



Country Operations Business Plan

August 2016

Papua New Guinea 2017–2019

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 4 July 2016)

Currency unit	–	kina (K)
K1.00	=	\$ 0.32
\$1.00	=	K 3.16

ABBREVIATIONS

ADB	–	Asian Development Bank
COL	–	concessional ordinary capital resources lending
CPS	–	country partnership strategy
OCR	–	ordinary capital resources
PNG	–	Papua New Guinea

NOTES

- (i) The fiscal year (FY) of the Government of Papua New Guinea and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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I. CONSISTENCY OF BUSINESS PLAN WITH COUNTRY PARTNERSHIP STRATEGY

1. **Recent economic, social, and political developments.** The economy of Papua New Guinea (PNG) grew by 9.9% in 2015—the first full year of liquefied natural gas production—but is forecast to grow by only 4.3% in 2016 and 2.4% in 2017. Increasing reliance on resource extraction raises the volatility of the economy. Economic growth has not been inclusive and is skewed in favor of urban population. Progress on social development continues to be hampered by weak state capacity and structures for delivering basic services such as health, education, electricity and public infrastructure. There is no official measure of poverty, but social indicators are below those of other countries with similar per capita incomes. PNG is ranked 158 out of 186 countries in the 2014 Human Development Index.¹

2. **Country partnership strategy.** The country operations business plan, 2017–2019 is the second under the country partnership strategy (CPS) 2016–2020 for PNG.² The strategy was developed in close consultation with the government and other stakeholders, and is aligned with the government's Development Strategic Plan, 2010–2030³ and National Strategy for Responsible Sustainable Development, 2014–2030.⁴ The CPS focuses on supporting rural populations by enhancing transport infrastructure, delivering health services, and reengaging in water and other urban infrastructure and services. This focus is consistent with the Midterm Review of Strategy 2020⁵ of the Asian Development Bank (ADB). ADB will continue to seek opportunities for cofinancing and to produce knowledge products that inform and influence national policy debates and support country operations. ADB support for private sector development—through state-owned enterprise reform—will lower business transaction costs, thereby helping to expand small and medium-sized enterprises and create jobs in the formal economy. ADB operations will focus on supporting climate proofing infrastructure and increasing the climate resilience of vulnerable sectors. ADB will mainstream gender in all general intervention projects. Update to the country results areas is in Appendix 1 and the list of linked documents is in Appendix 2.

3. **Portfolio performance.** The overall project implementation performance remains satisfactory. In 2015, contract awards amounted to \$122 million and disbursements totaled \$136 million. Total disbursement in 2015 was 115% of the projected disbursement. However, maintaining and improving portfolio performance requires continued capacity building of counterpart agencies responsible for project implementation.

II. INDICATIVE RESOURCE PARAMETERS

4. PNG, a group B developing member country, is eligible for concessional ordinary capital resources (OCR) lending (COL) and regular OCR lending.⁶ The indicative resources available during 2017–2019 for sovereign operations amount to \$1,128.7 million, comprising \$128.7 million for COL and \$1,000.0 million for OCR. The final allocation will depend on available resources and the outcome of the country performance assessments. ADB will explore

¹ United Nations Development Programme. 2015. *Human Development Report: Work For Human Development*. New York.

² ADB. 2015. *Country Partnership Strategy: Papua New Guinea, 2016–2020*. Manila.

³ Department of National Planning and Monitoring. 2010. *Papua New Guinea Development Strategic Plan, 2010–2030*. Port Moresby: Government of Papua New Guinea.

⁴ Government of PNG. 2014. *National Strategy for Responsible Sustainable Development, 2014–2030*. Port Moresby.

⁵ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

⁶ Terminology reflects the combination of Asian Development Fund lending operations with the OCR balance sheet that will take effect on 1 January 2017. For 2016, COL should be understood as Asian Development Fund lending.

cofinancing and funding from other sources, including the regional pool under concessional resources and OCR regional cooperation and integration set-aside.

5. The indicative lending program for 2017–2019 amounts to \$1,363.0 million, comprising of \$129.0 million in COL and \$1,234.0 million in OCR. The indicative nonlending program amounts to \$5.35 million, which includes project preparatory technical assistance. Additionally, the program includes cofinancing of \$300 million. Appendix 3 provides more details.

III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

6. **Scaling up the financing of development projects.** To respond to the country's development needs, ADB will increase its total financing for development projects (lending, nonlending, and cofinancing) by 125%, from \$743.7 million (2016–2018) to \$1,668.4 million (2017–2019). The current programming period includes new infrastructure development projects, particularly in the transport sector, that will help increase connectivity and the delivery of basic services to the poorest and most remote parts of the country. The proposed transport projects will help create opportunities for inclusive economic growth, improve the delivery of basic services, increase regional connectivity with the rest of Asia, and build resilience to climate change. The 2016 lending and nonlending assistance program is in Appendix 4 and the List of Indicative Knowledge and Publication Events is in Appendix 5.

