u>
Transport and Communications					
1 Road Sector (Road Management & South. Region Maintenance)	POHQ	PP	400.0		400.0
2 Maritime Administration	POHQ	AD	350.0		350.0
	Subtotal		<u>750.0</u>	<u>0.0</u>	<u>750.0</u>
Others/Multisector					
1 Public Services Reform Cluster TA	POHQ	AD	750.0		750.0
2 Provincial/Local Level Public Services Reform	POHQ	PP	300.0		300.0
3 Poverty Analyses	POHQ	AD	400.0		400.0
	Subtotal		<u>1,450.0</u>	<u>0.0</u>	<u>1,450.0</u>
Total			<u>3,000.0</u>	<u>0.0</u>	<u>3,000.0</u>
2002 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 Sandaun/E. Sepik Sustainable Development	POHQ	PP	500.0		500.0
	Subtotal		<u>500.0</u>	<u>0.0</u>	<u>500.0</u>
Social Infrastructure					
1 Technical and Vocational Education and Training	POHQ	PP	500.0		500.0
2 Health Sector	POHQ	PP	400.0		400.0
	Subtotal		<u>900.0</u>	<u>0.0</u>	<u>900.0</u>
Others/Multisector					
1 Provincial/Local Level Public Services Management	POHQ	AD	500.0		500.0
2 Statistical Systems	POHQ	AD	600.0		600.0
3 Urban Informal Sector Development	POHQ	PP	500.0		500.0
	Subtotal		<u>1,600.0</u>	<u>0.0</u>	<u>1,600.0</u>
Total			<u>3,000.0</u>	<u>0.0</u>	<u>3,000.0</u>
2003 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 Enga/S. Highlands Sustainable Development	POHQ	PP	600.0		600.0
2 Rural Development	POHQ	AD	350.0		350.0
	Subtotal		<u>950.0</u>	<u>0.0</u>	<u>950.0</u>
Social Infrastructure					
1 Rural Water and Sanitation	POHQ	PP	600.0		600.0
	Subtotal		<u>600.0</u>	<u>0.0</u>	<u>600.0</u>
Transport and Communications					
1 Transport Infrastructure	POHQ	PP	600.0		600.0
	Subtotal		<u>600.0</u>	<u>0.0</u>	<u>600.0</u>
Others/Multisector					
1 Governance	POHQ	AD	500.0		500.0
2 Small/Medium Enterprise Development	POHQ	PP	500.0		500.0
3 Central Agencies Capacity Building	POHQ	AD	250.0		250.0
	Subtotal		<u>1,250.0</u>	<u>0.0</u>	<u>1,250.0</u>
Total			<u>3,400.0</u>	<u>0.0</u>	<u>3,400.0</u>

Note: Although the proposed TA program has been generally agreed to by Management, ADB financing may be subject to further prioritization to fit in with the ADB-wide annual resource envelope.

PAPUA NEW GUINEA
LENDING PROGRAM, 2001-2003
BY POVERTY CLASSIFICATION, CROSSCUTTING OPERATIONAL PRIORITY AND SECTOR

Classification	2001 (Firm)		2002-2003	
	No.	%	No.	%
I. By Poverty Classification *				
A. Core Poverty Intervention		0.0	1	11.1
B. Poverty Intervention (Non-core)	1	50.0	3	33.3
C. Other Development Interventions	1	50.0	5	55.6
Total	2	100.0	9	100.0
II. By Crosscutting Operational Priority (To be revised when exact criteria becomes available.)				
A. Environment		0.0	1	11.1
B. Gender and Development		0.0	2	22.2
C. Good Governance		0.0	1	11.1
D. Human Development		0.0	1	11.1
E. Private Sector Development	2	100.0	4	44.4
F. Regional Cooperation		0.0		0.0
Total	2	100.0	9	100.0
III. By Sector				
A. Agriculture and Natural Resources	1	50.0	4	44.4
B. Energy		0.0		0.0
C. Finance and Industry		0.0		0.0
D. Social Infrastructure		0.0	2	22.2
E. Transport and Communications		0.0	2	22.2
F. Others/Multisector	1	50.0	1	11.1
Total	2	100.0	9	100.0

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which was applied from January 2001.

