CURRENCY EQUIVALENTS
(as of 22 February 2015)

Currency unit  –  kina (K)
K1.00  =  $0.34
$1.00  =  K2.94

ABBREVIATIONS

ADB  –  Asian Development Bank
ADF  –  Asian Development Fund
CAPE  –  country assistance program evaluation
CPS  –  country partnership strategy
DFAT  –  Australian Department of Foreign Affairs and Trade
DSP  –  Development Strategic Plan
GDP  –  gross domestic product
LNG  –  liquefied natural gas
MFF  –  multitranche financing facility
MTDP  –  Medium-Term Development Plan
NSRSD  –  National Strategy for Responsible Sustainable Development
OCR  –  ordinary capital resources
PNG  –  Papua New Guinea
PPP  –  public–private partnership
PSD  –  private sector development
PSM  –  public sector management
SOE  –  state-owned enterprise
TA  –  technical assistance
UNDP  –  United Nations Development Programme
WASH  –  water, sanitation, and hygiene

NOTE

In this report, "$" refers to US dollars.
In preparing any country partnership strategy, financing any project, or by making any
designation of or reference to a particular territory or geographic area in this document, the
Asian Development Bank does not intend to make any judgments as to the legal or other status
of any territory or area.
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### Economic

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<tr>
<td>GDP ($ billion, current)</td>
<td>9.7</td>
<td>13.1</td>
<td>15.5</td>
<td>15.4</td>
<td>14.6</td>
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<tr>
<td>GDP per capita ($, current)</td>
<td>1,500.0</td>
<td>1,975.7</td>
<td>2,289.9</td>
<td>2,235.4</td>
<td>2,078.1</td>
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<tr>
<td>GDP growth (% in constant prices)</td>
<td>7.6</td>
<td>11.3</td>
<td>7.7</td>
<td>5.1</td>
<td>8.0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2.9</td>
<td>8.6</td>
<td>(2.7)</td>
<td>0.5</td>
<td>3.9</td>
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<tr>
<td>Industry</td>
<td>10.8</td>
<td>13.0</td>
<td>14.7</td>
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<td>Services</td>
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<td>11.5</td>
<td>9.7</td>
<td>3.4</td>
<td>1.3</td>
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<tr>
<td>Gross domestic investment (% of GDP)</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
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<tr>
<td>Gross domestic saving (% of GDP)</td>
<td>...</td>
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<td>...</td>
<td>...</td>
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<tr>
<td>Consumer price index (annual % change)</td>
<td>6.0</td>
<td>8.4</td>
<td>2.2</td>
<td>4.0</td>
<td>8.3</td>
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<tr>
<td>Liquidity (M2) (annual % change)</td>
<td>10.0</td>
<td>17.6</td>
<td>10.9</td>
<td>6.7</td>
<td>7.9</td>
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<tr>
<td>Overall fiscal surplus (deficit) (% of GDP)</td>
<td>0.7</td>
<td>2.3</td>
<td>(4.3)</td>
<td>(7.9)</td>
<td>(5.9)</td>
</tr>
<tr>
<td>Merchandise trade balance (% of GDP)</td>
<td>22.8</td>
<td>20.7</td>
<td>10.2</td>
<td>7.4</td>
<td>13.1</td>
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<tr>
<td>Current account balance (% of GDP)</td>
<td>(6.5)</td>
<td>(1.3)</td>
<td>(14.9)</td>
<td>(22.6)</td>
<td>(11.4)</td>
</tr>
<tr>
<td>External debt service (% of exports of goods)</td>
<td>0.3</td>
<td>0.4</td>
<td>0.3</td>
<td>0.3</td>
<td>0.2</td>
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<tr>
<td>External debt (% of GDP)</td>
<td>12.1</td>
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<td>14.1</td>
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### Poverty and Social

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<tr>
<td>Population (million)</td>
<td>5.2</td>
<td>7.5</td>
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<tr>
<td>Population growth (annual % change)</td>
<td>2.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Maternal mortality ratio (per 100,000 live births)</td>
<td>340.0</td>
<td>220.0</td>
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<tr>
<td>Infant mortality rate (below 1 year/per 1,000 live births)</td>
<td>58.4</td>
<td>48.4 [2012]</td>
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<tr>
<td>Life expectancy at birth (years)</td>
<td>58.8</td>
<td>62.3 [2012]</td>
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<tr>
<td>Adult literacy (%)</td>
<td>57.3</td>
<td>62.4 [2011]</td>
</tr>
<tr>
<td>Primary school gross enrollment (%)</td>
<td>71.0</td>
<td>60.1 [2008]</td>
</tr>
<tr>
<td>Child malnutrition (% below 5 years old)</td>
<td>24.6 [1983]</td>
<td>18.1 [2005]</td>
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<tr>
<td>Population below poverty line (%)</td>
<td>37.5 [1996]</td>
<td>39.9 [2009]</td>
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<tr>
<td>Population with access to safe water (%)</td>
<td>35.1</td>
<td>39.7 [2012]</td>
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<td>Population with access to sanitation (%)</td>
<td>19.2</td>
<td>18.7 [2012]</td>
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### Environment

