



Country Partnership Strategy

September 2020

Papua New Guinea, 2021–2025 —Achieving Diversified, Sustained, and Inclusive Growth

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 18 August 2020)

| | | |
|---------------|---|----------|
| Currency unit | – | kina (K) |
| K1.00 | = | \$0.29 |
| \$1.00 | = | K3.47 |

ABBREVIATIONS

| | | |
|----------|---|---|
| ADB | – | Asian Development Bank |
| ADF | – | Asian Development Fund |
| COL | – | concessional ordinary capital resources lending |
| COVID-19 | – | coronavirus disease |
| CPA | – | country performance assessment |
| CPIA | – | country policy and institutional assessment |
| CPS | – | country partnership strategy |
| GDP | – | gross domestic product |
| FCAS | – | fragile and conflict-affected situation |
| IED | – | Independent Evaluation Department |
| IMF | – | International Monetary Fund |
| ISGA | – | inclusive and sustainable growth assessment |
| LNG | – | liquefied natural gas |
| MFF | – | multitranches financing facility |
| MSME | – | micro, small, and medium-sized enterprises |
| MTDP | – | Medium Term Development Plan |
| OCR | – | ordinary capital resources |
| OP | – | operational priority |
| PFM | – | public financial management |
| PNG | – | Papua New Guinea |
| PPP | – | public–private partnership |
| PRF | – | project readiness financing |
| PSDI | – | Private Sector Development Initiative |
| PSM | – | public sector management |
| SDG | – | Sustainable Development Goal |
| SME | – | small and medium-sized enterprise |
| SMP | – | Staff-Monitored Program |
| SOE | – | state-owned enterprise |
| TA | – | technical assistance |
| TVET | – | technical and vocational education and training |
| WASH | – | water, sanitation, and hygiene |

NOTE

In this report, “\$” refers to United States dollars, unless otherwise stated.

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COUNTRY AT A GLANCE

| Economic | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|-------------|-------------|-------------|-------------|-------------|
| GDP (\$ billion, current) | 21.6 | 20.7 | 22.7 | 24.0 | 24.9 |
| GDP per capita (\$, current) | 2,630.4 | 2,443.9 | 2,601.3 | 2,664.3 | 2,685.6 |
| GNI per capita (\$, atlas method) | 2,910.0 | 2,680.0 | 2,340.0 | 2,570.0 | 2,780.0 |
| GDP growth (% , in constant prices) | 9.5 | 4.1 | 3.5 | (0.8) | 5.0 |
| Agriculture | (2.7) | 2.7 | 2.4 | 2.9 | 2.5 |
| Industry | 35.3 | 8.1 | 4.7 | (7.0) | 8.2 |
| Services | (2.3) | (2.3) | 1.4 | 3.9 | 2.8 |
| Gross domestic investment (% of GDP) | ... | ... | ... | ... | ... |
| Gross domestic saving (% of GDP) | ... | ... | ... | ... | ... |
| Consumer price index (annual % change) | 6.4 | 6.6 | 4.7 | 4.8 | 3.6 |
| Liquidity (M2) (annual % change) | ... | ... | ... | ... | ... |
| Overall fiscal surplus (deficit) (% of GDP) | (4.6) | (4.8) | (2.5) | (2.6) | (4.9) |
| Merchandise trade balance (% of GDP) | 27.0 | 29.5 | 30.3 | 29.1 | 30.9 |
| Current account balance (% of GDP) | 20.2 | 25.0 | 23.5 | 22.9 | 22.3 |
| External debt service (% of exports of goods and services) | 0.4 | 0.3 | 0.5 | 0.6 | 1.2 |
| External debt (% of GDP) | 6.8 | 8.5 | 8.8 | 15.2 | 17.0 |

| Poverty and Social | | Year | | Year |
|--|-------|-------------|-------|-------------|
| Population (million) | 7.5 | [2014] | 9.3 | [2019] |
| Population growth (annual % change) | 3.1 | [2014] | 3.1 | [2017] |
| Maternal mortality ratio (per 100,000 live births) | 220.0 | [2014] | 215.0 | [2015] |
| Infant mortality rate (below 1 year/per 1,000 live births) | 48.4 | [2012] | 42.4 | [2016] |
| Life expectancy at birth (years) | 62.3 | [2012] | 64.3 | [2018] |
| Adult literacy (%) | 62.4 | [2011] | ... | [2017] |
| Primary school gross enrollment (%) | 60.1 | [2008] | 108.5 | [2016] |
| Child malnutrition (% below 5 years old) | 18.1 | [2005] | ... | [2017] |
| Population below poverty line (%) | 39.9 | [2009] | ... | [2017] |
| Population with access to safe water (%) | 39.7 | [2012] | 39.6 | [2015] |
| Population with access to sanitation (%) | 18.7 | [2012] | 18.9 | [2015] |

| Environment | | Year | | Year |
|---|------|-------------|------|-------------|
| Carbon dioxide emissions (million metric tons) | 5.8 | [2014] | 7.8 | [2018] |
| Carbon dioxide emissions per capita (metric tons) | 0.7 | [2014] | 0.9 | [2018] |
| Forest area (million hectares) | 28.6 | [2011] | ... | [2018] |
| Urban population (% of total population) | 12.6 | [2012] | 13.2 | [2018] |

| ADB Portfolio (active loans) | As of 31 December 2019 |
|--|-------------------------------|
| Total number of loans | 40.0 |
| Sovereign | 40.0 |
| Nonsovereign | 0.0 |
| Total loan amount (\$ million) | 1,710.5 |
| Sovereign | 1,710.5 |
| Nonsovereign | 0.00 |
| Disbursements | 941.4 |
| Disbursed amount, total (\$ million, 2019) | 297.5 |
| Disbursed amount, excluding PBL (\$ million, 2019) | 197.5 |
| Disbursement ratio, excluding PBL (%) | 50.9 |

... = not available, () = negative, [] = latest year for which data are available, ADB = Asian Development Bank, GDP = gross domestic product, GNI = gross national income, M2 = broad money, PBL = policy-based lending.

Sources: Asian Development Bank, Asian Development Outlook Database, Asian Development Bank's Basic Statistics 2020, *Medium Term Development Plan III*, and World Bank's World Development Indicators database.

I. COUNTRY PARTNERSHIP STRATEGY SNAPSHOT

1. **Key development challenge.** Papua New Guinea is a lower-middle income country and fragile state (para 7). Growth in the nonmineral economy of Papua New Guinea (PNG) averaged a weak 0.9% during 2015–2019, limiting improvements in poverty reduction, job creation, and human development outcomes, including gender equity.¹ Growth, and inclusive and sustainable development, was held back by (i) a nondiversified economy that is overreliant on the mineral sector; (ii) vulnerability to shocks (disasters and exogenous events); (iii) structural impediments, including a large infrastructure gap, insufficient availability of foreign currency, a poor law and order environment, and complexities associated with accessing land for investment; and (iv) weaknesses in public sector management (PSM) and macroeconomic management.

2. **ADB's strategic objectives and priorities.** The overall objective of the country partnership strategy (CPS), 2021–2025 of the Asian Development Bank (ADB) is to support diversified, sustained, and inclusive growth through three strategic pathways. The first pathway serves to enable diversified economic growth through improvements to infrastructure, including in transport and energy, and to bolster the private sector—such as micro, small, and medium-sized enterprises (MSMEs)—through a more competitive yet transparent business environment, and more ADB-supported private sector transactions. The second pathway supports improving governance, financial management and institutional strengthening across all institutions that ADB engages with in PNG, including state-owned enterprises (SOEs), to improve efficiency and public service delivery and to cope with fragility. This pathway incorporates responding to exogenous shocks, including to the coronavirus disease (COVID-19) pandemic. The third pathway seeks to address inclusivity and build resilience, with a focus on improving human development outcomes, and building resilience to climate and disaster risks.

3. **Alignment with government plans and ADB's Strategy 2030.** ADB's strategy is fully aligned with the government's Medium Term Development Plan III (2018–2022) (MTDP III), which operationalizes the higher-level Development Strategic Plan 2030 and Vision 2050. The MTDP III has a central focus on infrastructure investment and inclusive and sustainable development. The CPS is well aligned with the country-focused approach of ADB's Strategy 2030.² To manage fragility, the CPS strongly emphasizes institutional development, governance reforms, capacity development and essential infrastructure. ADB coordinates closely with development partners.

