



Report and Recommendation of the President to the Board of Directors

Project Number: 51035-003
October 2019

Proposed Policy-Based Loan for Subprogram 2 Papua New Guinea: Health Services Sector Development Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 9 October 2019)

Currency unit	–	kina (K)
K1.00	=	\$0.294
\$1.00	=	K3.401

ABBREVIATIONS

ADB	–	Asian Development Bank
DOF	–	Department of Finance
DOH	–	Department of Health
DOT	–	Department of Treasury
GDP	–	gross domestic product
IFMS	–	integrated financial management system
IMF	–	International Monetary Fund
LMIS	–	logistics management information system
MTFS	–	medium-term fiscal strategy
PEFA	–	public expenditure and financial accountability
PFM	–	public financial management
PHA	–	provincial health authority
PNG	–	Papua New Guinea
TA	–	technical assistance

NOTES

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

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 51035-003	
Project Name	Health Services Sector Development Program (Subprogram 2)	Department/Division	PARD/PASP
Country	Papua New Guinea	Executing Agency	Department of Treasury
Borrower	Government of Papua New Guinea		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=51035-003-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=51035-003-PortAtaGlance		
2. Sector		ADB Financing (\$ million)	
✓ Health	Health sector development and reform		50.00
Public sector management	Public expenditure and fiscal management		50.00
		Total	100.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		Climate Change impact on the Project	Low
✓ Accelerating progress in gender equality			
✓ Strengthening governance and institutional capacity			
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 3.2, 3.7		Effective gender mainstreaming (EGM)	✓
SDG 5.1, 5.4, 5.6			
SDG 10.4		Poverty Targeting	
SDG 16.6			
4. Risk Categorization:	Complex		
5. Safeguard Categorization		Environment: C Involuntary Resettlement: C Indigenous Peoples: C	
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		100.00	
Sovereign Programmatic Approach Policy-Based Lending (Regular Loan):		100.00	
Ordinary capital resources			
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		100.00	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based loan to Papua New Guinea (PNG) for subprogram 2 of the Health Services Sector Development Program.¹ The program comprises an investment and a policy-based lending component using a programmatic approach with three subprograms.²

2. The program supports fiscal policy, public financial management (PFM), and health sector reforms while providing critical financing during a period of sharp fiscal tightening that will enable the Government of Papua New Guinea to safeguard funding for essential health and other basic services. These two elements reinforce each other: (i) the policy-based actions supporting an improved operational context to gain more benefits from health sector investments and (ii) the health sector investments supporting the implementation of priority policies. Subprogram 1 actions have been sustained and are built upon by subprogram 2 actions, and all 15 subprogram 1 actions have been sustained. The program supports the Asian Development Bank (ADB) Strategy 2030 operational priority of strengthening governance and institutional capacity, with particular emphasis on small island developing states.³

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **Health sector issues.** Despite health being a priority in PNG since independence, and the government spending substantial resources in the sector, improvements in access and quality of health services and health outcomes have been slower than in comparator countries. Despite some improvements in life expectancy, PNG continues to have the lowest life expectancy in the Pacific region; infant and maternal mortality rates are higher than in countries at similar income levels. Utilization of basic health services has declined markedly between 2006 and 2016.⁴ At the input level, medical supplies are often not available, the health workforce is insufficient and underperforming, and most health facilities are poorly maintained. Chronic diseases, including strokes and heart disease, dominate the burden of disease, which also includes poverty-related illnesses such as pneumonia and neonatal conditions.⁵ Development constraints in PNG's health sector specifically addressed under this program are (i) complex subnational health system architecture; (ii) incomplete regulatory frameworks; (iii) fragmented fund flow; (iv) weak PFM of provincial health authorities (PHAs),⁶ including lack of resources for maintenance of health facilities; (v) weak pharmaceutical procurement, distribution, and stock management systems;

¹ The design and monitoring framework are in Appendix 1. The program is in the Asian Development Bank (ADB). 2018. *Country Operations Business Plan: Papua New Guinea, 2019–2021*. Manila. It aligns with ADB. 2019. *Country Partnership Strategy, Papua New Guinea: 2016–2020*. Manila; and ADB. 2016. *Pacific Approach, 2016–2020*. Manila. The concept paper for the program was circulated to the ADB Board of Directors on 5 June 2017.

² ADB. 2018. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach, Policy-Based Loan for Subprogram 1, and Project Loans to Papua New Guinea for the Health Services Sector Development Program*. Manila. Subprogram 1 for \$95 million project investment and \$100 million policy-based loan was approved in May 2018.

³ ADB. 2018. *Strategy 2030: Achieving Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

⁴ Sector Assessment (Summary): Health (accessible from the list of linked documents in Appendix 2).

⁵ Institute of Health Metrics. 2016. *Global Burden of Disease Study. Country Profile: Papua New Guinea*. Seattle.

⁶ PHAs are provincial health systems under one authority and allow improved planning and funding of primary health care. PHAs have financial autonomy from the provincial governments and are responsible for hospital and primary health service delivery under guidance from the PHA board, which includes community and women's representatives.

and (vi) insufficient oversight of health sector partners and service providers.⁷

4. **Recent economic performance.** The sharp downturn in global commodity prices in 2015 and 2016, coinciding with a severe drought that affected the mining and agriculture sectors, led to a rapidly worsening macroeconomic situation in PNG. Implementation of the required sharp fiscal consolidation (para. 5) further reduced aggregate demand, leading to a severe economic crisis. While agricultural production and commodity prices partially recovered in 2018, a large earthquake in early 2018 disrupted production and exports by the gas, oil, and mining industries, driving a small contraction (Table 1). External financing, including through subprogram 1, helped reduce the foreign exchange backlog and, combined with gradual exchange rate adjustment by the Bank of PNG, supported business activity and growth toward the end of 2018. Together with the full restoration of gas, oil, and mining production, this contributes to an improved macroeconomic outlook over the medium-term, with growth expected to reach 4.8% in 2019 and forecast to remain between 2–4% during 2020–2023.⁸ This provides the basis for ongoing gradual fiscal consolidation while allowing for safeguarding of funding for essential health services, as supported by the program.

Table 1: Selected Economic and Fiscal Indicators
(% of GDP, unless otherwise indicated)

Item	2014	2015	2016	2017	2018e	2019p	2020p
Real GDP growth (% change)	12.5	10.5	2.0	3.0	-0.6	4.8	2.1
Change in CPI (% annual average)	5.2	6.0	6.7	5.4	4.7	4.0	3.8
Central government budget							
Total revenue	21.0	17.7	15.5	15.2	17.1	15.8	15.6
Tax revenue	18.1	14.7	12.4	12.1	12.7	12.5	12.2
Nontax revenue	1.4	1.7	0.9	1.2	2.2	2.2	2.4
Grants	1.5	1.3	2.1	1.9	2.2	1.1	1.0
Total expenditure	27.3	22.2	20.0	17.6	19.6	18.5	17.3
Recurrent	19.5	18.9	17.9	15.9	17.7	16.1	14.6
Capital	7.8	3.3	2.1	1.7	1.9	2.4	2.7
Fiscal balance	-6.3	-4.5	-4.6	-2.4	-2.5	-2.7	-1.7
Excluding external grants	-7.9	-5.8	-6.7	-4.3	-4.7	-3.7	-2.7
Public debt	27.1	29.0	32.4	31.2	32.8	31.8	30.8
of which: External debt	6.2	6.5	8.1	8.4	12.1	14.1	13.8
Nominal GDP (\$ billion)	23.2	22.5	21.6	23.7	25.0	26.2	26.9

CPI = consumer price index, e = estimate, GDP = gross domestic product, p = projection.

