

FRAGILE SITUATIONS ASSESSMENT¹

A. Introduction

1. Papua New Guinea (PNG) is one of ADB's 14 developing member countries in the Pacific that has exhibited some forms of fragility. Core state political, security, and service delivery functions are sometimes limited and concentrated around urban areas. PNG is also prone to natural hazard related disasters such as landslides and floods that often damage critical infrastructure.¹

2. Since 2007, PNG has been included in ADB's list of countries identified as fragile and conflict-affected situation (FCAS). However, following the harmonization of ADB list of FCAS countries with the list of the World Bank (that is, the average of World Bank country policy and institutional assessment and ADB country performance assessment), PNG was removed from the FCAS list as of 2013.² However, this does not mean that fragility has disappeared in PNG. Attention is still required to ensure development effectiveness of ADB's approaches to supporting PNG. The PNG Government itself also recognizes these challenges, signing up as a founding member of the g7+ group of fragile countries.³

3. This fragile situations assessment explores the context and implications of fragility in PNG, highlighting the two focus areas of ADB operations in the country, transport and energy. The study aims to determine the drivers of fragility in the transport and energy sectors with particular focus on governance and how the government and ADB have responded to these fragility drivers, and to offer practical recommendations for the PNG Country Partnership Strategy 2016-2020, given PNG's fragile context.

B. Transport sector assessment

4. **Drivers of fragility.** The consequences of deteriorating transport infrastructure in PNG are severe: it hinders access to markets and services, imposes high costs on producers and consumers, discourages investment, and worsens the isolation and poverty of a significant proportion of the population.⁴ After a number of years of underinvestment in transport infrastructure (particularly before 2004), PNG is now undertaking a large investment to upgrade its widely deteriorating transport infrastructure. The rehabilitation task for the transport sector is currently beyond government's capacity to fund and implement. This is compounded with poor capacity of government institutions and unsustainable donor-sponsored efforts to strengthen institutions.

¹ This assessment is a summary of ADB. 2014. *Understanding and Responding to Papua New Guinea's Fragile Situation: Pilot Fragile Situation Thematic Assessment*. Unpublished; Copies are available upon request.

² Following endorsement of ADB's FCAS operational plan in April 2013, ADB list of FCAS countries is harmonized with the list of the World Bank. FCAS countries are determined as those having a harmonized quantitative cutoff of 3.2 or less, or those having the presence of a UN and/or regional peacekeeping or peacebuilding mission during the past 3 years. The 2013 list (based on the 2013 CPA scores) include Afghanistan, Kiribati, Republic of the Marshall Islands, Federated States of Micronesia, Nauru, Nepal, Solomon Islands, Timor-Leste, and Tuvalu. The average rating of Papua New Guinea is above the cutoff of 3.2 (that is 3.3). Indeed, weak performance and fragility do not disappear when a country shows a small improvement in performance scores that might move it above an arbitrary cut-off point such as a CPA/CPIA score of less than 3.2.

³ See www.g7plus.org/

⁴ J. Lee. 2004. *Papua New Guinea Transport Sector Review Note: With an emphasis on the roads sector*. Government of Papua New Guinea, The World Bank. <http://ebookbrowse.net/png-transport-sector-review-pdf-d99278313>

5. The transport sector is also challenged with issues in procurement, contracting, and land compensation issues. Procurement and contracting issues include insufficient capacity of individual contractors to implement large projects resulting to slow overall implementation, cumbersome procurement processes, unreasonable compensation demands resulting in costly delays and disruptions, insufficient in-house project supervision capacity, design issues, and issues on proper alignment of donor programs.⁵ The customary land ownership in PNG, whereby 97% of land is owned by clan-based structures, poses further land compensation issues,⁶ such as incomplete land registration, misrepresentation, and lack of transparency in the land administration system.

6. PNG is highly prone to large-scale natural disasters such as earthquakes, tsunamis, volcanic activity, floods, landslides, sea-level rise, and droughts. This forces the government to reallocate funds from routine maintenance to emergency works. Population growth, poverty, environmental degradation, inadequate infrastructure, and a traditional land tenure system can contribute to and exacerbate the vulnerability of PNG to natural hazard related disasters. While the current land tenure system promotes a close relationship with the land among local populations, some landowners' desire for quick cash needs leads them to sell precious timber resources and contributes to natural resource degradation.⁷

7. **Government's response.** As outlined in PNG's Development Strategic Plan 2010-2030 and Medium Term Development Plan 2011-2015, the government will use proceeds from extractive industries, cost recovery mechanisms, and new approach to investment planning to address the funding issues. It has also committed to reduce the country's reliance on foreign aid, and to channel external resources to building infrastructure, including infrastructure in health and education. The government encourages good governance through public sector reforms, financial management reforms, and public-private partnership.⁸ Implementation of the National Land Development Program, including customary land tenure reforms, is expected to ease the issues on land.

