Papua New Guinea
Country Assistance Program Evaluation
February 2015

Papua New Guinea

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NOTES

(i) In this report, “$” refers to US dollars, and “K” refers to PNG kina.

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## Abbreviations

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<tr>
<th>Abbreviation</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<td>CAPE</td>
<td>country assistance program evaluation</td>
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<td>CPS</td>
<td>country partnership strategy</td>
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<td>CSP</td>
<td>country strategy and program</td>
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<td>CWTTF</td>
<td>Community Water Transport Trust Fund</td>
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<td>FCAS</td>
<td>fragile and conflict-affected situations</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<td>IED</td>
<td>Independent Evaluation Department</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>JFPR</td>
<td>Japan Fund for Poverty Reduction</td>
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<td>km</td>
<td>kilometer</td>
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<td>LNG</td>
<td>liquefied natural gas</td>
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<td>MDG</td>
<td>Millennium Development Goal</td>
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<td>MFF</td>
<td>multitranche financing facility</td>
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<td>MTDS</td>
<td>Medium-Term Development Strategy</td>
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<td>NMSA</td>
<td>National Maritime Safety Authority</td>
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<td>NPRS</td>
<td>National Poverty Reduction Strategy</td>
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<td>NRA</td>
<td>National Road Authority</td>
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<td>O&amp;M</td>
<td>operation and maintenance</td>
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<td>ODA</td>
<td>official development assistance</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>PCR</td>
<td>project completion report</td>
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<td>PNG</td>
<td>Papua New Guinea</td>
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<td>PPP</td>
<td>public–private partnership</td>
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<td>PSM</td>
<td>public sector management</td>
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<td>SOE</td>
<td>state-owned enterprise</td>
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<td>TA</td>
<td>technical assistance</td>
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Acknowledgments

This country assistance program evaluation (CAPE) report for Papua New Guinea (PNG) was prepared by a team led by Toshiyuki Yokota, Senior Evaluation Specialist, Division 2 of the Independent Evaluation Department (IED), under the overall guidance of IED Director General, Vinod Thomas, and IED Division 2 Director, Bob Finlayson. The team also acknowledges Hemamala Hettige (Senior Advisor, IED), Walter A. M. Kolkma (Director, Division 1, IED), and Valerie Reppelin-Hill, for their valuable inputs at every stage of the evaluation and for giving the finishing touches to the report.

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IED retains full responsibility for this report.
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Papua New Guinea (PNG) is a large country in geographic terms, with a relatively small population of 7.3 million people. Its rugged and uncharted territories and cultural and tribal diversity are evident in more than 800 dialects. This diversity, coupled with high levels of poverty, low levels of human development, and weaknesses in governance, make development challenges in PNG complex and daunting. PNG is richly endowed with natural resources, including minerals and timber, and the economy depends heavily on resource extraction. Mineral-related products account for more than 70% of exports on average, and gold alone makes up half of this total.

The International Monetary Fund noted in its 2013 report that PNG has enjoyed 10 years of sound economic growth owing to greater political stability, sound macroeconomic policies, and improved public finances. PNG’s gross domestic product (GDP) grew at an annual average of more than 8% during 2009–2012, peaking at more than 11% in 2011. Despite strong economic growth, PNG is not on track to meet any of the Millennium Development Goals by 2015. The key challenge is translating economic benefits from natural resource wealth into broad-based improvements in living standards.

PNG became a member of the Asian Development Bank (ADB) in 1971. This report is the second country assistance program evaluation (CAPE) for PNG. The first CAPE covered the period 1986–2002, and it was prepared by the Operations Evaluation Department of ADB in September 2003. This second CAPE covers the period January 2001–June 2014, spanning three country strategies—country assistance plan, 2001–2003; country strategy and program, 2006–2010; and country partnership strategy (CPS), 2011–2015. Projects approved before 2001 but substantially implemented in the evaluation period are also covered in this CAPE. The report provides an assessment of the performance of ADB support to the country during the evaluation period, and discusses factors affecting performance. The report draws lessons and makes recommendations for the next CPS for PNG.

ADB’s strategic objectives for PNG were broadly similar during the 3 ADB strategy periods reviewed by the CAPE. The program for 2001–2003 focused on increased governance, private sector development, and improved social indicators. The country strategy and program for 2006–2010 highlighted public financial management, transport, private sector development, and health (combating HIV/AIDS). The strategic direction of the CPS for 2011–2015 aimed to help PNG plan and implement a successful transition through the conversion of its resource wealth to inclusive economic growth. Measures included the provision of support for infrastructure, private sector development, and regional cooperation. The common cross-sector objectives during the evaluation period were inclusive economic growth, improved governance, and private sector development. The CPS for 2011–2015 noted that gender mainstreaming would become part of the strategy for PNG.
Development Support for a Fragile State

The geographically, culturally, and tribally complex environment has coincided with high levels of poverty, low levels of human development, vulnerability to natural disasters, and weak governance. Together, these characteristics give PNG the characteristics of a fragile country although the latest results of the country performance assessment led to the country being rated no longer fragile. The achievement of high levels of performance in the context of a fragile country is challenging. The level of resources and timelines needed to achieve development goals are more difficult than in many other countries. The Independent Evaluation Department evaluated ADB support based on the objectives, targets, resources and timelines set in the ADB strategies, programs, and projects. In such assessments, the evaluation considers that operations and strategies in fragile states need to be designed and implemented taking into account the context in which they are to be delivered. The diversity and fragility of the economy makes operational and financial management highly challenging and complicated.

Fiscal uncertainty. The 2003 CAPE recommended that ADB help the government manage debt levels and introduce systemic changes to public resource management to avoid perpetual financial crises. ADB and other development partners have been engaging the government on debt management. The new medium-term debt strategy of the government anchors fiscal targets by capping its debt ratios. The fiscal consolidation between 2002 and 2011 resulted in national government debt falling from 74% of GDP in 2002 to 35% in 2014.

While the level of debt may be broadly sustainable and is in line with the limits established in the government’s medium-term fiscal strategy for 2012–2017, several off-balance-sheet liabilities render the situation less than sustainable. These liabilities encompass unpaid superannuation arrears, financing of the government’s equity stake in a $20-billion liquefied natural gas (LNG) project that was completed in 2014, and public enterprise debt that brings the ratio of government debt to GDP to around 64% in 2014. The start of LNG production will bring a large increase in GDP, which is expected to grow by about 20% in 2015. Despite this growth, the projected increase in government revenue over the near-to-medium term is forecast to be quite modest.

Institutional complexity. Weak governance arrangements, inadequate transparency, and lack of monitoring and operational and financial reporting contribute to problems of poor project performance. Further difficulties arise as there are about 140 identified statutory authorities, 12 state-owned enterprises (SOEs), and many special accounts. Performance of these institutions is challenged by the lack of financial and human capacity, and poor coordination. ADB has provided support to tackle these institutional issues, and helped the government establish the National Road Authority (NRA), National Maritime Safety Authority, National Fishing Authority, National Airports Corporation, Civil Aviation Safety Authority, and PNG Airport Services. ADB also helped the government set up several special accounts of a road fund for the NRA, and a Community Water Transport Trust Fund for water transport franchise operators.

Weak inclusion. Other challenges arise from the low level of inclusion of PNG’s growth process. Prior to independence in 1975, social services were typically provided by faith-based and civil society organizations. The establishment of local governments displaced the role of these organizations in providing education, health, and other services. These new institutions did not have the ability to maintain a level of service
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commensurate with those levels provided before independence. The vertical and horizontal nexuses among the central and local governments were weak. This weakness was exacerbated by the 1995 Organic Law, which devolved responsibility for the delivery of services to the provincial and local governments. However, the associated institutional capacity has not yet been fully developed and put in place to undertake implementation and supervisory activities.

A sustained commitment to the health sector, where some success has been registered, and support for gender equality, could go a long way in promoting inclusive economic growth in PNG. This is particularly important given that the country is unlikely to meet Millennium Development Goals of reduced infant and maternal mortality. More can be done by strengthening and broadening attention to gender issues in infrastructure and other interventions in rural communities. For growth to be sustained and made inclusive there is an urgent need to develop a gender awareness policy and legal framework. Capacity of local leaders and organizations needs to be developed to design and implement culturally appropriate interventions that will help empower women and reduce inequalities at the grassroots level.

Environmental degradation. Environmental degradation through excessive and unmonitored exploitation of natural resource, natural disaster, and climate change could become major factors that further increase PNG’s fragility. The country is the world’s second-largest exporter of tropical hardwood logs, and sustainability of production is a serious concern. Conversion of land use for agriculture has resulted in deforestation and forest degradation. An estimated 95% of PNG’s emissions are derived from land use and forestry-related activities, and the remaining 5% from all other sectors. The government wishes to develop adaptation strategies to counter the impacts of climate change for low carbon growth development, and seek financial support under international initiatives and agreements.

The Pacific region, including PNG, was nominated for a Pilot Program for Climate Resilience, and a strategic program for climate resilience was prepared by the Pacific Islands Forum that was endorsed in 2012. This strategic program is designed to provide financial support from the Climate Investment Funds to mainstream climate change adaptation and disaster risk reduction in national, sectoral, and local development plans and actions. To mitigate environmental degradation, the first step of the strategy is to strengthen the government’s capacity to address the problem of environmental degradation, and green development.

Scope of Support

The CAPE assessed 33 projects and programs (53 loans and grants) implemented during the 14-year evaluation period (January 2001–June 2014), of which 14 projects and programs (17 loans and grants) have closed. The number of projects and programs is less than the number of loans and grants as some of them were financed with multiple financial resources from ordinary capital resources, Asian Development Fund, Japan Fund for Poverty Reduction (JFPR), and cofinancing from Australia and New Zealand. The CAPE also assessed 49 technical assistance (TA) projects. ADB’s support in the evaluation period totaled $1.48 billion, and the amount disbursed was $571.70 million.

Despite the fragile context, ADB has made significant progress in implementing large-scale infrastructure projects in PNG. This progress occurred mainly because:
(i) ADB focused on large-scale infrastructure of high national priority, and used external
consultants and contractors extensively to expedite implementation and demonstrate results; and (ii) despite the complex and inefficient government structure, there was generally a willingness of the government to use external advisors and implement proposed organizational and institutional changes to implement projects.

**ADB’s portfolio.** Transport has dominated ADB’s portfolio, with a total approved value of $930 million. Support for transport has been comprehensive, covering roads, maritime, and aviation, which are all of crucial importance to the country to enhance economic growth and encourage private sector development. ADB provided support to the energy sector totaling $135 million. The energy portfolio started in 2010, and none of the projects are operational at this time. Health is the third largest recipient sector, receiving support totaling $111 million, followed by public sector management (PSM), with support totaling $104 million. The PSM program ended in 2008.

The value of ADB’s portfolio of ongoing projects quadrupled over the evaluation period, and disbursements increased significantly in recent years. The portfolio has improved through efforts of external consultants and contractors (though at high cost), and ADB staff to help overcome the counterparts’ shortage of expertise and counteract weak governance. The portfolio has improved through efforts of external consultants and contractors, and ADB staff to help overcome the counterparts’ shortage of expertise and counteract weak governance.

ADB approved three MFFs in PNG over the evaluation period and they were managed in accordance with the ADB’s operations manual. The government appreciated the MFF as it provides flexibility and predictability in financing, through sequencing of loan tranches. However, since implementation periods of MFFs are longer than ADB country strategy periods, MFFs constrain the pipeline of the 2011–2015 CPS within the road maps of the three MFFs approved during the previous ADB country strategy.

Consulting services funded by MFFs enabled the government to prepare subsequent tranches to provide quicker and better-quality designs, and bundle procurement into larger packages that were attractive to foreign consultants and contractors. The MFF modality helped fund capacity substitution and demonstrated quick implementation progress. The amounts allocated for consulting services for project preparation and implementation under the first tranches of two transport MFF programs were $24 million for the road and $15 million for civil aviation. These figures represent 17% (roads) and 13% (civil aviation) of the overall project cost estimates. The shares were much higher than the 6% average share of consulting services in the first tranches of transport MFFs in other developing member countries. Development partners were concerned that over reliance on foreign consultants reduced ownership and motivation for self-learning, and increased risks of sustainability of outputs and outcomes of ADB support.

Most of the projects over the CAPE period have suffered implementation delays and experienced cost increases ranging from 50% to 300% of original project estimates. Many generic reasons account for the delays and cost increases in infrastructure. Important contributing factors are: (i) the government lacks the capacity to appraise project designs and handle implementation and long-term asset management; (ii) appraisal cost estimates presented in loan documents are based on prefeasibility levels that require extensive changes during the final design; (iii) lack of qualified and experienced local contractors and limited interest from international
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contractors result in low levels of competition for small contracts; (iv) issues of law and order necessitate a security premium; (v) slow procurement procedures, particularly for contracts larger than K10 million, which require procuring agencies to use the services of the Central Tenders Board; and (vi) the acquisition of customarily owned land that entails complicated procedures.

Assessment of Support

The evaluation assessed the performance of ADB’s portfolio during the evaluation period using the criteria of strategic positioning, relevance, effectiveness, efficiency, sustainability, and development impact. Performance is assessed for ADB’s strategy and program in transport, energy, health, private sector development (including microfinance), and governance (including PSM and public financial management). Information was gathered from project documents, interviews with government, development partners, and other stakeholders, perception surveys, and discussions during field visits to the Highlands region, the Lae Port and the Rouna I Hydropower Plant.

Strategic positioning. The projects and programs supported in ADB’s CPSs were oriented toward the strategic goals of inclusive economic growth, private sector development, and improvement of governance. These objectives were consistent with the development priorities of the country and ADB. Support to improve the enabling environment for the private sector and develop innovative solutions to increase access to finance through sovereign and nonsovereign loans and TA was an important mechanism facilitating economic growth. Support also appropriately targeted weak governance that resulted in poor-quality infrastructure, lack of maintenance, and inadequate counterpart funding. The evaluation assesses the strategic positioning of ADB’s program satisfactory.

Collaboration with development partners was strong, and there is little evidence of unnecessary duplication of effort. For example, ADB focused on highland roads while the World Bank focused on coastal roads. While there was good coordination, there are opportunities for further improvement. The experiences in other fragile and conflict states hold lessons for PNG. For example, the 2012 Afghanistan CAPE found the overall landscape for development coordination and management was largely driven by development partners. The Afghanistan Government coordinated the development partners' inputs, and monitored their outputs by establishing a National Budget and Aid Management System. This system was accessible to all development partners and it improved transparency and ownership for the government as well as enhanced capability for project administration and monitoring.

Relevance. Projects and programs were consistent with ADB’s three country strategies and its Pacific strategies. The infrastructure facilities selected for rehabilitation were appropriate for removing important constraints to economic growth. Associated activities financed by the JFPR recognized the need to develop capacity at the grassroots level to allow poor households to benefit from the increased opportunities provided by the infrastructure.

Project-specific objectives in the PNG program were sometimes unrealistic and complex, and the results frameworks and associated indicators were weak. Although gender mainstreaming has improved, it was not purposeful in the first part of the evaluation period. The scope of the programs appeared to reflect the country’s needs,
although it is noteworthy that climate change has not yet featured strongly. The evaluation assesses ADB’s support relevant.

Effectiveness. Progress in achieving project outputs and outcomes is constrained by PNG’s complexity and fragility. Of the 33 projects and programs covered by the evaluation, 14 projects and programs had self-evaluated project completion reports (PCRs). Ten out of the 14 completed projects and programs were independently evaluated or validated by Independent Evaluation Department. Those independent evaluations concurred with the self-evaluation ratings. Of the overall projects completed, 36% were rated highly successful or successful. The main reasons for the low ratings were scope reductions due to cost overruns and inability to implement the program loans in the PSM and health sectors. Of the four self-evaluations that were not validated by Independent Evaluation Department, one was rated successful.

Three PCRs (one validated and two unvalidated PCRs) were completed in the transport sector. These projects had a combined value of $155 million. One unvalidated PCR concerned the Road Maintenance and Upgrading (Sector) Project was rated partly successful. The program achieved less than 45% of the outputs identified in the loan documents. The validated PCR of the Rehabilitation of the Maritime Navigation Aids System Project with a cost of $19.8 million was rated successful. The project substantially achieved its outcomes and outputs—navigation aids were repaired, reconstructed and/or upgraded in 211 sites (exceeding targets). Another unvalidated PCR was for the Community Water Transport Trust Fund project, with a value of $23.0 million, was rated less than successful. By project closing in June 2013, only two of the 28 planned routes were operating, and funds were insufficient to support more than one franchise.

A review of projects under implementation indicates the issues discussed in the PCRs persist across the outstanding portfolio. The Highlands Regional Road Improvement Investment Program is reported to be delivering about 50% of its outputs due to cost overruns and consequent reductions in scope. The Civil Aviation Development Investment Program is running behind schedule with cost overruns at about three times the original cost estimates, making it unlikely the approved outputs will be delivered.

Lae Port Development Project was completed in December 2014, and this project has the potential to catalyze industrial and commercial development and promote trade for PNG. Despite this high potential, problems arose with land acquisition, the initial design, and 90% cost overrun, which have led to changes in scope and implementation delays of more than 2 years. PNG Ports Corporation has endorsed the long-term Lae Port development concept, and it has proposed to develop additional berths and commercial areas adjacent to the project to make it more commercially viable, and to support economic growth. ADB has provided support to develop institutional capacity to take ownership of the infrastructure facilities it has financed. ADB has helped the government establish statutory authorities and special accounts to support these operations, but in many cases they are not yet effectively performing.

Health indicators have not improved over the evaluation period, although if ADB support had been absent they could have been worse, particularly in the area of HIV/AIDS prevention where ADB has been active in recent years. The Health Sector Investment Program, supported by several development partners including ADB which closed in 2004, shifted the emphasis of health policy from urban to rural preventive
health services. ADB support helped improve health outcomes in some project areas. Support for gender equality was an important component of various recent infrastructure projects, but gender equality did not become an objective until the CPS 2011–2015, so the results have been modest so far.

ADB has helped the government realize some important results by introducing greater transparency and predictability in the area of private sector development. Support led to the Public–Private Partnership (PPP) Act in 2014. ADB’s support for the Microfinance and Employment Project was first approved in 2000 and it resulted in the reform of the regulatory framework to provide space for the growth of the microfinance industry. Two nonsovereign loans were approved during the evaluation period, for Digicel Mobile and Bemobile. The Digicel Mobile Telecommunication Expansion Project was completed in 2009, and the company was able to increase the penetration of mobile telephone services to 34% of the population by 2011.

Support for public sector governance focused on improving the efficiency and effectiveness of revenue management and allocation. The program was piecemeal and the results were not achieved. Despite years of ADB support, the country does not have a transparent system of financial management. The ADB-supported Public Service Program was not successful although it helped put in place some laws and establish or strengthen several governance institutions. While these bodies appear to be functioning, a combination of insufficient resources, lack of ownership, and poor political oversight constrain effective implementation. Two TA projects relating to Support for Economic and Poverty Statistics and Poverty Analyses for Socioeconomic Development Strategies were more successful. These TA projects helped increase the level of understanding of health issues in PNG, and contributed to the formulation of PNG’s National Poverty Reduction Strategy. Overall, the evaluation assesses ADB support less than effective.

**Efficiency.** Efficiency assessment was based on a review of both completed projects, and projects under implementation. Implementation of completed projects in PNG took on average about 5.25 years from effectivity date to actual closing. Projects have been completed with an average delay of 2 years. Delays are most apparent in the transport sector. The weighted average economic internal rate of return for the three completed transport projects was estimated to be above 12%. It is not clear how these results were achieved since no determination was made of baseline data for the completed road projects, nor was socioeconomic monitoring and evaluation undertaken. The PSM-related projects and loans, which together accounted for about $100 million, were assessed to be less efficient by both the PCRs and the validation reports. Delays were experienced, with the Financial Management Project closing almost a decade later than planned. The lack of counterpart funds and the inability to release the second tranche undermined efficiency of the Public Service Program.

Most ongoing projects have suffered large cost overruns and delays, which diminished efficiency. For example, the ongoing Highlands Regional Road Improvement Program and the Civil Aviation Development Investment programs have experienced a 200% increase in the original estimate of construction costs. The appraisal cost estimate of the Town Electrification Investment Program was not accurate, and it resulted in project subcomponent costs being between 50% and 100% higher than anticipated, and project implementation has been delayed by 18–24 months. These results are offset by a marked improvement in the performance of the portfolio disbursements in the second half of the evaluation period. This result can be partly attributed to the efforts of the PNG Resident Mission, which was established in 2003,
and better selection of construction contractors that were able to perform under challenging conditions. Overall, the evaluation assesses ADB support less than efficient.

**Sustainability.** ADB financed projects that were of high national priority with likelihood of sustainability. However, financial and institutional capacity in the sector is weak, and ensuring sustainability of outputs and outcomes of ADB support continues to be challenging. The current level of budgetary resources allocated by the government is insufficient to cover operational and maintenance costs for all ADB-supported outputs and outcomes. For example, a road fund to cover maintenance costs was created to avoid dependence on government budget funds. At present, the road fund is supported by a levy of K0.04 per liter on domestically refined diesel fuel, but this amount could cover only 1,000 kilometers of national highways among around 30,000 kilometers of road network.

A recent evaluation of World Bank transport operations in PNG provides some lessons. The evaluation points out the importance of measuring performance through use of unit cost data that will help improve design and sustainability of road works projects. The government’s financial and human capacity, particularly at subnational levels, needs urgent improvement if much of the country’s economic and social investment is to achieve its expected economic life. Sustainability is critical because it affects both effectiveness and efficiency of ADB support. The evaluation assesses sustainability of ADB’s support less than likely.

**Development impact.** The evaluation assessed how well ADB’s three key objectives—inclusive economic growth, improvement of governance, and private sector development—were promoted by assessing the plausibility of ADB’s contribution to these objectives. This analysis was partly based on data on the achievement of ADB’s outcomes defined in the result frameworks and partly on other available information. It is reasonable to assume that ADB’s infrastructure program would contribute to economic growth and inclusive growth through its physical and nonphysical investments. While contributions were positive, as most of the outcome targets in ADB’s strategies have notably not been achieved, taken together, the envisioned contribution to key objectives would unlikely have occurred. Shortfalls in the achievement of development impact targets would have resulted from cost over runs and delays that reduced the actual level of outputs and outcomes produced relative to original targets. The shortfalls in outputs and outcomes make it difficult to claim the expected contribution from ADB’s projects was achieved.