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<tbody>
<tr>
<td>Carbon dioxide emissions ('000 tons)</td>
<td>3,135.3</td>
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<tr>
<td>Carbon dioxide emissions per capita (tons)</td>
<td>0.5</td>
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<tr>
<td>Forest area (million hectares)</td>
<td>28.6 [2011]</td>
</tr>
<tr>
<td>Urban population (% of total population)</td>
<td>12.6 [2012]</td>
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### ADB Portfolio (sovereign loans, as of 31 December 2014)

<table>
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<tr>
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<th>Cofinancing</th>
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<tr>
<td>Total number of loans</td>
<td>9</td>
<td>18</td>
<td>9</td>
<td>36</td>
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<tr>
<td>Net loan amount ($ million, cumulative)</td>
<td>521</td>
<td>503</td>
<td>74</td>
<td>1,098</td>
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<tr>
<td>Disbursements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total funds available for withdrawal ($ million)</td>
<td>380</td>
<td>300</td>
<td>57</td>
<td>737</td>
</tr>
<tr>
<td>Disbursed amount ($ million, cumulative)</td>
<td>141</td>
<td>203</td>
<td>17</td>
<td>361</td>
</tr>
<tr>
<td>Percentage disbursed (disbursed amount/total available)</td>
<td>37</td>
<td>68</td>
<td>29</td>
<td>49</td>
</tr>
</tbody>
</table>

… = not available, ( ) = negative, [ ] = latest year for which data are available, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, M2 = broad money, OCR = ordinary capital resources.

I. DEVELOPMENT TRENDS AND ISSUES

A. Country Background

1. Papua New Guinea (PNG) has enjoyed uninterrupted economic growth since 2002, underpinned by high commodity export prices and supported by structural reforms and generally sound macroeconomic policies. Since 2010, economic growth has been supported by high levels of foreign direct investment related to a $20 billion liquefied natural gas (LNG) project, which commenced operations in 2014. Economic growth, however, has not been inclusive and is skewed in favor of a small, largely urban, population. With approximately 850 language groups spread across rugged mountainous terrain and a large archipelago, converting natural resource wealth into inclusive growth is particularly challenging for PNG. Although the formal sector has been growing, it employs less than 15% of the working-age population and is unable to absorb the country’s rapidly growing youth population.

2. Approximately 88% of the population—and 80% of PNG’s poor people—live in rural areas and, although agriculture potential is high in many regions, weak national transport networks and limited service delivery constrains the ability of rural workers to participate in the economy. Physical isolation and a lack of connectivity pose major challenges to expanding access to basic social services, a situation that is compounded by underlying state fragility and weak bureaucracy. Despite significant funding increases since 2004, rural health outposts and basic education facilities often remain closed, are cut off from supply chains, and lack access to a reliable power supply. Rural health and education workers are forced to spend significant amounts of their time travelling to and from regional centers.

3. PNG’s social indicators are below those of other countries with similar per capita incomes. PNG is ranked 156th out of 186 countries in the 2013 human development index. The country is not expected to meet any of the Millennium Development Goals by the end of 2015, and has made only limited progress in tackling pervasive gender inequality and gender-based violence. International comparisons show that PNG’s rank on the United Nations Development Programme (UNDP) gender-related development index has fallen since 2002; out of 146 countries, PNG has declined from 106 in 2002 to 140 in 2011. Maternal and child mortality is the highest in the Pacific region and the second highest in Asia and the Pacific.

4. The commencement of LNG exports in 2014 and the potential for further LNG projects in the medium term provides an opportunity to reduce financing gaps for key service delivery priorities. However, as economic growth becomes more concentrated in extractive industries, PNG will become more exposed to volatility in international commodity prices and prone to the consequences of the “Dutch disease” and resource curse phenomena. The dramatic drop in

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2 Poverty Analysis (Summary) (accessible from the list of linked documents in Appendix 2).
4 Country and Portfolio Indicators (accessible from the list of linked documents in Appendix 2).
5 Gender Analysis (Summary) (accessible from the list of linked documents in Appendix 2).
6 UNDP. Human Development Report. Selected years. Gender-related development index is a composite indicator of gender equality developed by the United Nations, along with the human development index. It measures gender equality in three areas: life expectancy, education (adult literacy rate and combined enrollment ratio from primary to tertiary levels), and estimated earned income.
8 Economic Analysis (Summary) (accessible from the list of linked documents in Appendix 2).
global oil and LNG prices in late 2014 and early 2015 highlights the need for appropriate fiscal management structures to buffer the economy against the volatility associated with exports of natural resources. Periodic bouts of political instability compound these challenges and threaten to undermine the business environment and inclusiveness of economic growth. Improvements in public sector management (PSM) will be required to ensure revenue streams make a sustainable contribution to service delivery and livelihood opportunities. PNG’s policy and legislative frameworks are generally strong but the government continues to struggle with compliance and implementation. This is true at the country level as well as across the different levels of government and within sectors. Core systems and processes are in place and relatively sound, but they are not always followed and more work is needed to ensure they are entrenched and complied with before more complex reforms are attempted.