Source: Government of Papua New Guinea and Asian Development Bank estimates.

5. **Fiscal performance.** Fiscal consolidation—required after an expansionary fiscal policy coinciding with a downturn in global commodity prices and a related drop in domestic revenues led to unsustainable fiscal deficits during 2012–2014—continued in 2018. With the help of sharp expenditure cuts since 2014, the government was able to balance out eroding revenue collections and reduce the fiscal deficit from 6.3% of GDP in 2014 to 2.5% in 2018 (Table 1). Although the deficit is projected to expand to 2.7% of GDP in 2019, this is mostly because of the reduction in external grants after elevated inflows in 2018 due to the earthquake response.⁹ Excluding grants, the deficit is seen to narrow by a full percentage point. Gradual reductions to the debt-to-GDP ratio are forecast over the medium term, supported by expenditure prioritization and tax policy

⁷ ADB. 2019. *Line of Sight: How Improved Information, Transparency, and Accountability Would Promote the Adequate Resourcing of Health Facilities Across Papua New Guinea*. Manila.

⁸ International Monetary Fund. 2018. *Papua New Guinea 2018 Article IV Consultation—Staff Report*. Washington, DC.

⁹ Department of Treasury. 2019. *Midyear Economic and Fiscal Outlook*. Port Moresby (July) shows that, although the government is off-track toward achieving ambitious targets set in the 2019 Budget, it is nonetheless making progress in holding recurrent spending.

and administration reforms that are expected to halt the negative trend in non-resource revenue collections by 2021.¹⁰ Since 2017, the government has shown a commitment to safeguarding funding for essential health services, and other social expenditure, with health spending benefitting from expenditure prioritization, reaching 10.6% of total government spending in 2018.¹¹

6. However, the lack of fiscal space and cash flow shortages continue to threaten the funding of essential services and require continued political commitment to prioritize limited resources; improve expenditure control and effectiveness, particularly in the areas of procurement, payroll, and subnational PFM systems; and increase performance of the public service. Development constraints in the areas of fiscal policy and national PFM systems that are addressed through the program are (i) an unsustainable fiscal position that risks leaving basic service delivery unfunded, (ii) gaps in PFM legislation, (iii) shortcomings in national budget documentation that hinder transparent resourcing of policy priorities as well as legislative and public scrutiny, and (iv) weak national procurement systems.

7. In mid 2019 PNG experienced political change, with the current Treasurer being appointed on 27 August 2019. He directed the budget presentation be moved into full alignment with the International Monetary Fund (IMF) Government Finance Statistics (2014) manual, thus expediting changes already underway and being supported by the program (para. 12).¹² This will have implications for budget targets and require an adjustment of the government's medium term fiscal strategy as 2019 budget execution is assessed and the 2020 budget is developed which will then need to be considered and addressed in Subprogram 3.

B. Policy Reform and ADB's Value Addition

8. **Government strategy.** The country's cascading strategic planning framework, incorporating the PNG Vision 2050, PNG's Development Strategic Plan (2010–2030), and its Medium Term Development Plan 3 (2018–2022), outlines PNG's strong commitment to effective leadership, good governance, performance management, and accountability, aiming to provide service delivery and ultimately, quality of life improvements.¹³ These high-level plans are implemented through a number of strategies and reform plans, including (i) the National Health Plan 2011–2020, a medium-term fiscal strategy (MTFS) that provides the framework for the annual budget; (ii) the Public Expenditure and Financial Accountability (PEFA) Road Map 2015–2018; and (iii) PFM strategies for the subnational level and the integrated financial management system (IFMS), which aim to strengthen PFM and enhance service delivery in provinces and districts.¹⁴ Government agencies' capacity to implement reforms is severely constrained by weak management and technical expertise, a small skills pool, limited financial resources, and an infant performance management system. The government has a mixed track record in implementing strategies and achieving targets and there is a risk that implementation will stall because of waning commitment to reform, the complex political economy, limited internal capacities, and a

¹⁰ Reforms focused on revenue, including tax policy and administration, are part of an ongoing World Bank program. World Bank. 2018. *First Economic and Fiscal Resilience Development Policy Operation Project*. Washington, DC.

¹¹ Government of PNG. 2019. *Final Budget Outcome 2018*. Port Moresby; and Sector Assessment (Summary): Public Sector Management (accessible from the list of linked documents in Appendix 2).

¹² See Comparison of PNG Budget Presentation and IMF Government Finance Statistics (accessible from the list of linked documents in Appendix 2). IMF. 2014. *Government Finance Statistics Manual 2014*. Washington D.C.

¹³ Independent State of Papua New Guinea. 2009. *Papua New Guinea Vision 2050*. Port Moresby; Government of PNG. 2010. *Papua New Guinea Development Strategic Plan, 2010–2030*. Port Moresby; and Independent State of Papua New Guinea. 2018. *Papua New Guinea Medium Term Development Plan 3, 2018–2022*. Port Moresby.

¹⁴ Government of PNG. 2010. *National Health Plan 2011–2020*. Port Moresby; Government of PNG. 2015. *Public Expenditure and Financial Accountability Road Map, 2015–2018*. Port Moresby; Government of PNG, Department of Finance. 2017. *Public Financial Management Sub-National Strategy*. Port Moresby; and Government of PNG, Department of Finance. 2017. *Integrated Financial Management System Sub-National Roll Out Plan*. Port Moresby.

lack of external assistance. Given these factors, the program will support reform prioritization, sequencing, and implementation; alignment of development partner assistance; and incentivize reform implementation (in addition to addressing financing needs of basic services).

9. **ADB engagement.** The program combines a policy-based operation and a project investment to support critical whole-of-government and sector reforms with health sector investments. The policy-based loans support fiscal policy, PFM, and health sector reforms while the project loan fill investment gaps to support PNG's progress toward universal health coverage. Subprogram 2 builds on subprogram 1 lessons, which include taking a flexible approach in view of emerging technical information and political windows of opportunity, and a stronger emphasis on development partner collaboration in support of policy actions. The program remains aligned with ADB's country partnership strategy for PNG, 2016–2020, supporting its strategic objective of converting the country's resource wealth into inclusive and environmentally sustainable economic growth through the operational priorities of primary health and public sector management.¹⁵ It will continue to support the implementation of PNG's strategic planning framework and related whole-of-government and sector reform plans (para. 7), contributing to the National Health Plan's goal of affordable, accessible, equitable, and high-quality health services for all citizens. The targeted effect of the reforms is a more sustainable and efficient health care system. As part of the program, subprogram 2 will continue implementation of critical whole-of-government and health sector reforms at the national and subnational levels, building upon reform progress made under the first subprogram and on ADB's prior support for the health sector and public sector management.¹⁶

10. **Policy actions.** After close consultation with the government policy actions for subprogram 2 and indicative actions for subprogram 3 (Appendix 4: Policy Matrix) were specified, with the aim of maximizing reform impact within given technical and political constraints. ADB and development partners' technical assistance (TA) has facilitated the government's most critical reform endeavors. In developing subprogram 2 indicative actions (identified at the time of subprogram 1) into final policy actions, attention was given to increasing the strength and specificity of each action, integrating and streamlining closely interrelated actions, and highlighting areas where the government had gone further than initially expected.

