Report and Recommendation of the President to the Board of Directors

Project Number: 53424-001
November 2020

Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1
Papua New Guinea: State-Owned Enterprises Reform Program

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Asian Development Bank
CURRENCY EQUIVALENTS
(as of 26 October 2020)

Currency unit – kina (K)
K1.00  =  $0.286
$1.00  =  K3.496

ABBREVIATIONS

ADB  –  Asian Development Bank
ANL  –  Air Niugini Limited
COVID-19  –  coronavirus disease
CSO  –  community service obligation
DOT  –  Department of the Treasury
GBT  –  General Business Trust
GDP  –  gross domestic product
IMF  –  International Monetary Fund
KCH  –  Kumul Consolidated Holdings
NEC  –  National Executive Council
PBL  –  policy-based loan
PNG  –  Papua New Guinea
PPL  –  PNG Power Limited
PPP  –  public–private partnership
PPP Act  –  Public–Private Partnerships Act 2014
SOE  –  state-owned enterprise
TA  –  technical assistance

NOTE

In this report, "$" refers to United States dollars.
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<tr>
<th><strong>Vice-President</strong></th>
<th>Ahmed M. Saeed, Operations 2</th>
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<tr>
<td><strong>Director General</strong></td>
<td>Leah Gutierrez, Pacific Department (PARD)</td>
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<td><strong>Deputy Director General</strong></td>
<td>Emma Veve, PARD</td>
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<td><strong>Director</strong></td>
<td>David Hill, Country Director, Papua New Guinea Resident Mission (PNRM), PARD</td>
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In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.
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## PROGRAM AT A GLANCE

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<td><strong>Project Name</strong></td>
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| **Mitigation ($ million)** 0.00 |

| **Cofinancing** | **Adaptation ($ million)** 0.00 |
| **Mitigation ($ million)** 0.00 |

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| 4. Risk Categorization: | Complex |

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**Currency of ADB Financing:** US Dollar

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Source: Asian Development Bank

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I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed programmatic approach for the State-Owned Enterprises Reform Program, and (ii) a proposed policy-based loan to Papua New Guinea (PNG) for subprogram 1 of the State-Owned Enterprises Reform Program.¹

2. The program, comprising three subprograms, will improve the operational performance and financial sustainability of state-owned enterprises (SOEs) and help strengthen service delivery. The program is consistent with the Asian Development Bank (ADB) Strategy 2030 operational priorities of strengthening governance and institutional capacity (including SOE reforms to improve service delivery) and accelerating progress in gender equality.² The program aligns with priorities of the PNG country partnership strategy, under which ADB will support SOE reform, business environment improvement, and greater competition.³ The program also aligns with the International Monetary Fund’s (IMF) staff-monitored program for PNG.⁴

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **Macroeconomic context.** PNG is a small and fragile economy, heavily reliant on commodity exports. Real gross domestic product (GDP) grew 7.7% annually during 2013–2016, driven by liquefied natural gas investment and exports. Growth fell to 1.3% during 2017–2018 due to softer commodity prices and disasters caused by natural hazards. After expansionary policies led to fiscal deficits averaging 5.6% of GDP during 2013–2016, expenditure controls (largely through cuts in capital spending and the accumulation of substantial arrears, including in utility payments) reduced the deficit to 2.6% during 2017–2018.⁵ The economy rebounded in 2019 as GDP grew 5.0%, underpinned by recovery in energy and mineral production following an earthquake in 2018. With low global commodity prices, payments on arrears, and low revenue collection, the fiscal deficit reached 4.9% of GDP in 2019. Sustained deficits contributed to an increase in public debt from 17.4% of GDP in 2011 to 39.8% of GDP in 2019.⁶

4. The coronavirus disease (COVID-19) pandemic hit PNG as the government was embarking on significant fiscal consolidation to achieve a primary surplus and reduce public debt to below 40% of GDP in the medium term.⁷ PNG has been affected by export losses and restrictions to mitigate COVID-19 transmission. Pre–COVID-19 growth was projected at 2.1% for 2020 but the economy is now projected to contract by 2.9%. Dampened revenues and stimulus expenditures will lead to a financing gap of 8.2% of GDP in 2020, higher than the pre–COVID-19

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¹ This lending proposal was not included in Asian Development Bank (ADB). 2019. *Country Operations Business Plan: Papua New Guinea (2020–2022).* Manila. The government requested financial assistance through a letter dated 24 July 2019 as an addition to the country operations business plan. ADB’s Pacific Department confirmed that the 2020 resource envelope could accommodate such assistance. The design and monitoring framework is in Appendix 1.


⁵ Macroeconomic Management (accessible from the list of linked documents in Appendix 2).

⁶ A recalibration exercise in 2019 brought substantial contingent liabilities into official debt figures.

⁷ As of 1 November 2020, PNG had 589 confirmed cases and 7 reported deaths because of COVID-19.
projection of 5.0%. Public debt is expected to rise to 49.8% of GDP in 2020. The IMF assesses PNG to be at high risk of external and overall debt distress after COVID-19. The medium-term macroeconomic framework is considered adequate, with the IMF projecting the fiscal deficit to fall to 3.2% of GDP in 2024 and public debt to 42.6% of GDP in 2025, as measures to curb recurrent spending resume and revenue recovers. Public debt is assessed as sustainable based on PNG’s commitment to fiscal consolidation under the IMF’s staff-monitored program.

5. **State-owned enterprise performance.** Most essential services in PNG—including energy, water supply, telecommunications, ports, and air transport—are provided through SOEs. Kumul Consolidated Holdings (KCH) is the holding company for the government’s non-mineral, oil, and gas assets through the General Business Trust (GBT). The GBT owns government shares in nine SOEs, regulated by the Independent Public Business Corporation of Papua New Guinea (Kumul Consolidated Holdings) (Amendment) Act 2015 (KCH Act). KCH is the trustee of the GBT and oversees SOE performance. KCH reports to the National Executive Council (NEC) (comprising all ministers) through the Minister for State Enterprises, who is responsible for all policy matters related to the SOE portfolio. The government is also the majority shareholder in two resource companies: Kumul Petroleum Holdings and Kumul Mineral Holdings.

6. SOEs consistently demonstrate poor operational and financial performance. Incomplete financial data indicate that the overall profitability of SOEs has declined since 2015. Their consolidated losses increased to K142.7 million in 2018 from K54.3 million in 2017. The consolidated SOE debt was estimated to be K5.8 billion as of March 2019, of which K2.1 billion was commercial debt. Given the important (and often monopolistic) role that SOEs have in delivering services, their continued weak performance results in expensive, inefficient, and low-quality service provision and makes the economy less competitive. Part of SOE debt represents a contingent liability and exposes the government to fiscal risk.

7. **Key constraints.** A weak overarching policy and legal framework undermines commercial principles, contributing to poor operational performance. The KCH Act provides considerable scope for political considerations to override commercial imperatives, including in board composition of government majority–owned SOEs. Performance evaluation procedures for SOE board members are unclear. Efficiency and profitability are not emphasized as SOE objectives.

8. Several earlier policy initiatives stalled due to inadequate political and administrative support. The government did not implement its community service obligation (CSO) policy with NEC approval, more than half without adequate economic and financial viability assessments.