4. **ADB's value addition.** About 75% of ADB's new lending in the CPS period is expected to be focused on transport and energy, where ADB has a comparative advantage with established project design and implementation capacity, and experience in capacity building. ADB will continue working in partnership with the Private Sector Development Initiative (PSDI) to support the growth of MSMEs and the finance sector, and help reform SOEs.³ Acting as a One-ADB team, with coordinated efforts by ADB's Pacific Department, Private Sector Operations Department, and Office of Public–Private Partnership, ADB will support private sector development, including private–public partnerships (PPPs), and direct nonsovereign operations. ADB has substantial experience in PSM and public financial management (PFM), which will inform associated reform efforts, including reforms of SOEs for better service delivery.

¹ The “mineral economy,” also referred to as the “mining economy” or “resource economy,” includes all mining and petroleum extractive industries production. The “nonmineral economy,” also referred to as the “nonmining” or “nonresource” economy, includes agriculture, forestry and fisheries, and all other production.

² ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

³ The PSDI, supported with TA, is funded by Australia, New Zealand, and the European Union, and administered by ADB. ADB. 2019. Technical Assistance for [Pacific Private Sector Development Initiative](#), Phase IV. Manila.

II. COUNTRY DEVELOPMENT CONTEXT

5. **Country context.** PNG is a mountainous and rugged country in the equatorial region, with more than 600 islands, tropical rainforests (75% of the land area), and major river systems. It is endowed with vast natural resources. The population, estimated at 9.3 million in 2019, comprises more than 1,000 ethnic clans that speak more than 800 languages, although Tok Pisin, a creole language, is widely spoken throughout the country, as is English.⁴

6. **Political context.** PNG gained independence from Australia in 1975 and adopted a model of parliamentary democracy under the Westminster system. Changes of government since 1975 have been peaceful and democratic. The country has 111 electorates representing 89 districts and 22 provinces, which includes the National Capital Region. Female representation in Parliament has been extremely poor—only seven women ever held a seat since 1975, and none since 2017. Elections take place every 5 years, and the turnover of politicians in each cycle is very high (50% at the last election in 2017). PNG has numerous political parties, and allegiances shift frequently and fluidly. Votes of no confidence in leadership are common, resulting in changes of government mid-cycle. The ideological distinctions between parties tend not to be substantial. The wealth emanating from the exploitation of the country's natural resources has been central to politics, and a source of fragility. PNG operates a decentralized model of government through three tiers (national, provincial, and local) and four administrative levels (national, provincial, district, and local).

7. **Fragile context.** PNG is classified by ADB as a fragile and conflict-affected situation (FCAS) country and a small island developing state.⁵ Governance is weak and corruption widespread, affecting the state's ability to carry out basic functions such as revenue collection, delivery of public services, and poverty reduction. The mineral and petroleum sector, upon which PNG is reliant for growth and revenue, is a key driver of fragility—economic, political and environmental—and has, at times, been a source of conflict. Some provinces are seeking greater autonomy or independence, notably the Autonomous Region of Bougainville, which may increase the risk of an internal conflict.⁶ PNG is vulnerable to natural hazards such as earthquakes, cyclones, volcanic eruptions, and climatic cycles, the last major disaster being a large earthquake in the highlands region in 2018. In 2019, ADB analyzed approaches to building resilience and stability in PNG and mapped out key areas of fragility (footnote 4).

8. **Economic context.** The economy is small, open, and export-oriented but depends heavily on commodity products—minerals account for roughly 84% of total exports, and agriculture forestry and marine products for 16%. PNG's historical economic growth has been volatile and tied to large foreign direct investments in the mineral and petroleum industries, and to commodity price fluctuations. The last major mineral sector investment was a \$19 billion liquefied natural gas project (LNG), which drove widespread growth during its construction phase (2010–2013).

9. **Weak nonmineral growth.** During 2015–2019, overall growth averaged 4.2%, driven by mineral production, especially gold and LNG. However, excluding minerals production, growth

⁴ Along with sources of data, more details are available in the Inclusive and Sustainable Growth Assessment (ISGA) (accessible from the list of linked documents in Appendix 3), on which this section is based.

⁵ ADB uses the harmonized multilateral development bank approach to categorize FCAS, which is based on the average of ADB country performance assessment (CPA) and the World Bank's country policy and institutional assessment (CPIA). Both the CPA and CPIA are rated on a scale of 0–6. Countries with an average CPA and CPIA rating of below 3.2 are classified as FCAS.

⁶ The people of the Autonomous Region of Bougainville voted for independence in a referendum held in December 2019. The national Parliament will take a final decision, in due course, after a period of consultation.

averaged a very weak 0.9% (2015–2019). Growth was held back by the absence of any major new mineral sector investments; softer commodity prices; disasters, including an earthquake in 2018; a drought and frost in 2015–2016; and insufficient availability of foreign currency resulting from an overvalued exchange rate and a policy of foreign exchange rationing.⁷

10. Challenged fiscal and debt conditions; International Monetary Fund program. PNG's fiscal deficit, which averaged 3.9% in 2015–2019, was significantly challenged by stagnating real revenues due to weak economic conditions as well as lower revenues from the mineral and petroleum sector.⁸ At the same time, recurrent expenditures, especially the public sector wage bill, continued to rise. While the deficit was contained at 2.5% of GDP in 2017 and 2.6% of GDP in 2018, under a fiscal consolidation strategy, it widened in 2019, to 4.9% of GDP. This was in the context of a continued weak revenue trend, as well as a more expansionary fiscal policy, driven by an increase in capital expenditure and clearance of arrears. In February 2020, PNG asked for an International Monetary Fund (IMF) Staff-Monitored Program (SMP), citing (i) a budget crisis because of a declining revenue base, (ii) a growth crisis with a fall in living standards, and (iii) a monetary crisis, due to shortages of foreign exchange (para 9). The SMP started in February 2020 and supports revenue-raising measures and expenditure control. Public sector debt has increased from 20.4% in 2014 to 39.8% in 2019. Due to the stress inflicted to the economy by the COVID-19 pandemic (para 11), an updated debt sustainability analysis by the IMF puts PNG at high risk of debt distress, with no access to external market finance. However, public debt is still assessed to be sustainable, conditional on implementation of prudent fiscal policies and commitments made in the SMP. Building on the SMP and in response to the COVID-19 pandemic, the government borrowed \$364 million from the IMF in June 2020 to help finance its 2020 budget deficit.

11. Impact of COVID-19. COVID-19 has significantly stressed the PNG economy—ADB's forecast for 2020 puts growth at –2.9%, with revenues estimated by authorities to fall by 20% from pre-COVID-19 expectations. Lower commodity prices, weaker external demand, disruptions to international trade and supply chains, border closures, suspended international flights, and the impact of a hard lockdown that lasted for about 1 month have all depressed growth and reduced revenue expectations. The government announced a K5.7 billion (\$1.5 billion) stimulus package to mitigate the impacts of COVID-19, including a K600 million (\$162 million) fiscal response, and development partners also stepped in. The social and poverty impacts of COVID-19 are wide-ranging, pushing up unemployment, increasing food insecurity, and exacerbating gender-based violence. PNG had 459 confirmed cases as of 29 August 2020. Its health system is fragile and unable to deal with a substantial escalation in cases.

12. Limited poverty alleviation and job creation. The last official poverty rate was recorded in 2009, at 38%.⁹ Job creation, including for youth, remains a major challenge, and less than 500,000 people are in formal employment. The employment index registered a 7% fall during 2015–2019, reflecting weak economic conditions and a natural decline following the earlier boom period, although it was 5.6% higher than in December 2009. Human Development Index indicators point to some improvement in poverty reduction: the index score rose slightly to 0.543

⁷ In July 2014, in the context of falling commodity prices and following the completion of the PNG LNG project, the central bank intervened to stem the pace of the kina's depreciation by introducing a trading band and a policy of rationing foreign exchange. This prevented the exchange rate from adjusting to market conditions and ultimately led to shortages in foreign currency. ADB. 2019. *Asian Development Outlook*. Manila.

⁸ Revenues from the mineral and petroleum industries averaged 7.6% of total revenues for 2015–2019, compared with an average 15.1% in 2010–2014, prompted by weaker commodity prices and a declining oil production.