B. Economic Assessment and Outlook

5. PNG has a small, open, export-oriented economy heavily reliant on commodity products; minerals constitute roughly 75% of total exports, agriculture products 20%, and forestry products 5%. Real gross domestic product (GDP) grew at an estimated 8.0% in 2014, with record growth of 15.0% expected in 2015, led by the commencement of LNG exports. Although GDP growth is expected to hit a record high in 2015, this will have only a limited immediate positive impact on the broader economy and job creation. As international investors own around 80% of the LNG project, it is likely that most earnings will remain offshore. Further, while the project employed approximately 16,000 workers during its peak construction phase, only a few hundred will be required now that it is fully operational (footnote 8). As a result, the project will have a lower impact on gross national income than on GDP. Dividend and tax payments will be the key transmission mechanism to the domestic economy; however, these are not expected to peak until the early 2020s.

6. The 2014 private sector assessment of the Asian Development Bank (ADB) highlighted law-and-order problems and poor transport and energy infrastructure as the most serious constraints on broad-based job creation, and these are compounded by weak property rights and a lack of access to credit. Contributing to this situation is a large number of poorly performing state-owned enterprises (SOEs) which crowd out private sector investment and deliver services of high cost but poor quality. While some progress has been made in introducing competition in telecommunications, aviation, and power, significant reforms are still required to strengthen accountability and clarify mandates for these SOEs. As a result of these barriers to private sector investment, PNG’s labor market is characterized by a small formal sector comprising about 10%–15% of the working-age population. The remaining 85%–90% of the working-age population fall under the informal sector and are engaged primarily in subsistence agriculture.

7. While the medium-term revenue outlook for the government remains optimistic, the challenge for the government remains to convert higher expenditure into an improved standard of service delivery. Despite significant development partner and government capacity building efforts, PSM remains weak. This impedes the government’s ability to control expenditures, disburse the budget as approved, and provide essential services. Fundamental arrangements are in place but adherence to basic systems and procedures can often not be relied upon to ensure appropriate accountability. Transparency in budget execution is weak and is undermined by unauthorized diversion of funds. This makes it difficult to track expenditures to ensure the budget is delivered as approved. Oversight is weakened by persistent delays in preparing and releasing public accounts and audit reports.

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9 Private Sector Assessment (Summary) (accessible from the list of linked documents in Appendix 2).
8. ADB recognizes these factors as characteristics of fragile situations. In supporting PNG, ADB will apply elements of its approach to engaging with weakly performing countries. For example, on reforming existing government systems, ADB will need to have realistic expectations about what can be achieved within a particular time frame. ADB will also need to remain flexible, responding to changing circumstances, while creating strong linkages between its operations and broader governance reform efforts.

C. Highlights of Previous ADB Country Strategy

9. The country partnership strategy (CPS), 2011–2015 has guided ADB’s engagement in PNG since 2011. The CPS aimed to help PNG deliver its second Medium-Term Development Plan (MTDP), 2011–2015. The CPS emphasized ADB support for transport, energy, private sector development (PSD), health, regional cooperation and integration, and PSM. PNG significantly scaled up its use of ADB resources during this period, with the active portfolio expanding from $350 million in 2010 to $1.1 billion in 2014.

10. The PNG country assistance program evaluation (CAPE) undertaken by ADB’s Independent Evaluation Department found that ADB operations in PNG were relevant and satisfactorily positioned. The PNG CAPE and the PNG CPS final review both highlighted, however, that ADB continues to face challenges in the efficiency, effectiveness, sustainability, and overall impact of its operations. The following are a number of key lessons for improving this performance:

(i) The use of multitranche financing facilities (MFFs), which provide long-term funding in roads, energy, and civil aviation, has helped improve implementation performance by providing authorities with predictable financing and encouraging investment in procurement and advance project preparation, as well as creating a more conducive environment for capacity development and staff training.

(ii) Portfolio performance can be lifted further through adopting more realistic project implementation schedules, in particular allocating sufficient time and resources to addressing social and environmental safeguard issues, especially in the Highlands Region where local community structures are often complex.

(iii) PSM support can be improved by integrating capacity development into large-scale projects, enhancing fiscal transparency and accountability, and sharpening policy dialogue on debt management issues in partnership with the World Bank and the International Monetary Fund.

(iv) Increasing support for participatory community and social sector initiatives, which leverage the implementation structures of larger infrastructure operations, can contribute to a larger impact of ADB operations on inclusive growth, particularly when working in remote and/or marginalized communities.

15 Country Strategy and Program Final Review (accessible from the list of linked documents in Appendix 2). The final review was prepared by ADB’s Pacific Department and, in lieu of the preparation of a CAPE, was not reviewed by ADB’s Independent Evaluation Department.
16 Environmental and Social Safeguards Assessment (Summary) (accessible from the list of linked documents in Appendix 2).
17 Country Knowledge Plan (accessible from the list of linked documents in Appendix 2).
(v) Inclusiveness can also be supported by a greater focus on gender-sensitive project designs and by ensuring that gender-specific targets are included in project monitoring and design frameworks. Sufficient resource allocations are also required to ensure that line agencies have the capacity to collect and analyze results monitoring data.