8. **ADB's response.** ADB's approved transport projects between 2010 and 2014 focus on improvement of national roads and bridges, civil aviation, and sea port, including institutional strengthening and capacity development linked to respective transport projects. In response to impact of natural hazard related disasters to transport projects, climate proofing of ongoing and planned Pacific infrastructure projects by ADB and contributing development partners has begun with projects in PNG and in other Pacific countries, including Cook Islands, Solomon Islands, Timor-Leste, Tonga, and Vanuatu. In addition, a differentiated risk framework has been developed under ADB's operational plan for FCAS to guide ADB staff in improving the flexibility, speed, and efficiency of ADB operations in a fragile context such as the PNG.⁹

⁵ Government of Papua New Guinea, Department of Works and Implementation. 2014. Presentation to Quarterly Road Maintenance Committee (QRMC): Update of Department of Works and Implementation. Unpublished.

⁶ ADB's Safeguard Policy requires compensation of people affected or displaced by any development project, including landowners and neighboring communities.

⁷ World Bank. 2011. *Vulnerability, Risk Reduction, and Adaptation to Climate Change: Papua New Guinea*. Washington, DC.

⁸ Government of Papua New Guinea, Department of National Planning and Monitoring. 2010. *Papua New Guinea Medium Term Development Plan 2011-2015*. Port Moresby; Government of Papua New Guinea, Department of National Planning and Monitoring. 2010. *Papua New Guinea Development Strategic Plan 2010-2030*. Port Moresby.

⁹ ADB. 2014. Differentiated Risk Framework for Fragile and Conflict-Affected Situations. A Staff Guidance Note. Manila.

C. Energy sector assessment

9. **Drivers of fragility.** Lack of access to affordable and reliable electricity limits private sector development and economic growth in PNG. Grid-connected power is largely restricted to the main urban areas, giving approximately 10% of the population access to electricity. The supply of power in the main urban centers is often unreliable, with regular power outages and demand at times exceeding generation capacity. Demand is expected to rise significantly, fuelled by high economic growth, partially associated with the proposed liquefied natural gas plant near Port Moresby, as well as continued growth in the mining sector and associated industry.¹⁰ Distributed power is rarely available outside urban centers. Approximately 90% of the population does not have access to electricity, and the progress in providing electricity to rural areas has been slow.

10. PNG continues to rely heavily on diesel or heavy fuel-oil power plants and generators in spite of the country's abundant renewable energy resources. PNG falls short when it comes to exploiting these resources because most of them are in remote locations where there is limited demand and they are not readily exploitable. The natural gas sector is still in its infancy, but could also prove to be an appealing future investment opportunity for private investors.¹¹

11. Increased access to and improved quality of supply is hindered by a lack of sector planning and the lack of community service obligations payments to the state-owned power provider, PNG Power, in unprofitable areas of the country. This erodes profitability of the company and reduces its ability to reinvest in and maintain its network infrastructure. On the main grids, power outages are becoming increasingly frequent because of insufficient generation and poorly maintained transmission and distribution systems. There is a general lack of investment in maintaining the existing generation, transmission, and distribution assets. This contributes to the frequency of power shortages and ultimately leads to higher social and economic costs borne by the country.

12. **Government's response.** The government plans to extend power to under-served areas targeting 70% access to electricity by 2030. Over the longer term, the government plans to build an electricity super-corridor that passes through the areas where electricity can be generated at lowest cost, with a national grid feeding it off and transmission lines passing through each of the economic corridors.¹² Alternative energy sources are earmarked in the Electricity Industry Policy for a key role in the power mix. The government targets to supply 25% of the country's electricity needs from renewable resources, including geothermal, wind, and biomass. In 2014, the World Bank has begun to support the government in mapping potential renewable energy resources in the country. The PNG Development Strategic Plan emphasizes the importance of private sector participation in funding energy infrastructure, such as the construction of transmission lines and building of electricity generation capacity. The administration is also looking to restructure PNG Power, which has regulatory responsibilities in addition to being the primary source of power generation and distribution.

¹⁰ ADB. 2012. *Papua New Guinea: Implementation of the Electricity Industry Policy*. Manila.