⁹ The last Household Income and Expenditure Survey (2009–2010) in PNG placed 38% of the population below the internationally recognized extreme poverty line, worse than in 1996 (30%).

in 2018, from 0.510 in 2010. Life expectancy at birth improved to 64.3 years in 2018, from 62.0 years in 2010. Expected years of schooling increased to 10 in 2018, from 9.8 in 2010 and 4.7 in 1990. Gender parity improved to 90% in primary schools but fell to 64% in secondary schools.¹⁰ Other indicators (not included in the index) show similar trends.¹¹ For example, the infant mortality rate fell from 49.8 deaths per 1,000 births in 2010 to 42.2 deaths per 1,000 births in 2017. Access to electricity improved to 15.5% in 2016, from 9.0% in 2010. Mobile telephone subscriptions jumped from 0.2% of the population in 2000 to 46.8% in 2017. However, the proportion of the population with access to improved drinking water sources (37%) did not change from 2000 to 2017, and the share of the population with access to improved sanitation also remained static at 19%—these ratios being among the weakest in the Pacific.

13. Structural impediments holding back diversified and inclusive growth. Recent weak economic growth and job creation reflect PNG's narrow economic base. While the mineral sector remains critical and central to future growth, the country needs to diversify its economy to create more sustainable and inclusive growth, manage economic cycles more effectively, and step up job creation. However, multiple structural impediments have held back nonmineral growth. Agriculture declined from 28% of gross domestic product (GDP) in 1989 to 17.8% of GDP in 2016, and manufacturing from 11% to 2% in the same period. Key impediments to growth are poor transport connectivity and logistical support; unreliable and insufficient power supply; insufficient access to credit and financial services; low availability of titled land for investment; a shortage of entrepreneurial, managerial, and skilled labor; law and order issues; weak governance and corruption; and insufficient availability of foreign currency.

14. Huge infrastructure gap impeding broad-based growth and service delivery. About 35% of the population lives more than 10 kilometers from a national road, and 17% has no roads in close proximity. About 80% of PNG's bridges are structurally deficient, having been built 50–60 years ago, and are poorly maintained. Airports need to be upgraded and runways lengthened to facilitate increased levels of air traffic and meet safety standards. Access rates to drinking water (37%) and sanitation (18%) are lower in PNG than in any other Pacific nation.¹² While PNG has diversified energy sources—such as hydropower and other renewables, as well as natural gas—more than 80% of its population is without access to electricity because of the high electricity network costs associated with a difficult topography and dispersed population.

15. Need to improve the private and finance sector environments. The environment for private sector growth, including regulatory regimes, needs to be reformed. The finance sector is underdeveloped, and businesses of all sizes find it hard to access finance. Of PNG's 49,500 small and medium-sized enterprises (SMEs), only 5.4% have obtained bank loans.¹³ Capital markets are poorly developed. Access to finance must be widened by strengthening financial institutions and building a robust financial system that can sustainably provide financing for growth. Access to land and its use as a collateral remain limited. Customary land owned by tribes, clans, and land groups accounts for 97% of all land. Since customary land cannot be bought, access for private sector investments is often secured through special agriculture and business leases, negotiated by the government with landowners. Law and order are also a concern: PNG's crime rate is considered among the highest in the region and affects businesses as well as individuals.

¹⁰ Government of PNG, Department of National Planning and Monitoring; and United Nations Development Programme (UNDP). 2015. *Papua New Guinea: Millennium Development Goals 2015 – Final Summary Report*. Port Moresby.

¹¹ Source: United Nations Human Development Indicators. 2018.

¹² Access rates based on an elementary level of service. World Health Organization and United Nations Children's Fund (UNICEF). 2017. *Joint Monitoring Programme for Water Supply and Sanitation: Papua New Guinea*. <https://washdata.org/data#!/png> (accessed 9 August 2020).

¹³ Government of PNG; Ministry of Trade, Commerce and Industry. 2016. *2016 SME Policy*. Port Moresby.

16. **Weak governance, institutional capacity, and public financial management.** While PNG has comprehensive laws and institutions in place, governance remains weak compared with other regional economies. The capacity of government agencies to implement reform measures is constrained by weak management and technical expertise, limited financial resources, and inadequate performance management. Although there have been improvements in PFM, government entities still require strengthening and capacity development, particularly when it comes to procurement, payroll management, and subnational PFM systems, which are critical for expenditure control. Fiscal and debt management remains a central challenge, compounded by the volatile nature of the economy and revenues from the resource sector; and the government needs to increase the transparency and frequency of reporting on debt liabilities.

17. **Poor service delivery.** The direct delivery of infrastructure and social services by government institutions is poor, with gaps in the provision of infrastructure utilities and related services, and weak institutional and financial administration. SOEs provide many services that are vital to commerce and the livelihoods of all communities (transport, power, telecommunications, water, and sanitation) but their performance is weak. It is imperative to enhance SOEs' efficiency and effectiveness through (i) commercialization and expanded private sector involvement, including PPPs; (ii) transparency and accountability reforms; and (iii) the creation of a more enabling environment, all of which should improve service delivery and open up opportunities for private investment.

18. **Conditions worse in rural areas.** The 2009–2010 Household Income and Expenditure Survey indicated that poverty is worse in rural areas, and that the Highlands and Momase regions fare the worst. The prevalence of stunting in children aged 5 years or younger, as recorded in the survey, is 50% in rural areas and 35.3% in urban areas. The Highlands (58%) and Momase (48.4%) regions have the highest rates of stunting. Access to electricity for the whole population is lowest in Momase (5.9% of the population) and the Highlands (11.2%), compared with 79.7% in urban areas. Education statistics are similar: only 10.2% of the population in Momase completed secondary education, compared with 27.2% in metropolitan areas, 38.9% in the Southern region, and 38.7% in the islands. In urban areas, people have greater access to public services, but may live in crowded, unplanned settlements, without secure land rights and access to basic water and sanitation facilities, and they remain vulnerable to urban crime, lack access to safe accommodation and safe marketplaces, and with limited opportunity for employment.

19. **Gender equality is a huge challenge.** The Gender Inequality Index places PNG among the lowest-ranking countries in the world.¹⁴ Women's share in waged employment is only 5.3%, the lowest in the Pacific region.¹⁵ In the public sector, women make up 38% of employees but hold only 18% of senior management roles.¹⁶ The low representation of women extends to political functions and other decision-making positions, including seats in Parliament or on the boards of SOEs. Women and girls have less access to financial resources and services such as health care, safe transport, and education. The maternal mortality ratio is among the worst in Asia and the

¹⁴ In 2018, from 177 countries with a GII rating, PNG was ranked second worse (i.e. 176), with a GII rating of 0.740, which demonstrates a worsening trend compared to 2016 (ranking of 160 and rating of 0.594).

¹⁵ This low representation is a function of low education levels among women, safety and security issues, cultural norms, and the emphasis of national development on industrial employment, which is heavily biased toward men. E. Brouwer. 1998. *Gender analysis in Papua New Guinea*. Washington, D.C.

¹⁶ N. Haley. 2015. State of the Service: Women's Participation in the PNG Public Service. *Australian National University In Brief series (2015/60)*. Canberra.

Pacific, and gender parity in school education is yet to be achieved.¹⁷ Gender-based violence is considered pervasive and common.

20. **Human capital constrained by poor health and education services.** The shortages of skilled human capital arise from poor and unequal access to affordable and quality education, and poor health service delivery. Health service delivery is constrained by lack of funding, weak technical and administrative capacity, inadequate information and financial systems, and poor procurement practices, especially at the provincial level. Educational service delivery is also hampered by lack of funding, as well as capacity deficits, including of quality teaching staff. Technical and vocational education and training is of low quality and insufficient to meet demand.

21. **Economy and society vulnerable to natural hazards and climatic events.** PNG is a member of the Vulnerable Twenty (V20) group¹⁸ and is ranked 149th out of 181 countries globally by an index reflecting its vulnerability to, and readiness for, climate change challenges.¹⁹ PNG is prone to natural hazards such as earthquakes, volcanic eruptions, tsunamis, and storm surges. Frequent floods and landslides are expected to increase with climate change. The impacts of disaster and climatic events include loss of human life, displacement of the population, damage to infrastructure, more food insecurity, and increases in the prevalence of waterborne diseases. Climate change and natural hazards can significantly stress the fiscal position and balance of payments. PNG supports the Sendai Framework for Disaster Risk Reduction, and was the first country to formally submit the final version of its Nationally Determined Contribution under the Paris Climate Agreement. PNG's annual carbon emissions are low. Excluding land-use change and forestry emissions, these were estimated at 7.8 metric tons of carbon dioxide in 2018, which ranks PNG 116 from 222 countries.²⁰

III. COUNTRY STRATEGY FRAMEWORK

A. Lessons from the Previous Strategy

22. ADB's Independent Evaluation Department (IED) validated the CPS Final Review, 2016–2020 and found that PNG continues to grapple with the challenges faced by all FCAS. The key lessons identified by IED are that (i) the narrow sector focus of the PNG program enabled ADB to demonstrate its comparative advantage, and (ii) multitranche financing facilities (MFFs) have been an effective modality for sustained capacity building. IED made four recommendations: (i) develop a more explicit and expanded PSM capacity-development program focused on the executing and implementing agencies involved in ADB investments; (ii) build on the support already provided to SOEs to assist with corporate management and governance reforms, with the objective of improving service delivery and financial performance; (iii) initiate a dialogue with the government on how best to support PNG's objectives of regional economic integration and connectivity with Asia, and deliver a targeted program of support to boost regional economic integration; and (iv) ADB should play a lead role in supporting government efforts to coordinate and harmonize lending from development partners to improve aid effectiveness.