(vi) Focusing ADB’s limited financial resources on larger projects and contract packaging can help to address private sector capacity constraints. It does this by attracting new international companies while also simplifying implementation for executing agencies and outsourcing the burden of managing subcontracting arrangements.18

(vii) Fostering stronger linkages between ADB sovereign operations and PSD initiatives can help address capacity constraints in government systems, particularly by exploring service delivery models that draw on private sector strengths.

II. THE COUNTRY STRATEGY

A. Government National Strategy

11. Vision. The government’s long-term vision is outlined in the national development framework, Vision 2050.19 Through creating institutions which equitably distribute resources and opportunities, Vision 2050 aims to ensure that economic growth by 2050 will be broadly based, less reliant on the mining and energy sectors, and conducive to creating new income-earning opportunities and improvements in human development outcomes.

12. Development plans. In 2010, the government launched the Development Strategic Plan (DSP), 2010–2030.20 The plan provides a strategic planning framework focused on extending economic growth benefits to the most disadvantaged regions and communities through a more effective transport and utilities network, and quality education and health services. In 2014, an addendum to the DSP was launched, the National Strategy for Responsible Sustainable Development (NSRSD), 2010–2030.21 The addendum emphasizes the government’s desire to reduce the economy’s reliance on nonrenewable resource extraction, and encourages the development of environmentally sustainable industries and low-carbon technologies in pursuing a more inclusive economic growth path. The DSP and NSRSD guide all medium-term development and sector strategies. The DSP implementation will rely upon four consecutive 5-year MTDPs, each guided by an accompanying medium-term fiscal strategy to ensure ongoing confidence in the government’s fiscal position and the PNG economy as a whole. The second MTDP, 2011–2015 sought primarily to expand funding for the government’s four key pillars of infrastructure, health, education, and law and order.22

13. Strategy intersection. Government officials have expressed their commitment to continue strengthening their partnership with ADB, with the DSP and NSRSD intersecting with a number of ADB’s Strategy 2020 midterm review priorities.23 In line with the financing needs identified in the medium-term fiscal strategy, the government has asked ADB to align its assistance with DSP and NSRSD priorities, focusing on the transport and energy sectors. Within transport, the government

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18 Country and Portfolio Indicators (accessible from the list of linked documents in Appendix 2).
22 Over the duration of the MTDP, 2011–2015 the share of the national budget allocated to these four key pillars increased from approximately 20% in 2010 to 50% in 2015.
has identified roads, bridges, civil aviation, and ports as being particularly important to its
development objectives. The government has also requested ADB’s continued engagement in
health as well as reengagement in water and other urban infrastructure and services. Both the
DSP and Strategy 2020 midterm review also emphasize the importance of supporting lagging rural
areas, promoting PSD, scaling up support for climate change adaptation and mitigation and
disaster risk management, and mainstreaming gender equity.

14. **Selectivity and development partner coordination.** The CPS priorities respond to
government demands and are the result of extensive consultations with development partners, civil
society, and the private sector. Development partners broadly support the priorities established by
the DSP and NSRSD and have aligned their operations accordingly. There is a well-coordinated
division of labor between development partners in PNG, with regular coordination meetings
ensuring a strong alignment of activities towards each agency’s comparative advantage. Other
development partner agencies will continue to provide substantial support for the agriculture,
education, and social protection sectors. Further, as its revenue has expanded, the government
has also been able to finance an increasing portion of operational expenses associated with many
social sectors, such as education.24

B. **ADB Country Strategy**

15. **Strategic objective.** In line with the government’s development agenda and ADB’s
Strategy 2020 midterm review priorities, the CPS will assist PNG in planning and implementing a
successful conversion of its resource wealth into inclusive and environmentally sustainable
economic growth.

16. **Operational priorities.** ADB will support more inclusive economic growth through
investments in transport and energy, lowering business and trade costs, and increasing job and
livelihood opportunities, particularly in agriculture. To strengthen its impact on reducing poverty
and extreme deprivation, ADB will assist the government to strengthen rural primary health
delivery and improve access to water supply and sanitation services among the urban poor. To
promote environmentally sustainable growth, ADB operations will prioritize renewable energy
options in generation expansion and infrastructure designs that are resilient to the effects of
climate change and potential disaster scenarios. ADB will also support regional cooperation and
integration by improving domestic and regional connectivity, facilitating access to markets, and
providing targeted knowledge solutions to influence trade policy. Underpinning these activities will
be continued efforts to improve PSM. The CPS will support more transparent and accountable
budgeting practices, with an emphasis on natural resource revenue management and improved
infrastructure budgeting and coordination. ADB’s PSM assistance will also support improved
business conditions and job creation through a combination of support for SOE reform,
improvements in the business legal environment, competition policy, and access to finance
initiatives, particularly for women.

17. **Guiding principles.** The government favors a programmatic approach to its partnership
with ADB, featuring MFFs which provide long-term, predictable finance for executing agencies as
well as supporting development partner coordination and strengthened country financial
management (para. 10 [i]–[iv]). ADB will maximize the development impact of its operations by
remaining focused on a small number of larger high-impact activities, prioritizing opportunities for
knowledge transfer and capacity development. Where possible, ADB will mainstream gender in its
interventions and identify gender-specific targets within each of its core sectors of operations.