11. In reform area 1, an additional, and critical, area of policy engagement has been included in subprogram 3 around the improved management of the personal emoluments budget—an area comprising an estimated 31% of budget expenditure in 2019. Reform area 2 saw slower progress than hoped in creation of PHAs (hampered by the fluid political environment, which delayed necessary dialogue at the senior political level, and by delays in start-up of the program investment component). There was, however, stronger progress in financial management through the development of a chart of accounts specifically for PHAs. The MOF had not foreseen this during subprogram 1—it was identified by diagnostics (footnote 7). In reform area 3, changes reflected newly emerging evidence during reform implementation and from further in-depth analysis on the best-suited solutions to the identified bottlenecks—strong political commitment

¹⁵ ADB. 2019. *Country Partnership Strategy, Papua New Guinea: 2016–2020*. Manila.

¹⁶ ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant to Papua New Guinea for the HIV/AIDS Prevention and Control in Rural Development Enclaves*. Manila; ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant and Loan to Papua New Guinea for the Rural Primary Health Services Delivery Project*. Manila; ADB. 2016. *Technical Assistance to Papua New Guinea for Supporting Public Financial Management (Phase 3)*. Manila; ADB. 2014. *Technical Assistance for Mapping Resilience to Fragility and Conflict in Asia and the Pacific*. Manila; ADB. 2012. *Technical Assistance to Papua New Guinea for Supporting Public Financial Management (Phase 2)*. Manila; and ADB. 2015. *Health in Asia and the Pacific: A Focused Approach to Address the Health Needs of ADB Developing Member Countries—Operational Plan for Health, 2015–2020*. Manila.

was leveraged to achieve on-the-ground progress in the areas of medical procurement and distribution. These are areas of severely constrained government capacity for implementation, common in fragile states, and will benefit from continuous capacity development support through the project investment of the program. All changes are elaborated in the summary of changes from indicative actions.¹⁷ Increased specificity and additional actions have ensured the strength of the reform impacts have been, at least, maintained. All 17 of the final reform actions in subprogram 2, which support the three reform areas of the program, have been completed.

12. **Reform area 1: National frameworks and PFM enhanced.** Actions completed under subprogram 2 sought to build a stronger financial management foundation to support improved health services delivery, and more broadly, delivery of all government services.

13. The government aligned the 2019 budget with the MTF5 initially developed under subprogram 1.¹⁸ The 2019 budget projects public debt to reduce to 31.7% of GDP in 2019, and continue on this downward trend in line with the target of 30.0% of GDP by 2022. The domestic revenue-to-GDP ratio is projected at 14.8% in 2019, well above the medium-term minimum target of at least 14.0% by 2022. Ongoing commitment to health as a key development enabler is reflected in the Medium-Term Expenditure Strategy of the MTF5 and actual expenditure for 2018, and budget allocations for 2019 safeguard essential health services (para. 5). Women and children, as the main recipients of primary health services, will be the predominant beneficiaries of this. The government demonstrated its commitment to improved budget transparency and international comparability through further enhancements to the budget document to align it with the Government Finance Statistics Manual 2014 of the IMF, done in parallel with the historical format, with a view to shifting solely to the new format in 2020. More recently this has been fasttracked (para. 7). The improved classification will allow allocating, tracking, and reporting of resources against standard functional classifications. The government has introduced descriptive information about agencies and programs in the new version of the budget to provide members of Parliament with greater clarity on appropriations as well as improve in-year reporting and provide clear budget lines for family, maternal, and child health.

14. The Department of Finance (DOF) further reviewed the Public Finances (Management) Act 1995 (as amended in 2016) to ensure alignment with the new procurement and other related legislation, and to reflect reforms implemented from the PEFA Road Map, 2015–2018. Parliamentary approval of a further amendment to the Public Finances (Management) Act in 2018 strengthened the policy action; in comparison, the indicative action required only completion of review of the act. The National Procurement Act 2018 (based on the new procurement policy completed under subprogram 1) came into force in April 2019, with subprogram 2 supporting DOF endorsement of a 2-year implementation plan for the act. As a first step, DOF launched a new public procurement website to provide transparent information regarding tenders and awards, which again strengthens the indicative action identified at the time of subprogram 1 requiring only procurement plan approval.

15. Intended action by the Department of Health (DOH) to streamline the legal framework for health, after subprogram 1 supported the development of a discussion paper, has been removed from the program. This is a result of the discussion paper's recognition of the complex nature of this reform. While a critical piece in the government's health and decentralization reform agenda is to realign and simplify the legislative framework for health, it is expected that the necessary broad-based consultation will take several years to enable drafting instructions to be approved and intermediate actions would be heavily process oriented and unsuitable for program inclusion.

¹⁷ Summary of Changes from Indicative Actions (accessible from the list of linked documents in Appendix 2).

¹⁸ Government of Papua New Guinea. 2018. *2019 National Budget, Volume 1*. Port Moresby.

The DOH carried out initial consultations and a summary report was submitted to the minister of health in 2019. The project component of the program will continue to support and monitor progress given its long-term impact on the ongoing delivery of health services. The shift of this action to being supported by the project investment is balanced by stronger PFM actions (para 14) so subprogram strength is maintained

16. Subprogram 3 will continue to track the MTFSS targets to ensure the government's continued transition to a more sustainable fiscal path, while preserving prioritization of funding for health services. The Department of Treasury (DOT) will introduce reforms to better manage the large personal emolument expenditures and avoid continued overspending in the future. In addition, these reforms will allow for better forecasting, reviewing, and reporting expenditure. The new indicative action replaces the reform to streamline the health regulatory framework given the complications described in para. 14. The DOF will continue to update financial manuals and instructions and revise the implementation plan for procurement. A new indicative action for subprogram 3 reflects the publication of the PEFA assessment, which is expected to be completed by end 2019, and work planned to update the reform road map based on its findings.

17. **Reform area 2: Subnational health system management strengthened.** Actions completed under subprogram 2 sought to strengthen the institutional arrangements and operations (including planning and budgeting) in the health sector at the provincial level, as well as improve flow of funds to the provincial health sector and the capacity to monitor use of these funds. The investment component of the program will reinforce these actions by placing emphasis on building the capacity of the PHA boards and staff to manage the sector.

18. After one new PHA was created under subprogram 1, the DOH continued establishing PHAs under subprogram 2. While originally aiming to establish all 10 remaining PHAs during the subprogram 2 period, the DOH experienced challenges with capacity and issues with approvals as a result of the volatile political environment, and instead established six additional PHAs under subprogram 2, with the remainder to be established in subprogram 3. Each PHA signed a formal partnership agreement, appointed an acting chief executive officer and a board, which includes at least one woman (on three of the boards there are two or more women). To support the strengthening of PHAs, the National Executive Council approved regulations for chief executive and contract officers for PHAs and public hospitals that include (i) responsibilities and roles of boards; (ii) merit-based selection and performance requirements; (iii) leave entitlements, including maternity and breastfeeding leave; and (iv) disciplinary procedures. The DOH has approved the first release of a PHA manual with guidelines relating to human resources, financial management, and governance. The program project component will support further development of the manual, and under subprogram 3 new modules for gender-responsive budgeting and PFM will be included.