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9 The staff-monitored program includes measures and targets to tighten expenditure controls, reinvigorate revenue reforms, restore exchange rate flexibility, initiate SOE reforms, and deal with corruption (footnote 4).
10 Sector Assessment (Summary): Public Sector Management (accessible from the list of linked documents in Appendix 2).
12 Not all SOE debt is recorded in the consolidated debt figures in the budget. Several SOE loans have been contracted without NEC approval, more than half without adequate economic and financial viability assessments.
13 Assistance for these efforts was provided by ADB through the Private Sector Development Initiative. ADB. 2006. Technical Assistance for Private Sector Development Initiative. Manila; ADB. 2009. Technical Assistance for Private Sector Development Initiative, Phase II. Manila; ADB. 2013. Technical Assistance for Private Sector Development Initiative, Phase III. Manila.
(approved by NEC in 2012), which provides a framework for the identification and financing of noncommercial services rather than the current practice of opaque cross-subsidization. A Public–Private Partnership Act 2014 (PPP Act) was gazetted in 2018. However, it was not implemented, and the few public–private partnerships (PPPs) that have been negotiated in PNG were on an ad hoc basis. A draft national competition policy, prepared in 2018 and calling for all SOEs to adhere to the principles of competitive neutrality, remained unapproved in mid-2020.

9. The absence of an effective SOE oversight mechanism inhibits timely reporting and disclosure and reduces accountability. Most SOEs do not produce annual financial statements in a timely manner and have a major accounting backlog. Audited annual financial statements are not publicly available. Planning processes are weak and annual operating plans often delayed or not prepared. Most SOEs do not prepare statements of corporate intent or systematically develop key performance indicators. Boards and management in many SOEs lack qualified and experienced personnel, and some directors have been appointed through nontransparent processes. As a result, corporate governance does not receive adequate emphasis, and the performance of SOE board members is not systematically monitored and assessed. Women are underrepresented in SOE boards; only 2 of 48 SOE directors were women in 2019.

10. Many SOEs face specific financial constraints that affect their performance. PNG Power Limited (PPL) has high debt exposure, estimated at K1.21 billion in 2019. It works with several sole-sourced independent power producers and has not systematically pursued commercially attractive opportunities. Financial management and procurement systems are improving but still weak. Air Niugini Limited (ANL) undertook major reforms in 2018 to eliminate loss-making international routes and turned a net operating loss after tax of K115 million in 2018 into a profit of K8 million in 2019. However, on account of flight restrictions and lack of traveler confidence because of COVID-19, ANL projects a net operating loss after tax of K198 million in 2020. Large unpaid bills from government clients make it difficult for PPL and ANL to reduce losses. ANL and KCH have noncore assets that could be monetized to generate cash flows, and a few relatively well-performing SOEs (such as Motor Vehicle Insurance Limited and Post PNG Limited) could be partially privatized, but capacity and institutional weaknesses constrain progress. The two water utilities, Eda Ranu (serving the national capital district) and Water PNG Limited (serving the rest of PNG), are being merged to reduce overheads and increase efficiency, but progress has been delayed by low institutional capacity.

11. ADB contributions. ADB has long been engaged in SOE reforms in PNG through regional technical assistance (TA) (para. 8). The same TA has supported benchmarking SOE performance since 2012 and conducted feasibility assessments for PPPs for the National Airports Corporation, PPL, PNG Ports Corporation, and Eda Ranu. Results have been mixed, depending on political commitment and administrative support (footnote 10). ADB has built strong relationships with SOEs through engagement in water and energy projects. ADB has supported financial management of SOEs, including occasional direct assistance to finalize annual accounts. While earlier reform progress was slow (para. 8), the current administration’s commitment to SOE reforms at the highest level and ADB’s support through a medium-term program to advance SOE reforms in PNG provide a more enabling environment for the first time.

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14 Government of PNG. 2014. Public–Private Partnership Act 2014. Port Moresby. The act provides an overarching framework for the systematic analysis of proposed infrastructure investments, including whether private capital is likely to deliver value for money.

B. Policy Reform and ADB’s Value Addition

12. Government reforms. The government aims to improve the operational performance of SOEs, with the broader objective of delivering services across PNG at high quality and affordable prices.\(^{16}\) The current administration emphasizes the need for SOEs to be accountable and financially sustainable and to return dividends to consolidated revenue. NEC approved an SOE reform blueprint in November 2019, laying out reforms to be undertaken across SOEs in 2019–2022, to strengthen overarching corporate governance and policies and tackle SOE-specific challenges (footnote 10). The pace of progress has been interrupted by COVID-19, which has forced the government to divert attention to managing the pandemic’s impacts. The government, however, has made good progress and remains committed to SOE reforms.

13. Program description. The government has requested a programmatic policy-based loan (PBL) series with three subprograms (in 2020, 2021, and 2022) to support implementation of its SOE reform blueprint. A PBL is a suitable modality to expedite and accelerate the government’s ongoing SOE reforms. A programmatic approach meets urgent budget support needs while allowing time for sustained implementation of complex and politically sensitive reforms. The approach permits prioritization of reform areas to account for low implementation capacity and provides flexibility to respond to emerging opportunities and constraints.

14. ADB’s program is aligned with the government’s SOE reform blueprint. All the subprograms will support reforms in three areas: (i) legislative and policy framework strengthened, (ii) governance and transparency enhanced, and (iii) financial sustainability of specific SOEs increased (Appendix 4). Subprogram 1 provides the direction for subsequent subprograms by framing key policies, starting implementation of reforms, and initiating specific transactions (paras. 16, 18, and 20). Subprograms 2 and 3 build on this base by strengthening legal frameworks to institutionalize reforms, continuing implementation of more complex reforms, and advancing and/or concluding transactions (paras. 17, 19, and 21). The program includes some administrative actions considered critical in view of implementation constraints, to ensure that instituted policies and legislation translate into changes in practices and lead to desired outcomes. Reform targets take into account capacity limitations and initial conditions.

15. Under subprogram 1, ADB supports 17 policy actions, all of which have been completed. Also, 18 indicative triggers have been identified for each of subprograms 2 and 3, to be refined and developed based on government priorities and capacity, considering possible continued COVID-19 disruptions.

16. Reform area 1: Legislative and policy framework strengthened. Policy actions will strengthen the framework to enable all SOEs to operate effectively and efficiently. ADB has added value by supporting all five subprogram 1 actions in this area through regional TA.\(^{17}\)

   (i) **Overarching policy and legislation.** NEC has approved the SOE Ownership and Reform Policy, clarifying key principles of SOE ownership, governance, and performance. NEC has approved the draft KCH (Amendment) Bill to amend the KCH Act for submission to Parliament. Amendments will institutionalize reforms to (a) reduce political influence on commercial decision-making; (b) focus KCH’s role on monitoring SOE performance;\(^{18}\) (c) reinforce timely preparation and public release of corporate plans and audited annual financial statements; (d) establish

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\(^{18}\) KCH will monitor SOEs to ensure that adequate economic and financial viability assessments precede new loans.
transparent skills-based processes for SOE director selection and appointment; (e) introduce a provision to include at least one woman who meets job requirements on the short list for director appointments; and (f) require CSOs to be identified and costed. NEC has approved the National Competition Policy (para. 8), which supports removal of barriers to the participation of women’s businesses and small and medium-sized enterprises in public procurement, through appropriate structuring of tenders and advertisements.

(ii) **Public–private partnerships.** The NEC has directed the Office of the Legislative Counsel to draft PPP regulations for the implementation of the PPP Act (para. 8). The Department of Finance has established a multiagency working group and outlined the group’s responsibilities to support operationalization of the PPP Act, including preparation of regulations and the establishment of the PPP Center.

17. Subsequent subprograms will continue reforms with ADB value addition through TA (footnote 17). PNG’s Parliament will approve the KCH (Amendment) Bill to formally institutionalize its provisions. Regulations on identifying and costing CSOs will be piloted and developed, in accordance with the KCH (Amendment) Act as approved by Parliament. Consumer protection and competition will be further improved. The PPP Act will be fully operationalized through NEC approval of the required regulations, with the PPP Center established, budgeted, and operational.