7. **Supporting macroeconomic stability.** PNG was able to withstand the impact of the global financial crisis in 2008; however, the recent global commodities downturn has worsened its fiscal position. PNG saw a sharp fall in public revenue (by 21% in 2015), necessitating a large fiscal adjustment. The economy remains exposed to global economic volatility. ADB will provide technical assistance to strengthen the government's initiative to achieve calibrated fiscal consolidation, undertake expenditure reform, and strengthen public finance management. At the request of the government, ADB has included a standby policy-based lending option for 2017 to safeguard critical social outlays. ADB will work closely with Australia, the European Union, the International Money Fund, the World Bank, and other donor partners to develop a coordinated response to the macroeconomic crisis and increase the country's resilience to external shocks.

8. **Adjusting the project cost-sharing ratio.** The government increased its country contribution to project costs because it wanted to use projected windfall revenue from LNG exports in ADB-financed projects. The government views ADB-financed infrastructure projects as delivering the best value-for-money. As the country faces lower public revenue, financing ratios will be reset to ADB's cost-share limit of 85% as defined in the CPS. This will ease constraints on counterpart funding and support timely project implementation. ADB will also support the government in operationalizing the Sovereign Wealth Fund so that it can save future windfall revenue from the resource sector and help build buffers against shocks.

9. **Deepening infrastructure development partnership.** ADB will increase partnerships with subnational provincial governments to implement infrastructure projects. Provincial governments have emerged as important stakeholders. The Department of Planning and ADB hosted an event on 18 May 2016 in Madang, PNG to share knowledge about infrastructure projects with provincial governors and administrators. The event builds on ADB's study on partnering with subnational governments, and the outcome of the event provided a way forward for deepening the partnership.

10. **Results framework.** The results framework has been updated to reflect the priorities established under the CPS. Baseline indicators are for the latest available year and will be updated through the annual country operations business plan.

COUNTRY ASSISTANCE RESULTS AREAS

Key Country Development Outcomes that ADB Contributes to	ADB		
	Key Areas of Assistance	Indicative Resource Allocation in {2017–2019}	Changes from Last COBP
1. Transport			
More efficient, safer movement of people and goods.	Transport sector policy (including organizational), budgeting, and maintenance Road rehabilitation and maintenance Bridge rehabilitation Civil aviation safety and security	Amount: \$868.0 million (OCR), \$3.0 million (TASF), and \$280.0 million (cofinancing) Share of COBP envelope: 68.99%	ADB indicative resource allocation updated
2. Energy			
Sustainable and more affordable power supply in urban areas. Improved access and use of power supplies for households in rural areas.	Construction of power generation 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	Amount: \$60.0 million (OCR) and \$0.8 million (TASF) Share of COBP envelope: 3.64%	ADB indicative resource allocation updated
3. Health			
Greater and more equitable use of quality primary health services.	Health sector reform aimed at strengthening rural health provision and the rollout of minimum standards for quality primary health care services in rural catchment areas	Amount: \$95.0 million (OCR), \$0.8 million (TASF), and \$10.0 million (cofinancing) Share of COBP envelope: 6.34%	ADB indicative resource allocation updated
4. Water and Other Urban Infrastructure and Services			
More people enjoy improved water supply and sanitation services.	Urban water supply and sanitation infrastructure Water, Sanitation and Hygiene (WaSH) services policies and reforms Capacity development of service providers and other key water sector agencies	Amount: \$40.00 million (OCR), \$0.75 million (TASF), and \$10.00 million (cofinancing) Share of COBP envelope: 5.76%	ADB indicative resource allocation updated
5. Public Sector Management			
More effective and efficient use of public finances for service delivery and infrastructure provision.	Prioritized spending within a sustainable fiscal envelope supported More effective, transparent, and timely budget execution and control supported Improved infrastructure projects, evaluation,	Amount: \$300.0 million (OCR). Share of COBP envelope: 18.04%	ADB indicative resource allocation updated Areas of intervention updated. Baseline for

Key Country Development Outcomes that ADB Contributes to	ADB		
	Key Areas of Assistance	Indicative Resource Allocation in {2017–2019}	Changes from Last COBP
	prioritization, and budgeting		the indicator updated to 2015

ADB = Asian Development Bank, COBP = country operations business plan, CPS = country partnership strategy, OCR = ordinary capital resources, TASF = Technical Assistance Special Fund.