19. Subprogram 2 progressed several reform initiatives to strengthen the timely and reliable funding of PHAs as well as build PFM capabilities that are crucial for the delivery of essential health services across the local facility network. The 2019 national budget put into effect the direct transfers to PHAs for provincial and district hospital funding and health function grants, as designed under subprogram 1. Following the implementation of the IFMS as the sole system for budgeting, accounting, and financial reporting of public funds in all national departments and selected statutory authorities under subprogram 1, the DOF started the rollout of the IFMS to PHAs to assist in their financial management. In support of this work, the DOH developed and endorsed a chart of accounts under subprogram 2 that will allow for gender-responsive budgeting, accounting, and reporting of resources at the facility level. This is a newly added policy action.

20. All existing PHAs have prepared budgets that capture all funding sources and specifically show separate maintenance budgets for the provincial hospital, district hospital, and lower level

health facilities to ensure that infrastructure is maintained. The 11 PHAs that were established before 2017 produced 2017 annual reports, which have been published for the first time on the DOH website. All annual reports contain at least some sex-disaggregated data. The same PHAs further produced midyear budget execution reports for 2018, which informed the DOT-led midyear health sector expenditure review. The DOT referred the resulting review recommendations to the secretary-level Central Agencies Coordinating Committee, and its decisions, together with a status update on the previous year's decisions, were published as nonfinancial instructions in the 2019 budget book.¹⁹ Subprogram 3 will continue to support budgeting, and midyear and annual reporting of an increasing number of established PHAs, with document quality improving through capacity building delivered by the project investment of the program. In addition, the Auditor General's Office will audit at least five PHAs and publish the reports under subprogram 3.

21. **Reform area 3: Health service delivery components strengthened.** In seeking to strengthen health service delivery, subprogram 2 focused on improving the efficiency of medical supplies procurement and distribution, and enhancing the health partnerships that guide the delivery of more than 50% of PNG's primary health services. Subprogram 1 supported a review of outstanding medicine and medical supply orders, and underpinned a renewed focus from the Prime Minister's Office on the inadequacy of medicine procurement and distribution. Under subprogram 2, the chief secretary approved a pharmaceutical reform plan to be implemented by the DOH. The DOT established a technical working group to oversee progress of the plan and implementation started with the development of a set of metrics to monitor the supply chain in terms of stockouts, emergency orders, backlogs, and expired stock. DOH initiated the recruitment of a medical supply and distribution firm with specialist expertise to assist in further reforms which will be continued under subprogram 3. Sound progress enabled a strengthening of the indicative policy action identified at the time of subprogram 1.

22. A new policy action under subprogram 2 completed the update of the drug catalogue based on the World Health Organization's essential medicines list that was started under subprogram 1.²⁰ The updated catalogue has been approved by the DOH, was uploaded into the logistics management information system (LMIS) used in area medical stores and provincial hospitals, and is now the sole source of stock control and order management.²¹ To support better medical supplies management, a second new policy action to develop and endorse standard operating procedures for order management was introduced. This builds upon the substantial reduction in backlogs achieved under subprogram 1. The new procedures are expected to lead to a reduction in the volume of outdated (defined as older than 12 months) and partial orders to below 10% of all orders and ensure that less than 5% of all drugs ordered are outside the newly approved drug catalogue. The two new policy actions replace two indicative actions originally requiring (i) government budgeting for the LMIS, which continues to be funded by a development partner; and (ii) the DOH to develop a strategy for the "pull system" for medical supplies, with the project to support this reform as it is more substantial than originally anticipated (para. 21).

23. Partnerships with churches, nongovernment and civil society organizations, and the private sector (including large resource companies) are important in the delivery of health services across PNG, particularly in rural and remote areas. The DOH approved a framework for the ongoing monitoring of these partnerships and their memoranda of understanding. The implementation of this framework builds on the foundation work done in subprogram 1 to compile

¹⁹ For 2019, the budget book requires DOH to implement a drug management system with a database for drug procurement, management, and monitoring. This will be acted on as part of subprogram 3, reform area 3.

²⁰ The World Health Organization model lists of essential medicines provide a basis for a country to establish their own country context specific drug list. <https://www.who.int/medicines/publications/essentialmedicines/>.

²¹ In subprogram 1, the DOH also mandated the use of the tender management module of the LMIS for all medicine procurement and payments.

a list of the partnerships and will enable systematic monitoring and reporting on the status of these partnerships. The framework also tracks gender-responsive health services delivered by partners, and thereby helps the DOH in tracking these and expanding well-performing partnerships in the future. With specifications added to the indicative action defined at the time of subprogram 1, subprogram 3 will continue to implement medical supplies procurement and distribution reforms with assistance from a firm to be contracted under the project component of the program, including an independent assessment of the current LMIS for suitability and financial sustainability and the development of a 5-year procurement plan and budget.

24. **ADB value addition.** The mutually reinforcing project investment, reform implementation, and urgently needed financing provided under the program continue to maximize ADB's value addition. The interdepartmental technical working group set up under the program has proven to be a valuable forum where central and line agencies discuss and resolve coordination and prioritization issues beyond the reform program. Further, ADB's TA continues to provide support to the DOT on macroeconomic and fiscal policy design, strategy development, and budget reform, and to the DOH on health PFM, including the design of a suitable chart of accounts for PHAs and health partnership management.²² The project component of the program leads the pharmaceutical procurement reform assistance. ADB prepared a detailed health sector financing analysis, as part of ADB's support to fragile situations, and this has informed reform specification and implementation under subprogram 2 (footnote 7). The prioritization and sequencing of government reforms through the program further leverages TA by other development partners.

25. **Development partner coordination.** ADB continues to work closely with the Government of Australia, the European Union, the IMF, and the World Bank to support the government in strengthening its macroeconomic policy and PFM. The IMF and the World Bank continue assistance around domestic resource mobilization, and monetary and fiscal policy advice.²³ Australia provides support in PFM (including IFMS implementation), health sector reform (including health legal framework review), and decentralization. The European Union supports national procurement reform. The PFM working group meets quarterly, as do the health development partners. The priorities set in the program's policy matrix, through the technical working group, are shared with development partners in health and PFM roundtables, allowing greater leveraging of development partner support for the implementation of reform priorities.

C. Impacts of the Reform

26. The impacts of the reform contribute to the country's overarching development objective: to provide affordable, accessible, equitable, and high-quality health services for all citizens. At the aggregate level, the reforms are expected to continue increasing fiscal sustainability by supporting reductions in the fiscal deficit and public debt-to-GDP levels by 2022 in line with annual targets outlined in the MTFS, while increasing national budget resources available for the health sector. In addition, national and health-sector-specific reforms are expected to increase funds availability, and effectiveness and efficiency of resource use along the service delivery chain. The reforms are expected to help increase average annual health expenditure at the provincial level as a proportion of estimated need to at least 80% of estimated need for 2023–2024, and improve availability of essential medical supplies by substantially reducing stockouts by 2022–2023, among others (Appendix 1). This will contribute to improved services that reduce major direct costs of disease, including (i) loss of healthy life expectancy and adult earning power; (ii) costs of

²² ADB. 2016. *Technical Assistance to Papua New Guinea for Supporting Public Financial Management (Phase 3)*. Manila.