18. **Reform area 2: Governance and transparency enhanced.** Subprogram 1 initiates implementation of key reforms, including provisions in the draft KCH (Amendment) Bill (para. 16). ADB has added value to all six actions through TA (footnote 17) and staff advisory support.

(i) **Director selection and performance.** The KCH board has approved processes and guidelines for the transparent and merit-based selection of directors for KCH and SOEs in the GBT, including processes for developing terms of reference, advertising, short-listing, interviewing, and selecting candidates. The processes and guidelines include provisions to short-list at least one qualified female candidate (in a minimum short list of three candidates) for consideration for each director vacancy. The government has begun implementing the guidelines, with five directors (including two women) appointed to the boards of KCH, Post PNG Limited, and PPL following approved processes in June 2020.

(ii) **Financial management and procurement.** To reduce the significant backlog of audited annual financial statements, KCH has adopted a phased approach to bring accounts of KCH and SOEs in the GBT up to date. Five SOEs have completed their 2018 accounts and three their 2019 accounts, and auditors have been appointed to clear the backlog for 2018 and 2019. The PPL board has approved the Procurement Policy (Financial Delegations), clarifying financial delegation authorities and limits, and processes to commit PPL funds.

(iii) **Corporate planning.** NEC has approved annual operating plans, which are often behind schedule or not prepared, for seven SOEs. To improve corporate planning, the KCH board has approved guidelines for SOEs to prepare corporate plans and statements of corporate intent annually. This will allow the Ministry of State

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19 The PPP Act provides for the establishment of (i) the PPP Center to promote, coordinate, and analyze PPFs; and (ii) the PPP Steering Group comprising heads of the Department of the Treasury (DOT) and the Department of National Planning and Monitoring, and the State Solicitor to supervise PPP arrangements.

20 These processes will reduce political appointments (para. 9) and are expected to promote commercial decision-making by SOEs.

21 ANL is completing its audited financial statements for 2016–2018, after which 2019 auditors will be appointed.

22 The corporate plan outlines the objectives and business goals of the SOE, assesses its performance, lays out a
Enterprises and KCH to assess SOEs’ strategies and monitor their performance. The guidelines include reporting on the gender diversity of SOE staff. Corporate plans will incorporate a 3-year outlook for SOEs. The KCH board has approved a decision to publicly disclose KCH annual reviews on its website for greater transparency and accountability, and disclosed the 2018 Annual Review.

19. Subsequent subprograms will continue reforms, with ADB adding value through regional (footnote 17) and country-specific TA. All director appointments under KCH will follow approved guidelines, with escalating targets for women’s representation. KCH will establish a database of qualified women applicants and provide director training. KCH will develop performance management processes for directors, linked to corporate planning. Financial management and procurement will continue to be improved, and SOE accounts largely brought up to date by the end of the program. Timely preparation of audited annual financial statements and corporate plans will continue, as mandated by the KCH (Amendment) Bill to be approved by Parliament. The KCH annual reviews will be improved to publicly disclose more information.

20. Reform area 3: Financial sustainability of specific SOEs increased. Subprogram 1 actions focus on specific SOEs in line with government priorities, taking into account development partner support. ADB has added value by assisting on private sector participation. Particular attention is paid to SOEs where there are synergies with ADB projects performance (para. 11).

(i) Restructuring of specific SOEs. The KCH board has approved a strategic plan to improve ANL’s performance, considering COVID-19 impacts and including short-term stabilization measures and long-term structural reforms. NEC has approved a decision to divest noncore assets owned by ANL to improve its cash flow position and pay down overdue creditors. Having two water utilities—Water PNG Limited and Eda Ranu—results in high overhead costs, and NEC has approved draft legislation for submission to Parliament to facilitate their merger.

(ii) Private sector participation in specific SOEs. While appetite for wholesale privatization remains limited, the government plans to improve private sector participation in SOEs to upgrade performance and bring in private capital, based on careful analysis and assessment. NEC has approved decisions (a) for Post PNG to create a third-party logistics company with a reputable strategic private partner, and (b) to redevelop Jacksons International Airport under a PPP model.

(iii) Financial health of specific SOEs. The Department of the Treasury (DOT) has settled K21 million in arrears to ANL to support it during COVID-19 restrictions.

21. Subsequent programs will advance specific transactions and restructuring approved under subprogram 1, with ADB value addition through staff advice and TA (footnote 17). The government plans to introduce additional transactions to boost private sector participation in SOEs, with careful consideration to pros and cons. The DOT will avoid buildup of arrears to specific SOEs to improve their financial sustainability.

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(iii) Financial health of specific SOEs. The Department of the Treasury (DOT) has settled K21 million in arrears to ANL to support it during COVID-19 restrictions.

21. Subsequent programs will advance specific transactions and restructuring approved under subprogram 1, with ADB value addition through staff advice and TA (footnote 17). The government plans to introduce additional transactions to boost private sector participation in SOEs, with careful consideration to pros and cons. The DOT will avoid buildup of arrears to specific SOEs to improve their financial sustainability.
22. **Partner coordination.** ADB has coordinated with key development partners on the program. Regional TA (footnote 17) is cofinanced by the governments of Australia and New Zealand, and the European Union. Ongoing and planned partner TA, including from the governments of Australia and New Zealand, and the World Bank was considered in identifying reforms. The IMF’s staff-monitored program (para. 1) supports transparency, accountability, and governance in SOEs. The government is leading partner coordination on SOE reform.

23. **Lessons.** The key lesson from the mixed success of ADB’s prior engagement in SOE reform in PNG is that capitalizing on political support for reform is crucial (para. 11). ADB seeks to make the most of the current administration’s commitment to reform, and to lock it in through a multiyear program that gradually builds in complexity and strength (para. 14). Where feasible, legislation and capacity building will help institutionalize reforms. ADB recognizes that extensive TA, coordinated with development partners and provided parallel to budget support, can help push the reform agenda and supplement government capacity. The program recognizes that stronger oversight mechanisms and resolving board issues can improve SOE performance. Other lessons include: (i) backloading ADB’s disbursements across three subprograms and recognizing that implementation of complex reforms may take longer, based on ADB’s experience in Fiji (para. 27); and (ii) establishing a technical working group to coordinate reforms, including staff from the Ministries of State Enterprises, and Transport and Infrastructure; the Departments of Finance, National Planning and Monitoring, and the Treasury; and KCH and relevant SOEs, based on ADB’s experience in the health sector program.

24. **Impacts of the Reform**

The program is aligned with the following impact: delivery of services across PNG at high quality and affordable prices (footnote 16). The effect of the reforms will be: operational performance of SOEs improved. The reforms under the three subprograms will contribute to this end through sequenced policy actions (para. 14). A better policy, legal, and institutional framework for SOEs will strengthen governance, diversity, and accountability, which is expected to improve the operational performance of the SOE portfolio. More transparent and merit-based selection and clearer performance evaluation processes are expected to contribute to more qualified personnel on SOE boards. Some reforms target specific SOEs and will tackle their particular constraints. These measures will help avoid unsustainable borrowing; reduce contingent liabilities; encourage private investment; and improve reliability, efficiency, and affordability of public services. In the medium term, the improved financial position and operational performance of SOEs can support greater investment in and attention to service delivery. Reforms can build fiscal space to respond to shocks and promote long-term growth.