¹⁷ The maternal mortality ratio was 215 maternal deaths per 100,000 live births in 2015. This compares to 69 maternal deaths per 100,000 live births for East Asia and the Pacific.

¹⁸ The V20 group of finance ministers, established in 2015 as part of the Climate Vulnerable Forum, is a dedicated cooperation initiative of economies systemically vulnerable to climate change. It works through dialogue and action to tackle global climate change.

¹⁹ Notre Dame Global Adaptation Initiative. <https://gain.nd.edu/our-work/country-index/rankings/> (accessed 27 August 2020).

²⁰ Global Carbon Atlas. <http://www.globalcarbonatlas.org/en/CO2-emissions> (accessed 26 August 2020).

B. National Development Strategy

23. The MTDP III (2018-2022) is the government's key planning document and seeks to invest \$7.8 billion in the economy.²¹ It operationalizes the higher-level Development Strategic Plan 2030 and Vision 2050, which also set out international sustainable development and climate change commitments. The overall goal of the MTDP III is inclusive and sustainable economic growth, and the eight key results areas are: (i) increased wealth and revenue creation, (ii) quality infrastructure and utilities, (iii) sustainable social development, (iv) improved law and justice and national security, (v) improved service delivery, (vi) improved governance, (vii) responsible sustainable development, and (viii) sustainable population. Key goals of the current administration include (i) working with international multilateral and bilateral partners to secure concessional financing and technical expertise; (ii) supporting SMEs, agriculture and fisheries, tourism, and downstream processing; (iii) reforming SOEs; (iv) stimulating the availability of foreign currency; (v) connecting PNG with infrastructure; and (vi) increasing resource sector ownership. The key results areas are aligned with the Sustainable Development Goals (SDGs); PNG has prepared a detailed roadmap to integrate the SDGs. PNG conducted a Voluntary National Review in 2020, showing mixed progress toward achieving the SDGs.²²

C. Role of Development Partners

24. The new CPS aims to strengthen partnerships with development partners and explore cofinancing opportunities; it also aims to foster partnerships with the private sector and civil society organizations. There is a monthly development partner roundtable in Port Moresby that is co-led by the United Nations and the Government of Australia. ADB will continue to provide leadership in areas of its core operations, including in energy and transport infrastructure, in PFM and in the health sector. Australia has the largest aid program; its development partnership with PNG focuses on governance, inclusive economic growth, and human development, with targeted investments in private sector-led growth, health, education, and infrastructure maintenance. The People's Republic of China, mostly through China Exim Bank, is the second-largest lender to PNG, after ADB, and is active in financing roads and other infrastructure. New Zealand's development assistance is largely focused on energy, markets, health, economic development, and scholarships. The European Union supports rural entrepreneurship, investment, and trade and is formulating a project in the law and justice sector. The Japan International Cooperation Agency supports technical advice and infrastructure development in energy, transport, and sewerage systems. The World Bank's operations include support for energy, transport, health, agriculture, and macro-fiscal resilience, with governance a crosscutting theme. International Finance Corporation supports private sector investments and is exploring opportunities in the finance sector and agribusiness. The IMF supports domestic resource mobilization, expenditure control, fiscal consolidation, and macroeconomic policy. The United Nations supports inclusive human development and equitable services, sustainable management of natural resources, and strengthened climate and disaster resilience.²³

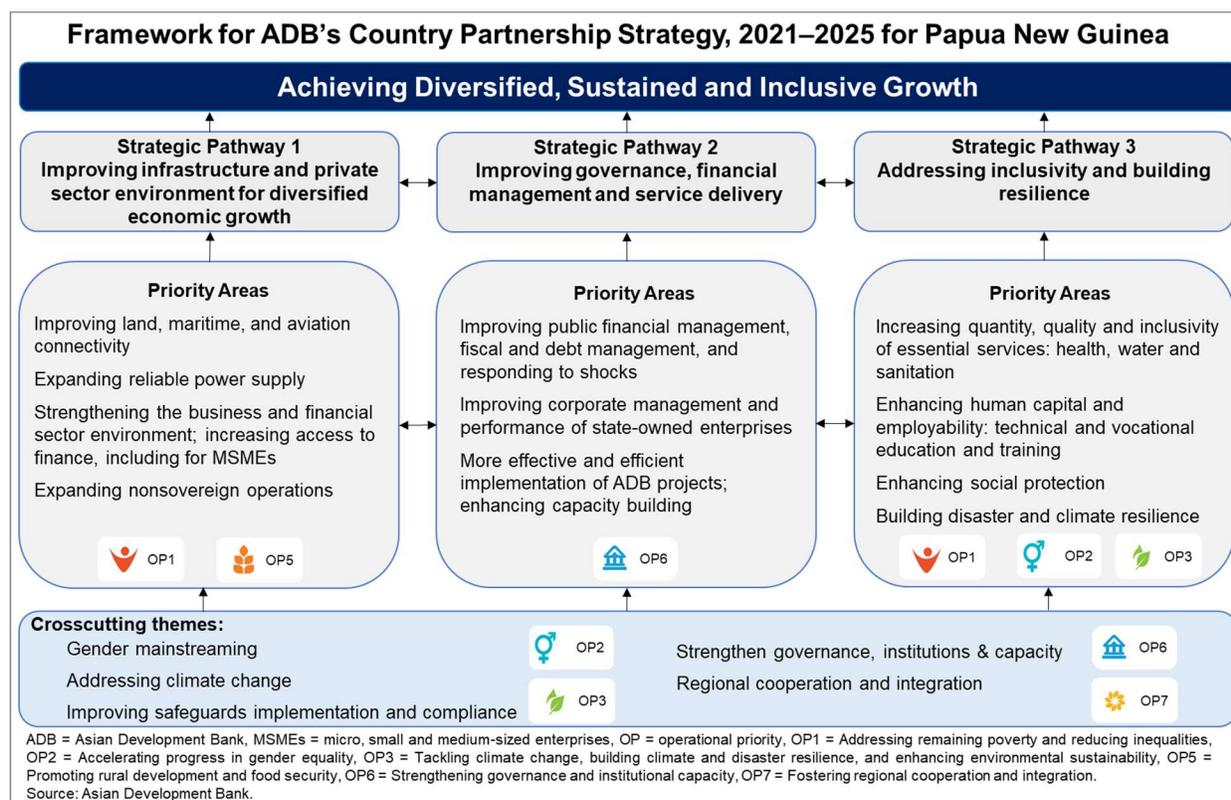
²¹ MDTP III, will be followed by MTDP IV. Development priorities in MTDP IV are expected to remain consistent with MTDP III, The Development Strategic Plan, 2030, envisages four five-year MTDPs.

²² Department of National Planning and Monitoring. 2020. Papua New Guinea's Voluntary National Review. Port Moresby
https://sustainabledevelopment.un.org/content/documents/26453VNR_2020_Papua_New_Guinea_Report.pdf.

²³ The Food and Agricultural Organization and the International Fund for Agricultural Development, provide direct assistance to food security, agricultural value chains, and smallholder farming. The World Health Organization helps strengthen health systems and health outcomes. The United Nations Children's Fund supports immunization, maternal and newborn care, child protection and education.