²³ The World Bank is processing their second tranche of a development policy operation, due for approval in 2020. World Bank. 2018. *First Economic and Fiscal Resilience Development Policy Operation*. Washington, DC.

medical treatment contributing to potential catastrophic out-of-pocket expenditures, which can significantly impact the consumption of other necessities and push families into poverty; and (iii) opportunity costs of caretakers for sick family members. The program impact assessment estimates that a 20% reduction in disability-adjusted life years lost through common conditions could result in economic savings of 2%–4% of gross national income, equivalent to about \$400 million–\$800 million in 2016 (the latest year for which disease burden data for PNG is available).²⁴

D. Development Financing Needs and Budget Support

27. The program considers the government’s financing needs; the availability of alternative financing, including the estimated financial support from other development partners; and debt sustainability. The IMF estimates that the government’s net borrowing requirements between 2018 and 2020 total about \$2.4 billion.²⁵ The 2019 national budget highlights net financing needs equivalent to roughly \$550 million, some of which will be covered by ADB financial assistance (footnote 18). The government has requested a regular loan of \$100 million from ADB’s ordinary capital resources to help finance subprogram 2. The loan will have a 15-year term, including a grace period of 3 years; an annual interest rate determined in accordance with ADB’s London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan agreement.

E. Implementation Arrangements

28. The program is expected to be implemented over 40 months from January 2017 to April 2020. The implementation period for subprogram 2 is March 2018–September 2019. The DOT will be the executing agency. The DOF and the DOH will be the implementing agencies. The proceeds of the policy-based loan will be withdrawn in accordance with ADB’s *Loan Disbursement Handbook* (2017, as amended from time to time).²⁶

III. DUE DILIGENCE

29. Following ADB’s Safeguard Policy Statement (2009), subprogram 2 is classified *category C* for environment, involuntary resettlement, and indigenous peoples. Program activities will be confined to policy and institutional reforms. No activity will result in or lead to involuntary resettlement, or negatively affect indigenous peoples or the environment.

30. **Gender.** Subprogram 2 is classified *effective gender mainstreaming* and focuses on supporting sustainable financial and health system management approaches that will provide better quality health services for all, particularly women and children. Policy actions include (i) prioritizing health sector budget allocations, with specific focus on ensuring budget for maternity, child health, reproductive health, and family planning services; (ii) supporting women in decision-making roles in the health sector through ensuring that at least one (out of nine) of the board of directors for each PHA is a woman; (iii) introducing new PHA and public hospital regulations that outline merit-based recruitment methods and gender-responsive leave entitlements, including maternity and breastfeeding leave, to encourage the appointment of more women, particularly in senior positions; (iv) including sex disaggregated data in PHA annual reports, and inclusion of specific budget lines for family, maternal, and child health funding at both national and PHA levels

²⁴ Program Impact Assessment (accessible from the list of linked documents in Appendix 2). Common conditions considered in the analysis are (i) tuberculosis; (ii) childhood-cluster infectious and parasitic diseases, including measles; (iii) malaria; (iv) maternal conditions; and (v) neonatal conditions. Indirect costs and other high prevalence conditions, including noncommunicable diseases benefit equally from improved health system functioning.

²⁵ International Monetary Fund Assessment Letter (accessible from the list of linked documents in Appendix 2).

²⁶ ADB. 2018. *Country Operations Business Plan: Papua New Guinea, 2019–2021*. Manila.

to allow for gender-responsive analysis of funding and expenditure; (v) revising the drug catalogue to ensure better stock of essential drugs, including contraceptives and maternal and neonatal medication; and (vi) developing an improved framework for health partnerships, which includes requirements to report and monitor against gender objectives. Other gender actions continue to be progressed through the gender action plan as part of project activities.

31. Promoting good governance and strengthening PFM are key priorities of the government, but systems and capacities remain fragile. A 2015 PEFA assessment identified substantial gaps, which are gradually being addressed through reforms identified and sequenced in the PEFA Road Map, 2015–2019.²⁷ A new PEFA assessment is expected to be completed by end 2019, based on which the government will develop an updated PFM reform road map. Despite weaknesses and systemic fragility, the government is assessed to have the ability to implement its budget, which is integral to the program’s success. The program and subprogram 2, complemented by development partner TA, contribute to the gradual reduction of critical fiduciary risks, including through procurement reform, implementation of the IFMS, and support to subnational PFM systems. Major risks and mitigating measures are summarized in Table 2 and described in detail in the risk assessment and risk management plan.²⁸ ADB’s Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the DOT.

Table 2: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Health funding flows	Policy actions will improve the flow of health function grants for facility operations and minor maintenance, while program actions and project activities will contribute to allocative and technical efficiency improvements that will help free up and prioritize resources for operation and maintenance.
Procurement corruption and collusion	The implementation of the National Procurement Act 2018 will achieve changes aimed at increasing transparency and accountability.
Low quality and timeliness of accounting, financial reporting, and monitoring	The program strengthens public finance management through establishing standard processes, building capacity through training programs, and strengthening financial management information systems to establish better financial controls and compliance.

Source: Asian Development Bank.

IV. ASSURANCES AND CONDITION

32. The government has assured ADB that implementation of subprogram 2 shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan agreement. It is a condition of loan effectiveness that the government has met the policy actions for the release of the tranche for the second subprogram, and those policy actions continue to be in effect.

V. RECOMMENDATION

33. I am satisfied that the proposed policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$100,000,000 to Papua New Guinea for subprogram 2 of the Health Services Sector Development Program, from ADB’s ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB’s London interbank offered rate (LIBOR)-based lending

²⁷ IMF. 2015. *Papua New Guinea: Public Expenditure and Financial Accountability Assessment*. Washington, DC. See also public sector management assessment (accessible from the list of linked documents in Appendix 2) and the program impact assessment (footnote 24) for details on PFM weaknesses and reform initiatives.