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27 The Government of Australia’s TA is supporting capacity-building measures in KCH and telecommunications reforms. The Government of New Zealand and the World Bank are supporting PPL. The Government of New Zealand expects to provide support for transparent appointment of SOE board members. ADB is supporting telecommunications reforms through regional TA (footnote 17) and PPL through program actions and country-specific TA (footnote 24).

28 The political economy of SOE reform in PNG is largely driven by shifts in political power, ministerial responsibilities, and performance of officials.


32 The design and monitoring framework is in Appendix 1.

33 An analysis found that SOE productivity improves in countries undertaking the most substantive reforms. ADB. 2016. *Finding Balance: Benchmarking the Performance of State-Owned Enterprises in Island Countries.* Manila.
D. Development Financing Needs and Budget Support

25. The net financing need in 2020 with COVID-19 is estimated at $1,950 million (8.2% of GDP), up from $1,362 million pre–COVID-19 (Table 1). Expenditures in 2020 include $445 million for COVID-19 response. ADB will contribute $500 million through three ordinary capital resource loans: $150 million through subprogram 3 of the Health Services Sector Development Program, $250 million through a COVID-19 pandemic response option, and $100 million through subprogram 1 of the SOE Reform Program. Loans from partners will cover $753 million, with the government expecting to draw down cash balances and borrow domestically for the remainder.

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth (% change)</td>
<td>(0.8)</td>
<td>5.0</td>
<td>2.1 (2.9)</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Total revenue (% of GDP)</td>
<td>17.8</td>
<td>16.2</td>
<td>15.3</td>
<td>14.0</td>
<td>15.1</td>
</tr>
<tr>
<td>Total expenditure (% of GDP)</td>
<td>20.4</td>
<td>21.1</td>
<td>20.3</td>
<td>22.2</td>
<td>20.4</td>
</tr>
<tr>
<td>Fiscal balance (% of GDP)</td>
<td>(2.6)</td>
<td>(4.9)</td>
<td>(5.0) (8.2)</td>
<td>(5.3)</td>
<td>(4.5)</td>
</tr>
<tr>
<td>Net financing needs ($ million)</td>
<td>624</td>
<td>1,220</td>
<td>1,362</td>
<td>1,950</td>
<td>1,309</td>
</tr>
<tr>
<td>Drawdown from cash balances</td>
<td>0</td>
<td>0</td>
<td>131</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Domestic net financing ($ million)</td>
<td>(148)</td>
<td>456</td>
<td>370</td>
<td>566</td>
<td>253</td>
</tr>
<tr>
<td>External net financing ($ million)</td>
<td>772</td>
<td>764</td>
<td>992</td>
<td>1,253</td>
<td>1,056</td>
</tr>
<tr>
<td>of which: ADB PBLs and CPRO ($ million)</td>
<td>100</td>
<td>100</td>
<td>200</td>
<td>500</td>
<td>150</td>
</tr>
<tr>
<td>Nominal GDP ($ billion)</td>
<td>24.0</td>
<td>25.0</td>
<td>26.9</td>
<td>23.3</td>
<td>24.7</td>
</tr>
</tbody>
</table>


26. The government’s budget financing needs are projected at $4,424 million during 2020–2022. The government has requested financial assistance of $500 million from ADB’s ordinary capital resources for the program to help bridge this gap while safeguarding essential spending. The amount comprises $100 million (5.2% of financing needs) for subprogram 1 in 2020, $150 million (11.4%) for subprogram 2 in 2021, and $250 million (21.4%) for subprogram 3 in 2022. The overall program considers the government’s financing needs (including COVID-19 impacts); the availability of alternative financing, including the estimated financial support from other development partners; and debt sustainability. Escalating amounts for the subprograms reflect the expected growing complexity of reforms. The loan will have a 15-year term, 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. Based on the straight-line method, the average maturity is 9.25 years and no maturity premium is payable to ADB.

E. Implementation Arrangements

27. The DOT is the executing agency. The DOT, the Department of Finance, and the Ministry of State Enterprises are the implementing agencies. The government has established a ministerial committee to oversee program implementation. A technical working group will

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34 The IMF has provided $364 million through a rapid credit facility loan (footnote 8). Loan financing provided by development partners, including ADB project investments, and budget support from the governments of Australia, Japan, and New Zealand, and the World Bank are expected to amount to $389 million (net of loan repayments).

35 Financing needs narrow to $1,309 million in 2021 and $1,165 million in 2022 with fiscal consolidation and recovery.

36 The DOT has significant experience as the executing agency for ADB programs (footnote 31).

37 The ministerial committee consists of the Deputy Prime Minister, and the Ministers for Communications and Energy, State Enterprises, Transport and Infrastructure, and the Treasury.
coordinate program reforms (para. 23). The program implementation period is October 2019–December 2022; October 2019–November 2020 is the implementation period for subprogram 1, December 2020–November 2021 for subprogram 2, and December 2021–December 2022 for subprogram 3. ADB will provide extensive TA to support program implementation and address government capacity constraints (paras. 16–21). The proceeds of the PBL will be withdrawn in accordance with ADB’s Loan Disbursement Handbook (2017, as amended from time to time).

### III. DUE DILIGENCE

28. **Governance.** PNG is classified as a fragile and conflict-affected situation. Promoting governance and strengthening public financial management are government priorities (footnote 16). The current administration has pledged to combat corruption, although much remains to be done. A 2015 public expenditure and financial accountability assessment identified substantial gaps, which are gradually being addressed through reforms (footnote 5). The National Procurement Act 2018 has come into force and will help boost fairness and transparency in procurement. Despite significant public financial management weaknesses and systemic fragility, the government is able to implement its budget. The program, complemented by parallel development partner support, will help gradually reduce fiduciary risks, including through procurement reforms and efforts to bring SOE accounts up to date. Program reforms to increase accountability and transparency will directly support the government’s goal of promoting good governance (paras. 18–19). ADB’s Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, the DOT, the Department of Finance, and the Ministry of State Enterprises.

29. **Poverty and social.** The public sector is an important provider of services to low-income households. The program will help SOEs strengthen public service delivery. Better financial sustainability of SOEs will improve their cash flow position and allow them to invest in sounder services. The program will reduce potential pressure on the consolidated budget to the extent that SOE debt represents a contingent liability for the government. This will help ensure that the government has resources to respond to future economic shocks, which can have adverse effects on the poor, while maintaining critical public services. Private sector participation will increase competition and make basic goods and services more affordable.

30. **Gender.** Subprogram 1 is classified as *some gender elements* and includes proactive actions to support women’s economic empowerment and decision-making. The SOE policy endorses increasing women’s representation on SOE boards, in line with the government’s commitment to empower women (footnote 16). The draft KCH (Amendment) Bill introduces a provision to include at least one woman on the short list for each director appointment, subject to qualifications (para. 16). Under subprogram 1, KCH approved guidelines for the transparent, merit-based selection of SOE directors, requiring that the appointment process systematically short-list at least one qualified female applicant for each director opening. The government has agreed that, under subsequent subprograms, it will escalate targets for women on boards and set up a database of qualified women to provide training and tap into for future director vacancies. The KCH board has approved corporate planning guidelines, requiring SOEs to report on the gender diversity of staff at various levels. NEC has approved the National Competition Policy, which supports the removal of barriers to the participation of women’s businesses in public procurement through appropriate structuring of tenders and advertisements. Measures to enable

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38 ADB list of countries classified as fragile and conflict-affected situations.
39 In 2019, PNG ranked 137th of 179 economies in Transparency International’s corruption perception index.
PPL and Water PNG to provide high-quality, affordable services will benefit women, who are largely responsible for coping with energy and water poverty.