D. ADB's Strategic Objectives and Operational Priorities

25. **Strategic objective and alignment with Strategy 2030.** The overall strategic objective of the CPS for 2021–2025 is to support diversified, sustained, and inclusive growth. This will be achieved through three strategic pathways, as described in para. 2 and in the figure below. The strategic pathways, as well as crosscutting themes, are aligned with the operational priorities (OPs) of ADB's Strategy 2030. ADB's program is also well aligned with the SDGs.²⁴



26. **Fragility and differentiated approach.** In line with ADB's Strategy 2030, and given that PNG is classified as FCAS, the CPS puts a major emphasis on institutional development, governance reforms, and essential infrastructure for connectivity and service delivery. Essential infrastructure includes a focus on transport and energy, where ADB has significant experience in PNG and a comparative advantage. Institutional strengthening will be mainstreamed, with extra support for procurement, project implementation, and capacity building. PFM and the reform of SOEs will be a focus area. Additionally, the strategy seeks to build resilience to economic and disaster-related shocks, intensifies support for gender equality, promotes greater consultation with civil society, and supports climate change mitigation.

27. **Selectivity.** More than 75% of new lending in the CPS period is expected to focus on essential infrastructure. Transport and energy will dominate, with smaller interventions in water and urban infrastructure, reflecting government priorities. This focus is appropriate given the large infrastructure gap in PNG and the country's need for broad-based growth, as well as ADB's

²⁴ The strategy supports SG1 (no poverty); SDG 2 (zero hunger); SDG 3 (good health and well-being); SDG 4 (quality education); SDG 5 (gender equality); SDG 6 (clean water and sanitation); SDG 7 (affordable and clean energy); SDG 8 (decent work and economic growth); SDG 9 (industry, innovation, and infrastructure); SDG 10 (reduced inequality); SDG 11 (sustainable cities and communities); SDG 13 (climate action); and SDG 17 (partnerships).

established project implementation capacity and comparative advantage in these sectors. A further 15%–20% is expected to support PSM operations, which may occur through policy-based lending operations, to assist economic and public sector reforms. Other interventions, such as in the finance and social sectors, will be smaller but still important, allowing ADB to offer an integrated program of support.

1. **Strategic Pathway 1: Improving Infrastructure and Private Sector Environment for Diversified Economic Growth** (primarily aligned with OP1 and OP5)

28. ADB will improve infrastructure and the private sector environment for diversified and inclusive growth. Transport infrastructure will improve national and international connectivity, bring people and businesses closer to markets and services, and reduce business costs. Increased access to electricity will reduce poverty and support business growth. ADB will help improve the private sector environment, including through business environment reforms, support for the finance sector and MSMEs, and through direct nonsovereign operations.

29. **Improving land, maritime, and aviation connectivity.** Greater connectivity through an expanded and more effective transport network is a priority of the government: transport represents 19% of the MTDP III envelope. While the government has succeeded in partnering with the private sector to develop port infrastructure and is currently seeking private partners to upgrade Port Moresby airport, it has no such financing alternatives for road infrastructure. Using project readiness financing (PRF), projects that are vital links in developing economically strategic transport corridors will be prepared. This will include a future rehabilitation of a national highway, connecting Wutung at the Indonesian border with Madang, and future construction and rehabilitation of a highway connecting Lae, PNG's commercial hub, to Malaluwa on the southern coast, which would be the first time that Port Moresby would be connected with Lae and the Highlands Region. Project preparation will adopt a staged approach, and will include rigorous options assessments, feasibility studies, and cost analyses. Another road program will connect highland communities with the Highlands Highway. Financing will also continue for the Sustainable Highlands Highway Investment Program, rehabilitating the Highlands Highway from Lae to Mt. Hagen. These projects will link key strategic economic areas and thus facilitate private sector development, stimulate agricultural production, and spur regional integration. ADB will remain active in the aviation sector with the Second Civil Aviation Development Investment Project, which will build on the success of the Civil Aviation Development Investment Project. Aviation services are needed to connect urban centers and rural communities for tourism, business, freight, and social cohesion. In many remote parts of PNG, air transport will continue to be the only possible link to the main urban centers. The second investment project will upgrade national airports as well as remote rural airstrips. Aviation safety and efficiency will also be improved. Transport projects will include social and poverty components that provide training for small-scale businesses, especially farmers; support livelihoods, e.g., marketplaces and food storage facilities; and empower women to increase household income.

30. **Expanding reliable power supply.** ADB will help tackle the lack of access to affordable and reliable electricity by expanding and improving the electricity transmission and distribution network to urban, peri-urban, and rural areas. The proposed Power Sector Development Program aims at increasing the electricity access rate and is expected to result in about 56,000 new household connections. The program will also help evacuate the electricity to be generated by planned renewable energy investments, by either PNG Power Limited or independent power producers. This support is aligned with PNG's Nationally Determined Contribution, which targets 100% renewable energy for electrification by 2030 and sector wide efficiency measures. Moreover, ADB will provide knowledge and policy advice on the possibility of promoting natural

gas as a viable alternative to diesel generation, and will build the capacity of PNG Power Limited. ADB's ongoing investments promote renewable energy generation.

31. Strengthening the business and financial sector environment; increasing access to finance, including for MSMEs. ADB will strengthen the business environment by supporting regulatory reforms that remove impediments to business activity. ADB will support the finance sector, including banks and other financial institutions, by helping improve the regulatory environment and access to credit. ADB has supported PNG's microfinance subsector for more than 20 years. It will continue to support initiatives through both public and private sector operations that support MSMEs, including expanding access to finance, in line with the government's Financial Sector Development Strategy and policy on MSMEs.²⁵ ADB will continue to support the strengthening of second-tier financial institutions, including the development of digital financial services and alternative delivery channels, to overcome the outreach challenges imposed by geography and distance, and will keep supporting women business owners in accessing finance. ADB will provide direct support through staff and technical assistance (TA), including the PSDI (footnote 3), exploring alternative ways for small businesses to raise capital, such as crowdfunding and peer-to-peer lending, to help meet the demand for financing. Continued support for finance sector stability, and effective regulation of the securities markets will be key to ensuring strong banks and boosting confidence and lending.

32. Expanding nonsovereign operations. ADB will directly support the private sector through loans, guarantees, and equity investments, building on its recently expanding portfolio of investments.²⁶ ADB will continue to engage with financial institutions to support SMEs, strengthen the finance sector, and provide trade finance. Following support for a regional satellite project in 2019 and a new mobile telecommunication network in 2020, ADB will continue to seek opportunities to broaden PNG's access to internet and mobile connections. Agribusiness and fisheries are key sectors that ADB will focus on to develop new investment opportunities. ADB may add value in an environmental, social or gender role in the consortium financing for the expected Papua LNG project, which is key for the country's future economic growth, or also assist in credit mobilization. Opportunities to finance independent power producers with renewable energy projects will be explored, including a potential biomass project, as well as other infrastructure projects such as ports and airports. ADB's Private Sector Operations Department and PARD will look for an opportunity to use a partial credit guarantee to draw in commercial financing from the private sector, so strengthening the finance sector.

2. Strategic Pathway 2: Improving Governance, Financial Management, and Public Service Delivery (aligned with OP6)

33. Improving governance and PSM, including building stronger institutions, is a cornerstone of ADB's CPS for 2021–2025, to help address fragility. Governance and institutional strengthening will be mainstreamed, cutting across all ADB operations. More effective PFM will help achieve fiscal and debt sustainability, reduce the risks from external shocks, enable better use of public finances for service delivery and infrastructure provision, and improve asset management and maintenance. Stronger corporate governance and performance of SOEs will be a priority objective in areas related to service delivery.

²⁵ A new project to support financial access and develop the entrepreneurial capabilities of households and MSMEs is planned for 2021. ADB will also pilot a digital access tool solution using biometric identification.

²⁶ ADB made a \$10 million equity investment in Kina Bank in December 2019, and plans a \$25 million equity investment in Amalgamated Telecom Holdings Limited for 2020.

34. Improving public financial management, fiscal and debt management, and responding to shocks. ADB will continue to support PFM and economic management, including through policy-based lending (and potential guarantee modalities) and TA.²⁷ ADB will support reform efforts on fiscal management and strategic allocation of resources through improved budgetary processes, support for fiscal strategy, including expenditure management, and support for implementation of PFM reforms. Support for debt management will improve monitoring and reporting of debt liabilities and build technical capacity of staff. ADB's support for PFM will be informed by diagnostics such as national and subnational Public Expenditure and Financial Accountability assessments, and an ADB (forthcoming) governance risk assessment. ADB's assistance will respond to evolving windows of opportunity for both PFM and fiscal or economic reforms. Because of PNG's vulnerability to exogenous shocks, ADB may provide countercyclical support; this could include additional support in 2021 for the post-COVID-19 recovery. ADB will continue to work with key partners such as Australia, the IMF, the Pacific Financial Technical Assistance Centre, and the World Bank. The IMF supports domestic resource mobilization under a medium-term revenue strategy. Both the IMF and the World Bank have been supporting fiscal consolidation and reform of monetary and exchange rate policy.