Some synergies occurred across sector programs in private sector development through the use of subcontractors in the health sector, financing the mobile telecommunication industry, and the development of the policy and regulatory frameworks for PPP. Coordination with development partners within sectors was good, but there is scope to generate further synergies through coordination of development partners’ actions, for example, in the development of sustainable funding mechanisms for asset management in the road subsector. The evaluation assesses ADB’s contribution less than satisfactory.

**Overall assessment.** ADB support improved significantly during the second half of the evaluation period, particularly in terms of disbursements. However, institutional and governance issues remain a substantial problem and undermine the attainment and sustainability of development results. For the period as a whole, the evaluation assesses the ADB program less than successful. This program rating reflects a similar result to the project performance evaluations.
Challenges

Several challenges arise in PNG primarily from governance issues that cannot be addressed through individual project interventions alone and need to be addressed on a sustained basis across multiple projects within the CPS.

Fiscal uncertainties are likely to persist given the large fall in oil prices over the last 12 months, and this will make asset and debt management a challenge for the government.

The government’s planning and approval processes for projects remain unclear. In infrastructure, for example, field interviews revealed that many projects listed in the 2014 budget in financial terms were not submitted to the Parliament by the line departments but had been approved anyway. There is a need to strengthen project designs to ensure achievement of performance targets. There are concerns about unwarranted intervention in the selection of infrastructure projects that are compounded by a failure to monitor the outcomes of completed projects. In many cases, baseline data was absent, benchmarks were not specified, and socioeconomic impacts not monitored and evaluated, making it difficult to assess projects and justify project selection.

Weak capacity for project preparation and for compliance with ADB’s procurement and safeguard policies has prompted the government to delegate its responsibility for project preparation to external players. While this arrangement has allowed ADB to make progress in project implementation, it has meant that ownership and project effectiveness and sustainability are often weak. The 2011 World Development Report on Conflict points out the trade-off between effective and speedy implementation by international advisors and weak implementation capacity of governments, which cannot lead to quick results.

ADB support to establish new statutory authorities has helped remove conflicts of interest between regulatory and operational functions in the public sector, and provided incentives to improve performance in the short term. However, this reform has created an additional institutional layer that led to further complexity and lack of clarity of responsibility sharing, and coordination. Most statutory authorities are not functioning effectively, and financial sustainability at the project level is a critical issue that has to be addressed if ADB is to enhance development effectiveness and sustainability.

While most institutions remain under-resourced, some statutory authorities were over-resourced because it is difficult for the Department of Treasury to recoup funds from state authorities’ own-source revenues. Many of the state authorities require further reforms to improve performance and become sustainable. ADB is currently providing TA to help the government create a new infrastructure development authority for planning and implementing projects. While this support may be a positive step, it raises concerns the new authority’s brief will overlap with the existing functions of government agencies, and it may be a short-term solution which does not solve the underlying problems of weak governance.

ADB support was heavily focused on infrastructure, which received the allocation of about 73.0%, comprising of transport (62.8%), energy (9.1%) and water (1.2%) on average during the evaluation period. The share of infrastructure has increased over the period. Given PNG’s diversity and fragility coupled with low levels of
human development and governance, and high levels of poverty and environmental degradation, there is a need to rebalance ADB’s portfolio. Greater attention should be directed toward social service provision and gender equity. It would pay to target demand for better social services and gender equality, particularly in rural areas where the majority of the population lives. According to the 2014 Tajikistan CAPE, ADB has made effective use of the JFPR grants to link large growth-oriented infrastructure projects and social sector reform programs of the central government to rural residents in the pursuit of inclusive growth objective. The JFPR projects have piloted innovative approaches that involve nongovernment organizations and communities in providing, operating, and maintaining infrastructure, as well as in building the capacity of local governments.

Recommendations

The challenges identified above lead to a set of recommendations in the areas of macro and fiscal management, project management, capacity development, and the provision of rural health services and gender support.

1. **Macro and fiscal management**: Jointly with the International Monetary Fund and the World Bank, ADB needs to strengthen the government’s capacity to monitor debt, and improve transparency in the management of resource revenue, and in particular, transparency of off-balance-sheet liabilities. A contraction in fiscal revenues will reduce the country’s ability to borrow to develop and maintain assets financed by ADB. The 2003 CAPE recommendation, managing debt levels and introducing systemic changes to public resource management, is still valid. National government debt of on-balance-sheet liabilities was about 35% of GDP in 2014. This target is broadly sustainable and in line with the limits set in the government’s medium-term fiscal strategy for 2012–2017.

   However, a number of off-balance-sheet liabilities raise fiscal risks. The total amount of off-balance-sheet liabilities in 2014 almost equals the total amount of on-balance-sheet liabilities including the financing of the government’s equity stake in the LNG project. These risks are not transparent and cannot be monitored by lenders, and the weak financial management system creates risks for all lenders in PNG. This fiscal risk is particularly important for PNG as the economy relies heavily on natural resources where prices have fallen substantially over the last 12 months, and a slowdown in economic development directly affects financial stability of the government.

2. **Transparency and accountability in project management**: ADB needs to help the government monitor and report on project selection, resource allocation, and project implementation and operation. Weak governance, unwarranted intervention in project selection, and less than transparent decision-making for project financing, makes monitoring and evaluation an essential requirement if gains are to be made to the effectiveness, efficiency, and sustainability of projects. The development of a project monitoring system for the life of project assets is a key step to improve performance. Support is needed to strengthen planning systems and procedures, improve project design and supervision capacity, establish baselines and targets to assess and report on development effectiveness, and reflect findings in subsequent cycles of project planning and implementation.

3. **Sustainable institutional capacity development**: A road map is required that has both short and medium-term components to strengthen institutional structures, and enhance human and financial capacity. In the short term, ADB needs to increase
Executive Summary

opportunities in its projects for human capacity development by providing hands-on training, and strengthen institutional financial capacity. ADB needs to shift from demonstration by ADB staff, external contractors, and consultants to hands-on training of existing agencies through exchange of knowledge and skills, and development of human capacity in project management, asset and financial management.

In the medium term, support needs to be provided to the government to help it review existing administrative practices and procedures and formulate sustainable institutional arrangements. There is a need to address the issues arising from the complex institutional landscape in PNG. Many of these agencies have duplicate and conflicting functions and they do not have the capacity to perform their responsibilities. The organizations established with ADB support are responsible to operate, maintain and regulate outputs of the ADB projects, but they are not functioning effectively. Support is required to develop sustainable and efficient sources of funding, particularly in the road sector which accounts for 45% of the transport program, and performance of asset management functions is dependent upon budget finance.

4. Rural health services: ADB needs to deepen its public health support to local governments, nongovernment organizations and private sector. The establishment of local governments after independence displaced the traditional organizations, which previously provided social services, but the former did not gain the ability to provide the same level of services, particularly in sectors such as health. The country has a large burden of disease, and its health indicators have not significantly improved. Limited access to primary care facilities in rural areas disproportionately affects the poor. The government and development partners expressed an interest in continued ADB support in the health sector. The HIV/AIDS Prevention and Control in Rural Development Enclaves Project approved in 2006, supported innovative PPP arrangements to mitigate weak local governance and strengthen rural economic operators to extend and improve health service delivery and HIV prevention in rural areas and this concept could be further developed.

5. Women's empowerment: ADB needs to improve the awareness of gender issues through dialogue with local political leaders, and faith-based and nongovernment organizations, and help women participate more in poverty reduction efforts. Gender mainstreaming continues to be necessary to ensure equitable sharing of development resources provided by ADB. ADB could strengthen the capacity of its key counterpart agencies and departments to formulate and implement gender strategies by TA. At the same time, given the cultural diversity in the country, a one-shoe-fits-all approach will be inadequate. ADB needs to help to strengthen the capacity of grassroots institutions to address gender-based violence and other practices that disempower women in ADB project areas.
Management Response

On 17 February 2015, the Director General, Independent Evaluation Department, received the following response from the Managing Director General on behalf of the Management:

**General Comments**

1. **CAPE outcome.** The Papua New Guinea (PNG) Country Assistance Program Evaluation (CAPE) Report provides some useful material for the preparation of the PNG Country Partnership Strategy (CPS) 2016–2020. However, overall its recommendations are not particularly ground-breaking. Specifically, ADB finds four major weaknesses with the evaluation approach.

   a. **Static analysis of a dynamic program.** The CAPE covers 14 years, and three country strategy periods—country assistance plan 2001–2003; country strategy and program 2006–2010; and the CPS 2011–2015. Yet, the evaluation findings used for the overall rating of “less than successful” are heavily skewed towards completed operations of the earlier years. This happens to be the period when overall portfolio performance was at its weakest. Learning from past lessons, ADB sharpened its sectoral focus over the period, established a significant in-country presence, introduced long-term financing and advisory programs to ensure greater continuity vis-à-vis sector agencies, and spent more time and money on portfolio management. Indeed, portfolio performance has improved over the period. The CAPE fails to adequately capture this evolving context, and performance improvements of our operations in PNG. Moreover, the analysis of ongoing projects is of poor quality, at least in several cases. For instance, the transport sector analysis presents inaccurate information regarding ADB’s two largest investments—the Civil Aviation Development Investment Program and the Lae Port Tidal Basin Project (see Attachment).

   b. **Lack of cross-country learning.** At ADB’s request, IED included in the CAPE a number of evaluation examples from other developing member countries (DMCs). However, as these examples were added in the later stages of CAPE preparation, their linkage to the final recommendations is practically null and void. We would encourage IED to adopt a cross-country learning approach as a standard element of future CAPE analytical frameworks. We think this will deliver more comparative perspectives across our DMCs.

   c. **Insufficient recognition of staff-led One-ADB services.** The CAPE analysis relies heavily on completion reports and other official documentation arising from ADB’s loans and technical assistance (TA). We think that ADB’s contribution to PNG’s development goes considerably beyond what is achieved through these activities. ADB staff are engaged deeply
in macroeconomic management issues and structural reforms, and at a sector level on project selection, preparation and execution. Further, the Private Sector Operations Department (PSOD) has fielded many missions to PNG to help develop local capital markets, while the Operations Services and Financial Management Department (OSFMD), Office of Anticorruption and Integrity (OAI), and Controller's Department (CTL) have undertaken capacity building of government agencies. The CAPE fails to capture the relevance and impact of these efforts.

d. **Generic recommendations.** Most of the final recommendations suggest actions that are already under implementation. Further, they bear no logical connection to the main issues highlighted by the report. For example, it highlights the significant challenges faced in project implementation, safeguards compliance, and cost overruns. These are not addressed in the final recommendations.

### Specific Comments

2. **Multitranche financing facilities.** The report includes a number of conflicting and misleading statements regarding the use of MFFs in PNG.

   a. **Capacity development and predictability.** Following the recommendations of ADB’s Working Differently in Fragile States policy, ADB has adopted a number of long-term sector-based interventions, possible mainly through the use of MFFs. The CAPE highlights some positive features of this approach but also concludes that MFFs have funded capacity substitution in exchange for quick implementation progress, raising concerns of over-reliance on foreign consultants, reduced ownership, and a lack of sustainability of ADB impacts. This is grossly misleading. The MFFs use a standard amount of consultant services, and give sector executing agencies confidence in their future resourcing. This has proven to be particularly useful in PNG’s volatile budgeting environment and has helped encourage government ownership and a more positive project planning and preparation cycle. This longer-term approach has also helped establish a more conducive environment for capacity and staff development.

   b. **Program flexibility.** The CAPE concludes that because MFFs are longer than the CPS period, they constrain the pipeline and reduce programming flexibility. We disagree. MFFs assist the Government to develop and plan for a long-term, sector-based, investment plan that includes a significant portion of ADB financing. If priorities change, the processing of subsequent tranches does not happen.

3. **Public sector management.** The CAPE assertion that “support for public sector management was relatively small and, except for a few TA projects, not actively pursued after 2008” is incorrect. Again, this finding is based on cursory analysis of loan and TA projects.

   a. **Private Sector Development Initiative.** The regional TA, Private Sector Development Initiative (PSDI), has been active since 2008 and has significantly scaled up ADB support for public sector management in
PNG. Through PSDI, ADB has become the lead development partner across support for competition policy reform, state-owned enterprise reform, a public private partnership center, financial regulatory reform, and business environment reform. The staff and consultant resources devoted to these activities are significantly greater than in the early stages of the evaluation period. A thorough analysis would have also revealed substantial policy and institutional impacts.

b. Staff resources and One-ADB. Similarly, the CAPE fails to highlight that with the strengthening of staff in the resident mission, ADB has become much more active in economic policy dialogue. This has included numerous knowledge and advisory services on budget and debt management, and institutional and structural reform. Papua New Guinea Resident Mission (PNRM) participates in frequent high-level discussions with government, civil society and the private sector on budget and debt management and participates actively in the IMF’s annual Article IV assessment. OSFMD, OAI, and CTL regularly engage with the authorities on improved financial management and procurement practices. These activities harness the resources of a ‘one-ADB’ and have helped ADB respond flexibly to the needs of the PNG Government. However, the CAPE analysis has overlooked these activities because they were not part of a loan or TA project.

Comments on Recommendations

4. Recommendation 1: Jointly with the International Monetary Fund and the World Bank, ADB needs to strengthen the government’s capacity to monitor debt, and improve transparency in the management of resource revenue, and in particular, transparency of off-balance-sheet liabilities. IED should have acknowledged that ADB is already fully engaged on this issue with these partners. As such, and unless IED sees areas where the dialogue is not taking place or is incomplete, we find it difficult to understand the basis for the recommendation. We agree with the principle but cannot figure out the details. ADB has been and will continue to support debt management and sustainable fiscal policies through high-level discussions, knowledge products, commentary on economic plans and advocacy. We also confirm that ADB actively participates as a Mission team member in the annual IMF Article IV assessment. Similarly, ADB has been actively supporting efforts to develop local capital markets and will continue to lead on the reform of ‘off-budget’ entities.

5. Recommendation 2: ADB needs to help the government monitor and report on project selection, resource allocation and project implementation and operation. We agree with the proposal. Indeed, we are expanding our efforts in this area. ADB continues to support the government to improve infrastructure budget coordination and execution. ADB project officers have been working directly with executing agencies to strengthen their project selection and implementation performance. Furthermore, the resident mission has now established a dedicated results monitoring focal point that will be responsible for working with executing agencies to collect, analyze, and report on project implementation performance and results.

6. Recommendation 3: A road map is required that has both short- and medium-term components to strengthen institutional structures, and enhance human and financial capacity. We agree with the rationale and spirit of the recommendation but do not support the approach prescribed in the report. We support the need for a clear
institutional and capacity development effort. ADB has been and will continue to work in partnership with other development partners to develop an appropriate capacity building approach that is linked to our ongoing operations. However, the recommendation is unclear on whether ADB should be held responsible for a nationwide short- and medium-term capacity building road-map or whether this should be undertaken by another development partner or government.

7. **Recommendation 4:** *ADB needs to deepen its public health support to local governments, nongovernment organizations and private sector.* The IED report could have better acknowledged our work and results in this area. The recommendation is not wrong, but we are already involved. Specifically, ADB has been and will remain engaged in PNG’s public health, and the sector is a priority under the current and next CPS 2016–2020. The scale of ADB operations must, however, consider other government priorities, the allocation of development partner resources and the capacity of the sector agencies to absorb additional investments. For these reasons, ADB will invest strategically in the health sector. The involvement will respond to a clear demand by the Government, and the opportunity to make a sustainable impact on outcomes. ADB activities will continue to be implemented in close coordination with church groups, civil society, and the private sector.

8. **Recommendation 5:** *ADB needs to help women participate more in poverty reduction efforts, and improve the awareness of gender issues through dialogue with local political leaders, and faith-based and nongovernment organizations.* We agree. ADB will continue to proactively engage with civil society and political leaders to prioritize gender mainstreaming in all operations and promote gender sensitivity of project designs. The draft PNG CPS 2016–2020 Results Monitoring Framework includes gender disaggregated targets for every sector, while the PNG Country Knowledge Plan highlights gender mainstreaming as a priority and lays out an enhanced role for PNRM in monitoring the impact of these efforts.
Attachment: Transport Sector Project Information

Lae Port Tidal Basin Development Project

1. **Issue:** Government investment in a second phase is not a part of the original tidal basin plan and independent analysis has shown it is not a necessary next step. Suggestions about its necessity from vested interests should not be connected to the viability of the original tidal basin construction.

2. **Details:** The CAPE suggests that due to cost overruns and lower than expected revenue growth, ‘a second phase of the project is necessary to make the project financially viable’. This is a misunderstanding of the intention of the project. The Lae Port Tidal Basin project was not designed to build a fully functional port, but rather to construct the underlying ‘hard’ infrastructure which could form the basis for future investment. In this regard, the original design included only one small berthing facility that was not intended to generate the economic rates of return required to justify the tidal basin construction. Rather, ADB took on the technically challenging ‘tidal basin’ component of the project so that it could act as a catalyst for private sector investment.

3. The suggestion that Government is now being required to invest additional money into a phase 2 expansion to make it commercially viable, is incorrect and implies that the project did not deliver on its intended outcomes. In framing its analysis the CAPE report relies on a reproduction of views from the incumbent state owned, monopoly, port operator—who declined to be involved in the project. No mention is made of the views of central government agencies, the projects’ executing agency, Independent Public Business Corporation, or of the private sector.

4. In ADB’s view, the CAPE should highlight that the tidal bay construction was successful, and dealt with complicated land owner and environmental issues. It should also note that due to delays in dealing with these issues, and unfavorable exchange rate movements, cost overruns were recorded. The conclusion however should note that the success of the project will rely on private sector investment, highlighting ongoing efforts by ADB and the Government’s to achieve this. Further, Government investment in a second phase is not a part of the original tidal basin plan and independent analysis has shown it is not a necessary next step. Suggestions about its necessity from vested interests should not be connected to the viability of the original tidal basin construction.

Civil Aviation Development Investment Program

5. **Issue:** The negative overall assessment of the Civil Aviation Development Investment Program (CADIP) is inaccurate. CADIP is expected to be one of the first ADB financed projects in PNG to be completed with zero implementation delays and to meet all expected outputs. It has set a benchmark for other projects and programs in terms of its support for capacity development and sustainability.

6. **Details:** The CAPE analysis concludes the CADIP is running behind schedule with 300% cost overruns, making it unlikely the approved outputs will be delivered. This is an inaccurate portrayal of CADIP, which has been one of the strongest performing components of the PNG portfolio in terms of both implementation performance and impact.
7. Initially, the National Airports Corporation (NAC) did lack capacity in handling procurement for the program. This delayed the mobilization of design consultants and subsequently procurement activities for tranche 1. However, despite this initial delay and the price escalations (caused by an unexpected sharp appreciation in the PGK to the USD), CADIP 1 is still expected to meet all of its expected project outcomes. In particular, funding shortfalls have been met by higher counterpart funding from the PNG Government, demonstrating a strong level of ownership. Further, the implementation performance of CADIP has exceeded that of most other major projects undertaken in the country.

8. A more thorough analysis of the program would reveal that the use of the MFF funding to undertake long-term capacity building has enabled the NAC to build up a cadre of skilled civil and design engineers. This has set a benchmark for other projects and programs. The accomplishment of advance contracting under tranche II means that this program is now expected to be one of the first ADB financed projects in PNG to be completed with zero implementation delays and to meet all expected outputs. Detailed information on this performance has been provided to the IED team on numerous occasions.
Chair’s Summary:
Development Effectiveness Committee

The Development Effectiveness Committee considered the Independent Evaluation Department report, Country Assistance Program Evaluation Papua New Guinea (IN. 38-15) on 23 February 2015. The following is the Chair’s summary of the Committee discussion:

1. The Development Effectiveness Committee (DEC) discussed the country assistance program evaluation (CAPE) for Papua New Guinea (PNG) which covered three strategy periods. The report found that despite the country’s fragile context, ADB has made significant progress implementing large-scale infrastructure projects. Transport projects dominated ADB’s portfolio followed by energy, health and public sector management. Most projects over the CAPE period have encountered implementation delays and cost increases between 50 to 300%. The CAPE rated ADB’s strategic positioning satisfactory, its projects and programs relevant. Achieving project outputs and outcomes have been constrained by PNG’s complexity and fragility, resulting in less than effective and less than efficient ratings due to cost overruns, reduced project scope, land acquisition issues and implementation delays. The report found that due to weak financial and institutional capacity, sustainability of ADB support is less than likely, and the overall assessment was rated less than successful. To overcome persistent challenges, IED recommended that ADB: i) strengthen government’s capacity to monitor debt, improve transparency in the management of revenues as well as off-balance-sheet liabilities; ii) help the government monitor project selection, resource allocation, and project implementation and operation; iii) strengthen institutional capacity, particularly in sectors such as road transport; iv) deepen public health support; and v) improve gender mainstreaming.

2. DEC noted that PNG makes up half of ADB’s Pacific portfolio, yet observed that strong economic growth in recent years has not brought down poverty levels or improvements in social indicators. While commending ADB’s relevance and good strategic positioning, a DEC member posited that more important lessons could have been drawn out for the new country partnership strategy (CPS) if the CAPE focused on 2007 onwards, when PNG was no longer classified as fragile and conflict-affected. Some DEC members felt that the CAPE rating was not very dynamic, because it needed to draw conclusions from completed projects that were implemented several years ago during the earlier part of the evaluation period. While noting the improvement in disbursements in recent years, DEC members flagged that results should ultimately be measured by progress on sustainable development impact. IED noted that as a consequence of the growth of the portfolio in recent years, the CAPE gave a higher weight to recent developments in deriving its results. The DEC Chair noted that the CAPE did well in acknowledging knowledge work and policy dialogue with the government.
3. In response to DEC’s question on whether the portfolio is indeed improving, IED mentioned that the resident mission’s presence and early indications of quality at entry suggest that such is the case. DEC inquired how the current portfolio informed the preparation of the new CPS. Staff shared that during the first 10 years of the CAPE evaluation period, disbursement averaged only $20 million per year while the last three years averaged about $150 million per year. ADB was previously engaged in eight sectors that were scattered geographically but is now focused on four sectors, and engaged in longer programs that inspire confidence from the government about ADB’s long term commitment. Staff added that ADB has leveraged more resources internally and externally and it is increasingly relied upon by bilateral and multilateral partners in cofinancing projects. Staff noted the CAPE’s observation that public sector management activities stopped in 2008. They pointed out that work on infrastructure, macroeconomic policy engagement, and private sector development through state-owned enterprises reform, constitute public sector management reforms. Staff also cited that public sector management work has scaled up in recent years through the Pacific private sector development initiative technical assistance. IED clarified that the CAPE states that while work on governance was not provided after 2008, ADB had continued to provide support for public sector management, and private sector development up to 2014, for which ADB support was assessed in the CAPE.