PAPUA NEW GUINEA

1. Project Name: Coastal Waters Fisheries Management and Development					2. Sector/Subsector: Agriculture and Natural Resources					
3. Poverty Classification: ^a PI					4. Crosscutting Operational Priority: ^b PSD					
5. Rationale & Objectives: Marine resources are the main resource for about 750,000 of Papua New Guinea's 4.5 million people. The institutional framework for fisheries is rapidly strengthening (with ADB support) and commercial fisheries are expanding, which provides a strong market opportunity for small-scale fisheries. The project will help develop and establish sustainable sector management.					6. Beneficiary Participation/Consultation Needs: Wide-spread consultations are being undertaken during preparation.					
7. Scope: The project will help implement sustainable coastal fisheries in 4-5 selected provinces where commercial fisheries are already established, thus piggy-backing on existing infrastructure and marketing outlets. Possible deployment of fish attracting devices and smaller jetties will be provided. Institutional strengthening and capacity building of the provincial authorities combined with policy and legal issues governing the marine resources management will be key elements.										
8. Estimated Cost & Financing Plan:					Remarks: The cost estimates and financing plan will be refined during processing.					
Loan Project Cost (\$m)										
Financing (Source)			FC	LC						Total
ADB										8.0
Co-financing										
Borrower										10.0
Sub-borrowers										-
Total					18.0					
9. Estimated Benefits and Beneficiary Groups: The primary benefits will be sustainable management of the marine resources and realization of employment possibilities. The primary beneficiaries will be the coastal communities which have little access to alternative livelihood opportunities.										
10. Executing Agency: It is now expected that the National Fisheries Authority will be the Executing Agency, with full involvement of the provincial authorities.					11. Project Implementation Period: Start: 2002 End: 2007					
12. Environment Category: B					13. Processing Year: 2001					

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; PG = Pro-poor Growth

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development and RC = Regional Cooperation

Note: For 2001 loan projects only.

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PAPUA NEW GUINEA

1. Project Name: Public Sector Reform Program					2. Sector/Subsector: Public Sector Management					
3. Poverty Classification: ^a ODI					4. Crosscutting Operational Priority: ^b PSD					
5. Rationale & Objectives: The efficiency and effectiveness of public sector service delivery agencies is weak. The quality and quantity of critical services such as health, education, road maintenance and agricultural extension services leaves much to be desired. There is an urgent need to introduce a results orientation and greater accountability in public service. At the same time the general management of human resources within the public sector needs to be greatly strengthened					6. Beneficiary Participation/Consultation Needs: Widespread consultations are being conducted during preparation.					
7. Scope: 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 health, education, road maintenance and extension services, focusing on both the provincial level service providers and on the national level support services. The personnel function will be strengthened throughout the public service. The Governments programs to strengthen the good governance institutions will be supported										
8. Estimated Cost & Financing Plan:					Remarks: Costs and financing plan to be developed. Co-financing likely					
Loan Project Cost (\$m)										
Financing (Source)			FC	LC						Total
ADB										60.0
Co-financing										
Borrower										
Sub-borrowers										-
Total					60.0					
9. Estimated Benefits and Beneficiary Groups: The beneficiaries will be the general public which will benefit from improved quality of public services.										
10. Executing Agency: Department of National Planning, with implementation coordinated through the Central Agencies Coordinating Committee.					11. Project Implementation Period: Start: 2001 End: 2004					
12. Environment Category: TBD					13. Processing Year: 2001					

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development and RC = Regional Cooperation