35. Improving corporate management and performance of state-owned enterprises. ADB will build on the support already provided to SOEs to assist corporate management and governance reforms, with the objective of improving service delivery and financial performance. Included in the menu of support will be the use of fiscally sustainable PPPs as a means of developing and managing critical infrastructure. ADB will initially focus on SOEs in areas where it already engages, such as energy, ports, and civil aviation. ADB will pave the way for PPPs and private operators to support service delivery of some SOEs. ADB will deliver its assistance through a comprehensive multiyear SOE reform program, through policy-based lending and TA.

36. More effective and efficient implementation of ADB projects; enhancing capacity building. Recognizing PNG's fragility and weak capacity, ADB will assist executing and implementing agencies in strengthening their systems, with the aim of improving quality in project preparation, project readiness, and implementation; ensuring adherence to ADB standards; and mitigating project risks, e.g., governance risks as defined under the Second Governance and Anticorruption Plan. The main areas of focus are project management, financial management and procurement systems, effective implementation supervision, and anticorruption efforts and integrity. ADB will also support improvements in project implementation capacity as a component of infrastructure projects, targeted at project management offices and project implementation units, recognizing that a longer-term capacity building commitment is needed to ensure effectiveness. In doing so, ADB will seek to institutionalize sustainable capacity enhancements, ensuring consistency and complementarity of approaches and avoiding duplication, overlaps, and gaps in support.

3. Strategic Pathway 3: Addressing Inclusivity and Building Resilience (primarily aligned with OP1, OP2, and OP3)

37. Human development and gender equity remain major challenges, compounded by a growing population that strains health and education services. Health service delivery will be supported along with improvements to water and urban infrastructure and services in urban and rural areas, to alleviate poverty and inequalities and enhance human capital. Direct support for TVET will boost human capital and the employability of men and women. Social protection and

²⁷ ADB will renew its ongoing TA for Supporting Public Financial Management (Phase 3). The TA provides responsive PFM support, including in debt management, fiscal strategy, and procurement.

inclusivity will be strengthened. By using advanced engineering designs, informed by latest available climate data and climate change projections, for its projects, ADB will increase their resilience to climate change and disaster risks.

38. Increasing quantity, quality, and inclusivity of essential services in health. ADB will continue to support health service delivery, including health information systems, capacity building, medical supply procurement, and health infrastructure and policy reforms. Short-term health crises are common in PNG, symptomatic of the fragile environment and compounded by a weak health system, so ADB will respond flexibly to such crises. Its rapid response may include budget support or disaster response grants, as seen with COVID-19, or targeted TA. ADB will seek opportunities to work with other health partners such as the Global Fund to Fight AIDS, Tuberculosis and Malaria; the Oil Search Foundation; and the GAVI Alliance. ADB has two ongoing health projects in PNG to strengthen health systems and health service delivery, and the more recent of these will continue into the next CPS period. No new health projects are planned in the 2021–2023 window, but ADB expects to formulate a project toward the end of the CPS period, building on the success of the current projects.

39. Increasing quantity, quality, and inclusivity of essential services in water and sanitation, and other urban infrastructure and services. Insufficient access to safe and adequate water supply and sanitation services undermines public health, which in turn affects poverty levels and constrains sustainable development. The National Water, Sanitation and Hygiene (WASH) Policy²⁸ recognizes the need for substantially improved access to water and sanitation services and improved hygiene, particularly in rural and peri-urban settlement areas. ADB will continue to build the capacity of government agencies and water utilities via ongoing TA, in addition to identifying priority investment projects, targeting provincial towns. ADB will explore, through TA, more support for urban planning and the attainment of livable cities, e.g., by improving the urban services of Port Moresby to increase livability.

40. Enhancing human capital and employability. Inadequate skills is the predominant reason given by employers to not employ PNG nationals.²⁹ ADB will help boost employment opportunities, including for women, by supporting TVET by focusing on specific areas of training critical for the economy, notably construction and agriculture. This will, in turn, improve the capacity of the local construction industry and help people migrate from subsistence agricultural practices. ADB will also support the institutional strengthening of TVET institutions and build partnerships with the private sector to explore opportunities for growth and demand for TVET services. Enhancing the quality of TVET provisions and producing graduates that respond to labor market and industry needs will be prioritized.

41. Enhancing social protection. Upholding the welfare of the poor and vulnerable groups will be integral to investments. ADB's overall assistance in PNG will pay particular attention to the needs of the poor and vulnerable so as to promote equitable and inclusive growth, and enhance the resilience of the most vulnerable groups during crises. ADB will assist the government in developing a social protection policy, as well as pilot initiatives that shelter the population, especially the vulnerable, from social and economic risks and deprivations and bolster their income-earning capacity. Social protection will prevent the population from adapting negative

²⁸ Government of PNG, Department of National Planning and Monitoring. 2015. *National Water, Sanitation and Hygiene (WASH) Policy*. 2015–2030. Port Moresby.

²⁹ Deloitte and UNDP. 2017. *Fulfilling the land of opportunity: How to grow employment in Papua New Guinea*. http://www.pg.undp.org/content/papua_new_guinea/en/home/library/launch_businessreport.html

coping mechanisms such as limiting access to essential social services, incurring debts and selling assets during economic downturns that has long-term consequences.

42. **Building disaster and climate resilience.** To strengthen PNG's resilience to disasters and climate change, ADB will continue to tackle the climate risk threatening infrastructure designs and support selected disaster resilience programs in line with the National Disaster Risk Reduction Framework. Support could include structural vulnerability assessments, reviews of technical specifications for road design, and support for national mechanisms to screen investments and programs against disaster risk and to assess their contribution to long-term climate change adaptation. The development of disaster risk financing and insurance solutions as well as preventive budget planning options to increase PNG's financial resilience will be further explored. Environmental sustainability will be mainstreamed in all operations. ADB's support for the energy sector (para. 30) is aligned with PNG's Nationally Determined Contribution.

4. **Crosscutting Themes** (aligned with OP2, OP3, OP6, and OP7)

43. ADB will incorporate several crosscutting themes in all its operations: (i) gender mainstreaming (OP2); (ii) strengthening of governance, institutions, and capacity (pathway 2) (OP6); (iii) improved implementation of and compliance with safeguards (implementation priorities, para 48) (OP3); (iv) climate change management (pathway 3) (OP3); and (v) supporting regional cooperation and integration (OP7).

44. **Gender mainstreaming.** Gender will be mainstreamed throughout ADB's operations, with more operations categorized as *gender equity theme* and *effective gender mainstreaming*. ADB will support the government's gender priorities and SDG 5 focus areas. The project design and implementation process will ensure consultation with, and active involvement of, women and girls. Projects will incorporate proactive gender design features, such as (i) fostering women's participation and leadership (e.g., by including more women on SOE boards and supporting national women's machinery to boost women's voice and leadership); (ii) advancing women's economic empowerment (e.g., through interventions in the finance sector and support to SMEs); (iii) supporting gender-responsive infrastructure (e.g., expanding street lighting to increase women's safety, building and upgrading services such as markets and community health clinics); (iv) ensuring women and girls' access to services and resources; (v) preventing and responding to gender-based violence; and (vi) promoting gender-responsive budgeting. For example, the Sustainable Highlands Highway Investment Program's gender action plan includes awareness training, enhanced economic opportunities for women, roadside water points for washing and laundry, and women's participation in public and community consultations on project design and implementation. A similar approach will be adopted for all new projects.

45. **Supporting regional cooperation and integration.** Geographically, PNG forms a bridge between the culturally similar Pacific region and the emerging markets of Asia. PNG already has strong merchandise trade and diplomatic links with Asia. Expanding these to include opportunities for greater trade in services, labor and tourism flows, as well as financial flows, would help to leverage the stronger growth of neighboring Asia, take advantage of demographic differences, and create a market beyond the limited size of the domestic market. The proposed Northern Region Corridor project supports the improvement of the ports of Vanimo and Wewak and their customs facilities, which will boost international trade, including with Indonesia. In addition, proposed TA from ADB's Sustainable Development and Climate Change Department plans to foster trade and cooperation with Indonesia. The new broadband connection offers the potential for greater business and personal links with Asia and beyond,

and government can leverage this connectivity for improved government services. ADB will support PNG's participation in regional dialogues, including ADB-supported forums.