4. DEC noted concerns about the security situation and inquired why cost overruns and delays remain large, despite the greater use of the multitranche financing facility (MFF) during the design stage. A DEC member also inquired whether the slow approval process for procurement and complex land issues have been factored in the project implementation cycle. IED stated that there were numerous sources of cost overruns such as design issues, land acquisition, and lack of government ownership, among others. IED also posited that the MFF in itself may have contributed to this because of the accessibility of funding, yet also clarified that the benefits of MFF outweighed its disadvantages. Staff added that contrary to the CAPE’s findings, capacity substitution and use of consultants were much higher in ordinary project lending compared to MFF, and that indeed, security concerns add to the cost of doing business in PNG. DEC encouraged staff to double their efforts in strengthening government capacity for designing projects as well as in budget planning and resource management. A DEC member also stressed that while the MFF has been a useful tool, staff should make sure that certain framework conditions are met.

5. With regard to IED’s recommendation on creating a road map for institutional capacity development, DEC members clarified whether IED was only referring to sectors that ADB supports. IED clarified that the recommendation was made because the proportion of consultant costs remain high as a percentage of overall project costs. They added that institutional arrangements are unwieldy and that there is a need to convince the government to rationalize its institutions. Staff noted the CAPE’s suggestions, but emphasized the need to prioritize efforts. Staff shared that ADB is leading measures to align and reduce complexities in statutory agencies in PNG, and helped establish a division within the Ministry of Finance to monitor the performance of such authorities.

6. While some DEC members felt that ADB should continue to support the health sector, some disagree with IED’s assessment that ADB should deepen its involvement given the difficult operating environment. A DEC member also felt that ADB should first establish a track record of successful implementation and higher project success rates before branching out into social sectors. Another DEC member felt that deepening
support to rural health services may not be a realistic recommendation. IED clarified that it is not envisioning a dramatic shift towards the social sectors but deemed the recommendation on health as a very serious one. IED added that prior to independence in 1975, social services were typically provided by faith-based and civil society organizations and the establishment of local governments displaced the role of these organizations. Therefore the weaknesses in local government health provision could be mitigated by partnering with non-government organizations and the private sector. The successful experience of JFPR in PNG and Tajikistan, which linked large ADB-financed growth-oriented infrastructure projects and social sectors, could be replicated in PNG.

7. DEC inquired about various PNG projects, in particular: i) the factors which led to the success of the microfinance project, and ii) whether the Civil Aviation Development Investment Program could be considered successful. On the microfinance project, staff attributed the success of the project to having strong community support, documenting failures and carrying out immediate adjustments to the project design, and having a strong champion in the forefront of national politics. Staff also stressed the importance of having a deeper understanding of the country’s political economy and the flexibility to adjust in response to the changing contexts. On the civil aviation program, staff mentioned that the project is considered ongoing and there is no official rating yet. Staff reported that civil works is almost complete and that they are preparing for the third tranche. The project has a supervision consultant and the government is also training its own engineers to manage the project. Staff assured DEC that it will double its efforts on sustainability issues.
CHAPTER 1

Introduction

A. Objectives

1. This is the second country assistance program evaluation (CAPE) for Papua New Guinea (PNG). The first CAPE covered the period 1986–2002, prepared by the Operations Evaluation Department of the Asian Development Bank (ADB) in September 2003. The current CAPE was prepared by the Independent Evaluation Department (IED) and aims to: (i) provide a credible and independent assessment of the performance of ADB’s support to PNG from January 2001 to June 2014 (the evaluation period); (ii) identify factors that affected performance; and (iii) draw lessons and make recommendations that can be used as an input to the new country partnership strategy (CPS) for PNG, which is due to be finalized at the end of 2015.

B. Scope and Coverage

2. PNG joined ADB in 1971, prior to becoming an independent country in 1975. The 2003 CAPE covered ADB’s first operational strategy for PNG prepared in 1989, succeeding strategies in 1994 and 1998, and the lending and nonlending program until 2002. The current CAPE builds on the 2003 study and independently examines strategies and programs that have guided ADB’s operations in PNG during the evaluation period. This evaluation takes into account the country assistance plan, 2001–2003; the country strategy and program (CSP), 2006–2010; and the CPS for 2011–2015 as well as the CSP updates issued between 2003 and 2006. From January 2001 to June 2014, ADB approved 33 projects and programs (53 loans and grants) and 49 technical assistance (TA) projects which were all assessed as part of this evaluation. The assessment also includes projects approved before 2001 but implemented during the CAPE period.

C. Evaluation Methodology and Limitations

3. The method and approach used for the CAPE is based on standard evaluation criteria laid out in the Revised Guidelines for the Preparation of Country Assistance Program Evaluation in 2010. An evaluation framework was prepared that elaborates on the issues and questions considered by IED under each standard evaluation criterion.

4. The evaluation team undertook sector and thematic assessments (energy, health, public sector management, and transport). The sector assessments defined

\[1\] ADB Loans and Grants to Papua New Guinea, 2000–2014 (accessible from the list of linked documents in the Appendix).
\[2\] ADB Technical Assistance to Papua New Guinea, 2000–2014 (accessible from the list of linked documents in the Appendix).
\[4\] Results Chain and Evaluation Framework for the ADB’s Development Contribution (accessible from the list of linked documents in the Appendix).
issues and lessons from projects and policy initiatives implemented during the evaluation period, and evaluated their performance. Drawing on the past CPSs, the evaluation approach paper identified common cross-sector objectives for ADB’s program of support to PNG. These objectives were designed to: (i) promote economic growth, (ii) improve governance, and (iii) improve private sector development. In the latter part of the evaluation period, mainstreaming of gender awareness was identified as a specific objective.

5. The report draws on multiple sources of information derived from visits to PNG by evaluation specialists and consultants of IED during March–October 2014. Discussions were held with representatives of government departments and agencies, development partners, and other stakeholders. The evaluation team conducted energy, health, and transport sector assessments, and assessed public sector management (PSM) programs, all of which contributed to the CAPE. Extensive analysis of databases and reviews of documents were supported by perception surveys conducted across government, development partners, and stakeholders, and elaborated in focus group discussions with beneficiaries.5

D. Organization of the Report

6. After this introductory section, Chapter 2 describes the country context and government strategies, and identifies key development challenges in PNG. Chapter 3 provides a summary of ADB strategies and the status of portfolio management. Chapter 4 discusses ADB’s achievements in supporting inclusive economic development and increased private sector participation. Chapter 5 discusses ADB’s current approach to key governance issues. Chapter 6 presents the findings on the evaluation of relevance, effectiveness, efficiency, sustainability, and development impact of ADB support to PNG. Recommendations drawing on findings are presented in the executive summary for ease of access.

5 Stakeholder Perception of ADB Performance (accessible from the list of linked documents in the Appendix).
CHAPTER 2
Country Context and Government Strategies

A. Analysis of the Country Context and Major Constraints

7. During the evaluation period, PNG’s economy has undergone a major structural change. The economy and society are now at a historic juncture. One of the largest liquefied natural gas (LNG) projects in the region has been completed in PNG at a cost of about $20 billion, or 120% of PNG’s gross domestic product (GDP). The project began in 2010 and in its wake created unprecedented investment and employment opportunities in the country that will boost the economy. These developments are particularly welcome as the country’s economic performance during the previous decade (1990–2002) was so poor that the period was often described as the “lost decade.”

![Figure 1: Change in Papua New Guinea Gross Domestic Product](image)

GDP = gross domestic product.
Sources: International Monetary Fund. 2014. World Economic Outlook database (October); World Bank. 2014. World Development Indicators database (October).

8. Average economic growth between 2001 and 2013 was about 5% per annum (Figure 1), and per capita GDP reached $2,146 at the end of 2013. The International Monetary Fund (IMF) Article IV mission (2013) confirmed that this was easily PNG’s strongest decade of economic performance. Several factors contributed, such as growing international commodity prices, large mineral-resource-related financial inflows, and the government’s sound macroeconomic policies. Table 1 shows the composition of PNG’s GDP since 1980. The growth in the nominal value of GDP during the last decade was remarkable. GDP increased by about 170%, largely driven by the
industrial sector. Industry grew from 28.7% of GDP in 1980 to 44.8% in 2010. Correspondingly, the share of the service sector fell to less than 20% of total GDP, and the share of the manufacturing sector contracted by nearly 50%.

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GDP = gross domestic product.

Despite several years of strong fiscal performance since 2002, PNG is not much closer to achieving macroeconomic stability. The 2013–2014 fiscal policy is not sustainable. The anticipated start of LNG production will bring a large increase in measured GDP, causing it to rise by about 20% in 2015, but it is forecast this growth will not be matched by an increase in government revenue over the near-to-medium term. Meeting the country’s huge development needs while trying to maintain debt sustainability will be challenging. External debt increased in 2014 to about 35% of GDP. This estimate is conservative, and if superannuation arrears, public enterprise debt, and outstanding equity payments for LNG were included, total debt is nearly double at 64% of GDP.

The policy for fiscal stability will require steady fiscal consolidation over the medium term, according to the IMF. The pursuit of macroeconomic stability, high-quality development, and intergenerational sharing of wealth will remain the crucial ingredients. To achieve these goals, several measures are required: (i) more transparency in the management of resource revenue; (ii) establishment of an effective sovereign wealth fund; (iii) continuation of public enterprise reform; and (iv) establishment of a transparent and efficient system of fiscal management to achieve stability and improve development outcomes.

The standard of living of the majority of the population has not kept pace with economic development. Several key socioeconomic indicators continue to lag. The most recent Household Income and Expenditure Survey, conducted between July 2009 and January 2011 in all 19 provinces, covered 4,191 households. The initial results were released recently and provide a useful comparison with the survey of 1996. Preliminary findings suggest that average living standards for most Papua New Guineans in 2010 had not changed significantly over the previous 15 years.

The 2009 survey highlighted these: (i) demographically, only 7% of the population is older than 55 years; (ii) as many as 87.9% of the respondents reported their highest education level to be equivalent to or lower than primary education; (iii) women are more likely to be informal workers; and (iv) crime, and law-and-order problems are a major issue, worsening over time. Apart from the insights on socioeconomic indicators, the survey is likely to enable the updating of important economic instruments such as the consumer price index and the calculation of the national account systems. In this sense, it is likely to lead
fluctuated between 40% and 50% during 2003–2010. Poverty incidence increased significantly in the urban region of the national capital in that period. ADB’s Key Indicators (2014) provide more recent and systematic evidence on the welfare indicators in PNG. They confirm that the situation has worsened since the 1990s. For example, DPT3 immunization of infants in 2012 was not only low at 63%, but it was lower than in 1990. The health sector has less than 10 trained health staff per 10,000 inhabitants, one of the lowest in the Pacific region. HIV/AIDS threatens to become a generalized epidemic in PNG.

12. Other indicators also point to the poor quality of life, particularly in rural areas. The average level of schooling in PNG is low at 4.9 years, limiting the prospective participation of people in the modern job market, and leaving the country dependent on external workers. This phenomenon drives up transaction costs and weakens the economy’s links with the wider society. Safe drinking water is available to only 40% of the country’s population, and improved sanitation to 19%. Per capita electricity consumption in PNG is not only one of the lowest in the world, but it declined between 1990 and 2011. The country is unlikely to achieve any of the Millennium Development Goals (MDGs). The government recognized that the globally determined population welfare standards presented in the MDGs are out of reach for the country, and it adopted lower targets for different indicators. However, even at these lower levels, achievement of PNG’s targets is partial. Welfare problems are not confined to the rural areas. In 2004, the Economist Intelligence Unit designated the capital city of Port Moresby as one of the world’s least livable cities due to its high crime rates. The situation has not improved. In 2011, the Economist Intelligence Unit ranked the city 138th out of 140 cities worldwide.

13. The standard of living in PNG is low due to the failure of public policy to invest resources in areas that would engage the local population in the development process, rather than due to a lack of financial resources. Despite the significant amount of external support and cooperation provided by its development partners, post-independence PNG has so far not been able to discover an appropriate model for development. It needs a development model that can realize the full potential of its people, institutions, and substantial resources. PNG is a large country with relatively few people compared with the size of its extensive forests, and deposits of gold, copper, natural gas, and fish.

14. The Gini coefficient of the country (0.51) suggests that inequities are among the highest in Asia and the Pacific. There is a severe disconnect between the economic wealth of the country and the welfare of 85% of its people, who still live in rural areas under conditions of extreme poverty and deprivation. A study by PNG’s National Research Institute describes briefly the history of economic development in PNG since independence. It brings out a disturbing feature—from independence in 1975 until

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11 DPT3 refers to a class of combination vaccines against three infectious diseases in humans: diphtheria, pertussis (whooping cough), and tetanus.
2010, per capita GDP shows a long-term downward trend. This result is alarming and perhaps unprecedented anywhere else in Asia and the Pacific.

15. The 2014 Asian Development Outlook states that “a challenge for the government is to share the benefits of growth and to narrow regional inequality by expanding services in rural areas and employment by developing a more conducive business environment.” The distribution of resources since independence has remained unequal. Occasional injections of financial resources occurred in the wake of outputs from the Panguna copper mines in Bougainville in the 1970s, OK Tedi gold mines in the 1980s, and Lihir gold mines in the 1990s. These financial resources were not used systematically to engender sustainable economic development in the country, and the majority of the population continued to be subject to high levels of deprivation and poverty.

16. Gender inequalities entrenched in society are holding back poverty reduction and social development. Women face severe deprivations and are victims of discrimination and various forms of violence from within the family as well as from society at large. The maternal mortality ratio (230 per 100,000 live births) of PNG is among the worst in Asia and the Pacific, and gender parity in school education is yet to be achieved. Women have limited access to finance and credit, and they are unable to protect their own resources and possessions. Women continue to be weak economically, socially, and politically, and gender inequalities abound in all dimensions.

17. The country’s young demographic profile has implications for development strategies. The population is growing at a rapid rate of more than 2.7% per annum. Public expenditures on infrastructure and public services in education, health, and social protection are lagging demand. The rural population has insufficient education and skills to fully engage in modern industries, which are often enclave-oriented and lack backward links to the broader economy.

18. The government has launched various enabling reforms to narrow the gap between resource revenues and the population’s standard of living. Larger amounts of funding derived from natural resources are being transferred from the national government, with the result that allocations to local governments have almost quadrupled during the evaluation period. Since 2009, compensatory transfers have been introduced for provinces that are unable to meet budgeted expenditure. These transfers ensure that every province receives the agreed financial resources for the identified priority activities. The 2014 Asian Development Outlook notes that when the program started, as many as 11 of the 22 provinces were found to be financially deficient. Since the introduction of these transfers, the financial inequality of local government has substantially decreased.

19. An immediate result of these reforms has been an increase in public expenditure in excess of public revenues, effectively adding to the fiscal deficit, especially during 2013–2014. The government’s expectation has been that forthcoming revenues from LNG (starting in 2015) will make up for these shortfalls. The LNG project is expected to have a significant impact on gross domestic production. Nevertheless,

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18 IMF. 2013. Papua New Guinea Staff Report for 2012 Article IV Consultations. Washington, DC. The report notes that the prospects of economic growth are evenly poised, although the unattended structural issues
these fiscal deficits raise concerns because projected financial revenues are yet to be realized and they are subject to a number of uncertainties.

20. More importantly, hardly any monitoring and tracking systems are in place that allow oversight of fund flows and ensure that funds are spent on provincial, district, and village priority services. For example, funding from many trust accounts has been spent without any financial or project-level reporting. 19 Centraly, the national departments are not in a position to monitor the expenditure or delivery of services.

21. The lackluster performance over decades has resulted in several factors that have undermined governance in PNG. Governance in PNG is constrained by poor management of public finances, a severe lack of skills, and inadequate law and order in society. Unless these constraints are tackled and remedied effectively, the potential of private sector investment, whether domestic or foreign, can hardly be realized. The 2012 elected government has recognized these concerns, and committed to sharing emerging economic opportunities with the population. The government is demonstrating its commitment by devolving financial resources to the lower echelons of the administration, but without establishing institutional capacity to ensure the proper means of utilization. Devolution is an important step, but in isolation it is unlikely to be sufficient to improve the welfare of the population.

B. Government Development Strategies and Plans

22. The government’s development strategy has evolved over the evaluation period in response to changes in administration priorities, and public sector governance and management capacity. Engagement of the private sector and delivery of basic services, particularly in the rural areas, continued to be priority areas for the government.

23. The Bougainville conflict, which started in 1989, showed some promise of a settlement when a cease-fire was held in 1997 and a formal truce was signed. In this context, the government prepared its Medium-Term Development Strategy (MTDS), 1997–2002. 20 The economic policies set out in the strategy were designed to lead the country to broad-based economic growth with increasing participation from the private sector. The government’s long-term development objectives, as articulated in the MTDS, were: (i) development of a vibrant private sector; (ii) encouragement of more market-oriented rural production; (iii) better delivery of rural services; and (iv) as an overarching consideration, maintenance of macroeconomic balances. The medium-term objectives emphasized the need to improve macroeconomic management, control recurrent expenditure, ensure equal treatment of the public and private sectors, and implement the new division of responsibilities between the central and provincial governments and related arrangements enacted in 1995.

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continue to pose risks. For example, in 2013 and 2014, the economy was facing uncertainties as the construction of the LNG project neared completion and the non-mineral sectors were expected to decelerate. However, LNG production is expected to come on stream soon, and in 2015, a jump in GDP growth by about $1.7 billion–$2.2 billion per annum (11%–14% of the country’s GDP) is expected.


20 Over the MTDS period, the government made significant progress in stabilizing the political situation. A comprehensive peace settlement was reached in August 2001 between the Government and Bougainville leaders, which Parliament approved in March 2002 as constitutional amendments. Offsetting this result, the country continued to experience severe economic problems. Over 1997–2001, real GDP contracted in 4 of the 5 years due to a variety of factors such as poor macroeconomic management, deteriorating law and order, poor governance, slow world economic growth, and low commodity prices.
24. The key focus of the MTDS for 2003–2007 was poverty reduction by targeting export-driven growth and rural development. The MTDS for 2003–2007 aimed to empower the private sector by enabling smallholders to spearhead the development process. It identified agriculture, agro-forestry, fisheries, and manufacturing as primary sectors that would drive growth. The MTDS was closely integrated with the National Poverty Reduction Strategy (NPRS) for 2003–2020. The NPRS defined the dimensions of poverty in PNG, outlined macroeconomic and governance issues, and set the priorities for action against measurable indicators—improvements in basic education, primary health, maintenance of transport infrastructure, law and order, and the promotion of income-generating opportunities, particularly in rural areas. The MTDS highlighted the importance of an export-driven strategy for agriculture, fisheries, and forestry. The MTDS in turn was linked to a strategic Plan for Supporting Public Sector Reform, prepared in 2003. The four key objectives of the reform program were: (i) a public sector with a clear sense of direction; (ii) affordable government; (iii) improving performance, accountability, and compliance; and (iv) improving service delivery.

25. The goal of the MTDS for 2005–2010 was to improve living standards by ensuring good governance, supporting an export-driven economy, and fostering rural development. It set seven expenditure priorities that were each supported by matching development programs for (i) transport infrastructure rehabilitation and maintenance (the priorities for this program were the Highlands Highway, district roads, water transport, and airport maintenance); (ii) the promotion of income-earning opportunities, including investment in agro-business, revitalizing the Rural Development Bank, and provision of microcredit and skills training; (iii) improvements in basic education; (iv) development-oriented informal adult education; (v) primary health care; (vi) HIV/AIDS prevention; and (vii) law and justice through improved coordination and strengthening of the police, courts, and legal and correctional services.

26. The primary objective of the Development Strategic Plan (DSP) for 2010–2030 was to make PNG a prosperous, middle-income country by 2030. The government developed the DSP in 2010. It provides overarching guidance for all development agendas and sector strategies. The overall aim is to diversify the economy beyond mining and petroleum by laying the foundations for prosperity in agriculture, fisheries, forestry, petroleum, mining, informal sectors, manufacturing, and tourism. The plan also incorporates crosscutting issues of population, youth, gender, HIV/AIDS, vulnerable and disadvantaged groups, environment, climate change, natural disaster management, PSM, development of a national statistics system, and improvements in international relations and security. The DSP is intended to be implemented through four 5-year development plans, the first covering 2011–2015.

27. The first development plan for 2011–2015 was finalized in October 2010. This plan carried over the vision of effective service delivery from the MTDS and identified four key thematic policy objectives: (i) sustain prudent fiscal and macro management; (ii) nurture development of an entrepreneurial culture and vibrant business environment; (iii) reverse the regressive conditions of human development; and (iv) support seven “key enablers”—transport infrastructure, key utilities (energy and communications), primary and secondary education, higher and technical education, health, unlocking land for development, and promoting law and order.
CHAPTER 3

Country Partnership Strategy and Program

A. Country Strategies

28. Three separate country strategy and program updates were prepared by ADB for the period 2001–2006 due to political uncertainties. ADB approved the country assistance plan for 2001–2003 in 2000. ADB’s strategy, loan, and TA programs emphasized the improvement of the quality and efficiency of PSM and creating an enabling environment for private sector development. The short-term priority was to tackle fundamental governance issues. Fiscal discipline had to be restored so that public resources could be targeted to protect existing investments in the social sectors and other key infrastructure sectors. Transport infrastructure was an important focus of operations. To help combat the spreading HIV/AIDS pandemic, ADB was to expand its efforts in this area through the new Asian Development Fund grant facility.

29. ADB pointed to governance issues in its first strategy for PNG. Portfolio issues needed to be solved as shortfalls in counterpart funding had been particularly difficult. Weak project administration and oversight at times resulted in a lack of internal control, which hampered project implementation. Notwithstanding extensive preparatory actions, bureaucratic delays in starting projects had also been problematic. Delays in hiring consultants and in procurement due to weak capacity were contributing factors. Audit problems had been extensive, although progress was being made. Bureaucratic obstacles were being removed, and the State Solicitor’s Office and the Auditor General’s Office were being strengthened through programs prepared by ADB and other development partners. ADB was in constant dialogue with the government to improve performance.

30. The PNG CSP for 2006–2010 was approved in 2006. The CSP took into account the recommendations and lessons highlighted by the CAPE 2003 and ADB’s corporative strategies such as the 2004 Enhanced Poverty Reduction Strategy and Medium-Term Strategy. ADB’s strategy focused on MTDS priority areas where the government’s ownership was apparent. At the same time, ADB would deepen its engagement to achieve consensus on resource allocation, capacity development priorities, and specific results to be achieved. ADB and the government agreed to these principles: (i) tighten the focus of ADB’s strategy and program to maximize impact in priority areas, and focus on areas of ADB’s comparative advantage and remain engaged; (ii) develop appropriate relationships with PNG’s other development partners; and (iii) manage for development results. Priority was given to four areas (i) transport

21 Effective August 2006, the country strategy and program was renamed country partnership strategy.
sector, (ii) health and HIV/AIDS prevention, (iii) private sector development, and (iv) public financial management.  