¹¹ Buisson. P., 2009. *Interview on Papua New Guinea Energy Market*. *Enerdata: Global Energy Intelligence*. www.enerdata.net/enerdatauk/press-and-publication/energy-features/papua-new-guinea-energy-market-interview.php

¹² Government of Papua New Guinea, Department of National Planning and Monitoring. 2010. *Papua New Guinea Development Strategic Plan 2010-2030*. Port Moresby.

13. **ADB's response.** ADB is a key player in the development of the energy sector in PNG. Between 2010 and 2013, ADB approved a number of projects in the energy sector, including Port Moresby Power Grid Development Project, Implementation of the Electricity Industry Policy, Improved Energy Access for Rural Communities, and Town Electrification Investment Program. Capacity building efforts are integrated into these energy projects, such as establishing implementation capacity within the Energy Division of the Department of Petroleum and Energy as well as capacity building of power utilities and communities.

D. Governance and institutional assessment

14. **Drivers of fragility.** Weak governance and institutions have had significant long-term impacts on the level of economic growth, delivery of public goods and services, credibility of the state, and efforts to alleviate poverty in PNG. PNG has largely comprehensive laws and institutions, but governance remains weak when compared with other major economies in Southeast Asia and the Pacific. A 2012 ADB study concludes that the major constraints to development in PNG are the low levels of government effectiveness in service delivery, poor law and order situation, and weak control of corruption. The study also points to the land administration and difficult access to formal land titles as critical constraint to private investment and infrastructure development.¹³

15. Geographical constraints, insufficient support to lower levels of government, and poor public financial management contribute further to poor service delivery. High unemployment combined with ineffective policing leads to poor law and order situation. Threat of land grabs from among customary landowners and inefficient land administration system constrain the productive use of lands.

16. **Government's response.** PNG Vision 2050 highlights the significant role of churches and civil society in ensuring government accountability. A focus is also given to the local government in terms of ensuring direct funding through appropriate legislation. There are also measures that pertain to improving the quality of government workforce, implementing an effective service delivery mechanism, reforming 3% of alienated land, and establishing an appropriate policy and legislative framework for good governance. The government sees the provision of employment and income opportunities as a long-term response to mitigate law and order problems. The focus is to develop manufacturing, agriculture, forestry, fisheries and tourism ventures to generate around 70% of GDP, with the balance coming from mining, petroleum, and gas ventures in the non-renewable sector.¹⁴ The National Land Development Taskforce was established to implement the National Land Development Program to (i) improve land administration, (ii) improve land dispute settlement, (iii) design a framework for developing land held under customary tenure, and (iv) design the institutional frameworks to support the development of a viable land and properties market.¹⁵

17. **ADB's response.** ADB's current country partnership strategy (2011-2015) focuses on helping sustain the performance of the public sector and alleviate the constraint on the performance of ADB's portfolio arising from the use of government systems and processes. To contribute to good governance, five technical assistance projects were approved between 2011 and 2014 for implementation: Facilitating Public-Private Partnerships, Regulating and

¹³ ADB. 2012. *Papua New Guinea Critical Development Constraints*. Manila.

¹⁴ Government of Papua New Guinea, National Strategic Plan Taskforce. 2011. *Papua New Guinea Vision 2050*. Port Moresby.

¹⁵ C. Yala. 2011. A Political Economy Analysis of the Customary Land Tenure Reforms in Papua New Guinea. In *The Political Economy of Economic Reforms in the Pacific*, ed. R. Duncan. Manila: Asian Development Bank.

Sustaining Road Transport, Supporting Public Financial Management (Phase 2), Implementation of the Electricity Industry Policy, and Supporting the Anti-Money Laundering and Combatting the Financing of Terrorism in PNG.

E. Recommended strategies for PNG CPS 2016-2020

18. **Focusing on ADB's comparative strengths in transport and energy.** The government views aid fragmentation as a serious issue to be addressed, "whereby donors seem to support everything and anything with their aid funds resulting in the funds being spread too thinly" leading to unsustainable development initiatives.¹⁶ A recent Independent Evaluation Department study of ADB's support for PNG noted that ADB's past engagement in PNG was characterized as having a wide sector focus, intervening across a large number of social and economic sectors despite ADB's limited financial and human resources; a shorter term, project based approach that led to ADB involvement in a sector for 3 to 5 years before moving on to another sector; and projects being implemented from Manila. ADB should focus its assistance to the development of transport and energy sectors where it has achieved significant experience and yielded greater impact for the recipient country.