Source: ADB estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/COBP/?id=PNG-2017>

- (i) Country Partnership Strategy: Papua New Guinea, 2016–2020
- (ii) Summary Information on Proposed Indicative Lending and Nonlending Products

INDICATIVE ASSISTANCE PIPELINE

Table A3.1: Lending Products, 2017–2019

Project/Program Name	Sector ^a	Poverty Targeting ^b	Strategic Agendas and Drivers of Change ^c	Division	Year of PPTA/ PDA	Cost (\$ million)						
						Total	ADB ^a			Gov't	Co-finance	
							OCR	COL	ADF Grants			Total
2017 Firm												
Highlands Highway (tranche 1)	TRA	GI	IEG, GEM, GCD, PAR, PSD	PATE	2016	260.0	150.0	10.0	0.0	160.0	25.0	75.0
Alotao Port Climate Proofing Project (additional financing to BRCC)	TRA	GI	ESG, RCI, GEM, PAR	PATE	2013	5.3	0.0	0.0	0.0	0.0	0.3	5.0
Total						265.3	150.0	10.0	0.0	160.0	25.3	80.0
2017 Standby (Firm in 2018)												
Safeguarding Social Development Outlay (budget support)	PSM	GI	IEG, ESG, GCD, GEM, PAR	PAUS	2016	450.0	300.0	0.0	0.0	300.0	100.0	50.0
Total						450.0	300.0	0.0	0.0	300.0	100.0	50.0
2018 Firm												
Highlands Highway (tranche 2)	TRA	GI	IEG, GEM, GCD, PAR, PSD	PATE	2016	350.0	130.0	20.0	0.0	150.0	100.0	100.0
Rural Primary Health Service Development Program (phase 2)	HLT	GI	IEG, GEM, GCD, KNS, PAR	PAUS	2016	115.0	75.0	20.0	0.0	95.0	10.0	10.0
District Towns Water and Sanitation Project	WUS	GI	IEG, GEM, GCD, PAR	PAUS	2017	60.0	30.0	10.0	0.0	40.0	10.0	10.0

Project/Program Name	Sector ^a	Poverty Targeting ^b	Strategic Agendas and Drivers of Change ^c	Division	Year of PPTA/ PDA	Cost (\$ million)						
						ADB ^a					Co-finance	
						Total	OCR	COL	ADF Grants	Total		
Power Development	ENE	GI	IEG, ESG, GEM, PSD	PATE	2017	70.0	49.0	11.0	0.0	60.0	10.0	0.0
Total						595.0	284.0	61.0	0.0	345.0	130.0	120.0
2019 Firm												
Highlands Highway (trance 3)	TRA	GI	IEG, GEM, GCD, PAR, PSD	PATE	2016	265.0	150.0	40.0	0.0	190.0	25.0	50.0
Civil Aviation Development Investment Program (phase 2)	TRA	GI	IEG, RCI, GEM, GCD, PSD	PATE	2017	288.0	250.0	8.0	0.0	258.0	30.0	0.0
Land and Maritime Transport and Trade Corridor	TRA	GI	IEG, ESG, RCI, PSD, PAR	PATE	2017	185.0	100.0	10.0	0.0	110.0	25.0	50.0
Total						738.0	500.0	58.0	0.0	558.0	80.0	100.0

ADB = Asian Development Bank; ADF = Asian Development Fund; BRCC = Building Resilience to Climate Change Project; COL = concessional OCR lending; ENE = energy; ESG = environmentally sustainable growth; GCD = governance and capacity development; GEM = gender equity and mainstreaming; GI = general intervention; Gov't = government; HLT = health; IEG = inclusive economic growth; KNS = knowledge solutions; OCR = ordinary capital resources; PAR = partnerships; PATE = Transport, Energy and Natural Resources Division; PAUS = Urban, Social Development and Public Management Division; PDA = project design advance; PPTA = project preparatory technical assistance; PSD = private sector development; PSM = public sector management; RCI = regional integration; TRA = transport; WUS = water supply and other urban infrastructure and services.

^a Reflecting the approved combination of ADF lending operations with the OCR balance sheet that will become effective on 1 January 2017. For 2016, COL and OCR lending should be understood to mean ADF lending and OCR lending.

Source: Asian Development Bank estimates.