31. The objective of the PNG CPS for 2011–2015 was to successfully convert resource wealth to inclusive economic growth. ADB approved the CPS in August 2010. ADB’s interventions were designed to support more inclusive growth by creating livelihood opportunities and improving access to basic services, especially in rural areas. As in earlier strategies, ADB’s focus would be on infrastructure (energy, transport, and social) and private sector development. ADB would continue to support the government’s efforts to improve governance, streamline gender equity and environmental considerations in projects, and facilitate the use of results-based management approaches. ADB would expand its support to provide primary health services to rural populations.

32. In summary, the key objectives of ADB’s strategies for PNG throughout the evaluation period were as follows: (i) inclusive economic growth, (ii) improvement of governance, and (iii) private sector development. Table 2 shows how these strategies relate to ADB’s country objectives for PNG over the evaluation period. The objectives were to be achieved by improving delivery of services to the rural population. During the first CPS period, ADB established its presence in many sectors, but by the second CPS, it had narrowed its primary focus to transport, energy, and health sectors.  

### Table 2: Framework of the Key Objectives of ADB Strategies in Papua New Guinea

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Promote inclusive economic development</td>
<td>Lead policy development in the health and urban water supply sectors and assist infrastructure investments and social service delivery, especially in rural areas.</td>
<td>Help the government strengthen economic growth; and foster rural development, poverty reduction, and human resource development.</td>
<td>Support more inclusive growth by creating livelihood opportunities and improving access to basic services especially in rural areas. ADB’s support is to focus on infrastructure which is vital for better service provision and market access in rural areas.</td>
</tr>
<tr>
<td>Improve governance</td>
<td>Support the government to strengthen financial management and to focus public sector management on achieving outputs.</td>
<td>Strengthen governance in PNG both nationally and sub-nationally. The issue of tackling corruption in PNG will be addressed by ADB.</td>
<td>Strengthen public financial management through a government-wide framework on fiscal management and governance standards, including for sovereign wealth management.</td>
</tr>
<tr>
<td>Promote</td>
<td>Improve sector policy</td>
<td>Promote incremental</td>
<td>Improve the enabling</td>
</tr>
</tbody>
</table>

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23 A major investment for ADB was its proposed support for the PNG gas project. ADB was to provide TA support for reforming public enterprises and utilities. Regular communication between partners in the transport sector was to be upgraded, starting with a planned harmonization study. ADB was to work with the government in a lead role to develop a coordinated approach to private sector development in PNG. In line with the government’s commitment to developing its own results-based management framework during 2006, ADB was to support and adopt government performance targets and indicators where possible.

24 Major Thrusts of Country Strategies and Programs in Papua New Guinea (accessible from the list of linked documents in the Appendix).
### Key Objectives through the Evaluation Period

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>private sector development and institutional frameworks (especially in agriculture and fisheries), enhance factor productivity (skills development and financial services), and improve market access by selected infrastructure investments especially in rural areas. Constraints to 'informal' market activity are a clear concern.</td>
<td>improvements to the business environment to address broader constraints such as in transport and communication infrastructure, law and order, land tenure, and governance and corruption.</td>
<td>environment for the private sector, including implementation of a public–private partnership policy.</td>
</tr>
</tbody>
</table>

ABD = Asian Development Bank, CAP = country assistance plan, COBP = country operations business plan, CPS = country partnership strategy, CSP = country strategy and program, CSPU = country strategy and program update.

Source: Asian Development Bank database.

### B. ADB Program

33. During the evaluation period, ADB’s support to PNG amounted to $1.48 billion. This support was funded through a combination of loans, grants, and TA projects that were approved between January 2001 and June 2014, as well as those approved before 2001, but implemented after 2001. In total, ADB provided support to 33 projects and programs (53 loans and grants consisting of 41 sovereign loans, 2 nonsovereign loans, and 10 grants), and 49 TA amounting to $1.48 billion. The number of projects and programs is less than the number of loans and grants because some of the projects were financed with multiple financial resources such as ordinary capital resources, Asian Development Fund, Japan Fund for Poverty Reduction (JFPR), and cofinancing from Australia and New Zealand. The breakdown of this support is shown in Table 3.

34. The portfolio included three projects funded by a multitranche financing facility (MFF), with a combined value of $1.00 billion. To date, approved periodic financing requests have reached $491.30 million or 49.1% of the total approved MFF envelope. Public sector loans represented almost 87% ($1.29 billion) of ADB’s total support to PNG. More than half of the sovereign loans (52.5%) were sourced from ordinary capital resources, while the Asian Development Fund financed 40.7%. The remainder (1.4%) was funded from other sources. Nonsovereign operations consisted of two investments totalling $74.0 million. Total grant support was $84.5 million, while TA projects amounted to $35.0 million.

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25 (i) MFF 29—Highlands Region Road Improvement Investment Program, (ii) MFF 39—Civil Aviation Development Investment Program, and (iii) MFF 51—Town Electrification Investment Program.

26 The ADB loans to PNG for Lae Port Development Project (Additional Financing) amounting to $6 million and ADB loan to PNG for Rural Primary Health Services Delivery Project in the amount of $9 million were cofinanced by the OPEC Fund for International Development. ADB. 2011. Report and Recommendation of the President to the Board of Directors: Proposed Loans for Additional Financing to Papua New Guinea for the Lae Port Development Project. Manila (Loans 2803–2804). ADB. 2011. Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant and Loan to Papua New Guinea for the Rural Primary Health Services Delivery Project. Manila (Loan 2785).

27 Investment 2576/7302 for the Digicel Mobile Telecommunication Expansion Project ($25 million) and Investment 2745/7328 for the Bemobile Expansion Project ($49 million).
Table 3: Approved ADB Support to Papua New Guinea by Fund Source, 2001–2014

<table>
<thead>
<tr>
<th>Component</th>
<th>Number</th>
<th>Amount ($ million)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Loans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sovereign (ADF)</td>
<td>23</td>
<td>553.6</td>
<td>40.7</td>
</tr>
<tr>
<td>Sovereign (OCR)</td>
<td>15</td>
<td>714.3</td>
<td>52.5</td>
</tr>
<tr>
<td>Sovereign (Others)</td>
<td>3</td>
<td>19.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Nonsovereign</td>
<td>2</td>
<td>74.0</td>
<td>5.4</td>
</tr>
<tr>
<td>Subtotal</td>
<td>43</td>
<td>1,360.9</td>
<td>100.0</td>
</tr>
<tr>
<td>B. Grants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADF</td>
<td>1</td>
<td>22</td>
<td>26.0</td>
</tr>
<tr>
<td>JFPR</td>
<td>4</td>
<td>7.7</td>
<td>9.1</td>
</tr>
<tr>
<td>Others (Australia)</td>
<td>3</td>
<td>51.5</td>
<td>60.9</td>
</tr>
<tr>
<td>Others (New Zealand)</td>
<td>1</td>
<td>2.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Others*</td>
<td>1</td>
<td>0.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Subtotal</td>
<td>10</td>
<td>84.5</td>
<td>100.0</td>
</tr>
<tr>
<td>C. Technical Assistance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advisory</td>
<td>17</td>
<td>12.1</td>
<td>34.6</td>
</tr>
<tr>
<td>Capacity development</td>
<td>4</td>
<td>3.7</td>
<td>10.6</td>
</tr>
<tr>
<td>Policy and advisory</td>
<td>5</td>
<td>3.8</td>
<td>10.8</td>
</tr>
<tr>
<td>Project preparatory</td>
<td>23</td>
<td>15.4</td>
<td>44.0</td>
</tr>
<tr>
<td>Subtotal</td>
<td>49</td>
<td>35.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>102</td>
<td>1,480.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund, JFPR = Japan Fund for Poverty Reduction, OCR = ordinary capital resources.
* Cooperation Fund for Fighting HIV/AIDS in Asia and the Pacific Regional Conference.
Note: The 2014 data refers to January–June approvals.
Source: Asian Development Bank database—loan, grant, technical assistance, and equity approvals.

35. Support was heavily focused on infrastructure, which received the highest allocation of about 73.0% (Table 4). This support was comprised of 39 loans, grants, and TA projects in the transport sector (62.8%); 12 loans, grants, and TA projects in the energy sector (9.1%); and 2 loans and grants in the water and other municipal infrastructure (1.2%). The other sectors were health (7.5%), PSM (7.0%), and information and communication technology (5.0%). The remaining 7.4% of support was almost equally divided among agriculture, education, finance, and industry and trade. Two of the three MFFs are in the transport sector (air transport and road transport), the third was allocated to the energy sector.

Table 4: Approved Support to Papua New Guinea by Sector, 2001–2014

<table>
<thead>
<tr>
<th>Sector</th>
<th>Loans and Grants</th>
<th>Technical Assistance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>Amount ($ million)</td>
<td>%</td>
</tr>
<tr>
<td>ANR</td>
<td>4</td>
<td>25.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Education</td>
<td>2</td>
<td>25.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Energy</td>
<td>6</td>
<td>129.0</td>
<td>8.9</td>
</tr>
<tr>
<td>Finance</td>
<td>3</td>
<td>28.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Health</td>
<td>7</td>
<td>104.5</td>
<td>7.2</td>
</tr>
<tr>
<td>ICT</td>
<td>2</td>
<td>74.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Industry and Trade</td>
<td>1</td>
<td>25.0</td>
<td>1.7</td>
</tr>
<tr>
<td>PSM</td>
<td>2</td>
<td>95.8</td>
<td>6.6</td>
</tr>
<tr>
<td>Transport</td>
<td>24</td>
<td>920.2</td>
<td>63.7</td>
</tr>
<tr>
<td>Water</td>
<td>2</td>
<td>17.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>1,445.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

ANR = agriculture and natural resources, ICT = information and communication technology, PSM = public sector management.
Note: The 2014 data refers to January–June approvals.
Source: Asian Development Bank database—loan, grant, technical assistance, and equity approvals.
36. ADB’s annual support to PNG’s transport sector gradually increased from $23 million in 2004 to $239 million in 2013 (Figure 2). The increase in support was mainly due to the approval of new transport projects like the Lae Port Development Project in 2007, the Highlands Region Road Improvement Investment Program (Tranche 1) in 2008, the Civil Aviation Development Program (Tranche 1) in 2009, the Bridge Replacement for Improved Rural Access Sector in 2011, and the second MFF tranches for the Highlands Region Road Improvement Investment Program and the Civil Aviation Development Program in 2013.

![Figure 2: Approved ADB Loans and Grants to Papua New Guinea by Sector](image)

ANR = agriculture and natural resources, ICT = information and communication technology, PSM = public sector management.
Source: Asian Development Bank—loan, grant, technical assistance and equity approvals database.

37. ADB’s active portfolio (including approved loans, grants, and TA) has also been increasing, from an average $271 million per year in 2002–2006 to as much as $1.14 billion in 2013 (Figure 3). The active portfolio in 2013 consists of 19 projects (37 loans and grants).

![Figure 3: Approved ADB Loans and Active Portfolio in Papua New Guinea](image)

38. The ADB portfolio includes two nonsovereign loans to the infrastructure sector—Investment for the Digicel Mobile Telecommunication Expansion Project and Investment for the Bemobile Expansion Project. The Digicel project was approved in 2009 and it is already closed, while the Bemobile project approved in 2011, is still active.28

39. Most of the projects and programs, and TA projects covered in the evaluation period were approved from 2007 onward. As a result, most of the projects, programs and TA projects are still being implemented. Of the 33 projects and programs covered by the CAPE, only 14 have project completion reports (PCRs) or extended annual review reports prepared by ADB operations departments (Table 5). One project was rated highly successful; four were rated successful; and eight were partly successful and one unsuccessful. Of these PCRs, 36% were rated highly successful or successful and 64% less than successful or unsuccessful. Of the 10 independently evaluated projects, 1 project was rated highly successful, 3 were successful, 5 partly successful, and 1 unsuccessful.29 One project from the PSM sector was rated unsuccessful.30 All 10 independent evaluations and validations concurred with the PCR ratings.

Table 5: Status and Performance of Completed ADB Projects in Papua New Guinea

<table>
<thead>
<tr>
<th>Sector</th>
<th>Approved Loans and Grants (Projects)</th>
<th>Completed Loans and Grants (Projects)</th>
<th>PCR/XARR Rating</th>
<th>PPER/PVR Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ANR</td>
<td>4(4)</td>
<td>4(4)</td>
<td>2(2)</td>
<td>1(1)</td>
</tr>
<tr>
<td>Education</td>
<td>2(2)</td>
<td>1(1)</td>
<td>1(1)</td>
<td>1(1)</td>
</tr>
<tr>
<td>Energy</td>
<td>6(3)</td>
<td>0(0)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>3(2)</td>
<td>1(1)</td>
<td>1(1)</td>
<td>1(1)</td>
</tr>
<tr>
<td>Health</td>
<td>7(5)</td>
<td>1(1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICT</td>
<td>2(2)</td>
<td>1(1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry and Trade</td>
<td>1(1)</td>
<td>0(0)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management</td>
<td>2(2)</td>
<td>2(2)</td>
<td>1(1)</td>
<td>1(1)</td>
</tr>
<tr>
<td>Transport</td>
<td>24(11)</td>
<td>6(3)</td>
<td>1(1)</td>
<td>1(1)</td>
</tr>
<tr>
<td>Water</td>
<td>2(1)</td>
<td>1(1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>53(33)</strong></td>
<td><strong>17(14)</strong></td>
<td><strong>1(1)</strong></td>
<td><strong>3(3)</strong></td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank, ANR = agriculture and natural resources, HS = highly successful, ICT = information and communication technology, LS = less than successful, PCR = project completion report, PPER = project performance evaluation report, PS = partly successful, PVR = project completion report validation report, S = successful, U = unsuccessful, XARR = extended annual review report.

Note: Numbers in parentheses indicate the number of projects.
Source: Asian Development Bank—loan, grant, and financial information system database.

40. With regard to TA, 27 of the 49 TA projects—or 55% of the total TA approved—have been completed. The completed TA projects were generally

28 The Bemobile project is considered a regional loan because Bemobile’s operations under the project include some activities in Solomon Islands.
29 The extended annual review report for the Digicel project rated the investment *highly successful*.
30 IED. 2010. Validation Report: Financial Management Project in Papua New Guinea. Manila: ADB (Loan 1703). The validation noted that the objective of developing a financial management system that more effectively met the needs of the government was not achieved. The decision of the Department of Finance to adopt an integrated financial management system without having sufficient institutional and technical capacity introduced risks that undermined project implementation. Delays were experienced, funds were inefficiently used, and main outputs expected from the project were not realized. The project was assessed partly relevant, ineffective, inefficient, unlikely sustainable, and impact was negligible.
successful—19 successful or better and 7 partly successful. Only one TA, in the health sector, was rated unsuccessful (Table 6).  

Table 6: Status and Performance of Completed ADB Technical Assistance in Papua New Guinea

<table>
<thead>
<tr>
<th>Sector</th>
<th>Approved</th>
<th>Completed</th>
<th>TCR Rating</th>
<th>TPER Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>HS</td>
<td>S</td>
</tr>
<tr>
<td>ANR</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>6</td>
<td>3</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td>9</td>
<td>7</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Industry and Trade</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Public Sector Manager</td>
<td>12</td>
<td>7</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Transport</td>
<td>15</td>
<td>7</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>49</strong></td>
<td><strong>27</strong></td>
<td><strong>1</strong></td>
<td><strong>18</strong></td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank, ANR = agriculture and natural resources, HS = highly successful, PS = partly successful, S = successful, TCR = technical assistance completion report, TPER = technical assistance performance evaluation report, U = unsuccessful.

Source: Asian Development Bank—loan, grant, and financial information system database.

41. Implementation of completed projects in PNG took on average about 5.25 years from effectivity date to actual closing and 5.6 years from approval to actual closing. Projects have been completed with an average delay similar to the ADB average of 2 years. Delays are most apparent in the transport sector, where it took on average 7.69 years from approval to actual closing (Table 7). Only 3 out of 11 projects and programs (24 loans and grants) approved in the sector have been financially closed, but there is evidence that implementation times are improving.

Table 7: ADB Closed Projects and Programs for Papua New Guinea

<table>
<thead>
<tr>
<th>Sector</th>
<th>Start-up Performance (months)</th>
<th>Implementation (years)</th>
<th>Delay in Approval–Closing (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Approval–Signing</td>
<td>Signing–Effectivity</td>
<td>Total</td>
</tr>
<tr>
<td>ANR</td>
<td>1.20</td>
<td>7.13</td>
<td>8.30</td>
</tr>
<tr>
<td>PSM</td>
<td>0.00</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td>Transport</td>
<td>2.43</td>
<td>3.23</td>
<td>5.67</td>
</tr>
<tr>
<td>Average</td>
<td>1.21</td>
<td>3.47</td>
<td>4.67</td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank, ANR = agriculture and natural resources, PSM = public sector management.

Note: Total closed projects or programs = 6 (excludes nonsovereign loans).


42. Disbursements hovered around $25 million per annum from 2002 to 2011, and then increased significantly to about $177 million in 2013. The total amount disbursed for 2001–2013 was $571.7 million, averaging $44 million per year (Figure 4). The annual average disbursements during ADB’s three strategy periods have improved from $24.4 million (2001–2005) to $29.7 million (2006–2010) to $100.4 million (2011–2013). This increase was largely due to the growth in the ongoing portfolio of transport sector projects and progress of the Lae Port Development Project. In terms of disbursement performance, the average disbursement ratio during the evaluation period is 12.7%, which is lower than the ADB average of 23.1%. However, the

31 ADB. 2008. Technical Assistance Completion Report: Preparing the Gender and Population Project in Papua New Guinea. Manila (TA 3827). The TA completion report noted that the government had abandoned the proposed project. The government preferred to finance the surveys with grant money and expressed reluctance to further process the Gender and Population Project as a loan project.
disbursement ratio improved in 2013 to 28%, due to disbursement of the Lae Port Development Project and the lessening of the backlog of disbursement for the period 2008–2011 (Figure 5).

Figure 4: Annual Disbursement of Loans, Grants, and Technical Assistance in Papua New Guinea


Figure 5: ADB and Papua New Guinea Annual Disbursement Ratios

ADB = Asian Development Bank, PNG = Papua New Guinea.

C. Development Support

43. Papua New Guinea has received official development assistance (ODA) from various sources. The international development community has been a substantial source of support to the public sector in PNG, covering about 80% of the development budget. In 2001–2012, PNG received about $6,167.5 million in support—nearly two-thirds of which was covered by the largest development partner, Australia. ADB extended the second-largest support package, contributing almost 16%. Other

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32 Organisation for Economic Co-operation and Development (OECD). 2008. Is it ODA? Paris. The CAPE refers to “official development assistance” as defined by the Development Assistance Committee of the OECD, i.e., “flows to countries and territories that are provided by official agencies, and each transaction of which (a) is administered with the promotion of the economic development and welfare of developing countries as its main objective, and (b) is concessional in character and conveys a grant element of at least 25% (calculated at a rate of discount of 10%).”

significant partners are Japan, European Union institutions, the World Bank, and New Zealand (Table 8).

Table 8: Commitment by Development Partners, 2001–2012

<table>
<thead>
<tr>
<th>Country or Organization</th>
<th>Amount ($ million)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Australia</td>
<td>3,858.1</td>
<td>62.6</td>
</tr>
<tr>
<td>2 Asian Development Bank</td>
<td>972.0</td>
<td>15.8</td>
</tr>
<tr>
<td>3 Japan</td>
<td>311.5</td>
<td>5.1</td>
</tr>
<tr>
<td>4 European Union institutions</td>
<td>257.4</td>
<td>4.2</td>
</tr>
<tr>
<td>5 World Bank</td>
<td>207.5</td>
<td>3.4</td>
</tr>
<tr>
<td>6 New Zealand</td>
<td>181.8</td>
<td>2.9</td>
</tr>
<tr>
<td>7 Global Fund</td>
<td>143.3</td>
<td>2.3</td>
</tr>
<tr>
<td>8 United Nations agencies</td>
<td>78.4</td>
<td>1.3</td>
</tr>
<tr>
<td>9 Germany</td>
<td>33.1</td>
<td>0.5</td>
</tr>
<tr>
<td>10 United Kingdom</td>
<td>22.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Subtotal (Top 10)</td>
<td>6,065.5</td>
<td>98.3</td>
</tr>
<tr>
<td>Rest of the World</td>
<td>102.1</td>
<td>1.7</td>
</tr>
<tr>
<td>Total</td>
<td>6,167.5</td>
<td>100.0</td>
</tr>
</tbody>
</table>


44. In recent years, other development partners—notably the People’s Republic of China and its agencies—have extended ODA-like support to PNG, particularly, for roads, solar energy, and wind power.

45. The overall landscape for development coordination and management in PNG has evolved rapidly during 2001–2012, from being largely development partner-driven to a more consensual and bipartisan approach. The government of PNG has been working in close collaboration with development partners to ensure country-specific strategies and implementation models are given a certain magnitude of flexibility. Efforts are coordinated by mandated central government agencies such as the Department of National Planning and Monitoring, Department of Treasury, and the Department of Foreign Affairs and Trade, to ensure ODA investments are aligned with the country’s policies and strategies.

46. In terms of sector distribution, the government and civil society (26% of total support) and transport and storage (21%) received the most support. Initiatives for education and health received nearly equal shares of 10%, while agriculture, forestry, and fishing received less than 4% of total support. If three of the sectors—industry, mining, and construction; communications; and banking and financial services—are taken together to form a “business enabling environment” category, this emerges as the fifth priority with a 4.5% share, which is slightly ahead of agriculture (Table 9).