31. **Safeguards.** Following ADB’s Safeguard Policy Statement (2009), subprogram 1 is classified as category C for the environment, involuntary resettlement, and indigenous peoples. The prior policy actions have been assessed and are not expected to result in or lead to involuntary resettlement or negatively affect indigenous peoples or the environment.

32. **Risks.** Major risks and mitigating measures are summarized in Table 2 and described in detail in the risk assessment and risk management plan.41

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prolonged coronavirus disease pandemic and/or other external shocks lead to economic collapse.</td>
<td>ADB will monitor economic developments and respond in a timely manner in coordination with other partners as needed. The government has prepared a supplementary budget and a revised medium-term fiscal strategy.</td>
</tr>
<tr>
<td>Weak PFM systems constrain reform progress.</td>
<td>The program will strengthen PFM through improved accounting in SOEs. Development partners will continue to support broader PFM reforms.</td>
</tr>
<tr>
<td>Weak governance, including corruption and collusion, impedes reforms</td>
<td>Implementation of the National Procurement Act 2018 will increase procurement transparency. The program will strengthen procurement in SOEs. More merit-based selection of SOE board members will improve governance.</td>
</tr>
<tr>
<td>Low capacity delays reform implementation and impedes policy formulation.</td>
<td>Technical assistance from ADB and development partners will support reforms. The programmatic approach will ease prioritization and sequencing of reforms to avoid overburdening the administration and decision-makers.</td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank, PFM = public financial management, SOE = state-owned enterprise.  

IV. ASSURANCES

33. The government has assured ADB that implementation of subprogram 1 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. No disbursement shall be made unless ADB is satisfied that the government has completed the policy actions specified in the policy matrix relating to the subprogram.

V. RECOMMENDATION

34. 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
   (i) the programmatic approach for the State-Owned Enterprises Reform Program; and
   (ii) the loan of $100,000,000 to Papua New Guinea for subprogram 1 of the State-Owned Enterprises Reform 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 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.

Masatsugu Asakawa  
President

10 November 2020

41 Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).
## DESIGN AND MONITORING FRAMEWORK

### Country’s Overarching Development Objective

**Delivery of services across PNG at high quality and affordable prices**

*(PNG Medium Term Development Plan III 2018–2022)*

<table>
<thead>
<tr>
<th>Results Chain</th>
<th>Performance Indicators with Targets and Baselines</th>
<th>Data Sources and Reporting Mechanisms</th>
<th>Risks</th>
</tr>
</thead>
</table>
| **Effect of the Reform** | By 2023:  
  a. Consolidated net losses of SOEs reduced by at least 10%  
     (2018 baseline: K142.7 million)  
  b. Return on assets (based on earnings before interest, taxes, depreciation, and amortization) for SOEs increased by at least 10%  
     (2018 baseline: 2.8%)  
  c. Country performance assessment score for transparency, accountability, and corruption in the public sector improved by at least 0.5 (2018 baseline: 2.0) | a.–b. KCH annual reviews  
  c. Asian Development Bank biannual country performance assessments | Prolonged COVID-19 pandemic and/or other external shocks lead to economic collapse. |

### Reform Areas under Subprogram 1

| 1. Legislative and policy framework strengthened | Key Policy Actions | 1a.–c. NEC decisions | Weak public financial management systems constrain reform progress.  
  Weak governance, including corruption and collusion, impedes reforms.  
  Low capacity delays reform implementation and impedes policy formulation. |
|---|---|---|---|

By 30 November 2020:

1a. NEC approval of the PNG SOE Ownership and Reform Policy, laying out key principles of SOE ownership, governance, and performance, including the need to increase women’s representation on SOE boards in line with the government’s commitment to the economic empowerment of women (2019 baseline: Not applicable)

1b. NEC approval of the draft KCH (Amendment) Bill to amend the KCH Act, for submission to Parliament, including (i) reducing political influence on commercial decision-making; (ii) focusing KCH’s role on monitoring SOE performance; (iii) reinforcing timely preparation and public release of corporate plans and audited annual financial statements; (iv) establishing transparent skills-based processes for SOE director selection and appointment; (v) introducing a provision to include at least one woman who meets the
<table>
<thead>
<tr>
<th>Results Chain</th>
<th>Performance Indicators with Targets and Baselines</th>
<th>Data Sources and Reporting Mechanisms</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>requirements on the short list for director appointments; and (vii) requiring community service obligations to be identified and costed (2019 baseline: Not applicable)</td>
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<td></td>
<td>1c. NEC approval of the National Competition Policy, which supports competitive neutrality of SOEs, and removal of barriers to the participation of women’s businesses and small and medium-sized enterprises in public procurement through appropriate structuring of tenders and advertisements, (2020 baseline: Not applicable)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Governance and transparency enhanced</td>
<td>By 30 November 2020: 2a. KCH Board approval of Appointment and Assessment of Directors—Process and Guidelines for the transparent, merit-based selection of SOE directors, requiring that the director appointment process systematically short-list qualified female applicants for consideration for each SOE director vacancy (2019 baseline: Not applicable)</td>
<td>2a.–b. KCH Board circulars and/or resolutions</td>
<td></td>
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<tr>
<td></td>
<td>2b. KCH Board recommendation on the appointment of five directors, including two women, to PPL, Post PNG Limited, and KCH by NEC, following the approved Appointment and Assessment of Directors—Process and Guidelines (2019 baseline: 2 women of 48 directors in position)</td>
<td></td>
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<td></td>
<td>2c. PPL Board approval of the Procurement Policy (Financial Delegations), clarifying financial delegation authorities and limits and outlining processes to commit PPL funds (2019 baseline: Not applicable)</td>
<td>2c. PPL Board resolution</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2d. KCH Board approval of Guidelines for SOE Corporate Plans and Statements of Corporate Intent clarifying the steps in the annual governance cycle and the template for corporate plans and statements of corporate intent (including</td>
<td>2d. KCH Board circulars and/or resolutions</td>
<td></td>
</tr>
</tbody>
</table>
## Results Chain

### Performance Indicators with Targets and Baselines

- **Requirements for reporting on gender diversity of staff in key categories**
  
  (2019 baseline: Not applicable)

- **By 30 September 2020:**
  - 3a. KCH Board approval of Air Niugini Limited’s 2020 Annual Operating Plan (Revised for Impact of COVID-19), which incorporates the Air Niugini Turnaround Plan to improve financial performance and pay down overdue creditor balances
  
  (2020 baseline: Not applicable)

  - 3b. NEC approval of draft legislation, for submission to Parliament, to amend the National Water Supply and Sanitation Act 2016 and repeal the National Capital District Water Supply and Sewerages Act 1996 to facilitate the merger of Eda Ranu and Water PNG
  
  (2019 baseline: Not applicable)

  - 3c. NEC approval for Post PNG Limited to create a third-party logistics company with a reputable strategic partner
  
  (2019 baseline: Not applicable)

  - 3d. NEC approval of a decision to redevelop the Jacksons International Airport under a public–private partnership model
  
  (2019 baseline: Not applicable)

### Data Sources and Reporting Mechanisms

- 3a. KCH Board circular

- 3b.–d. NEC decisions

### Risks

### Policy-Based Loan Amount

- **Asian Development Bank (regular ordinary capital resources):**
  - Subprogram 1: $100 million
  - Subprogram 2: $150 million
  - Subprogram 3: $250 million

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**COVID-19 =** coronavirus disease, **KCH =** Kumul Consolidated Holdings, **NEC =** National Executive Council, **PNG =** Papua New Guinea, **PPL =** PNG Power Limited, **SOE =** state-owned enterprise.