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24 Country and Portfolio Indicators donor coordination matrix (accessible from the list of linked documents in Appendix 2).
Providing knowledge solutions will be a focus of ADB support: the PNG country knowledge plan (footnote 17) outlines a targeted pipeline of activities that promote public sector transparency and improved sustainability and impact of ADB operations. ADB will use implementation structures established under ongoing ADB-funded projects to partner more closely with community groups and civil society, particularly to manage environmental and social safeguards risks. Considering PNG’s significant capacity constraints, and to ensure the sustainability of investments, training and capacity development will be incorporated into all sector operations.

18. **Resourcing.** Key to ADB’s performance in delivering the CPS will be the effective operation of the resident mission, as this is where most of the responsibility for programming and program administration will lie. To ensure ADB maximizes its impact, the financial and human resources of the resident mission will be strengthened during CPS implementation.

19. **Sector focus.** The majority of ADB assistance will be in two core sectors: transport and energy. The remainder of the financial envelope will be allocated to supporting rural primary health delivery, water and other urban infrastructure and services, and PSM. ADB will take the following approaches in each of these sectors:

   (i) **Transport.** A strong portfolio and forward pipeline has been developed in land transport and civil aviation, with possible future opportunities in maritime transport. Limited and unreliable infrastructure maintenance funding also threatens the sustainability of infrastructure projects. In line with the recommendations of the PNG CAPE, ADB will support improved sustainability through ongoing sector dialogue, support for public–private partnerships (PPPs), as well as knowledge management and technical assistance (TA) to improve maintenance and operating cost financing. Where established implementation structures have a demonstrated capacity to use funds effectively, ADB will emphasize attracting cofinancing.

   (ii) **Energy.** ADB will continue to support investments in renewable energy generation and improving transmission and distribution efficiencies on main power grids. ADB will also support improving electricity services to provincial centers through least-cost hydro power projects and improved distribution systems. This will include expanding the existing power grids to peri-urban areas and promoting innovative models led by the private sector for off-grid power delivery. This approach will help address a lack of access to affordable and reliable power, which currently reaches only 12% of the population. It will also support economic development and poverty reduction in urban and peri-urban areas by lowering business costs and reducing the country’s reliance on the resources sector for economic growth. ADB will provide TA for sector planning, policy reform, and capacity building.

   (iii) **Health.** In response to government and development partner requests, and in line with the PNG CAPE recommendations, ADB will continue its operations in rural health access and service improvement. Support will focus on the country’s key health challenges of maternal and child health, HIV/AIDS, and other infectious diseases through an integrated approach to health system strengthening. Program lending will be utilized to support regulatory and management reform as well as health workforce recruitment and the country’s weak referral system. A focus will be placed on strengthening partnerships with civil society and attracting new sources of cofinancing and counterpart funding.

   (iv) **Water and other urban infrastructure and services.** In line with the recommendations of the PNG CAPE, ADB will extend efforts to promote improved water, sanitation, and hygiene (WASH) outcomes. Initially, ADB will support the government to resolve a number of outstanding WASH policy and institutional issues through, e.g., SOE reforms, PPPs, and knowledge products. Assistance will
emphasize creating a regulatory environment conducive to private sector investment and public sector efficiency. These activities will aim to address the growing pressure on PNG’s urban water supply and sanitation infrastructure as a result of rapid economic growth. PNG’s treated water supply is characterized by low coverage (around 20%), intermittent supply, and poor standards and quality. Eighty percent of urban households lack access to latrines, 94% of all cities and towns are unsewered, and 80% of all sewage generated is discharged untreated.

(v) Public sector management. ADB will emphasize increasing PSM accountability and transparency so that the government can more effectively and efficiently translate growing public revenues into delivering services and providing infrastructure. Building upon lessons from previous PSM reform efforts, and responding to the slow sector-wide reform progress, ADB will focus its support on more transparent and accountable budgeting practices, with an emphasis on natural resource revenue management and improved infrastructure budgeting and coordination. ADB will support government efforts to implement a sovereign wealth fund and Extractive Industries Transparency Initiative requirements. ADB will ensure its support is aligned with that of other development partners, particularly the long-term advisory positions funded by Australia across the PNG public service. ADB will continue to work with government agencies to reform the legal and regulatory environment for financial services. These efforts will support access to finance initiatives undertaken under ADB’s PSD initiatives, cofinanced by the Australian Department of Foreign Affairs and Trade (DFAT) and the Government of New Zealand, and complement an ongoing Microfinance Expansion Project. Further, ADB will support advancing SOE reform, particularly the implementation of the government’s community service obligation policy. This is critical for those SOEs that will see considerable increases in demand as a result of rising economic growth, such as PNG Power, the National Airports Corporation, the PNG Ports Corporation, and Water PNG.