²⁸ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

14 October 2019

DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objective Affordable, accessible, equitable, and high-quality health services for all citizens developed (National Health Plan 2011–2020) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Effect of the Reform A more sustainable and efficient health care system achieved	By end 2024: a. Average annual provincial health expenditure as a proportion of estimated need increased to at least 80% for 2023–2024 (2013–2014 baseline: Average of 53.5%) b. Average annual percentage of months that facilities do not have a shortage of any of eight essential supplies for more than 1 week in any month increased to at least 85% for 2022–2023 (2015–2016 baseline: Average of 69%) ^b	a. Annual Department of Health sector performance annual review reports b. Annual Department of Health sector performance annual review reports	Internal or external shocks undermine fiscal consolidation, the safeguarding of health spending, and policy reform efforts. Changes in government priorities and political pressures undermine prudent fiscal management and the safeguarding of resources for essential health services.
Reform Areas Subprogram 2 1. National frameworks and PFM enhanced	Key Policy Actions By 30 June 2019: 1a. Public Finances 1995 (Management) Act amendments approved by NEC (2018 baseline: None) 1b. International Monetary Fund Government Financial Statistics Manual 2014 national budget for FY2019 that includes specific budget lines for family, maternal, and child health services approved (2018 baseline: None) 1c. National Procurement Act 2018 has come into force	1a. NEC approval 1b. Government Financial Statistics Manual National Budget FY2019 1c. National Procurement Act 2018 approved in Parliament	Changes in priorities of government shift resources away from identified reform areas. Limited capacity, poor performance management, and staff turnover undermine reform implementation and lead to poor collaboration between departments and agencies.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	(2018 baseline: none)		
2. Subnational health system management strengthened	<p>By 30 June 2019:</p> <p>2a. PHA and public hospital regulations for chief executive officer and contract officer approved by NEC that include leave entitlements for maternity and breastfeeding leave (2018 baseline: None)</p> <p>2b. Six additional PHAs established with acting chief executive officer and board, including at least one woman, approved^c (2018 baseline: 11 established PHAs)</p> <p>2c. PHA budgets include routine maintenance for health facilities and capture all resources for subnational health service delivery (2018 baseline: None)</p> <p>2d. Annual reports FY2017, including sex-disaggregated data, produced and published (2018 baseline: None)</p> <p>2e. Chart of accounts for use by PHAs approved that allows for gender budgeting and tracking for family, maternal, and child health services (2018 baseline: None)</p>	<p>2a. NEC approval and regulations</p> <p>2b. Copies of government gazettes of appointments</p> <p>2c. PHA 2019 budgets</p> <p>2d. PHA annual reports</p> <p>2e. PHA chart of accounts</p>	
3. Health service delivery components strengthened	<p>By 30 June 2019:</p> <p>3a. Technical working group to oversee medicine procurement</p>	<p>3a. Copy of technical working group meeting</p>	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>and distribution reform plan established (2018 baseline: None)</p> <p>3b. All area medical stores and provincial hospitals have implemented a revised drug catalogue and are using it as the sole source of stock control and order management (2018 baseline: None)</p> <p>3c. Health Partnership Framework for monitoring has been approved with new data required on reporting against gender equality outcomes (2018 baseline: None)</p>	<p>minutes and of reform plan</p> <p>3b. Logistics information management system reports showing drug catalogue item codes</p> <p>3c. Copy of Health Partnership Framework</p>	
<p>Budget Support Asian Development Bank: \$100 million (loan)</p>			

FY = fiscal year, NEC = National Executive Council, PFM = public financial management, PHA = Provincial Health Authority.

^a Government of Papua New Guinea. 2010. *National Health Plan 2011–2020: Transforming our Health System towards Health Vision 2050*. Port Moresby.

^b Essential medical supplies comprise Depo-Provera injections (family planning), ergometrine (maternal health), measles vaccines, oral rehydration solutions (diarrheal disease), oxygen, amoxicillin tablets, artemisia combination, and baby books.

^c Boards have nine members in total. On each board, at least one member must be a woman.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=51035-003-3>

1. Loan Agreement
2. Sector Assessment (Summary): Health Sector
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Assessment Letter
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items
10. Approved Report and Recommendation of the President to the Board of Directors: Health Services Sector Development Program (Subprogram 1)

Supplementary Documents

11. Sector Assessment (Summary): Public Sector Management
12. Program Impact Assessment
13. Summary of Changes from Indicative Actions
14. PNG Budget Presentation and IMF Government Finance Statistics Presentation

DEVELOPMENT POLICY LETTER



INDEPENDENT STATE OF PAPUA NEW GUINEA

MINISTER FOR TREASURY

23rd September, 2019

Mr. Takehiko Nakao
President
Asian Development Bank
Manila
Philippines

Dear President Nakao,

GOVERNMENT OF PAPUA NEW GUINEA DEVELOPMENT POLICY LETTER

1. This letter outlines the development priorities and major policies of the Government of Papua New Guinea. The Government continues to be committed to critical reform initiatives to strengthen public financial management and the wider health sector for the improvement of health service delivery and the development of Papua New Guinea more broadly. This letter should be read in conjunction with the attached Policy Matrix in which we have identified the key initiatives for attention over the remaining two subprograms to be implemented in 2019 and 2020. These initiatives are crucial to create a sustainable system that will support ongoing health service delivery.
2. The 2019 national budget highlights net financing needs equivalent to roughly \$550 million, a share of which to be covered by ADB financial assistance through budget support of \$100 million for subprogram 2. Social sectors remain the spending priority of the new government and the government has demonstrated increasing commitment to safeguarding funding for essential health services, as supported under the program, with health budgets disproportionately benefitting from increased resources, resulting in gradual increases of the share of health to 10.6% of total government spending in 2018.
3. I therefore seek ADB's favorable consideration of a loan for a total of US\$300 million. Subprogram 1 disbursed US\$100 million in 2018. For subprogram 2 we seek US\$100 million in 2019, and for subprogram 3 we seek US\$100 million in 2020. The attached program policy matrix which contains confirmed actions for subprogram 2 and indicative actions for subprogram 3, as agreed between the Government and ADB, is in line with the Government's policy reform agenda. The policy matrix is appropriate for PNG's context and is within our capacity to accomplish.
4. The substantive policy actions for subprogram 2 as outlined have all been completed by Mid Year Economic Fiscal Outlook (MYEFO) dated 31st July 2019. In order to enhance national sector frameworks and public finance management, reforms completed under subprogram 2 included (i) ongoing alignment to the medium-term fiscal strategy with 2019 budget debt estimates for 2018 of 30.9%, and 30.8% in 2019, in line with the target of 30% of GDP by 2022 and domestic revenue-to-GDP ratio (i.e. excluding grants) projected at 15% in 2019 as progress to the target of

14% by 2022 as shown in the MYEFO, as well as ongoing commitment to safeguarding essential health services; (ii) Parliament approval of the Public Finances (Management) (Amendment) Act 2018; (iii) introduction of improved budget processes through the use of IMF Government Finance Statistics Manual 2014 in additional areas of the 2019 budget; and (iv) the approval of an implementation plan for the National Procurement Act 2018 and the launch of a public procurement website.

5. This government, under Prime Minister Marape which came into being in May 2019 has as its most pressing priority the economic well-being of Papua New Guinea. Further when I became Treasurer on 27 August 2019, I directed that we move our budget presentation into full alignment with the IMF Government Finance Statistics Manual 2014 as soon as possible. This elevates the pace of reform initially envisioned in the program. Government and IMF figures will be brought closer together, and while this will have implications for budget targets and require reassessment of our medium-term fiscal strategy going forward I am committed to ensuring a strong and transparent budget which continues to safeguard key social expenditures.