E. Priorities for Knowledge Support

46. The country knowledge plan, in appendix 2, outlines country knowledge needs and ADB's planned knowledge operations. Knowledge will be delivered through (i) knowledge products, such as publications; (ii) knowledge services, such as trainings, events, workshops, and policy dialogue; and, (iii) knowledge solutions, that are embedded within projects and programs, including, (i) policy advice, (ii) capacity development of key executing and implementing agencies, (iii) economic, sector and thematic work, and (iv) technical assistance for preparing, designing, and implementing projects. Within knowledge solutions, policy advice will feature prominently, for example, support for SOE reform and PFM reforms under strategic pathway 2 (SP2), business environment regulatory reforms (SP1), and advice for the development of social protection systems (SP3) and for enhancing TVET governance structures (SP3). Knowledge products will include specific publications linked to project and sector work, as well as more regular publications, such as the Pacific economic monitor series. Knowledge services may include, (i) events that provide updates to stakeholders on ADB's operations in PNG, or economic updates, and, (ii) tailored workshops that accompany projects, or that build capacity, for example in financial management.

IV. STRATEGY IMPLEMENTATION

A. Indicative Resource Parameters

47. PNG, a group B developing member country, is eligible for regular ordinary capital resources (OCR) lending and concessional OCR lending (COL).³⁰ The indicative resources available for commitment during 2021–2023 for sovereign operations total \$803.6 million—\$625.9 million for regular OCR lending and \$177.7 million for COL. The final allocation will depend on, among other factors, available resources, project readiness, and the outcome of the country performance assessments. Cofinancing and funding from other sources, including Asian Development Fund (ADF) grants from the ADF 13 thematic pool for projects addressing specific challenges, will be explored.³¹ The proposed lending program for 2021–2023 totals \$2.93 billion—\$2.68 billion in regular OCR and \$0.25 billion in COL. All projects in excess of available resources will be taken up for ADB financing when additional lending resources become available. The country operations business plan provides indicative allocations by strategic pillar and priority area for 2021–2023. In 2016, ADB revised its cost-sharing ceiling ratio for the loan portfolio to 90%.³²

³⁰ The terminology reflects the combination of Asian Development Fund (ADF) lending operations with the OCR balance sheet that took effect on 1 January 2017.

³¹ The proposed ADF 13 framework introduces a single thematic pool. Group A countries, including International Development Association gap countries and, on a very selective basis, group B countries are eligible. The single thematic pool addresses thematic priorities in gender equity; climate change adaptation and disaster risk reduction; and regional cooperation and integration, including regional public goods.

³² The ceiling revision (from 85%) supported government's fiscal consolidation strategy. Given ongoing fiscal challenges and reduced availability of counterpart financing, the 90% ceiling will be maintained for the CPS period. Project-specific considerations and available financing, including cofinancing, will determine the actual shares for specific projects.

B. Implementation Priorities

48. **Improved implementation of and compliance with safeguards.** Complex land ownership structures, weak bureaucratic capacity, inconsistently applied country safeguards, and poor contract enforcement make managing environmental and social safeguards a key challenge in projects. ADB will focus on strengthening PNG's country safeguard systems under ongoing investment projects and TA, building capacity within the government agencies responsible for land and environment management, and supporting stronger project preparation to ensure that land acquisition and resettlement safeguards are effectively addressed.

49. **Asset maintenance.** The sustainability of many infrastructure projects is at risk because of insufficient technical skills and lack of funding for maintenance, so ADB will continue to provide project-based capacity-building support, and use performance based contracts. ADB will also help ensure sustainability by providing continued PFM support for more effective budgetary processes for asset maintenance. Wider use will be made of the PRF modality to improve project design and costing, which is expected to make implementation more effective, efficient, and sustainable.

50. **Stronger implementation and procurement.** Strategic pathway 2 focuses on improved PSM and PFM, and the need for more efficiency and effectiveness in the implementation of operations. The use of PRF will be expanded and capacity development will be mainstreamed. ADB will facilitate the implementation of the ADB 2017 procurement policy, building in risk-based procurement approaches to suit the operating environment and complexity of the projects.

C. Monitoring of Results

51. ADB will monitor the implementation of the CPS using the country and sector results frameworks, which will be updated annually during the country portfolio review and country programming missions (Appendix 1). ADB will strengthen the monitoring capacity of executing agencies in all projects. The CPS results framework draws on indicators from the government's MTDP III, which are monitored by the Department of National Planning and Monitoring.

D. Risks

52. **Protracted economic downturn.** Downside risks to economic growth could arise from (i) an expanded and extended outbreak of COVID-19 in PNG, resulting in further economic and social costs, exacerbated by lowered global growth because of COVID-19; (ii) cancellation of, or delay to, new investments in the extractive industries, such as the Papua LNG and the Wafi Golpu projects, as a result of unsuccessful negotiations between the government and project developers; and (iii) failure of authorities to meet IMF SMP commitments. Weak growth will affect the government's revenue position, the speed of implementation of future infrastructure development, and the allocation of funding to services and asset maintenance.

53. **Exogenous shocks.** PNG remains vulnerable to shocks, including from natural hazards such as earthquakes, volcanic eruptions, cyclones, and drought. These events result in the temporary loss of economic momentum as well as human tragedy and increased poverty.

54. **Deterioration in security environment.** Historically, in PNG, there have been risks associated with a deterioration in the security environment, and these remain, particularly the risk of renewed conflict if tensions increase during negotiations between the government and the Autonomous Region of Bougainville (para. 7 and footnote 6). Formal negotiations between the two parties are expected to begin toward the end of 2020. ADB will closely monitor developments and consider additional support as appropriate.

COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

| Country Development Impact Indicators with which the CPS is Aligned |
|--|
| 1. Gross domestic product growth to average 3.1% between 2021 and 2025, with growth in the nonmineral sector at 4.3% |
| 2. World Bank Doing Business rating to improve from 120 (out of 190) in 2020 |
| 3. Proportion of population under national poverty line (37.5% in 2017) reduced |
| 4. Public service effectiveness improved from 24% in 2016 |

| CPS Strategic Objectives | Priority Areas | Key Outcomes that ADB Contributes to | Outcome Indicators | CPS Resources |
|--|---|--|---|---|
| Strategic pathway 1: Improving infrastructure and private sector environment for diversified economic growth | Improving land, maritime, and aviation connectivity and expanding reliable power supply (primarily aligned with OP1—reducing remaining poverty and inequalities, and OP5—promoting rural development and food security) | Integrated national network of roads, marine facilities, and air routes that supports diversified economic growth; greater availability, reliability, and affordability of energy supply | <p>Total length of national roads increased to 11,000 km (2018 baseline: 8,740 km).</p> <p>Estimated length of provincial and district roads upgraded and maintained in good condition increased to 18,000 km (2018 baseline: 16,100 km).</p> <p>Number of bridges on national roads in good condition increased to 80 (2018 baseline: 15).</p> <p>Number of missing link roads constructed or under construction: 8 (2018 Baseline: 4).</p> <p>Number of airports that comply with international air standards increased to 6 (2018 baseline: 3).</p> <p>Household electrification rate increased to 30% (2018 baseline: 17%).</p> | <p>Ongoing portfolio: As of 31 December 2019</p> <p>Sovereign loan projects Number: 40 Amount: \$1.71 billion</p> <p>Nonsovereign projects Number: 1 Amount: \$10 million</p> <p>Planned operations and contribution (3-year pipeline as per latest COBP):</p> <p>Sovereign Lending (\$2,679.5 million of OCR and \$250.4 million of COL for 2021–2023)</p> <p>Technical assistance Nonlending (\$2.5 million–\$5.0 million per year)</p> |
| | Strengthening the business and financial sector environment; increasing access to finance, including for MSMEs (primarily aligned with OP1—reducing remaining poverty and inequalities, and OP2—accelerating progress in gender equality) | Improved enabling environment for business; greater access to finance and financial services, including for women | <p>Mobile financial service accounts increase to 1.5 million, of which 750,000 thousand held by women (2018 baselines: 817,367 and 298,412).</p> <p>Number of registered micro, small, and medium-sized enterprises increased to 200,000 (2018 baseline: 80,000).</p> <p>Women engaged in micro, small and medium-sized enterprises increased to 40,000 (2018 baseline: 12,000).</p> | |
| Strategic pathway 2: Improving governance, financial management, and public service delivery | Improving public financial management, fiscal and debt management, and corporate management and performance of SOEs (primarily aligned with OP6—strengthening governance and institutional capacity) | Improved public financial management and performance of SOEs for service delivery; fiscal and debt sustainability strengthened | <p>Public service effectiveness (World Governance Indicator) improved to 30% (2016 baseline: 24%).</p> <p>Public Expenditure and Financial Accountability indicators scoring A or B improved to 60% (2016 baseline: 51%).</p> <p>Cumulative revenue of SOEs increased to K15,000 million over a five year period (2010-2015 Baseline: K10,000 million).</p> <p>Women at least 15% of total SOE directors (2020 baseline: 4%).</p> | |