20. Drivers of change. The following thematic drivers of change will be mainstreamed into all ADB operations and activities during the CPS period:

(i) Environmental sustainability. ADB will continue to help PNG manage its vulnerabilities to frequent natural disasters and climate-change-related risks that are likely to increase. ADB operations will focus on supporting climate proofing infrastructure and increasing the climate resilience of vulnerable sectors, such as water supply and sanitation. ADB will also work directly with local communities to mitigate the consequences of natural disasters and climate change risks. In climate proofing infrastructure, ADB will ensure that the latest climate technologies are considered as part of project design. This will be complemented by capacity building support for the government, private sector, and civil society to strengthen knowledge, attitudes, and practices in various climate-related fields. Capacity building and climate proofing activities will be financed through global financing mechanisms. Furthermore, ADB’s energy operations will continue to focus on

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26 ADB. 2010. Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant to Papua New Guinea for the Microfinance Expansion Project. Manila (Loan 2686-PNG).
27 Between 2002 and 2012, PNG’s SOE portfolio generated an average return on equity of 5.8% and return on assets of 3.3%, well below the commercially established risk-adjusted return. Moreover, these low returns were achieved after subsidized debt and substantial fiscal transfers to the SOEs.
promoting more efficient electricity systems and the use of clean energy (para. 17. [iii]).

(ii) **Private sector development.** ADB will remain focused on developing new private sector operations, using loans, equity investments, and credit enhancement products, focusing on opportunities in transport and energy. The PSD initiatives will support ADB efforts to improve the business environment. This will include competition law reform to create a more efficient market environment, and secured transactions reform to allow for the use of moveable assets as collateral and the adoption of innovative solutions such as mobile banking. ADB will continue to support financial inclusion through ongoing engagement and policy dialogue regarding microfinance. ADB will review all infrastructure projects for their potential to be delivered directly by the private sector or via PPP. ADB will also help develop innovative contractual and financial structures to encourage private participation in public works.

(iii) **Effective gender mainstreaming.** The CPS will build upon the substantial gender mainstreaming efforts made in ADB projects, particularly related to improving access to infrastructure and social services, with the inclusion of gender-specific indicators and targets forming an integral component of ADB’s CPS results framework. ADB project designs will encourage gender-focused skills development and training components, particularly in major national infrastructure projects. ADB’s support for microfinance will target women and girls, identifying opportunities for technical and vocational education and training. ADB will ensure successful delivery of gender results by preparing quality gender action plans, including measurable indicators and targets, and monitoring and evaluating progress regularly. Although ADB will not directly support preventing and responding to gender-based violence through stand-alone projects, ADB projects will include measures to ensure that they do not encourage gender-based violence and minimize the risks of it occurring. Moreover, ADB projects will promote the economic empowerment of women by strengthening their ability to negotiate violence-free lives.

(iv) **Knowledge management.** Knowledge solutions will be critical for ADB’s strategic approach in PNG. The PNG country knowledge plan identifies a targeted program of activities closely linked to ADB’s planned sector operations. Knowledge solutions for transport and energy will be focused on improved sector planning and strengthening maintenance and operational management structures to ensure future investments are sustainable and have maximum impact. In health and urban water supply, ADB will support knowledge-driven policy reforms before engaging in project operations. PSM knowledge efforts will be focused on supporting effective, transparent, and accountable resource revenue management. ADB’s Papua New Guinea Resident Mission will play a key role in coordination and outreach activities, working with ADB’s knowledge departments and communities of practice to mobilize in-house expertise to respond to the country’s knowledge solution needs.

(v) **Partnerships.** ADB will seek to partner more closely with civil society and the private sector, with the PNG resident mission deepening its linkages with local universities and civil society to monitor ADB projects and create knowledge products. ADB will enhance partnerships with other development partners and explore cofinancing opportunities. To maximize development impact, cofinancing will focus on channeling resources through existing implementation structures, particularly those established under MFFs in energy, land transport, and civil aviation. In transport and energy, ADB will seek to collaborate with the Government of Japan, the Japan International Cooperation Agency, the Australian DFAT, the European Union, the European Investment Bank, the World Bank, and the
Government of New Zealand. In PSM, ADB will liaise closely with DFAT, the World Bank, the European Union, and UNDP to ensure efforts towards enhancing fiscal management and public expenditure accountability are coordinated. ADB will continue to collaborate with DFAT in rural primary health delivery as well as PSD interventions, an area in which ADB is leading in assisting the government. ADB will continue to participate in International Monetary Fund Article IV missions.

III. STRATEGY IMPLEMENTATION

A. Indicative Resource Parameters

21. PNG is a Group B country and is therefore eligible for a blend of Asian Development Fund (ADF) and ordinary capital resources (OCR) borrowing. The indicative resources for 2016–2018 total $637.0 million, including an allocation of $504.0 million in OCR. Indicative country allocations of ADF resources for PNG during 2016–2018 amount to $133.0 million. The final allocations of ADF resources will depend on the available ADF commitment authority and the outcome of the country performance assessments. The indicative nonlending program for 2016–2018 totals $3.2 million, of which $1.5 million is for project preparatory TA. ADB’s cost-sharing limit is 85% for both ADF and OCR loans. The TA cost-sharing limit is 99%. These apply across all sectors, although lower percentages of ADB financing are expected for income-earning infrastructure projects so as to encourage local ownership. If the proposal of combining ADF lending operations with the OCR balance sheet is approved by ADB’s Board of Governors, opportunities to expand the overall assistance program will be pursued in collaboration with government and other stakeholders.