---

To ensure comparability in sector coverage or scope, ADB support to Papua New Guinea—as classified under the ADB loan, grant, TA, and equity approvals database—was deemed to correspond with the closest OECD-Development Assistance Committee sector/subsector code/s along with the following lines: (i) "agriculture and natural resources" (ADB) with "agriculture, forestry, and fishing" (OECD); (ii) "finance" (ADB) with "banking and financial services" (OECD); (iii) ICT, as carved out of "transport and ICT" (ADB), with "communications" (OECD); (iv) "public sector management" (ADB) with "government and civil society, general" (OECD); (v) "industry and trade" (ADB) with "industry, mining, and construction" (OECD); (vi) transport, as carved out of "transport and ICT" (ADB) with "transport and storage" (OECD); (vii) "health and social protection" (ADB) with "health" and "other social infrastructure and services" (OECD); (viii) "water and other municipal infrastructure and services" (ADB) with "water supply and sanitation" (OECD), and (ix) "multisector" (ADB) with "other sectors" (OECD), which straddles several sectors—e.g., multisector/crosscutting, food aid, other commodity assistance, or humanitarian aid.
Table 9: Operations by Sector Commitment, 2001–2012

<table>
<thead>
<tr>
<th>Sector</th>
<th>Amount ($ million)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government and civil society, general</td>
<td>1,599.4</td>
<td>25.9</td>
</tr>
<tr>
<td>Transport and storage</td>
<td>1,296.1</td>
<td>21.0</td>
</tr>
<tr>
<td>Education</td>
<td>645.6</td>
<td>10.5</td>
</tr>
<tr>
<td>Health</td>
<td>590.1</td>
<td>9.6</td>
</tr>
<tr>
<td>Agriculture, forestry, and fishing</td>
<td>226.1</td>
<td>3.7</td>
</tr>
<tr>
<td>Water supply and sanitation</td>
<td>167.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Industry, mining, and construction</td>
<td>126.6</td>
<td>2.1</td>
</tr>
<tr>
<td>Communications</td>
<td>110.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Energy</td>
<td>74.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Banking and financial services</td>
<td>39.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Other sectors</td>
<td>1,292.1</td>
<td>21.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,167.5</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


47. The extent development partners influence or contribute to sector outcomes and outputs varies by agency. Table 10 shows the eight development partners’ sector priorities. For this evaluation, a threshold value of at least 5% was assumed to denote a development partner as making a “sector priority ranking.” Australia has covered almost all sectors except communication, energy, industry, and water supply and sanitation. The first priority of Australia is governance and civil society, and it is the leading partner in this sector. ADB had six priority sectors, more than any other development partners except Australia, because ADB provided wider support to several sectors in the first half of the CAPE period.

Table 10: Sector Priorities of Top Development Partners, 2001–2012

<table>
<thead>
<tr>
<th>Sector</th>
<th>AUS</th>
<th>ADB</th>
<th>JPN</th>
<th>EU</th>
<th>WB</th>
<th>NZL</th>
<th>GF</th>
<th>UKG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, and fishing</td>
<td>6</td>
<td>..</td>
<td>2</td>
<td>..</td>
<td>3</td>
<td>3.</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Banking and financial services</td>
<td>7</td>
<td>6</td>
<td>..</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Communications</td>
<td>..</td>
<td>3</td>
<td>3</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Education</td>
<td>4</td>
<td>..</td>
<td>..</td>
<td>1</td>
<td>..</td>
<td>2.</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Energy</td>
<td>..</td>
<td>4</td>
<td>..</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Government and civil society</td>
<td>1</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Health and other social infrastructure</td>
<td>5</td>
<td>2</td>
<td>..</td>
<td>-</td>
<td>-</td>
<td>1.</td>
<td>1</td>
<td>..</td>
</tr>
<tr>
<td>Industry, mining, and construction</td>
<td>..</td>
<td>5</td>
<td>..</td>
<td>2</td>
<td>2</td>
<td>..</td>
<td>-</td>
<td>..</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>3</td>
<td>1</td>
<td>..</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Water supply and sanitation</td>
<td>..</td>
<td>-</td>
<td>1</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other sectors</td>
<td>2</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>


Notes:
1. A percentage share of at least 10% of total sector allocation was assumed as a threshold value to denote a development partner as having made a “significant contribution” to the sector. Percentage shares were rounded off to the nearest whole number.
2. Sector/s where the share of development partners was less than 10% are marked “..” while those not receiving any allocation are marked “-“.
3. Sectors were then ranked, working off the amount/s of support per sector, with 1 as the highest.

Sources: Asian Development Bank (ADB) Independent Evaluation Department, working off databases of ADB and the Organisation for Economic Co-operation and Development.
CHAPTER 4

Inclusive Development and Private Sector Participation

48. Inclusive economic development and stronger private sector development are major themes or objectives, common to all three country strategies implemented during the evaluation period. This chapter discusses ADB’s contribution to attaining these objectives. The other major objective—strengthening governance—is discussed in Chapter 5.

A. Increased Access to Infrastructure and Services

49. ADB support helped the country improve inclusive economic growth. The evaluation team found support in three areas of the transport sector—land, maritime, and aviation—had significant impact on socioeconomic development, although the outputs of two road projects fell short of the original scope. In the health sector, indicators have not dramatically improved over the evaluation period, although they might have deteriorated further without ADB support.

1. Transport

50. Transport accounted for 62.8% of ADB’s portfolio over the evaluation period. Most of these loans and TA projects were approved from 2006 onward. The transport sector in PNG is structured into three subsectors—roads, maritime, and aviation. In all three subsectors, most infrastructures have steadily fallen into a state of disrepair. This condition threatens economic development and limits access to markets and social services for much of the population, with resulting in high costs for business activities. Roads are the most important subsector. The overall road network of around 30,000 kilometers (km) in length consists of about 9,000 km of national roads and about 22,000 km of provincial and district roads. About 25% of the national roads are categorized as being in good condition and adequately maintained. Roads have dominated ADB’s transport portfolio—$415 million in loans (45% of the transport portfolio) was approved between 1999 and 2013, but the bulk of the portfolio has been approved since 2006. Within this total, $325 million was allocated to (i) the Road Maintenance and Upgrading Project, to rehabilitate national highways and provincial roads; and (ii) the Highlands Regional Road Improvement Program.

51. Coastal shipping services play an important role providing access to PNG’s dispersed rural populations and providing services to international and coastal traffic. The main commercial port in PNG for international and domestic trade is Lae, which is the gateway to Morobe Province and the Highlands region. ADB has provided $276 million in loans to projects in the maritime sector, of which $196 million (71%) was allocated to the Lae Port Development Project. The balance was allocated to projects that would improve marine navigation, community water transport, and maritime safety.
52. PNG has a relatively well-developed system of air services, necessitated by its topography, the isolation of pockets of population, and difficulties establishing road access. The country is reasonably well equipped with air transport facilities, having more than 450 airports, including 21 designated national airports. Most of the major airports and terminal facilities are owned and operated on behalf of the government by the National Airports Corporation, while minor airports are owned by the provincial governments. The Civil Aviation Safety Authority regulates civil aviation in PNG. ADB provided support to develop this institutional framework under the Civil Aviation Development Investment Program approved in 2009 and it is ongoing. In total, ADB provided sector loans of $225 million between 2009 and 2013 that were used primarily to upgrade the 11 national airports.

53. Support in the transport sector has been comprehensive, covering all three subsectors—roads, maritime, and aviation—that are of critical importance to the country in enhancing economic growth and encouraging private sector development. Over the evaluation period, ADB approved 20 loans and one grant for 11 projects and programs in the transport sector. ADB selected infrastructure projects that were of high priority to the government. In addition, ADB also provided $9.8 million in TA that was mostly used for project preparation. Three of the 11 projects and programs have closed. A fourth project, Lae Port Development Project, has completed all construction works, but its loans are still open (Table 11). The completed and self-evaluated projects are the Road Maintenance and Upgrading Project, Rehabilitation of the Maritime Navigation Aids System, and the Community Water Transport Project. The Rehabilitation of the Maritime Navigation Aids System project was rated successful at project completion, but the other two projects were rated partly successful. PCR validations confirmed the rating for the navigation aid project.

<table>
<thead>
<tr>
<th>Project or Program</th>
<th>Amount ($ million)</th>
<th>Date Approved(^a)</th>
<th>Closing Date</th>
<th>PCR Rating</th>
<th>Other Rating(^b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road Maintenance and Upgrading</td>
<td>116.0</td>
<td>Nov 1999</td>
<td>Nov 2010</td>
<td>PS</td>
<td></td>
</tr>
<tr>
<td>Community Water Transport</td>
<td>23.0</td>
<td>Mar 2004</td>
<td>Jun 2013</td>
<td>PS</td>
<td></td>
</tr>
<tr>
<td>Lae Port Development</td>
<td>195.9</td>
<td>Dec 2007</td>
<td>Mar 2015(^c)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^a\) Indicates approval date of the original project, in case ADB provided supplementary financing.

\(^b\) Includes project or program performance audit report, project or program performance evaluation report, and project validation report.

\(^c\) Tentative.

Source: Asian Development Bank database—loan, grant, technical assistance, and equity approvals.

54. Improving access to transport infrastructure is an important policy response to isolation and social and economic disadvantages.\(^{35}\) Achievements, as well as monitoring of outputs and outcomes in completed projects, generally fell short of targets. Project documents broadly indicated performance targets for outcomes such as reductions in travel time and travel cost, transport safety, and improvements to community welfare. In completed projects for the road subsector, no determination

\(^{35}\) A socioeconomic impact study conducted by the World Bank in PNG (2008) found that roads and bridges had brought economic growth to villages and direct positive impacts on education and health. Data collected over 2 years indicate that the benefits of such infrastructure include more income and shorter travel times to schools and health clinics for the sample villages. Women have better access to markets and improved their income in at least 50% of the sampled villages.
was made of baseline data, nor was socioeconomic monitoring and evaluation undertaken, making it hard to assess achievement. The Road Maintenance and Upgrading Project achieved 45% of the planned road length.\textsuperscript{36} The ongoing Highlands Regional Road Improvement Program has experienced a 200% increase in the original construction cost estimate, and only about 50% of the outputs will be completed.

55. Despite these shortcomings, the road projects are likely to have broadened access to socioeconomic services for people in remote areas. A limited IED survey of beneficiaries carried out in July 2014 in the context of the Road Maintenance and Upgrading Project suggests the transport projects improved the access of the poor to social services, and their incomes have increased.\textsuperscript{37} According to the beneficiary survey, travel times were reduced by 30%–60% and buses became more popular than traditional modes of transport, and travel safety improved. Fares increased by 20%–100% in a few areas, but more residents reported declines in travel costs by an average of 20%.

56. The survey found that trading activities had increased significantly, with produce being brought faster and more easily to markets. Residents noted more income opportunities from roadside selling, and greater demand and higher valuations for their produce, livestock, and land in the project areas. ADB has been instrumental in converting mud roads to sealed roads, significantly impacting the socioeconomic development of the project areas.\textsuperscript{38} The special efforts of a Japan Special Fund-financed grant project\textsuperscript{39} to complement the Highlands Regional Road Improvement Program is likely to contribute to the economic development in rural areas. About 25% of the population lives more than 5 km from any road.\textsuperscript{40} The grant funded the construction of 80 km of feeder roads as well as rural infrastructure facilities, and about 400 residents living along the roads built under the Highlands Regional Road Improvement Program benefit directly from the project.

57. Maritime transport and safety have been improved with ADB support.\textsuperscript{41} The Rehabilitation of the Maritime Navigation Aids System Project helped the government maintain the country’s navigation aids in operable condition, and effectively reduce the number of maritime accidents and transportation costs. This project led to stronger growth in maritime activities undertaken by both international domestic shipping and created opportunities for developing additional economic activities. The project helped introduce a model that demonstrated the potential to expand transport services for rural populations. The Community Water Transport Project was rated partly successful by the PCR. The project established a Community Water Transport Trust Fund (CWTTF).

\textsuperscript{36} ADB. 1999. \textit{Report and Recommendation of the President to the Board of Directors: Proposed Loan to Papua New Guinea for the Road Maintenance and Upgrading (Sector) Project.} Manila (Loan 1709); ADB. 2006. \textit{Report and Recommendation of the President to the Board of Directors: Proposed Supplementary Loans to Papua New Guinea for the Road Maintenance and Upgrading (Sector) Project.} Manila (Loans 2242 and 2243). The project aimed to rehabilitate or upgrade 940 km of roads, but completed only 291.1 km due to cost overruns. The Department of Works constructed an additional 132.3 km with additional government funds. Thus, the completed road length was 423.4 km, or 45% of the appraisal target.

\textsuperscript{37} The CAPE team carried out a beneficiary survey in July 2014 in the highland regions, interviewing about 50 residents who lived along the road section completed under the Road Maintenance and Upgrading Project.


\textsuperscript{39} ADB. 2009. \textit{Proposed Grant Assistance to Papua New Guinea for Extending the Socioeconomic Benefits of an Improved Road Network to Roadside Communities.} Manila (Grant 9130).

\textsuperscript{40} World Bank. 2004. \textit{Transport Sector Review Note} (with emphasis on the road subsector). Consultant’s report. Washington, DC.

\textsuperscript{41} The Rehabilitation of the Maritime Navigation Aids System Project substantially helped repair navigation aids, and reconstruct or upgrade 211 sites (exceeding targets); these are functioning and maintained. ADB. 2009. \textit{Completion Report: Rehabilitation of the Maritime Navigation Aids System Project in Papua New Guinea.} Manila.
to subsidize the provision of water transport to remote and disadvantaged communities, restore water transport infrastructure, improve small-craft safety, and provide affected communities with capacity to maximize the benefits of transport provided by the program. By project close in June 2013, only two of the 28 planned routes were operating. The present capital of the trust fund earns only enough interest to fully support one or two franchise services, although the PCR notes the “community water transport model has demonstrated the feasibility of continuing and expanding this form of subsidized service to marginalized and remote maritime and river-based communities.”

58. The ADB-supported Lae Port Development Project has already begun to catalyze economic development in adjacent areas. This is the largest ADB project in PNG, being financed by loans totaling $195.9 million. It has developed new tidal port facilities, including the construction of a tidal basin (700 x 400 meters), berth, buildings, and storage areas, which will be operated by a private concessionaire. Lae Port is strategically located, with connections to the highlands by road and easy access to the islands by maritime vessels. Both regions are resource-rich and, for many years, they have had a thriving agriculture sector based on coffee, tea, cocoa, and copra. ADB’s support to enhance the quality of the port and connecting roads to operational mines and LNG fields are likely to influence economic development in many parts of the country.

59. Cost overruns for the ongoing initial tranche of the Civil Aviation Development Investment Program have reduced the project scope. The project is running behind schedule, with detailed designs taking longer and costing about three times more than anticipated.

60. ADB has made important contributions to institutional reforms in the transport sector. For the roads subsector, aside from the establishment of the Road Asset Management System, ADB supported the enactment of bills to set up a road fund and the National Road Authority (NRA). Although significant challenges remain in terms of adequacy of budget allocations and timely adjustments to road-user charges, the two enactments—as well as basic reforms that were put in place in the Southern Region and updates to the National Transport Strategy—are important contributions. ADB has provided similar support to the maritime and aviation subsectors to establish line agencies.

2. Energy

61. Energy became the second most important sector in ADB’s program, accounting for 9.1% of the portfolio. Lending started in 2010 and grew less in volume than in the transport sector. PNG is a vast country with a population of 7.4 million people, of which only about 13% are estimated to live in urban areas. Access to grid-connected electricity is principally limited to the urban areas, and it is estimated that less than 10% of the population is connected. Electricity access in rural areas is

43 Note that one planned item under Coastal Water Management Support did not work.
estimated to be less than 3.7%. The mining industry largely depends on captive power stations for its operations. Lack of funding for upgrades, rehabilitation, and even routine maintenance is leading to further deterioration in services. The anticipated rise in demand due to economic and population growth will place further stress on the system if large-scale investments are not made to develop the electricity system. ADB is working closely with the World Bank, which operates in the area of rural and renewable energy.

62. ADB assisted the government to develop a national power sector development plan, which became a national priority for the period 2010–2030. The government has requested ADB support for implementing and financing power infrastructure development. The government envisages that a partnership with the private sector will be necessary to develop the energy sector. Private investment in the energy sector has been limited to date, and it is hoped the new Public–Private Partnership (PPP) Act, prepared with ADB support that was passed in September 2014, will help promote PPPs. ADB has approved six loans and grants for three projects and six TA projects with a total value of $135 million. None of the projects is operational yet, and they have loan closing dates ranging from June 2015 to July 2017. The two most significant projects are the Town Electrification Investment Program approved in 2010, and the Port Moresby Power Grid Development Project approved in 2013.

3. Health and Social Protection

63. ADB supported health and social protection. Table 12 lists ADB’s projects in this area; the related TA projects are detailed in the linked document accessible in the Appendix.

<table>
<thead>
<tr>
<th>Project or Program Name</th>
<th>Amount ($)</th>
<th>Date Approved</th>
<th>Closing Date</th>
<th>PCR Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Sector Development Program</td>
<td>10.0</td>
<td>Mar 1997</td>
<td>Feb 2004</td>
<td>PS</td>
</tr>
<tr>
<td>HIV/AIDS Prevention and Control in Rural Development Enclaves</td>
<td>22.0</td>
<td>Apr 2006</td>
<td>Dec 2015</td>
<td></td>
</tr>
</tbody>
</table>

PCR = project completion report, PS = partly successful.
Source: Asian Development Bank database on loan, technical assistance, and equity approvals.

64. PNG has the highest burden of disease in the Pacific, expressed in disability-adjusted life years per 100,000 of population. Many health indicators have been slow to improve, despite large increases in government and development partners’ expenditure. Health represented the third most important sector priority for ADB. Amounting to $111 million, the health lending portfolio includes the Health Sector Development Program, which closed in 2004; and the ongoing HIV/AIDS Prevention and Control in Rural Development Enclaves and Rural Primary Health Services Delivery Project.

65. The objectives of the sector development program were to (i) shift the emphasis from urban to rural and from curative to preventive health services, (ii) boost the efficiency of the health delivery system, and (iii) carry out financial reforms. The project was rated partly successful because many of the envisaged reforms were not implemented, primarily due to a lack of political will and commitment, which resulted in serious underfunding of the system and a further worsening of health outcomes.47

The HIV/AIDS prevention project is focused on developing infrastructure and services. The third project, approved in September 2011, is being financed with $20 million from the Asian Development Fund and $40 million from the Government of Australia. The objective of this project is to strengthen the rural health system in 16 districts by increasing the coverage and quality of primary health care. It is premature to report on outcomes for this project.

66. ADB’s support to the sector helped limit further deterioration of the country’s health services. PNG is unlikely to meet the MDGs of reduced infant and maternal mortality, although malaria prevalence has decreased and the HIV epidemic has not grown to the extent forecast. A key outcome of ADB’s support was a shift in the emphasis of PNG health policies from urban to rural and from curative to preventive health services. Antenatal visits, supervised delivery, family planning acceptors, vaccination coverage, and testing for tuberculosis improved when compared with non-project areas. Support for HIV/AIDS prevention helped increase the number and capacity of testing facilities across PNG, and the number of people tested and receiving antiretroviral drugs.

67. Gender equality and women’s empowerment have been important elements of ADB support to help promote inclusive economic growth. Supporting gender equality and women’s empowerment in PNG is as critical as it is challenging. Since the majority of the population lives in rural areas, governed by diverse sets of customary and traditional practices, it is difficult for a top-down intervention to generate countrywide results. In addition, gender-based violence is pervasive in PNG, where the practice of the “bride price” (men giving women dowries), combined with polygamy, results in women being treated as part of the household labor. One of the five objectives of ADB’s strategy for the Pacific countries was the provision of support to improve the social, economic, and political roles of women in society. ADB support in PNG spanned all these dimensions, but results were weak.

68. Throughout the evaluation period, operational support for women’s empowerment in the social dimension has not been significant, and the results of ADB support were modest. Proposed interventions to tackle critical issues such as illiteracy did not gain traction. A small and one-off intervention in the education sector supported skills development, but it only partially achieved its target of training women. In the health sector, until a gender action plan was developed and implementation monitored under the ongoing Rural Primary Health Services

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50 The introduction of a cash-based economy in rural areas is further exacerbating the already high levels of gender-based inequalities. Men with relatively more cash-earning opportunities are gaining, even in some communities where women’s social status is traditionally or culturally high. The custom of paying a “bride price” is very much alive and reinforces the view that women are the “property” of men. “Witch hunts” continue to occur, especially in rural areas, and more than 15 cases were reported in the local media during 2008–2009, which may be a small fraction of the real figure according to some sources (footnote 5).


Development Project, insufficient attention was given to these intractable gender and health issues. The ongoing Microfinance Expansion Project did not derive significant results.

69. Three important points need to be considered when providing support to address gender issues in PNG. One, participation of women will be crucial in poverty reduction efforts as a whole, and for the development effectiveness of ADB projects. Two, given the cultural diversity in PNG, a top-down approach that is led by the national government is needed, but the efforts cannot be sustainable without a simultaneous bottom-up approach that aims to change the mind-sets in culturally appropriate ways. Nongovernment and civil society organizations must be strengthened to work on gender issues effectively, efficiently, and sustainably at the grassroots. Three, men need to be engaged in the effort to strengthen gender equality to make these initiatives sustainable.

70. The 2014 Tajikistan CAPE found that ADB has made effective use of the JFPR grants to link large ADB-financed growth-oriented infrastructure projects and social sector reform programs of the central government for rural residents to achieve greater impact on inclusive economic growth. The JFPR projects have pilot-tested innovative approaches to involve nongovernment organizations (NGOs) and communities in providing, operating, and maintaining infrastructure, as well to build the capacity of local governments in Tajikistan.

B. Private Sector Development

71. ADB support for policy strengthening to promote private sector development achieved some important outputs, as well as some early outcomes of telecommunications and microfinance. Table 13 lists projects with objectives or key components of ADB’s program to support private sector participation.

<table>
<thead>
<tr>
<th>Project or Program Name</th>
<th>Amount ($ million)</th>
<th>Date Approved</th>
<th>Closing Date</th>
<th>PCR Rating</th>
<th>Other Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sovereign Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonsovereign Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information and Communication Technology</td>
<td>Digicel (PNG)</td>
<td>25.0</td>
<td>Nov 2009</td>
<td>Nov 2009</td>
<td>HS</td>
</tr>
<tr>
<td></td>
<td>Bemobile</td>
<td>49.0</td>
<td>Mar 2011</td>
<td>Dec 2011</td>
<td>HS</td>
</tr>
</tbody>
</table>

HS = highly successful, PCR = project completion report, PNG = Papua New Guinea, S = successful.
Note: “Other Rating” refers to project or program performance audit/evaluation reports.
Source: Asian Development Bank database—loan, technical assistance, and equity approvals.