6. To strengthen subnational health system management, reforms completed under subprogram 2 included (i) the establishment of six additional provincial health authorities (PHA); (ii) the National Executive Council has approved the Regulations for PHA and Public Hospital Chief Executive Officer and Contract Officers; (iii) the Department of Health has approved a PHA Manual; (iv) the 2019 budget contains direct transfers to existing PHAs including provincial and district hospital funding; (v) existing PHAs have basic maintenance budgets for provincial and district hospitals as well as lower level health facilities; (vi) established PHAs have published budgets for subnational health delivery including health function grants; (v) the mature PHAs have submitted mid-year budget execution reports for 2018 and annual reports for 2017; (vi) the Department of Health approved a new chart of accounts for use by PHAs as part of the implementation of the integrated financial management system; and (vii) a health expenditure review was undertaken by Department of Treasury, recommendations submitted to the Central Agencies Coordinating Committee and a resulting non-financial instruction published in the 2019 budget.

7. To strengthen health service delivery, reforms completed under subprogram 2 included (i) the approval of an implementation plan for a reform program to improve medicine procurement and distribution; (ii) a standard operating procedure developed to improve medicine procurement monitoring and practices; (iii) a revised drug catalogue approved and in use by area medical stores and provincial hospitals; and (iv) an approved framework for the monitoring of health partnerships with civil society, development partners and others.

8. Future reforms have been proposed for subprogram 3 to continue the strong work done in subprograms 1 and 2. These include ongoing budget reform, updated financial instructions, the publishing of the report of findings following the Public Expenditure and Financial Accountability assessment, ongoing public procurement reform, processes to aid in the ongoing improvement of expenditure (in particular personal emoluments), additional PHAs established with all the appropriate approvals and with budget discipline improvements to all PHAs, at least five PHAs audited by the Auditor General's Office, and ongoing reforms as per the approved plan for medicine procurement and distribution.

9. I am confident that the Government's strong leadership and ownership of the reforms, supported by financial and technical assistance from ADB, and effective development partner collaboration over the medium term, will result in the successful implementation of reforms to

create long term fiscal sustainability and improved health service delivery for Papua New Guineans.

Yours sincerely,



HON. IAN LING – STUCKEY, CMG. MP
Minister for Treasury



POLICY MATRIX

Reform Area	Subprogram 2 Actions	SP3 Indicative Actions as per RRP
Reform Area 1: NATIONAL SECTOR FRAMEWORKS AND PUBLIC FINANCIAL MANAGEMENT ENHANCED		
1.1 Fiscal framework and prioritization of aggregate budget allocations improved	<p>1.1.1 Parliament has approved the FY2019 national budget that maintains the targets outlined in the Medium Term Fiscal Strategy that includes</p> <ul style="list-style-type: none"> (i) debt estimates for 2018 of 30.9% and projections of 30.8% in 2019 in line with the target of 30% of GDP by 2022, (ii) domestic revenue-to-GDP ratio (i.e. excluding grants) projected at 15% in 2019 as progress to the target of 14% by 2022, and (iii) a fiscal anchor targeting 2/3 of (primary) expenditure on key enablers including to safeguard essential health services.¹ 	<p>1.1.1 Department of Treasury shall have delivered FY2020 national budget that maintains the targets outlined in the Medium Term Fiscal Strategy.</p>
1.2 National Public Finance Management (PFM) regulatory framework, systems and processes improved	<p>1.2.1 Parliament has approved the Public Finances (Management) (Amendment) Act 2018 to address gaps identified as part of the Public Expenditure and Financial Accountability Road Map, 2015–2018.</p> <p>1.2.2 Department of Treasury has introduced improved budget processes through the use of IMF Government Finance Statistics Manual 2014 in the budget FY2019, including</p> <ul style="list-style-type: none"> (i) restructured national budget formats that strengthens tracking of allocations and in-year budget reporting by sector (e.g., using classifications of the functions of government at the spending agency level, and program level for agencies that cover two or more functions), (ii) publication of descriptive information at the program level and performance information by department/spending agency in the national budget, and 	<p>1.2.1 Department of Finance shall have published the updated legislation on their website including the financial management manual and all financial instructions.</p> <p>1.2.2 DOT shall have continued to implement improved budget processes, (including gender responsive budgeting actions), classification and formats, strengthening integrated budgeting process for recurrent and capital spending.</p>

¹ As outlined in the Medium Term Development Plan III (MTDP) 2018-2022. This references the importance of equitable health services, particularly for women and girls, and highlights the importance of maternal and birth related services, and reproductive healthcare and family planning services.

Reform Area	Subprogram 2 Actions	SP3 Indicative Actions as per RRP
	(iii) separate budget line items for family, maternal and child health.	
		1.2.3 Secretary of Finance shall have approved financial instructions for the District Service Improvement Program and Provincial Service Improvement Program grants and published them on the Department of Finance website.
		1.2.4 Department of Finance shall have completed a National Public Expenditure and Financial Accountability self-assessment and the final report has been published on their website.
1.3 National procurement reform	<p>1.3.1 Department of Finance has</p> <p>(i) approved an implementation plan for the National Procurement Act 2018 that strengthens the procurement frameworks and provides clear separation of functions and roles of tender boards and public and statutory bodies, and</p> <p>(ii) launched a public procurement website that provides procurement information, current tenders and awards to enhance the transparency of public procurement.</p>	1.3.1 Department of Finance shall have completed the actions as outlined in the National Procurement Act 2018 implementation plan approved under subprogram 2.
1.5 Budget expenditure reform		<p>1.5.1 Department of Treasury shall have introduced reforms that will improve the management of the personal emolument budget including</p> <p>(i) payroll management reports that will establish targets against approved budget and display (%) variances against target and actuals (via the integrated financial management system and Alesco payroll system),</p> <p>(ii) Cash flow forecast reporting that will be used to forecast personal emolument expenditure for the following quarters, and</p> <p>(iii) an improved forecasting process that will provide a three way reconciliation process for agencies to estimate realistic personal emolument forecasts.</p>

Reform Area	Subprogram 2 Actions	SP3 Indicative Actions as per RRP
Reform Area 2: SUBNATIONAL HEALTH SYSTEM MANAGEMENT STRENGTHENED		
2.1 Health institutional arrangements strengthened	<p>2.1.1 Department of Health has established an additional six Provincial Health Authorities (East New Britain, Northern/Oro, Gulf, Morobe, Jiwaka, Madang) with</p> <ul style="list-style-type: none"> (i) signed Provincial Health Partnership Agreements between Department of Health and the relevant provincial government, (ii) organizational structures approved by the Department of Personnel Management, and (iii) Acting Chief Executive Officer and Board of Directors appointed. At least one Director on each Board of Directors shall be a woman². 	<p>2.1.1 Department of Health has established the final four Provincial Health Authorities (Central Province, Simbu, Western Province, National Capital District) with</p> <ul style="list-style-type: none"> (i) signed Provincial Health Partnership Agreements between Department of Health and the relevant provincial government, (ii) organizational structures approved by the Department of Personnel Management, and (iii) Acting Chief Executive Officer and Board of Directors appointed. At least one Director on each Board of Directors shall be a woman.
	<p>2.1.2 National Executive Committee has approved Provincial Health Authority and Public Hospital Regulations (Chief Executive Officer and Contract Officer) that include</p> <ul style="list-style-type: none"> (i) responsibilities of boards and the roles on the board, (ii) merit based selection and performance requirements, (iii) leave entitlements, including maternity and breastfeeding leave, and (iv) disciplinary procedures. 	
	<p>2.1.3 Department of Health has endorsed the Provincial Health Authority Manual including guidelines for human resources, finance, governance and board procedures.</p>	<p>2.1.3 Secretary of Health shall have approved additional modules to the Provincial Health Authority Manual that includes public financial management and gender responsive budgeting and reflects changes to legislation including the Public Finances (Management) (Amendment) Act 2018, National Procurement Act 2018 and others as appropriate.</p>
2.2 Health sector funds flows	<p>2.2.1 Parliament has approved the FY2019 budget showing direct transfers to all existing Provincial Health Authorities (Milne Bay, Western Highlands, Eastern Highlands, Southern Highlands, New Ireland, West New Britain, Manus, Enga, Hela,</p>	<p>2.2.1 Parliament shall have approved FY2020 budget showing direct transfers to all existing Provincial Health Authorities (Western Highlands, Eastern Highlands, Southern Highlands, West New Britain, Hela, Milne Bay, Enga, East Sepik, Manus,</p>

² At least one out of nine board members will be a woman.