B. Program Overview

22. About 68% of indicative resources for the 2016–2018 assistance program has been allocated to the transport sector, split evenly between land transport (including roads and bridges) and civil aviation. A further 20% of the program has been allocated for energy sector investments. In line with government requests and based on the findings of the CPS, 2011–2015 final review, the majority of this lending assistance program is expected to be delivered through three ongoing MFFs and one new MFF. The remaining 12% of the program will support rural primary health and WASH activities as well as PSM.

23. The 2016–2018 assistance program actively supports the finance++ agenda by combining ADB’s own finance with partnerships and targeted knowledge solutions to maximize impact and accelerate ADB’s development effectiveness. The 2016–2018 lending pipeline includes $15 million in cofinancing under tranche 2 of the Towns Electrification Improvement Program. Additional cofinancing opportunities are being actively explored, particularly for ongoing MFFs in the transport and health sectors. Knowledge management activities will also support these lending activities, with planned PSM TA to encourage more sustainable and accountable financial management in the infrastructure sector. This TA will be complemented by PSD initiatives support to the business-enabling environment and regulatory issues.

IV. RESULTS MANAGEMENT

A. Monitoring

24. ADB will monitor CPS implementation using the results framework (Appendix 1), which will be updated annually during country portfolio review missions and country programming missions, and reported in related documentation. The sector outcome data will be compiled by sector
specialists in collaboration with sector agencies. ADB will monitor the alignment of the CPS with the government's DSP. The updated results framework will be used to confirm and modify the CPS and the country program. Based on identified capacity limitations, ADB will continue to support executing agencies to develop results management capacity through training and workshops.

B. Risks

25. **Governance risks.** While overall risks to the economy are deemed to be medium to low, as long as sensible macroeconomic policies continue, weak governance and potential political instability pose significant risks for the impact and sustainability of ADB investments. Specific mitigation measures are described below. In addition, ADB will sustain regular dialogue with government to promote the institutional and regulatory reforms needed to maintain infrastructure investment and promote inclusive growth.

26. **Development impact risks.** Risks relate primarily to the quality and timeliness of project implementation, particularly slow procurement and weak project management. This results from capacity gaps in executing agencies and within ADB. Project implementation is also affected by difficulties with land acquisition, landowner resettlement, and meeting standards of ADB’s environmental safeguard policies. These risks will be managed in several ways. PSM TA will target strengthening central government agencies with regard to infrastructure planning, budgeting, and execution, including streamlining procurement processes. Through supporting long-term investment plans within the focus sectors of transport and energy, ADB will assist the government to prepare a carefully sequenced, ADB-funded pipeline of projects.

27. **Sustainability risks.** Unreliable and generally limited maintenance funding threatens infrastructure sustainability. Annual allocations for infrastructure maintenance are limited and often inconsistent. Disbursements are frequently delayed, leading to interruptions in mobilizing long-term maintenance contracts. Landslides and floods are common and often damage critical network links, forcing the government to reallocate funds from routine maintenance to emergency works. To manage sustainability risks, ADB will continue to support the government to strengthen the use of dedicated cost-recovery revenue streams for roads and establish trust funds to support long-term maintenance planning and funding. ADB will help ensure that infrastructure assets that are most exposed to potential effects of climate change and natural hazards are climate and disaster proof. By using the MFF modality, ADB will provide government and civil works contractors with an assurance of sustained funding to support long-term, performance-based maintenance contracts.

28. **Social and environmental safeguard risks.** Complex land ownership structures, weak bureaucratic capacity, and poor contract enforcement mechanisms make managing environmental and social safeguards a key challenge for development projects in PNG. To overcome this challenge, ADB will focus on (i) strengthening country safeguard systems under ongoing investment and TA projects; (ii) building the capacity of ministries responsible for land and environment management by allocating resources within high-risk projects; (iii) supporting project executing agencies for advance preparation of projects with focus on land acquisition and resettlement safeguards; (iv) applying additional staffing and financial resources to implement and monitor safeguards at the project level; (v) improving coordination between project agencies and ministries responsible for land and environment; and (vi) building the capacity of project management unit staff, contractors, and civil society on safeguards. ADB will increase its capacity to manage safeguards issues by recruiting an additional safeguards officer at the resident mission.

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29 Fragile Situations Assessment (Summary) (accessible from the list of linked documents in Appendix 2).
## COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

### Country Development Goals (Papua New Guinea Development Strategic Plan, 2010–2030)
1. 500,000 additional formal jobs created between 2015 and 2020, with economic growth averaging 8.4%.
2. A drop in the incidence of major crimes to less than 400,000 by 2020 (2014 baseline: 600,000).
3. An effective land reform program that mobilizes 20% of PNG’s land mass within the formal administration system (2014 baseline: 5%).
4. Unemployment rate reduced to less than 10% in urban areas by 2020 (2014 baseline: 20%).
5. PNG to be among the top 40% of all countries in the World Bank’s Cost of Doing Business by 2020 (2014 baseline: lowest 10%).