53 ADB. 2011. Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant and Loan to Papua New Guinea for Rural Primary Health Services Delivery Project. Manila (Loan 2785).
1. **Enabling Environment for Private Sector Participation**

72. ADB completed a private sector assessment in 2003 and an update in 2014. The studies were supported by a TA\(^5\) and a regional TA,\(^6\) although ownership by the government is unclear.\(^6\) ADB supported the preparation of the 2007 Business and Investment Environment Survey, which raised awareness of the need for continuous reform, and a second survey in 2012. ADB’s TA also covered part of the costs of developing a PNG investment guide. The publication and a website were launched in 2010, and investment guides were published in partnership. ADB also supported the preparation of subsequent investment guides in 2011 and 2012.

73. Through its Private Sector Development Initiative, ADB provided consulting services to develop a master plan and PPP strategy for private sector provision of infrastructure services. ADB support helped develop a business and operational plan for government agencies. With ADB support, the government has developed a PPP Act, passed in September 2014, to complement existing and planned PPP arrangements. This legislation will lead to the creation of additional expertise and capacity in government—now a critical constraint—via the establishment of a PPP Center, and strengthen confidence to invest in PNG.

2. **Private Sector Participation in the Provision of Services**

74. ADB helped develop the LNG project through two TA projects with a total value of $1.7 million, which were approved in 2001 and 2005.\(^7\) This support has culminated in the development of the $20 billion LNG plant, which started operations in 2014. The plant will bring a substantial increase in GDP.

75. ADB’s HIV/AIDS Prevention and Control in Rural Development Enclaves, approved in 2006, supported the development of PPPs and led to rural economic operators extending and improving health service delivery and HIV prevention and care. This was an innovative arrangement that contributed significantly to an expansion of services for HIV prevention and care in rural areas.\(^8\) It is noteworthy that development partners are now increasingly shifting their support to nongovernment health-care providers.

76. ADB’s support for regulating competition in a newly liberalized mobile telecommunications industry, and its financing of two mobile operators are achieved important results.\(^9\) The first mobile license was awarded in 2007 and followed by a

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\(^8\) The emergence of private providers such as Oil Search and Rotarians against Malaria is a key feature in the development architecture of the health sector. Higaturu Oil Palms in Oro Province and Oil Search Ltd in Southern Highlands Province signed memorandums of understanding with the Department of Health and provincial stakeholders in early 2007. The number of partnerships expanded to six in 2008, and 120 sites (82 health facilities and 38 staff homes) were selected for renovation.

rapid expansion of the industry that led to lower prices, expanded coverage, and significant positive impacts on private sector development. ADB approved two nonsovereign loans during the evaluation period, investing $25 million into the Digicel expansion project in 2009 and $49 million into the Bemobile expansion project. The 2013 extended annual review found that ADB's support for the private sector demonstrated a comprehensive approach to supporting the liberalization of mobile telecommunications in PNG and rated it successful. The Digicel project was completed in 2009, and the borrower's wider coverage and affordable services drove a mobile revolution that boosted the penetration of mobile services to 34% of the population (2.4 million people) by 2011.

77. Lae Port has high potential to catalyze private sector growth in supporting industries. The development project was designed to engage a private sector firm to operate the port and introduce private sector management expertise and resources into PNG's port industry. While the project has not yet reached financial close, concerns arose that implementation might be delayed. The executing agency for the project, Independent Public Business Corporation, has instructed its subsidiary SOE, PNG Ports Corporation, to act as a temporary operator of the new facilities for a few years. PNG Ports Corporation has been involved in operation and maintenance (O&M) planning for Lae Port since late 2012. In the early stage of its involvement, PNG Ports Corporation pointed out the project design for PPPs was not comprehensive and the newly developed tidal basin was not financially viable due to a cost increase of 90% and uncertain revenues.

78. PNG Ports Corporation endorsed the long-term Lae port development concept, and has proposed to build an additional two berths in the tidal basin (phase II) and develop commercial areas adjacent to the tidal basin (phase III), to make the port more commercially viable, and support economic growth. PNG Ports Corporation also helped the government to develop a PPP operation plan. The government has recently decided to support this proposal because of Lae Port's potential to become a regional hub. The PPP Act considers SOEs to be part of the public sector, and PNG Ports Corporation will not be eligible to continue to operate the port as a PPP. As a result, it is expected the port owner will tender for a service provider(s) after completion of phase II. Given these developments, the operation and development plan appears to be moving in the right direction, but the sequencing of reforms is a concern.

3. Strengthening Small and Medium Enterprises

79. ADB support for the microfinance industry has earned applause from internal stakeholders. Its microfinance program from 2000 to 2010 appears to have been highly successful in establishing the framework and basis for strengthening microfinance in the country. In 2004, the Microfinance and Employment Project helped pilot a regional microbanking service, which in 2008 became a fully licensed national
bank, Nationwide Microbank (trading as MiBank). The bank has operated commercially ever since and it is the largest microbank in PNG, serving over 100,000 active customers through 14 branches across rural areas. The target for microfinance institutions reaching operational self-sufficiency within 2 years of participation in the project was not fully achieved, but under the following Microfinance Expansion Project, which is still open, performance is improving. Among other things, the central bank issued a license to the first Women’s Microfinance Bank. The project helped establish a phone banking operation to extend its outreach to rural areas. These activities have encouraged the largest commercial bank in PNG to reach out to rural areas, thereby widening the overall coverage of banking services.

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63 ADB. 2010. Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of a Grant to Papua New Guinea for the Microfinance Expansion Project. Manila (Loan 2686).
80. PNG has the characteristics of a fragile and weakly performing country, and this creates constraints for strengthening governance and institutional capacity within government. Development cooperation has been challenging in PNG due to the weak capacity in government, and among contractors and consultants. This chapter discusses key governance issues, ADB’s current approach to overcoming them, and other fragility-related factors that need to be rectified in the long term.

A. Governance Context in Papua New Guinea

81. Fragility in PNG is one of the main factors undermining governance and institutional performance. PNG was identified in 2007 as a country with fragile and conflict-affected situations (FCAS). In 2013, ADB adopted the harmonized country policy and institutional assessment under its operational plan for FCAS. Under the new plan, PNG lost its status as an FCAS country. Despite this reclassification, fragility and weak performance persist and the country shows only a small improvement in performance scores that are slightly above the cutoff point. PNG is a member of g7+, a voluntary association of countries that are, or have been, affected by conflict and are now in transition to the next stage of development. Weak governance of the implementation of policies for social inclusion and equity, PSM, and enforcement of the rule of law are the main reasons for the persistent lack of institutional capacity in PNG. The weak governance situation makes portfolio management a complex task for ADB.

82. Governance has not shown any significant improvements over the evaluation period. All six categories of the Worldwide Governance Indicators are worse today than they were in 1996 (Figure 6).

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65 The average of the World Bank’s country policy and institutional assessment (CPIA) and ADB’s country performance assessment.


67 Criteria for determining an FCAS country is quantitative CPIA cutoff of 3.2 or less, or the presence of a United Nation and/or regional peacekeeping or peacebuilding mission during the past 3 years. PNG (CPIA = 3.3) is therefore not on the World Bank’s harmonized list of fragile situations.

68 http://www.g7plus.org/
Several factors contribute to weak governance. As reflected by 800 dialects among a population of only 7.3 million people (2011 census), diversity is a major constraint to the development of effective governance arrangements. Of the 7.3 million people, 87% live in difficult-to-reach rural areas, making it even harder to strengthen governance. This extensive cultural and geographic diversity has resulted in a lack of national identity, and discourages collective action. No single political party or group has been able to dominate the country at the expense of other groups. The lack of a dominant party is a weakness because capacity for consensus building on matters of national importance is low and reform efforts are difficult to establish, thereby constraining overall development. The modern democratic political system does not sit easily with society’s social and cultural traditions of personal allegiance (the wantok system), and blurs the boundary between political loyalties and national priorities. This creates an important generic obstacle to governance reform and project implementation.

Prior to independence in 1975, social services were typically provided by faith-based and civil society organizations. The establishment of local governments displaced the role of these organizations in providing education, health, and other services. These new institutions did not have the ability to maintain a level of service commensurate with those levels provided before independence. The public demand for governance is also a critical issue which needs to be encouraged locally. This will involve raising local communities’ awareness of the rudimentary principles of development planning, project preparation, budgeting, reporting, and monitoring. Without fostering public demand for governance, development effectiveness in the provinces will be difficult to achieve. In addition to the national governments, proper engagement with NGOs and civil society organizations is essential in fragile context. Project efficiency could be enhanced by greater involvement of NGOs with grassroots experience and knowledge of the social dynamics among rural beneficiaries.

Devolution of responsibilities for service delivery has further complicated the governance landscape. The 1995 Organic Law on Provincial Governments and Local-Level Governments devolved responsibility for the delivery of basic services to subnational governments. However, the associated financial management systems have not yet been fully developed and put in place to undertake these supervisory activities.
In 2006, another law further devolved the responsibility and authority for basic services from the provincial governments to the districts. While such extensive decentralization reportedly helped allay fears of centralized rule and supported the integrity of the country, fiscal decentralization and accountability have improved only to some extent.\textsuperscript{69} Roles and responsibilities across national departments and vertically across the three tiers of government are unclear. The absence of a national monitoring framework reduces accountability for results and leaves little scope for a results-oriented approach to PSM and implementation of policies and plans.

\section*{B. ADB Support for Governance}

ADB initially supported two key areas of governance reform in PNG, covering financial management and public service delivery. The main projects are summarised in Table 14.

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|c|c|c|}
\hline
\textbf{Project or Program Area} & \textbf{Amount ($ million)} & \textbf{Date Approved} & \textbf{Closing Date} & \textbf{PCR Rating} & \textbf{Other Rating} \\
\hline
Public Service Program & 70.0 & Dec 2001 & Mar 2005 & PS & PS \\
\hline
\end{tabular}
\caption{Public Sector Management Projects to Improve Governance}
\end{table}

\textsuperscript{69} For example, the Fiscal Responsibility Act was passed in 2006 and has led to the reduction of public debt.


86. \textbf{ADB also engaged with the government on the governance structure for the Sovereign Fund, in anticipation of the LNG revenues that are expected to start flowing in 2015. The outcomes from this support are discussed below.}

\subsection*{1. Strengthening Financial Management}

87. \textbf{ADB aimed to strengthen public financial management through the Financial Management Project. Approved in 1999 and focused on (i) enhancing the integrity and transparency of public financial management to strengthen the efficiency of, and accountability for, the use of public funds; and (ii) gaining a better understanding of development impact by promoting greater transparency in allocation of budgetary resources and in reporting on the taxes, royalties, and dividends collected by SOEs and paid to the national government. In addition, TA in 2001 supported the implementation of the Public Service Program’s policy actions and strengthened oversight bodies.\textsuperscript{70} A second TA project in 2009 supported the reform of SOEs.\textsuperscript{71}}

88. \textbf{ADB also engaged with the government on the governance structure for the Sovereign Fund, in anticipation of the LNG revenues that are expected to start flowing in 2015. The outcomes from this support are discussed below.}
ineffective. ADB did not finance the second phase of this project, given disagreements over how to implement an integrated financial management system. Almost a decade after this ADB intervention, PNG has established an integrated system that is operational in three key government departments, mainly using its own funds.72 Given the weak capacity, particularly in provincial and local governments, further expansion is being pursued by the Department of Finance, but implementation is expected to be highly challenging.

90. The institutional landscape of the public sector is complex and marked by a wide range of institutions. About 140 identified statutory authorities and 12 SOEs exist at the national level, and reportedly many more agencies, yet to be identified, crowd the subnational space. Typically, statutory authorities and SOEs function outside the control of the national or provincial governments, although they are nominally under government ownership and supervision. Policy and regulatory responsibilities should be clearly assigned to separate central agencies that provide an umbrella policy and regulatory framework for individual sectors. The policy agencies would be responsible for coordinating all affiliated organizations, and are accountable to citizens for all related public sector activities. Poor transparency, lack of articulation of clear project selection criteria, and weak monitoring and evaluation have pre-empted the public’s awareness of the rationale for allocating public sector resources. SOEs should be subject to competition and managed in accordance with commercial criteria.

91. ADB’s support for reform of public institutions was instrumental in establishing the NRA, National Maritime Safety Authority (NMSA), National Airports Corporation, Civil Aviation Safety Authority, PNG Airport Services, and the Accident Investigation Committee. ADB also helped the government set up several special accounts of a road fund for the NRA; the CWTTF for the water transport franchise operators; and the navaid levy, oil spill levy, and regulatory levy for the NMSA. The government enacted legislation to set up a road fund and the NRA with ADB support in 2003. Challenges remain in terms of budget allocation and timely adjustments to road-user charges.73

92. The road fund is financed through a levy of K0.04 per liter on domestically refined diesel fuel. At the same time, responsibility for 2,300 km of national roads, out of a total of about 9,000 km, were officially transferred from the Department of Transport to the NRA. The road fund’s revenue in 2013 was just K18 million and the NRA could maintain only 1,000 km, requiring an additional government subsidy of K40 million to fulfill its responsibility. The NRA is still not fully equipped, does not collect adequate user charges, and has not been put in charge of all the national roads. Its establishment has in fact blurred the lines of responsibilities for the national road network between the NRA and the Department of Works.

93. A similar self-financing authority in the maritime subsector, the NMSA has had more success.74 ADB aimed to restore the system of navigation aids as part of a comprehensive improvement program encompassing policy and institutional

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72 While on mission in October 2014, the IED team learned that some development partners may begin to provide further support for public financial management, beginning with a thorough review of the existing system and its adequacy.

73 IED. 2012. Special Evaluation Study: ADB’s Support for Promoting Good Governance in Pacific Developing Member Countries. Manila: ADB.

74 See Rehabilitation of the Navigational Aids System (footnote 43). The NMSA is entitled to collect various maritime levies totaling about K24 million (2012)—navaid levy (about 60% of total levy income), oil spill levy (about 15%), and regulatory levy (about 25%). These levies accrue directly to the budget of the NMSA. The administration cost is around K8 million per year, and the NMSA receives fluctuating levels of government subsidies for salaries, i.e., K1.5 million–K2.6 million.
frameworks. ADB support in 2000 led to the establishment of the NMSA, and ADB also set up a maritime safety trust account to manage the initial loan funds used to establish the NMSA; revenues are being sourced from light dues and an oil pollution levy to support its ongoing operations. While its financial sustainability is not a serious issue, the NMSA will need additional income from levies to support the expansion of the navigation aid system. The CWTTF was an innovative measure developed with ADB support to improve community water transport services in local areas by means of private franchises. Interest revenue from CWTTF’s $11 million fund was used to finance private sector operators for the O&M of selected non-remunerative routes. As it turned out, the CWTTF could not fully support even one franchise, let alone the seven proposed franchises, due to low interest rates and higher than expected subsidy requirements.75

94. It was envisaged that these statutory authorities would eventually become financially self-sufficient through user charges, but in practice they continue to be subsidised by the Department of Treasury. The governance arrangements for statutory authorities are not yet fully implemented, and in some respects they have created an additional institutional layer and increased complexity in an already inefficient bureaucracy due to weak coordination and duplication of roles. While most institutions remain under-resourced, some statutory authorities were over-resourced because it is difficult for the Department of Treasury to recoup appropriate levels of budget from their own-source revenues.

95. ADB prepared a diagnostic assessment of the institutional arrangements to determine ways to improve the performance of these agencies. As a result of this support, and TA provided to the Department of Finance, ADB is promoting more equitable and transparent management of public resources across statutory authorities. The Department of Finance has set up a Statutory Monitoring Branch. ADB continues to engage with the government on the implementation of the proposed policy reform program. A Financial Monitoring and Accountability Framework for Statutory Authorities was legislated with ongoing ADB support, and it is expected to be rolled out in 2015.

96. ADB is currently implementing TA to help the government create a new infrastructure development authority for planning and prioritizing projects, supporting projects as an advisor, implementing projects, and acting as a financing organization. While this may be a positive step, it raises concerns that the authority’s brief will overlap with the planning and financing functions of government agencies, and it may be a short-term solution that does not solve the underlying problems. Care is needed to ensure that capacity is developed within a coherent and properly functioning institutional framework, rather than pursuing a policy of establishing new institutions to solve specific problems.

75 The interest rate for the CWTTF was around 1.5%—about half the level estimated in the report and recommendation of the President—and the required subsidy was $245,000 per route per year. The CWTTF was designed as a terminating fund, but the government cannot meet the deficits of the franchised community water transport routes if the fund is terminated. At appraisal, it was anticipated that 28 franchise routes would be operational by 2010, but only 2 routes were operational by the end of the project in June 2013. At appraisal, the performance target for the CWTTF was to return sufficient dividends to fund the first phase of franchise services (7 routes in total) after 1 year of fund investment. However, the CWTTF’s interest earnings turned out to be lower than expected at appraisal and franchise route subsidies were higher than expected. Support for more than one route franchise is unlikely given that the current routes cost four times more than assumed at appraisal.
2. Public Service Program Reform

97. Support for governance through the Public Service Program, approved in 2001, was very challenging. The program was funded by a $70 million loan from Ordinary Capital Resources, to be disbursed in two equal tranches over 2 years. It was complemented by 10 TA projects targeted at PSM areas. The program was designed to manage the issues arising from the low level of ownership of modern national and local governance systems, particularly in rural areas. The Public Service Program had difficulty gaining traction, and the performance evaluation report rated it only partly successful. The report concludes that although the loan was successful in pushing forward several critical laws, it had little other effect on PSM.

98. The Public Service Program supported civil service reform, which was promising initially, but it has not been sustained. As early as 2005, a government report noted the administration continued to be “costly, grossly inefficient and largely ineffective, but the recommendations were not implemented.” About half the government spending goes to salaries. Cuts in spending have been achieved by cutting expenditures on goods and services, but the number of public servants kept growing. Senior bureaucrats confirmed the large number of ghost workers on the government’s payroll was not reduced by much. Although some progress was made under the program to have directors and departmental staff appointed by the Public Service Commission, the responsibility to appoint directors has recently been transferred back to the executive.

99. The Public Service Program helped establish or strengthen the Independent Commission on Corruption, the Ombudsman, and the offices of the Attorney General and the Auditor General. These bodies appear to be functioning, but in all cases a combination of insufficient resources, lack of ownership, and poor political oversight constrained effective implementation.

100. The planning and approval process of the government was not transparent enough, and country ownership of many ADB projects was weak. In infrastructure, for example, the government prepares budgetary requests, prioritizing expenditure based on available data. However, the approved budget is invariably different from the original proposal. Field interviews revealed that many projects listed in the 2014 budget in financial terms were not submitted to the Parliament but had been approved anyway. Priority and selection processes for these projects were not transparent. The risks that economic and social demands may not be real are high. In addition, monitoring of outcomes for completed projects has fallen short. Baseline data is absent, benchmarks are not often specified, and socioeconomic impacts are rarely monitored and evaluated, making it difficult to assess overall development effectiveness and impact, and justify project selection.

3. Sovereign Fund

101. ADB has engaged with the government on the development of a governance structure for the Sovereign Fund, in anticipation of the LNG revenues that are expected.

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76 ADB. 2001. Report and Recommendation of the President to the Board of Directors: Proposed Loan to Papua New Guinea for the Public Service Program. Manila (Loan 1875).
78 From the national government report Rightsizing the Public Sector (2005). Interviews with government personnel suggest that the recommendations were not implemented.
Governance Support in a Fragile State

35
to start flowing in 2015. This inflow has the potential to transform the fiscal situation in PNG and will need to be managed carefully to avoid “Dutch disease” problems. It will be necessary to stabilize these funds, and the government is taking steps to establish a consolidated Sovereign Fund to manage these revenues. The Parliament approved the Organic Law on Sovereign Wealth Fund Management on 21 February 2012. According to the 2013 IMF Article IV report, PNG’s original Sovereign Fund design generally followed sound principles, in particular with regard to the fund’s full integration into the budget. However, despite ADB support, the Sovereign Fund is not operational due to the need to amend the original law and an ongoing process to finalize governance and revenue arrangements.

C. Multitranche Financing Facility

102. The MFF instrument calls for the commitment of both ADB and the government to being engaged in the sectors for a longer term, as opposed to that of traditional projects or sector loans. ADB has approved three MFFs in PNG. The facility enables the construction and consulting industries that there are guaranteed business opportunities, enabling them to take the risk of investing in equipment. The government appreciated this financing modality because: (i) it allowed it to take a long-term perspective on infrastructure investment; (ii) consultants were available to prepare for follow-on tranches; and (iii) the large procurement packages were more attractive to foreign consultants and contractors.

103. The use of MFFs, however, has problematic implications for future ADB strategies. MFFs constrain the pipeline of ADB’s country strategy within the road maps of three MFFs since their implementation periods are longer than CPS periods. Because of the long-term nature of infrastructure projects, they have been a mainstay of MFFs and account for a major portion of ADB’s total resource envelope in PNG. For example, in financial terms, 85% of the transport projects which were approved and will be approved during the current CPS for 2011–2015 comprise subsequent tranches or supplementary financing for projects approved during the 2006–2010 CSP.

D. Challenges for ADB Support

1. Project Preparation and Implementation

104. Portfolio management has been a challenge given the weak disbursement practice until recent years. The value of ongoing infrastructure projects in June 2014 was $1.07 billion, compared with $265 million in 2002. At the same time, disbursements hovered around $25 million per annum from 2002 to 2011, and then increased substantially to about $177 million in 2013 for the transport sector alone. The evaluation study found that ADB’s portfolio has improved thanks to the extensive efforts of international consultants, foreign contractors, and ADB staff to overcome the shortage of expertise and lack of capacity of the project counterparts. Because ADB

80 In the 1960s, the Netherlands experienced a vast increase in its wealth after discovering large natural gas deposits in the North Sea. Unexpectedly, this ostensibly positive development had serious repercussions on important segments of the country’s economy as the Dutch guilder became stronger, making Dutch non-oil exports more expensive and, therefore, less competitive. IMF, 2012. Dutch Disease: Wealth Managed Unwisely. http://www.imf.org/external/pubs/ft/fandd/basics/dutch.htm
81 IMF. 2013. PNG Staff Report for the 2013 Article IV Consultations. Washington, DC.
82 The Report on Elements of the Innovation and Efficiency Initiative has introduced new modes for ADB operations, although largely for middle-income countries. The 2007 Achieving Development Effectiveness in Weakly Performing Country Report proposed that certain aspects of the initiative are relevant for use in weakly performing countries.
business practices of procurement and safeguard policies differ from the practices of the government, it appears the government is willing to delegate its responsibility for these activities to external players. For example, consultants were engaged to prepare engineering designs, prequalification and bidding documents, environmental impact assessments, and resettlement plans—which in most cases are the responsibility of the government.