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PAPUA NEW GUINEA

1. Project Name: Smallholder Agro-Industry		2. Sector/Subsector: Agriculture and Natural Resources			
3. Poverty Classification: ^a PI		4. Crosscutting Operational Priority: ^b PSD			
5. Rationale & Objectives: The objective is to raise incomes of poor rural populations. There is significant scope to exploit the potential of modern processing facilities to provide sustainable non-traditional outlets for smallholder crops, thereby providing sustainable increases in incomes.		6. Beneficiary Participation/Consultation Needs: Direct and indirect beneficiaries will be contacted during preparation of feasibility study and during project processing.			
7. Scope: The project will help provide economically desirable public sector assistance in establishing sustainable economic systems, with smallholders supplying raw materials to nucleus processing facilities. It is envisaged that sago and rubber will be among the crops to be included. The scope and geographic coverage will be finalized during implementation of PPTA.					
8. Estimated Cost & Financing Plan:		Remarks: Costs and financing plan to be developed. Beneficiary participation will be significant. as will private sector participation.			
Loan Project Cost (\$m)					
Financing (Source)	FC			LC	Total
ADB					15.0
Co-financing					
Borrower					20.0
Sub-borrowers					-
Total			35.0		
9. Estimated Benefits and Beneficiary Groups: The beneficiaries will be the many poor smallholders in the targeted areas who will gain a sustainable outlet for potential product.					
10. Executing Agency: Department of Agriculture and Livestock		11. Project Implementation Period: Start: 2002 End: 2007			
12. Environment Category: TBD		13. Processing Year: 2001			

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development and RC = Regional Cooperation

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PAPUA NEW GUINEA

1. Project Name: Community Water Transport		2. Sector/Subsector: Transport and Communications			
3. Poverty Classification: ^a ODI		4. Crosscutting Operational Priority: ^b PSD			
5. Rationale & Objectives: Maritime and inland water transport is vital for many populations in PNG, including many poor populations. The currently inadequate and costly levels of services, unsafe route marking, and weak or non-existent regulatory framework hamper economic activities and access to social services.		6. Beneficiary Participation/Consultation Needs: Direct and indirect beneficiaries will be contacted during preparation of feasibility study and during project processing.			
7. Scope: The project will strengthen the management of the local level maritime and inland waters sector, develop the necessary regulatory framework, build the institutional capacities for providing and maintaining necessary water transport structures (safety and access), and renovate and develop necessary structures. The outputs will include facilities to attain both safer and more efficient water transport. The scope and geographic coverage will be refined during PPTA implementation.					
8. Estimated Cost & Financing Plan:		Remarks: Costs and financing plan to be developed. Co-financing likely.			
Loan Project Cost (\$m)					
Financing (Source)	FC			LC	Total
ADB					25.0
Co-financing					
Borrower					30.0
Sub-borrowers					-
Total			55.0		
9. Estimated Benefits and Beneficiary Groups: The beneficiaries will be the many residents of coastal and river areas, many of whom are poor. The benefits will include improved access to markets and to social services.					
10. Executing Agency: Department of Works and Implementation Department of Transport and Civil Aviation		11. Project Implementation Period: Start: 2002 End: 2007			
12. Environment Category: TBD		13. Processing Year: 2001			

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development and RC = Regional Cooperation

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PAPUA NEW GUINEA

1. Project Name:					2. Sector/Subsector:					
3. Poverty Classification: ^a					4. Crosscutting Operational Priority: ^b					
5. Rationale & Objectives:					6. Beneficiary Participation/Consultation Needs:					
7. Scope:										
8. Estimated Cost & Financing Plan:					Remarks:					
Loan Project Cost (\$m)										
Financing (Source)			FC	LC						Total
ADB										
Co-financing										
Borrower										
Sub-borrowers										-
Total					0.0					
9. Estimated Benefits and Beneficiary Groups:										
10. Executing Agency:					11. Project Implementation Period: Start: End:					
12. Environment Category:					13. Processing Year:					

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; PG = Pro-poor Growth

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development and RC = Regional Cooperation

Note: For 2001 loan projects only.