### Sectors Selected for ADB Support

<table>
<thead>
<tr>
<th>Government Sector Objectives</th>
<th>Sector Outcomes that ADB Contributes to and Indicators</th>
<th>ADB Areas of Intervention</th>
<th>ADB Indicative Resource Allocation in the Next Pipeline and Strategic Priorities</th>
</tr>
</thead>
</table>
| Enhanced national and international connectivity which reduces regional economic and social inequalities | More efficient, safer movement of people and goods  
1 million rural residents benefiting from a 25% reduction in the cost of travelling from their communities to nearest market by 2020, of which 50% are women and girls (2014 baseline: 50,000)  
200,000 rural residents have access to and utilize climate-resilient bridge infrastructure by 2020, of which 50% are women and girls (2015 baseline: 0) | Planned key activity areas  
Transport sector policy, including organizational, budgeting, and maintenance  
Road rehabilitation and maintenance  
Bridge rehabilitation  
Civil aviation safety and security | $436.0 million, 68.3% of total CPS envelope, of which:  
ESG – 44%  
GEM – 66%  
PSD – 100%  
RCI – 58% |
| Improved access to a more reliable and affordable energy supply, including from renewable sources | Sustainable and more affordable power supply in urban areas  
20 gigawatt-hours per annum additional hydro power generation in five provincial urban centers by 2020 (2014 baseline: 0)  
Improved access and use of power supplies for households in rural areas  
20% of households have access to grid-connected electricity by 2020 (2014 baseline: 12%) | Construction of power generation capacity to supply demand in provincial towns and main grids  
Trial of innovative rural electrification delivery models  
Support for increased private sector investment in energy sector | $122.7 million, 20.0% of total CPS envelope, of which:  
ESG – 100%  
GEM – 51%  
PSD – 49%  
RCI – 0% |
| Efficient health system which delivers an internationally acceptable standard of health service | Greater and more equitable use of quality primary health services  
Percentage of births attended by trained health personnel increases to 68% by 2020 (2013 baseline: 37%) | Health sector reform aimed at strengthening rural health provision and rollout of minimum standards for | $40.8 million, 6.6% of total CPS envelope, of which:  
ESG – 0%  
GEM – 0%  
PSD – 0%  
RCI – 0% |
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<tr>
<td></td>
<td>Percentage of pregnant women receiving at least one antenatal care visit increased to 75% by 2020 (2013 baseline: 65%)</td>
<td>quality primary health care services in rural catchment areas (100%)</td>
<td>$31.5 million, 5.1% of total CPS envelope, of which: ESG – 100% GEM – 100% PSD – 0% RCI – 0%</td>
</tr>
<tr>
<td></td>
<td>Percentage of children under 1 year old receiving DPT immunization increased to 80% by 2020 (2013 baseline: 52%)</td>
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### 4. Water and other urban infrastructure and services (Core Area 1: Infrastructure)

- **Increased access to reliable clean water in urban centers and to sewerage waste treatment facilities**
  - More people enjoy improved water supply and sanitation services
    - Urban population access to improved drinking water supply increased to 95% by 2030 (2013 baseline: 89%)
    - The incidence of annual WASH-related deaths decreased to less than 60 per 100,000 persons by 2020 (2013 baseline: 108 per 100,000 persons)
  - Planned key activity areas
    - Urban water supply and sanitation infrastructure (88% of funds)
    - WASH services policies and reforms (12% of funds)
  - $31.5 million, 5.1% of total CPS envelope, of which: ESG – 100% GEM – 100% PSD – 0% RCI – 0%

### 5. Public sector management (Drivers of Change: Good governance)

- **High standards of public sector management at all levels and in all government institutions**
  - More effective and efficient use of public finances for service delivery and infrastructure provision
    - ADB country performance assessment indicators 8a: equity of public resource use increased to 5.0 by 2020 (2014 baseline: 4.0)
  - Improved enabling environment for business and finance sector development
    - Increased return on equity of SOE portfolio to 6% by 2020 (2014 baseline: 3%)
  - Improved infrastructure project, evaluation, prioritization, and budgeting
  - Support for SOE reform and corporatization
  - Reform of regulatory and legislative barriers to financial access
  - $1 million, 0.2% of total CPS envelope, of which: ESG – 0% GEM – 0% PSD – 50% RCI – 0%
LIST OF LINKED DOCUMENTS
http://www.adb.org/Documents/CPS/?id=PNG-2016

1. Economic Analysis (Summary)
2. Poverty Analysis (Summary)
3. Gender Analysis (Summary)
4. Environment Assessment (Summary)
5. Private Sector Assessment (Summary)
6. Sector Assessment (Summary): Transport
7. Sector Assessment (Summary): Energy
8. Sector Assessment (Summary): Health
9. Sector Assessment (Summary): Water Supply and Other Urban Infrastructure and Services
10. Sector Assessment (Summary): Public Sector Management
11. Risk Assessment and Risk Management Plan (Summary)
12. Country and Portfolio Indicators
13. Country Performance Assessment Ratings
15. Country Partnership Strategy Formulation
18. Country Assistance Program Evaluation

Supplementary Documents
19. Regional Cooperation and Integration Assessment (Summary)
20. Country Knowledge Plan (Summary)
21. Fragile Situations Assessment
22. Environmental and Social Safeguards Assessment
23. State-Owned Enterprise Assessment