The ample budgets provided by MFFs facilitated better-organized support from consultants for due diligence and preparation of detailed designs for subsequent tranches. Project preparatory TA for the Lae Port Development Project helped the government prepare the engineering design, prequalification and bidding documents, the environmental impact assessment, and the resettlement plan. Similarly, the MFF provided more comprehensive consulting support for project preparation. The consultants were able to assume responsibility for many of the tasks performed by the government, with the exception of a few key activities that cannot be executed by consultants, such as the approval processes of the government. The amounts allocated for consulting services for project preparation and implementation under the first tranches of the transport MFF programs were $24 million for the road and $15 million for civil aviation. These represent 17% (roads) and 13% (civil aviation) of the overall project cost estimates. The shares were much higher than the 6% average share of consultant services in the first tranches of transport MFFs in other developing member countries. Institution building must balance policy reform with sufficient attention to human resource development. Therefore knowledge transfer through on-the-job training is crucial to increase institutional capacity and employment opportunities.

2. Environmental Degradation

Environmental degradation through excessive and unmonitored use of natural resource, natural disaster and climate change could become major factors that further increase PNG’s fragility. The country is the world’s second-largest exporter of tropical hardwood logs, and sustainability of production is a serious concern. Conversion of land use for agriculture has resulted in deforestation and forest degradation. An estimated 95% of PNG’s emissions are derived from land use and forestry-related activities, and the remaining 5% from all other sectors.

Climate change was discussed in ADB’s country programs for PNG, although in practice there were no direct interventions that could be evaluated as part of the CAPE. However, some preliminary work was done by ADB on climate change in PNG in the context of several regional and project preparatory TA projects. The government wishes to develop adaptation strategies to counter the impacts of climate change for...
low carbon growth development, and seek financing support under international initiatives and agreements. The Pacific region, including PNG, was nominated for a Pilot Program for Climate Resilience, and a strategic program for climate resilience was prepared by the Pacific Islands Forum that was endorsed in 2012. This strategic program is designed to provide financial support from the Climate Investment Funds to mainstream climate change adaptation and disaster risk reduction in national, sectoral, and local development plans and actions. To mitigate, environmental degradation, the first step of the strategy is to strengthen the government’s capacity to address the problem of environmental degradation, and green development.

3. Customary Land Title Issues

108. About 97% of the land in PNG is customarily owned. One transport project was classified as category A for involuntary resettlement (the Lae Port Development Project), while another six projects were classified as category B, and 13 projects were classified as category C. The absence of clear titles to land limits the private sector’s ability to access finance, and the government’s ability to design and implement large infrastructure projects. Protracted negotiations with tribal leaders on land acquisition are necessary for development purposes. Delays are compounded by the difficulties entering into reliable leasehold agreements with traditional owners who do not fully comprehend the benefits of land alienation. These issues hinder quick implementation of projects, especially when involuntary resettlement is involved, and reduce the sustainability of infrastructure and its associated benefits. In addition, the growing number of informal settlers, especially in urban areas, poses another challenge to infrastructure development.

109. The Lae Port Development Project highlights the problems arising from the practice of customary land ownership when it comes to implementing involuntary resettlement plans. The project resulted in the need to resettle 543 households whose members were all informal settlers but had been living at the project site for about 20 years. A resettlement plan was prepared in 2007 to relocate all affected households to adjoining places owned by the Ahi tribe. However, negotiations with three landowner factions of the Ahi tribe were inconclusive. The landowners were unwilling to accept most settlers who had illegally taken up their abode on other customarily owned land. As an alternative, the government proposed cash compensation that would allow the involuntarily affected people to either find a new home in Lae or return to their native provinces. The cash equivalent for replacement of lost dwelling, transfer costs, and income restoration amounted to $14,000 per affected household. All payments were completed in March 2010.

110. The provision of cash payments and in-kind support to informal settlers was unprecedented in PNG. Despite the generous level of compensation, many affected people were not better off after resettlement. Some returned to the vicinity of the port. The cash payment was by and large used for consumption purposes and to fulfill obligations to clan members. Many affected people had difficulty finding a new job. Some people started new businesses, but this proved to be a challenge, and they lost their investments. To help solve these issues, a TA funded under a JFPR grant was implemented in parallel in the immediate area to rehabilitate schools and health clinics, provide livelihood training, and develop livelihood projects to allow the people to benefit from the increasing opportunities created by the newly rehabilitated infrastructure.

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84 Land Acquisition and Resettlement (accessible from the list of linked documents in the Appendix).
85 The cash payment was K31,900 per household.
4. Private Sector Enabling Environment

111. The World Bank’s Doing Business rankings indicate that the enabling environment for private sector operations is difficult. The Doing Business in PNG Report (2013) ranks PNG 113th out of 189. PNG is 6th among eight comparator countries, just above Kiribati and the Marshall Islands. Improving the deteriorating law-and-order situation in PNG is crucial to enhance investor confidence. A survey by PNG’s Institute for National Affairs, supported by ADB’s Private Sector Development Initiative, offers an insight into the challenges that private sector stakeholders perceive. Lack of law and order and the prevalence of corruption were identified as the most important business constraints; among the factors cited as essential for doing business were getting access to electricity and credit.

Table 15: Ease of Doing Business in Papua New Guinea

<table>
<thead>
<tr>
<th>Topics</th>
<th>Doing Business 2014 Rank</th>
<th>Doing Business 2013 Rank</th>
<th>Change in Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a business</td>
<td>101</td>
<td>92</td>
<td>-9</td>
</tr>
<tr>
<td>Dealing with construction permits</td>
<td>165</td>
<td>159</td>
<td>-6</td>
</tr>
<tr>
<td>Getting electricity</td>
<td>24</td>
<td></td>
<td>No change</td>
</tr>
<tr>
<td>Registering property</td>
<td>87</td>
<td>86</td>
<td>-1</td>
</tr>
<tr>
<td>Getting credit</td>
<td>86</td>
<td>86</td>
<td>-4</td>
</tr>
<tr>
<td>Protecting investors</td>
<td>68</td>
<td>67</td>
<td>-1</td>
</tr>
<tr>
<td>Paying taxes</td>
<td>116</td>
<td>111</td>
<td>-5</td>
</tr>
<tr>
<td>Trading across borders</td>
<td>134</td>
<td>132</td>
<td>-2</td>
</tr>
<tr>
<td>Enforcing contracts</td>
<td>168</td>
<td>168</td>
<td>No change</td>
</tr>
<tr>
<td>Resolving insolvency</td>
<td>128</td>
<td>127</td>
<td>-1</td>
</tr>
</tbody>
</table>

Performance of ADB Support

112. This chapter presents an assessment of the performance of ADB's PNG program using the evaluation criteria of strategic positioning, relevance, efficiency, effectiveness, sustainability, and development impact. Performance is formally rated for ADB’s strategy and program in transport, energy, health, financial sector, and PSM.

A. Strategic Positioning

113. ADB pursued the right objectives in PNG and was well positioned to achieve them through its three strategy periods. ADB support aimed to help reduce poverty and increase economic growth through better governance, private sector development, and enhanced social indicators. Rather than spread itself too thin in various sectors, ADB shifted its focus early on in the evaluation period, concentrating on large infrastructure projects that were well positioned in terms of the three key objectives. In the area of governance, ADB also narrowed the scope of operations and focused on key PSM issues that could increase the development effectiveness of the larger investments in the transport sectors, as well as improve private sector investments.

114. These objectives were consistent with the country's strategic objectives, and complementary to those of other development partners, with which there appears to have been coordination. ADB’s choice of sectors was consistent with the government’s strategies. A reformist government, voted into power in 1999, recognized that poor governance is a causal factor in the country’s weak economic performance. The government adopted an adjustment program focused on sound fiscal management and introduced reforms to improve the governance, transparency, and efficiency of the public sector. Since the adoption of the NPRS in 2002, which had been prepared with ADB support, poverty reduction has featured in government strategies. These include the Papua New Guinea Vision 2050, which states the long-term strategy for the country, and the PNG Development Strategic Plan (2010–2030), which provides the detailed strategy for the Vision 2050. Institutional development and service delivery, wealth creation, and human capital development are core objectives of Vision 2050.

115. Support in the infrastructure sectors is consistent with country strategies. In the transport sector, ADB’s policy agenda, in coordination with the other development partners, focused on improving access to infrastructure. ADB’s support for energy is consistent with the Energy Investment Plan of PNG, which was prepared with ADB support. In the health sector, ADB correctly identified the need to rebalance the delivery of health services to rural areas where most of the population lives. Support for HIV prevention and control was an important initiative that complemented the efforts of other development partners in the health sector.

116. ADB supported private sector development and good governance. The private sector development program has focused on the preparation of essential national policies that culminated in the recently passed PPP Act. Enabling environment support, coupled with nonsovereign loans, has effectively created the mobile telephone industry
in PNG. Lae Port shows promise, and the targeting of microfinance has the potential to benefit a large proportion of the population, particularly the very poor. The targeting of weak governance was appropriate given the difficulties, exacerbated by low capacity, which resulted in poor quality of infrastructure, lack of maintenance, and inadequate counterpart funding. ADB support for governance improvement highlighted the need to develop strong regulatory agencies and institutional structures based on cost recovery, maintenance management, and increased capacity development. ADB support was consistent with its own Strategy 2020, and it aimed to support greater effectiveness and efficiency in the use of public resources by enhancing accountability, increasing predictability, and improving transparency.  

117. Collaboration with development partners was strong overall. Development partners have frequently exchanged country and sector information and data. Key development partners did not have large-scale cofinancing projects with ADB, but duplication was avoided because the development partners supported the government in different regions. For example, the World Bank provided support for transport in the coastal areas, while ADB supported it in the Highlands. ADB carefully coordinated the selection of bridges to be built by the Bridge Replacement for Improved Rural Access Sector project with Japan International Cooperation Agency. In a further sign of collaboration, ADB is expected to finance two bridges that will enhance the connectivity of World Bank-supported roads in the coastal areas. Training on gender and transport awareness for government staff was conducted in collaboration with the World Bank and the Government of Australia. Given these findings, the strategic positioning of ADB support over the evaluation period is assessed satisfactory.

B. Program Relevance

118. The projects and programs implemented during the evaluation period were consistent with ADB’s three country strategies and its 2004 and 2010 Pacific strategies. However, the results framework was a weak element that did not lead to effective monitoring and evaluation of results. The scope of the programs appeared to reflect the country’s needs, although it is noteworthy that climate change has not yet featured strongly in the program.

119. Sector programs were consistent with the three country strategies formulated during the evaluation period. The focus in transport was on improving land, air, and maritime infrastructure that was in a highly dilapidated condition. The combination of road rehabilitation with the Lae Port Development Project has the potential to make a substantial contribution to economic development. The energy sector program is mainly focused on improving urban access to energy, which will be an important input for future growth. In addition, the JFPR project approved in 2012 aims to broaden access to energy for rural communities. In the health sector, ADB’s initial focus was on improving the delivery of rural health services, and more recently prevention and control of HIV/AIDS, by introducing new participatory models of providing basic services. The TA projects across all three sectors were generally relevant, being targeted...
at strengthening capacity and encouraging private sector activity. In regard to PSM, support was targeted at financial management and institutional reform by reviewing the complex public sector landscape, which is cluttered with hundreds of SOEs and statutory authorities. 88

120. Infrastructure projects have been designed to be large enough to motivate the government to undertake important reforms to sector institutions. ADB consistently focused on removing subsector-specific bottlenecks in the transport sector’s logistic chain to support imports and exports. Together, loans for roads, ports, and sea routes constituted almost 62.8% of ADB’s total support. In the energy sector, ADB support was consistent with the country strategies, aiming to increase access to reliable and affordable energy supply. At the same time, many pilot initiatives complemented the infrastructure projects by targeting the poor and enhancing their ability to better use the opportunities and benefits created by rehabilitated or new infrastructure.

121. Design and objectives of the programs and projects in the PSM and health sector were sometimes too complex and overly ambitious, and did not fully factor in the acute capacity constraints at all levels of government and the risks inherent in a coalition government. However, support became more selective and focused in the second phase of the evaluation period, and was based on longer time frames, which is essential to generate any impact in the PNG context. ADB supported several innovative and risk-taking pilots, including outsourcing of basic service delivery in the health sector to help reduce poverty, which has had an important demonstration effect.

122. The design frameworks were generally a weak element of ADB support. In the transport sector, the results frameworks of the various projects tend to focus on macroeconomic variables, such as achievement of MDG targets, overall economic growth, and targets for poverty reduction. Pursuing these objectives is challenging unless adequate measures are taken to achieve synergies with other partners. This macro orientation of results frameworks is generally true of other sectors. Design and monitoring frameworks need to be more specific, monitorable, and quantifiable by measuring outputs that are linked to clear outcomes. In the Public Service Program, the documents do not provide any analysis or links between the actions of the reform program and the expected outcomes. They give no details or specific baseline conditions for the three macroeconomic performance measures identified in the design and monitoring framework. Overall, the ADB program is assessed relevant.

C. Effectiveness

123. Chapter 5 discussed the achievements of ADB support to PNG within an FCAS environment which made realization of results is challenging. Although the evaluation acknowledges ADB’s contributions to the country’s objectives for economic and social development, the PCRs did not rate ADB support satisfactory. Out of the 33 projects and programs covered by the evaluation, 14 projects and programs were completed with PCRs. One project was rated highly successful, four successful, eight partly successful, and one unsuccessful. One project concerning PSM was rated unsuccessful. Independent evaluations and validations concurred with the PCR ratings. Thus, only 36% of the closed projects and programs were rated highly successful or successful (Table 5). The main reasons for the low overall success rating include (i) reduction of

scope due to cost overruns and (ii) failure to implement the program loans in the PSM and health sector and the financial management project. Overall, the evaluation assesses ADB support less than effective.

1. Transport

124. Three completed projects were in the transport sector. The evaluated projects had a combined value of $159.0 million, representing 17% of the transport portfolio. The roads portfolio has only one unvalidated PCR, for the Road Maintenance and Upgrading Project, which was rated partly successful. The project achieved less than 45% of the outputs identified in the loan documents. There is one validated PCR in the maritime sector for the navigation aid project, which cost $19.8 million, and was rated successful. It substantially achieved its outcomes and outputs—with navigation aids repaired, reconstructed and/or upgraded in 211 sites (exceeding targets). The other unvalidated PCR was for the Community Water Transport project, which had a project value of $23.0 million, but was less than successful. By project closing in June 2013, only two of the 28 planned routes were operating, and funds were insufficient to support more than one franchise.

125. A review of projects under implementation indicates that the issues cited in the PCRs persist across the outstanding portfolio. The Highlands Regional Road Improvement Program is reported to be delivering about 50% of its outputs due to cost overruns and consequent reductions in scope. The scope of the Civil Aviation Development Investment Program was also reduced substantially due to cost overruns of about three times the original estimates. The Lae Port Development Project was physically completed in December 2014 and has the potential to catalyze industrial and commercial development and promote trade. In the aviation sector, the development program is still under implementation, but reportedly with substantial delay. ADB has provided support to develop institutional capacity to take ownership of ADB-financed facilities. ADB has successfully helped the government established statutory authorities and special accounts to support these operations, although in many cases they are not yet effectively performing.

2. Energy

126. ADB support for the energy sector is still nascent. Most of ADB’s resources for the sector have been directed to urban electricity projects. All projects are at an early stage of implementation, i.e., none is completed.

3. Health and Gender

127. The Health Sector Development Program, with development partners’ support, shifted the policy emphasis from urban to rural preventive health services. The project was rated partly successful by the PCR because many of the envisaged reforms were not implemented. ADB support for gender equality was less systematic early on, and yielded only fragmentated and localized results. In the latter half of the evaluation period these efforts became more systematic and concerted, focusing on the economic empowerment of women, and they are likely to generate better results. A gender assessment was prepared in 2011 in collaboration with other development partners, and in parallel to the preparation of the national gender policy. As a result, most government agencies are now preparing institutional gender policies.
128. Under the Rehabilitation of the Maritime Navigation Aids System Project, approved in 2000, the community engagement activities of NMSA continue to have a gender-positive aspect. Women are being encouraged to participate in the community lighthouse committees, and 20% of the fees paid to each committee are dedicated to funding the activities of women’s groups.\(^89\) While the results have been positive, they are limited to local areas, with no replication of the pilots on a larger scale. More recently, after a decade of implementation and sustained support through the Microfinance and Employment Project, a nascent microfinance industry is gaining strength and providing microfinance to women from poor households.

4. Private Sector Development

129. ADB support led to the PPP Act, and the establishment of a PPP center is under way. Some innovative pilot projects have worked well. These efforts have helped change mind-sets, and stakeholders indicate some ownership of the outcomes. This includes the privatization of service provision in the smallholder sector, the involvement of the private sector in dealing with HIV/AIDS, and the introduction of a model for private sector provision of maritime transport services to coastal communities. Although these efforts have been successful, they have not been scaled up.

130. ADB is supporting the use of a PPP for the Lae Port operations and telecommunication. Compliance with the ADB covenant of the Lae Port Development Project, which a private sector agency would be for operations under PPP, has so far not materialized, although there appear to be reasonable grounds for the delay and some indications for optimism that the matter will be solved eventually. Two nonsovereign loans (to Digicel Mobile and Bemobile) were approved during the evaluation period. The Digicel Mobile Telecommunication Expansion Project was completed in 2009, and the company was able to increase the penetration of mobile telephone services to 34% of the population (2.4 million people) by 2011.

131. A further area of achievement in private sector development was microfinance. ADB’s support for the Microfinance and Employment Project was first approved in 2000. ADB support has led to a stronger regulatory framework for the microfinance industry. Nationwide Microbank, established through the project, is encouraging the commercial banks to expand into rural services, which in turn considerably helps improve access to finance for the poor. This initiative, although small in financial terms, is considered to be highly effective.

5. Governance

132. Support for PSM was relatively small and, except for a few TA projects, not actively pursued by ADB after 2008. The Public Service Program and the Financial Management Project were less than effective, but some TA projects succeeded in initiating reforms in critical areas. The objective of solving the “Year 2000” problem was fully met through the Financial Management Project, but it did not lead to the planned outputs.\(^90\) The Public Service Program helped introduce a set of laws essential for service delivery, but its service delivery component was only able to introduce some

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\(^90\) The problem mainly arose from the challenge of migrating digital data into a new millennium and the need for associated software adjustments, which caused a great deal of anxiety.
handbooks and tools. The TA projects were effective overall, and help the government collect poverty data and the preparation of the NPRS.

133. ADB’s support for reform of public institutions was instrumental in establishing the statutory authorities. ADB also helped the government set up several special accounts for the statutory authorities. In the short term, the establishment of new entities helped clarify work accountabilities. However, the statutory authorities have been only partially effective, and their existence has added an additional layer to an already inefficient bureaucracy and more complexity due to weak coordination and overlapping responsibilities. Of greater concern is the lack of funding and institutional capacity of these organizations, which need to be strengthened to realize the potential of ADB’s direct support to infrastructure development.

D. Efficiency

134. For the completed projects, only three self-evaluated PCRs exist in the transport sector. The weighted average economic internal rate of return was computed at above 12% for all three projects. According to these PCRs, large delays and cost increases were offset by updated and increased traffic forecasts. It is difficult to understand the basis for these estimates since the road projects lacked baseline data for the road subsector, and all lacked systematic socioeconomic monitoring and evaluation. Furthermore, shortfalls in the levels of outputs produced, capacity constraints, extended periods where costs accrue without compensating benefits, and capital cost increases of two to three times the original cost estimates make these self-assessed figures improbable.

135. Implementation delays and cost overruns are chronic issues in PNG. The Road Maintenance and Upgrading Project suffered implementation delays of 4.4 years, and its supplementary loan was implemented with a delay of 2.6 years. The Rehabilitation of the Maritime Navigation Aids System Project was completed about 2 years behind schedule, and the Community Water Transport Project was completed 1.5 years later than planned. The ongoing Highlands Regional Road Improvement Program has experienced a 200% increase in construction costs over the original estimate and the Lae Port Project has also experienced cost overruns. The aviation project is also running behind schedule—detailed designs are taking longer and costs are about three times higher than anticipated. The appraisal cost estimate of the Town Electrification Investment Program was not accurate, and it has resulted in project subcomponent costs being between 50% and 100% higher than previously anticipated, and project implementation being delayed by 18–24 months. The cost overruns have meant that the scope of the projects was substantially reduced.

136. Many generic reasons account for the cost increases and delays in the infrastructure sectors. They include (i) lack of capacity within government to appraise project designs and manage implementation and long-term asset management; (ii) cost estimates at appraisal that are based on prefeasibility assumptions and require extensive changes during the final design; (iii) lack of qualified and experienced local contractors and limited interest of international contractors, resulting in low levels of competition for small contracts; (iv) security premium due to issues of law and order; (v) slow procurement procedures, particularly for contracts larger than K10 million
(which require procurement agencies to use the services of the Central Tenders Board),\textsuperscript{91} and (vi) complicated procedures for acquisition of customarily owned land.

137. Efficiency problems are also apparent in the governance portfolio. The PSM-related projects and loans, which together accounted for about $100 million, were assessed to be less efficient by both the PCR and the validation report. The Financial Management Project was rated inefficient, and the Public Service Program was rated less efficient. Delays were experienced, with the Financial Management Project closing almost a decade later than planned. The lack of counterpart funds and the failure to release the second tranche undermined efficiency of the Public Service Program.

138. While portfolio performance was problematic in the first half of the evaluation period, it improved significantly thereafter. This can be partly attributed to the establishment of the PNG Resident Mission and better selection of construction contractors, i.e., those that were able to perform better under challenging conditions. The timely provision of consultants to support implementation, and restructured procurement packages have helped improve disbursements. In the view of ADB Management, the improvements in portfolio management have occurred because (i) focusing on fewer sectors reinforces ADB’s comparative advantage, (ii) a longer-term programmatic approach is possible using MFFs, (iii) ADB focused on large-scale infrastructure of high national priority, and it fully utilized external consultants and contractors to expedite implementation and demonstrate results, and (iv) while the government structure was complex and inefficient, in general there was a willingness to use consultants and practice proposed organizational and institutional changes.

139. This approach can reduce ownership, and given that it relies on the availability of loan funds, it can only be a short-term strategy. The 2011 World Development Report on Conflict points out the trade-off between effective and speedy implementation by international advisors and weak implementation capacity of governments, which cannot lead to quick results. A considered strategy for capacity development is essential under these circumstances.\textsuperscript{92} The country is still in a fragile situation, and there continue to be issues about inability to access social services, and weak inclusion. Overall, ADB support is assessed less than efficient.