Table A3.2: Nonlending Products and Services, 2017–2019

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				
				ADB		Others		Total (\$'000)
				Source	Amount (\$'000)	Source	Amount (\$'000)	
2017								
Power Development Project	ENE	PATE	PPTA	TASF	800.0		0	0
Rural Primary Health Service Development Program (phase 2)	HLT	PAUS	PPTA	TASF	800.0		0	0
District Towns Water and Sanitation Project	WUS	PAUS	PPTA	TASF	750.0		0	0
Total					2,350.0		0	0
2018								
Civil Aviation Development Investment Program (phase 2)	TRA	PATE	PPTA	TASF	1,500.0			
Land and Maritime Transport and Trade Corridor Program	TRA	PATE	PPTA	TASF	1,500.0		0	0
Total					3,000.0		0	0

ADB = Asian Development Bank; ENE = energy; HLT = health; PATE = Transport, Energy and Natural Resources Division; PAUS = Urban, Social Development and Public Management Division; PPTA = project preparatory technical assistance; TASF = Technical Assistance Special Fund; TRA = transport; WUS = water supply and other urban infrastructure and services.

Source: Asian Development Bank estimates.

ASSISTANCE PROGRAM FOR CURRENT YEAR

Table A4.1: Lending Products, 2016

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of PPTA/ PDA	Cost (\$ million)						
						Total	OCR	ADB		Total	Gov't	Co-finance
								Loans	Grants			
Firm												
Highlands Region Road Improvement Investment Program (tranche 3)	TRA	GI	IEG, GEM, GCD, PAR, PSD	PATE	2009	145.0	70.41	38.9	0.0	110.0	15.0	20.0
Civil Aviation Development Investment Program (tranche 3)	TRA	GI	IEG, RCI, GEM, GCD, PSD	PNRM	2009	275.0	213.0	35.0	0.0	248.0	27.0	0.0
Town Electrification Investment Program (tranche 2)	ENE	GI	IEG, ESG, GEM	PATE	2008	73.0	52.9	5.0	0.0	58.0	15.0	0.0
Total						493.0	336.31	78.9	0.0	416.0	57.0	20.0

ADB = Asian Development Bank; ADF = Asian Development Fund; ENE = energy; ESG = environmentally sustainable growth; GCD = governance and capacity development; GEM = gender equity and mainstreaming; GI = general intervention; Gov't = government; IEG = inclusive economic growth; OCR = ordinary capital resources; PAR = partnerships; PATE = Transport, Energy and Natural Resources Division; PDA = project design advance; PNRM = Papua New Guinea Resident Mission; PPTA = project preparatory technical assistance; PSD = private sector development; RCI = regional integration; TRA = transport.

Source: Asian Development Bank estimates.

Table A4.2: Nonlending Products and Services, 2016

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				
				ADB		Others		Total (\$'000)
				Source	Amount (\$'000)	Source	Amount (\$'000)	
Supporting Public Financial Management (phase 3)	PSM	PNRM	CDTA	TASF	1,000.0		0	1,000.0
Water Supply and Sanitation Institutional Strengthening	WUS	PAUS	CDTA	TASF	700.0		0	700.0
Preparing Multipartner Financing Facility for the Highlands Highway	TRA	PATE	PPTA	TASF	1,500.0		0	1,500.0
Total					3,200.0		0	3,200.0

ADB = Asian Development Bank; CDTA = capacity development technical assistance; PATE = Transport, Energy and Natural Resources Division; PAUS = Urban, Social Development and Public Management Division; PNRM = Papua New Guinea Resident Mission; PPTA = project preparatory technical assistance; PSM = public sector management; TASF = Technical Assistance Special Fund; WUS = water supply and other urban infrastructure and services.
 Source: Asian Development Bank estimates.

INDICATIVE KNOWLEDGE PUBLICATIONS AND EVENTS

Table A5.1: Knowledge Publications and Events for 2017

Title of Publication or Event	Subject	Type	Department or Sector Group or Thematic Group	Technical Assistance
PNG chapter, Asian Development Outlook 2017	Economics	Publication and documentation	ERCD, PARD	
PNG chapter, Asian Development Outlook 2017 Update	Economics	Publication and documentation	ERCD, PARD	
PNG chapter, Pacific Economic Monitor (July and December issues)	Economics	Publication and documentation	PARD	8565
Labor market assessment and case studies on skills development	Economics	Publications	PAUS	8794
Deloitte Budget Breakfast	Economics	Event	PNRM	
Country Portfolio Review Mission	Portfolio Review	Event	PNRM	
ADB Year In Review	Portfolio Review	Event	PNRM	
Supporting Public Financial Management	Economics	Training or capacity development	PNRM	
Water Supply and Sanitation Institutional Strengthening	Urban Development, Water	Training or capacity development	PARD	
Total number of publications = 3 Total number of events = 5 Total number of training or capacity development = 2				

ADB = Asian Development Bank; ERCD = Economic Research and Regional Cooperation Department; PARD = Pacific Department; PAUS = Urban, Social Development and Public Management Division; PNG = Papua New Guinea; PNRM = Papua New Guinea Resident Mission.

Source: Asian Development Bank.