| CPS Strategic Objectives | Priority Areas | Key Outcomes that ADB Contributes to | Outcome Indicators | CPS Resources |
|---|---|--|---|---------------|
| Strategic pathway 3: Addressing inclusivity and building resilience | <p>Increasing quantity, quality, and inclusivity of essential services: health, water, and sanitation; supporting human capital, employability, and social protection (primarily aligned with OP1—reducing remaining poverty and inequalities, and OP2—accelerating progress in gender equality)</p> <p>Building disaster and climate resilience (primarily aligned with OP3—tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability)</p> | <p>Healthier population; increased access to clean water and sanitation; increased skills for employment</p> <p>More climate resilient infrastructure; natural disaster and climate change risks managed and reduced</p> | <p>Water PNG has operationalized frameworks that consider management of disease outbreak risks (2020 baseline: not applicable).</p> <p>Proportion of urban population using an improved drinking water source increased toward 100% (2018 baseline: 90%).</p> <p>National Health Plan 2021–2030 approved by the Department of Health (2017 baseline: plan not approved).</p> <p>Maternal Mortality ratio (deaths per 100,000 live births) reduced to 175 (2017 baseline: 217).</p> <p>Number of graduates (annually) in field of TVET: 7,000 (2018 baseline: 4,716).</p> <p>Share of provinces with capacity to deal with a natural disaster increased to 60% (2018 baseline: 10%).</p> <p>Total CO₂ emissions from all sectors reduced to 12,000 gigatons (2018 baseline: 14,251 gigatons).</p> | |

ADB = Asian Development Bank; CO₂ = carbon dioxide; COBP = country operations business plan; COL = concessional ordinary capital resources lending; CPS = country partnership strategy; km = kilometer; MSME = micro, small, and medium-sized enterprises; OCR = ordinary capital resources; OP = operational priority; PHA = Public Health Authority; PNG = Papua New Guinea; SOE = state-owned enterprise; TVET = technical and vocational education and training.

Sources: Asian Development Bank, *Medium Term Development Plan III, National Budget 2020*.

COUNTRY KNOWLEDGE PLAN

A. Knowledge Needs

1. The Asian Development Bank (ADB) will provide wide-ranging support for knowledge needs. Knowledge will be delivered through knowledge solutions, knowledge products and knowledge services (para 46). Priority areas identified by the Government of Papua New Guinea (PNG) during consultations include support for the design and implementation of projects; capacity building of implementing and executing agencies; capacity building of contractors; support for sector and master planning; and policy advice, including on reforming state-owned enterprises (SOEs).

2. Under strategic pathway 1 (SP1), ADB needs to provide detailed technical advice for the design and implementation of transport and energy projects, and to complement this with capacity building of key agencies, such as the Department of Works, Civil Aviation Authority, Department of Transport, and PNG Power Limited. This includes support for procurement and financial management. To strengthen the private sector environment, policy advice is required on reforms to the business environment and financial regulations.

3. Under SP2, ADB needs to provide robust advice to support public financial management (PFM) and reforms of the SOEs. To support more effective allocation of financial resources, technical advice is required for PFM systems and to strengthen financial management and procurement controls and processes. To support fiscal and debt management and sustainability, ADB should continue to provide in-house consultancy to key agencies, which includes advice for improved monitoring of debt liabilities and appropriate use of debt management systems.

4. Under SP3, policy and technical advice is required to help strengthen the delivery of health, water and sanitation, and educational services. This includes support for overall governance frameworks as well as targeted support for the strengthening of financial management systems and information systems, especially in health. Urban settlements are expanding, and assistance is needed to support urban planning. Advice is needed to help build social protection systems.

5. ADB identifies knowledge needs through consultations with the government, and through regular country missions. ADB's country director for the Papua New Guinea Resident Mission acts as the overall knowledge custodian.

B. Scope of ADB's Planned Knowledge Operations

6. Under SP1, ADB will help improve land, maritime, and aviation connectivity by building the capacity of executing agencies for the implementation of projects in transport and energy, where ADB has a comparative advantage and deep technical expertise. Technical assistance will be provided for detailed designs and project readiness. Additionally, knowledge operations will help improve sector planning and strengthen the operation and maintenance of management structures to ensure that future investments are sustainable and have maximum impact. To support greater availability, reliability, and affordability of energy supply, ADB will strengthen the capacity of PNG Power Limited and provide targeted capacity building in procurement and financial management. ADB will conduct a gas subsector assessment that will help the government consider alternative options for its goal of expanding electrification. To support an improved private sector environment and greater competition, ADB will provide knowledge solutions to structure public-private partnership transactions, and strengthen finance sector

regulation and business environment laws. ADB will work directly with commercial institutions, including financial ones, to build the capacity for safeguards and for lending to small and medium-sized enterprises. It will also provide tailored capacity-building support to help banks expand trade finance operations and build correspondent banking networks. ADB will support innovative technologies—for example, it will pioneer a digital access tool solution to provide biometric identification for 20,000 vanilla farmers in Maprik (East Sepik), aiming to fast-track financial access for the financially excluded.

7. SP2 supports improvements to PFM, fiscal and debt management, and SOEs' corporate management and performance. ADB will support and advise on PFM reforms, including by conducting a governance risk assessment. It will build the capacity for fiscal and debt management by providing in-house consultancy support to key agencies. ADB's economic work will provide monitoring and surveillance of economic trends. SP2 will support a comprehensive reform program for SOEs, providing policy advice that also covers governance and restructuring.

8. Building on lessons from earlier efforts, SP2 also supports more effective and efficient implementation of ADB projects, and steps up capacity building. ADB will provide knowledge support to executing and implementing agencies to strengthen country systems and standards. It will build the capacity of line ministries for implementing projects, monitoring them, and reporting on their progress, and for continued asset maintenance.

9. Under SP3, to promote inclusivity and build resilience, ADB will help increase the quantity, quality, and inclusivity of essential services in health, water, and sanitation; increase human capital and employability; deepen social protection; and help build disaster and climate resilience. In health, ADB will support the development of health information systems and sector plans; and continue thought leadership in the streamlining of health financing, bringing together multiple partners, including the government. Knowledge solutions in urban infrastructure and water and sanitation are focused on piloting approaches to delivering services to peri-urban communities and identifying opportunities for scaling up or replicating the pilots. ADB will provide capacity building support to agencies involved in water, sanitation, and hygiene (WASH), to help them respond to disease outbreaks such as the coronavirus disease (COVID-19) pandemic. ADB will work on a water safety plan. In the urban sector, ADB will demonstrate thought leadership by using TA to explore how the delivery of broader urban services can translate to more livable cities, e.g., Port Moresby. To support employability, ADB will help strengthen institutions, staff, and policies for technical and vocational education and training. ADB will also help draft social protection policies.

C. Areas of Collaboration with Partners

10. ADB will collaborate closely with development partners across all sectors and share knowledge, including through in-country dialogue and publications. In the fields of health and PFM, ADB will continue to lead and participate in regular discussion groups. ADB will invite partners to contribute to knowledge products, for example the Pacific Economic Monitor series. ADB may partner with policy think tanks to produce high-quality research and analysis, and to develop tools on fragility and vulnerability.

D. Resource Allocation

11. Knowledge outputs will be supported through ADB's operations, staff, and TA. TA support for PNG is estimated to total between \$2.5 million and \$5.0 million annually, and will be financed from TA resources and cofinancing sources. Also, PNG will be benefiting from regional TA

projects, including safeguards. Development partner cofinancing and government cost sharing will be leveraged to support knowledge activities.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/CPS/?id=PNG-2021>

1. Inclusive and Sustainable Growth Assessment
2. Development Coordination Matrix
3. Indicative Country Operations Business Plan