19. **Focus on rural transport connectivity, including rehabilitation and upgrading of provincial and district roads.** The PNG Development Strategic Plan highlights improvement of service delivery and income opportunities to the rural population as one of government's key priorities. About 85% of the population lives in rural PNG. However, rural areas are often deprived of basic services such as health, education, and electricity. Transport connectivity will facilitate provision of agricultural extension services, health services, schools, proper housing, electricity, telecommunications, water supply, and postal services. Giving access to basic services and income opportunities will empower the rural majority population to become key players in advancing PNG's economic growth. This will also help promote inclusiveness of development assistance. Transport projects in the rural areas should be complemented with strengthening of the lower levels of government especially at the district and local level to effectively implement local development programs and to make resource allocation decisions. An important feature of ADB's strategy in the transport sector given PNG's weak governance environment is to ensure that its investments are sustainable. While 'missing link' roads offer important improvements in the quality of the land transport systems, focus should first be placed on ensuring that the existing road network system can be rebuilt and then maintained, before adding additional assets to the system.

20. **Promote the development of renewable energy resources, particularly in rural areas.** ADB's approach in renewable energy will need to take full account of the implementation capacity constraints present within the sector, and the difficulties faced in PNG Power's ability to raise sufficient revenues to make investments commercially viable. ADB's role in the sector could be using its existing implementation structures to leverage additional support to implementation arrangements, thereby reducing complex interventions in the sector. ADB may explore cofinancing opportunities or additional support from special funds such as Japan's Asian Clean Energy Fund under the Clean Energy Financing and Partnership Facility. This will complement ADB's initiatives in the Pacific region and PNG to promote sector reform, energy conservation and efficiency (supply- and demand-side measures), renewable energy deployment, and alternative and cleaner fuels.

¹⁶ Government of Papua New Guinea. 2011. *2011 Paris Declaration Monitoring Survey Country Report*. Port Moresby.

21. **Maintain a strong focus on public sector management.** Strengthening public sector management (PSM) systems is vital to government's ability to effectively and efficiently utilize public finances for service delivery and infrastructure provision.¹⁷ Strengthened PSM is also needed to ensure that revenue from the recent commencement of LNG exports and other mining and petroleum projects are efficiently and equitably utilized and aligned to national development priorities. ADB should therefore continue to support the government in the area of PSM. However, building upon the lessons from previous PFM reform efforts, and responding to the slow sector-wide reform progress, ADB should focus its support on specific interventions linked to ADB's existing portfolio of projects that address critical public sector constraints to service delivery. ADB PSM assistance could also be more strongly linked to areas where a clear demand for assistance can be established. ADB should also remain ready to support the government in its efforts to implement the Extractive Industries Transparency Initiative¹⁸ and to adopt the Santiago Principles¹⁹ for the proposed establishment of a sovereign wealth fund. ADB also needs to ensure its efforts are aligned with other development partners particularly with the long-term advisory positions funded by Australia across the PNG public service.

22. **Use longer term programmatic approaches to create stability and predictability of aid.** ADB should continue adopting a long-term and strategic arrangement of individual yet interlinked projects aimed at achieving large scale impacts. Between 2010 and 2014, portfolio performance in PNG displayed some significant improvement mainly attributed to a tighter focus of ADB support to transport and energy sectors complemented by smaller engagements in health, public financial management, and private sector development; a longer term, programmatic approach using the multitranche financing facility providing long-term funding pipelines and enabling capacity building within sector ministries and development of project pipelines; and a gradual scaling up on the number of projects being implemented through the resident mission along with staffing capacity.

23. **Pursuing opportunities for government to increase its counterpart funding.** Future programming discussions should pursue opportunities for government to increase its counterpart funding to be spent through existing implementation structures, including at subnational levels of government. Ongoing discussions with government indicate that demand for ADB resources remains strong and is primarily sought for those sectors where ADB is seen as having a comparative advantage over other development partners, and which are of a high priority to the present government administration.

¹⁷ Government of Papua New Guinea. 2010. *PNG Development Strategic Plan 2010–2030*. Port Moresby. p. 122.

¹⁸ Extractive Industries Transparency Initiative. <http://eiti.org/>

¹⁹ The generally accepted principles and practices for sovereign wealth funds, informally known as the “Santiago Principles,” are a set of voluntary principles agreed to by the international working group of sovereign wealth funds in September 2008. The 24 principles offer guidelines covering governance, accountability, transparency, and conduct of investments for sovereign wealth funds.