Reform Area	Subprogram 2 Actions	SP3 Indicative Actions as per RRP
	<p>Sanduan, East Sepik, Madang, Morobe, Oro) including provincial and district hospital funding.</p> <p>2.2.2 To ensure sustainability of health facilities Department of Health has approved basic maintenance budgets³ for the 11 established Provincial Health Authorities that include</p> <p>(i) the provincial hospital,</p> <p>(ii) the district hospitals, and</p> <p>(ii) the network of lower level facilities included under the Provincial Health Authority.</p>	<p>West Sepik, New Ireland, East New Britain, Gulf, Morobe, Northern/Oro, Jiwaka, Madang) including provincial and district hospital funding.</p> <p>2.2.2 To ensure sustainability of health facilities Department of Health shall have approved basic maintenance budgets for the additional 6 established Provincial Health Authorities that include:</p> <p>(i) the provincial hospital,</p> <p>(ii) the district hospitals, and</p> <p>(ii) the network of lower level facilities included under the Provincial Health Authority.</p>
2.3 Health sector planning and budgeting	<p>2.3.1 All established Provincial Health Authorities (Western Highlands, Eastern Highlands, Southern Highlands, West New Britain, Hela, Milne Bay, Enga, East Sepik, Manus, West Sepik, New Ireland) have published budgets for FY2019 that capture all resources (regardless of expenditure authority and funds flows) for subnational health service delivery, including health function grants (for Provincial Health Authorities eligible to receive these grants).</p>	<p>2.3.1 All established Provincial Health Authorities (Western Highlands, Eastern Highlands, Southern Highlands, West New Britain, Hela, Milne Bay, Enga, East Sepik, Manus, West Sepik, New Ireland, East New Britain, Gulf, Morobe, Northern Highlands, Jiwaka, Madang) shall have and published budgets with for FY2020 that capture all resources (regardless of expenditure authority and funds flows) for subnational health service delivery, including health function grants (for Provincial Health Authorities eligible to receive these grants).</p>
2.4 Health sector accounting and reporting	<p>2.4.2 Department of Health has enforced</p> <p>(i) submission of mid-year budget execution reports for FY2018 for 11 Provincial Health Authorities to Department of Treasury, and</p> <p>(ii) publication of annual financial and performance reports for FY2017 for 11 Provincial Health Authorities established prior to end FY2017 including sex-disaggregated data.</p>	<p>2.4.2 Department of Health shall have confirmed</p> <p>(i) submission of mid-year budget execution reports for FY2019 for at least 14 PHAs to Department of Treasury, and</p> <p>(ii) ensured published annual financial and performance reports for FY2018 for 14 Provincial Health Authorities established prior to end FY2018 including sex-disaggregated data.</p> <p>(iii) An annual report template will be produced for use for FY2019 annual reports that will take advantage of the accessibility of all PHAs to standard sex-disaggregated data (through chart of</p>

³ This includes focus on maternal and child health services.

Reform Area	Subprogram 2 Actions	SP3 Indicative Actions as per RRP
	<p>2.4.3 Department of Health has approved a new chart of accounts for use by Provincial Health Authorities (through the integrated financial management system) that includes a separate program and facility-based activities for family, maternal and child health services to enable separate budgeting, accounting and reporting of resources which allows for gender responsive budget tracking.</p>	<p>accounts) and guidelines for gender responsive budgeting (through Provincial Health Authority manual).</p>
<p>2.5 Health sector internal and external scrutiny</p>	<p>2.5.1 Department of Treasury has</p> <ul style="list-style-type: none"> (i) completed a health expenditure review in 2018 and submitted recommendations to the Secretary-level Central Agencies Coordinating Committee, and (ii) published resulting decisions as non-financial instructions in the FY2019 budget book demanding Department of Health to have a drug management system that creates a data base for drug procurement, management and monitoring. 	<p>2.5.1 Department of Treasury shall have</p> <ul style="list-style-type: none"> (i) held at least 1 health expenditure review in 2019 including a gender analysis and published the review reports on the Department of Treasury website, (ii) submitted recommendations to the Secretary, and (iii) published decisions as non-financial instructions in the FY2019 budget book, also showing non-financial instructions outstanding from the previous year.
		<p>2.5.2 Auditor General’s Office shall have</p> <ul style="list-style-type: none"> (i) audited, directly or through a contracting out arrangement, at least five Provincial Health Authorities that receive primary health and hospital service funds, and (ii) published the audit reports on its website.
<p>Reform Area 3: HEALTH SERVICE DELIVERY COMPONENTS STRENGTHENED</p>		
<p>3.1 Medical supplies procurement and distribution efficiency improved</p>	<p>3.1.1 Chief Secretary has approved a plan for implementation by Department of Health to reform medicine procurement and distribution. The plan has resulted in</p> <ul style="list-style-type: none"> (i) establishment of a technical working group to oversee progress on reforms, (ii) development of a set of metrics to monitor the current supply chain, and 	<p>3.1.1 Department of Health will have engaged a medical supply and distribution firm to implement reforms including</p> <ul style="list-style-type: none"> (i) conducting an independent assessment of the current logistics management and information system for suitability and financial sustainability, and (ii) develop a 5-year procurement plan and budget.

Reform Area	Subprogram 2 Actions	SP3 Indicative Actions as per RRP
	<p>(iii) commencement of recruitment of a medical supply and distribution firm to carry out further implementation.</p> <p>3.1.2 Secretary of Health has approved a Standard Operating Procedure to improve medical procurement practices including</p> <p>(i) systemic ordering process of medicines and drugs with the intention of minimizing order backlog,</p> <p>(ii) a target to keep the volume of outstanding and partial purchase orders below 10% of overall orders, and</p> <p>(iii) a target for drugs not appearing in the drug catalogue being below 5% of overall purchases.</p> <p>3.1.3 Department of Health has approved and implemented a revised drug catalogue across all 4 area medical stores and 5 provincial hospitals and is used as the sole source of stock control and order management.</p>	
<p>3.2 Health partnerships</p>	<p>3.2.1 Secretary of Health has approved a framework for ongoing monitoring of the health partnerships and memorandum of understanding agreements with churches, non-government and civil society organizations, development partners, and private sector partners in effect at the national and subnational level (including which partnerships have a gender equity focus) to strengthen health partnership benefits.</p>	