**b** This merger will deliver better and cheaper water services that will particularly benefit women. Lack of access to safe and affordable water disproportionately disadvantages women, who carry the added burden of water collection and preparation and of care for family members with water-related illnesses.

LIST OF LINKED DOCUMENTS
http://www.adb.org/Documents/RRPs/?id=53424-001-3

1. Loan Agreement
2. Sector Assessment (Summary): Public Sector Management
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Assessment Letter\(^1\)
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items

Supplementary Document

10. Macroeconomic Management

\(^1\) An International Monetary Fund (IMF) assessment letter was requested on 27 May 2020. On 4 June 2020, the IMF confirmed that the attached staff reports for (i) the Papua New Guinea rapid credit facility (1 June 2020), and (ii) the Papua New Guinea Article IV consultation and request for staff-monitored program (24 February 2020) may serve as the IMF assessment letter.
Appendix 3

DEVELOPMENT POLICY LETTER

INDEPENDENT STATE OF PAPUA NEW GUINEA

MINISTER FOR TREASURY

DEVELOPMENT POLICY LETTER

20th October, 2020

Mr. Masatsugu Asakawa
President
Asian Development Bank
Manila
Philippines

Dear President Asakawa,

Development Policy Letter: Papua New Guinea State-Owned Enterprises Reform Program

State-owned enterprises (SOE) in Papua New Guinea (PNG) face severe operational and financial challenges that lead to sub-optimal operational performance. These challenges necessitate major reforms and restructuring of our SOE portfolio. This is necessary both to improve their commercial performance and ensure that they are optimized to deliver a higher standard of basic services to the people of PNG. It is important that we limit political control over our SOEs, particularly regarding major capital investments and selection of executive personnel.

An important part of the Marape-Steven government’s goal of ‘Taking back Papua New Guinea’ is to take back our SOEs. We are seeking to improve corporate governance, increase profitability, and restructure their liabilities. This will entail improving the quality of services delivered by our SOEs, while simultaneously seeking ways to reduce costs and offer more accessible pricing to end users. This will require a systematic and structured process, calibrated for the specific challenges faced by each of our SOEs. With this end in view, we launched a comprehensive SOE reform program in 2019.

However, 2020 has seen the outbreak of the COVID-19 pandemic. PNG had its first confirmed case on March 20. We have reacted swiftly to control the outbreak and have limited domestic transmission – but we are still endeavoring to eliminate it. Borders have been closed, quarantine restrictions have been imposed, and domestic travel has been curtailed. The pandemic has had major socio-economic repercussions on the economy.

After recovery from the 2018 earthquake, we are again projecting negative growth in 2020. We have undertaken stimulus expenditures to help our citizens and health sector strengthen to protect against the outbreak. At the same time, government and export revenues are falling as oil prices decline. Our development financing needs have increased, while the administration has turned its focus on fighting the threat to our population.
In this scenario, we seek financial assistance from the Asian Development Bank’s ordinary capital resources for budget support to underpin reforms to improve the operational performance of our SOEs. We seek a program of $500 million over three years 2020-2022, starting with subprogram 1 in 2020 for $100 million.

Despite these massive external upheavals, we have progressed on our reform program. In order to strengthen the overall policy and legal framework, the National Executive Council (NEC) has approved amendments to the KCH Act which will strengthen the platform for corporate governance, establish transparent procedures for selection of SOEs board members, and focus the functions of Kumul Consolidated Holdings on monitoring the performance of SOEs. These changes are underpinned by the SOE Ownership and Reform Policy approved by NEC which has also approved a National Competition Policy to support competitive neutrality of SOEs. And we are taking steps to improve the policy environment for public-private ownerships by working on regulations to implement the PPP Act 2014, which was Gazetted in 2018.

We recognize the need to improve governance and transparency in our SOEs. The KCH Board has an approved process and guidelines for the transparent and merit-based selection of SOE directors. The government has begun implementing the guidelines, with five SOE directors appointed in June 2020 following these new processes. To clear the significant backlog of audited financial statements, the government has adopted a phased approach to bring accounts up to date. At this point, accounts are outdated, and it is not clear what the financial liabilities of the government are on account of overall SOE debt. This process will help estimate the true financial positions of SOEs. SOEs such as PNG Power Limited are working to improve their procurement processes. To improve corporate planning, the KCH Board has approved guidelines for SOEs to prepare corporate plans and statements of corporate intent, which will allow assessment of SOE’s strategy and monitor their performance throughout the year. NEC has approved annual operating plans for seven SOEs. The KCH Board will publicly disclose KCH Annual Reviews on its website, the 2018 Annual Review has already been disclosed.

Specific SOEs face particular challenges to financial sustainability. Air Niugini Limited (ANL), our national carrier, has been particularly adversely impacted by travel restrictions because of COVID-19. We have approved a plan to improve the performance of ANL. Non-core assets owned will be monetized to improve the ANL cash flow position and enable pay down of overdue creditors. We have settled K21 million in arrears owed to ANL. NEC has approved legislation to merge two utilities, Water PNG Limited and Eda Ranu, which will reduce overhead costs in this sector. We are currently opening up our SOEs to private sector participation. NEC has approved Post PNG to create a third-party logistics company with a reputable strategic private partner and the redevelopment of Jacksons International Airport under a PPP model. We will ensure that any private sector participation and restructuring in our SOEs does not lead to adverse employment impacts, and that employees are absorbed into any newly privatized or restructured entity, subject to good performance.

We are particularly committed to addressing women’s issues in PNG. Our Medium-Term Development Plan III recognizes the need to give women equal opportunities and empower them economically and socially. However, in 2019, of 48 board members in position, only 2 were women. Through the SOE reform program, we are seeking to legislate that there be at least one woman on the short-list for each director position, subject to qualifications. We will establish a database of qualified women, provide training, and adopt targets for women’s
representation on SOE boards. Other measures in the program will also support women’s businesses.

I appreciate ADB’s assistance at this time and am confident that the government’s ownership of the reforms, supported by ADB’s financial and technical assistance, and effective collaboration with other development partners will result in strong reform implementation that will improve the financial health of PNG’s SOEs over the medium term.

Yours Sincerely,

HON. IAN LING-STUCKEY, CMG, MP
Minister for the Treasury
## POLICY MATRIX

<table>
<thead>
<tr>
<th>Reform Area 1: Legislative and policy framework strengthened</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1. Overarching policy and legislation</td>
</tr>
<tr>
<td>1.1.1. NEC has approved the PNG SOE Ownership and Reform Policy, laying out key principles of SOE ownership, governance, and performance, including the need to increase women's representation on SOE boards in line with the government's commitment to the economic empowerment of women.</td>
</tr>
<tr>
<td>1.1.2. NEC has approved the draft KCH (Amendment) Bill to amend the KCH Act, for submission to Parliament, including (a) reducing political influence on commercial decision-making; (b) focusing KCH’s role on monitoring SOE performance; (c) reinforcing timely preparation and public release of corporate plans and audited annual financial statements; (d) establishing transparent skills-based processes for SOE director selection and appointment; (e) introducing a provision to include at least one woman who meets the requirements on the short list for director appointments; and (f) requiring CSOs to be identified and costed.</td>
</tr>
<tr>
<td>1.1.3. NEC has approved the National Competition Policy which supports</td>
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<td>1.1.1. NEC has approved the PNG SOE Ownership and Reform Policy, laying out key principles of SOE ownership, governance, and performance, including the need to increase women's representation on SOE boards in line with the government's commitment to the economic empowerment of women.</td>
<td></td>
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</tr>
<tr>
<td>1.1.2. Parliament shall have approved the KCH (Amendment) Bill to amend the KCH Act, including (a) reducing political influence on commercial decision-making; (b) focusing KCH's role on monitoring SOE performance; (c) reinforcing timely preparation and public release of corporate plans and audited annual financial statements; (d) establishing transparent skills-based processes for SOE director selection and appointment; (e) introducing a provision to include at least one woman who meets the requirements on the short list for director appointments; and (f) requiring CSOs to be identified and costed.</td>
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<tr>
<td>1.1.3. NEC has approved the National Competition Policy which supports</td>
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</table>