E. Sustainability

140. It is unlikely projects of roads and health will receive sufficient funds from budgetary resources to cover O&M costs. Weak capacity at all levels of government, particularly at and below the provincial level, further limits the likelihood of sustainability. Despite its efforts, ADB was unable to strengthen the human resource and financial capacity of critical sector agencies. For the outcomes and impacts of ADB projects to be sustainable, the government’s financial and institutional capacity needs urgent improvement. If this is not achieved, much of the country’s economic and social infrastructure will not achieve its expected economic life.

141. ADB supported the NRA to finance road O&M, but the NRA remains under-resourced both financially and staff-wise. While 2,300 km of national roads have been officially transferred to the NRA, it only has sufficient resources to maintain 1,000 km. A road fund—designed to be alimented by sufficient levels of road-user charges to

\textsuperscript{91} For the civil works contracts under the Road Maintenance and Upgrading (Sector) Project, a two-stage evaluation with prequalification was chosen, which was changed into a single-step procedure for Road Maintenance and Upgrading (Sector) Project.

cover maintenance costs—was created to avoid dependence on government budget funds. At present, the road fund is supported by a levy of K0.04 per liter on domestically refined diesel fuel, but it is not receiving revenues from any other road-user charges, as intended.\textsuperscript{93} A recent World Bank evaluation of the transport sector provides some lessons for PNG.\textsuperscript{94} The evaluation stresses the importance of the road fund as an autonomous agency in managing the road network and that it cannot remain an implementation arm of the government. It also points out the importance of measuring performance through use of unit cost data to help improve design and sustainability of road works projects.

142. In the health sector, the government’s financial contribution has increased in the past years but remains insufficient, and it is not coupled with staff increases. Longer term project benefits have been constrained by governance issues related to the use of trust accounts under the sector-wide approach. Capacity for HIV surveillance was developed to an impressive level, but this program ended due to a lack of follow-on financing to support the requisite staff.

143. In the area of PSM, the loans and projects did not achieve any significant outcomes. The TA projects are gradually leading to some notable outputs in the governance landscape, but given past experience in this area, sustainability is considered less likely. In view of this, the sustainability of ADB’s support over the evaluation period is rated \textit{less than likely}.

F. \hspace{1em} Development Impact

144. The evaluation assessed how well ADB’s three key objectives, inclusive economic growth, improvement of governance, and private sector development were promoted based on the plausibility of contribution to these objectives partly based on achievement of outcomes in the result frameworks and partly on other available information. It is reasonable to assume that ADB’s infrastructure program would contribute to economic growth and inclusive growth through its physical and nonphysical investments. While contributions were positive, as most of the outcome targets in ADB’s strategies have notably not been achieved, taken together, the envisioned contribution to key objectives would unlikely have occurred. Shortfalls in the achievement of development impact targets would have resulted from cost over runs and delays that reduced the actual level of outputs and outcomes produced relative to original targets. The shortfalls in outputs and outcomes make it difficult to claim the expected contribution from ADB’s projects was achieved. Overall, measured by the progress in achieving ADB’s program objectives, ADB’s development impact is assessed \textit{less than satisfactory}.

1. \hspace{1em} Inclusive Economic Growth

145. \hspace{0.5em} \textbf{Transport}. The country strategies aimed more efficient and safer movement of people and cargo on roads and at national airports and ports, as indicated by a reduction in travel times from the communities to their nearest markets (roads); an increase in the number of passengers per year (airports), and an annual increase in revenue throughput (ports). Most of the envisaged outcomes in the ADB country strategies were not achieved. Examples of targets that were partly achieved are:

\textsuperscript{93} As per the estimates by the Road Asset Management System, the cost of routine maintenance of a sealed road is K4,000/km.

(i) maintained, rehabilitated, and improved Lae Port operating efficiently and profitably (CSP 2006–2010); and (ii) maintained, rehabilitated, and improved river transport infrastructure in eight coastal provinces (CSP 2006–2010). Similarly, the targets in the third strategy are unlikely to be achieved due to project implementation delays. Examples are: (i) 4 million revenue-tons of break bulk throughput in Lae Port (2011 baseline: 2.8 million revenue tons); and (ii) 116,000 passengers per year through 21 national airports (2011 baseline: 100,000).

146. **Health.** The health sector targets referred in ADB’s strategies to be achieved in coordination with the government and other partners are not likely to be achieved. The sector program over the evaluation period was dominated by three loan projects with a combined value of about $100 million. Only the Health Sector Development Program has been completed so far b many of the envisaged reforms were not implemented, primarily due to a lack of political will and commitment. The other two projects are ongoing. Therefore, outcomes and impacts are yet to materialize fully.

147. The Department of Health Services estimates that the maternal mortality ratio continues to be a major health concern in PNG—it is the highest in the Pacific and is not significantly improving. Professional health staff assisted only 47% of deliveries in the rural areas, and around 50% occurred at home. The prevalence of malaria has decreased, although not to the extent aimed for, and HIV prevalence has not been halted, although it has not grown to the extent forecast. The outcomes from investing in primary care under the active health project are yet to be evident. These indicators have not improved nationally since the 1990s.

2. **Private Sector Development**

148. Under the CSP 2006–2010, a road map was prepared for private sector development, and the volume, value, and scope of work undertaken by private sector firms in the delivery of infrastructure services, including transport, has increased. ADB support has contributed to about 2,000 jobs as of July 2014. While the rate of progress in private sector development was less than expected, ADB support has made some headway promoting private sector participation in road maintenance. A key feature of the MFF is the award of 10-year performance-based maintenance contracts. These contracts provide local firms with a measure of security that acts as an incentive for them to invest in equipment. On the other hand, the current long-term performance-based maintenance contracts may cause neglect of other parts of the network because the contractual commitment for maintenance of the 115 km of project roads is equivalent to 25% of NRA budget in 2013, which is responsible to maintain about 2,300 km of national roads.

149. ADB’s two loans to the telecommunication sector had important economic impacts by improving access to mobile services. ADB has supported the government in establishing a framework for PPPs through the recently passed PPP Act. Finally, the microfinance program helps strengthen financial services for the poor. The first microfinance bank, set up under the ADB project, has encouraged commercial banks to

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95 The CSP Update 2003–2005 aimed to (i) reduce the under-5 mortality rate by two-thirds between 1990 and 2015; (ii) reduce the maternal mortality ratio by three-quarters between 1990 and 2015; and (iii) have the incidence of HIV/AIDS, malaria, and other major diseases halted by 2015. The CSP 2006–2010 aimed for (i) the adoption and implementation of a new approach and plan for rural health services, with buy-in by stakeholders; and (ii) a stronger response to the HIV epidemic in rural enclaves. The CPS 2011–2015 specifically aimed for (i) the percentage of pregnant women receiving antenatal care to increase at least once from 61% to 66%, and (ii) the percentage of children immunized against diphtheria, pertussis, and tetanus to increase from 61% to 70%.
extend banking services to rural areas. The project level impacts for private sector development were largely achieved during the evaluation period. The ADB strategies did not set county level indicators.

3. Improved Governance

150. Public sector management. The governance indicators mentioned in the ADB country strategies indicate that development impacts from government’s effort and ADB and other development partners’ support for PSM are not fully achieved. The efforts to enhance efficient and effective allocation of public resources for service delivery have had limited results. ADB’s support for strengthening the Ombudsman and the Auditor General’s Office has helped develop institutional capacity, but both functions continue to suffer from lack of funds and staff. The establishment of a Statutory Monitoring Unit in the Department of Finance is promising in terms of its commitment to reforming SOEs and statutory authorities. However, it is too early to assess its impact. The inability to establish a financial management system led to little improvement in the overall public sector governance framework, or in the quality and availability of management information for government decision making. A monitoring system initiated in the Department of Treasury was abandoned due to low demand.

151. Transport. The key objective under this sector was to develop strong regulatory agencies, an institutional framework, and alternative mechanisms for financing O&M costs. ADB support helped the government establish several statutory authorities and associated special accounts. However, the statutory authorities are not functioning effectively, and continue to struggle for financial and human resources to make their operations efficient, effective, and sustainable. The targeted implementation of a national system of cost recovery in the roads subsector, with increasing road fund contributions to road maintenance (CSP 2006–2010), was not met. The NRA’s revenues have not increased, it can only afford to maintain 1,000 km of the 2,300 km of national highways, and it requires an additional subsidy from Treasury. The lack of progress in financial governance reforms has important ramifications for future sustainability of the transport program. The other targets, such as the NMSA promoting compliance with and enforcing maritime safety standards (CSP 2006–2010), were generally achieved.

152. Health. The HIV/AIDS prevention project is likely to have achieved its target of establishing functioning PPPs in rural development enclaves to improve and extend health services (CSP 2006–2010). The long-term action plan for improving the

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96 The objective in the CSP 2006–2010 was to promote private sector participation in infrastructure development and financial services; and the objectives in the CPS 2011–2015 are to (i) promote private sector operations—through loans, equity investments, and credit enhancement products—and to mainstream “access to finance” through innovative solutions—e.g., secured transaction reform to allow use of movable assets for collateral, and mobile banking; and (ii) develop innovative contractual and financial solutions to encourage private company participation, enhance management expertise, and improve corporate governance.

97 Indicators for impacting governance in PNG covered a wide range: Creation of at least 5,000 new jobs by small and medium-sized enterprises by 2010, and at least 25% of economic growth fueled by small and medium-sized enterprises by 2010. Some indicators were rather vague, such as “Improved quality and availability of management information for decision making.” Other indicators were: (i) implemented reforms to control spending and improve cost-effectiveness, the budget process, financial management, and procurement practices; (ii) implemented effective systems for measuring, monitoring, and reporting on agency and individual performance; (iii) operating arrangements for external scrutiny and audit of public finances; and (iii) development and implementation of a road map and action plan addressing priority issues and constraints in private sector development.

98 IED. 2014. Thematic Evaluation Study: ADB Support for Enhancing Governance in its Public Sector Operations. Manila: ADB. This thematic evaluation also found that success rates for PSM operations are low in general but improving.
effectiveness of rural health services (CSP 2006–2010) is being followed up through the more recent Rural Primary Health Services Delivery Project, which is demonstrating models for improving rural health services in collaboration with NGOs.

153. **Cross-sector impacts.** Some synergies across sector programs emerged in private sector development through the use of subcontractors, and the creation of an enabling environment for private sector development. Implementing national and subnational institutional reforms that would support multiple sectors proved less than successful. Although coordination between development partners within sectors was good, there is scope to generate further synergies through coordinated development partners’ actions when it comes to developing sustainable mechanisms to fund the road asset management.

### G. Overall Assessment

154. The overall assessment is based on a synthesis of four separate sector assessments (transport, energy, health, and PSM).\(^9^9\) Table 16 shows the ratings for each sector. These assessments have been weighted according to the relative size of each sector program to derive an aggregate rating. The strategic positioning and relevance of ADB support were satisfactory, while effectiveness, efficiency, and development impact, and sustainability were less than satisfactory. Based on these findings, the evaluation assesses the ADB support program less than successful. This program rating though different from individual project evaluations they too show a similar pattern. Only 5 out of 14 PCRs (36%) rated individual projects successful or better.

<table>
<thead>
<tr>
<th>Key Sectors</th>
<th>Share (%)</th>
<th>Strategic Positioning (10%)</th>
<th>Program Relevance (10%)</th>
<th>Effectiveness (20%)</th>
<th>Efficiency (20%)</th>
<th>Sustainability (20%)</th>
<th>Impact (20%)</th>
<th>Sector Rating¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport</td>
<td>75</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1.20 (LS)</td>
</tr>
<tr>
<td>Energy</td>
<td>11</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1.60 (BS)</td>
</tr>
<tr>
<td>Health</td>
<td>8</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1.60 (BS)</td>
</tr>
<tr>
<td>PSM</td>
<td>6</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1.20 (LS)</td>
</tr>
<tr>
<td>Weighted Average Rating</td>
<td>2.00</td>
<td>2.00</td>
<td>1.19</td>
<td>1.11</td>
<td>1.08</td>
<td>1.11</td>
<td>1.30</td>
<td>Less than Successful</td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank, BS = borderline successful, LS = less than successful, PSM = public sector management, S = successful.

Note: A rating of highly satisfactory corresponds to a score of 3, satisfactory = 2, less than satisfactory = 1, and unsatisfactory = 0.

¹ The evaluation scoring system rates the overall sector performance based on these criteria: (i) if the overall weighted average score for criteria combined is >= 2.7, the overall performance is highly successful; (ii) if it is <2.7 but >=1.6, it is successful; (iii) if it is <1.7 but >= 1.6, it is borderline successful; (iv) if it is <1.6 but >= 1.5, it is borderline less than successful; (v) if it is <1.5 but >= 0.8, it is less than successful; and (vi) if it is < 0.8, the overall performance is unsuccessful.


### H. ADB and Borrower Performance

155. ADB’s performance was *satisfactory*. The challenges in PNG are enormous. However, ADB has managed to pursue a relevant strategy, although it is yet to develop a fully sustainable development model. ADB shifted course through the evaluation

\(^9^9\) Energy Sector Assessment, Health Sector Assessment, Public Sector Management Assessment, and Transport Sector Assessment (accessible from the list of linked documents in the Appendix).
period, moving away from a broad portfolio to a targeted sector focus.\(^ {100}\) ADB is now concentrating on the main infrastructure sectors of transport and energy, as well as the health sector due to its importance for the majority of PNG’s rural poor. A CAPE survey indicated stakeholders felt ADB’s areas of work were relevant to the country’s main development goals and that ADB is making progress in improving the design and implementation of projects, although more needs to be done (Box). Project performance was reduced by three factors, particularly in the first half of the evaluation period—overambitious designs, an inability to establish sustainable institutional arrangements (for reasons not often within ADB’s control), and inadequate attention to monitoring and evaluation.

156. Borrower performance is considered less than satisfactory for a variety of reasons. While commitment to governance and public sector reforms has become stronger since 2012, earlier political changes during the evaluation period led to a waning of commitment to important and even basic reforms in governance. Significant amounts of funds were left unused and returned to ADB due to a lack of time to implement projects. The borrower has showed wavering commitment to key governance reforms such as transparent appointment of personnel, leading to the withdrawal of ADB from this area of public sector reform. The change of plans midway through a considered Financial Management Project resulted in an integrated system being installed in only three key government agencies. The government has not focused sufficiently on sustainability issues and has allocated insufficient funds for the O&M of critical infrastructure, which is an essential facet of ADB’s strategy in light of the high levels of infrastructure investment that it is financing.

### Client Perceptions of ADB Performance

A perception survey was carried out as part of the country assistance program evaluation, which was intended to elicit responses from representatives of the government, development partners, the private sector, and nongovernment organizations. More than half the respondents said the Asian Development Bank (ADB) was working in areas that were critical in meeting the core development challenges in Papua New Guinea. However, stakeholders felt less positive about the extent of ADB’s contribution to building the institutional capacity of government agencies. About half the respondents perceived ADB’s Papua New Guinea Resident Mission as having been very effective in undertaking ADB’s operations; while about one-third of the respondents believe that the resident mission had been only moderately effective in delivering ADB’s operations. Some stakeholders proposed that better collaboration, coordination, and dialogue could enhance the resident mission’s effectiveness.


### I. 2003 Country Assistance Program Evaluation

157. IED’s management actions report system records all IED recommendations and the actions taken by ADB in its operations. Table 17 provides a broad overview of the extent to which the 2003 CAPE recommendations were implemented. A 2010 transport sector assessment in Pacific developing member countries (1995–2010) made four recommendations.\(^ {101}\) The actions taken and progress made were recorded in the report

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\(^{100}\)Footnote 91, para. 47.

\(^{101}\)The 2010 transport sector assessment recommended that ADB (i) build technical capacity in the design, implementation, and maintenance responsibilities for transport infrastructure investments; (ii) increase the viability of transport infrastructure investments by realistically forecasting sector benefits and costs; (iii) strengthen the Pacific Aviation Safety Office’s service delivery and coverage by comprehensively evaluating its operations; and (iv) improve the effectiveness of sector investments by consolidating
system. IED validated most of the recommendations that were implemented. The evaluation team verified that two recommendations were fully implemented and the other two were partly implemented.\textsuperscript{102}

Table 17: Recommendations of the 2003 Country Assistance Program Evaluation and Actions Taken

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Action Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determining and implementing a development agenda that addresses the urgent need to create jobs to stem poverty and a continuously deteriorating law and order situation</td>
<td>Partly implemented. Determined a development agenda that focuses on poverty reduction.</td>
</tr>
<tr>
<td></td>
<td>Job creation. This recommendation remains relevant and is a focus of both the 2005 and 2011 strategies, although it is not a strategic goal to which ADB directly contributes. An initiative helped train about 10,000 nationals in a varied set of needed skills, but this was a one-off initiative and ADB moved away from the education sector. Large infrastructure and other community participation elements are the main vehicles for job creation. It is understood that ADB’s procurement policy requires that 3% of the unskilled labor be assigned to communities. In practice, it has been difficult to apply the policy, as ADB-financed infrastructure is often aligned through forest and thinly populated areas and because there are cultural practices that prevent a person from one tribe to work in another area.</td>
</tr>
<tr>
<td></td>
<td>Law and order. The 2006 country partnership strategy notes that “Strengthening law and order and the justice system are critical issues for PNG. In practice, these are not areas of ADB comparative advantage, and they are receiving significant and intensive support from the Government of Australia under its Enhanced Cooperation Program with PNG.”</td>
</tr>
<tr>
<td>Managing debt levels and introducing systemic changes to public resource management to avoid perpetual financial crises</td>
<td>Implemented. Along with other development partners. The framework for fiscal discipline has been enhanced. PNG’s public sector debt has fallen from about 70% of GDP in 2002 to 35% in 2014. The Medium Term Debt Strategy 2013–2017 of the Department of Treasury said that the debt burden is significantly lower and more balanced through the effective implementation of a debt strategy and the application of fiscal surpluses to reduce debt. ADB has participated, and will continue to participate, in International Monetary Fund Article IV missions and to conduct a communication with stakeholders and allocating more resources to supervision, monitoring, and evaluation based on country context and sector portfolio.</td>
</tr>
</tbody>
</table>

\textsuperscript{102} The CAPE team found that the first recommendation was fully implemented but that ADB support could take a more organized and comprehensive approach. ADB provided support for capacity development in the road, maritime, and aviation subsectors and achieved sector reforms—e.g., ADB supported reforms of the civil aviation industry, such as the establishment of the Civil Aviation Safety Authority, National Airports Corporation, and PNG Airport Services as SOEs. Through its Private Sector Development Initiative, ADB provided a knowledge foundation to develop a business and operation plan for Lae Port. The Highland Regional Road Improvement Investment Program has provided $6 million for project preparation, sector reforms, and capacity development. However, government capacity for planning, project implementation, and maintenance is still weak. The second recommendation was partly implemented. ADB proposed to enhance the capacity of its Pacific Department staff for economic analysis through in-house training. The department’s transport specialists took economic analysis training and seized self-learning opportunities by referring to the ADB guidelines through TA and project implementation. However, projects approved after 2010 still suffered implementation delays and cost overruns. The third recommendation was fully implemented. ADB continued its financing through a regional TA project. It identified needs and improved Pacific Aviation Safety Office member countries’ regulations and legislation through drafting. The forth recommendation was partly implemented. ADB provided sufficient funds for consulting services for project supervision but monitoring was weak. ADB proposed coordination with IED to conduct monitoring and evaluation training for executing agencies in Pacific developing member countries. However, the Pacific Department and IED have not yet collaborated on these activities other than through review of reports.
**Recommendation** | **Action Taken**
--- | ---
Debt sustainability analysis jointly with the International Monetary Fund and the World Bank. However, risks still exist. It is reported that the budget deficit has reached about 7.2% of GDP in 2013, and it has raised the importance of restructuring the domestic debt portfolio to reduce fiscal risks. PNG’s domestic debt stock (roughly 70% of the total) reportedly has a short, and uneven, maturity profile. The World Bank has stated its concern about the risk to public financial management. The government’s 2013 budget represents a marked change from recent years, presenting the largest deficit on record aside from the deficit following the 2009 global economic crisis. There has been a substantial increase in funds allocated to lower-level administrative units, and markedly slower revenue growth than expected. National budget appropriations grew by 20% in 2013, while revenue growth was more modest at 9.5%. The fiscal expansion increases risks for debt management. This budget may be affordable in the short term, but an extended series of deficits of this size poses the risk of PNG returning to the macroeconomic instability that followed its last extended economic boom. The government expects faster growth in revenues and grants in 2013–2017 than during the commodity price boom of 2008–2012. The new medium-term debt strategy anchors these fiscal targets by capping the government’s debt ratios. ADB has noted that national government debt was about 35% of GDP in 2014. While this target is broadly sustainable and in line with the limits set in the government’s medium-term fiscal strategy for 2012–2017, a number of off-balance-sheet liabilities raise fiscal risks. Unpaid superannuation arrears and the financing of the government’s equity stake in the liquefied natural gas project bring gross public debt to about 56% of GDP. Further, the inclusion of public enterprise debt estimated at 7.5% of GDP (as recorded in 2010) would bring combined indebtedness to over 64%.  

**Building capacities through the public administration to manage the economy, ensuring that the government and administration fulfill their roles, and providing public services where needed** | **Partly implemented.** Most ADB programs have included a component for capacity development for national staff. However, given the low levels of capacity in the country, ADB resorts to hiring local and international consultants to perform the project tasks. While this approach may be justified, it does not help ensure long-term sustainability. In many cases, such as the Financial Management Project, activities took a different turn and the capacity built up was not relevant. These issues are a concern, as the country has no capacity development strategy. ADB did not (in consultation with other key development partners) support the government (national and provincial) to outline specific priorities in this area, and provide demand-based support. A planned approach is necessary to take the country forward by planning exit strategies for consultants supported by development partners.  

Appendix
APPENDIX: LIST OF LINKED DOCUMENTS

1. ADB Loans and Grants to Papua New Guinea, 2000–2014

2. ADB Technical Assistance to Papua New Guinea, 2000–2014

   http://www.adb.org/sites/default/files/linked-documents/CAPE-PNG-3-Key-Economic-Indicators.pdf

4. Progress in Achieving the Millennium Development Goals

5. Major Thrusts of Country Strategies and Programs in Papua New Guinea

6. Energy Sector Assessment

7. Health Sector Assessment

8. Public Sector Management Assessment

9. Transport Sector Assessment


11. Land Acquisition and Resettlement

12. Result Chains and Evaluation Framework for ADB’s Development Contribution
    http://www.adb.org/sites/default/files/linked-documents/CAPE-PNG-12-Results-chain.pdf

13. Stakeholder Perception of ADB Performance

14. Summary of Suggestions of the Sector Assessments