1 The KCH Act amendments include a provision that the SOE “shall pursue its objectives and perform its functions and duties and exercise its powers and authorities independently of, and free from, interference, direction or influence by the State, Ministers or members of the National Parliament or other provincial or local-led governments or officers of the public service other than as provided expressly in this or any other Act”. It is expected that these amendments will promote commercial decision-making by SOEs.
Appendix 4

**Subprogram 1**

Policy Actions

- Competitive neutrality of SOEs, and removal of barriers to the participation of women’s businesses and small and medium enterprises in public procurement through appropriate structuring of tenders and advertisements.

**Subprogram 2**

Indicative Policy Actions

- Competitive neutrality principles, in line with international guidelines and global goals for sustainable development, including gender equality.

**Subprogram 3**

Indicative Policy Actions


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**1.2. Public-private partnerships**

1.2.1. NEC has directed the Office of the Legislative Counsel to draft the PPP regulations for the implementation of the PPP Act 2014.

1.2.1. NEC shall have approved draft necessary amendments to the PPP Act for submission to Parliament to allow its full implementation (including resolution of any conflicts with relevant recently-enacted legislation).

1.2.1. In order to fully implement the PPP Act:

a. Parliament shall have approved amendments to the PPP Act to allow full implementation (including resolution of any conflicts with relevant recently-enacted legislation); and

b. NEC shall have approved all necessary regulations to fully operationalize PPP Act, resolving any conflicts with relevant recently-enacted legislation.

1.2.2. The Department of Finance has approved establishment of a working group comprising the Department of Finance, DOT, Department of National Planning and Monitoring, and State Solicitor’s Office, to support implementation of the PPP Act.

1.2.2. The PPP Steering Group shall have implemented provisions under the PPP Act to:

a. Endorse the establishment of the PPP Centre to monitor and support implementation of the PPP Act; and

b. Approve commencement of the recruitment of the PPP Centre chief executive officer.

1.2.2. The PPP Steering Group shall have implemented provisions under the PPP Act to:

a. Approve the budget allocation for PPP Centre operations in 2022–2024; and

b. Approve the PPP Centre guidelines on roles and responsibilities to implement

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2 The working group will (i) prepare any remaining regulations and undertake any amendments required to implement the PPP Act; (ii) prepare and update the PPP Centre business plan and budget; (iii) recruit core PPP Centre staff; and (iv) prepare PPP project development guidelines. This action is included as a necessary step to progress more substantive reforms under subprograms 2 and 3.

3 The PPP Steering Group is a supervisory body to comprise heads of the same departments that constitute the working group, and will have supervisory and approval authority on provisions under the PPP Act.
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<thead>
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<tr>
<td></td>
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<td>the PPP Act.</td>
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</table>

**Reform Area 2: Governance and transparency enhanced**

2.1. Director selection and performance

2.1.1. In order to select qualified directors and promote commercial decision-making, KCH Board has:

a. Approved Appointment and Assessment of Directors - Process and Guidelines for the transparent and merit-based selection of new SOE directors, requiring that the director appointment process systematically short-list qualified female applicants for consideration for each SOE director vacancy; and
b. Recommended the appointment of 5 directors (including 2 women) to PPL, Post PNG Limited, and KCH by NEC, following the approved Appointment and Assessment of Directors - Process and Guidelines.

2.1.2. In order to improve director performance, KCH Board shall have approved new processes and guidelines for independent assessment of SOE directors’ performance against key performance indicators, including gender and diversity.

2.2. Financial management and procurement

2.2.1. In order to reduce the backlog of audited annual financial statements for KCH and SOEs in the GBT, in line with the draft KCH (Amendment) Bill to be

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4 In 2019, 2 of 48 SOE directors were women, representing a baseline of 4.1%.
### Subprogram 1

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<tr>
<th><strong>Policy Actions</strong></th>
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<th><strong>Indicative Policy Actions</strong></th>
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<tbody>
<tr>
<td>approved by Parliament, KCH Board has adopted a phased approach, and begun implementation, under which:</td>
<td>by Parliament, KCH Board shall have continued to implement the phased approach, under which:</td>
<td>by Parliament, KCH Board shall have continued to implement the phased approach, under which:</td>
</tr>
<tr>
<td>a. General Business Trust (with KCH as Trustee), Motor Vehicles Insurance Limited, National Development Bank, PNG Ports Corporation Limited, and Post PNG Limited have prepared their audited financial reports for 2018;</td>
<td>a. At least 9 SOEs shall have prepared their audited financial reports for 2018;</td>
<td>a. All SOEs shall have prepared their audited financial reports for 2019;</td>
</tr>
<tr>
<td>b. Motor Vehicles Insurance Limited, National Development Bank, and Post PNG Limited have prepared their audited financial reports for 2019; and</td>
<td>b. At least 6 SOEs shall have prepared their audited financial reports for 2019;</td>
<td>b. At least 8 SOE shall have prepared their audited financial reports for 2019;</td>
</tr>
<tr>
<td>c. The Auditor General’s Office has appointed external auditors for Bemobile (PNG) Limited, Eda Ranu Limited, Kumul Agriculture Limited, Motor Vehicles Insurance Limited, PNG Dataco Limited, PNG Ports Corporation Limited, Post PNG Limited, Telikom PNG Limited, and Water PNG Limited, to conduct external audit of financial reports for 2019.</td>
<td>c. At least 4 SOEs shall have prepared their audited financial reports for 2020;</td>
<td>c. At least 6 SOEs shall have prepared their audited financial reports for 2020;</td>
</tr>
<tr>
<td><strong>2.2.2.</strong> PPL Board has approved a <strong>Procurement Policy (Financial Delegations),</strong> clarifying financial delegation authorities and limits, and outlining processes to commit PPL</td>
<td><strong>2.2.2.</strong> PPL Board shall have approved revised procurement processes, enhancing clarity and efficiency, and providing guidance on supporting women’s businesses to better participate in procurement processes.</td>
<td><strong>2.2.2.</strong> PPL shall have implemented revised procurement processes enhancing clarity and efficiency, and providing guidance on supporting women’s businesses to better participate in procurement processes.</td>
</tr>
</tbody>
</table>

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5 The targets for the subprograms are cumulative, including audited financial reports completed under previous subprograms. The approach applies to KCH and the 9 SOEs in the GBT. Kumul Telikom Holdings has merged three telecommunication companies, bMobile, PNG Telikom, and DataCo, although the process is still ongoing. Audited financial statements are pending since 2015, and may take longer to bring up-to-date than other SOEs.
<table>
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<tr>
<td>funds.⁶</td>
<td></td>
<td>processes, as approved under subprogram 2.</td>
</tr>
</tbody>
</table>

### 2.3. Corporate planning

2.3.1. NEC has approved the 2020 Annual Operating Plans of ANL Limited, KCH, Motor Vehicles Insurance Limited, PNG Ports Corporation Limited, PPL, Post PNG Limited, and Water PNG Limited.

2.3.2. In order to strengthen corporate planning in line with the draft *KCH (Amendment) Bill* to be approved by Parliament, KCH Board has approved *Guidelines for MSOE Corporate Plans and Statements of Corporate Intent* clarifying the steps in the annual governance cycle and template for the corporate plans and statements of corporate intent (including requirements for reporting on gender diversity of staff in key categories), to replace Annual Operating Plans.

2.3.3. In order to implement the CSO provisions under the *KCH (Amendment) Act* as approved by Parliament, at least one SOE shall have piloted the costing of community service obligations, to be reported in the 2021 statements of corporate intent.

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⁶ Enhancing the efficiency of PPL will allow the delivery of better services which will particularly benefit women. Lack of access to quality and affordable electricity disproportionately disadvantages women by increasing time poverty and reducing productivity as they are responsible for coping with energy poverty within the household.
## Subprogram 1: Policy Actions

<table>
<thead>
<tr>
<th><strong>2.3.4. In order to promote transparency in line with the draft KCH (Amendment) Bill to be approved by Parliament, KCH Board has:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Approved a resolution to disclose KCH Annual Reviews on the KCH website to improve public release of information; and</td>
</tr>
<tr>
<td>b. Implemented the resolution by disclosing the 2018 Annual Review (including summary unaudited financial reports, key projects, and investment outlook for all SOEs in the GBT) on the KCH website. [7]</td>
</tr>
</tbody>
</table>

## Subprogram 2: Indicative Policy Actions

<table>
<thead>
<tr>
<th><strong>2.3.4. In order to promote transparency in line with the KCH (Amendment) Act as approved by Parliament, KCH Board shall have:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Implemented the resolution to disclose KCH Annual Reviews to promote public release of information by disclosing the 2019 and 2020 Annual Reviews on the KCH website; and</td>
</tr>
<tr>
<td>b. Enhanced the content of the 2020 Annual Reviews to incorporate audited financial accounts and reporting on gender diversity.</td>
</tr>
</tbody>
</table>

## Subprogram 3: Indicative Policy Actions

<table>
<thead>
<tr>
<th><strong>2.3.4. In order to promote transparency in line with the KCH (Amendment) Act, KCH Board shall have:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Implemented the resolution to publicly disclose KCH Annual Reviews to promote public release of information by disclosing the 2021 Annual Review on the KCH website; and</td>
</tr>
<tr>
<td>b. Enhanced the content of the 2021 Annual Review to incorporate summary statements of corporate intent.</td>
</tr>
</tbody>
</table>

## Reforms Area 3: Financial sustainability of specific state-owned enterprises increased

### 3.1. Restructure of specific SOEs

| **3.1.1. KCH Board has approved ANL’s 2020 Annual Operating Plan (Revised for Impact of COVID-19) which incorporates the ANL Turnaround Plan to improve financial performance and paydown overdue creditor balances.** |

| **3.1.1. ANL shall have implemented the ANL Turnaround Plan action to approve revised terms associated with selected financial obligations based on negotiations with public and/or private creditors (including securing standstill agreements, deferred payments, and reductions in interest).** |

<table>
<thead>
<tr>
<th><strong>3.1.2. NEC has approved a decision to divest ANL’s non-core assets including:</strong></th>
</tr>
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<tbody>
<tr>
<td>a. ANL Residence at 7 Mile, Port Moresby;</td>
</tr>
<tr>
<td>b. Surplus land at 6/7 Mile, Port Moresby; and</td>
</tr>
</tbody>
</table>

| **3.1.2. ANL shall have progressed on implementation of the NEC decision to divest ANL’s non-core assets by placing at least one non-core asset on the market for sale.** |

<table>
<thead>
<tr>
<th><strong>3.1.2. ANL shall have implemented the NEC decision to divest ANL’s non-core assets by:</strong></th>
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<tbody>
<tr>
<td>a. Completing the sale of at least one asset (subject to market conditions); and</td>
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<tr>
<td>c. Surplus aircraft (Falcon Jet).</td>
<td>3.1.3. NEC has approved draft legislation for submission to Parliament to amend the National Water Supply and Sanitation Act 2016 and repeal the National Capital District Water Supply and Sewerages Act 1996 to facilitate merger of Eda Ranu and Water PNG. 8</td>
<td>b. Undertaking rationalization of its fleet to optimize utilization of existing aircraft.</td>
</tr>
<tr>
<td>3.1.3. NEC has approved draft legislation for submission to Parliament to amend the National Water Supply and Sanitation Act 2016 and repeal the National Capital District Water Supply and Sewerages Act 1996 to facilitate merger of Eda Ranu and Water PNG. 8</td>
<td>3.1.3. Parliament shall have approved the National Water Supply and Sanitation (Amendment) Bill to facilitate the merger of Eda Ranu and Water PNG.</td>
<td>3.1.3. Eda Ranu shall have become a subsidiary of Water PNG, with Water PNG owning a majority of its shares.</td>
</tr>
<tr>
<td>3.2. Private sector participation in specific SOEs</td>
<td>3.2.1. NEC has approved a decision for Post PNG to create a third-party logistics company with a reputable strategic partner.</td>
<td>3.2.1. Post PNG shall have: a. Developed and assessed an optimal third-party logistics model; and b. Approved release of a request for tender in the market to solicit interest (subject to market conditions).</td>
</tr>
<tr>
<td>3.2.1. Post PNG shall have: a. Developed and assessed an optimal third-party logistics model; and b. Approved release of a request for tender in the market to solicit interest (subject to market conditions).</td>
<td>3.2.2. NEC has approved a decision to redevelop Jacksons International Airport under a PPP model. 9</td>
<td>3.2.2. DOT shall have approved a policy paper (including an updated feasibility study and the approval to commence the tender process) to redevelop Jacksons International Airport under a PPP model.</td>
</tr>
<tr>
<td>3.2.2. NEC has approved a decision to redevelop Jacksons International Airport under a PPP model. 9</td>
<td>3.2.3. KCH Board shall have approved the completed feasibility study for at least one additional PPP, including social and gender impact analysis.</td>
<td>3.2.3. NEC shall have approved a decision to undertake a PPP arrangement for at least one more SOE based on the feasibility study undertaken under subprogram 2.</td>
</tr>
<tr>
<td>3.3. Financial health of specific SOEs</td>
<td>3.3.1. DOT has: a. Approved settlement of arrears owed to ANL by the State to improve its</td>
<td>3.3.1. DOT shall have: a. Approved a decision to avoid build-up of arrears to at least one SOE;</td>
</tr>
<tr>
<td>3.3.1. DOT shall have: a. Approved a decision to avoid build-up of arrears to at least one SOE;</td>
<td>a. Approved a decision to avoid build-up of arrears to at least one SOE;</td>
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8 This merger will deliver higher quality and more affordable water services that will particularly benefit women. Lack of access to safe and affordable water disproportionately disadvantages women, who carry the burden of water collection and preparation, and caring for family members with water-related illnesses.

9 The scope of redevelopment may include, among others construction of taxiway, expansion of domestic and international terminal and apron, modifications of parking lots, development of commercial real estate.
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<tr>
<td>cash flow position; and</td>
<td>and</td>
<td>two SOEs; and</td>
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<tr>
<td>b. Settled K21 million in arrears owed</td>
<td>b. Implemented the decision by being</td>
<td>b. Implemented the decision by</td>
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<tr>
<td>to ANL by the State.</td>
<td>current on its payments to the SOE,</td>
<td>being current on its payments to the</td>
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<td>based on payment of undisputed</td>
<td>SOEs, based on payment of undisputed</td>
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<td>invoices within 60 days.</td>
<td>invoices within 60 days.</td>
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